

An evaluation of South African worker co-operatives against specified business success factors

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Thesis submitted for the degree *Philosophiae Doctor* in
Business Administration at the Potchefstroom Campus of the
North-West University

Promoter: Prof JL van der Walt

November 2014

Acknowledgements

I give thanks to God for giving me the gifts of self-discipline and perseverance to pursue my studies these past 4 years.

Many people contributed directly and indirectly to this study and therefore I would like to thank the following that helped bring this task to completion.

First and foremost, my deepest appreciation goes to my promoter, Prof. Louw van der Walt for his patience, guidance and encouragement. Next, the many people in Seda who supported and encouraged me throughout the study; in particular, Mr. Sibusiso Kunene (Executive Manager: Enterprise Development), Mr. Lusapho Njenge (Chief Strategy and Information Officer), Mrs. Jackie Ntshingila (Provincial Manager: Free State Province), Mr. John Francis (Head of the Seda Learning Academy) and all the Regional Facilitators and Business Advisors who assisted with the completion of the questionnaires.

At NWU-PUK my thanks goes to Mrs. Wilma Breytenbach for her valuable assistance with the statistics and to Mrs. Christine Bronkhorst, Librarian, for her swift and comprehensive responses to requests to many and frequent searches.

Thanks also go to Mrs. Trudi Snyman for her assistance with the distribution and completion of questionnaires and to Dr. Luky Whittle for skillful language editing.

Finally, thank you to my parents, parents-in-law, friends, family and colleagues for all their patient support.

This thesis is dedicated with love to
my wife Janine (my rock)
and my children Joubert, Janré and Rijané,
who had to endure late nights, early mornings and mood swings
but still each managed to support me in their own unique way.

Abstract

Co-operatives, particularly worker co-operatives, form an integral part of the social and economic development efforts of the South African government. However, worker co-operatives have not achieved the expected results and have mostly remained survivalist in nature,

In the literature study, this research explored the potential of worker co-operatives in terms of social and economic development, the state of worker co-operatives in South Africa according to previous research and the challenges faced by worker co-operatives.

The submission is that worker co-operatives can only reach their potential in social development when they achieve business success. Therefore, business success factors were determined and criteria for these co-operatives to be classified as successful established.

These criteria were as follows:

- Longevity (operating for more than three years).
- Profitability (showing a surplus for at least one year).
- Financial Independence (operating without external funding for at least one year).
- Member Income (at least R955 per member per month).

The research population for the research was actively operating worker co-operatives registered as clients with the Small Enterprise Development Agency (Seda). A questionnaire exploring the demographics of members, the financial position of the co-operatives and the way in which they were managed and operated were developed. The questionnaire contained questions with regard to financial practices and management, marketing management and activities, operations management, human resource management, management processes and the support received from development institutions.

In addition to the evaluation of the business performance in terms of the criteria for success, the research evaluates the way in which worker co-operatives are managed and operated in terms of established business practices. It, moreover, explores the impact of support initiatives by government institutions and a framework for future development efforts is suggested.

The study's results show that worker co-operatives are operating at a level where they are unable to fulfil their expected role in economic and social development. Various management and operational challenges were identified. Moreover, it was found that current support initiatives do not have the desired developmental effect.

Key words:

worker co-operatives, co-operative development, worker co-operative success criteria, Social development, business success criteria

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Chapter 1

Nature and Scope of the Study

1.1.TITLE

An evaluation of South African worker co-operatives against specified business success factors.

1.2 DEFINING THE CONCEPT

The development of co-operatives, particularly worker co-operatives, has been adopted by the government as one of its main drivers for addressing unemployment and poverty in South Africa. To date, however, this strategy has had little impact. The worker co-operatives in South Africa do not conform to the established pre-conditions for successful co-operatives. The present research is aimed at determining business success factors applicable to worker co-operatives and evaluating worker co-operatives against them in order to develop a framework for the successful development of these entities.

1.3 INTRODUCTION

“Two are better than one; because they have a good reward for their labour. For if they fall, the one will lift up his fellow: but woe to him that is alone when he falleth; for he hath not another to help him up. Again if two lie together, then they have heat: but how can one be warm alone? And if one prevail against him, two shall withstand him; and a threefold cord is not broken.” (Ecclesiastes 4: 9 – 12)

Since earliest times people have been dependent on each other to survive. Early hunters had to co-operate in groups to obtain food with the primitive weapons at their disposal and to survive in a hostile environment. Throughout history examples of co-operation leading to success abound.

This forms the basis for the formation of co-operatives. In the simplest terms, co-operatives are concerned with people coming and working together for the common good, both economical and social.

1.3.1 Definition of a Co-operative

The official South African definition for a co-operative is found in Section 1 of the Co-operatives Act of 2005 (South Africa, 2008:10)

According to this definition “co-operative means an autonomous association of persons united voluntarily to meet their common economic and social needs and aspirations through a jointly owned and democratically controlled enterprise organized and operated on co-operative principles”.

Thus, the co-operative is owned by its members who make the decisions with regard to its activities (Redrebel, 2009:1).

Theron (2004:34) states that a co-operative is an internationally recognized form of enterprise and that the South African legislation enables the co-operative to be a juristic person. Unlike in the case public companies, the members contribute the capital needed and the aim is to generate a surplus rather than making profits. Normally a part of the surplus will then be utilized for the benefit of the community.

Since the first co-operatives were formed in nineteenth century Europe against the backdrop of the Industrial Revolution, they were seen as social and economic alternatives to industrial capitalism (Philip,2003:2). Groups of people sharing the same interest and/or vocation began to form co-operatives to survive in an environment where they were replaced with machines in the search for higher efficiency and endeavours to reduce production costs.

Different forms of co-operatives developed, but worker co-operatives, on which this study will be focused, have the primary aim to provide employment for their members.

1.3.2 Definition of a Worker Co-operative

According to the Co-operative Act, Section 1 (South Africa, 2008:12), the term worker co-operative means “a primary co-operative whose main objectives are to provide employment

to its members, or a secondary co-operative providing services to primary worker co-operatives.”

Theron (2005:52) defines a worker co-operative as one in which the professional activities of members coincide with the activities of the co-operative. He argues that South Africa has exceptional examples of such co-operatives and that the political and ideological environment in the country support the formation of these co-operatives. There are many black-owned worker co-operatives in South Africa operating mostly in handicraft, the cottage industry and other small production trades.

According to Philip (2003:5), the key defining feature of worker co-operatives is that the worker-members in the co-operative own and control it on a basis of “one member, one vote”. These co-operatives provide a radical alternative to the employment relationships found in conventional enterprises.

1.3.3 The need for economic development in South Africa

The challenges with regard to poverty and unemployment in South Africa are well-known. A study undertaken on behalf of the HSRC (2004:1) shows that 57% of South Africans lived below the poverty line in 2001. This figure had remained unchanged since 1996. The Poverty Gap, which indicates the annual income transfer needed to bring all poor households out of poverty had grown from R56 billion in 1996 to R81 billion in 2001, indicating that poor households had sunk deeper into poverty during this period.

Effective community development initiatives are necessary to address these challenges. Governor Mark Olson, during a speech at a Community Development Policy Summit (Olson,2005:1) remarked that individual ownership, including business ownership, lies at the heart of all community development activities. Effective community development not only focuses on the provision of houses and creating jobs, but also on increasing the individual’s capacity to make meaningful economic contributions to the community. As part of economic development, small business development is important for job creation and for stimulating economic growth.

1.4 PROBLEM STATEMENT

1.4.1 The Potential of Co-operatives in Economic Development

The development of a successful co-operative sector is seen as imperative to the development of the informal economic sector in South Africa (Redrebel,2009:1). This baseline study, undertaken for the Department of Trade and Industry, indicates that co-operatives can contribute directly to the eradication of poverty, stimulate the economy and enhance the social well-being of communities.

The Minister of Trade and Industry, Dr. Rob Davies, in a 2009 address reiterated the South African government's commitment to alleviate poverty and reduce unemployment, especially in rural communities (Davies,2009:1). This was the reason for the decision to promote and support co-operatives, since these have the potential to respond to members' needs and ensure greater participation of the historically marginalized (women, the disabled, rural communities and the youth) in the mainstream economy. However, the majority of co-operatives are survivalist start-up enterprises requiring substantial support to ensure sustainability and long term success.

This viewpoint has led to a new co-operative policy and, eventually, new co-operative legislation. To develop the sector, the responsibility for the development of the co-operative sector was carried over to the Department of Trade and Industry from the Department of Agriculture. Several government departments, including the Department of Social Development, have since become involved,. Some provinces have also formulated their own co-operative policies and local government have been motivated to become involved in the development of this sector.

Stories of successful co-operatives abound, particularly in Europe where the Mondragon Co-operative in Spain has shown the world what co-operatives can accomplish (Rothschild,2009:1029).

Because co-operatives aim to combine business ventures with social virtues a strong co-operative sector is increasingly promoted as a pre-condition for a successful drive against poverty and exclusion in Africa and other parts of the world (Theron,2005:366).

Worker co-operatives in particular can play an important role in economic development, partly because of the social aims that characterise this business format. The sector can provide business ownership for community members, play a role in the creation of employment and also contribute to other community development initiatives, such as education, training, etc.

A successful co-operative sector can significantly help reduce poverty in many ways (Theron,2005:370 and Develtere *et al.*,2008:XXI):

- They create jobs and allow members to earn an income that helps them to pay for education for their children, build houses, invest in business opportunities and meet day-to-day family expenses.
- They assist in strengthening the traditional African social security system that enables members to provide for unexpected expenses, like illness and death, expenses related to education and other socio-economic needs.
- They assist in reducing exclusion and inequality by grouping the poor and not-so-poor together in the same income-generating activities.

Furthermore, the co-operative business model should fit in with the African spirit of ubuntu where the community is held central to existence. Statements by Theron (2005:128) and Develtere *et al.* (2008:XIII) support this. According to the writers, co-operative entrepreneurship is the way forward for African development since co-operation is inherent among people and communities of many cultures in Africa and has existed for decades in various urban and rural economies on the continent.

According to Van der Walt (2006:4), there are many characteristics of the co-operative form of business that support its applicability in the development of rural communities, as seen in its historical role in the development of agricultural communities.

Develtere *et al.* (2008:IX) state that the World Bank acknowledges the developmental potential of co-operatives, providing that they are restructured, disentangled from the state and adhere to business principles prevalent in a market economy. The combination of private enterprise and a concern for communal welfare has seen many co-operatives help people out of poverty and create wealth in their communities.

The role that co-operatives can play in the alleviation of unemployment has also, on several occasions, been accentuated by the United Nations in the form of resolutions and reports by different Secretaries-General. For example, in Resolution 58/131, the UN General Assembly (United Nations,2004:1) recognized that co-operatives, in various forms “promote the fullest possible participation in the economic and social development of all people, including women, youth, older persons and persons with disabilities, and are becoming a major factor of economic and social development”.

The huge potential of co-operatives is also emphasized by the fact that co-operatives contribute 21,1% to the GDP of Finland, 17,5% in New Zealand, 16.4% in Switzerland and 13% in Sweden (Cronan,2007:18).

Develtere *et al.* (2008:23) have found that genuine co-operatives have certain characteristics which have made their contributions to rural development significant. The co-operatives provide members with:

- Advantages of economies of scale.
- An often lacking level of competitiveness in rural areas.
- Assistance to enhance rural stability.
- An effective way of getting assistance to women.

The viability of the co-operative movement and the potential of worker co-operatives in the creation of employment are exemplified by the “Empresas Recuperades” (reclaimed enterprises) in Argentina (Fields,2008:83). The members of these co-operatives were confronted by an economic crisis sparked by large scale neo-liberal economic reform and faced with a 21,5% unemployment rate and a poverty rate of 57% in their country. So the

10 000 members comprising shop-floor factory workers, hotel cleaning staff and bakers, have saved their 190 employers' businesses since 2000, by transforming the business from hierarchical management structures with highly differentiated wage scales into self-managed, democratically run co-operatives with flat wage scales. This was achieved without the benefit of bank loans.

Theron (2005:73) submits that his study has shown the significant role the co-operative sector is playing in some of the largest challenges the African continent is facing, i.e. employment creation, poverty reduction, extension of social protection and representation of interest of the largely silent, poor majority. He explains the significance as follows:

- **Significance of employment:** Co-operatives have a role to play at three different levels of employment:
 - Direct employment of personnel and staff of primary and secondary co-operatives and of support organizations (77 400 staff in Kenya and 28 000 in Ethiopia).
 - Indirect employment of co-operative members whose membership substantially improves their ability to earn a decent income (An estimated 209 000 people in Ghana and 150 000 in Rwanda).
 - Multiplier or spillover effects to non-members whose livelihood depends on their dealings with co-operatives, e.g. tradesmen and suppliers.

Moreover, all over Africa, co-operatives assist in the creation of seasonal and casual work opportunities. This contribution to employment is not negligible and in some countries the contribution of co-operatives in employment are on the increase.

- **Significance for poverty reduction:** According to Theron (2005:75), no systematic study of the contribution of co-operatives in the reduction of poverty has been conducted. Practitioners, governments and development agencies involved in co-operative development assume that co-operatives play a significant role in this regard. Theron's study has shown that Credit Unions, SACCOs and agricultural co-operatives all over Africa have had a significant effect on poverty reduction. However, the extra income they generate as well as the support and opportunities they provide are often insufficient to lift their members out of poverty.

In South Africa the success of the mainly white-owned, agricultural co-operatives are well-known. For the rest of the sector, the story looks less rosy.

1.4.2 Challenges faced by Worker Co-operatives

Co-operatives, particularly worker co-operatives, have been met with scepticism for failing to conform to traditional business concepts. The scepticism is partly due to the difficulty of operating a democratic organization while dealing with the other challenges of operating an enterprise (Theron,2004:34). The scepticism has been increased by the number of co-operatives that have been established without any clear indication of how they would be operated as business enterprises.

In addition to the challenges faced by co-operatives in general, some researchers have found several challenges faced by worker co-operatives, mainly rooted in the unique owner–worker relationships that characterise this form of business entity.

Surveys by Staber (1993:139) show that the working conditions within worker co-operatives have been unstable and self-exploitive, leading to burn-out and a high member turnover rate. Instability and low wages make it difficult for workers to develop the occupational experience and skills to facilitate the necessary upward mobility.

According to Philip (2003:5), many of the difficulties faced by worker co-operatives relate to their attempts to provide alternatives to the conventional owner – worker relationship, because in these co-operatives the members combine these roles. Such co-operatives face complex challenges and, if there is at least a basic level of business viability, their survival depends on the ways in which they manage the tensions inherent to this type of organization. She identifies three types of tension present in worker co-operatives:

- The tension between a democratic decision-making process and business efficiency.
- The tensions between the roles and interests of workers in their capacity as owners and as workers.

- The tensions between the short-term aim of members to improve their living standards and the long-term sustainability of the co-operative.

If these tensions are managed in an acceptable way and the management process becomes part of the co-operative culture, worker co-operatives can succeed. If not, the co-operatives will fail.

Philip (2003:20) moreover states that viability represents a large challenge to the success of worker co-operatives. Business viability is a complex challenge in any group enterprise or co-operative. However, worker co-operatives are often started by unemployed people without prior business experience, in areas with little or no little economic growth. The challenge is compounded by an over-supply of labour, if the co-operatives' production base and the absorption capacity of their target markets are taken into account.

Philip (2003:20) further asserts that most start-up businesses target their local market, because of inherent local knowledge and the fact that it simplifies distribution and marketing. For many co-operatives, however, these markets are poor as they are predominantly situated in rural areas. Potential customers are highly dispersed and buy a limited range of products, most often mass produced, with low mark-ups. While this market is poor, it is highly brand- and price-sensitive and local producers struggle for their products to compete with such products. Urban markets, therefore, might seem to hold more promise in terms of volumes, but pricing and quality competition levels in these markets are much higher. However, these markets are often unfamiliar terrain for co-operative members, especially in case of more up-market products. Competing in these markets will demand improved product quality, better packaging and design, resulting in increased costs and the need for more complex procurement and distribution systems. More business formality is needed as well as more complex financial management systems. Technical support to overcome these challenges is often neither available nor sustainable, and the co-operative will remain caught up in local markets with little potential.

Workers co-operatives have often failed financially (Baldacchino,1990:464). This can frequently be attributed to any combination of the following:

- They are undercapitalized.
- They are operating in risky and harshly competitive markets.
- Lack or shunning of management expertise.
- Operating with diffused authority and disciplinary structures.
- Members receiving subsistence wage after working excessively long hours.

1.4.3 The State of the Co-operative sector in South Africa

Success stories in the South African co-operative sector are few and are mainly found in agricultural, user and financing co-operatives. Even a recent study by COPAC (Satgar and Williams,2008) to identify twenty successful co-operatives in Africa included only three worker co-operatives. Furthermore, the success of these co-operatives is debatable as none of them provide their members with a decent, regular income and they are dependent on government support for survival.

The 2008 DTI Baseline study (Redrebel,2009:7) has found that the development initiatives by government have led to three times as many co-operatives being registered between 2005 and 2007 as have been registered since 1922. In 2007, 16 694 co-operatives were registered at CIPRO (now CIPC). Most of these were less than three years old and 90% of them had been in existence for fewer than five years. The study also found that only 13% of co-operatives employed workers and that 48% of these had fewer than five employees. A large percentage of the co-operatives studied reported loss of members because of insufficient income generated by the co-operative. More than 70% of the co-operatives surveyed had a turnover of less than R50 000 p.a. The study also brought to light that a small percentage of the registered co-operatives were actually operational.

A 2001 Baseline Study of Cooperatives by NCASA, quoted by Philip (2003:17), found that 40% of co-operatives studied generated no income for members and that the “the typical co-operative” generated R2 000 per month and earnings of approximately R1 600 per year per member, meaning the member earned R133 per month. 90% of the co-operatives studied were worker co-operatives.

According to Theron (2005:312), the co-operative sector in 2005 looked like this:

- Most of the registered primary co-operatives in the emergent movement were small co-operatives with few, if any, assets.
- Most of the primary co-operatives had a listed cellphone number only and 49.6% of all trading co-operatives had no telephone at all. This seriously hampered the probability of co-operatives being able to expand any operations.
- A DTI study had shown that 52% of co-operatives had between 10 and 49 members and the average number of members per co-operative was 15.58.
- More than half of co-operatives had a turnover of less than R10 000 p.a. and 30.2% had no income at all.

The relative ease and low cost of registering co-operatives has contributed to the growth in the number of registered co-operatives, but the increase can only be positive if most of these co-operatives grow into viable, sustainable organizations and if they are able to establish viable secondary co-operatives (Theron,2005:314).

Theron (2005:306) states that most emergent co-operatives in South Africa are small, primary co-operatives. The co-operative movement is extremely diverse in terms of where they are located, the sectors in which they operate and the type of co-operative.

If the DTI baseline study (Redrebel,2009:7) is taken as a measure, at least 37% of co-operatives in South Africa may be defined as worker co-operatives, where the co-operative members work for the co-operative as their primary source of income. The income generated by these co-operatives for members must then be a source of concern as the income levels will not help sustain members and their families.

1.4.4 Factors contributing to the success of Worker Co-operatives

Many studies have been conducted on the nature of the inherent factors which make co-operatives successful and researchers have reached different conclusions. There is no one-size-fits-all recipe for the success of co-operatives, but the 2008 COPAC study identified certain pre-conditions, starting with the co-operative principles developed by the International Co-operative Alliance (ICA) (Satgar and Williams,2008). A discussion of the principles and its embodiment in the South African Worker Co-operative follows:

1.4.4.1 First Principle: Voluntary and Open Membership

“Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.” (ICA,2010:1)

According to Van der Walt (2006:4), it is imperative that the co-operative is started through the initiative of the members themselves, that membership is voluntary and that the members manage the venture.

Satgar (2008:19) supports this by stating that the development of the co-operative sector entails painstakingly and patiently building it from below, allowing members to build the co-operative in a process of self- and collective empowerment and fostering a tradition of learning from experience and practice.

Currently the norm in many development programmes is to make group formation with a minimum of ten to twenty members a prerequisite for funding or other enterprise support (Philip, 2003:20). Little or no attention, however, is paid to the impact of this on the viability of the business and its market.

The above situation leads to the tendency that co-operatives are only formed to secure funding and/or grants. Many of these co-operatives are not viable and remain dependent on grants for survival. Members of such co-operatives will have no cohesion and the group dynamics that keep co-operatives going, even through bad times, will be lacking

1.4.4.2 Second Principle: Democratic Member Control

“Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.” (ICA,2010:1)

To compete against other producers, co-operatives need to optimise productivity and therefore the division of labour and differentiation of skills is necessary (Philip,2003:22). Logically, differentiation of wages also follows. However, many co-operatives start out with the assumption that equal pay for equal work, means equal pay. This idealistic situation often ends up causing conflict as members with more skills, those who work more efficiently or those who do higher quality work, feel that it is unfair that they receive the same remuneration as those who do not. The dependence of co-operatives on members with specific skills is seldom reflected in differentiated wages, much less market-related rates. Although members will, for the sake of group cohesion, be prepared to accept this situation for a while, the co-operative may end up losing their skills unless the situation is addressed. Philip (2003:22) concludes that a division of labour and differentiated pay rates is conditional for a successful long-term business strategy in worker co-operatives.

Although a business plan that determines the election of management committees and establishes their decision-making powers to manage the business may have been agreed to, the authority and scope of management decision-making may be constantly challenged in co-operatives (Philip,2003:22). This is a result of the expected high level of democracy and worker control. This situation is the cause of much contest and conflict in co-operatives.

At the other end of the scale, worker co-operatives have also been victims of economic success (Baldacchino, 1990:464). When achieving financial success, the co-operatives may be forced to expand, making true democratic decision-making impractical. Bureaucratization follows, culminating in representative democracy instead of participatory democracy. This will lead to diffusion of responsibility and, subsequently, to a decline in member commitment.

The organisation of co-operatives, where power is decentralised, is difficult (Sharit and Sarker,2002:465). Logically, in a participatory organisation, discussions have

to be held at every level of the organisation and general approval obtained before any decision is implemented. However, it is easier to organise in a structure where decisions are taken by a small group or by a specific person. This results in democratic administration being restricted to the periodic election of the management committee.

Some worker co-operatives experience difficulty in compromising between ensuring that the will of the members is heard and achieving efficient decision making processes. The larger co-operatives become, the more difficult it will be to exercise true democratic control, as it becomes nearly impossible to obtain unanimous decisions (this phenomenon exists in nearly all co-operatives). Most co-operatives then revert to majority vote decisions, which may disillusion some members and cause them to leave the organization. All businesses, particularly small businesses, should have quick decision-making capabilities. The process of obtaining member permission on decisions (unanimous or majority vote) may impede the decision-making process and result in slow reaction to market changes and acting on opportunities.

1.4.4.3 Third Principle: Member Economic Participation

“Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefitting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.” (ICA,2010:1)

Theron (2005:58) found that annual membership fees kept the poorer members of society from participating in the co-operative sector in many countries.

Most members of worker co-operatives are impoverished and were unemployed before joining the co-operative. This makes it difficult for them to make regular membership contributions, which in turn results in financial difficulties for their business.

1.4.4.4 Fourth Principle: Autonomy and Independence

“Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.” (ICA,2010:1)

Having to rely too much on government financial assistance could make co-operatives vulnerable and, therefore, leave them open to manipulation (Theron,2005:216).

In reality, government officials and members of other organizations often prescribe to co-operatives how they are supposed to operate, make decisions and handle financial affairs. This situation is brought about mainly because of a lack of management skills in worker co-operatives (many members have never had a permanent job, much less the opportunity to develop management skills) or due to uncertainty within the membership on how a co-operative is supposed to be managed and operated as a business (mainly because of a lack of training).

1.4.4.5 Fifth Principle: Education, Training and Information

“Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.” (ICA,2010:1)

The management of any business enterprise requires a complex range of skills (Philip, 2003:21). When, as in the case of co-operatives, it involves the collective management of resources, the complexity increases dramatically. There are groups of workers who manage to overcome this and succeed. However, many unemployed people, faced with the management of a co-operative enterprise, have little or no work experience, much less business management experience. Financial literacy and even basic numeracy skills are often low. Because of the democratic way in which co-operatives are managed, it is not enough that some members need these skills. Unless there are high levels of trust embedded in the co-operative's culture, conflict may develop around the use and allocation of finances. The turnover the co-operative has to generate to be viable is significant, taking into account the earnings it has to generate for members.

1.4.4.6 Sixth Principle: Co-operation among Co-operatives

“Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.” (ICA,2010:1)

Successful co-operatives in Africa have engaged in constructive collaboration and partnerships with external actors (Theron,2005:370). Success also requires local and international networking among co-operatives to provide supplementary support

Establishing a network of similar co-operatives can have many advantages and enhance the feeling of belonging to a 'movement' (Brazda and Schediwy, 2001:39), but it can also lead to mergers that will in turn lead to bureaucratic growth and larger distances between managers and members. Co-operative networks that succeed in establishing growth, while harnessing the community spirit of small co-operatives, do exceptionally well.

This principle emphasizes the importance of networking for all businesses. The dependence of co-operatives on secondary and tertiary structures for survival is

well-known all over the world. In South Africa, because most worker co-operatives are struggling to survive and do not have the financial ability to contribute to membership of these structures, not many secondary co-operatives exist and the efficiency of those that do operate is often questionable with little or no effect on the survival of their members. Higher up in the hierarchy it is even worse with the national body, NCASA, only managing a small membership of mostly individual primary co-operatives and no secondary or tertiary co-operatives.

1.4.4.7 Seventh Principle: Concern for Community

“Co-operatives work for the sustainable development of their communities through policies approved by their members.” (ICA,2010:1)

Risking the wrath of co-operative purists, the submission is that this principle can only come into play after the co-operative has achieved financial autonomy and independence from outside funding and that it is providing members with a sustainable income. The relatively low success rate of worker co-operatives in achieving these objectives has caused the social impact of worker co-operatives on the communities in which they operate to be minimal.

Most support agencies and donors accentuate the importance of recognizing co-operatives as private economic enterprises that have to make profits or surpluses (Theron,2005:71).

Therefore the emphasis should be on financial management, solvency, profitability, financial sustainability, market penetration and return on investment.

Co-operatives may have a huge effect on the morale of member, even if they do not provide a sustainable income, since they may give members self-confidence through a sense of belonging and purpose while trying to achieve a common goal before ultimately obtaining financial success. This in itself may have a significant effect on those coming into contact with co-operative members.

1.4.4.8 Other Factors

In addition to the studies mentioned above, other studies identified further prerequisites for success in this sector.

For a co-operative to establish itself economically, it must survive the initial phase in which its survival is determined by the enthusiasm and, sometimes, self-exploitation of the founders (Brazda and Schediwy, 2001:39). Sizable advantages for members can only be attained after this initial phase.

According to Develtere *et al.* (2008:24), financial support during start-up is imperative as newly established co-operatives are not sufficiently solvent to secure loan financing. Moreover, the members lack the resources to provide equity of their own.

The Theron Study (2005:61) found the following characteristics for feasible co-operatives:

- Co-operatives are associations – locally embedded, voluntary. Members have a group identity and participate in the associative life of the co-operative. Frequent contact between members, management and directors is essential for enhancing trust and loyalty.
 - Independent leaders with a talent for professional organization, business economics and a good rapport with members are prerequisites for successful co-operatives.
 - An explicit mission statement and a clear vision with regard to the role of the organization, its challenges and its strategies.
 - Result orientation and creativity in finding solutions to daily challenges.

- Co-operatives are businesses – Successful co-operatives produce significant financial and economic benefits for members. Even started with capital from external sources, these co-operatives gradually generated their own capital by means of business dealings and by shares, loans and savings of members.

- Governance nexus (Theron,2005:87) – Viable co-operatives find governance procedures that harness the differences between the associative and business forces at play in the co-operative. They find ways to make decision-making more efficient. Transparency, democratic governance, internal accountability and control are necessary.
- External patrons - Success depends on a suitable combination of internal organizational and economic capabilities and adequate support from external role-players.
- Legislation – Governments must provide a legislative and institutional framework that will make it possible for co-operatives to play an instrumental role in the economic policy.

In their study, Brazda and Schediwy (2001:35) suggest that there is no ‘ideal state’ for a co-operative, but that the success of co-operatives should be measured in terms of simple economic survival. They are of the opinion that a successful start could be classified in terms of five years of initial survival and successful continuation in terms of a thirty year survival period. Other parameters could include turnover and the number of members or employment.

1.5 The Research Problem

It would seem that in the above findings a very bleak picture is painted of the worker co-operative movement in South Africa. To be successful, worker co-operatives need to achieve at least the most basic of business success factors that are relevant to all business entities. Only then will they be able to have the social impact they are intended to have. However, from the above discussions it is clear that worker co-operatives in South Africa are started and operated without members possessing the necessary technical and management skills, experience and training. They further lack seasoned managers to lead them and are deficient in the conflict management skills necessary to take important strategic decisions in a democratically based organization.

Co-operatives have an important role to play in development in South Africa, but the conditions under which they can succeed are not clearly understood (Satgar and Williams,2008:71).

Establishing the success of the co-operative sector should be measured in terms of the success rate of individual co-operatives and not based on the number of co-operatives being registered (Van der Walt,2008:4).

The reason for undertaking this study is, therefore, to establish certain business success factors to which worker co-operatives should conform and to evaluate them against these in order to identify inherent shortcomings and development challenges.

1.6 **GOAL OF THE STUDY**

1.6.1 **Goal**

The goal of this study is to establish business success factors to which worker co-operatives should conform and to evaluate South African worker co-operatives against these to identify shortcomings and development challenges in order to assist with the establishment of this sector as a vehicle for economic and community development.

1.6.2 **Objectives**

The objectives of the study are the following:

- 1.6.2.1. To establish the criteria for measuring the financial success of worker co-operatives.
- 1.6.2.2. To establish the financial success of worker co-operatives as a business entity in general.
- 1.6.2.3. To identify the problems experienced by worker co-operatives, in general:
- 1.6.2.4. To evaluate the success of co-operative support initiatives to date.
- 1.6.2.5. To establish the social and economic impact, if any, of current worker co-operatives on members and their communities.
- 1.6.2.6. To develop a framework for the support and development of worker co-operatives.

1.7. RESEARCH METHODOLOGY

1.7.1 Literature study

The literature study resembles a focus on previous research in the field. Therefore, academic journals have been consulted extensively. As this is, as far as is known, the first time in-depth research regarding the business success of worker co-operatives has been done on the subject in South Africa, research from other countries will have to be used to provide a background for the study.

The International Co-operative Alliance and the International Labour Organisation have, in the past, had research conducted in respect of related matters; the databases/websites of these organisations were thus be consulted. In South Africa, the Co-operative and Policy Alternative Centre (COPAC) and the Department of Trade and Industry have previously conducted studies on the situation in the co-operative sector as a whole, and their publications were likewise utilised.

In general, the following databases were used to search for related literature:

- SAGE Publications
- EbscoHost
- SACat
- SAePublications
- RSAT
- ProQuest
- Ferdikat

The inter-library service was likewise utilised to locate publications pertaining to the subject matter.

To ensure that statistics quoted are current, statistics were obtained from the Department of Trade and Industry, Seda Co-operative and CPPP unit and the South African National Apex Co-operative Organisation (SANACO).

1.7.2 Empirical Survey

The research population for the study was the actively operating worker co-operatives registered with the Small Enterprise Development Agency (Seda).

Seda, at the time of the survey, had approximately 456 co-operatives registered as clients who had received assistance. These clients represented the target population of the research. By far the largest portion of these was worker co-operatives although a significant number were not actively operating. Later, when it became evident that there were not enough actively operating co-operatives listed, another list was obtained, containing 549 co-operatives which were registered as clients, but had not necessarily received assistance from Seda.

After a specific list of the target population had been generated from the Seda database, regional facilitators employed by Seda were utilised to help identify the actively operating worker co-operatives from among these co-operatives.

The research population is valid as it includes worker co-operatives from all parts of South Africa as well as various industries and sectors (Seda top management authorised the utilisation of Seda clients and Business Advisors for the research).

This method of selection was chosen to ensure that the selected sample is meaningful in the context of the research and that as many co-operatives which met the criteria for success were as possible included in the sample.

The research firstly explores the conditions within the worker co-operative sector and describes the state in which these co-operatives find themselves. The factors explored include the way in which these co-operatives operate, the way they are managed, the income worker co-operatives generate for their members and the viability of the sector.

Secondly, as part of the research into the state of worker co-operatives, it identifies those co-operatives that may be categorised as successful in relation to a set of pre-determined business criteria. Factors used to identify successful co-operatives include the following:

- Years in existence
- Financial independence
- Profitability
- Member income.

Thirdly, the impact of previous development efforts is explored, through a comparison in performance and management - and operational practices between a group of worker co-operatives that have received funding and/or support from development agencies in the past and a group that has received no support.

Finally, on strength of the results obtained during the research, a framework for future development efforts is proposed.

The Statistical Consultation Services of the Potchefstroom Campus of the North West University has been engaged to assist in the development of a standard questionnaire, using an assessment tool utilised by Seda to assess the operations of small businesses, the Small Business Assessment Tool (SBAT), as basis.

This tool is normally utilised to ascertain the areas in small business which need improvement and to determine the appropriateness of interventions. The tool also assists business advisors in ascertaining the management knowledge and training needs within the business.

Seda business advisors and regional facilitators are familiar with the SBAT. This assisted in creating credibility of the research with the Seda employees utilised to conduct the research and overcome resistance, if any.

The SBAT, although normally utilised as a qualitative tool, is likewise able to provide quantitative measurements because of the way in which questions are formulated. Except for the financial part of the questionnaire, all answers to questions are multiple choice. Other quantitative questions have been added for research purposes and will include questions on the following:

- Number and demographics of members, including age, education levels, gender, etc.;
- The financial viability of the business, including income and expenditure (currently the SBAT contains only data on the balance sheet of the business, but financial ratios had to be calculated to establish financial independence and profitability);
- Previous development support received from government, government agencies and private institutions;
- Disposable income of the co-operative and the average income per member per month;
- Social initiatives by the co-operative from own funds, e.g. training, education, employment creation for non-members, etc.

For the purpose of processing the data obtained from the questionnaire, the Statistical Analysis System software has been used and normal descriptive statistics, such as mean, standard deviation and frequency tables were generated.

1.8.CHAPTER CLASSIFICATION

The final research document contains the following chapters:

1. Nature and Scope of Study;
2. Co-operatives and their role in Social and Economic Development;
3. The Challenges faced by Co-operatives;
4. The State of Co-operatives in South Africa;
6. Empirical Research;
7. Conclusion and Recommendations.

Chapter 2

CO-OPERATIVES AND THEIR ROLE IN SOCIAL AND ECONOMIC DEVELOPMENT

“Coming together is a beginning.

Keeping together is progress.

Working together is success.”

- *Henry Ford*

Since the earliest times, people have been dependent on each other in order to survive. Early hunters had to co-operate in groups to obtain food, with the primitive weapons at their disposal. To aggravate matters, they had to do all of this and still survive in a hostile environment. Throughout history, many examples of co-operation leading to success abound.

This very concept of co-operations forms the modern basis for the formation of co-operatives. Simply expressed, co-operatives are about people coming and working together for the common good. This would include both economical and social aspects.

2.1 Introduction

Recently, new evidence has come to the fore, which suggests that the first official co-operative society was established on 14 March 1761 – 250 years ago (Carrell,2007:1). The Fenwick Weavers Society was started by fifteen weavers, in the East Ayrshire region of Scotland, on the basis of their agreeing to “support one another, work honestly, and charge fair prices” (BBC, 2011:1). They initially began by buying and sharing materials and looms, but later expanded to include food and other goods, which they sold to the community (Carrell,2007:2). Still later they started lending money to needy members in their community and established a library. Their success resulted in other co-operatives being established in surrounding towns.

However, it is the Rochdale Equitable Pioneer Society that proved more successful and had an even greater influence on the modern co-operative movement (Carrell,2007:2). Very similar to the Fenwick Weavers Society, this society was started by 28 weavers and began trading on 21 December 1844 (which is regarded as the official birth-date of the international co-operative movement), selling basic necessities to the members of the society (CDS,2011:3). The Rochdale Pioneers, from past experience and as a result of the theories of Robert Owen and Dr. William King, drew up a set of principles specific to their enterprise to work on how to ensure its success. These principles became known as the Seven Co-operative Principles, and were adopted by the International Co-operative Alliance, although they were later adapted.

By the 1870s, the co-operative movement in the United Kingdom had its own wholesale and insurance societies, and had accumulated capital of over £300 000 (CDS,2011:3).

From there on, developments happened in other European countries and all over the world, and the co-operative movement grew to the formidable force that it is, today.

According to Cornforth *et al.* (1988:210) co-operatives have survived and even prospered, meeting new needs: creating and saving jobs, providing better working conditions and greater flexibility, as well as creating more democracy in the work place.

It stands to reason that the history of the co-operative movement would be incomplete without the mention of the Mondragon Corporation, a co-operative society operating in Basque, Spain. This society was formed as a result of the efforts of a Catholic priest, José M. Arizmendiarrietta (Wikipedia, 2011a:1). After educating young people for a number of years, he selected five of them in 1955 to start the first co-operative of the Mondragon group. During the next fifteen years, many co-operatives were set up as a result of the growth in the Spanish economy. The Mondragon Co-operatives kept on growing and by the end of 2010, 256 smaller co-operatives which form the larger group, specializing in finance, industry, retail and knowledge, provided direct employment to 83 859 people. In the same year, the Mondragon Corporation posted a total turnover of 14.8 billion Euros. It

is the seventh largest Spanish company in terms of asset turnover, and is currently the fourth largest industrial group in the country.

In South Africa the co-operative movement actually started out in the early 1900s, as a result of the devastating economic aftermath of the Anglo Boer War and the dire effect it had on farming communities (Redrebel,2009:4). As farming activities in the Free State and Transvaal came to a complete standstill during the war, economic reconstruction came to the fore as being of the utmost importance. Unfortunately, capital for the reconstruction was not readily available and farmers were forced to sell their produce directly to local general dealers in exchange for clothing, groceries and farming requisites. After a good harvest a farmer would have been able to produce more than was owed to the general dealer, but bad harvests resulted in the opposite effect - more debt, leading to many farmers losing their farms. This situation thus resulted in farmers forming co-operatives to market their produce.

There is no doubt that the co-operative movement played a decisive role in the economic recovery and growth of commercial farming in South Africa.

However, the co-operative movement in South Africa was flawed in the sense that, by means of discriminative legislation, it benefited the white minority at the expense of the black majority (Redrebel,2009:4). Agricultural co-operatives enjoyed a monopoly in the agricultural sector and therefore controlled the agricultural marketing boards, which regulated prices.

These co-operatives thrive, as they (Redrebel,2009:4):

- Provided agriculturally related services, such as receiving, handling, grading, fumigation and storing of controlled commodities, to members.
- Channelled funds from funding institutions, including drought relief funds, to members;
- Facilitated the trading of bulk purchased supplies (e.g. fertilizers, pesticides, herbicides, farm implements) and consumer goods.
- Provided insurance brokerage for short term insurance and crop insurance. Some also provided group schemes, pension funds and credit insurance.

- Provided secondary processing of agricultural produce, e.g. maize milling, peanut production and sunflower oil pressing.

Statistics from Amin and Bernstein (1995) as quoted by Satgar and Williams (2011:204) and Redrebel (2009:5) show the phenomenal growth of these co-operatives, and the impact they had on South African agriculture. In 1994 there were 250 agricultural co-operatives with 142 000 members, R12.7 billion in assets, and pre-tax annual profits of more than R500 million. Total turnover was R22.5 billion. The co-operatives handled all exports of citrus and deciduous fruit, processed the entire wool clip and marketed 90% of dried fruit. They provided and/or financed 90% of fertilizer, 85% of fuel, 65% of chemicals and a significant portion of the machinery and equipment used by white farmers.

In the black economy, co-operative development occurred mainly in the informal sector, except for the co-operatives started by government in the homelands (Redrebel,2009:5). However, these formal co-operatives were not successful and, after the end of apartheid, the majority of them ceased to exist. In the informal sector, co-operatives were established by hawkers in the home industry and other self-employment initiatives. Co-operatives' rotating savings and credit schemes, e.g. burial societies, stokvels and social clubs, although often not formally registered, operated on co-operative values and provided a way for the disadvantaged to generate income for the common interest (Redrebel,2009:5).

To indicate the size of the co-operative movement in the informal sector, Shirinda (2008:31) states that in 2008 there were at least 800 000 active stokvels with a total membership of approximately ten million people in South Africa, which represents a significant portion of the population.

Since democratic South Africa came into being, the government has introduced several strategies and pieces of legislation, in order actually to grow and develop the co-operative sector.

2.2 Definition of a co-operative

There are many definitions of the concept of a co-operative. In order to keep this discussion within its context, the official South African definition for a co-operative, as found in Section 1 of the Co-operatives Act of 2005 (South Africa,2008), will be employed.

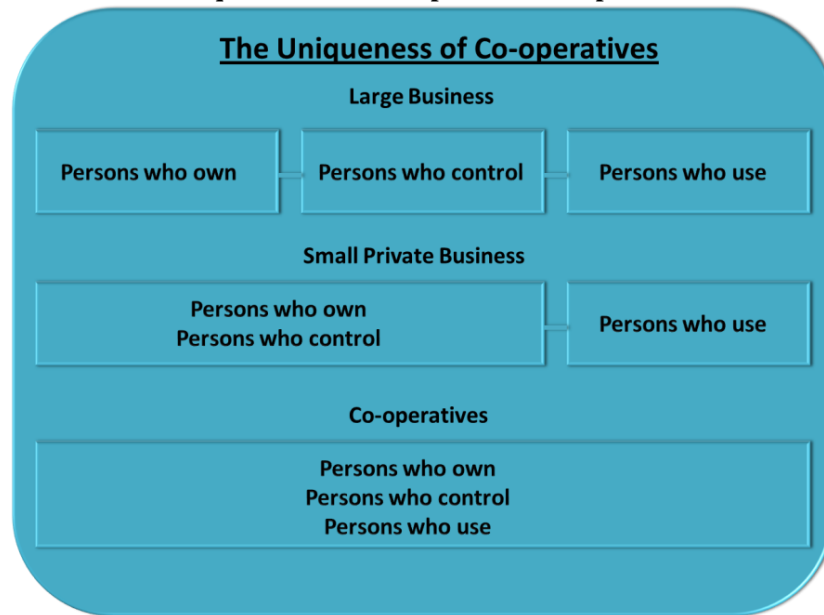
According to this definition, “co-operative means an autonomous association of persons united voluntarily to meet their common economic and social needs and aspirations through a jointly owned and democratically controlled enterprise organized and operated on co-operative principles”.

Thus the co-operative is owned by its members who make the decisions with regard to its activities (Redrebel,2009:1).

South African legislation enables the co-operative to be a juristic person (Theron, 2004:34). Unlike the situation in public companies, the members of the co-operative contribute the capital needed, and the aim is to generate a surplus, rather than to make profits. Normally, a part of the surplus will then be utilized for the benefit of the community.

Dogarawa (2005:6) provides a diagram which clearly demonstrates the uniqueness of the co-operative enterprise model. In this diagram he compares the difference in the relationships of the three groups of people responsible for its establishment and operations, specifically between co-operatives and other business models. The three groups, originally identified by Laidlaw (1974, as cited by Dogarawa) are people who own the business, people who control the business and people who use the business. According to the diagram, in a typical large business one will find that there are three distinct, separate groups of people. In small private businesses the first two groups are normally the same people but the customer-base forms a separate entity. In a co-operative, all three groups are together and may even be the same group of people. The diagram is as follows:

Figure 1
The Uniqueness of the Co-operative Enterprise Model



(Adapted from: Dogarawa, 2005:6)

From the above it is evident that the co-operative is truly a unique form of organization in terms of formation, goals and the interaction between owners, managers and customers.

Dash (2013: 42) explains that co-operatives derive their institutional strength from the blending of economic, social and environmental values to create positive outcomes for members' well-being and community development through a democratic structure and management. Although their operations are based on an entrepreneurial approach, they are not only focused on financial return, but on "rationalities" beyond profit and competition. Co-operatives are a unique blend of capitalism (income, growth and enterprise development) and democracy (participation, inclusion, ownership and control). They change the intent and content of members' economic lives. Members view their co-operatives as central to their lives; offering them an institutional space and a social environment that provides them with cohesion, support and security, as well as confidence, hope and even identity. Therefore, members blend loyalty with voice in the governance of their enterprise, which is key to their strength, stability and resilience in economic crises.

2.3 Advantages of the co-operative form of business

Throughout history, co-operative principles have been used to meet people's economic needs.

Hubbard (2005:1) states that in a co-operative, people can unite their ideas, their skills and their resources to enable them to achieve what they would not be able to accomplish on their own.

Mills and Davies (2013:8) contend that there is good evidence to suggest that providing consumers and workers with a voice inside organisations produces better, more intelligent and responsive forms of business. The democratic structures that are part of the co-operative form of institution enable individual participation, resulting in workers exerting real influence within the enterprise. This then provides individuals with the opportunity to develop their skills and build their confidence for participation in their communities and society.

Co-operatives combine the productive activity and commitment of members with their shared resources to establish competitive businesses that benefit members and their communities (Nembhard,2004:3). In both rural and urban settings, they promote control over income and wealth, economic anchoring and security, consumer education and on-the-job training, improved worker-management relationships, leadership development and reduced costs. Worker ownership (worker co-operatives) provide more control over work rules, increase productivity and provide living wages, benefits, meaningful work, education and training, opportunities for promotion and the accumulation of wealth.

Mills and Davies (2013:4) submit that co-operatives provide a better and more effective way of doing business on account of the following factors:

- They provide individuals with participation through ownership, which makes them inherently more engaging, more productive, more useful and more relevant in the contemporary world.
- Their business model creates greater economic, social and environmental sustainability.

- Their business model puts people at the heart of economic decision-making and can bring about a greater sense of fair play to the global economy.

Because they are rooted in their communities, co-operatives are more likely to influence these in a positive manner (ILO,2011:1). They promote ‘self-help’ and motivate people to make better use of their self-help potential. They are often the only providers of services such as electricity, water, financial services and consumer supplies in rural communities where conventional businesses do not enter the market on account of a low possibility of financial return.

According to the OCDC (2011:1), co-operatives in emerging economies allow for their members to learn entrepreneurship and market principles. They permit people with limited resources to pool these together and thus enable them to compete in the mainstream economic and political life of a country.

Co-operatives lessen the risk of business ownership. Lima (2007:596) states that, while all the members gain equally when the co-operative generates surpluses, deficits are also divided equally among members. This aspect moreover implies that members will be more intensely involved in the activities of the co-operative.

Co-operatives derive important benefits for members by means of purchasing, combined services and marketing (United Nations,1996:5). In rural areas, co-operatives are offered the opportunity to compete with other businesses and survive adverse market conditions. This has ensured the survival of both family- and community–based economies in many countries.

In urban areas, co-operatives ensure the survival of enterprises in highly competitive circumstances (United Nations,1996:5). In the USA, nearly all independent hardware stores are members of co-operative wholesalers, two of which were included in the 1994 *Fortune 500* list.

According to Birchall and Ketilson (2009:29) co-operatives last longer. The authors quote a study by the Quebec government (Osawa, 2008) when they state that six out of ten co-

operatives in Canada survive for more than five years, compared to four out of ten private sector businesses. Forty percent of co-operatives survive for more than 10 years compared to twenty percent of normal businesses. Furthermore, in 2005 one percent of businesses were declared insolvent in Germany compared to 0.1% of co-operatives. Birchall and Ketilson (2009:30) attribute this to the fact that co-operatives are not motivated by the maximizing of profits alone, but also by serving their community and members.

Co-operatives contribute to the public good (United Nations,1996:6). They provide an alternative form of economic participation to producers, consumers, enterprises and households, assuring many of the benefits, but avoiding many of the costs involved in both the public sector and private enterprises (to which the business goals of profit maximization must conform).

Co-operatives provide empowerment and protection where market fluctuations threaten the survival of small and medium enterprises (United Nations,1996:6). They strengthen the capacity of rural societies to protect themselves and their natural environment. In addition, they provide consumers with a means to withstand and eventually overcome monopolies.

Hubbard (2005:58) provides five reasons for forming co-operatives:

- Co-operatives are community enterprises – They keep their economic benefits within the community. Profits are not siphoned off by outside interests as the members are the owners. The co-operative also exists to fill a need in a community that is not being met by other businesses.
- Co-operatives promote democracy, teaching people to resolve problems democratically. They provide people outside the mainstream with the opportunity to enter the nation's economic and political life.
- Co-operatives build open markets, spreading economic power and encouraging competition.
- Co-operatives raise human dignity, helping people to escape poverty and achieve dreams. They assist the owners in acquiring new skills.
- Co-operatives are systems for development, drawing community businesses into regional and national networks.

Mills and Davies (2013:16) suggest that there is a growing amount of evidence that co-operatives have a superior environmental record; firstly because future environmental outcomes can be mentioned democratically by members without the need for the calculation of return on investment and, secondly, if it is a multi-stakeholder co-operative, the ability of the business to push negative environmental externalities (waste and pollution) upon stakeholders is diminished.

In conclusion, the main advantage of the co-operative is the fact that it is a vehicle for poor communities and rural ones to accomplish together that which they cannot achieve as individuals. It provides these communities with the means of unifying ideas, skills and resources to form enterprises that will assist them to reduce business-related costs, overcome adverse business conditions, be competitive and overcome monopolies.

Co-operatives have a positive effect on the communities in which they operate. They promote self-help and motivate people. They strengthen people's capacity to protect themselves and their natural environment. They fulfil the needs of the community not met by other businesses, and retain the economic benefits of their operations within the community.

Co-operatives provide several advantages in the work environment. They provide training and opportunities for leadership development, promote democracy in the workplace and improve worker-management relationships.

Furthermore, worker co-operatives provide their own specific benefits. They give workers increased control over the way business is run, provide meaningful work, increase productivity and provide living wages and benefits.

2.4 Co-operative Principles and basics.

Most co-operatives are started for the same reason as any other business – to generate income for the owners after they have identified an opportunity to exploit. Moreover, co-operative members identify social needs in their communities which they wish to address.

2.4.1 Co-operative Principles

Over time, several basic principles that ensure co-operative success and independence as well as the continuation of the co-operative ideology have been identified. In fact, co-operative principles have been included in the Co-operatives Act of 2005 (South Africa: 2008). Section 3(1) of this act states that a co-operative complies with co-operative principles if:

- “(a) Membership of that co-operative is open to persons who can use the services of that co-operative and who are able to accept the responsibilities of membership;
- (b) In the case of a primary co-operative, each member has only one vote;
- (c) To the extent feasible, members provide the capital required by that co-operative;
- (d) The return paid on member capital is limited to the maximum percentage fixed, in accordance with the constitution of that co-operative;
- (e) At least five per cent of the surplus is set aside as a reserve, in a reserve fund, and is not divisible among members;
- (f) It provides education and training to its members and employees.”

The most widely utilized and quoted set of co-operative principles, however, comprises the principles adopted by the International Co-operative Alliance (ICA) (United Nations,1996:18). These are more elaborate than the ones quoted above. They are as follows:

- **First Principle: Voluntary and Open Membership**

“Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.”
(ICA,2010:1)

Birchall (2004:17) states that membership is voluntary, as potential members should be able freely to accept the responsibilities of membership. Access to membership is open to all, who meet the relevant conditions.

The fact that women are allowed to participate in co-operatives constitutes a rare opportunity for women in many countries to assert themselves economically and politically (OCDC,2011:2). Although women play a large part in global food production (three-quarters of agricultural work in Africa is performed by women) they have no access to land ownership, credit or extension expertise. As they gain skills and self-respect and become more economically empowered, they are not merely empowered to feed and take care of their families but also to take part in, and influence, the development of civil society.

- **Second Principle: Democratic Member Control**

“Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women, serving as elected representatives, are accountable to the membership. In primary co-operatives, members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.” (ICA,2010:1)

Control over the co-operative lies in the hands of its members (Birchall, 2004:17). Although the management and leadership within the co-operative may be delegated, such managers or leaders, no matter how large the co-operative becomes, should ultimately still answer to the members of the co-operative.

- **Third Principle: Member Economic Participation**

“Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses

for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.” (ICA,2010:1)

After the initial capital contribution to become members, any further contributions cannot carry additional voting rights with them (Birchall, 2004: 17). Members normally receive limited compensation on capital as a condition of membership. This prevents the co-operative from rewarding capital instead of membership. Members receive dividends, based on their transactions with the co-operative and not on the amount of share capital they own. This principle reflects the value of self-help and of equity by returning the surplus to members. The value of democracy is reflected by the fact that the members themselves have to decide how much to distribute.

- **Fourth Principle: Autonomy and Independence**

“Co-operatives are autonomous, self-help organisations, controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.” (ICA,2010:1)

- **Fifth Principle: Education, Training and Information**

“Co-operatives provide education and training for their members, elected representatives, managers, and employees, so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.” (ICA,2010:1)

Many co-operatives have been successful in improving the technical, managerial and organizational skills of their members and employees

(Gertler,2001:11). This is done through short courses, advanced education, peer instruction and learning by experimentation.

The co-operative movement has also established its own ways of human resource development in the sector. Many national co-operative organizations have specialized training institutions; even at university level (United Nations,1996:4). The Global Human Resource Development Committee of the ICA, as well as the COOPNET programme of the International Labour Organisation, supports programmes all over the world. These programmes and the access they provide to experienced institutions for disadvantaged communities create significant advantages for co-operatives over other types of enterprises.

In addition, national movements provide assistance in terms of business assistance, managerial guidance, equipment and credit.

According to Terrasi (2012:42), the promotion of information, training and education is a pre-condition for the effective deployment of the co-operative rationality and identity. It is essential to achieving participative sharing of responsibilities and avoiding information asymmetries. Worker-members cannot take informed decisions if they are not well-trained, particularly in a time of crisis when business acumen and rapid decisions are pivotal in the survival and development of the enterprise.

- **Sixth Principle: Co-operation among Co-operatives**

“Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.” (ICA,2010:1)

As co-operatives grow and become more successful, they come together under second tier and apex national organizations (OCDC,2011:2). This not only allows for improved market opportunities, but also provides them with the

opportunity to influence local, regional and national policies. Thus, members can experience democracy in action and develop an awareness of the impact of politics on their daily lives.

Co-operatives do not only co-operate and trade locally; co-operatives in developing countries can gain access to international co-operative business networks and trade assistance programmes whose goal it is to assist them to export their products and assure fair returns (United Nations,1996:4). The ICA, through its regional offices, also promotes inter-co-operative trade.

Terrasi (2012:38) submits that this principle reinforces the fourth principle of autonomy and independence, as these support institutions (local, regional, national and international co-operative structures) belong to the co-operatives themselves and are designed to meet the specific developmental needs of co-operatives. This principle, together with the one to follow, also creates a vision that clearly transcends the individual enterprise.

- **Seventh Principle: Concern for Community**

“Co-operatives work for the sustainable development of their communities through policies approved by their members.” (ICA,2010:1)

According to Birchall (2004:18), this principle should remind co-operative members that they should feel solidarity with the larger community within which their business is operating.

2.4.2 Co-operative Values

Co-operative values include the following (Seda,2011):

- self-help
- self-reliance
- self-administration
- self-financing
- self-control
- self-responsibility

- democracy
- solidarity
- equality
- equity

2.4.3 Co-operative Ethics

Co-operatives embody the following list of ethical principles (Seda,2011):

- Trust
- Honesty
- Openness
- Social responsibility
- Caring for others
- Integrity

As the principles developed by the ICA are internationally accepted, these are the same principles that will be referred to in the remainder of the research. These principles clearly state what is expected of co-operatives in terms of their membership, decision-making, independence and their responsibility towards their workers, members, fellow co-operatives and the community in which they operate.

Co-operatives are also expected to display high values and ethics.

2.5 Definition and characteristics of Worker Co-operatives

As this research is specifically aimed at the study of worker co-operatives, this is the only form of co-operative which will be expanded on.

Basically, a worker co-operative is a co-operative whose members work as employees for that co-operative.

Theron (2005:52) defines a worker co-operative as a co-operative in which the professional activities of members coincide with the activities of the co-operative.

The Co-operative Act, (South Africa,2008) in Section 1 defines a worker co-operative as “a primary co-operative whose main objective is to provide employment to its members, or a secondary co-operative providing services to primary worker co-operatives.”

The Co-operatives Amendment Act (Act 6 of 2013) (Koekemoer *et al*,2014:13) defines a primary co-operative as “a co-operative whose object is to provide employment or services to its members and to facilitate community development formed by a minimum of:

- (a) Five natural persons; or
- (b) Two juristic persons; or
- (c) A combination of any five persons, whether natural or juristic.”

Philip (2003:5) states that the key defining feature of worker co-operatives is that the worker-members in the co-operative own and control it on a basis of “one member, one vote”. She is of the opinion that these co-operatives provide a radical alternative to the employment relationships found in conventional enterprises.

The “one member, one vote” principle was adjusted in the Co-operative Amendment Act of 2013 for primary co-operatives with a turnover of equal to, or more than R25 million per year (Koekemoer *et al*,2014:46). The new legislation allows for members of these co-operatives to have up to 40% of the vote, depending on the size of the co-operative.

To keep this study in the South African context, the definition of a worker co-operative, as stated in the Co-operatives Act, will be utilized for further discussion.

CICOPA (2004:3) lists the following basic characteristics of worker co-operatives:

- Their objective is to create and maintain sustainable jobs and generate wealth, in order to improve the quality of life of their members, dignify human work, allow workers democratic self-management and promote community and local development;
- They provide workplaces for their members, whose membership is free and voluntary, in which they can contribute by means of their personal work and their economic resources;

- In general, the work within the co-operative is performed by members, meaning that the majority of workers in the worker co-operative are members;
- The worker–member relationships within the co-operative are considered different from those of conventional wage-based labour and from those of individual autonomous work;
- Internal regulations are democratically agreed upon and accepted by the worker-members;
- They are autonomous and independent of government and third parties in their management and labour relations and in the use and management of production facilities.

According to Theron (2005:52), the political and ideological environment in South Africa supports the formation of worker co-operatives. There are many black-owned workers co-operatives in South Africa, operating predominantly in handicraft, the cottage industry and other small production trades.

Nembhard (2004:4) states that in many sectors worker co-operatives lead their industries in terms of wages, benefits, production, flexibility, innovation self-management and labour-management co-operation.

According to Cornforth *et al.* (1988:1), worker co-operatives have the potential to address several challenges:

- They have the potential to reduce the level of industrial conflict and can enhance productivity by aligning the interests of workers with those of the firm;
- They are seen as having the potential to create more and better jobs. For this reason they have formed part of a variety of community development initiatives;
- They are argued to be more socially responsible as employers and businesses, since they are controlled by the work force and due to the fact that they have links with the local community.

From the discussion, it is clear that worker co-operatives have truly unique characteristics, which promise specific advantages to their worker-members. As may be expected, these

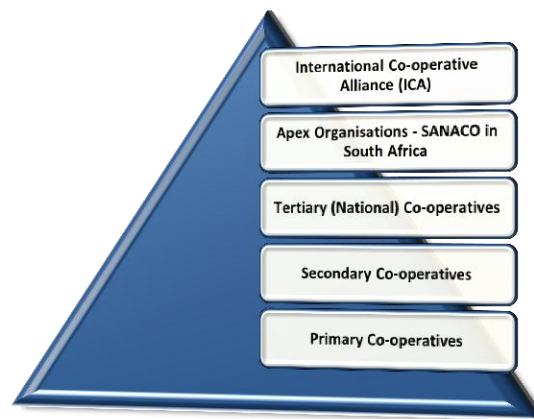
characteristics may also create specific challenges to their members, workers and management.

2.6 Structure, legislation and legislative framework.

2.6.1 Structure of the Co-operative Movement

To enhance co-operation among co-operatives, as discussed in no. 7 of the ICA principles, the following hierarchical structure of the co-operative movement is promoted internationally:

Figure 2
Structure of the Co-operative Movement



By creating secondary structures, federations, unions, leagues, confederations and, possibly, a national apex body, a stronger, more integrated co-operative movement is formed (Theron,2005:46). By means of this vertical integration, co-operatives operating in the same sector or geographical area endeavour to gain mutual advantage through co-operation. These structures can assist single co-operatives with aspects they normally would not have the time and/or money for: training, technical assistance, representation and lobbying. Theoretically, these structures should bring in their wake economies of scale and leverage. Moreover, through horizontal integration, co-operatives involved in different sectors and activities work together for the same reason.

2.6.2 Co-operative Legislative Framework

The role of government, in supporting co-operatives, is to create a favourable legal, economic, administrative and institutional environment in which co-operatives

operate (Theron,2005:313). Some measures will include access to tax incentives as well as preferential procurement policies.

The South African Government actively promotes the formation of co-operatives in an effort to increase employment and alleviate poverty. To reinforce this, it has introduced new legislation to regulate the formation, registration and winding up of co-operatives.

According to Section 2 of the Co-operatives Act (Act 14 of 2005) (South Africa, 2008) the purpose of the Act is to:

- (a) promote the development of sustainable co-operatives that comply with co-operative principles, thereby increasing the number and variety of economic enterprises operating in the formal economy;
- (b) encourage persons and groups who subscribe to values of self-reliance and self-help, and who choose to work together in democratically controlled enterprises, to register co-operatives in terms of the Act;
- (c) enable such co-operative enterprises to register and acquire a legal status separate from their members;
- (d) promote equity and greater participation by black persons, especially those in rural areas, women, persons with disability and youth in the formation and management of co-operatives;
- (e) establish a legislative framework that will preserve a co-operative as a distinct legal entity;
- (f) facilitate the provision of support programmes that will target emerging co-operatives, specifically those co-operatives which consist of black persons, women, youth, disabled persons or persons in the rural areas and which promote equity and greater participation by its members;
- (g) ensure the design and implementation of the co-operative development support programmes by all the agencies of national departments including but not limited to Khula (now Sefa), NEF, NPI, Seda, IDC, SAQI, SABS, CSIR, PIC, DBSA, SALGA and SETAs, as well as compliance with the uniform norms and standards prescribed by this Act;

- (h) ensure the design and implementation of the co-operative support measures across all spheres of government, including delivery agencies and adherence to a uniform framework of established norms and standards that reflect fairness, equity, transparency, economy, efficiency, accountability and lawfulness;
- (i) facilitate the effective co-ordination and reporting mechanism across all spheres of government through the department. (Department in this case means the Department of Trade and Industry.)

In particular, the law governs:

- The registration, constitution and duties of registered co-operatives
- Record-keeping
- Membership
- The management of co-operatives
- Procedures at general meetings
- Capital structure
- Annual Audits and the appointment of auditors
- Amalgamations, divisions, conversions and transfers
- Winding-up and de-registration
- The placing of co-operatives under judicial management
- The establishment of the Co-operatives Advisory Board and its powers and duties
- Crimes under the Act.

Certain amendments were introduced to the Co-operatives Act through the Co-operatives Amendment Bill, 17 of 2012 (South Africa,2012).

Another piece of legislation applicable to co-operatives, is the Co-operative Banks Act of 2007 (South Africa, 2007). This act applies to all co-operative banks registered under its auspices and to any registered co-operative which has in excess of 200 members and holds members' deposits to the value of R1 million or more (DTI,2010b:7).

The purpose of this Act is to:

- “Promote and advance the social and economic welfare of all South Africans by enhancing access to banking services under sustainable conditions;
- Promote the development of sustainable and responsible co-operative banks;
- Establish an appropriate regulatory framework and regulatory institutions for co-operative banks that protect members of co-operative banks by providing for:
 - Registration of deposit-taking financial services co-operatives as co-operative banks;
 - Establishment of supervisors to ensure appropriate and effective regulation and supervision of co-operative banks and protect members and the public interest;
 - Establishment of a Development Agency for Co-operative Banks (housed within the National Treasury) to develop and enhance the sustainability of co-operative banks.”

From the above discussion, it is evident that South Africa has an elaborate set of legislative precepts pertaining to the formation and management of co-operatives, which has the advantage of creating certainty with regard to procedures and processes within the sector. This, places a responsibility on the management and members of co-operatives to acquaint themselves with the boundaries within which they should operate.

2.7 The Role of Co-operatives in Economic & Social Development

In developing countries, a large portion of the world’s poor are small-scale farmers, resource-poor farmers and other rural entrepreneurs (United Nations,1996:14). Unless their productivity, provision of opportunities for marketing and fair returns improve, their condition is unlikely to progress and problems such as unemployment, underemployment, excessive migration, poverty and social disintegration will continue and food security will remain a problem.

In a dual economy, such as that which is evident in South Africa, few citizens experience growing affluence, while growing numbers are becoming increasingly impoverished (Bruce,2001:71). With the increase in poverty, a wide range of social issues result – family

violence, substance abuse, crime, youth violence and suicide. These, in turn, cause the quality of life of the whole community to decline. The greater the extent of poverty, the more difficult it becomes to mobilize the community and the external resources necessary for development.

Higher and sustainable growth and development rates in African countries will be difficult to achieve unless poverty linked to unemployment and socio-economic inequities are addressed simultaneously, speedily and effectively (Schoeman,2004:13). The persistent low growth rate in many African countries was accompanied by ever increasing unemployment. The low economic growth also contributed to a relatively distorted distribution of income and wealth.

2.7.1 The Economic Situation in South Africa

Over five million people in South Africa are unemployed and looking for jobs, bringing the unemployment rate to 25.5% (Metzer,2014:1). Another 2.4 million are discouraged work seekers – unemployed but are not looking for work, mainly because they believe there are no jobs.

The increase in the Gini Coefficient (which measures income inequality and is at a level of 0 if there is perfect equality) from 0.596 in 1995 to 0.635 in 2001 means South Africa represents one of the least equal societies in the world (Schoeman,2004:13). The index has risen further to 0.65 in 2011 (World Bank,2014)

A HSRC and Whiteford study (2004:1) demonstrates that 57% of South Africans lived below the poverty line in 2001. This figure has remained unchanged since 1996. The Poverty Gap, which indicates the annual income transfer needed to bring all poor households out of poverty grew from R56 billion in 1996 to R81 billion in 2001, indicating that poor households had sunk deeper into poverty during this period.

The poorest segments of South African society mainly reside in the rural areas (Schoeman,2004:16). They are the hardest hit by unemployment, poor quality of education and low levels of accessibility to basic services, such as electricity, water, housing and sanitation. Only 58% of the population has access to safe drinking water. The economic literacy level of working-age people is 41%. Its situation is exacerbated by the prevalence of HIV/AIDS, of which the economic impact is difficult to determine, due to unreliable data. However, unless the epidemic is brought under control, community development, which is fundamental in economic development, will not be effective.

From the above discussion and statistics, it becomes clear that effective social and economic development is imperative to ensure a better future for South Africa and its citizens.

2.7.2 Definition of Economic Development and related theory

People have different ideas of what economic development represents (CALED, 2011:1). Broadly defined, anything a community does to foster and create a healthy economy, may be part of economic development.

According to Wikipedia (2011b), economic development is a “broad term that generally refers to the sustained, concerted effort of policymakers and the community to promote the standard of living and economic health in a specific area. Such effort can involve multiple areas including development of human capital, critical infrastructure, regional competitiveness, environmental sustainability, social inclusion, health, safety, literacy, and other initiatives”.

“It is a comprehensive, multi-faceted strategy, conceived and directed locally, for the revitalization and renewal of community economies. Its interest is the local development, management and strengthening of community resources for community benefit” (Bruce,2001:69).

Schoeman (2004:12) indicates that a clear distinction exists between economic growth and economic development. The former measures growth in the Gross

National Product (GNP). The latter focuses on issues such as poverty, the level of income equality, skills levels and unemployment.

A significant amount of synergy exists between economic growth and economic development. Economic growth performs an important role in the development process as it provides the resources for the development (Blair and Carroll, 2009:13). It also brings improvement in the quality of life and poverty reduction programmes. The measuring of economic development is a complicated process which comprises many factors that should be taken into account such as the increase in per capita income, the quality of life, equity and sustainability.

Economic development is not community development, *per se* (CALED,2011:1). Community development is a process which improves living and working conditions within a community. Economic development creates wealth in which community benefits are created.

Blair and Carroll (2009:139) list three main objectives for economic development:

- Job and Income Creation – This is considered by many as the main objective of economic development. Communities experiencing labour market problems are characterized by high unemployment, low wages, discouraged workers and underemployment. Therefore, job creation is the main objective of most economic development programmes. Job creation is closely associated with increases in real income.
- Fiscal Improvement – Many local authorities regard economic development as an opportunity for imposing increased tax revenues.
- Physical Improvements – Economic development is regarded as being a way of improving physical conditions in communities, e.g. improvement in buildings and new buildings on vacant sites.

2.7.3 Community Economic Development

Community Economic Development (CED) is a process which allows local communities to build organizations and partnerships, that allow the linking of profitable business with other interests and values of the community, e.g. skills and

education, health, housing and the environment (CCCR,2012:1). It enables more people to become involved in the economic development of the community and to play their part in changing their community. This also draws in more organizations, directing their actions and investments in such a way that they reinforce the wishes and intentions of the whole community. It is a wide-ranging strategy (not isolated projects) which allows the community to accumulate wealth and to make the local way of life more creative, inclusive and sustainable over the long term.

2.7.4 Social Development

Jacobs and Cleveland (1999:1) describe social development as the process of organizing human energies and activities at higher levels in order to achieve greater results. Social development increases the utilization of human potential.

According to the United Nations (1995:30) the ultimate goal of social development is to enhance and improve the quality of life of people. To achieve this, the following elements are necessary:

- Democratic institutions
- Respect for all human rights and fundamental freedoms
- Increased and equal economic opportunities
- The rule of law
- The promotion of respect for cultural diversity and the rights of people belonging to minorities
- Gender equality
- Affording of all people the chance to take part in the affairs of their communities
- Active involvement of social society.

Therefore, the following aspects will require attention during social development programs/initiatives (United Nations,1995:11–30):

- The creation of an enabling economic, political, social, cultural and legal environment
- The eradication of poverty
- Full employment
- The promotion of social integration by nurturing stable, just societies that are based on the promotion and protection of human rights
- The promotion of full respect for human dignity
- The achievement of equality and equity between women and men
- Universal and equitable access to quality education
- The highest achievable standard of physical and mental health
- Access to primary health care for all.

From the above discussions and definitions the link between social development and economic development becomes clear. Gertler (2001:7) simplifies this link by stating that economic matters are intrinsically and unavoidably social, and that social aims can be reached most reliably when they are part of economic processes.

2.7.5 Co-operatives and Social and Economic Development

The original idea behind the formation of co-operatives was community economic development. Artisans faced with the threat of industrial development realized that they would only be able to survive by working together and forming organizations that could help them achieve objectives they could not accomplish in their individual capacity.

Over the years, the co-operative sector has proven itself to be a key instrument in economic development. The social aims that became an integral part of the way co-operatives are managed, simultaneously resulted in the addressing of social development issues.

According to Gertler (2001:8), this happened because the cultures within co-operatives prepare them for socio-economic, enviro-economic and eco-social optimization, whereas capitalist cultures often fail to transform communal needs

into proper action. Moreover, co-operatives support the human interaction, co-operation and collective action necessary for the required trade-offs and adjustments to make social and economic development conceivable and viable. Gertler states that co-operatives provide conditions for improving living standards without depending on increased levels of private consumption. When co-operatives work well, they reproduce and expand social capital, which then contributes to the success of other projects. Co-operatives play an integrating and stabilizing role, cultivate alliances and coalitions and assist in reducing social inequalities.

Bianchi (2013:32) contends that in both developing countries and areas in developed countries which are lagging behind such latter countries, co-operatives serve as social catalysts, where different people can come together and create conditions for the production of goods or services, which go beyond the existing conditions in those areas.

Theron (2005:73) submits that his study has shown the significant role the co-operative sector is playing in some of the largest challenges the African continent is facing, i.e. employment creation, poverty reduction, extension of social protection and representation of interest of the largely silent, poor majority.

In Resolution 58/131, the United Nations General Assembly (United Nations,2004:1) recognized that co-operatives in various forms “promote the fullest possible participation in the economic and social development of all people, including women, youth, older persons and persons with disabilities, and are becoming a major factor of economic and social development.” The General Assembly, there-fore, urged member states actively to promote the formation and development of co-operatives and to provide an enabling and supportive environment for co-operatives to be able to survive and prosper. This resolution was followed by others with the same aim in 2005 and 2006.

Co-operatives are ideal organizations for democratization and economic empowerment in developing countries (OCDC,2011:1). They instill basic

democratic values and methods, foster self-reliance through collective action and shape relationships between organizations and civil society that encourage participation and conflict resolution between organizations and civil society. This results in a more secure society and in economic growth.

With a combination of large membership and economic influence, co-operative movements can successfully lobby against macro-economic processes that cause poverty and impede its eradication, as well as lobby for legislation which is protective of SMMEs, workers and consumers (United Nations,1996:15). They may form the base from which people's organizations may make themselves heard.

The sector may provide business ownership for community members, play a role in the creation of employment and also contribute to other community development initiatives, like education, training, etc. Furthermore, the co-operative business model should fit in with the African spirit of Ubuntu, in terms of which the community is held central to existence.

Panse (2011:1) provides a quote from Archbishop Emeritus Tutu on the actual meaning of Ubuntu:

“It is the essence of being human. It speaks of the fact that my humanity is caught up and is inextricably bound to yours. I am human because I belong. It speaks about wholeness, it speaks about compassion. A person with Ubuntu is welcoming, hospitable, warm and generous, willing to share. Such people are open and available to others, willing to be vulnerable, affirming of others, do not feel threatened that others are able and good, for they have a proper self-assurance that comes from knowing that they belong to a greater whole. They know that they are diminished when others are humiliated, diminished when others are oppressed, diminished when others are treated as if they were less than who they are. The quality of Ubuntu gives people resilience, enabling them to survive and emerge still human despite all efforts to dehumanize them.”

In a report to the General Assembly, the UN Secretary General (United Nations,1996:2) states that an important aspect of the co-operative movement is its capacity to promote and support entrepreneurial development. The secretary general, therefore, called for governmental support to co-operative enterprises as a means of creating productive employment, reducing poverty and enhancing social integration. The report further states that co-operatives allow any group of individuals with an effective means of combining their resources, no matter how small. The co-operative form of business is particularly appropriate for individuals without any other means of improving their economic situation. Even the poorest women have found co-operatives an effective means of economic empowerment.

By establishing their own co-operatives, diverse groups of people, affected by poverty or at a high risk of becoming poor, have, over the past 150 years in nearly all countries, succeeded in alleviating and, ultimately, escaping from poverty (United Nations,1996:14).

Co-operatives, being user-owned and community-responsive are increasingly acknowledged by authorities worldwide as a means with which citizens may obtain appropriate and affordable housing, utilities, infrastructure, health and social services (United Nations,1996:2). Therefore, co-operatives provide the structural means through which ‘grassroot’ initiatives and private and public funds may be combined to develop disadvantaged communities without creating dependency (UN, 1996:5).

2.7.6 Employment Creation and Worker Development

Logue and Yates (2006:687) state that co-operatives and specifically worker co-operatives have helped to create employment and contributed to the security of employment, creating a more participative and dignified working life. They have also contributed to improved compensation for the employee owners.

Co-operatives directly and indirectly assist their communities (Gibson,2005:6). As part of the community, a co-operative employs local people. They provide their

employees with the opportunities to obtain new skills, by holding workshops and courses, such as management training and accounting. Many co-operatives offer short- and long-term employment positions for the youth. For many students this represents their first formal employment. This helps in developing the assets of the community's youth. By their management or board structure, co-operatives provide informal training to their members. Indirect training may also occur by means of newsletters, public notices and by other forms of communication. Co-operatives assist in circulating money locally. The services and products offered assist in keeping money in the community. Residents do not have to travel outside the community to spend their disposable income.

This viewpoint is supported by Logue and Yates (2006:687) who state that employee ownership generates benefits for community life by creating real benefits, such as developing leadership skills and teaching the skills of participation and self-government.

According to Theron (2005:73), co-operatives have a role to play at three different levels of employment:

- Direct employment of personnel and staff of primary and secondary co-operatives and of support organizations (77 400 staff members in Kenya and 28 000 in Ethiopia).
- Indirect employment of co-operative members whose membership helps them substantially to earn a decent income. (An estimated 209 000 people in Ghana and 150 000 in Rwanda).
- Multiplier or spillover effects to non-members whose livelihood depends on their dealings with co-operatives, e.g. tradesmen and suppliers.

Throughout Africa, co-operatives create seasonal and casual work opportunities. This contribution to employment is not negligible and in some countries the contribution of co-operatives in employment are on the increase.

The viability of the co-operative movement and the potential of worker co-operatives in the creation of employment are exemplified by the “Empresas Recuperadas” (reclaimed enterprises) in Argentina (Fields,2008:83). The members of these co-operatives were confronted by an economic crisis, sparked by large scale neo-liberal economic reform and faced with a 21.5% unemployment rate and a poverty rate of 57% in their country. In response, ten thousand shop-floor factory workers, hotel cleaning staff and bakers have saved their 190 employers’ businesses since 2000 by transforming the business from hierarchical management structures with highly differentiated wage scales into self-managed, democratically run co-operatives with flat wage scales. This success was achieved without the aid of bank loans.

2.7.7 Addressing Poverty

A successful co-operative sector may significantly help to reduce poverty in many ways (Theron,2005:370):

- It creates jobs and allows members to earn an income that helps them to pay for the education for their children, build houses, invest in business opportunities and to meet day-to-day family expenses.
- It helps to strengthen the traditional social security system which enables members to provide for unexpected expenses such as illness and death and expenses related to education.
- It helps to reduce exclusion and inequality by grouping the poor and not-so-poor together in the same income-generating activities.

The study by Develtere *et al.* (2008:XXI) shows that a successful co-operative sector in Africa may significantly contribute to poverty alleviation by:

- Creating jobs and income earning opportunities.
- Creating solidarity mechanisms to re-enforce the traditional African security system by developing schemes that contribute to education, illness, death and other socio-economic problems.

- Bringing together the poor and the relatively well-off in the same income-generating opportunities and, therefore, contributing to the reduction of exclusion and inequality.

Imoisili (2001:2) quotes the UNDP's 'Human Development Report 1997' in which it proposes six priorities for global action on poverty alleviation. He provides examples of how co-operatives can assist in these:

- (a) Start with empowering women and men to participate in decisions that affect their lives, and that enable them to build up their strengths and assets.

Co-operatives help both members and employees directly and indirectly to escape from poverty or prevent them from falling into poverty. Imoisili submits that cooperatives are at the forefront in the production and marketing of foodstuffs, electricity and consumer goods as well as financial, insurance and social services in many countries, e.g. co-operatives control 100% of market share in potato production in the Netherlands, 40% of agricultural marketing in South Korea, 33% of the Finnish banking sector and 13% of electricity supply in the United States.

- (b) Gender equality is essential for empowering women and for minimizing poverty.

Women account for 58% of credit union members and 42% of elected leaders in the Caribbean.

- (c) Sustained poverty reduction requires pro-poor growth in all countries.

According to Imoisili (2001:4) although rapid economic growth is desirable, wealth distribution is equally important. UNDP data reveal that in 29 of 68 developing countries, the ratio of the incomes of the richest twenty percent to those of the poorest twenty percent exceeds by ten to one. Co-operatives can

play a major role in bridging the gap by promoting student and youth programmes and cooperative entrepreneurship. They can also influence political processes and legislation in favour of the socially deprived.

- (d) Globalization offers great opportunities but only if it is managed more carefully and with more concern for global equity.

The important factor here is export promotion by means of productivity improvement and competitive enterprise management.

- (e) The state must provide an enabling environment for broad-based political support and alliances for pro-poor policies and markets.

An enabling environment will ensure that co-operatives can join community groups, professional associations, trade unions, private companies, the media, political parties and government institutions to form broad-based partnership for poverty alleviation.

- (f) Special international support is needed for special situations such as the opening of agricultural markets for exports from poor countries.

Poverty in developing countries is worsened by corruption of leaders and officials in the public and private sectors. Consequently, money earmarked for poverty alleviation could fall into the wrong hands. Through the ICA, the UN and other international agencies, co-operatives can join the international movement for promoting transparency and for enforcing international standards.

According to Theron (2005:75), no systematic study of the contribution of co-operatives in the reduction of poverty has been conducted as yet. Practitioners, governments and development agencies involved in co-operative development have assumed that co-operatives can play a significant role in this regard. The author's

study has shown that Credit Unions, SACCOs and agricultural co-operatives throughout Africa have had a significant effect on poverty reduction. However, co-operatives are unable to achieve all their objectives without assistance since the extra income they generate and the support and opportunities they provide are often insufficient to lift their members out of poverty.

2.7.8 Promotion of Social Development

Cornforth *et al.* (1988:99) state that co-operatives provide members with many social benefits. Among these resort the advantage of working among friends who share one's beliefs and values, people with whom one can be oneself with and who are supportive. The co-operative will also create feelings of loyalty to fellow workers. The authors found in their studies that it was common for workers to talk highly of the friendly work atmosphere in the co-operative. They also found that the trust that resulted from this work atmosphere was a powerful force in generating and maintaining individual commitment.

Co-operatives provide a means for addressing many social and economic concerns such as youth retention, community identity/spirit and the prevention of leakage of local money (Gibson,2005:1).

Birchall (2004:29) states that wherever co-operatives have raised people's income, or provided decent work, proper housing, good quality food or the ability to, save and borrow money safely, they have had an effect on the health of women and children. This effect, however, is indirect, since co-operatives are not local government and women and children can only receive the services they need through public funding. In other instances co-operatives have had a more direct effect, in which case they filled the gaps in the provision of maternal and child health care (as was seen in the earlier discussion on the operations of health co-operatives).

2.7.9 Enhancing Economic Development

The Develtere study (2008:23) concluded that genuine co-operatives possessed certain characteristics which made their contributions to rural development significant. The co-operatives provide members with:

- Advantages of economies of scale
- An often lacking, level of competitiveness in rural areas
- Assistance with the enhancement of rural stability
- An effective way of getting assistance to women.

Satgar (1999,5) identifies the following ways in which secondary and central co-operatives contribute to economic development:

- Economies of scale – The combined efforts of producers allow them to obtain goods and services at reduced prices and they can market their goods in larger volumes. This affords them increased bargaining power when dealing with traders.
- Linking of small-scale producers to the national economy - by assisting their members to obtain inputs and market their products, they help them take part in the national economy, contribute to higher productivity and improve the farmers' income.
- Rural stability – They provide permanence to the self-help initiatives of members and may provide their services over the long-term. As part of economic development projects, they are enabled to continue project related activities after the external assistance has been concluded.

An aspect raised by Birchall (2004:27) is the potential of cooperatives in developing countries to increase literacy levels amongst adults. He states that co-operative economic development and functional literacy go hand in hand. Although co-operatives are not normally involved in providing primary education, they often fill a gap by building and supporting schools when local government fails to provide. They can also build on primary education by means of human resource development, enabling members, managers and employees to gain the skills needed to run a business. Birchall further states that, as local civil society organizations, they are able to monitor the quality of education and prevent high levels of teacher

absenteeism. In cases where co-operatives raise the income of poor people, they enable children to complete their primary education and wherever they empower women, they encourage girls to complete their education.

2.8 Conclusion

In this chapter, co-operatives have been defined and the principles and basics of co-operatives discussed. A brief history of the co-operative movement has been provided and the significance of the movement has been shown by means of some impressive statistics. The statistics, however, raise the question of why co-operatives are not playing a more significant role in the South African economy.

From the discussions in this chapter, it becomes evident that co-operatives as a form of business, can afford government organizations and communities unique ways of addressing economic and social development issues. The quoted literature represents an endeavour to demonstrate that co-operatives have the potential to play a major role in, among others:

- The development of business in rural communities
- Employment creation
- The alleviation of poverty
- The provision of basic services and housing to rural communities
- Social upliftment of the poor
- The development of communities through education and training
- The improvement of the economic conditions of rural farmers
- The general health conditions in poor communities
- The provision of access to finance and credit to the poor

The lack of a significant co-operative sector raises certain questions. It is a given that the co-operative sector in black communities since 1994 has only had nineteen years to develop significantly and that the sector will take time to realize its full potential.

However, nineteen years later, no significant growth is evident and the question may be asked whether the co-operative development programmes and initiatives of government and other institutions are as effective as they could be. Are these programs providing

members with the correct training and skills? Are co-operatives started by, and employing people with the necessary technical know-how?

These questions will be investigated in the remainder of the literature study and form part of the research.

Chapter 3

The Challenges faced by Co-operatives

3.1 Introduction

In Chapter 2 the potential of co-operatives as instruments to address social and economic issues became evident. The discussion clarified the big role co-operatives can play in the provision of employment as a form of business organization in economies in both developed and developing countries. This led to questions being asked about the impact of co-operatives in the South African context, specifically on the lack of significant economic growth in the sector over the past nineteen years.

Since the co-operative as a form of business entity is in many instances unique, this must surely pose challenges to co-operatives and to developing agencies that need to be faced before the sector as a whole, and individual co-operatives, can grow.

Additional to the challenges corresponding to those faced by all businesses, particularly small businesses, co-operatives face additional challenges that are sector-specific. Within the sector, worker co-operatives also face their own challenges on account of the worker-owner phenomena that relate to their specific form of co-operative. The following is a discussion of the challenges faced by the co-operative sector.

As the worker co-operative is a specific form of co-operative, the challenges discussed in this chapter pertaining to co-operatives will also be experienced by these worker-owned entities. Moreover, challenges faced by them specifically, especially in terms of the worker-owner relationship will be highlighted.

Dash (2013: 43) summarizes the challenges faced by co-operatives by contending that the fragility of co-operatives, which varies from country to country, is derived from a range of internal and external factors. The challenges they face include legislative uncertainties, under-capitalization, regulatory risks, combining their economic, social and environmental goals into a coherent business plan, poor governance and management systems, lack of entrepreneurial and techno-managerial skills, structural constraints on growth and expansion, poor market access and the participation of women. According to the author,

these challenges lead to a poor image and low esteem in the general perception of co-operatives and make them very vulnerable in the face of growing competition. This situation has led to bankruptcy, breakdown and the liquidation of many co-operatives.

3.2 Potential challenges with reference to the co-operative principles

In the previous chapter it was seen that the very essence of the co-operative ideology is embodied in the co-operative principles developed by the International Cooperative Alliance (ICA). In these principles, the basics of the co-operative idea are summarized, and entities and sectors not complying with them are seen as not being true co-operatives. Therefore, any discussion on the challenges faced by co-operatives should include those challenges pertaining to the adherence to the principles as such.

3.2.1 The First principle.

This principle requires voluntary and open membership.

Van der Walt (2006:4) states that it is imperative that the co-operative is started through the initiative of the members themselves, that membership is voluntary and that the members manage the venture themselves.

According to Theron (2005:128), co-operation is inherent amongst the people and communities of many cultures in Africa and has existed for decades in various urban and rural economies on the continent. The co-operation has naturally evolved into co-operatives where people pool their resources to achieve common objectives. Governments currently support and develop co-operatives as part of programmes to reduce poverty. These programmes view co-operatives as viable organizations that can generate employment, leading to increased income for the poor, in the end resulting in reduced poverty (Theron, 2005:128). However, this process should be approached in the correct manner.

Satgar (2008:19) maintains that the development of the co-operative sector entails painstakingly and patiently building it from below, allowing members to construct the co-operative in a process of self- and collective empowerment and of fostering a tradition of learning from experience and practice.

Brazda and Schediwy (2001:36) confirm this view when they posit that co-operative formation through a “top-down” approach usually results in a “pseudo co-operative”.

The growth and development of co-operatives have been constrained and challenged by policies and procedures implemented by various governments (Theron,2005:128).

Currently, the norm in many development programmes, including that of South Africa, is to make group formation with a minimum of ten to twenty members a prerequisite for funding or other enterprise support (Philip,2003:20). Little or no attention, however, is paid to the impact of this on the viability of the business and its market.

As an example, the Theron study (2005:103) revealed that most of the co-operatives in Kenya have their origin in state-controlled promotion of co-operative development. The government directed the formation and management of these institutions from the top down. This produced the result of people joining co-operatives, not on the basis of their common bonds or mutual trust, but due to the directive from above that those engaged in similar activities join co-operatives. This undermined the bottom-up character of co-operatives, affecting the growth and sustainability of some of these.

Cornforth *et al.* (1988:13), in their study, identify certain problems with a ‘top-down’ approach to co-operative formation:

- **Internal problems:**
 - Workers are not carefully selected.
 - Normally there is no training in co-operative principles.
 - Many of the members will be unaccustomed to the factory system and the associated discipline.

- If managers are selected by promoters and not by the members, poor discipline will result and conflict increase.
 - Workers lack knowledge of the commercial and administrative aspects of business.
- **External Problems:**
 - These co-operatives experienced discrimination by suppliers who refused them normal trade credit;
 - They experienced difficulty in establishing markets, partly because the workers had no access to many of the customary channels by means of which business was conducted.

A top-down approach to co-operative development leads to the tendency of co-operatives being formed only to secure funding and/or grants.

This was confirmed by Mqingwana (2010:53) in his study of three co-operatives in the Dutywa area, finding that some of these co-operatives are not viable and stay dependent on the grants for survival. He (2010:46) gives the example of a co-operative that has received R4 650 000 in government funding since its inception in 2000 and has, for the same period, only been able to generate R 250 000 in turnover.

Ndumo (cited in Moodley, 2009:9) supports this by stating that the survival of co-operatives is dependent on trust and social cohesion. The lack of a shared vision, approach, financial trust and strong social ties has had a negative effect on the survival of co-operatives in South Africa.

Satgar and Williams (2011:205) state that the failure to develop co-operatives from the bottom up by South African authorities has had a dismal effect. They cite the DTI baseline study (Redrebel,2009) to support their argument, stating that this approach has led to 19 386 of the 22 030 registered co-operatives in 2009 not being functional anymore.

The promise of money will have a negative effect on the voluntary aspect of membership. Normally co-operative members were unemployed before the formation of the co-operative and will do almost anything to get money to help them out of their circumstances. Members of such a co-operative will have no cohesion and the group dynamics that keep co-operatives going, even through bad times, will not be present. The truth might be that many of these individuals do not aspire to own part of a business entity, but may merely seek employment. Therefore, frequent member losses will also be experienced.

3.2.2 The Second co-operative principle

This principle dictates democratic member control.

Bhowmik and Sarker (2002:464) state that, contrary to the situation in normal businesses, the ultimate authority in co-operatives rests with the general body of members. The entire administration of a co-operative is responsible to its general body - not to its highest executive authority.

According to Cornforth *et al.* (1988:134), many worker co-operative members possess little or no experience of working in other co-operatives or demographic forms of organization. They, therefore, use two simple models as basis for managing their co-operatives:

- Collective management assumes that the only legitimate authority is the collective as a whole. According to this theory, all decisions are made collectively, although the execution of the decisions may be delegated to individuals or groups. The increase in transaction costs as the co-operative grows, however, makes this model only viable in very small organizations.
- Representative democracy effectively substitutes workers for the shareholders in a conventional capitalist business. Workers elect the board of the co-operative, who are responsible for policy and the appointment of senior management. Management is then responsible for the implementation of board decisions. The co-operatives are called “dual structure” co-operatives because they have two systems of control, a management system

and a democratic system. The weakness of this management system is the fact that management, through their access to information and ability to meet regularly, are in the best position to formulate policy and implement it. For this reason the danger exists that they can come to dominate the co-operative.

The organization of co-operatives in which power is decentralized is difficult (Bhowmik and Sarker,2002:465). Logically, in a participatory organization discussions have to be held at every level of the organization and general approval obtained, before any decision is implemented. However, it is easier to organize in an authoritarian structure, where a small group, or a specific person, takes decisions. This results in democratic administration being restricted to the periodic election of the management committee.

Ndumo (cited in Moodley,2009:7) states that many co-operative boards overstep their mandate and fail to keep members informed. This leads to an erosion of trust and results in conflict. Co-operative management frequently lacks corporate governance skills. This leads to the persistence of conflict in co-operatives.

Cornforth *et al.* (1988:198) found that, unless the democratic way of managing the organization is reinforced by the creation of a democratic culture, with members gaining positive experiences of participation and/or activists keeping alive the co-operation ideals, the co-operative will degenerate into a bureaucratic organization. The authors emphasize the importance of ensuring that newcomers understand the co-operative principles and practices and of becoming involved in the decision-making processes of the co-operative.

These results were confirmed by Winther and Duhaime (2002:32) in a study which showed that the demise of co-operatives in Greenland in the 1980s was caused, among other reasons, by a lack of knowledge of co-operative principles, the 'one man – one vote' way of decision-making and a general lack of knowledge on how co-operatives should be run caused by a top-down approach to co-operative development by government.

Although a business plan which determines the election of management committees and establishes their decision-making powers to manage the business may have been agreed to, the authority and scope of management decision-making may be constantly challenged in co-operatives (Philip,2003:22). This is a result of the expected high level of democracy and worker control. This situation is the cause of much contest and conflict in co-operatives.

Cornforth *et al.* (1988:106) discerns a tendency, particularly among older co-operatives, that informal hierarchies would develop around long-serving members who had the most information and skills, as well as the personal skills to speak out at meetings. They also found that co-operative members felt that some members did not share information so that they could retain power.

Achieving success may be a danger to the democratic objective of co-operatives (Baldacchino,1990:464). The co-operatives may be forced to expand, making true democratic decision-making impractical. Bureaucratization follows and subsequently representative democracy instead of participatory democracy results. This will lead to diffusion of responsibility and subsequently to a decline in member commitment.

For most people collective working and democratic decision-making are unfamiliar concepts (Cornforth *et al.*,1988:105). It requires that difficult decisions need to be made at times when management problems arise and these responsibilities may lead to stress. Financial and business worries cause sleepless nights. Such worries are worst during the early stages after start-up, when the co-operative is expanding rapidly or experiencing problems.

Cornforth *et al.* (1988:106) found that whether or not a co-operative officially differentiates management from other functions, some members will take on more responsibilities than others. The former often felt that their work was being undervalued, particularly those in management or specialized positions and they would have appreciated more support and interest from other members. They also

tended to resent those they thought to be avoiding responsibilities, doing less than their fair share by only performing basic tasks. They might also feel that newer members do not understand enough about the history and workings of the co-operative to make useful contributions in the decision-making processes. This could weaken the co-operative as a whole, because too many responsibilities would fall on the shoulders of too few people. In their study the authors found that, although members were committed to collective working, they felt that there were costs involved, including long meetings that proved boring and repetitive, poor preparation for meetings and painful and disagreeable conflicts that arose during meetings. Some members of older co-operatives felt that a general disinterest and reluctance to change existed in their co-operatives. A tendency was discerned to avoid open conflict in meetings when negative feelings started to materialize.

In many worker co-operatives hierarchies, specialization and the division of labour are rejected in favour of collective management, job rotation and skills sharing (Cornforth *et al.*, 1988:140). While the co-operatives are small they may function effectively, but, as they grow, the costs of a purely collective system increase. Two major costs of direct democracy in organisations are the inability to make quick decisions and the time and resources necessary to get information across to all members. The authors found that the only way to decrease the transaction costs is to develop a structure in which not everyone is equally involved in all the decision-making. Failure to create such structures is liable to result in such a process occurring informally, and the resultant informal 'elites' may be more difficult to control democratically than formal ones. As their power is not formally recognised, it is extremely difficult to place limits on the power of such groups and to hold them accountable to the membership. Often the powerbase for these groups is knowledge and expertise. The normal informality at co-operative meetings makes it easier for members with greater knowledge and dominant personalities to dominate.

Another challenge caused by this representative democracy where managers or management committees are appointed is the competency gap that may develop between those who manage the co-operative and ordinary members (Cornforth *et al.*, 1988:152). If this gap becomes too big, members may become overly dependent

on management for decision-making and the resolving of management issues. Part of managers' responsibilities would be to formulate proposals. By the time these proposals reach the membership for decision-making, many options may have been considered and rejected without the members having had the opportunity to consider them. This will lead to failure on the part of members to understand the reasoning behind the options eventually presented to them and the feeling that they have not been offered enough options. Conflict may result when managers are unable to take direction and criticism from members without becoming defensive or trying to hide mistakes.

From the above, personal experience and many discussions with other business advisors employed at Seda, it becomes apparent that a lack of conflict resolution skills causes in-fighting in many co-operatives resulting in the co-operative either becoming non-operational or in a loss of members.

All businesses, particularly small businesses, should have quick decision-making capabilities. The process of obtaining member permission on decisions (unanimous or majority vote) may hamper the decision-making process and result in a slow reaction to market changes and acting on opportunities.

Some worker co-operatives find it difficult, moreover, to compromise between ensuring that the will of the members is heard and efficient decision-making processes. The larger co-operatives become, the more difficult it is to exercise true democratic control as it becomes nearly impossible to acquire unanimous decisions (This is a phenomenon present in nearly all co-operatives). Most co-operatives then revert to majority vote decisions, which may disillusion some members and cause them to leave the organization.

3.2.3 The Third principle

This principle requires member economic participation.

Satgar (2007:20) states that the co-operative movement cannot be built on solid foundations if members are unable to pay membership fees. The co-operative movement has to be built on its own capacity to finance its existence. To some extent this will also ensure independence.

Most members of co-operatives in South Africa are impoverished and were unemployed before joining the co-operative. This makes it difficult for them to make regular membership contributions, resulting in financial difficulties for the co-operative. This contention is supported by Jara and Satgar (2009:33) and by Lyne and Collins (2008:183). Jara and Satgar (2009:33) also state that many co-operatives have not reached the development stage where they can start building self-financing institutions.

Theron's study (2005:58) confirmed this submission when he found that in many countries annual membership fees kept the poorest members of society from participating in the co-operative sector.

In a later study Theron (2007:14) gives the example of two co-operatives that formed part of his study. The first, an ex-mineworkers co-operative, only sustained members with the salary of one of the members who delivered pizzas after hours. The members of the other, a clothing co-operative, earned between R100 and R150 per month.

Veerakumaran (2009:16) identified this challenge in Ethiopian co-operatives as well, stating that members' economic and/or financial power to strengthen the co-operative society is very weak and that co-operatives, therefore, suffer from a shortage of capital.

3.2.4 The Fourth ICA principle

Autonomy and independence are requirements for a successful co-operative sector.

In reality, government officials and members of other organizations often prescribe to co-operatives how they are supposed to operate, make decisions and handle financial affairs. This may be mainly because of a lack of management skills in worker co-operatives (many members have never had a permanent job, much less had the opportunity to develop managerial skills) or due to uncertainty within the membership on the way a co-operative should be managed and operated as a business (mainly because of a lack of training).

Bhowmik and Sarker (2002:462), in a study of worker co-operatives in Kolkota, India, found that workers in a worker co-operative may be co-owners in the enterprise due to the fact that they hold shares in the co-operative, but that the actual control and decision-making powers may lie elsewhere. Some worker co-operatives are controlled by outside agencies from government, trade unions, political leadership or industrialists or contractors who use the co-operatives as fronts for their business.

Theron (2005:216) supports the above, stating that having to rely too much on government financial assistance could make co-operatives vulnerable and therefore leave them open for manipulation.

3.2.5 The Fifth principle

Education, training and information for members, elected representatives, managers, and employees are prescribed in this principle.

The management of any business enterprise requires a complex range of skills (Philip,2003:21). When, as in the case of co-operatives, this involves the collective management of resources, the complexity increases dramatically. There are groups of workers who manage to overcome this and succeed. However, many unemployed people, faced with the management of a co-operative enterprise, have

little or no work experience, much less business management experience. Financial literacy and even basic numeracy skills are often low. Because of the democratic way in which co-operatives are managed, it is not enough that some members need these skills. All the members need some financial management skills.

Moreover, Bianchi (2013:34) is of the opinion that education, which develops technical-professional, entrepreneurial and management skills in co-operatives, at the same time requires a great deal of research. According to the author, it is not enough to extend the consolidated economic and corporate theories taught at universities to co-operatives, particularly those striving to respond to the new three-fold economic, social and environmental needs. It is not enough to teach good enterprise management skills. In co-operatives there is an additional need to teach the capacity to make the most of the skills offered by people taking part in a joint venture.

Ndumo (cited in Moodley,2009:8) states that co-operatives in South Africa are started with unemployed people, usually with low technical skills levels and no business experience, in economically marginal areas. The specialized technical skills necessary to operate certain co-operatives such as those in the agricultural, housing and production sectors are often not available within the co-operative itself. This lack of skills undermines the chances of the co-operative for survival and leads to tension within the co-operative.

This corresponds with the findings of Lima (2007:612), who found that in situations where unskilled workers predominated in labour-intensive co-operatives, disinterest and lack of administrative or management expertise and the dissatisfaction with earnings compromised the continuity of the co-operative.

The study results of Cornforth *et al.* (1988:219) show that, like conventional start-ups, co-operators often lack business management experience. Some worker co-operatives try to address this challenge by appointing external managers or specialists. However, this step creates its own difficulties; often the remuneration the co-operative can afford to offer is too low. Finding managers may prove

difficult as the financial incentives of running the co-operative may be less appealing to qualified individuals than starting and running their own businesses. There is no guarantee, moreover, of the manager's loyalty and it has happened in the past that the manager leaves the co-operative to start his own business and compete with the co-operative for business.

Because the whole membership of the co-operative is responsible for directing the enterprise and leadership may not be seen as the responsibility of a specific group, the need for leadership in the co-operative may be overlooked (Cornforth *et al.*,1988:147). A lack of leadership within the organization may cause the co-operative to stagnate and, ultimately, fail. These authors further submit (1988:147) that the ideal in co-operatives should not be that there are no leaders but that many people should have leadership skills and that they be able to use them. Should this be the case, a clash of leadership styles could become evident and members should have a tolerance for this and be aware of the strengths and weaknesses of different leadership styles.

Veerakumaran (2007: 16) identifies the fact that most co-operatives in Ethiopia do not have professional managers as a problem. There are two reasons for this:

- The viability of the co-operative is not always ensured, due to low organization, technical support and follow-up of development bodies.
- The ever-changing structure of co-operative bodies at federal, regional and local level affects the smooth development of co-operative societies.

From the above, it is clear that co-operative members need the training necessary to lead and manage the co-operative effectively. However, most worker co-operatives do not have the financial resources to provide members with the necessary training. Like most other small and micro businesses, moreover, they are so involved in the daily struggle for survival that they often tend to forget the need for training or skills development.

3.2.6 The Sixth Co-operative Principle

This principle recommends co-operation among co-operatives.

The principle emphasizes the importance of networking for all businesses.

Co-operatives operating on their own in a hostile capitalist environment do not fare well (Winther and Duhaime,2002:37). They are often less profitable and face capital and management problems. They appear less viable and have a short life expectancy in terms of operations.

Theron (2005:370) stresses the importance of this principle by stating that successful co-operatives in Africa have engaged in constructive collaboration and partnerships with external actors. Success also requires local and international networking among co-operatives to provide supplementary support

Theron (2005:47) is of the opinion that once secondary and tertiary structures become operational and speak out on behalf of their member co-operatives, the sector can take the shape of a 'popular' movement. He argues that these structures bring social cohesion, streamline operations and represent the movement. He emphasizes the fact that secondary co-operatives can provide services that individual co-operatives cannot, such as training, technical assistance, and representation and lobbying. Theoretically, therefore, secondary and tertiary co-operatives bring benefits of economies of scale and leverage.

Ndumo (cited in Moodley,2009:8) states that globally it appears that co-operatives with a broad network of technical, managerial, legal, administrative and financial support are more successful.

Establishing a network of similar co-operatives can have many advantages and enhance the feeling of belonging to a 'movement' (Brazda and Schediwy,2001:39), but it can also lead to mergers which will lead to bureaucratic growth and larger distances between managers and members. Co-operative networks that succeed in

establishing growth while harnessing the community spirit of small co-operatives do exceptionally well.

Theron (2005:46) identifies two ways of integration among co-operatives:

- Horizontal Integration in which co-operatives in the same area involved in different activities work together.
- Vertical integration in which co-operatives in one industry or trade seek mutual advantages through co-operation.

The hierarchical structure of the co-operative sector was shown in Chapter 2.

In South Africa, because most worker co-operatives are struggling to survive and do not have the financial ability to contribute to membership of these structures, not many secondary co-operatives exist and the efficiency of those that are being operated is often questionable with little or no effect on the survival of their members.

This statement is supported by the results of the Theron (2005:47) study, which showed that vertical integration does not exist in practice in the co-operative movement in Africa, but has been replaced by voluntary and relatively autonomous consensual networks.

3.2.7 The Seventh Principle

The last principle requires that co-operatives show concern for their communities.

Risking the wrath of co-operative purists, the submission is that this principle can only come into play after the co-operative has achieved financial autonomy, independence from outside funding and is providing members with a sustainable income. The relatively low success rate of worker co-operatives in achieving this ideal has caused the social impact of worker co-operatives on the communities in which they operate to be minimal.

Theron (2005:71) supports this submission by stating that most support agencies and donors accentuate the importance of recognizing co-operatives as private economic enterprises that have to make profits or surpluses. Therefore the emphasis should be on financial management, solvency, profitability, financial sustainability, market penetration and return on investment.

Hancock (2008:4) puts this in perspective by stating that co-operatives are sometimes misunderstood because they have simultaneous social and economic goals and are therefore often mistaken as being solely a social organization or solely a business. They pursue social goals although they are enterprises and participate in the economy. However, in order to continue meeting their social objectives, cooperatives must continue to succeed economically as well.

Fairbairn (2002:117) states that the economic and social goals of co-operatives should not be seen as having an inverse relationship, that the co-operative should have either social or commercial goals. The one is not opposed to the other. He states that any social interests a co-operative might have, should be satisfied through, and not in spite of, its economic activities. He cites W.P. Watkins, a longtime British and international co-operative leader, on the subject:

“The power which co-operators derive from Association is exercised mainly in the economic field and for economic ends. Economic advantage is the motive which attracts to the co-operative movement the great majority of its adherents and its economic performance sets the standard by which they judge its value to them. Unless their membership of a co-operative society enables them to effect savings which they would not otherwise be able to make or yields them an income in money or provides a service which they would not otherwise receive, there is scarcely any advantage in their being co-operators, whatever moral or social benefits co-operation may offer. Usually there must be very compelling economic reasons for the majority of people to take the trouble to form, join or run co-operative societies at all.”

From the discussion above it is clear that the very principles that the formation and operation of co-operatives are based upon pose some major challenges for these organizations and impact on their survival and success.

3.3 Other Challenges.

Although the above might have shown some of the challenges that co-operatives face in their quest for success, they face many further challenges which will now be referred to.

3.3.1 Acceptance Issues

There are almost invisible structures which support and sustain conventional businesses (Spear and Thomas,1997:455). These structures are entrenched in the entire economic infrastructure as part of the state, the education system and the financial and product markets.

The above statement is supported by Baldacchino (1990:471) who states that legislation, education, banking systems, research laboratories, public service bureaucracies, consultancy and accounting firms are geared by their nature to support conventional business organizations, resulting in their inability to support co-operatives to the same extent.

Throughout the years, co-operatives, particularly worker co-operatives, have been met with scepticism for failing to conform to traditional business concepts (Theron,2004:34). The scepticism is also partly due to the difficulty of operating a democratic organization while dealing with the other challenges inherent in operating an enterprise. The scepticism has been increased by the number of co-operatives which have been established without any clear indication of how they would be operated as business enterprises.

Baldacchino (1990:470) states that where co-operatives have been successful, it was partly because they either found a supportive institutional and cultural framework within which they could operate or because they transformed their environment to the extent that it became more supportive to their type of operation and ideology.

Ndumo (cited in Moodley,2009:8-9) supports the prevalence of this challenge, stating that most policy interventions in respect of co-operative development do not take into consideration the uniqueness of the co-operative business model in South Africa and that these policies fail to target different market segments, sector and types of co-operatives. He also states that the public sector, the private sector and society in general do not understand the co-operative model and its inherent value.

Therefore, the developing co-operative sector had consciously to create these support structures for itself (Spear and Thomas,1997:455). For this reason the co-operative sector had to develop its own systems of institutionalizing entrepreneurship, to overcome barriers to co-operative formation (e.g. access to finance) and to represent the political and economic rights of co-operatives and their members.

Baldacchino (1990: 471) submits that there is a case to be made for alternative laws, alternative schools, alternative banks, alternative research laboratories and alternative support organizations to provide crucial services to co-operatives.

Lack of acceptance by the mainstream financial sector causes other related challenges. Veerakumaran (2009: 16) cites that lack of long-term credit hampers the investment of co-operatives in projects that would have an economic benefit for their members.

Cornforth *et al.* (1988: 120) also state that the common ownership nature of co-operatives has made it difficult for them to raise external finance because they cannot issue external shares.

3.3.2 Normal Business-related Challenges

Co-operatives are faced with the same challenge as any other business firm: they must create value (ILO,2009:5). They have to produce goods that customers

(members) desire at prices they are able and willing to pay. They face the same or very similar macro- and microeconomic restraints as other firms.

Cornforth *et al.* (1988:34) found in their study that the failure rate of worker co-operatives and other small businesses is approximately equal, but that co-operatives tend not to fail quickly after start-up. They contribute this either to an unwillingness to accept failure or to the fact that co-operatives might have more assistance and advice available than small business owners in the early stages of the enterprise. Their study found that both small businesses and co-operatives are likely to fail within the first three years and that the peak vulnerability for co-operatives is between eighteen and thirty months. They also found that ordinary businesses survive better in markets where more co-operatives fail and vice versa. They contend that this might suggest that some other factors might determine the survival of co-operatives than those which determine the success of small business survival.

Cornforth *et al.* (1988:210) state that co-operatives face the same challenges as conventional small businesses, such as raising capital, finding affordable, suitable premises, establishing themselves in the market and low or fluctuating demand. Moreover, many small business owners have not received formal business training (Cornforth *et al.*,1988:218) and they, particularly, experience challenges with financial and marketing management.

The issue of raising capital is confirmed by Jara and Satgar (2009:31) when they state that no co-operative movement can survive without access to finance. A lack of own start-up finance and collateral have been identified as the major stumbling blocks in this regard. South African co-operative members generally lack the funds to make a significant contribution to start-up funds and do not own the assets to put up as security for loans. Therefore, those that are able to secure finance are often saddled with huge debt at high interest rates.

Philip (2003:20) states that a large challenge to the success of worker co-operatives is viability. Business viability is a complex challenge in any group enterprise or co-operative. Worker co-operatives, however, are often started by unemployed people without prior business experience in areas with little or no little economic growth. The challenge is compounded by an over-supply of labour, if the co-operatives' production base and the absorption capacity of their target markets are taken into account.

Furthermore, Staber (1993:139) found that co-operatives tend to operate in sectors, e.g. the services sector where the barriers to entry are low and income possibilities are limited. In these sectors, competition is intense and the co-operatives only survive because of long hours and low pay.

As in the case of conventional businesses, the performance of co-operatives is influenced by the industrial sector in which they operate and by the way the co-operatives are dependent on large firms and the market (Cornforth *et al.*, 1988:89). The more marginal the business, the harder the adjustment to changing markets.

Philip (2003:20) correctly states that most start-up businesses target their local market, because of inherent local knowledge and the fact that it simplifies distribution and marketing. For many co-operatives, however, these markets are poor as they exist predominantly in rural areas. Potential customers are highly dispersed and buy a limited range of products, most often mass-produced with low mark-ups. While this market is poor, it is highly brand- and price-sensitive and local producers struggle to compete with such products. Urban markets, therefore, might seem to hold more promise in terms of volumes, but pricing and quality competition levels in these markets are much higher. This leads to the submission that access to markets is most often the primary constraint for co-operatives as they are unable to sell all their products. Addressing this is achievable, but there are certain challenges. These markets are often unfamiliar terrain for co-operative members, particularly in the case of more up-market products. Competing in these markets will demand improved product quality and better packaging and design,

resulting in increased costs and the need for more complex procurement and distribution systems. More business formality is needed and more complex financial management systems are required.

Brazda and Schediwy (2001:38) argue that as long as co-operatives offer advantageous services in quantitative and qualitative terms, they will be appreciated by their members. However, if they fall behind their market competitors, member loyalty will diminish and they will fail, particularly wherever member financial involvement is low.

The fact that many co-operatives are operating in highly competitive industries, are still struggling to become established and find it difficult to raise investment capital, results in their being forced to use the cheapest and most basic technology available (Cornforth et al., 1988:126). Sometimes members are unaware that more viable and appropriate alternatives to the technology used by the co-operative exist.

3.3.3 Labour Issues:

To compete against other producers, co-operatives need to optimize productivity. Therefore, the division of labour and differentiation of skills is necessary (Philip,2003:22). Logically, differentiation of wages likewise follows. However, many co-operatives start out with the assumption that equal pay for equal work means equal pay. This idealized situation often ends up causing conflict as members with more skills, those who work more efficiently or those who do higher quality work, feel that it is unfair that they receive the same remuneration as those who do not do so. The dependence of co-operatives on members with skills is seldom reflected in differentiated wages, much less market-related rates. Although members will, for the sake of group cohesion, be prepared to accept this for a limited period, the co-operative may end up losing their skills unless the situation is addressed. Philip (2003:22) concludes that a division of labour and differentiated pay rates are conditions for a successful long-term business strategy in worker co-operatives.

Cornforth *et al.* (1988:104) found that worker co-operative members described the main costs of membership to be low pay and long working hours. They also found that members with dependants found it difficult to provide for them on pay levels that satisfied single people. Single people, on the other hand, found that the long, and sometimes unpredictable, working hours had a negative effect on their social lives. The authors conclude that members were willing to put up with these situations during the formative and early growth stages of the co-operative formation but that they later became less satisfied unless wages and conditions improved.

Cornforth *et al.* (1988:123) also found that the proportion of available funds allocated to wages in co-operatives is larger than in conventional firms. In the beginning, the lack of external funding will force the co-operative to pay lower wages to be able to survive if they are able to pay wages at all. Some of the co-operatives that formed part of their study had more pay differentials than other worker co-operatives.

According to Staber (1993:139), surveys showed that the benefits of worker co-operatives and their organizational survival mainly depended on the intensive use of labour power. Working conditions in these co-operatives can, however, be described as unstable and self-exploitive which causes burnout and high rates of member turnover. This, together with low wages, results in workers experiencing difficulty in developing the necessary occupational skills and knowledge for upward mobility.

3.3.4 The Worker-Owner Relationship:

According to Philip (2003:5), many of the difficulties faced by worker co-operatives relate to their attempts to provide alternatives to the conventional owner-worker relationship because in these co-operatives the members combine these roles. The co-operatives face complex challenges and if there is at least a basic level of business viability their survival depends on the ways in which they manage

the tensions inherent to this type of organization. She identifies three types of tension present in worker co-operatives:

- The tension between a democratic decision-making process and business efficiency;
- The tensions between the roles and interests of workers in their capacity as owners and as workers;
- The tensions between the short-term aim of members to improve their living standards and the long-term sustainability of the co-operative.

If these tensions are managed in an acceptable way and the management process becomes part of the co-operative culture, worker co-operatives can succeed. If they are not, the co-operatives will fail.

Cornforth *et al.* (1988:105) found that the concern over the performance of other people was a source of tension within the co-operatives they studied. The concerns occurred when others were not working hard enough, had the wrong attitude to work or were seen to lack commitment.

3.3.5 Sustainability Issues

Satgar (2007:21) submits that many emerging co-operatives attempt to utilize community demand as a basis for development, which is not always sustainable.

Cornforth *et al.* (1988:194) state that co-operatives, like other businesses, are often under-capitalised at start-up. They also have to accommodate low-skilled workers and find it difficult to attract workers with management abilities. The above factors contribute to low worker productivity and survival depends on low wages or long hours of unpaid overtime.

Staber (1993:139) found that there is a tendency among worker co-operatives to enter the service sector where barriers to entry are low and income possibilities are limited. The competition in this sector is intense and the probability of survival is high only because of low wages and long working hours.

Cornforth *et al.* (1988,88), also found that co-operatives were under-capitalised due to their members typically having insufficient money and a lack of assets to use as security for loans. This restricted co-operatives to the least capital-sensitive industries. They also found that, as in the case of conventional businesses, the under-capitalization tended to intensify other problems, like being unable to obtain suitable premises and making the business vulnerable to cash-flow problems during the early years.

According to Ndumo (cited in Moodley,2009:8) the democratic principle of co-operative operations and the division of surpluses based on use do not make co-operatives attractive for venture capitalists. Co-operatives also experienced difficulty in retaining earnings. Increasing capital requirements and the existing incentives and support structure in South Africa do not support co-operatives through their entire life cycle.

Brazda and Schediwy (2001:37) found that too much group cohesion or political motivation may also counter the chances of co-operatives surviving economically. For example, they found that co-operatives often collapsed financially because of assistance to workers or on account of funds being administered based on mainly political motives. In this case neutrality is the best way to handle fiery ideologies and may play a role as a continuation factor.

Another factor that should be considered in terms of sustainability is the fact that in the past co-operatives were run by elderly people, rendering the co-operatives defenceless (Kanyane,2009:1133). According to this author, the youth in South Africa, although faced with unemployment, are reluctant to join co-operatives.

3.3.6 Putting individual interest above the collective interest.

The basis for establishing a co-operative is that the collective interest is placed before the individual interest (Ndumo cited in Moodley, 2009:8). Members not contributing fully, greed, corruption and self-interest lead to the failure of many promising co-operatives.

Kremer (1997:33) argues that members of worker co-operatives with a high fraction of their wealth invested will expect the co-operative to undertake more risky projects because they will share the gains if the project succeeds while they will not share fully in the losses if the project is unsuccessful or if the co-operative goes bankrupt. On the other hand, members with a small portion of their wealth invested in the co-operative would prefer to invest in less risky projects, because they will bear a disproportionate share of the losses if the project should fail. These differences will hamper the co-operative's ability to maximise surpluses.

3.3.7 Lack of self-reliance

Ndumo (cited in Moodley,2009:8) states that a lack of self-reliance is a major challenge in the co-operative sector. He submits that beneficiaries of co-operatives should acknowledge that the basis for forming a co-operative is self-sufficiency. Although subsidization may be necessary at the onset, the end-goal should always be self-sufficiency. Many co-operative members fail to realize this.

3.3.8 Co-operative Support and development challenges

Philip (2003:23) states that current co-operative development strategies target mainly unskilled, unemployed people on the margins of the economy. From a base of chronic poverty, these people are expected not only to employ themselves but also to lead the way in building alternative models of work organisation, worker self-management and worker ownership. To address this challenge, she submits that (2003:22) the success of co-operatives depends on high levels of facilitation. Raising the business and financial skills levels within the whole co-operative is a precondition for participatory decision-making and requires significant skills input. Moreover, the design and operationalization of the necessary processes within the co-operative requires extensive technical assistance. Developing these skills and providing the necessary support is not an once-off input, but one which must be sustained over time. Co-operatives can hardly pay for this type of support.

Satgar (2007:21) is of the opinion that the economic and social impact of co-operatives should be measured but the available statistics are not useful.

Ndumo (cited in Moodley,2009:9) states that there is a lack of critical business or development infrastructure in the areas where co-operatives are being operated. He mentions a lack of regularly updated statistics on co-operatives and their impact, a lack of co-ordination in public sector development efforts and a lack of thorough and regular evaluations of support initiatives as major challenges for co-operatives in South Africa.

Satgar and Williams (2008:71) contend that genuine empowerment, based on co-operative principles and values, is not emerging in practice in South Africa from government support. Instead, co-operatives are being treated as normal SMMEs, with an emphasis on legal registration and fast-tracked incubation through financial incentives. They submit that the large number of registered co-operatives hides the fact that many of these co-operatives do not function according to co-operative principles and that most of them exist only on paper. Furthermore, placing co-operatives within the BBEEE framework has had an extremely negative impact on co-operative development for the following reasons:

- It has racially polarised co-operatives and prevented the emergence of a racially unified and integrated co-operative movement.
- It has subjected co-operative development to political backing and, in many instances, heavy-handed state intervention.
- The logic of BBEEE sets co-operatives up for failure by presenting them as a universal remedy.

3.3.9 Lack of Entrepreneurship

The challenge to co-operatives is to play an integral part in the private sector while keeping intact the social dimension and human values that form part of this type of organization (Tchami,2007:53).

Entrepreneurship is rarely mentioned in connection with co-operative development (DTI,2009:6), but for co-operatives to be successful, entrepreneurship is just as necessary as for economic development in general. For co-operatives to compete against other types of economic enterprises, they need to discover the co-operative

advantage and to achieve this co-operative entrepreneurs are necessary (DTI, 2009:5). This view is supported by Tchami (2007:53) who submits that co-operatives would be lucky to survive for a short period without entrepreneurs being involved. Co-operative entrepreneurs are necessary to discover and implement co-operative opportunities (DTI,2009:5). Innovative co-operative entrepreneurs are the main promoters of co-operative development.

Roelants (2013:51) states that co-operatives possess a fully-fledged entrepreneurial character, with all the economic efficiency parameters which all enterprises need in order to develop. Because of the “jointly owned and democratically controlled” characteristic of co-operatives, all member-owners equally share the entrepreneurial responsibility within the co-operative.

Entrepreneurship is an essential part of co-operative development (DTI,2009:7). Co-operative development should always include two aspects: development of the co-operative enterprise and the promotion (motivating and enabling) of member entrepreneurship.

Tchami (2007:52) defines Co-operative Entrepreneurship as the “process whereby a group of promoters mobilizes human, material and financial resources to launch a new cooperative which it runs profitably to satisfy their needs or those of the community.”

He further states that the co-operative entrepreneur is “inspired by a constant desire to take the initiative and to get organized within the resources available to reach concrete results, which is called the spirit of enterprise.” In order to survive in a competitive environment, co-operatives have, therefore, to be led and managed by entrepreneurs who have a sense of co-operative enterprise and can respond innovatively to their needs.

Röpke (cited in DTI,2009:6) identifies four kinds of co-operative entrepreneurs:

- Member entrepreneurs

- Manager entrepreneurs
- Bureaucratic entrepreneurs (who are part of government or a parastatal)
- Catalytic entrepreneurs (members of other non-co-operative organizations who are specialists in the initialization, promotion and support of co-operatives).

The first two of the above are self-initiating; the other two are external. The internal co-operative entrepreneurs are ideal for co-operative development and success (DTI,2009:6). However, with respect to manager entrepreneurs the danger exists that co-operatives will become manager-driven, disregarding the needs and interests of members.

When bureaucrats become involved in entrepreneurial functions they often follow a blue-print approach in the development of co-operatives (DTI,2009:7). They may not be aware of existing local co-operative opportunities. With their involvement, and the accompanying lack of member participation, it becomes easy for managers and committee members to engage in unproductive and corrupt activities. The provision of state funds may stabilize the co-operative or create a tendency of dependency and increase the difficulties of those entrepreneurs and groups who were willing to realize the co-operative ventures with their own means.

Catalytic entrepreneurs, external agents with the task to get the process of co-operative institutionalization started, to work with and strengthen local co-operatives, may address some of the challenges (DTI,2009:7). They work with a bottom-up approach and have the advantages that they are not part of the local hierarchy of power and influence and that they may see opportunities overlooked by locals.

Develtere *et al.* (2008:24) identify weak entrepreneurial capabilities among members and management boards as a major challenge experienced by co-operatives.

This is supported by the findings of Cornforth *et al.* (1988:109) who found that people with entrepreneurial tendencies are not easily attracted to co-operatives. They are also difficult to retain, partly because of the lack of career structure in co-operatives.

Cornforth *et al.* (1988:137) identify “change management” as an integral part of the management of co-operatives. This entails decisions about growing numbers, spending money on large items of new equipment, moving into new business areas, etc. These types of decisions correspond with those of an entrepreneur. It calls for knowledge of changes in the business environment, the ability to discover new opportunities, creative thinking, general problem-solving skills, the ability to analyze and organize information and making informed judgments based on incomplete evidence and leadership qualities. The development of these skills is difficult and members, who possess them may find it difficult to use them in a co-operative context.

3.3.10 Leadership Issues

A leader has the ability to perceive threats and opportunities and to mobilise people and resources to pursue the intended results (Cornforth *et al.*, 1988:147). Ideally in any co-operative these actions initiated by leaders should be based on the informed consent of the members of the co-operative.

It is normal for certain individuals to be more active than others and to take on more responsibilities (Cornforth *et al.*, 1988:146). The co-operative way of doing things affords these people the opportunity to develop themselves and take on the responsibilities that they might not have been able to take in other business organisations. However, the need for leadership often gets overlooked in co-operatives, as it is often seen as not being the responsibility of any specific group. There are also legitimacy issues to leadership in co-operatives and they are often seen as being the preserve of individualistic and sexist qualities of power-hungry men. These do not fit with the democratic philosophy of co-operation and have

therefore, been regarded as a taboo in certain co-operatives, along with management.

Denying the importance of leadership will cause the co-operative to stagnate and die (Cornforth *et al.*,1988:147). The ideal is for the co-operative not to have leadership based in one or a few people but that many members should have leadership skills and the capabilities to use them.

Another leadership issue in co-operatives is the clashing of different leadership styles (Cornforth *et al.*,988:147). This may cause major conflicts and splits. Members need to discuss leadership issues and consciously define forms of leadership within the co-operative. There will however, always be various leadership styles and it is important that members display tolerance and an awareness of the strengths and weaknesses of the different styles.

3.3.11 Different perceptions on what is in the best interests of members

The management of the co-operative is to be carried out in the interests of members; in the case of worker co-operatives, in the interests of the workers (Cornforth *et al.*, 1988:155). However, even in a small co-operative there are different interpretations of what is in the best interests of members. The different perceptions are most evident in dual structure co-operatives where managers might interpret members' interests differently from non-managers. Managers may look at first building the enterprise in business terms and assume that members will benefit automatically from belonging to the enterprise. This could, however, mean that they would prefer to build up reserves and invest surpluses back into the business, rather than raise wages, increase worker benefits or supporting members' social goals. This is normal in capitalist society, where the success of the business venture is accepted to be efficiency in organisation or good management, no matter what constitutes the organisational form of the enterprise.

Members, however, might interpret their best interests differently (Cornforth *et al.*,1988:56). Shared ownership of the co-operative gives the workers control over

their jobs. They might, therefore, put the benefits they expect to receive as part of their jobs before the success of the business, although the two will often be related. Individual members will also have different individual expectations, which will be determined by personal circumstances, skills and abilities. Obviously, the above will lead to conflict within the co-operative, which is both legitimate and inevitable in any 'healthy' co-operative and ways need to be found to deal with this conflict in a constructive manner.

3.3.12 Conflict within co-operatives

Co-operatives are expected to overcome the conflict of interests between workers and management (Cornforth *et al.*,1988:157). However, the potential for conflict within democratic organisations such as co-operatives is higher than in conventional organisations, because of the greater number and diversity of people involved in the decision-making process. The uniqueness of the co-operative form of organisation often leads to confusion, uncertainty and disagreements over the rights, roles and responsibilities of members. Cornforth *et al.* (1988:158) identify the certain areas of potential conflict within co-operatives:

- **Conflict over objectives:** The fact that co-operative objectives are not constrained by the expectations of external shareholders and that these are not formulated by an elite group of owners or managers can lead to various competing and conflicting objectives being set by members. Different objectives need to be set. There is often conflict between the business objectives and social objectives (both internal and external) determined by members and many co-operatives find it difficult to reconcile these conflicting objectives.

Lyne and Collins (2008:185) touch on this source of conflict when they submit that some members of co-operatives will experience 'portfolio' problems brought on by the fact that members cannot transact shares and therefore have problems diversifying their personal portfolios to reflect their risk preferences. More risk-averse members will then try to use their voting rights to ensure that

management make more conservative decisions. Entrepreneurial members will try to influence decisions the other way.

- **Conflict of personalities:** This conflict often comes out in the open in the form of a disagreement over an individual's competence or as a disciplinary complaint. Sometimes these conflict situations are so serious that they lead to members leaving the co-operative (Cornforth *et al.*,1988:158). They are often deep, long-standing differences rather than minor, brief flare-ups that occur when people work together. The cause is often an underlying conflict of interest between the individual and the collective membership of the co-operative. When the clash appears to exist between two individuals it can often mean that one of them is asserting personal rights whereas the other has taken it onto himself to act for the co-operative as a whole.
- **Conflicting orientations to work:** Individuals disagree within co-operatives, despite the existence of group pressures towards conformity (Cornforth *et al.*,1988:158). Group pressure will not be enough to enforce compromise when the individual feels strongly enough about an issue. Interests may differ according to factors such as age and experience, skills, family responsibilities, etc. However, these personal factors are but one source of differences sustained by individuals. Individuals bring along their own different experiences of previous work situations and different expectations of the co-operative way of working. Many will be accustomed to an individualistic culture and hierarchical work situations. Few of them will give up established defensive and calculative orientations for long periods, unless the rewards of the new way of working become apparent quickly. Conflict then arises when some members revert back to the old, familiar orientations, acting in their own interest, while others see themselves as upholding the new co-operative ideal, perhaps over-zealously,

In his study of a taxi station in Israel, Darr (1999:286) identified different sources of potential conflict within the co-operative, namely:

- Differentiation in the co-operative of different classes of individuals, particularly between members and non-members;
- Conflict stemming from the balance of power between ethnic groups;
- Work-process related conflicts. This corresponds with the conflicting orientation to work identified in the Cornforth study

Conflict over deeply held principles is difficult to deal with because people are unwilling to negotiate over matters of principle (Cornforth *et al.*,1988:161). A compromised solution is difficult to achieve, while a majority decision is unlikely to be acceptable to minorities who feel that their principles are being ignored. Conflict is likely to be constructive only if members share the same values and orientation to work.

Conflict can be very threatening in co-operatives (Cornforth *et al.*,1988: 162). Relationships in co-operatives are frequently built on friendship and the community ideal. Conflict might, therefore, damage valued relationships. Most decisions in co-operatives are made in open meetings, resulting in conflict being public when it arises. This may lead to fears of breaking up, of being misunderstood and of being ridiculed in public. These fears may lead to conflict being suppressed, resulting in issues not being raised in public or being smoothed over.

To a large extent, conflict is reduced in hierarchical organisations, since it can be referred to a higher authority (Cornforth *et al.*,1988:162). In these organisations, conflict can be separated more easily from personal relationships and the conflict does not normally materialise in public, reducing the fear of public ridicule.

Suppressed conflict may result in issues being kept from newcomers and the hiding of different views and interests from them (Cornforth *et al.*,1988:162). When the suppressed conflict is revealed, it may be suddenly and with high intensity. Once the feelings are out in the open, they may be difficult to contain.

Another source of conflict which has been observed in worker co-operatives is conflict resulting from differences of opinion on how funding money should be

utilised. Some members may want to start receiving wages or salaries immediately after receipt of the funds while others would want to utilise the funds to the advantage of the co-operative and only use funds generated from productive activity to pay members.

3.3.13 Free-Rider Issues

Lyne and Collins (2008:184) explain that this challenge stems from the fact that co-operatives limit the payment of dividends on equity capital according to the level of patronage by members. These arrangements stem from the ICA principles of open and voluntary membership (Principle 1) and member economic participation (Principle 2). These principles are interpreted as requiring all members to be patrons of the co-operative and surpluses to be distributed to patrons rather than investors.

According to King and Ortman (2007:57), the challenge occurs when members of a co-operative do not bear the full costs of their patronage with the co-operative or when they do not receive the full benefits they create for the co-operative. This normally happens internally because the benefits members receive are linked to their dealings with the co-operative and not to investment in the co-operative. New members receive the same patronage and residual rights as existing members and are not expected to make up-front investments when joining the co-operative proportionate to their use. This may not suit existing members because in such cases there is little reason for them to invest in their co-operative as their returns will be the same as those of new members.

External free-rider problems occur when the co-operative provides members with collective goods but where there is no or little advantage to members in the supply of goods or when a non-member benefits from the terms of trade negotiated by the co-operative (King and Ortman,2007:57).

3.3.14 Horizon Problems

This challenge is related to the free-rider problem. It occurs because members are not allowed to trade their shares at market value (Lyne and Collins,2008:185). The Co-operatives Act allows for members' shares to be redeemed at original value. This means that members are unable to realise capital gains when they leave the co-operative. Members will not be motivated to invest in fixed improvements as the assets will be unable to generate returns for them beyond their period of membership. This situation may potentially lead to free-rider problems since new members will reap the benefit of improvements without paying market prices for their shares.

3.4 Conclusion

In this chapter it has become evident that co-operatives, including worker co-operatives, continually face a set of numerous challenges which threaten their operational effectiveness and existence. Apart from the normal business related challenges faced by small and medium enterprises, they also have to deal with other challenges which may be summarized as follows:

- Issues with the voluntary nature of membership, especially a 'top-down' approach to co-operative development, are a threat to cohesion and trust in co-operatives.
- Co-operatives experience threats to the democratic nature of this form of organization, due to a lack of leadership and management skills, to informal hierarchical structures developing spontaneously and to initial decision-making processes giving way to bureaucracy as they grow.
- They face challenges with regard to member economic control as co-operative development strategies target the poorest members of society who do not have the financial resources to make regular contributions to the co-operative. This results in an inability to function independently and creates dependence on outside funding.

- The autonomy and independence of co-operatives are threatened by the influence of development agencies and government departments and organizations. This is a direct consequence of the dependency on external funding mentioned above and of the lack of management skills in co-operative.
- A lack of training and skills such as financial literacy and business skills among some co-operative members cause severe challenges with regard to decision-making and general operations. In many co-operatives a lack of technical skills exists, which will influence operations negatively.
- The lack of a fully functional co-operative network and hierarchy in South Africa, results in failure on the side of co-operatives to work together as expected and in co-operatives not being supported in such a way that the sector is built from within.
- Co-operatives face acceptance issues resulting from scepticism due to their failure to conform to traditional business concepts. The lack of acceptance in particular has led to difficulties in securing financing with mainstream financial institutions.
- Co-operatives face unique labour issues. These include resistance to the differentiation of wages in a democratic setup to pay key members for their work, skills and knowledge, sometimes resulting in their leaving the co-operative. Due to the democratic nature of this type of organization, the lack of structure leads to restrictions in upward mobility for workers. Although the percentage of funds allocated to member and worker remuneration in economically successful co-operatives may be higher than that prevailing in conventional firms, costs such as long working hours and low pay are experienced in most worker co-operatives.
- Worker co-operatives may seek to provide an alternative to the normal worker-owner relationship in organisations, but there are tensions resulting from:
 - Democratic decision-making processes vs. business efficiency
 - The role and interest of workers vs. their roles as owners and as workers,
 - The short-term financial aims of members vs. the long-term sustainability of the co-operative, need to be managed in an acceptable way.

- Co-operatives also face many sustainability issues, such as:
 - Their tendency to use community demand for development
 - Their inability to attract workers with management skills
 - Their inability to secure funding, as a result of members not having enough money or the co-operative lacking assets to use as security
 - Their tendency to enter markets with low barriers to entry and high competition levels.

- There are also challenges with relation to co-operative support and development initiatives. A lack of dependable statistics is one of these. Current external development assistance is not sufficient to help the sector attain its potential;

- The fact that there is a lack of innovative co-operative entrepreneurs constitutes another challenge. Furthermore, the development of entrepreneurial skills from within is a difficult process. This has the effect that co-operatives lack people who can make decisions with regard to making the business grow, the acquisition of expensive equipment, moving into new business areas and other decisions normally taken by entrepreneurs;

- There is a general lack of leadership skills in co-operatives, and those members with leadership abilities tend to be regarded with suspicion as such abilities are not regarded as fitting in with the democratic principles of co-operatives. Denying the importance of leadership within the organization may cause the co-operative to stagnate and die;

- Differences between management and the general membership about what is in the best interests of members, may lead to conflict.

- The potential for conflict in co-operatives is higher than that which is found in conventional organisations, on account of the number and diversity of people involved in decision-making processes. The following areas can lead to conflict:

- Conflict over objectives
- Conflict of personalities
- Conflicting orientations to work.

With co-operatives facing all these challenges to become successful, the question arises as to the state in which the co-operative sector in South Africa finds itself. In the next chapter this question will be investigated.

Chapter 4

The State of Co-operatives in South Africa

4.1 Introduction

In South Africa the success of the mainly white-owned agricultural cooperatives is well-known.

It is no surprise then that, ever since the current government came into power, it has motivated the formation of a strong co-operative sector as imperative for the alleviation of poverty and unemployment in South Africa. This point of view has been supported by its partners in the tripartite alliance, partly because of the social foundations on which co-operatives operate.

Former President Thabo Mbeki stated in an address on 1999/06/25 (DTI,2004:2) that the government would emphasize co-operative development in the country to combine financial, labour and other resources to rebuild communities and involve people in their own development.

This has led to a new co-operative policy and new co-operative legislation. The responsibility for the development of the co-operative sector was carried over to the Department of Trade and Industry from the Department of Agriculture. Several government departments, including the Department of Social Development, have since become involved.

Some provinces have formulated their own co-operative policies and local government was also motivated to become involved in the development of this sector.

The Minister of Trade and Industry, Dr. Rob Davies, in a 2009 address reiterated the South African government's commitment to alleviate poverty and reduce unemployment, particularly in rural communities (Davies,2009:1). This was the reason for the decision to promote and support co-operatives in view of their potential to respond to members' needs and ensure greater participation of the historically marginalized (women, the disabled, rural communities and the youth) in the mainstream economy.

However, to date the initiatives have not had the desired effect. Philip (2003:5) submits that South Africa is fertile ground for the development of co-operatives, but there are no success stories as yet.

This chapter represents an endeavour to explore the state in which the co-operative sector finds itself in South Africa and will mainly examine government support to the sector and the economic impact of the sector.

4.2 Government's Approach to Co-operative Development

As stated earlier, the government has gone to enormous lengths to ensure that co-operative registration and management processes were simplified and to improve access (Redrebel,2009:11). The focus shifted from administration to development and the promotion of equity and greater participation of targeted groups. The Co-operatives Act of 2005 requires all spheres of government to design and implement support measures for co-operatives.

4.2.1 Involvement of different government entities

The DTI remains the main organ of government that facilitates support for co-operatives in the country (Redrebel,2009:31). The department provides and facilitates the provision of financial support in the form of grants and funding for special projects aimed at co-operative development. The support provided by the department and its agencies includes the following:

- Start-up grants of up to 90% of costs, not exceeding R300 000;
- Special project funding for projects in excess of R300 000, subject to strict criteria;
- Funding to assist co-operatives with compliance, training and administration, subject to a sound business plan.

The DTI has partnerships with other government agencies and organisations that provide financial support to co-operatives, including the following (Redrebel,2009:31):

- Sefa (formerly Samaf and Khula) provides affordable access to finance for small enterprises and financial guarantees to small- and medium enterprises through banking and financial intermediaries.
- The NYDA (previously Umsobomvu Youth Fund) provides financial assistance to co-operatives with at least 25% youth membership and women-only co-operatives.
- The Enterprise Organisation provides support through the Co-operative Incentive Scheme (CIS).
- The National Empowerment Fund promotes and supports black business ventures financially.
- The Land Bank supports the development of agricultural co-operatives.
- Mafisa (The Micro Agricultural Finance Institutions of South Africa) drives and facilitates the development of financial services to develop small businesses in the agricultural sector.

A Co-operative Unit was established by the DTI (Redrebel,2009:12) to support and promote co-operative development and to work together with other government agencies to ensure practical support, such as capacity building.

Other government departments have likewise made financial support available to co-operatives (Redrebel,2009:31).

The following non-financial support is available to co-operatives (Redrebel,2009:32):

- The NYDA provides business development services in the form of training and linkages to markets for new and existing co-operatives.
- COPAC (the Co-operative and Policy Alternative Centre) provides grassroot approaches to supporting and promoting self-sustaining enterprises by means of training, advocacy and research that support and inform the co-operative movement.
- Seda provides support by creating and improving the regulatory environment to foster entrepreneurship and works toward expanding market opportunities

for small enterprises as well as training for these enterprises, including co-operatives.

- The Department of Agriculture assists co-operatives with registration and training. They have also created a database which profiles co-operatives.
- The Department of Housing provides non-financial support through the social housing foundation as well as technical support and training funded by donor agencies.
- The Department of Social Development provides training through the sustainable livelihoods programme.
- The Department of Public Service and Administration trains co-operative members as well as Community Development Workers to enable them to support co-operatives in their communities.
- The Department of Public Works provides support to co-operatives through the Extended Public Works Programmes.

With all this support available, it is surprising that the DTI baseline study found that over 60% of the co-operatives surveyed had not received any training in the previous two years, and if they had received training this had been based on general business practices and had not been sector-specific (Redrebel,2009:33). Fewer than 20% of co-operatives have applied for funding and of those only 25% applied successfully.

As seen in the previous chapter, a top-down approach is a major challenge in co-operative development. Satgar and Williams (2011:205) states that the failure to support co-operatives to be initiated from the bottom up has had a dismal effect on co-operative development in South Africa.

Satgar and Williams (2011:205) are of the opinion that co-operative development in South Africa has had a 'double failure' in Apartheid South Africa and post-Apartheid South Africa. They raise three issues to support their view:

- Both Afrikaner and BEE (post-Apartheid) co-operatives reproduce a racial duality. Apartheid (Afrikaner) co-operatives were established as 'whites only'

and, while unintentionally, BEE co-operatives have not managed to deracialise the sector. BEE discourse calls to mind racial exclusivity and creates an unintended form of racial discrimination, which is contrary to the non-discriminatory approach of the international co-operative movement.

- While the development of Afrikaner co-operatives was initially intended to meet members' needs through collective ownership and member control, these features eroded over time as the co-operatives began to be operated as typical capitalist businesses. Value-based practices gave way to profit maximization and member control was replaced by management hierarchies. The size of the co-operatives and the widening geographical operations played a role in undermining member control;
- BEE-initialized co-operatives show attempts by the state to promote a market-centered approach. Quick registrations without proper planning, generic start-up financing and supply-side attempts at co-operative education have undermined true co-operative consciousness and understanding. Instead, co-operatives are seen as just another form of business entity and understood in measurable terms as part of outcomes-based management within the state bureaucracy. Numbers are considered to be an important objective and the more co-operatives registered, the better. This has resulted in a rapid growth in the number of registered co-operatives.

Satgar (2007:14), furthermore, is of the opinion that co-operative development in South Africa fails to consider member needs and capacities, but only regards government objectives as important. This is dangerous for co-operative sustainability as it fails to build autonomy and independence. It exposes co-operatives to the risk of failure and the co-operative sector to being discredited.

The challenge for government is to provide strategic enabling support, while the co-operatives are initiated by members after they themselves have identified opportunities. If the government, by means of opportunities created by government, has initiated co-operative formation, a clear exit strategy should be in

place for the co-operative to survive through its own effort beyond the government opportunity.

Satgar and Williams (2011:207) identify two distinct efforts at co-operative development from government, the first having started in 1996 and the second having existed from 2000 to 2004. They state that the latter was undermined by bureaucratic state control, “vanguardism” emanating from the South African Communist Party and corruption. The author further state that, in spite of the failures, government keeps on driving co-operative development from the top.

4.2.2 The Extent of Governmental Co-operative Development Initiatives

If co-operatives are considered to be so important for economic and social development it is to be expected that government will develop structures and initiatives to assist the sector.

During the past few years several government departments, agencies and provinces have made funds available for co-operative development. To realize the extent of government spending on these development initiatives, the following summary of DTI statistics (2010:16–33) is necessary:

Table 1
The extent of government financial support (2005 – 2010)

Government Institution	Year	Amount (Loans, grants)	% of Total	No. of Co-ops benefitting	No. of Persons benefitting
DTI: CIS	2006-9	R 61 000 000	11%	311	1 555
SAMAF	2006-10	R 51 600 000	9%	72	6 500
NYDA	2005-9	R 25 070 689	4%	1 110	2 971
NEF	2006-10	R 22 300 000	4%	9	
Dept. of Agriculture	2006-10	R 83 700 000	15%	449	7 605
Dept. of Minerals and Energy	2008-10	R 39 000 000	7%	10	
Dept. of Arts & Culture	2008-10	R 23 600 000	4%	45	460
Dept. of Public Works	2008-10	R 21 100 000	4%	272	
Dept. of Labour	2008-10	R 59 100 000	11%	722	
Dept. of Social Development	2008/9	R 26 000 000	5%	645	3 225

Government Institution	Year	Amount (Loans, grants)	% of Total	No. of Co-ops benefitting	No. of Persons benefitting
Gauteng Province	2006-10	R 4 500 000	1%	8	86
North West	2008-10	R 15 500 000	3%	51	
Eastern Cape	2008-10	R 19 600 000	4%	36	
Free State	2008-10	R 6 500 000	1%	23	
Mpumalanga	2008-10	R 6 790 000	1%	2	
Limpopo	2005-9	R 90 000 000	16%	76	2 000
Western Cape	2008-10	R 3 600 000	1%	14	
Totals		R 558 960 689		3 855	24 402

(Adapted from DTI,2010:16-33)

The above figures do not include the cost of non-financial support by these and other institutions such as Seda, the Department of Co-operative Governance and Traditional Affairs and the National Treasury.

Satgar and Williams (2011:205) submit that the total financial outlay between 2005 and 2010 for co-operative development within government departments, institutions and provincial governments amounts to R923 million.

From the above it is evident that government has followed a multi-pronged approach to co-operative development, with several government entities involved in the process. The latter have spent a significant amount of money and time on development initiatives and one would expect to see significant growth in the sector. In the next section, the statistics in this regard will be considered.

4.3 The size and demographics of the co-operative sector in South Africa

4.3.1 The number and distribution of co-operatives

The development initiatives by the government have led to a huge increase in the registration of cooperatives. According to Theron (2005:308), there were 256 agricultural co-operatives and 213 trading co-operatives registered in 1994. Most of the agricultural co-operatives were large businesses in terms of assets and turnover. In contrast, approximately 50% of the trading co-operatives were described as home industries. Other co-operatives falling under this category

include general dealers, fishing co-operatives, buying associations and garages. On 31 August 2005 (Theron,2005:309) the number of registered co-operatives were 5 024. Trading co-operatives included transport co-operatives, retail and consumer co-operatives, savings and credit co-operatives (SACCOs), insurance co-operatives and village banks, co-operatives providing community or social services (including housing, medical, training and social co-operatives), construction co-operatives and fishing co-operatives. Geographically, KZN and the Eastern Cape were predominant with 64% of the trading co-operatives resident in these two provinces. Data from the DTI (2010a:7) show the phenomenal growth in the number of registered co-operatives more clearly:

- 1922 to 1994: 1 444 co-operative new entrants (1922, 1936 and 1981 Co-operatives Acts).
- 1995 – 2004: 3 362 new co-operatives registered.
- 2005 to 2007 alone: CIPRO register reflects 1 288 new cooperative entrants.
- August 2010: a total of 22 030 registered cooperatives.

On 31 December 2012 there were 69 430 registered co-operatives (primary, secondary and tertiary) in South Africa (CIPC,2013:4).

The DTI (2010a:7) lists the following factors as contributing to the high number of co-operative registrations:

- The creation of enabling environment through promulgation of the 2005 Co-operative Act and policy.
- Improved access to finance, such as grant funding through the DTI Co-operative Incentive Scheme and other funding from Ithala, LIBSA, MEGA, Red Door etc. to co-operatives.
- Procurement opportunities, although limited, to co-operatives in provinces, such as KZN and the Free State.

Redrebel (2009:7) adds that the various institutions established by the government to support co-operatives such as Sefa and Seda represent a further contributing factor to the increase in the number of co-operatives registered.

The following table shows a breakdown of the registered co-operatives per province and their status (DTI, 2010a:9):

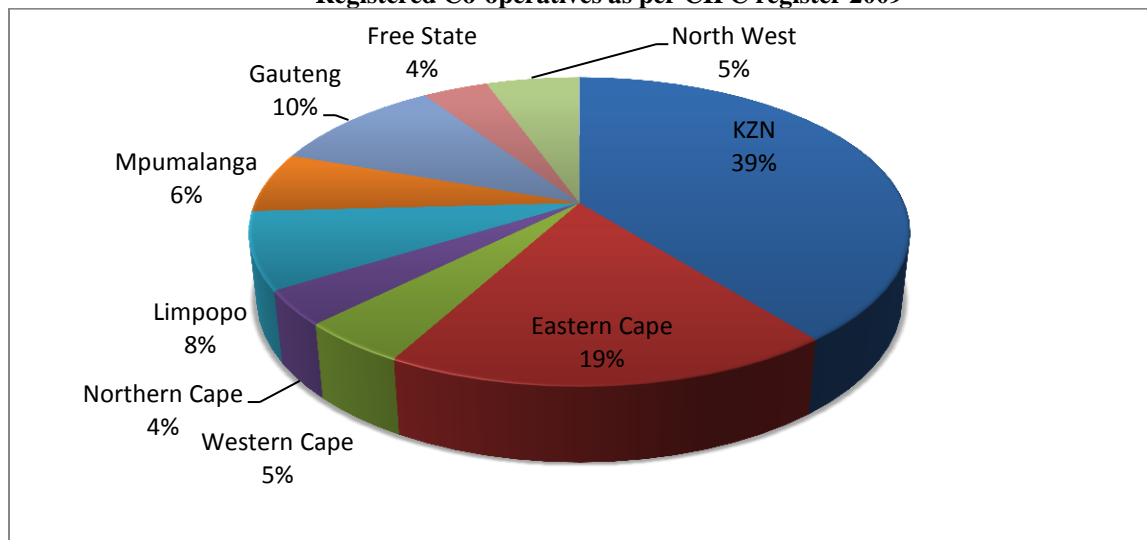
Table 2
Registered co-operatives per province and their status

Province	Registered co-ops as per CIPRO register	No. of surviving co-operatives	Survival Rate
KZN	8 697	1 044	12%
Eastern Cape	4 124	287	7%
Western Cape	1 003	69	7%
Northern Cape	798	20	2.5%
Limpopo	1 779	405	22%
Mpumalanga	1 396	187	12.5%
Gauteng	2 265	394	17%
Free State	850	71	8%
North West	1 208	167	13%
National Totals	22 030	2 644	12%

(Adapted from DTI,2010a: 9)

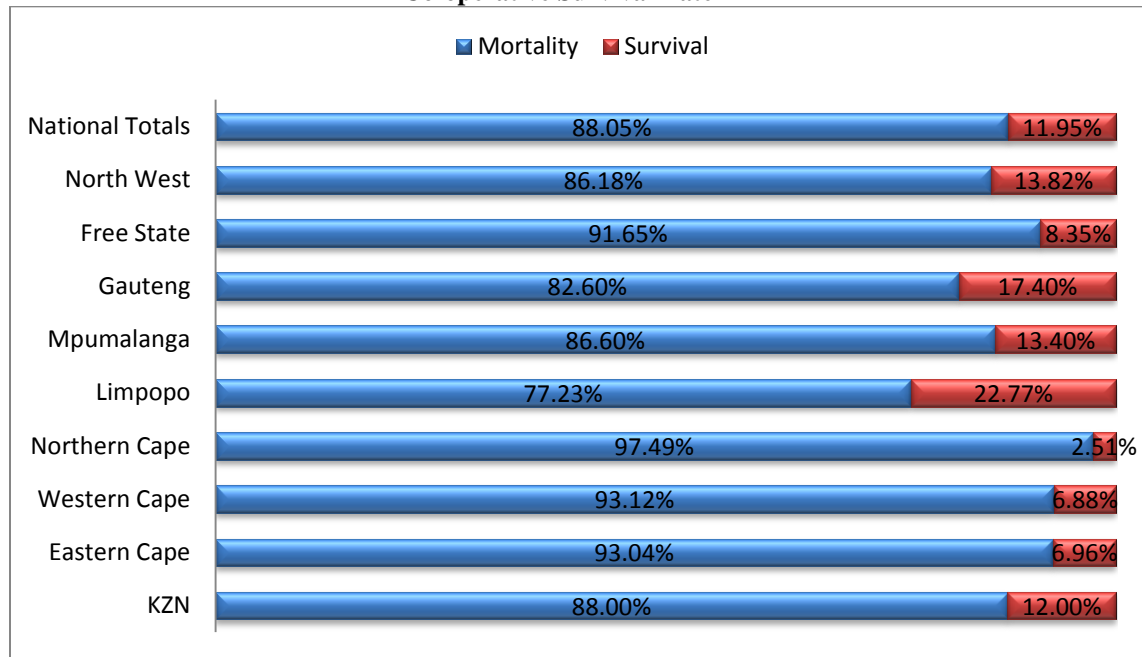
From the table the following charts will show the most important observations:

Figure 3
Registered Co-operatives as per CIPC register 2009



(Adapted from DTI,2010a: 9)

Figure 4
Co-operative Survival Rate



(Adapted from DTI, 2010a: 9)

Interestingly the two provinces with the best survival rate are very different in terms of economy and infrastructure, with Gauteng being urbanized and Limpopo mostly rural.

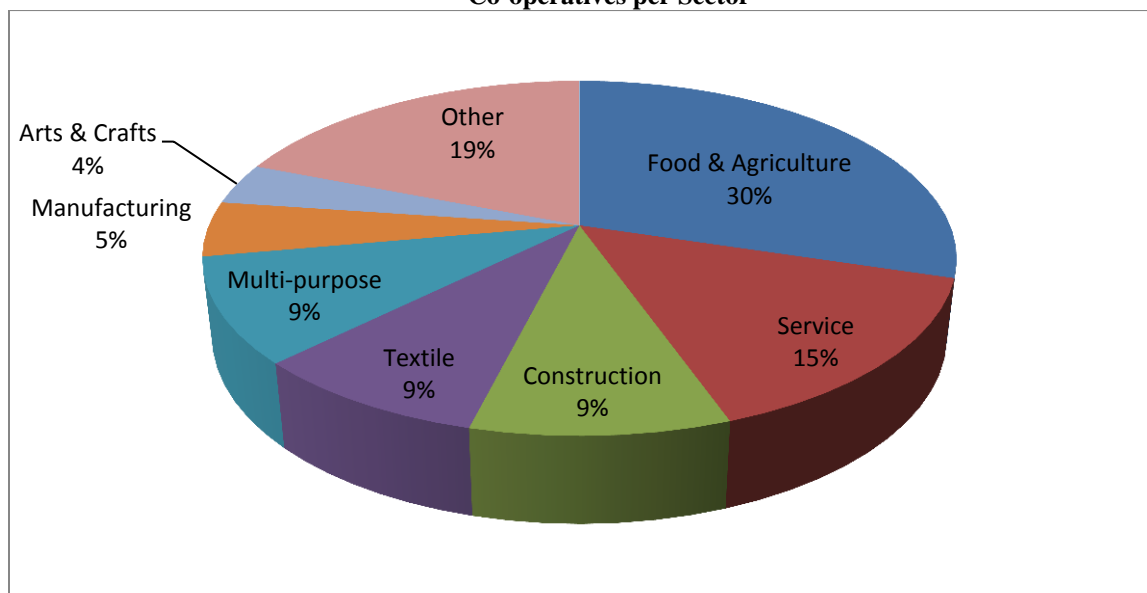
Redrebel (2009:26) argues that the significant number of co-operatives in Gauteng, while differing in the matter of characteristics from other provinces with large numbers of co-operatives, may be attributed to increased migration of people in search of job opportunities. Since not all of them find job opportunities, they tend to reside in informal settlements and townships where poverty levels are high. These people would find their means of subsistence in the informal or second economy, which is the section of the economy where emerging co-operatives tend to operate.

As may be expected, the DTI baseline study (Redrebel,2009:26) found that more than 50% of co-operatives operate in rural areas. According to the study, this confirms the notion that people in rural areas are more likely to form co-operatives

than urban dwellers. As will be seen below, most co-operatives are found in the Food and Agriculture sector which is more likely to be found in rural than urban areas. The author also contends that the majority of co-operatives operate in villages, followed first by townships and then by farms.

According to the DTI statistics (2010a:10) most co-operatives, 29.7% operate in the Food and Agriculture Sector and 14.85% in the Service Sector. See the graph below for a further breakdown of the sectors in which co-operatives operate:

Figure 5
Co-operatives per Sector



(Adapted from DTI,2010a: 10)

4.3.2 Membership and the demographics of members

The DTI baseline study (Redrebel,2009:29) found that most of the co-operatives in South Africa had less than ten members (65%) and that a significant number (23%) had between eleven and twenty members. Only twelve percent had more than 100 members. The study also disclosed that most members of co-operatives were female. 64% of the co-operatives had more female members than male and over 20% had only female members. The survey also found that youths aged between 16 and 34 comprised 40% of co-operative membership, with those aged between 25 and 34 making up the largest part (28%). It was envisioned that younger co-

operative members would take part in co-operative sectors where higher levels of skill were required, such as financial co-operatives, due to the South African labour force being characteristically young and more highly skilled.

Theron (2005:306) states that the emergent co-operatives in South Africa are mostly small, primary co-operatives. The co-operative movement is extremely diverse in terms of location and of the sectors in which they operate as well as the type of co-operative. He states (312) that the co-operative sector in 2005 appeared as follows:

- Most of the primary co-operatives had a listed cellphone number only and 49.6% of all trading co-operatives had no telephone at all. This seriously hampered the probability of co-operatives to be able to expand any operations.
- A DTI study had shown that 52% of co-operatives had between 10 and 49 members and the average number of members per co-operative were 15.58.
- Approximately two-thirds of the members in registered emerging co-operatives in South Africa were women (Theron,2005:58).

4.4 The Structure of the Co-operative Sector

The structure of the co-operative sector was explained in Chapter 2. From earlier discussions it has become clear that there is a need for higher levels co-operatives to ensure co-operation amongst co-operatives as per the ICA Co-operative Principles.

The DTI baseline study found that there are very few secondary and tertiary co-operatives in South Africa (Redrebel,2009:33). Secondary co-operatives numbered below seven percent of the co-operatives profiled in this study (Redrebel,2009:57), with primary co-operatives at 93% and tertiary co-operatives at 0,5% of the total.

There are three sectoral co-operative bodies in South Africa which provide support to their members (Redrebel,2009:32). These bodies represent co-operatives in specific industrial and commercial sectors. They are:

4.4.1 Savings and Credit Co-operative League (SACCOL):

The body represents 40 SACCOs with more than 500 members. It develops training resources to assist start-up SACCOs, provides long distance training services to members and develops regulatory tools and services to monitor and evaluate co-operative standards and operations;

4.4.2 South African Housing Co-operative Association (Sahca):

Sahca represents 50 housing co-operatives with a membership in excess of 12 000. It engages with government on policy issues within the housing sector and networks internationally, forming partnerships to strengthen capacity and support to its members;

4.4.3 South African Federation of Burial Societies (SAFOBS):

SAFOBS is the umbrella organization for many burial societies in the country. It provides insurance services to members. Although it is a registered sectoral body, its members are not necessarily registered co-operatives.

These sectoral bodies provide assistance and support which is imperative for fostering growth in the co-operative sector (Redrebel,2009:33). However, a wider approach is needed that will include all co-operatives across all sectors and allow them access to support that will lead to self-sustainability.

The DTI baseline study (Redrebel,2009:27) found that there were no tertiary co-operative organisations registered in South Africa. This seems like a contradiction when one considers the statistics quoted at the beginning of this section. However, the situation might be that the tertiary co-operatives profiled were, in fact, not registered as such. Even the sectoral bodies mentioned earlier are registered as secondary co-operatives, despite the fact that they perform many of the functions which are the responsibility of tertiary co-operatives.

According to Machaba (2012:6), NCASA, which was formed in 1995 as the voice of the co-operative movement in South Africa and has contributed to the development of co-operative policy and legislation, was largely silent for the last three years of its existence. This led to the Department of Trade and Industry, at a co-operative conference in 2008,

appointing a steering committee with the purpose of establishing an apex organization for co-operatives in the country.

On 25 September 2009, SANACO, the South African National Apex Co-operative, was formed (Machaba,2012:4). The objectives of SANACO are the following:

- “To advance and empower all members and their business;
- To engage and lobby all organs of state, the private sector and stakeholders on behalf of its members;
- To advance the development of co-operatives;
- As an apex to act as the mouthpiece of its members in connection with any matter of mutual interest to its members and the co-operative movement in general;
- To strive to establish an audit to assist member co-operatives to have their co-operatives audited, in particular those that are unable to afford the cost of auditing;
- To represent the co-operative movement of South Africa in the continent and internationally;
- To strive to advance the principles of co-operatives as outlined in the Co-operatives Act of the Republic of South Africa;
- To co-operate and collaborate with other formations in building the South African economy through co-operatives;
- To establish a Development Trust that will mobilize resources for the benefit of SANACO, member co-operatives and their businesses in particular, and the co-operative movement of South Africa in general.”

All primary and secondary co-operatives in South Africa can join the organization. SANACO is a member of the International Co-operative Alliance and the SADC Co-operatives Federation (Machaba,2012:5).

In March 2012 SANACO had the following members:

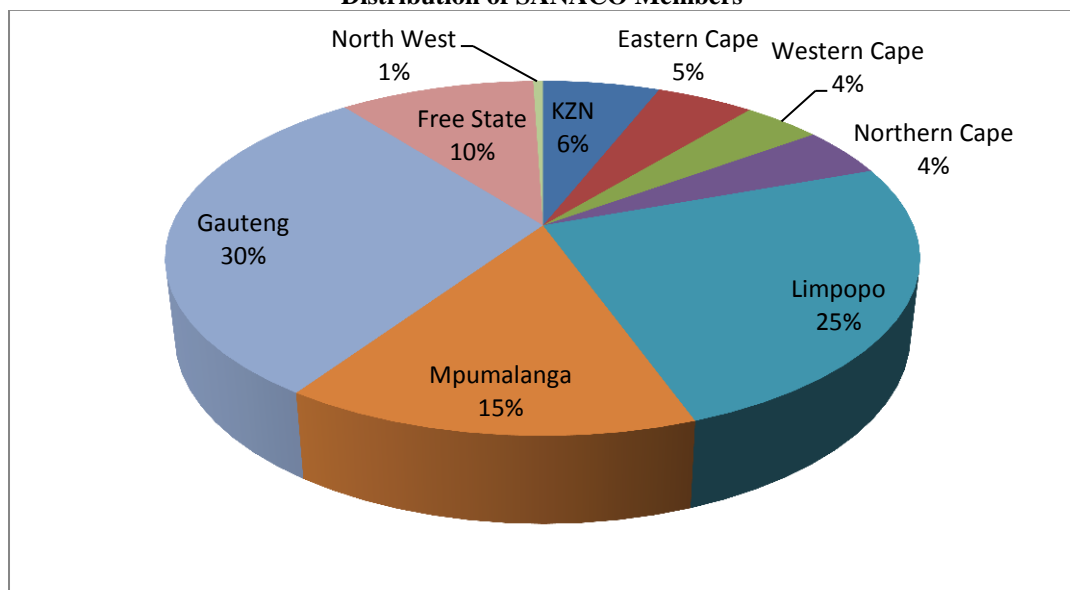
Table 3
Registered and non-registered members of SANACO

Province	Registered members	Non-registered members	New co-operatives assisted
KZN	600	0	0
Eastern Cape	500	0	0
Western Cape	400	0	0
Northern Cape	450	0	0
Limpopo	2 500	0	0
Mpumalanga	1 500	0	0
Gauteng	3 000	500	1 200
Free State	1 000	1 500	50
North West	50	0	0
National Totals	10 000	2 000	1 250

(Adapted from Machaba, 2012:5)

The following graph shows the distribution of SANACO members geographically:

Figure 6
Distribution of SANACO Members



(Adapted from Machaba, 2012:5)

Theron (2005:326) states that no structure exists to mediate the relationship between NCASA (now SANACO) and members. Moreover, there is no body to give practical inputs and advice as to how to become viable to the thousands of primary co-operatives.

According to Theron, no meaningful co-operative sector will develop without measures targeting the active promotion of the co-operative form of business and without appropriate support. His submission is that the largest factor in the failure to establish a sustainable co-operative sector is the lack of a secondary structure that can provide support to emerging co-operatives.

Theron (2005:50) identifies three tendencies in the co-operative sector:

- An erosion of the unified co-operative model (secondary and tertiary structures) in African countries where they were introduced.
- A strengthening of industry or trade specific structures as an alternative to the secondary and tertiary co-operative structures. Furthermore, bottom-up growth and consensual networking and integration has started between co-operatives involved in similar or related industries.
- A national blending of co-operatives and other economically active group-based organizations.

4.5 Economic Impact

4.5.1 Contribution to GDP

Van der Walt (2008:3) states that since 1994 radical sectorial changes have occurred in co-operatives. Before then, the majority of co-operatives were found in the agricultural sector, whereas the majority of co-operatives are now trading enterprises. He quotes statistics showing that in 1994, 57% of co-operatives were agricultural versus 43% trading co-operatives. In contrast, agricultural co-operatives made up only 11% of co-operatives in 2004 compared to 89% trading co-operatives.

According to CIPRO (now CIPC) data quoted by the DTI (2010:11), co-operatives contributed nearly R12 billion to the South African GDP in 2009. Approximately 80% of this was contributed to the Agricultural sector.

It would have been significant to know how many co-operatives were active in each sector as it can be expected that fewer co-operatives would be responsible for the bulk of the contribution to GDP, particularly in light of the above.

Another significant factor would have been the percentage of active co-operatives the statistics are based on, for, as earlier indicated, Satgar (2007: 9) stated that the financial data of many co-operatives are not available. However, the next table, showing the contribution of co-operatives to the country's GDP, shows that co-operatives play a significant role in the agricultural sector at least:

Table 4
Contribution of Co-operatives to GDP

Sector	R Value	Percentage of Total
Agriculture	R 9 589 663 846	80%
Farming Requisites	R 2 057 771 102	17%
Fruit & Veg	R 512 962 480	4%
General Products	R 217 899 729	2%
Grain & Oil Seeds	R 4 266 267 328	36%
Insurance	R 6 459 575	0%
Meat	R 179,994,646	2%
Timber	R 1 598 653 351	13%
Wine	R 749 655 635	6%
Trading Co-operatives	R 2 324 620 633	20%
Buying Aids	R 2 274 191 190	19%
Home Industries	R 12 476 540	0%
Mutual Benefits	R 27 854 695	0%
Financial Services	R 10 098 208	0%
Total	R 11 914 284 479	100%

(Adapted from DTI,2010:16-33)

In 2009, South Africa's total GDP was R1 594 336 billion (Statistics SA,2011:6). This means that the co-operative sector contributed 0.75% to total GDP. Total agricultural GDP was at R40 891 billion (Statistics SA,2012:6), meaning that agricultural co-operatives contributed 23.45% to their sector's GDP.

The above statistics can only be brought into context if they are compared to those in other countries. According to the ICA (2012:3), internationally co-operatives have a significant impact on the economy in their countries. In 2009 Columbian co-operatives were responsible for 4.96% of the GDP in their country. In Iran co-operatives contribute 6% of GDP, in Kenya 45%. In Portugal co-operatives are responsible for 5% of the Gross National Product. Co-operatives contribute 4.25% to the Scottish GDP. In Switzerland the two largest co-operatives are responsible for 8% of GDP. In Vietnam the total contribution to GDP is 8.6%.

4.5.2 Employment Creation

The DTI Baseline study (Redrebel,2009:33) found that 84.1% of co-operatives employed fewer than fifteen people. 48% employed between one and five employees. Food and agricultural co-operatives employed the highest number of employees, followed by service co-operatives. The study found that the impact of co-operatives on unemployment is negligible.

This is not the case internationally. Co-operatives provide more than 100 million jobs globally, which is 20% more than multinational enterprises (ICA,2012:2). In 2005 Columbian co-operatives provided 109 000 jobs and an additional 379 000 as worker-owners in worker co-operatives. In Slovakia approximately 700 co-operatives provide jobs to nearly 75 000 individuals (about 107 jobs per co-operative). In France 21 000 co-operatives provide jobs to 700 000 people (33 per co-operatives). Co-operatives in Kenya provide work for 250 000 people. In Germany 440 000 are employed by 8 106 co-operatives (54 jobs per co-operative)

4.5.3 Contribution to poverty alleviation

In a 2002 Baseline Study of Cooperatives (cited in Philip,2003:19), NCASA found that 40% of cooperatives studied generated no income for members and that the typical co-operative' generated R2 000 per month and earnings of approximately R1 600 per year per member, meaning the member earned R133 per month. 90% of the cooperatives studied were worker co-operatives.

According to Theron (2005:312), in 2005 more than half of co-operatives had a turnover of smaller than R10 000 per annum while 30,2% received no income at all.

Similarly, the DTI study (Redrebel,2009:35) found that most emerging co-operatives in South Africa are not at a level where they can contribute to the alleviation of poverty. Most importantly, they are not yet able to provide either skills development sector-specific or business practice training to members.

4.6 Viability and Sustainability

Theron (2005:314) states that the relative ease and low cost of registering co-operatives have contributed to the growth in the number of registered co-operatives, but that the increase can only be positive if most of these co-operatives grow into viable, sustainable organizations and if they are able to establish viable secondary co-operatives.

The DTI study (Redrebel,2009:33) found that a large percentage of the co-operatives studied reported losing members, because of insufficient income generated by the co-operative. More than 70% of the co-operatives surveyed had a turnover of less than R50 000 per annum. In fact, 31.41% had an annual turnover of less than R5 000 (Redrebel,2009:46). The study also found that a small percentage of the registered co-operatives were actually operational (Redrebel,2009:33). Emerging co-operatives were found to be survivalist in nature and still at a development stage. In other words, they were still at a point where they had simple structures, where members were still trying to understand the co-operative industry's position and where they were still trying to establish what strategies to put into place to position the co-operative in the market. Most of the co-operatives surveyed were operating in the agricultural sector, which is characterized by slow growth, high levels of competition and the difficulties experienced in acquiring land.

Chakela (2012:38) studied eleven agricultural and manufacturing co-operatives in the Mantsopa Municipal area in the Free State. Out off these co-operatives, 64% indicated that their turnover levels were below R1 000 per month. Only two realized a turnover in excess of R5 000. In the study, in which two co-operatives were no longer operating, respondents were asked to indicate their view with regard to the failure of co-operatives. Four of them

indicated lack of access to finance as a reason for failure, while three each indicated that lack of business knowledge, corruption as well as lack of proper marketing as causes.

According to Davies (2009:1) most emerging co-operatives are failing to comply with the co-operative legislation. Therefore there is a need for non-financial support involving training of co-operatives on establishing and merging co-operatives, co-operative legislation and compliance issues. Seda was identified to provide this support.

In the Chakela study (2012:36) three of the eleven co-operatives were not formally registered.

The compliance issue was also prevalent in the DTI study (Redrebel,2009:39) which found that almost all the emerging co-operatives failed to comply with the Co-operatives Act in terms of submission of annual statements to the Registrar of Co-operatives and only 4.72% had audit reports. 22.6% reported banking their surpluses and only 7.5% reinvested their surpluses into the co-operative. More than 81% of the co-operatives were less than three years old and 23% were less than one year old. Therefore, the study concludes that most co-operatives do not survive for longer than two years for various reasons, including non-sustainability.

A report from the Co-operative Division of the CIPC (CIPC,2013:11 – 18) supports the above statements regarding lack of compliance. The table below represents a summary of the total number of registered co-operatives at the end of each year from 2009 to 2012 and gives the number of annual returns received from co-operatives for that year:

Table 5
Total number of Registered Co-operatives vs. Annual Returns Submitted

	2009	2010	2011	2012
Number of registered co-operatives	29140	37402	47750	69430
Annual returns by worker co-operatives	0	3	17	3
Annual returns by other co-operatives	124	62	139	111
Total annual returns submitted	124	65	156	114

(Adapted from CIPC,2013:11 – 18)

The DTI study also found that many co-operatives were established as small-scale subsistence endeavours (Redrebel,2009:40). These co-operatives are often typical of a rural, illiterate and poverty-stricken segment of the population whose members group together in an effort to sustain themselves.

The study (Redrebel,2009:47) found that 59% of co-operatives expected members to pay membership fees and in 85% the fees were R100 per month or less. Membership fees form a vital part of the capital structure of co-operatives, particularly when it is taken into account that the study found that only 15,06% of co-operatives applied for grants and 12,35% for loans. (It also forms an integral part of the co-operative principle of member economic participation as seen in Chapter 2). Membership fees are a major source of member losses. 20% of the co-operatives that were studied reported member losses because of the inability of members to pay fees.

Access to funding is a major concern in the sector (Redrebel,2009:51). 30.23% of the above-mentioned co-operatives which applied received grants and only 14.89% of loan applications were approved. Co-operative members expressed frustration with the fact that government seemed to provide more training opportunities than financial assistance.

Performance statistics obtained from SANACO shows a dire picture of the viability and sustainability of co-operatives in South Africa (Machaba, 2012:9):

Table 6
Performance Statistics of Co-operatives assisted by SANACO nationally

Sector	Operational Co-operatives	New Co-operatives	Successful Co-operatives
Financial Services	0	50	0
Construction	1 000	3 000	0
Agriculture	2 080	500	20
Clothing	300	1 000	0
Food Processing	60	540	0
Consumer Services	500	100	0
Burial Societies	295	100	0
Worker Co-operatives	4	1	0
National Totals	4 639	5 341	20

(Adapted from Machaba,2012: 9)

Significantly, SANACO only considered twenty of its member co-operatives to be successful. All of these belonged to the agricultural sector. The low number of worker co-operatives who are members is also notable.

The Co-operative Division of the CIPC (CIPC,2013:21 – 27) reports that for all co-operatives which submitted annual reports (105 out of a total of 69 430) in 2012 the total turnover was

R5 794 054 166. The total turnover for the worker co-operatives which submitted returns was R24 514 804. The combined loss for the worker co-operatives was R742 667.

4.7 Other findings and comments

According to Develtere *et al.* (2008:32), the co-operative movement in South Africa is mostly seen to be the responsibility of the co-operative movement itself.

The DTI baseline study (Redrebel,2009:9) states that good corporate governance practices for co-operatives in South Africa are not fully developed as yet and that corporate governance issues such as mismanagement and corruption still need to be investigated and the practices implemented.

According to Satgar (2008:5), corruption is beginning to undermine the solidarity and integrity of co-operatives.

4.9. Conclusion

In this chapter it was seen that, compared to the situation in other countries, the effect of co-operatives on national GDP in South Africa is miniscule and that the sector does not play a major role in the alleviation of unemployment.

Although the number of registered co-operatives has sky-rocketed during the past few years, co-operatives are no more successful than before. Government's top-down approach to co-operative development has led to many co-operatives being formed for the sake of

being funded. Most of the time these co-operatives go nowhere after being funded and members end up using the funding money for personal purposes.

From the mortality statistics it does not seem as if the survival rate of co-operatives differs much from those of normal SMMEs.

However, if the extent of government involvement in the sector and the amount of money spent on co-operative development are taken into account, the survival rate will be expected to be higher. The question may be asked whether a co-operative that generates R133 per month per member, or no income at all, is really viable and worthwhile to keep operating. With this type of income, co-operatives will stay dependent on government for survival and the resultant statistics on the number of operating co-operatives will be deemed artificial.

Bearing in mind the amount of money that government has spent on co-operative development, it is surprising that the DTI baseline study identifies a lack of access to funding as a concern. One would expect that, with the success rate of co-operatives and development initiatives where it is, funding criteria would become more stringent to eliminate free riders and ensure an improved success rate.

It is regrettable that no statistics could be found on the number of co-operatives which have received multiple consecutive grants or funding. This is because no central database exists for co-operatives that received development aid.

‘Double-dipping’ statistics, where a co-operative receives grants or funding from more than one government department without the knowledge of these instances, would also have shed a light on the real situation in terms of government support to co-operatives and the degree of integration among government entities in their approach to co-operative development.

The fact that, according to the DTI statistics quoted in this chapter, 3 855 co-operatives received funding or grants from government institutions between 2005 and 2010, while

only 2 644 co-operatives are considered active, might be an indication of this. This chapter shows the end results of the challenges faced by co-operatives as examined in the previous chapter. The results show that governmental efforts to assist co-operatives to face and overcome these challenges have not been as successful as they might have been.

Most of the time, the viability of the business idea behind the forming of the co-operative, would be suspect for any small business, much less a co-operative which has to support twenty, or thirty, or even seventy members. The funding and grants, therefore, result in a short-term relief of members' woes.

Most of the time members lack the technical skills relevant to the business idea and almost all of the time they lack the relevant business management or financial management skills. This situation is a further cause of conflict within co-operatives, leading to member losses and even to the demise of the co-operative.

Taking these conclusions and those in the previous chapter into consideration, two questions come to mind:

- What does a successful co-operative, which will overcome the challenges faced by this form of business entity, look like?
- What indicators will determine whether a co-operative is regarded as successful, or not?

In the next chapter these questions will be considered and an endeavour will be made to provide answers.

Chapter 5

Success factors and the criteria for measuring the success of Co-operatives

5.1. Introduction

Throughout the years, many studies have been conducted to determine what factors help co-operatives to be successful. It stands to reason that different studies have used different indicators of success. Therefore the factors identified by the studies will differ likewise. These studies have shown that there is no pre-determined set of criteria or conditions that will guarantee the success of all co-operatives, just as there is no set of factors that will ensure the success of all businesses. Much of the success will depend on the individual characteristics of each co-operative.

Just as there are certain basics in management and in business management, these studies into successful co-operatives have, however, shown that certain basic principles and/or conditions help increase the probability of success of co-operatives. These conditions or factors have been identified in more than one study. Therefore, they may be considered as the general principles or factors that will determine the success of co-operatives.

Perhaps Van der Walt (2006:12) best summarises the situation best when he quotes one of his own articles, stating that the determinants for success of co-operatives include:

- Effective management
- Member commitment
- Entrepreneurial mindset
- Co-operative education
- Government support
- Member driven initiative

5.2 Financial vs. Social Goals

It is often stated that co-operatives combine economic and social goals. It seems this is a way to justify the existence of co-operatives, that they are more than mere economic organisations and reflect a desire to prove that there is something special about them as organisations (Fairbairn,2002:117).

For example, Dash (2013:43) argues that co-operatives, as “blended value organisations”, are deficient since no management system and tools have been developed that would have effectively managed and monitored their performance on a “triple bottom line” (financial, social and environmental). The author states that it would be incorrect to measure the efficiency of co-operatives in like manner to other business entities since it fails to provide information on their impact in enhancing individual, social and environmental wellbeing. Co-operatives occupy a different space in the spectrum of investment objectives in the structured capital market because of the nature of values they create in terms of economic, social and environmental goals. Measuring co-operative efficiency in the same manner as other organisations would then be a distortion of the co-operatives’ institutional reality and identity. This would cause co-operatives to fail by causing them to behave more like commercial firms in their efforts to survive, and thereby run the risk of losing their “social soul and genetic essence”.

Many researchers share this opinion that the social goals of co-operatives should be predominant and that the economic concerns should be subordinate to them. These writers are of the opinion that the economic goals should merely be there to enable the co-operative to reach its social goals. This, however, might create the impression that the two goals are mutually exclusive and that the pursuit of one goal will reduce the importance of the other (Fairbairn,2002:117). Managers will, most probably, argue that social goals cannot be pursued without endangering viability, while critics might accuse co-operatives of concentrating too much on business and too little on social objectives. Both viewpoints are based on the assumption that there is an inverse relationship between the economic and social goals of a co-operative.

Fairbairn (2002:118) maintains that one of the main characteristics of co-operatives is their flexibility; the way in which they combine different forces, interests and possibilities. He states that, to force them into one direction, either pursuing economic goals or social ones,

is to miss the whole point of co-operatives. Unless the social goals are met through the economic activities, it makes no sense to start an economic (business) enterprise to achieve them.

In this regard, Watkins (cited in Fairbairn,2002:118) believes that the co-operative principles in reality are not principles but a set of rules. He maintains that the real principles of the movement include such underlying qualities as association and economy. If the ICA principle of co-operation among co-operatives is taken as an example, the power co-operatives and co-operators derive from association is exercised mainly in the economic field and for economic ends. Watkins further submits that economic advantage is the reason why most co-operators join the co-operative movement and that the movement's economic performance will determine the value co-operators will place on it. Whatever moral and social benefits co-operatives may offer, co-operators will not be persuaded to join unless the co-operative offer them savings they are unable to make themselves, yields them an income or provides them with services they would otherwise not receive. Usually there must be very persuasive economic reasons for people to start, join and/or run a co-operative.

MacPherson (1996:7) agrees with the above, stating that most co-operatives primarily exist to meet economic purposes but that they have social and cultural goals as well.

Fairbairn (2002:114) submits that few 'real' co-operatives have ever pursued goals in such a social manner. Economic concerns such as sales, services, investments and returns are predominant in discussions at member and board meetings. Social objectives are, in fact, rarely mentioned at these meetings. Furthermore, it is normal for economic functions in co-operatives to become dominant, no matter what the original reasons for starting the co-operative were (Fairbairn,2002:120).

Although Chamard and Webb (2006:5) stress that co-operatives have other goals than financial ones, such as meeting member needs, contributing to the community and society and operating in a manner consistent with co-operative goals and principles, they also submit to the fact that the financial health of the co-operative is very important, since bankrupt co-operatives do not meet members' needs. However, they stipulate that managers should account for the use of resources to achieve other goals that are co-equal to

the financial ones. They are further of the opinion that to focus exclusively on achieving financial goals will weaken the co-operative nature of the business and result in the co-operative increasingly coming to resembling an investor-owned business. This will lead to a weakened co-operative that attracts less member patronage and investment and to diminished loyalty. Non-financial goals are traditionally seen as 'soft' and difficult to measure. The authors are therefore of the opinion that co-operative managers lack the accounting tools that would allow them to assess the interaction between goals and what the proper balance between them should be (Chamard and Webb,2006:8).

Chamard and Webb (2006:9) are of the opinion that, although many of them are applicable, many generally accepted accounting practices (GAAP) rest on concepts that are not consistent with co-operative governance models and business principles. The difference in the handling of member contributions is a good example of this.

This is a debate that has existed for a considerable period and it seems as if consensus is as far away as it has ever been. In this study the approach will be that co-operatives need financial objectives in order for them to attain their social objectives. Success in this area will allow them to pursue the 'softer' social goals. For this reason, success will also depend on the financial performance of the co-operative.

5.3 The factors determining the success of small businesses

As indicated above, the approach of this study has been that a co-operative should be managed as a business first for it to be able to meet its social goals and that the social aims of the co-operative cannot be allowed to dominate the business goals. For this reason, the normal success factors related to any small business have likewise been applicable to co-operatives and, in the instance of this study, worker co-operatives. Therefore, the success factors related to the operation of co-operatives have been considered in addition to those related to normal small businesses.

Small businesses and the environment in which they operate are complex and many factors have an influence on their success.

According to Burns (2001:9), small businesses are not just scaled down versions of large ones. They are operated in a number of fundamentally different ways. The personality of

the business owner and his behavioural characteristics will strongly influence the way in which the business operates. Small businesses are social entities that revolve around personal relationships. They approach risk and uncertainty in a way that could seem irrational. Burns (2001:9) explains other characteristics which are typical of small businesses and accentuate their different way of approaching management and business:

- They are typically short of cash and cannot raise capital in the same way that large companies can. This constrains the type of strategies they can adopt and means that decisions must have a quick pay-off time. Therefore, decision-making is more of a short-term process. It further means that raising finance becomes a major strategic issue and that relationships with funders can become a resource issue.
- They are likely to operate in a single market or a limited range of markets, offering a limited range of products and services. The result is that their scope of operations is, or should be, limited. For this reason they have to deal with fewer strategic issues than larger companies. Typically, strategy then becomes synonymous with marketing strategy. However, on account of the limited markets and product/services ranges they find it difficult to diversify their business risk, which is another reason why they find it hard to raise finance.
- Most small businesses are overly reliant on a limited number of customers. This means that they are vulnerable to losing any single customer and the effect on the firm if this happens, might be disproportionately large; yet another reason why they are riskier than large companies and experienced difficulty raising finance.
- Economics of Scale and their major effect on financial evaluation and decision-making constitute the final characteristic. A good example of this is the fact that employing an additional person is a major strategic decision, involving relatively large amounts of money for small businesses.

Davidsson and Klofsten (2003:2) state that research has shown that businesses which have survived two to three years and have endured some crucial phases tend to attain a stable platform from which to develop further. This development base has been attained when the

business has developed sufficiently in terms of resources (capacity), experience, control, leadership and idea. From this base the business has the possibility to develop and to manage future environmental changes. Such a business may be considered to have achieved stability.

Klofsten (1992, as quoted in Davidsson and Klofsten,2003:3) developed a business platform model which defines the eight cornerstones of a business's early development process. These are:

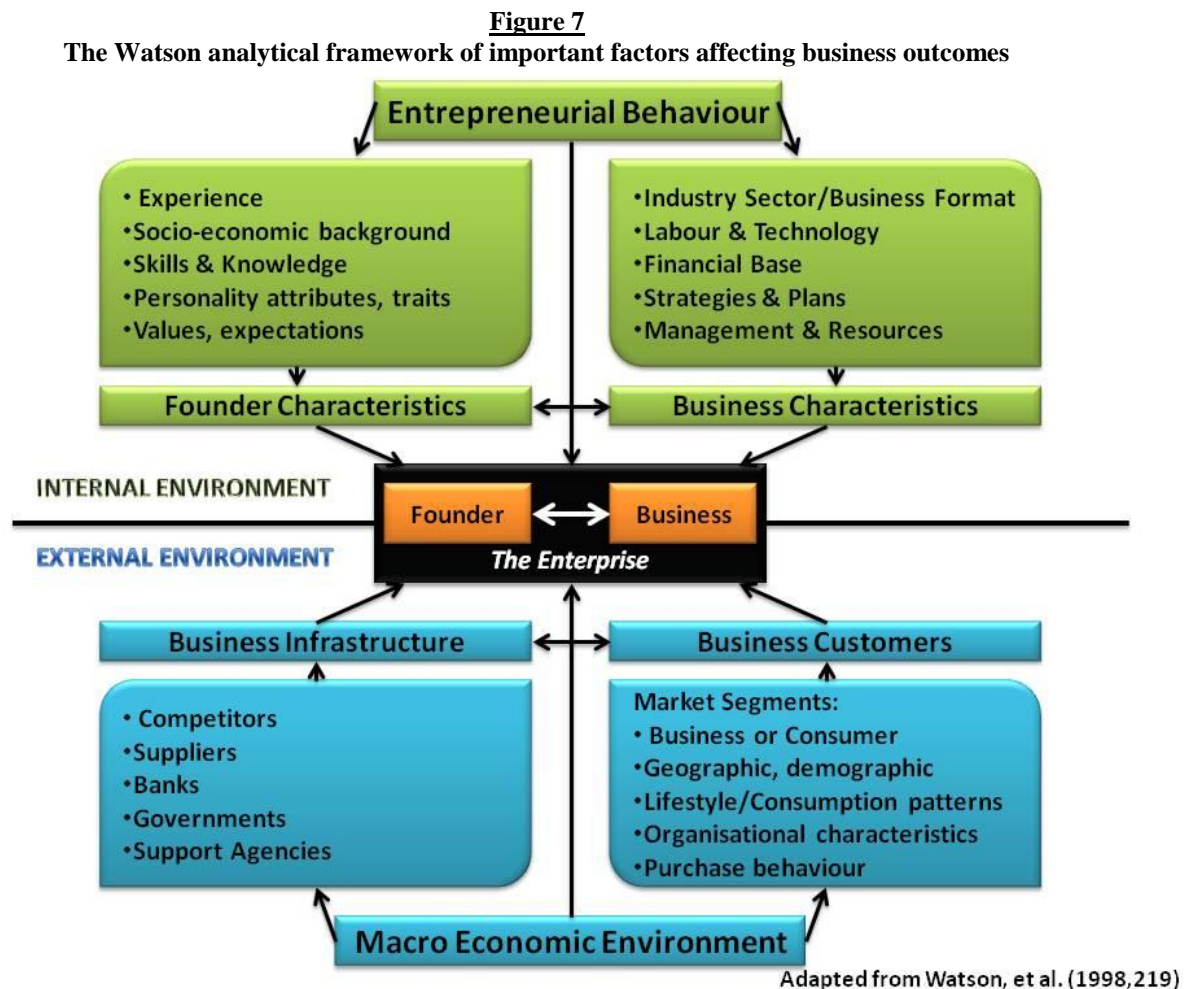
- Formulation and Clarification of the Business Idea
- Development to Finished Product
- Definition of the Market
- Development of Operational Organisation
- Core Group Expertise (Competence)
- Core Group drive/motivation (Commitment of the core group and the prime motivation of each actor)
- Customer Relations
- Other relations

These cornerstones comprise the business development process itself (idea, product, market and organisation), key actors such as the founders (expertise and drive/motivation) and the flow of external resources (customer- and other relations). The theory behind this platform is that, as long as there are no dramatic changes in the business environment, success will be determined by how well the firm builds and maintains its business platform (Davidsson and Klofsten, 2003:3). After the platform has been achieved the business will have a good deal of leeway to generate and manage its resources. Success in early development will depend on the progress on the platform cornerstones.

Flamholtz and Aksehirli (2000:489) report on a theoretical framework, previously developed by Flamholtz, of tasks businesses must perform to be successful at each stage of growth. They state that six tasks or dimensions are each supported by previous research. These six key tasks are:

- Identification and definition of a viable market
- Development of products or services for the chosen market niche
- Acquisition and development of resources required to operate the business
- Development of day-to-day operational systems
- Development of the management systems necessary for the long-term functioning of the organisation
- Development of the organisational culture that management feels necessary to guide the firm

Similarly, Watson *et al.* (1998:219) have developed an analytical framework to show the factors purported to be important in affecting business outcomes. The framework was developed from a review of literature on small businesses and entrepreneurs. For the purposes of this study, the Watson analytical framework has been utilised. The framework may be graphically presented as follows:



Watson *et al.* (1998:219) agree that successful entrepreneurship is a complex phenomenon and both internal and external factors have an impact on business performance. They further state that, as in large businesses, the characteristics of the business, the business infrastructure and particular customer markets serve as important variables affecting business performance. However, in small businesses the influence of the founder/s in defining the business concept and mode of operations is likewise of great importance. Therefore, in the analytical framework above, the enterprise consists of both the founder and the business.

Curran *et al.* (1986), cited in Simpson *et al.* (2004:484), concur, arguing that it is a combination of the knowledge, experience and personality of the entrepreneurs and the way in which they are affected by outside influences of society and the environment that combine to make a successful entrepreneur.

The Watson *et al.* framework will be utilised in the discussion of success factors relating to small businesses.

5.3.1 Characteristics of the founder/s

There is no such thing as a perfect entrepreneur – as yet (Timmons,1999:220).

However, adaptation of economic systems to shifting conditions, innovation of products and services, the creation of jobs and economic growth depend on keen and willing people to start businesses and on the founders' skills and efforts to run them successfully (Brandstätter,2011:222). Business success involves hard work, headaches, time and often failure before the business can achieve financial success (Muske,2011:1).

Markman and Baron (2003:281) suggest that the closer the match between entrepreneurs' personal characteristics and the requirements of being an entrepreneur, the more successful they will be. They further argue that the extent to which entrepreneurs possess certain identified characteristics, namely self-efficacy, ability to recognise opportunities, personal perseverance, human and social capital

and superior social skills, the closer the 'person-entrepreneurship fit' and, consequently, the greater the likelihood or level of their success will be.

According to Caliendo and Kritikos (2008:189), entrepreneurship involves special kinds of decision-making processes. For this reason it is argued that the success of a business depends on the entrepreneur's personality. Several psychologists and economists propose that the personality of the entrepreneur has a strong impact on the success of a business, particularly when the business is run only by one entrepreneur or employs only a few employees (Caliendo and Kritikos,2008:190). This is also evident in the findings of Kakati (2003:455) who found that entrepreneurial qualities play a critical role in the success of new ventures. It is the founder in the start-up business who gathers resources and develops strategies to use them to push the product through the market. The resources alone are not enough to achieve competitive advantages and above-average performance. For these to be attained, organisational leadership must transform resources into profit-making capability. It is the entrepreneur who impacts the strategy the business selects.

Sets of variables which appear to have a major influence on entrepreneurial success have been identified. These variables deal either with human capital (entrepreneurial knowledge) or with those personality characteristics that are important for developing entrepreneurial skills.

5.3.1.1 Personality Traits

The personality characteristics of the entrepreneur and their influence on the eventual success of the business have been researched extensively, with conflicting results.

Driessen and Zwart (1996:1) are of the opinion that the entrepreneur him/herself is the greatest determinant of business success. They contend that the personality of the entrepreneur is even more important than academic background, business knowledge and craftsmanship. Banks, venture capitalists and business consultants stress the importance of the entrepreneur's personality for the success of the business, particularly

during the start-up phase. For this reason, the assessment of the business plan should be combined with an objective judgement of the entrepreneur.

According to Brandstätter (2011:223), personality traits include abilities (such as general intelligence, as well as numerical, verbal, spatial and emotional intelligence), motives (e.g. need for achievement, power or affiliation), attitudes (including values) and characteristics of temperament as the overarching style of a person's experiences and actions (such as openness to experience, conscientiousness, agreeableness).

Walker and Brown (2004:579) argue that there are two types of motives for people to start businesses. A 'pull' motivation, like personal freedom, independence gained from being one's own boss, personal satisfaction, a less rigid and more flexible lifestyle and greater job satisfaction, is associated with the individual's having a strong positive internal desire to start a business venture. The opposite motivation is 'push', which is associated with a possible equally strong desire, but based on external negative reasons.

Muske (2011:2) submits that research on the attributes of successful entrepreneurs continues, but that one single set has not been found.

Common characteristics include:

- Passion and perseverance
- Creativity
- Being a self-starter
- Ability to work well with a variety of people
- Planning and organising skills
- Good decision-making skills
- Physical and Emotional stamina
- Motivation
- Networking ability
- Management and operational skills
- Technical skills

Dvir *et al.* (2010:45) adds the following to the list:

- Desire for independence
- Locus of control
- Risk-taking propensity
- Need for achievement
- Credible role models

According to Driessen and Zwart (1996:4), the three main characteristics are the need for achievement, internal locus of control and a risk-taking propensity. These are complemented by five secondary characteristics: need for power, tolerance of ambiguity, need for affiliation and endurance. Successful entrepreneurs scored significantly higher on these characteristics than less successful ones, small business managers and non-entrepreneurs.

Haber and Reichel (2007:124) confirm that previous studies have shown that management skills are conducive to business performance and growth.

Brandstätter (2011:226) submits that empirical evidence exists that entrepreneurs are more risk-prone than managers. They have to cope with situations which are unstructured and uncertain about the outcome of decisions. This uncertainty is more problematic for risk-averse than for risk-prone people. He further quotes research that confirms achievement motivation as a prominent characteristic of entrepreneurs, particularly for those who are founders of their businesses and who are oriented towards growth of the enterprise. He cites research by Zhao and Siebert (2006) which shows that entrepreneurs are more open to experience (the breadth, depth, originality and complexity of an individual's mental and experimental life), conscientious and extrovert than managers. They are also less agreeable (including unselfishness, tender-mindedness, trust and modesty) and display less neuroticism (feeling anxious, nervous, sad and tense) than managers.

Perceived desirability (attitude to ownership) and perceived feasibility (entrepreneurial self-efficacy) can form the intention to start a business (Brandstätter, 2011:228).

However, according to Dvir *et al.* (2010:45), these traits have not been conclusively shown to be related to new venture performance, but rather to new venture formation. In contrast with Driessen and Zwart (1996:3) they further state that it is extremely difficult to show a causal relationship between personality traits and entrepreneurial behaviour and success.

Muske (2011:2) states that most of the attributes above can be gained individually or through partnerships and/or contracted services. An entrepreneur's knowledge of his own personality traits allows him/her to build a founding team that complements his/her skills and competencies and helps ensure initial business success (Driessen and Zwart,1996:3).

According to Dvir *et al.* (2010:49), their research has shown that entrepreneurs are attracted to new ventures that fit their personality. Entrepreneurs who are investigative, committed and challenge-loving will be more likely to start high novelty, high technology businesses, whereas entrepreneurs who prefer more certain ventures that may show results in the near future tend to start low novelty, low technology businesses.

5.3.1.2 Background of the entrepreneur

While, according to their research, personality traits have not predicted entrepreneurial success, Dvir *et al.* (2010:45) have concluded that background characteristics have been shown to play a role in success. Prior management experience, start-up experience, management team experience, experience in the line of business, knowledge, skills and abilities are background characteristics that have been shown to play a significant role in business success. Haber and Reichel (2007:124) state that there is a positive relationship between education and business performance, and that previous experience is a good predictor of success. This is confirmed by Simpson *et al.* (2004:486) when they state that all the successful business

owners studied in their research had previous experience in their particular industry but relatively little experience in the running of small businesses.

The start-up stage of a venture requires management skills such as market awareness, creativity and flexibility, while the growth stage requires skills such as leadership, planning, controlling, motivating, accounting and the ability to stimulate people (Driessen and Zwart,1996:7).

Urban *et al.* (2008:58) supports the above discussion by stating that micro enterprises or survivalists have entrepreneurial characteristics. Their ability to grow and create employment are restricted by a lack of skills, business knowledge and resources. In their study the authors found that 78% of successful entrepreneurs had a tertiary qualification, indicating a strong relationship between education and entrepreneurial success. A study by Lussier and Pfeifer (2001:235) showed that successful entrepreneurs were significantly more educated than less successful ones. Urban *et al.* (2008:58) further found that 69% of the successful entrepreneurs in their study had experience from previous employment in supply chains, customer networks, competitive knowledge, market knowledge and product/process knowledge. For this reason, the entrepreneur's previous experience can be interpreted as providing unique knowledge and may represent a real asset to the firm.

Bantel and Jackson (1989) and Murray (1989) cited in Chowdhury (2005:731) have found that teams with diverse cognitive capabilities in terms of skills, knowledge, abilities and perspective made more innovative and higher quality decisions compared to those with fewer cognitive capabilities. Demographic diversity in terms of age, gender, etc. is not necessary to achieve this attribute.

Baron and Markman (2003:42) found that the social competence of business owners – their effectiveness in interacting with others – plays an important role in the success of their businesses. Four different aspects were assessed: social perception (accuracy in perceiving others), impression management

(the ability to induce favourable reactions in others), social adaptability (the ability to adapt to a wide range of social situations) and expressiveness (the ability to express emotions and feelings in an appropriate manner). In contrast with personality characteristics, social competence skills are open to modification and enhancement. Therefore, entrepreneurs can be trained in these skills to assist them in their efforts to exploit opportunities and establish successful ventures.

In a study among start-ups at incubators, Caliendo and Kritikos (2008:210) found that it is possible to compensate for deficits in entrepreneurial knowledge within a short period of time through training. They also found that it is highly probable for persons with high levels of entrepreneurial knowledge to stop entrepreneurial activities and to return to an employed position.

5.3.1.3 Attitudes and Behaviours

According to Timmons (1999:219), the success of businesses is not only about the characteristics of entrepreneurs but about what they do. He contends that there are 'themes' which have emerged from what successful entrepreneurs do and how they perform. Although he acknowledges that there are more than one set of attitudes and behaviours that every entrepreneur must have for every business opportunity, the following emerged as the dominant themes:

- **Commitment and Determination**

With commitment and determination the entrepreneur can overcome incredible obstacles and compensate for other weaknesses (Timmons,1999:220). Entrepreneurs live under huge, constant pressure – to survive start-up, to stay in business and then to grow. A new business demands of the entrepreneur top priority in terms of time, emotions and loyalty. They are disciplined, determined and tireless in solving problems and performing other tasks. They are not intimidated by difficult situations. However, they are not foolhardy or aimless in solving these problems or obstacles that can

hamper their business. If these are insoluble, the entrepreneur will actually give up sooner than others. They are realistic in recognising what they can and cannot do and where they can obtain help to solve the problem.

- **Leadership**

Successful entrepreneurs are experienced, have good general management skills and have a proven track record (Timmons, 1999:221). They are self-starters and have an internal locus of control. They are patient leaders, capable of implementing achievable visions and managing for the longer haul. They have the capacity to influence without formal power. They are skilled in conflict resolution. They know when to use logic and when to persuade. They know when to concede or not. They maintain good relations with different stakeholders, customers, suppliers, financiers, creditors and partners.

Successful entrepreneurs have the ability of making heroes out of the people they attract to the business by giving them responsibility and sharing credit for accomplishments (Timmons,1999:222).

- **Opportunity Obsession**

Successful entrepreneurs are oriented to the goal of pursuing and executing an opportunity for accumulating resources (Timmons,1999:223). This obsession guides them in the way they deal with important issues. They know their industry, customers and competition very well.

- **Tolerance of Risk, Ambiguity and Uncertainty**

Risk, ambiguity and uncertainty are a given in running a small business. Successful entrepreneurs can tolerate this (Timmons,1999:223). They manage inconsistencies and

contradictions. They risk money and reputation but take calculated risks. They induce others (partners, creditors, suppliers and customers) to share inherent financial and business risks with them. They tolerate ambiguity and uncertainty and are comfortable with conflict.

For entrepreneurs, revenue is no certainty. Lack of organisation, structure and order is normal. Continuous changes, new customers and new co-workers create uncertainty and stress.

- **Creativity, Self-reliance and Ability to Adapt**

New businesses bring with them high levels of uncertainty and require high levels of adaptability (Timmons,1999:224). The business must be able to respond quickly and effectively to change.

Successful entrepreneurs believe that their accomplishments and setbacks are within their own control and influence and that they can determine the outcome (Timmons,1999:224). They actively seek and take initiative. They willingly put themselves in situations where they are personally responsible for the success or failure of the business. They like situations where their impact on problems can be measured. They are resilient and have an unquenchable desire to know how well they are performing. For this reason they actively seek feedback. They use this feedback to learn from mistakes and respond to the unexpected. Therefore they are good listeners and fast learners. They are able to use experiences at failures as learning experiences.

- **Motivation to Excel**

According to Timmons (1999:224), successful entrepreneurs are self-starters who seem to be driven internally by a strong desire to compete against their own self-imposed standards and to pursue and

attain challenging goals. However, they have a low need for status and power and derive personal motivation from the challenge and excitement of starting and building businesses. Ironically, power and status are often a result of their activities.

Successful entrepreneurs set high personal goals for themselves (Timmons,1999:224). They also set high standards of integrity and reliability. They do what they say they are going to do. They believe in themselves and know their own strengths and weaknesses. This often results in two other traits – perspective and a sense of humour.

5.3.1.4 Group Dynamics

Group dynamics are particularly important in the context of this study on co-operatives.

Throughout the history of organisational research, researchers have endeavoured to identify the factors and processes that give rise to improved group performance (Beal *et al.*, 2003:989). The theory is that social and motivational forces create a bond (cohesion) among the members of a group and that the productivity of the group will increase as cohesion increases. In their research, Beal *et al.* (2003:998) found that where efficiency is an important goal in a task, cohesive groups will perform better. They also perform better when performance is conceptualised as behaviour and not as an outcome.

Harper (2008:617) broadly defines an entrepreneurial team as “a group of entrepreneurs with a common goal which can only be achieved by appropriate combinations of individual entrepreneurial actions.” He further argues that “bounded structural uncertainty” and “perceived common interest giving rise to strong interdependence” are jointly necessary for the unplanned development of entrepreneurial teams.

- **Bounded Structural Uncertainty**

When two or more entrepreneurs join forces to start a business, they cannot be certain about the outcomes (Harper,2008:618). Their expected common and individual gains from the enterprise are theoretical at most. Therefore, they may make mistakes and losses. However, the structural uncertainty must be bounded by informal social norms, property rights, contracts and other institutional factors that impose constraints upon the assortment and mixture of economic events that can take place. There must be a gap of structural uncertainty between total uncertainty and total certainty within which they can conduct their entrepreneurial activities.

- **Degree of Game Harmony**

Harper (2008:618) refers to interactive decision situations as ‘games’. He submits that the spontaneous formation of interdependent teams will depend on the harmony or conflict of interests of the individuals in the group. In a zero-sum game the gain of one player will result in an equivalent loss for another player – a situation of total disharmony of interests and a zero degree of common interests. In such a team there will be no scope for common gain or for team entrepreneurship. In such a situation there can be no team as there will be no reason for members to co-operate. In a properly functioning entrepreneurial team, members will tend spontaneously to frame the decision situation in such a way that they re-identify themselves as members of a team. This will then have a significant effect on entrepreneurial discovery, reasoning and action and the extent of co-operation in problem-solving.

- **Common Interest**

Team members might have a common interest even though they also have some conflicting interests (Harper,2012:618). If entrepreneurs have a common interest in a specific outcome, there are four possible

results that can follow which will differ in the degree to which they can separately or jointly influence the outcome:

- Common fate. Neither of them influences the outcome. They take no action regarding their common interest and they have no decision situation to face. However, whatever the outcome might be is also beyond their control;
- Each can bring about the outcome independently. There is no strategic interaction and they act without considering other parties. This case does not induce them to identify themselves as part of an entrepreneurial team;
- Only one of them can bring about the outcome. As with the above, there is no motivation for team formation;
- All of them are needed to bring about the outcome through an appropriate combination of actions. Each of them needs to act in a particular way for them to attain the desired outcome as a group.

- **Strong Interdependence**

Harper (2008:619) correctly points out that the last scenario discussed above is the type of decision situation that will result in a spontaneous formation of an entrepreneurial team. The entrepreneurs realise that they are interdependent on each other to achieve the desired outcome. The team members realise that they have 'co-power' – the power to cause the outcome through joint action. Each player perceives that only together, through an appropriate combination of actions, they can bring about the common targeted outcome.

Interdependence also brings about a lack of assurance that individualistic decision-making will deliver the desired outcome (Harper,2008:619). All members realise that they will only do well if none of them is guaranteed that the outcome may be brought about by individualistic rational decision-making.

According to Chowdhury (2005:729), an entrepreneurial team rather than a single entrepreneur seems better suited to deal with the uncertainties and volatilities associated with new ventures that require flexibility and complexity of decision-making. This is confirmed by Brush *et al.* (2001:70). Harper (2008:624) argues that there are some profit opportunities that can only be discovered and exploited if entrepreneurs combine with others in the pursuit of common goals.

Chowdbury (2005:729) cites several studies that have shown that businesses founded by entrepreneurial teams generally outperform those founded by individual entrepreneurs and that heterogeneous teams are more effective in solving complex, non-routine problems which are common in entrepreneurial firms. This is in line with the conclusion by Timmons (1999:277) that a management team can make a considerable difference in business success. He maintains that there is a strong connection between the growth potential of a new business and the quality of its management team. This is because the diversity in perception, skills, abilities and knowledge that exists in a heterogeneous team is important for solving complex and ambiguous problems (Chowdbury,2005:729). However, diversity in a team merely brings together people with different perspectives, cognitive styles, skills and abilities. It does not ensure that the team will harness all these into extensive team-level cognitive attributes. To achieve this, synergistic processes that are characterised by flexibility and open communication should be created (Chowdhury,2005:731).

Timmons (1999:279) identifies certain team philosophies and attitudes that the best entrepreneurs have and are able to identify or instil in prospective partners and team members. These are:

- **Cohesion** – members believe that they are all in this situation together and if the business wins, everybody wins. Rewards, compensation and incentive structures are based on building value and return on investment, no matter how small or big.

- **Teamwork** – Teams work together as teams, meaning efforts are made to make others' jobs easier, to make heroes out of partners and key people and to motivate people by celebrating their successes.
- **Integrity** – hard choices and trade-offs are made regarding what is good for the customer, the business and value creation, rather than being based on purely practical ethics or narrow personal needs and concerns. There is a belief in, and commitment to, the notion of getting the job done without sacrificing quality, health or personal standards.
- **Commitment for the long haul** – New businesses flourish or weaken according to the level of commitment of their teams. The team members of a successful business believe that it is a long-term commitment and that it is not a get-rich-quick drill.
- **Harvest mind-set** – Eventual capital gain is the aim, not the monthly paycheck, the location and size of the office, a certain car, etc.
- **Commitment to value creation** – Team members are committed to creating value, not only for the team but also for customers and suppliers. They are committed to make money for all the team's constituencies and other stakeholders
- **Equal inequality** – In new businesses, democracy and blind equality generally do not work. Diligent efforts should be made to determine who is responsible for which key tasks. The founder is the one who sets the ground rules and shapes the climate and culture of the business.

- **Fairness** – Rewards for key employees and stock ownership are based on contribution, performance and results over time.
- **Sharing of the harvest** – Although there is no legal or ethical obligation to do so, successful entrepreneurs extend the principle of fairness and justice to the harvest of the business.

5.3.2 Characteristics of the business

5.3.2.1 Planning

Planning is an activity the entrepreneur will only perform if the benefits thereof outweigh the costs (Chwolka and Raith,2012:385). However, Gruber (2007:783) clearly found a positive correlation between planning and business performance, even in highly dynamic environments. His research shows that in highly dynamic environments, entrepreneurs get the most out of planning when they focus on specific activities and speed up the planning process. In less dynamic environments, entrepreneurs who spent a longer time on planning performed better.

The first planning the entrepreneur/business owner will do is the development of the business plan at start-up (Chwolka and Raith,2012:385). However, throughout the life of the business, planning will continuously occur, whether it is the penetration of new markets, the introduction of new products/services, expansion into new areas or the making of other important decisions.

According to Flamholtz and Aksehirli (2000:489), the first challenge for the business owner is to identify a market need for a marketable service or product. Moreover, the owner needs to identify a market niche that will result in a competitive advantage. The extent of success in this step will enhance the business's chances of survival.

There are two distinct, but interactive functions of business planning (Chwolka and Raith,2012:385). The first deals with the development of the

business opportunity, where it aims to enhance the business's market performance in terms of survival and monetary outcome. The second deals with evaluation of the business opportunity, supporting the entrepreneur's decision on what to do next and whether he should enter the market or not.

The planning process helps the entrepreneur make better decisions. According to the Chwolka and Raith (2012:394) study, business planning, depending on the quality or the type of venture, helps to avoid poor start-ups. The authors found that business planning represents a collection of skills (396), such as opportunity analysis, business-model development, strategic marketing, financial planning, decision-making, etc., which can be taught. Training increases the quality of planning and reduces the cost thereof. To enable the entrepreneur to achieve a higher quality of planning, this should logically be taught before it is supposed to be applied. A short course or workshop, however, will not be able to teach entrepreneurs all the necessary skills. Therefore it is of greater relevance to convey the importance of having a team member with sound planning skills as part of the entrepreneurial team.

5.3.2.2 Development of products and services

The process of product development entails an analysis of the needs of customers in the target market, designing the product and developing the capacity and ability to build it (Flamholtz and Aksehirli,2000:489). For a production firm this involves the design and manufacturing phases; for a service business it involves the forming of a system for providing services to customers. This process is related to the business planning.

5.3.2.3 Strategies

Brush (2008:21) states that successful entrepreneurs have used three key strategies throughout history. These are:

- **Visioning - Developing a clear vision.**

This is about a long view, to envision where the business is going in the future and about the entrepreneur's developing a personal vision

(Brush,2008:23). Entrepreneurs with vision can inspire those around them to reach their own dreams. In the same way, organisational vision is used to inspire others to achieve success. It is an ideal to which the organisation should aspire; a mental image of the products, services and organisation the business leader intends to achieve. Vision creates enthusiasm and can have a profound impact on the early success of the business. It creates a shared purpose for the founding team, can set the initial culture, practices and policies of the organisation, can help with motivation, can influence strategy and eventually growth (Bird and Brush, 2003: cited in Brush,2008:24).

- **Bootstrapping - Managing cash creatively.**

Bootstrapping is the means of conserving financial resources and managing cash in a creative manner to start and grow a business (Brush, 2008:24). At start-up and during early growth, finding the cash to develop or sell products/services, collecting debtors' money and paying creditors and employees while trying to grow and expand a business can be a challenge.

Newly formed businesses experience more challenges in obtaining financing than existing businesses, mostly on account of:

- Inadequate or the wrong information.
- Lack of market access.
- Forces peculiar to the business itself, such as the influence of the entrepreneur on financing and capital structure.

To overcome these challenges, entrepreneurs have to manage cash creatively in order to prove their concepts and gain market acceptance (Brush,2008:24). Bootstrapping normally takes on two forms:

- Minimising the need for financing by securing resources at little or no cost.

- Creatively acquiring resources without using bank financing or equity.

Learning to bootstrap gains legitimacy for the entrepreneur with stakeholders (Freezer, Sohl and Wetzel,1991: cited in Brush,2008:24). It also allows for obtaining capital without collateral.

Brush (2008:24) states that, by using bootstrapping techniques, the entrepreneur develops knowledge, human resources and technical resources, and also fosters a “lean” mindset.

From several studies Brush (2008,24) lists four different ways of bootstrapping:

- Product Development – using customers and suppliers to finance research and development and operations.
- Business Development – using personal cash resources to become operational quickly.
- Conserving Cash – reducing inventory, paying employees in stock, doing without certain items (e.g. equipment) and deals with service providers.
- Meeting cash needs – personal loans, family and friend loans, delayed compensation for employees and using trade credit.

By utilising bootstrapping techniques, entrepreneurs can overcome the challenges innovative businesses face.

- **Social Skills - Persuading others to commit to the venture.**

Social skills are a composite of learnable behaviours individuals use in interactions with others (Brush,2008:25). Entrepreneurs depend on social skills to convince others to join and commit to their business or venture idea. Convincing is particularly needed when the idea is innovative and there is no existing business in the marketplace. Enhanced social skills are a form of social competence as discussed under 5.3.1.2.

Social skills are very important to persuade funders, regulators, employees and others to join the venture (Brush,2008:25). Research indicates that outsiders make observations and judgements about entrepreneurs' presentations within two minutes. The ability of entrepreneurs to attain funding is directly related to social adaptability, self-efficacy and emotional expressiveness. For this reason a strategy is necessary to make a good impression and to have others perceive the entrepreneur and the business in a positive way.

Venture strategy and Industry Structure have been shown to be the most significant determinants of venture creation, according to Dvir *et al.* (2010:45).

In their research, Davidsson *et al.* (2008:399) found that high profitability, low growth businesses are more likely to become high profitability, high growth firms, compared to businesses that start out from a position of high growth and low profitability. They found that firms that grow at low levels of profitability are not very likely to achieve high profitability as a result of their expansion. Therefore, attempting to grow into profitability is a dubious strategy. Businesses do not generally achieve high profitability merely as a result of growth. Before going for growth, businesses need to develop some kind of competitive advantage based on the identification and successful exploitation of the uniqueness of their resource bundles. High profitability is indicative of such an advantage. High profitability makes it easier for businesses subsequently to achieve sound and sustainable growth without having to sacrifice profitability.

5.3.2.4 Management for growth

Brush *et al.* (2009:484) identify management as one of the main factors influencing business growth. Business owners vary in their business objectives and specifically in their growth aspirations. Some business owners want to grow their businesses at a rate they deem appropriate, e.g. with relation to sustainability. Brush *et al.* (2009:484) quote several studies

that shows that the vast majority of business owners prefer to remain small. Those who wish to grow seek moderate rather than rapid growth. Growth aspirations are subject to adaptation over time as owners' experiences of ownership, the market, competition and other considerations shape the business's goals.

When business owners did achieve growth as planned, it was due to quality of human resources, consciously managing the rate of growth and carefully managing customer relations (Brush *et al.*,2009:484). Planned growth should not be seen as risk aversion but rather as a way of managing risk with long-term growth being the aim.

5.3.2.5 Finance

All businesses require financial resources to reach customers and grow (Brush *et al.*,2009:485). Lack of access to finance can seriously hamper business growth. Start-ups can be financed through own capital, funds from family and friends, banks, venture capitalists and private equity firms. Established businesses have the option to finance growth using retained profits.

Brush *et al.* (2009:486) found financing to be an important but not significant constraint on business growth.

However, Cunningham (1998) cited in Simpson *et al.* (2004:484) found that cash flow problems are responsible for the failure of six out of ten SMMEs.

5.3.2.6 Acquiring resources

Contracting an initial resource database is a challenge to any entrepreneur (Brush *et al.*,2001:64). As an emerging business will lack an administrative history, have no loyal customer base, cannot point to its reputation for performance and have no shared experience, strategic resource decisions will be based on judgements using only current information. Each resource choice has significant implications for survival and growth.

Brush *et al.* (2001:75) state that it is necessary to have industry knowledge, assessment of social contacts and an accurate presentation of a realistic business model to identify resource suppliers and providers. There are two ways of approaching this issue. Firstly, the entrepreneur can develop a business model in which the core resource components can be shown as inputs to the activities and functions of the business. Then potential sources of these basic resources can be identified. The second option is for the entrepreneur to create a vision of the future of the organisation and trace backwards how this vision may be achieved. The idea is to determine what kind of business to create and then work backwards to identify the strategic assets, competencies, capabilities and resources needed. Again, social skills will come into play during efforts to attract potential resource partners. This way of determining future needs is supported by Flamholtz and Aksehirli (2000:490) who state that the entrepreneur should consider the long-term vitality of the business and procure those resources necessary to survive the pressure of current and future increases in demand.

5.3.2.7 Development of Operational Systems

The development of basic day-to-day operational systems includes systems for accounting, billing, collection, advertising, personnel recruiting and training, sales, production, delivery and other related systems (Flamholtz and Aksehirli,2000:490). Because entrepreneurial businesses tend to outgrow their administrative systems fairly quickly, it is necessary to develop sufficient operational systems on time to build a successful organisation. Care should, however, be taken not to develop overly complicated operational systems that may require reengineering.

5.3.2.8 Development of Management Systems

Management systems include systems for (Flamholtz and Aksehirli,2000:490):

- **Planning**

Planning systems include planning for the overall development of the business and the development of scheduling and budgeting operations. It entails strategic planning, operational planning and contingency planning.

- **Organisation**

Organisational structure involves the ways in which people are organised and activities are coordinated. Success depends on the match between the structure and business strategy.

- **Management Development**

This refers to the development of people who are needed to run the business as it grows;

- **Control**

The control system is a set of processes and mechanisms that are developed to help the business to achieve its objectives. It includes budgeting, goal setting and performance appraisals.

5.3.3 The Business Infrastructure

Networking or 'to network' means the action by which an owner/manager of a business develops and maintains contacts for trading and business development purposes (Chell and Baines,2000:196). Networking includes normal business trading practices, but also entails social processes over and above those normal economic trading relationships.

Paige and Littrell (2002:316) quote several research studies that have been conducted to show that networking is a mechanism for small businesses to overcome disadvantages because of small-scale operations, to reduce uncertainty and to thrive under conditions of increased competition. They submit that information and inter-organisational exchange networks hold great value to small business owners by offering a supportive environment for the mutual gathering of

information about the market to enhance their position, for achieving a competitive advantage, for gaining access to valuable resources at below-market prices, for lowering costs, for increasing efficiency and for the sharing of risk. Making use of relationships with other organisations provides opportunities for entrepreneurs to build credibility and a positive image as well as to obtain access to new channels and customers.

In their study, Chell and Baines (2000:201) found that business owners use customers as their primary source of useful business information. They also use other business owners. The owners would seek what they consider to be reliable channels and sources of information as part of their networking. Organisations that form part of the normal networking include Chambers of Commerce, Professional and Trade Associations. They found that 40% of the businesses studied were active in some sort of networking that was either business-related or a combination of business and social activities. The conclusion was that these business owners recognised a need to draw upon the expertise, practical support and friendship of people outside their business. They found that the owners of higher performing, expanding and growing businesses were more active in networking and that there was a close link between business performance and networking. These business owners were resourceful in using all sorts of people they encountered to fight the ambiguity of their environment, expending time, skill and energy to co-ordinate varied sources of support. The owners were constantly open to ideas about how to make and use new contacts (Chell and Baines,2000:207). The results were applicable to 'weak ties' - contacts that were not part of the business owners' circle of friends and families – as they brought new resources into the business, assisting it to develop.

5.3.4 The Business Customers

Muske (2011:1) states that the greatest rewards for small businesses come when they have solid distribution channels and if they can stay ahead of competitors due to one or more competitive advantages. A strong company brand and strong individual products and services will prove helpful.

5.3.4.1 The Market

- **Market Development**

Business owners aiming for high sales growth need to pay particular attention to the following issues, as they need to increase levels of demand from new and existing customers (Brush *et al.*,2009:484):

- Finding customers
- Communicating product features
- Attractively pricing products and services
- Establishing effective distribution channels
- Implementing sales and marketing efforts to win and retain clients
- Undertaking continued product development to sustain sales.

- **Geographical Diversification**

Businesses seeking growth often aim to achieve this by entering new geographical markets (Brush *et al.*,2009:485). If the national client base has been exhausted or is too difficult to enter, exporting might be the only option. Geographical expansion will, however, make a marked difference to distribution (and distribution costs).

From the above discussion on the success factors in relation with small businesses, it becomes evident that numerous factors contribute to the success of small businesses. Although not all researchers agree on the importance of individual factors, there is consensus that these factors play a significant role in the success of small enterprises.

Firstly, the founders of the business should show certain characteristics. These include both personality traits and background characteristics. Although all the members in a co-operative might not have these characteristics as individuals, it is important that the team as a whole has individuals with the necessary characteristics and background.

The individuals in a co-operative must form a team to be successful. Therefore, all the factors discussed under “Group Dynamics” will apply to co-operative teams. These include factors like cohesion, common interest, interdependence, integrity and fairness.

Secondly, in terms of business characteristics, the following are just as important for co-operatives as they are for small businesses:

- Planning.
- Development of products and services in accordance with customer needs.
- Strategic Management, including development of a vision to inspire co-workers and employees, bootstrapping, utilising social skills to convince others to commit to the business and the profitability of the business.
- Managing the growth rate of the enterprise.
- Finance and Cash Flow management.
- Acquiring resources according to the business's strategies.
- Development of Operational Systems for the day-to-day running of the business.
- Development of Management Systems (for planning, organisation, management development and control).

Thirdly, in terms of business infrastructure, the importance of networking abilities of both the owner/s and employees cannot be overemphasised. It is a tool for small businesses to overcome disadvantages. Networking includes developing and maintaining contact with customers, suppliers and industry organisations.

Fourthly, with regard to the business customers part of the framework, it includes developing competitive advantages, building solid distribution channels, market development to build and sustain sales and geographical diversification to enable growth.

5.4 Success factors with relation to co-operatives

The discussion under 5.3 discussed the success factors that need attention for the success of small businesses. Over and above the factors discussed above, there are certain success factors that are distinctive to co-operatives on account of the unique structures of this form of entity.

5.4.1 The ideal circumstances for the formation of successful Co-operatives

From the discussion under 5.3 follows the submission that an ideal co-operative is one that operates as a business. A business's aim is to increase the wealth of its

owners and grow. Therefore, co-operatives, as businesses, must be sustainable, profitable and not be dependent on grants. There is, however, no ideal co-operative, but rather ideal circumstances for the formation of co-operatives.

According to Van der Walt (2006:4), it is imperative that the co-operative be started through the initiative of the members themselves, that membership is voluntary and that the members manage the venture. This is supported by Harms (2012:5) who states that government structures should not endeavour to start co-operatives but leave it to members to do so.

Brazda and Schediwy (2001:37) states that the ideal situation for the formation of a co-operative is where twenty to fifty people can achieve success in the purchase (and re-selling) or production of goods or services, by working together with little capital and preferably specialised knowledge. The authors contend that attaining economies of scale at an early stage in the formation phase is essential for the success of co-operatives. The immediate advantage to be gained may be quantitative and/or qualitative in nature.

Satgar (2008:6) is of the opinion that the number of co-operatives is mushrooming for the wrong reasons and that stricter standards for registration are required. He recommends that prospective co-operative members are subjected to an educational workshop. A basic feasibility study should be conducted and a business plan should be formulated before registration.

Successful co-operatives are founded on a commonly felt need with a common bond and motivation. They tend to be largely self-sustaining and, as a result, do not attract undue attention from government officials (Theron,2005:216). These co-operatives tend to prove themselves viable over long periods of time.

Theron (2005:219) by implication submits that small co-operatives need good infrastructure, access to good market information, the ability to recruit professional management staff and little government interference in the management of the co-operative to realize fully the potential of the co-operative form of business.

Brazda and Schediwy (2001:39) contend that evidence suggests that the most successful mature co-operatives in terms of survival and growth rate are the ones based on broad (ethnic, class or religious) group solidarity, that are often managed by charismatic authoritarian social entrepreneurs and with high interest by members because of relatively large member shareholdings.

In summary, it may be said that feasibility, good infrastructure, management and technical knowledge are important for starting a co-operative, as in conventional businesses. There should also be group cohesion and a common goal to bring members together.

Ideally, a worker co-operative should have members with complementary skills, some might have leadership skills, others business skills and technical skills. Furthermore, there should also be members that are entrepreneurial.

5.4.2 Internal Relationships

Fairbairn (2002:123) highlights the importance of social relationships among members, including the interconnections, sense of common identity and mechanisms of participation and interaction. This is in line with the discussion of 'Group Dynamics' under 5.3.1.4. Fostering this association of members is fundamental and an essential part of how co-operatives work (Fairbairn,2002:123). Association is an important part of the economic functioning of the co-operative. A sense of identity binds the members to the co-operative and member active participation assists in ensuring that the co-operatives resources are utilized in such a manner that the best practical relationship between the co-operative's services and the members' needs exist. Member education, participation, feedback, discussion and representation are sources of loyalty and trust, create a site for innovation and mechanisms to ensure a close business relationship between the co-operative and its members.

In a laboratory study, Camera *et al.* (2013:1) found that it is difficult to build trust and co-operation amongst strangers. Additionally, the authors (2013:8) found that

co-operation levels declined when the size of the group increased. Co-operation levels among strangers fell from 70.7% in groups of two to 28.5% in groups of 32. The researchers submit (2013:10) that monitoring others is a key requirement to co-operation. They believe that in real life circumstances it becomes more difficult to observe the actions of others in the case of larger groups. Moreover, they contend that frequency of interaction and coordination play a role in the co-operation levels of larger groups.

Working in a co-operative environment, a democratic consciousness, a spirit of collectivism and an 'occupational community' are formed and result in a powerful socializing and/or educational effect on members (Baldacchino,1990:471).

Jones and Kalmi (2009:190) found in their study that the number of co-operatives is more significant in societies where interpersonal trust is evident. They argue that co-operatives sometimes have an advantage over conventional firms in markets that require high levels of trust, such as financial institutions serving low-income populations (Jones and Kalmi, 2009:170). Another aspect why trust is important is the fact that co-operatives rely more on relationships between members than on formal contracts. This requirement of interpersonal relationships might influence the growth of co-operatives negatively.

Fergus (2006:34) also concludes that trust and control are important preconditions for co-operation. Trust ensures that everybody concerned plays by mutually accepted rules. Control can be used to enforce rules and sanction those who violate them, ensuring that members or employees act according to expectations. Trust is present where members have confidence in each other, even though the risk of acting opportunistically always exists. The Fergus research found that trust was present in all the co-operatives studied, but all the members were consciously assessing the risk of other parties working against them and the risk involved to them if that should happen. To have this type of trust required members to know each other's reputations and the obligations of each member to the group. An element of sanction was also present. The study (Fergus,2006:40) also found that

members in the co-operatives where trust was present knew each other well before they formed the group, sharing a common culture with a set of shared normative beliefs. Building trust in working relationships may be attained by members supporting each other outside of work and becoming friends.

Fergus (2006:41) moreover found that many groups form and collapse before they can build the trust that is required in a venture which demands a high degree of co-operation. Successful groups were found to start activities that minimized misunderstanding and confrontations. The most common source of conflict was found to be the use of the group's financial resources.

Trust can be enhanced by leaders who are trusted by all members, either by reputation or by building trusting relationships with the members of the co-operative over time (Fergus,2006:42). Such leaders were also found to enhance trust by settling disputes decisively and quickly.

Transparency was found to be an important element in building working relationships (Fergus,2006:42). The observation that others are co-operating and not cheating formed an important part in the organization of groups. In some instances, transparency was formalized as part of the management of the co-operative. Formalized rules to ensure transparency included regular meetings and auditing. Transparency was enhanced by informal activities, such as by allowing members to watch activities taking place. Some groups expected from each other that all financial transactions take place in the presence of other people.

Co-operation is also dependent on incentives and the threat of sanctions (Fergus,2006:43). Co-operation is a combination of trust and the power of sanctions. Sanctions can range from explicit coercion and threats to more subtle ways that influence members' perceptions and acceptance of different courses of action. The threat of expulsion was more influential on poorer members of groups as they had fewer livelihood strategies to rely on.

The larger the groups studied were, the harder it was to build trusting relationships and the more important coercion tactics became to ensure co-operation (Fergus, 2006:44). The larger groups had a more hierarchical organizational structure and were less transparent in dealings.

Peer pressure can play an important role in exerting power and authority in co-operatives (Fergus,2006:46). Shame is the most common form of peer pressure, where those who broke the rules are ridiculed or the person's position in the community is undermined.

Harms (2012:3) is of the opinion that the extent of member commitment will be dependent on the degree of influence of the co-operative on the daily lives of members. If the co-operative fails to deliver what members want and need, its continued existence will be in jeopardy. (See the discussion on "common interest" and "strong interdependence" under 5.3.1.4)

Similarly, Brazda and Schediwy (2001:38) in their study found that co-operative members will appreciate the organization as long as it offers advantageous services (both quantitative and qualitative), but as soon as it falls behind market competitors, member loyalty will dwindle. They found that member loyalty quickly evaporates when there is a reduction in the co-operative's efficiency, particularly when the financial involvement (e.g. share ownership) of members is low. Relatively large member financial involvement in the co-operative appears to be among the most important aspects in keeping member loyalty. Sizable advantages for members will only be attained after the initial formation phase. After this period paid personnel has to be employed.

From the discussion above, it is clear that trust, transparency and a system of sanctions have a significant role to play in the success of all co-operatives, including worker co-operatives. For this to happen, members must either know each other personally or by reputation at start-up. With the right group of members, trust will be further embedded over time. Transparency, control and

sanctions will have to be built into the management processes and become part of the culture of the co-operative.

5.4.3 Skills and Training

According to Satgar and Williams (2008:126), on-going education and training and capacity building, addressing the core activities of co-operatives, business management and the role of members at all levels are pre-conditions for co-operative success. This is very important for members to be able to be part of the decision-making process and play a decisive role in the management of the co-operative.

Cornforth *et al.* (1988:90) found that worker co-operatives depend heavily on the skills and commitment of their workers. In a sense, the commitment of workers gives worker co-operatives an advantage over conventional businesses. They found no drawbacks such as confused lines of authority, ill-discipline shirking or freeloading during their studies.

According to Philip (2003:21), limited internal skills affect the viability of co-operatives. Technical support to overcome these challenges is often neither available, nor sustainable and the co-operative will stay caught up in local markets with little potential. This is in line with the discussion on the founder's background under 5.3.1.2.

In a study of a sewing worker co-operative in El Salvador, which was characterized by low education levels, Neu and Quantanilla (2008:709) studied the management education needs within the co-operative and found that education regarding the following disciplines is necessary:

- Ethics: Behaviour towards each other and other members in the value chain, including honesty, transparency and acceptable workplace practices.
- Administrative knowledge: Knowing how co-operatives should operate and the applicable legislation and requirements.

- **Workplace Technical Skills:** In the study the co-operators had among others challenges with pattern making and needed training in this regard (This is in correlation with 5.3.1.2 where the importance of previous experience and its effect on viability is discussed).
- Business skills such as purchasing decisions that may affect the quality of finished products, quality control from the selection of raw material to packaging, business administration, marketing and practical business knowledge.

Neu and Quantamilla (2008:714) found that this education needs not be classroom-based, but that certain skills, because of the situation within worker co-operatives, can be acquired through the involvement of other parties in the value chain and assisting the co-operative to solve management problems on its own.

From previous chapters it is evident that skills, particularly technical skills, are a major challenge in South African worker co-operatives. Many worker co-operatives are started without the right set of internal technical and business management skills, seriously inhibiting their chances of survival or of being able to operate independently.

5.4.4 Financial, Management and Leadership Issues

Satgar (1999:4) states that internal capital formation is important in the development potential of primary co-operatives. This happens when co-operatives are able to pool capital from member fees, share purchases, surpluses or borrowed member surpluses together to make them independent from external sources of funding. This does not diminish the importance of co-operative banks and other funding institutions for start-up and venture capital, technical support and business advice. Locally based asset formation and control is equally important. When the co-operative grows it should be able to invest capital in equipment, land and other assets without external assistance, resulting in member control over assets.

This supports the findings of Theron (2005:216) quoted earlier, that co-operatives should be self-sustaining.

Easy access to capital and material resources reduce the motivation of members to commit their own resources (Harms,2012:3). The expectation that further capital and material and capital injections will be forthcoming may be a further demotivating factor. It establishes a dependency which is counter-productive to the development and sustainable operation of the co-operative. (See the discussion on bootstrapping under 5.3.2.3). Furthermore, external assistance is often arranged primarily by the donor organization and management, without proper consultation with members, which is not in line with the co-operative principles.

Furthermore, Camera *et al.* (2013:11), in their study on co-operation and trust among strangers, found that money increases the sense of self-sufficiency in individuals and their disposition towards others, negatively influencing the individual's motivation to help others in the group.

For a co-operative to establish itself economically, it must survive the initial phase in which its survival is determined by the enthusiasm and, sometimes, self-exploitation of the founders (Brazda and Schediwy, 2001:39). Sizable advantages for members can only be attained after this initial phase. (See "Commitment and Determination" under 5.3.1.3).

Effective management and ensuring effective management performance are crucial to the success of co-operatives (Satgar and Williams,2008:128), as is the case in any business (See 5.3.2.7 and 5.3.2.8).

Brazda and Schediwy (2001:39) found that the most important factor for the survival of 'mature' co-operatives is the continuation of an effective, yet co-operatively minded, management, particularly after the original charismatic leaders, motivated by the idealism of the foundation phase, retire.

Brazda and Schediwy (2001:40) further suggest that the importance of member democracy is often exaggerated in studies on co-operatives. They submit that able and efficient leadership, even in the founding phase, is more decisive for survival. Though these leaders are able to perform their tasks in an atmosphere of trust and democratic consensus, it is their input, not democratic principles that makes the co-operative function. In the same way, struggling co-operatives are often rescued by

new trusted, energetic leadership; not by member democracy. (See “Leadership” under 5.3.1.3).

Theron (2005:218) states that co-operatives must reflect and respond to members’ needs to be successful. The co-operative operations should correspond with the abilities of the members in terms of management, control and finance.

According to Chibanda *et al.* (2009:297) good governance is important for economic growth. In their study they include decision-making processes and the capacity to implement decisions in measurements of governance. This in turn includes transparency, accountability and participation.

Satgar and Williams (2008:129) confirm this assertion, stating that building governance capacity in boards is imperative and can normally be attained with on-going training. For the board to perform effectively and be accountable, there is a need for a manual, a clear vision statement and a clear policy framework.

Satgar and Williams (2008:126) submit that successful co-operatives are structured to find the balance between ensuring democratic decision-making and the effectiveness of decision-making. Co-operatives which do not place member needs at the centre of their activities ultimately fail or lose their co-operative identity.

From the above, it may be deduced that, although independent external funding might be important at start-up for a co-operative, internal capital formation, particularly through member contributions and the re-investment of surpluses is just as important to ensure that co-operatives become self-sustaining.

Leadership and management skills and effective management are likewise imperative. Part of this will be good governance, including transparency, accountability and participation of members in decision-making processes.

5.4.5 External Environment and Enabling Support Structures

Satgar (2007:7) states that the line between enabling support from government and autonomously developed co-operatives has to be monitored constantly so that co-

operatives are not caught up in state bureaucracy and do not become too dependent on State support.

According to Brazda and Schediwy (2001:36), there are certain societal preconditions for the success of co-operatives. Co-operatives are mobilized from the ground. 'Top-down' approaches to co-operative formation usually fail as they do not bring about real co-operatives, but rather 'lifeless pseudo co-operatives'. However, policies that favour co-operatives can sometimes motivate successful movements from the bottom. Successful bottom-up mobilization requires a minimum of guaranteed civil liberties. Periods of societal change, in which larger segments of society experience a reduction in their relative economic and social position, appear to favour co-operative formation when these groups want to reaffirm their position. Successful co-operative formation tends to happen in periods of 'group antagonisms'. These antagonisms, e.g. economic downturns, increase group cohesion. In contrast, periods of economic affluence and reduced societal tensions lead to more individualistic approaches and a reduction in the 'co-operative spirit'. Excessive group cohesion and political motivation can also be detrimental to co-operative survival. For instance, striking workers or mainly political motives in the administration of funds can cause the financial demise of co-operatives. Conditions of imperfect competition and monopolistic business practices favour co-operative formation.

Successful co-operatives in Africa have engaged in constructive collaboration and partnerships with external actors (Theron,2005:370). However, according to Theron, such partnerships can only have a positive impact on co-operative development if the members of the co-operative are involved in the decision-making process on what kind of support they need before it is provided. Such support enables co-operatives to compete effectively with private businesses that are financially strong.

The studies of Satgar and Williams (2008:126) show that none of the successful co-operatives they studied were controlled by an external party. All control their own decisions and all progress through personal initiative and effort.

In a study of worker co-operative failures in Greenland, Winther and Duhaime (2002:38) found that co-operatives need supporting financial, administrative and consultative structures that will protect them against market forces created for capitalist forms of business. For financial support it is important that alternatives to the formal banking sectors are established. The writers suggest that initial funding may be based on private savings and investments, trade unions, pension funds and wage earners funds. They mention the alternative of a 'quasi-capital' market based on bonds rather than on selling shares on the stock market. These bonds would not give investors the same power as stock would.

Baldacchino (1990:470) concluded that in cases where worker co-operatives were successful, this was partly because they were supported in terms of institutionalization and cultural framework. In these circumstances formal worker co-operation became a normal, legitimate undertaking and was not seen as an alien concept. Where legislation, education, banking systems, research laboratories, public service entities, consultancy and accounting firms are all geared to support conventional business enterprises, they will not be able to provide support and assistance to worker co-operatives in the same manner. Therefore, according to Baldacchino (1990:471), there is a case to form alternative structures that will be able to support worker co-operatives.

Taking into account the lack of management skills in many co-operatives, sustained technical support, in terms of the design and operationalisation of systems for procurement, production, record-keeping, invoicing, sales, distribution and other management functions, are necessary (Philip,2003:23).

Harms (2012:3) contends that the sustainable operation and growth of a co-operative is an organic process which requires a balance between tasks and resources and the gradual gaining of experience by both management and members.

Harms (2012:3) submits that the best form of assistance to co-operatives comes in the form of supporting activities and institutions beyond the reach of individual co-operatives, which will contribute to the development of their human resources, managerial capacity and business opportunities. These supporting activities will

include training, information contacts, advice and guidance, consulting and auditing services. The external assistance must not work against the principles of self-help, self-financing, self-administration and self-control and must therefore be based on mutual dialogue, exchange of experiences, identification of needs, priorities and available resources.

Harms (2012:5) identifies the following challenges in co-operative development initiatives that need to be addressed:

- The lack of co-ordination between government departments
- The lack of a projects database at local municipalities
- The lack of entrepreneurial capacity in the Public Sector
- The fact that no feasibility studies are done on projects
- The lack of business management capacity in projects
- Non-compliance with statutory requirements
- Low literacy levels at project level
- The lack of sustainability and self-reliance at project level
- The lack of after-care, coaching and mentoring.

Harms (2012:5) states that government structures should not intervene in internal co-operative affairs, such as the formulation of objectives and activities and decisions about the utilization of surpluses. The election of co-operative leaders and other decision-making processes should be left to the co-operative members themselves. They should not endeavour to start co-operatives, but leave it to members to do so. No direct subsidies should be provided to co-operatives, as these will prevent co-operatives from generating their own resources and compromise the self-help nature of these entities. Instead, funds should be utilized to assist co-operatives to build internal capacity. It will be more sustainable and efficient to utilize funds for qualified service providers to provide quality co-operative training, consulting, advice, extension services, market information and other services. The emphasis should thus be on utilizing funds for indirect financial and technical assistance, whereby co-operatives will be taught to generate their own income.

Co-operative autonomy should not be undermined and the different roles of government structures should be clarified (Harms,2012:6). Once co-operative institutions are fully functional and built from the bottom to the top to represent co-operatives at all levels, functions should be taken over by the co-operative movement itself. International experience has shown that a co-operative movement cannot be established from top to bottom and the Co-operatives Act states that secondary and tertiary structures should be created by co-operatives from the bottom.

It is not appropriate for government structures to plan the co-operative development process to be deterministic with strict procedures (Harms,2012:7). The co-operative movement should be built by utilizing motivated, experienced and capable promoters, who will act as the innovators and facilitators of the development process. Their task is to facilitate the co-operatives capacity to organize and manage their activities. These promoters must work with members, building their confidence and promoting self-reliance. External assistance must be kept to a minimum and should be directed at general, indirect and long-term support for co-operative structures as a whole.

From the above it is evident that co-operatives need to build relationships with external actors in their industries and operating environment. However, co-operative autonomy should be protected and members should be part of the decision-making processes. Members should also have a say in the support that is to be provided to their co-operative. Rather than blindly funding co-operatives, supporting organizations should rather support co-operatives in terms of development, particularly technical support, management capabilities, financial literacy and the development of human resources. These development organizations should not meddle in internal co-operative affairs.

5.4.6 Co-operative Networks

Success requires local and international networking among co-operatives to provide supplementary support (Theron,2005:370). Satgar and Williams (2008:126) found

that co-operation between co-operatives was imperative for co-operatives to be successful.

The co-operative movement is key to the success of individual co-operatives (Winther and Duhaime,2002:39) as well as the involvement of key individuals within the movement.

Structure in the co-operative movement, with educational bodies, apex organizations and secondary co-operatives, is needed to build the relationships that are necessary for capacity building (Satgar and Williams, 2008:128).

Co-operative movement networks allow for the demand and supply side of economic activity to be organized by co-operatives among themselves (Satgar, 1999:4).

By the establishment of a network of similar co-operatives, better member benefits can be created and the spirit of belonging to a 'movement' enhanced (Brazda and Schediwy, 2001:39). However, networking can often result in mergers which in their turn can result in bureaucratic growth, leading to an increased distance between management and members. Co-operative networks that succeed in establishing growth while harnessing the community spirit of small co-operatives, do exceptionally well.

This is in line with the normal business requirements of networking as discussed under 5.3.3.1.

5.4.7 Other factors

There are many factors identified by researchers that cannot be categorized under headings such as the foregoing. This might have something to do with the approach each researcher used, the characteristics of the co-operatives studied, the industry in which the studied co-operatives operated or the angle of research.

However, there are certain factors identified by various researchers which need to be mentioned for the sake of comprehensiveness, because they confirm the validity of the co-operative principles and/or they illustrate the complexity of the

environment in which co-operatives operate. The following is a summary of these findings:

From discussion in earlier chapters, challenges with regard to free-riders became evident. For this reason Philip (2003:22) concludes that a division of labour and differentiated pay rates are conditional for a successful long-term business strategy in worker co-operatives. (See “Equal Inequality” under 5.3.1.4)

Co-operatives have to start with inherent principles and values. This contributes to orientation, character and advantage (Satgar and Williams,2008:126).

In addition to the common conditions mentioned earlier, Satgar and Williams (2008:128) found the following in all the successful co-operatives studied:

- Co-operatives must constantly innovate, re-thinking and re-defining their place within their environment.
- Learning by doing and by making mistakes is crucial for the development of the co-operative and for building experience and confidence in members.
- Developing problem-solving capacity and building support relationships that can best assist once problem-solving is achieved by obtaining advice, technical support and strategic input from management, member training, ensuring effective information flow at all levels and sourcing advice and technical support from outside sources, such as technical experts, other co-operatives, mentors, co-operative organizations, etc..
- All the successful co-operatives researched have utilized information and communication technology to innovate, modernize, build capacity and render them capable to respond effectively to member needs. These co-operatives utilize websites, e-newsletters, bar-coded stock control systems, ATMs, online banking and computer controlled systems in their operations.

- The successful co-operatives had an awareness that they could link their members to alternative markets. They can provide the opportunity for fair prices, equitable production standards and ecological practices. They can also provide global links between co-operatives (See discussion under 5.3.4).
- The co-operatives were aware that they play a role in eradicating poverty, inequality and unemployment and can bring opportunities and enhance the resource base of the communities they operate in. (Again to achieve this worker co-operatives have to be financially successful).
- There was an awareness in the co-operatives that, through co-operation, they can work together in commodity markets to overcome power dynamics that work against them and that, by building an alternative co-operative economy, they can control markets, market segments and economic sectors. (Again, in worker co-operatives, financially strong and stable businesses are necessary to achieve this.)

Fields (2008:85-90) found that many of the ‘Empresas Recuperades’ in Argentina did not achieve financial independence. This study identified certain correlations determining success:

- Those in the industrial sector were most likely to struggle, because of the large capital investments necessary to operate successfully. Co-operatives in the local-service sector and those in less capital-intensive industries were more likely to survive.
- There was a strong correlation between production model and success.
- Political situation affected the financial welfare of the co-operatives.
- There was a suggestion that there was a positive relationship between worker productivity and equity provided.

- The study found that a strong, efficient organizational structure is critical for co-operative survival and growth.
- The efficiencies within the co-operative derived from the belief that the welfare of the co-operative depended on the private welfare of each individual worker and a sense of solidarity. The efficiencies of the co-operative may decline in time if the bonds among workers weaken.

According to Develtere *et al.* (2008:IX), the World Bank acknowledged the developmental potential of co-operatives, provided that they are restructured, disentangled from the state and adhere to business principles prevalent in a market economy.

The Theron Study (2005:61) found the following characteristics for feasible co-operatives:

- Co-operatives are associations – locally embedded, voluntary. Members have a group identity and participate in the associative life of the co-operative. Frequent contact between members, management and directors are essential for enhancing trust and loyalty.
- Independent leaders with a talent for professional organization, business economics and a good rapport with members are prerequisites for successful co-operatives.
- An explicit mission statement and a clear vision regarding the role of the organization, its challenges and its strategies (See 5.3.2.3).
- Result orientation and creativity in finding solutions to daily challenges (See the discussion on personality traits of the entrepreneur under 5.3.1.1).
- Co-operatives are businesses – Successful co-operatives produce significant financial and economic benefits for members. Even started with capital from

external sources, these co-operatives gradually generated own capital through business dealings and by means of shares, loans and savings by members.

- Governance nexus (Theron,2005:87) – Viable co-operatives find governance procedures that harness the differences between the associative and business forces at play in the co-operative. They find ways to make decision-making more efficient. Transparency, democratic governance, internal accountability and control are necessary (See the discussion of management systems under 5.3.2.8).
- External patrons - Success depends on a suitable combination of internal organizational and economic capabilities and adequate support from external role-players.
- Legislation – Governments must provide a legislative and institutional framework which will make it possible for co-operatives to play an instrumental role in its economic policy.

From the discussion above, it is evident that researchers have found many factors playing a role in the success of co-operatives. However, what it boils down to is that co-operatives need good business management to be successful. This will include strategic thinking, creativity, innovative ways of solving problems, the optimization of technology, exploring new markets, good human resource practices, good relationships among members and transparent and effective financial management practices.

5.5 Success factors in Worker Co-operatives

To demonstrate that most of the factors discussed above are also applicable to worker co-operatives, Hough *et al.* (2010:13) in a study of ‘successful’ Canadian worker co-operatives found the following determining factors:

- 85% of these co-operatives received assistance from knowledgeable co-operative developers at the development stage. This assistance included organizational

development, incorporation, operational processes, mission statements and board training.

- 62% received business planning assistance from outside sources. This often led to continued mentorship from the outside resources.
- The co-operatives have integrated themselves into local and regional co-operative associations and structures.
- Some of the co-operatives became active members of local industry associations.
- 62% received grant funds to assist with development costs.
- For capitalization, 92% of the co-operatives accessed outside funding.
- Ten of the thirteen co-operatives had clear and effective governance structures, with a culture promoting solidarity and teamwork when facing adversity.
- Each co-operative was in a large industry sector in which they have succeeded to carve themselves a niche. Eight of the thirteen co-operatives were in a market with a low number of participants.
- Nine of the 13 co-operatives in the study were affected by changes in the market structure and the business cycle.
- Most of the founders were values-driven. The co-operative was not only a way of earning a living but also one of bringing their values and concerns into their work life.
- All of them applied for, and received, funding at start-up.

- A key piece of the founding ‘financing’ of the co-operative was ‘sweat capital’ founded on the solidarity and commitment to the founders’ goals in starting the co-operative.
- All had stable or rising revenue streams and most were achieving at, or above, market rates of pay.
- Almost all of the co-operatives had a learning culture oriented towards practical business and co-operative issues and challenges.

5.6 Alternative Co-operative Structures

Some writers, like Lyne and Collins (2008:1983), suggest that the structure of co-operative ownership is one of the main challenges to co-operative success. Therefore, over the past years, the formation of so-called New Generation Co-operatives has been proposed by several studies on the subject.

New Generation Co-operatives (NGCs) propose a new structure to membership, equity and member benefits (Kenkel and Park,2007:382). Members are required to make a relatively large up-front investment in the co-operative. Co-operative stock can be sold to individual investors, eligible for membership. Normally a relatively high proportion of profits are distributed and earnings are distributed in relation with investment. This makes NGCs more attractive to investors and enhances the possibilities of appreciation.

Although NGCs solve some of the problems of traditional co-operatives, some challenges remain (Kenkel and Park,2007:383). Difficulties with regard to attracting equity remain and there is a limited market for trading stock. Raising the initial equity from members can also be problematic. To address this, hybrid co-operatives have now emerged. In these co-operatives there are two classes of ownership: outside equity investors and patron stockholders. In these co-operatives returns are split between the two classes, with the outside investors receiving investment-based returns and the patron stockholders receiving patronage-based distributions.

Although this model appears to be a good way of attracting outside investment into a co-operative, current South African legislation will hamper the formation of these types of co-operatives in the country and the structure of the entity might be too complicated for small co-operatives.

5.7 Criteria for measuring the success of co-operatives

Before any study of the factors determining the success of worker co-operatives can be undertaken, the criteria to determine whether the co-operative is successful or not should be established. This is no easy task as there are many different thoughts on what constitutes a successful co-operative and how the success should be measured.

5.7.1 Criteria used in previous research

Hough *et al.* (2010:14) state that this is fairly easy in conventional businesses. In these organizations success means financial profitability and viability. It should be obvious that financial viability is a key criterion as the co-operative would otherwise cease to exist. Other factors are more complicated. Maximizing profit is not the goal in many co-operatives, but rather the creation of meaningful and fairly paid work, pursuing a social mission like fire trade, local and organic food, etc.

In their study, Brazda and Schediwy (2001:35) suggest that there is no 'ideal State' for a co-operative, but that the success of co-operatives should be measured in terms of simple economic survival. They contend that a successful start could be classified in terms of five years of initial survival and successful continuation in terms of a 30 year survival period. Other parameters could include turnover and the number of members or employment.

Theron (2005:71) states that most support agencies and donors accentuate the importance of recognizing co-operatives as private economic enterprises that have to make profits or surpluses. Therefore the emphasis should be on financial management, solvency, profitability, financial sustainability, market penetration and return on investment.

Chibanda *et al.* (2009:296) used a Key Performance Indicator approach to measure co-operative performance, such as generating a net surplus, access to equity and debt capital, reduced reliance on government funding, investment in growth assets, skills training for members and good marketing arrangements. Because institutions are run by formal (laws, contracts, markets) and informal (norms, traditions, customs, value systems, sociological trends) rules, they also studied the rules governing membership, voting rights, the distribution of net surpluses, capital gains and the tradability of shares. In their study they worked on the proposition that good co-operative performance is dependent on good governance and sound institutions, and that good governance influences institutional arrangements and *vice versa*.

In their study on Traditional Agricultural Co-operatives in KZN, Chibanda *et al.* (2009:300) studied co-operatives that had been in operation for at least two years. Seven indicators of co-operative performance were selected for the purposes of their study:

- The generation of a net surplus (Ability to reward members).
- Equity capital levels (Credit-worthiness).
- Reliance on government grants/loans (Credit-worthiness).
- Growth asset levels.
- If members received skills training.
- Loss of members.
- Market arrangements (a market for products and a way to get products to the market).

Seven more indicators were chosen as institutional indicators (Chibanda *et al.*,2009:296):

- If non-members qualify for the same incentives as members (free-rider problems).
- If returns are proportional to individual member investment (incentives for members to invest in the co-operative).

- If new members pay par value to join (free-rider problems).
- If members share the same investment preferences (free-rider problems).
- If the voting rights to elect directors are proportional to individual equity contributions (incentive for members to invest).
- If members are rewarded according to their labour input (Failure in this regard creates an opportunity for members to shirk).

Likewise, seven governance indicators were selected (Chibanda *et al.*,2009: 296):

- If directors are nominated and elected at an annual general meeting (AGM) (influence problems).
- If voting is done by secret ballot (influence problems).
- If annual accounts are subject to an independent audit (in accordance with the Co-operatives Act).
- If the audited statements are available to all members (in accordance with the Co-operatives Act).
- If there is sufficient notice of the AGM (in accordance with the Co-operatives Act).
- If the minutes of the AGM are available to all members (in accordance with the Co-operatives Act).
- If the management of the co-operative is trained.

Skibbens and Chamard (2006:40) state that the Government of Nova Scotia in Canada used certain non-financial questions to be answered by registered co-operatives with their annual returns to serve as an early warning system that co-operatives are heading for trouble:

- Are all board positions currently filled?
- Was an AGM (annual general meeting) held in the last twelve months?
- Was there quorum at the AGM?
- Was the attached financial report / audit approved by the members at the AGM?
- How many employees does the co-op employ at this time?
- How many board meetings were held in this fiscal year (or last twelve months)?

- How many member meetings were held in this fiscal year (or last twelve months)?
- How many members does the co-op have at this time?
- How many members attended at least one educational event in this fiscal year (or last twelve months)?

However, these questions do not cover all the co-operative principles and need further fine-tuning (Skibbens and Chamard,2006:44). Regulators have a responsible role to play in encouraging co-operatives to find their uniqueness, but if only financial reporting is required, co-operatives will come to understand that only financial goals are important. If the uniqueness of co-operatives lies in multiple goals, questions need to be asked by regulators about those goals.

In their study, Satgar and Williams (2008:6) used the following criteria to base their definition of a successful co-operative on:

- The extent to which co-operative principles and values inform the workings and values of the co-operatives.
- A minimum of five years' existence.
- The co-operative has the capacity to meet its objectives.
- The wider impact of the co-operative on the community.

In a study of three co-operatives in three Dutsi villages, Mqingwana (2010:25) used a development economist's approach to measure the co-operatives' success and to ascertain how the co-operatives were able to provide jobs and income to members' households. The flow of money in terms of income generated and how it was shared between co-operative reserves and members were studied.

In the Hough *et al.* study (2010:14), the research respondents were asked what they considered as success and in which ways they thought their co-operative was successful. From the feedback the following stood out:

- Longevity – continued existence and providing long term employment.
- Living wages – providing a sustainable livelihood for members.

- Meaningful work – a commitment to a democratic workplace and particular social and environmental goals that makes working in the co-operative more than just a job.
- Personal development – providing ground for growth and becoming better people.
- Financial success (profitability) – this provides the capacity for reaching the other goals of the co-operative.
- Value-driven products – providing goods and services that make a difference in the lives of customers and their communities.

Cornforth *et al.* (1988:24) identify several ways of attempting to measure the performance of worker co-operatives:

- The extent and spread of worker co-operatives. This will necessitate research on how these co-operatives are spreading, how many jobs they provide, in which parts of the country they are operated, the business sectors in which they are operated and what size they are.
- The performance of individual co-operatives. This will include research on whether they are performing better than small businesses, whether co-operatives are in business within four years of formation and how well they perform in terms of specific measures, such as wealth creation, efficiency, etc.

Co-operatives, like conventional businesses, have the objective of wealth creation (Cornforth *et al.*, 1988:45). Businesses use profitability, return on capital employed, as a measure of how efficiently wealth has been created. Although co-operatives are expected to make a surplus to survive, this measure of profitability is not suitable when measuring wealth creation in co-operatives and the following changes need to be made to the measurement:

- Value Added should be used instead of profit. Value Added is calculated by deducting all material costs and overhead costs from sales income. Value Added is then divided into wages and surplus. The reason for this is that a

decision by a co-operative to increase wages will have a significant negative effect on the bottom line, although performance will not necessarily be poorer.

- Return on labour (value added per employee) is measured, rather than return on capital. The value added per employee measurement can be used as a universal measurement of labour productivity. A co-operative with higher levels of technology, a more highly capitalised co-operative or a co-operative with higher skills levels would achieve a higher score on this measure.
- The idea of maximizing is replaced by measuring a set of related variables. This will include value added per head and average gross wage and the relationship between these two – wages as a percentage of value added. Measures of efficiency would be value added : turnover and value added : net assets. The degree of capitalization will be measured with net assets per head and external loans : net assets. This last measurement is similar to the normal gearing ratio but with the external loans separated from internal sources, such as member loans, collective savings and retained surplus, which are, in co-operatives, regarded as a form of ‘own capital’.

To summarise, Cornforth *et al.* (1988:51) recommend the use of the following measurements in co-operatives:

Table 7
Cornforth’s Measurements for co-operatives

Measurement	What is measured
Value Added per Head (in R)	A measure of productivity of labour and wealth creation. Will be low for new co-operatives.
Average Gross Wage	The level of remuneration per employee
Wages as a % of Value Added	Shows how much of the wealth created is taken as wages. The remainder will be available for re-investment. If over 100%, a deficit will result. The higher this measure, the lower the labour productivity.
Net Assets per Head	Measurement of capital employed. Low values might indicate easy market entry
Value Added as % of Turnover	Will differ with industry. Variations from the industry norm will indicate better or worse margins brought on by changes in either material efficiency or relative prices obtained. Also an indication of market related overhead costs

Value Added : Net Assets	Indication of 'return on capital'. Increases might indicate improvements in efficiency. Where there is a low level of assets employed this will result in a misleadingly high rate of return
Liquidity	An indication of how safe the firm is from becoming insolvent. A value of between 0.8 and 1.0 would be regarded as reasonable
External Loans as % of Net Assets	Small asset figures and large individual loans will cause great fluctuations. Over-reliance on external loans is the equivalent of high gearing in conventional enterprises.

(Adapted from Cornforth, *et al.*, 1988:51)

In their study on worker co-operatives in the United Kingdom, Cornforth *et al.* (1988:193) use three areas to establish how well co-operatives performed as a sector, namely: economic performance, the effect on individuals of working in a co-operative and social performance. With regard to economic performance, the most basic measures that were used were formation and survival rates. The effect on individuals working in the co-operative was measured by studying their job satisfaction. Social performance was measured by determining the control workers had over job content, work organization, working conditions and autonomy of work.

5.7.2 Criteria used in the current study

From the above, it is evident that finding criteria to categorise a co-operative as successful is no easy task. There is agreement with many authors and researchers that co-operatives, in this case worker co-operatives, should achieve financial success before they can have a real influence on the social welfare of members and the communities in which they operate. Social impact is difficult to quantify and measure. Furthermore, the co-operative sector itself has been struggling to formulate acceptable measurements of the so-called "triple bottom-line" (measuring the financial, social and environmental impact of co-operatives) which they feel would be a true measurement of the real impact and success of co-operatives. Dash (2013: 44) contends that "social accounting", as a system to measure the efficiency of co-operatives in terms of social performance, calculating the social return on investment, and the measurement of the social and environmental impact of co-operatives, remains imprecise, uncertain and underdeveloped.

As a result, it was decided to use financial criteria as the basis for the measurement of success in the study:

5.7.2.1 Longevity

A good measure of financial success is sustainability and longevity is an indication of sustainability. From the statistics in Chapter 4, however, it is clear that worker co-operatives have only come to the fore in South Africa during the past few years. Using a measure of longevity of thirty years as suggested by Brazda and Schediwiy (2001:35) as quoted earlier will therefore make no sense as it is doubtful if any of the co-operatives registered as clients with Seda have been in existence for so long a period.

Moreover, given the fact that the current co-operative legislation, which resulted in the exponential increase in the number of co-operatives registered, only came into effect in 2008, a shorter term of existence should be used.

Taking into account the fact that most small businesses fail within the first year and that the global recession may have had an effect on the survival of worker co-operatives, it was decided that a term of three years of existence will be used as a minimum criterion for longevity.

5.7.2.2 Financial Independence

Sustainability without financial independence is meaningless. It is a fact that some small co-operatives in South Africa, of which the majority are worker co-operatives, apply for funding on an annual basis from government institutions, such as the Department of Social Development. There is also double dipping to consider in cases where co-operatives are funded by more than one institution without the institutions being aware of it. Repeated funding and grants also put in doubt the sustainability of the co-operative without outside funding, the original feasibility of the enterprise and effective management of the enterprise. It was therefore decided that to be categorized as successful, the worker co-operative must

not have received outside funding in the form of loans or grants for at least a year.

5.7.2.3 Profitability

From the literature quoted earlier, it is clear that profitability, or the co-operative's ability to generate a surplus that may be distributed to members or ploughed back into operations, is a clear measure of success. For the purposes of this study, the worker co-operatives will need to have been profitable for at least one year, in order to be considered successful. This allows for nearly two years to get to break-even, which is considered fair in the circumstances.

5.7.2.4 Member Income

As long as a co-operative does not pay its members a living wage it cannot be considered successful. One of the main objectives of co-operatives is to improve the financial well-being of its members. If it fails in this, it has not reached that objective and is not yet successful.

Serious consideration was given on what the minimum required wage of members for the purposes of this study should be. Poverty line wages were considered, but there are different opinions and ways of calculating poverty line wages. One is the \$1 per day international measure. However, \$1 a day is not considered a living wage for the purposes of this study as it means members will need to earn about R180.00 per month for the co-operative to be successful. It is a known fact that this is not enough. Using this measure would have meant including the family size of each member in the study in order to be able to measure poverty line wages.

For this reason, it was decided to use the minimum wage for domestic workers as a baseline to measure success. It was decided to use the current minimum wage for rural areas, as co-operatives are pre-dominant in rural areas. At the time of the compilation of the questionnaire the minimum wage in rural areas was R 954 per month (South Africa,2011:6). Therefore,

each member will have to earn at least R 955 per month for the co-operative to be categorized as successful.

Other financial measures will be used during the study to establish the financial success of the worker co-operatives that form part of the study, but it was felt that too many criteria might diminish to too great an extent the sample size of successful co-operatives which form part of the study.

5.8 Conclusion

In this chapter it became evident that, although there is no such thing as the ideal co-operative, there are certain factors that come into play if a co-operative is to be successful. Throughout the discussion of the success factors in relation to co-operatives, continuous (perhaps irritatingly so) references were made to the discussion of success factors with regard to small businesses. This was done to demonstrate the similarities between the two and to accentuate the fact that, although co-operatives are different in structure, normal business rules still apply. A summary of these factors follows:

- Personality traits of the membership pool.
- Background of the members.
- Feasibility.
- Members must have a common purpose and a bond that keeps them together (cohesion).
- The co-operative is started on the initiative of members (this is also the case with secondary and tertiary co-operatives).
- A clear vision and mission.
- Members must be able to see an immediate advantage for them to join the co-operative.
- Must be started with as little external interference and assistance as possible to be able to become self-sustaining.
- Member contributions must play a large role in the capitalization of the co-operative;
- Democratic decision-making.
- Co-operative autonomy needs to be respected.

- Strategic management, business management, financial and technical skills, not only for members but also for workers, must be present in the co-operative – most of the time this will only be attained through training initiatives by support organizations.
- Strong leadership is necessary.
- The implementation of good management and operational systems.
- Good market information and infrastructure.
- Trust, loyalty, transparent decision-making, control and the possibility of some form of sanction are important to keep members and workers motivated.
- Good implementation of decisions.
- Building of partnerships with external players in the industry and environment.
- Division of work and differentiated pay structures.
- Co-operating with other co-operatives within the co-operative network.
- Networking with customers, suppliers and business organizations.
- Innovativeness and creativity.
- Optimal usage of technology.

The similarities between the success factors discussed in this chapter and the challenges faced by co-operatives, as seen in Chapter 2, are striking and disconcerting.

In the last part of the chapter, the criteria for distinguishing successful co-operatives from those which are unsuccessful were discussed. It became evident that most researchers use different approaches to classifying co-operatives as being successful or not. Some use financial criteria, while other use social criteria in their analyses. Until the co-operative sector, however, successfully develops the triple bottom-line (financial, social and environmental) measurement that they are looking for, financial indicators need to be used when co-operative success is measured. Therefore, it was decided in the end that four factors which are most commonly used would be used in this study and that efforts would be made to include some of the other criteria in the questionnaire used in the study. The criteria to be used are the following:

- Longevity (in existence for at least three years).
- Financial Independence (survival without outside funding for at least one year).
- Profitability (generation of a surplus for longer than one year).
- Member Income (at least equal to R955 per month).

Chapter 6

Empirical Survey

6.1. Introduction

As indicated in Chapter 1, the goal of the study is to establish the state of worker co-operative development in South Africa.

Several objectives were likewise identified. These are:

- To establish the criteria for measuring the financial success of worker co-operatives;
- To establish the financial success of worker co-operatives as a business entity in general;
- To identify the problems experienced by worker co-operatives in general.
- To evaluate the success of co-operative support initiatives to date;
- To establish what social impact worker co-operatives have on members and their communities.

From the above several research questions were determined. These were utilised to develop the survey questionnaire.

In Chapter 5, several factors playing a role in the success of co-operatives were identified. In addition, the criteria for a successful worker co-operative in this study were likewise identified. These are:

- Longevity (in existence for at least three years);
- Financial Independence (survival without outside funding for at least one year);
- Profitability (generation of a surplus for longer than one year); and,
- Member Income (at least equal to R974 per month).

The methodology followed during the research and the results obtained will be discussed in this chapter.

6.2. The Questionnaire

As mentioned in Chapter 1, the Small Business Assessment Tool (SBAT) utilised by Seda personnel during the assessment of operating small businesses was used as a basis for the development of the research questionnaire.

6.2.1. The SBAT and its appropriateness for utilisation in the survey

The SBAT is an assessment tool which is used to identify areas for improvement within micro- and small businesses as well as to ascertain the appropriateness of interventions for implementation.

The SBAT is relatively effective since it asks pertinent questions with regard to the financial-, marketing-, operations- and human resource management within the business. It also enquires about the financial position of the business. Based on the answers, a Seda Business Advisor is thus enabled to identify shortcomings in the business and recommend appropriate steps to be taken to improve the business's position. He/She then recommends steps that may be taken by the business owner and Seda, as support organization, to improve the viability and sustainability of the business based on the knowledge gained from the questionnaire.

Although the SBAT has proven itself as an assessment tool for the assistance of very small and micro-businesses by Seda, certain shortcomings were identified which did not render it completely appropriate for the purposes of this study. These include:

- The SBAT were developed for the assessment of small businesses in general, whereas the current study needed to focus on worker co-operatives specifically.
- The SBAT uses one range of multiple choice answers for all questions (never, rarely, sometimes, usually, always), except for the section on the business's financial position. This range is illogical as possible answers to certain questions, such as "Do you have a separate bank account for your business?" or "Do you employ permanent or casual staff, or both?". This could lead to confusion in respondents on how to answer such questions

- The SBAT neither contain questions pertaining to all the success factors identified in Chapter 5, nor to the criteria identified to classify certain respondent co-operatives as successful.

6.2.2 The final questionnaire

As a result of the challenges identified in respect of the SBAT questionnaire, it became necessary to revise the questionnaire, add questions and change choices to answers.

The resultant final questionnaire contained the following sections:

- **Identification**

Questions include those with regard to the sector in which the co-operative operates and when it was established.

- **Membership**

This section included questions pertaining to:

- The number of members.
- Age of members.
- Gender.
- Ethnic group.
- Reasons for founding members leaving the co-operative, if applicable.
- Educational levels of members.
- Industry- and business-related experience of members.
- How the co-operative was established.

- **Finances**

- History of funding and grants, the time lapse since the last grant or loan was received and what the funding was utilized for.
- The financial contributions of members to the co-operative.
- The financial position of the co-operative, including profitability, member income and cash flow.

- The co-operatives financial-practices and systems.
- The financial impact of the co-operative externally.

- **Marketing**

Issues addressed in this section include:

 - Competition.
 - Customers and target market.
 - Marketing methods.
 - Location.
 - Market Research.
 - Customer relations.
 - Quality management.
 - Market and marketing challenges.
 - Networking.

- **Operations**
 - Stock Control.
 - Process Control, including the handling of orders, bottlenecks and the management of rejects.
 - Layout and equipment, including training of members and employees to handle equipment effectively, health and safety issues and the condition of equipment.

- **Human Resources**
 - Remuneration and working conditions.
 - HR policies and systems.
 - HR challenges.

- **Management Processes**
 - Organisation and systems.
 - Decision-making processes.
 - Communication within the co-operative.

- Teamwork and conflict management.
- **Support from external institutions**
 - Support organisations involved in the co-operative.
 - Development support received since inception.
 - Other roles taken on by representatives of these organisations while supporting the co-operative.

As the questionnaire was to be completed by co-operative members themselves, with assistance from Seda employees, the language used was deliberately adjusted in order to enable them to comprehend the questions. Where possible, business and accounting terms were avoided. Furthermore, possible answers contained in multiple-choice questions were adapted to eliminate confusion. This was helpful in ensuring that completed questionnaires were a true reflection of what is happening in the co-operatives forming part of the study.

6.3. Research Population

The research population in terms of the study comprises actively operating worker co-operatives registered as clients with Seda. It should be emphasised that being registered with Seda as a client does not automatically mean that the co-operative has received assistance or an intervention from Seda. After a business is registered as a client, it is assessed before an intervention can be identified and implemented.

A list containing the particulars of all worker co-operatives assisted between April 2009 and March 2013 was received from the Co-operatives and Private Public Partnerships (CPPP) Unit at Seda National Office. The list contains 503 co-operatives. However, certain of these co-operatives were removed from the list due to the fact that they were no longer operating. For this reason, the final list contains a total of 456 worker co-operatives. Later, when it became clear that the number of actively operating worker co-operatives on the above list was insufficient, a list of co-operatives, registered as Seda clients from 1 April 2013 to 30 September 2013, was obtained. This list contains the particulars of a

further 549 co-operatives. Therefore, the lists contain the particulars of 1 005 co-operatives in total.

6.4. Distribution and completion of questionnaires

With authorisation from the Seda Management Committee, the questionnaires were distributed to Regional Facilitators of the CPPP unit for completion by worker co-operative clients.

As was seen in Chapter 5, compliance is a major issue in the co-operative sector, particularly in terms of the submission of annual returns to CIPC. With only 114 of the 69 430 registered co-operatives (only three of which were worker co-operatives) submitting annual returns in 2012 (CIPC,2013:11–18) it was impossible to ascertain the number of actively operating worker co-operatives in South Africa. It was likewise impossible to ascertain the required number of completed questionnaires for the study sample to represent an acceptable portion of the total number of worker co-operatives in South Africa. Finally, it was decided that at least one hundred completed questionnaires were necessary for the research sample to be deemed significant. Regional facilitators in the different provinces were requested randomly to select 133 operating co-operatives from the lists provided and have the questionnaires completed.

The contact person in the co-operative responsible for completing the questionnaire was the one listed as the contact person of the co-operative at the time of registration as a Seda client. In smaller co-operatives this would be a prominent member of the co-operative. In larger co-operatives, a member of the board or the chairperson, was selected on account of their signing powers on behalf of the co-operative.

The number of completed questionnaires received from Seda regional facilitators was disappointing. Therefore an independent market research company was appointed to assist with the completion of the questionnaires.

The regional facilitators found that a significant number of the co-operatives on the list were no longer operating at the time of contact, the market research company found that approximately one in four of the co-operatives on the list they contacted was actively

operating at the time of the survey (Snyman,2014). This in itself is an indication of the volatility of the sector.

The number of completed questionnaires received reads as follows:

Table 8
Number of Questionnaires received per province

Number of questionnaires received			
	Originally required number of completed questionnaires	Number of completed questionnaires received	% received per province
Northern Cape	15	18	16.2%
Free State	15	12	10.8%
Mpumalanga	15	4	3.6%
Gauteng	10	12	10.8%
Northwest	20	9	8.1%
Eastern Cape	20	29	26.1%
KZN	10	12	10.8%
Western Cape	8	1	0.9%
Limpopo	20	14	12.6%
Totals	133	111	100%

6.5. Data Analysis

The completed questionnaires were captured and analysed by the North-West University's Statistical Consultation Services by utilising the Statistical Analysis System Software (SAS Institute Inc.,2012).

Several constructs were developed and Cronbach alpha reliability coefficients were computed for each construct. The Cronbach alpha coefficients for the different constructs and the questions utilised to develop the constructs are as follows:

Table 9

Identified Constructs, their related Cronbach alpha coefficients and questions in the questionnaire utilised

Section	Construct	Cronbach alpha	Questions numbers
1.Finance	1.1. Financial Management	.67	32, 33, 34,35
	1.2. Financial Analysis	.88	36, 37, 38
2.Marketing	2.1. Marketing Activities	.76	54, 55
	2.2. Other Advertising	.88	47.1, 47.2, 47.3, 47.4, 47.5, 47.7, 47.8, 47.9, 47.10, 47.11, 47.12
	2.3. Customer Relations	.80	57, 59
	2.4. Marketing Capability Challenges	.74	60.1, 60.2, 60.5, 60.6, 60.7, 60.8, 60.11
	2.5. Marketing Financial Challenges	.57	60.3, 60.4, 60.9, 60.10
	2.6. Networking	.5	62, 63.1, 63.2, 63.3
3. Operations	3.1. Stock Control	.85	65, 66, 67
	3.2. Operations Administration	.69	69, 75, 76
	3.3. Operational Challenges Human	.94	71.3, 71.4, 71.5, 74.1, 74.2
	3.4. Operational Challenges Equipment	.81	71.1, 71.2, 74.3, 74.4
	3.5. Operational Capabilities	.58	79, 80
4. Human Resources	4.1. HR Remuneration	.74	85, 87, 88, 89
	4.2. HR Systems 1	.77	95.1, 96.1
	4.3. HR Systems 2	.81	95.2, 96.2
	4.4. Training	.88	79, 120, 127.1, 127.2, 127.3, 127.4, 127.5, 127.6, 127.7, 127.8, 127.9, 127.10, 127.11
	4.5. Working Conditions	.69	100, 101, 102
	4.6. Motivation	.74	93, 104, 106
5.Management Processes	5.1. Conflict	.84	99, 104, 121, 122, 123
	5.2. Strategic Management 1	.78	36, 37, 35, 54, 78
	5.3. Strategic Management 2	.69	50, 51, 59, 69, 75, 76, 97, 98, 110, 111
6. Support	6.1. Pre-startup Research	.68	124.1, 124.2, 124.3
	6.2. Advice	.94	126.1, 126.2, 126.3
	6.3. Management Training	.87	127.2, 127.7, 127.8, 127.9
	6.4. Marketing Training	.68	127.4, 127.10
	6.5. Financial Training	.79	127.3, 127.5, 127.6
	6.6. Mentorship & Coaching	.74	128.1, 128.2
	6.7. Management & Operational Support	.74	128.3, 128.5, 128.7, 128.8, 128.9, 128.11
	6.8. Financial Management Support	.65	128.4, 128.10
	6.9. Marketing Support	.72	128.12, 128.6
	6.10. Improper Influence	.92	133, 136

The following table shows the factor analyses for the identified constructs utilised in the statistical analysis:

Table 10

Factor Analyses of Identified Constructs

Construct	Number of factors retained	Variance explained by one factor	Community	MSA
Financial Management	1	51%	[0.33;0.64]	0.66
Financial Analysis	1	81%	[0.75;0.89]	0.68
Marketing Activities	1	80%	[0.80;0.80]	0.50
Other Advertising	Factor Analysis not possible due to too many missing values			
Customer Relations	1	69%	[0.51;0.80]	0.63
Marketing Capability Challenges	3*	41%	[0.60;0.84]	0.60
Marketing Financial Challenges	2*	51%	[0.62;0.92]	0.56
Networking	1	51%	[0.52;0.83]	0.54
Stock Control	1	77%	[0.60;0.87]	0.65
Operations Administration	1	61%	[0.55;0.65]	0.66
Operational Challenges Human	Factor Analysis not possible due to too many missing values			
Operational Challenges Equipment	Factor Analysis not possible due to too many missing values			
Operational Capabilities	1	70%	[0.70;0.70]	0.50
HR Remuneration	1	62%	[0.1;0.86]	0.69
HR Systems 1	1	81%	[0.81;0.81]	0.50
HR Systems 2	1	84%	[0.84;0.84]	0.50
Training	3*	50%	[0.40;0.88]	0.55
Working Conditions	1	63%	[0.55;0.68]	0.66
Motivation	1	66%	[0.53;0.79]	0.62
Conflict	1	62%	[0.55;0.73]	0.78
Strategic Management 1	1	55%	[0.22;0.81]	0.65
Strategic Management 2	4*	32%	[0.52;0.90]	0.59
Pre-startup Research	1	62%	[0.50;0.69]	0.64
Advice	1	89%	[0.88;0.92]	0.76
Management Training	1	71%	[0.55;0.80]	0.75
Marketing Training	1	76%	[0.76;0.76]	0.50
Financial Training	1	71%	[0.63;0.84]	0.62
Mentorship & Coaching	1	79%	[0.79;0.79]	0.50
Management & Operational Support	3*	50%	[0.78;0.92]	0.65
Financial Management Support	1	75%	[0.75;0.75]	0.50
Marketing Support	1	79%	[0.79;0.79]	0.50
Improper Influence	1	92%	[0.92;0.92]	0.50

Note: *- Despite the fact that more than one factor was retained during the factor analyses with these constructs, the constructs were retained on account of the high Cronbach alpha values obtained during the statistical analyses and the fact that content validity was present (Elo and Kynge, 2008:112).

Phi-coefficients were calculated to determine if there were relationships between relative success and certain conditions and practices in the worker co-operatives in the study. The same was done to determine whether support initiatives have made a difference in the practices in the co-operatives.

In view of the fact that the research did not involve random sampling, interpretation of comparisons between the various groups' means were done using Cohen's effect sizes (d) (Cohen,1988:24). Effect sizes indicating practical significance, where the difference was large enough to have an effect in practice (Steyn,2009:7) were discussed.

Moreover, interpretations of the practical significance of effects were done by using the phi-coefficient and Pearson correlation coefficient as effect sizes. For this reason, no inferential statistics were interpreted, despite the fact that p-values are reported as if assuming random sampling.

The guidelines utilised for d -values regarding differences between means are as follows:

- Small effect: $d = |.3|$
- Medium effect (noticeable with the naked eye): $d = |.5|$
- Large effect (practically significant): $d \geq |0.8|$

Guidelines for interpreting the phi-coefficient are as follows (Cohen,1988:223):

- $\Phi = |.1|$ (small effect)
- $\Phi = |.3|$ (medium effect, noticeable with the naked eye)
- $\Phi \geq |.5|$ (large effect or practically significant)

Guidelines for practical interpretation of the strength of correlation coefficients, r , according to Cohen (1988:204), are the same as those for the phi-coefficient.

In cases where the number of respondents (n) differs from group sizes, this is due to missing values.

6.5.1. Successful vs. unsuccessful worker co-operatives

It was decided to categorise the co-operatives in terms of level of success.

- To be classified as successful, the co-operative had to meet all the criteria as established in the literature study. It was found that only three of the co-operatives (2.7%) in the study met all the criteria.
- To be considered relatively successful, the co-operative had to meet all the criteria except the one pertaining to member income. Thirteen (11.71%) of the co-operatives in the study were categorized as relatively successful.

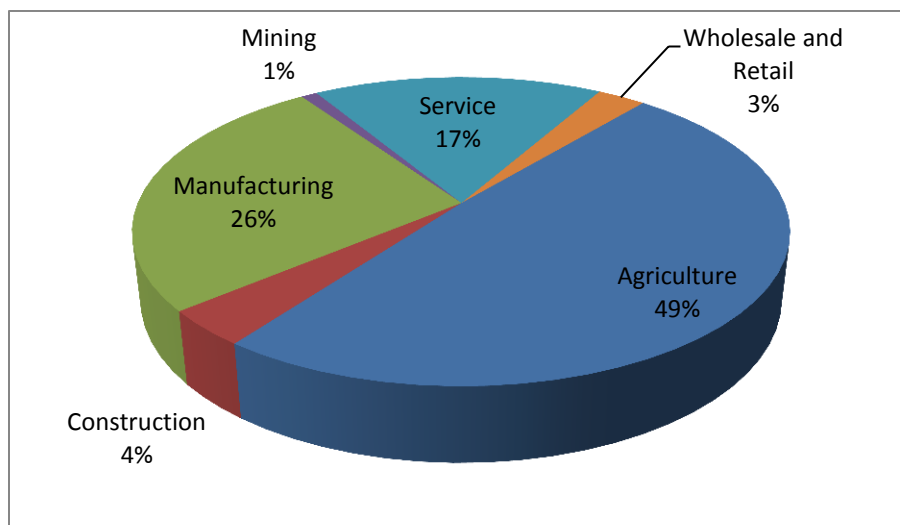
As the successful co-operatives did not make up a sufficiently large proportion of the co-operatives in the study, the relatively successful group was utilised for statistical comparisons.

6.5.2. Industry Analysis

Most of the co-operatives (49.06%) taking part in the survey belonged to the agricultural industry, followed by those in manufacturing (26.43%). Only one was operating in the mining industry. A complete breakdown of the co-operatives in each industry is provided in the graph below.

Figure 8

Percentage of Co-operatives per Industry



Since the number of co-operatives in the mining, wholesale and retail and construction sectors were too small for statistical comparisons, only the agricultural, manufacturing and service industries were used for statistical analysis purposes.

As the study was aimed at worker co-operatives in general and not at those in certain industries, industry analysis was utilised with regard to only one aspect where it was deemed to be applicable, namely the number of customers responsible for the largest share of the co-operatives' turnover.

6.5.3. Support vs. Non-support to Worker Co-operatives

To measure the impact of support by external organisations, a statistical comparison was carried out between those co-operatives which received support from funding/support organisations and those which had received none at the time of the completion of the questionnaires. Eighty of the worker co-operatives in the study received support, either in the form of funding or non-financial support or both, while thirty-one had received no support at the time of the survey.

In terms of the research results, reference to co-operatives in this chapter refers exclusively to worker co-operatives since only worker co-operatives form part of the study.

6.6. Descriptive Statistics and Analysis of Relative Success

6.6.1. Longevity

90.65% of the worker co-operatives which participated in the survey were registered during or before 2011. Five of the responding co-operatives were registered more than ten years before the survey was conducted.

6.6.2. Membership and Member Demographics

a) Membership Numbers

The statistical mean with regard to number of members was 11,26, with three co-operatives being made up of fewer than five members. 73.39% of the co-operatives had ten or fewer members and 92.66% twenty or fewer. The largest co-operative taking part in the survey had 159 members.

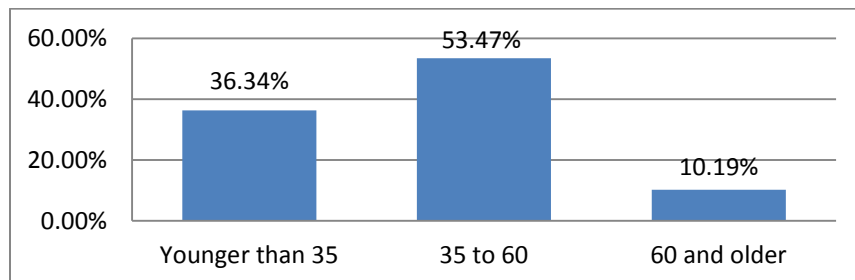
It is probable that the three co-operatives which comprised fewer than five members had lost members and not replaced them at the time of the survey, since the Co-operatives Amendment Bill of 2012 (South Africa,2012:5) clearly states that a primary co-operative must have a minimum of five natural persons, two juristic persons or a combination of any five persons, whether natural or juristic. These co-operatives therefore cannot operate legally in terms of the legislation.

b) Age of members

29.7% of the worker co-operatives in the survey indicated that they had no members below the age of 35, 15.32% had no members in the 35 to 60 age group and 67.57% had no members in the age group sixty and older. The statistical means show that most of the members in the responding co-operatives were in the 35 to 60 age group. For the under 35 age group the mean was 3.33 members per co-operative, for the 35 to 60 group it was 5.19 and for the 60 and above age group it was 1.02.

The graph below shows the percentage of members in each age group for all the co-operatives in the survey.

Figure 9
Percentage of Members per Age Group

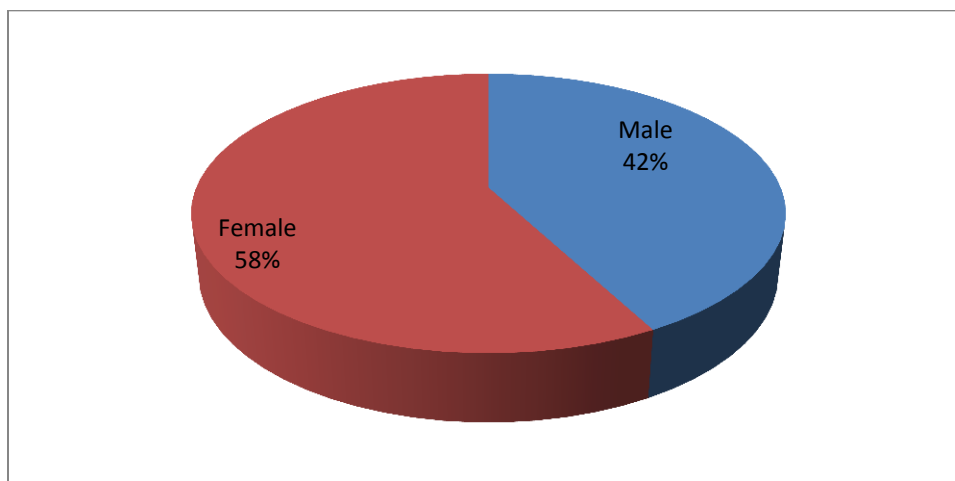


c) Gender

Female members were in the majority in the worker co-operatives that formed part of the study. Twenty three co-operatives indicated that they had no male members, while only four of the partaking co-operatives had no female members. The statistical mean for male members was 4.18 members per co-operative, while the corresponding figure for female members was 5.73 per co-operative.

Figure 10

Gender Representation of members



d) Ethnic Groups

The majority of the members of the worker co-operatives in the study were black. One co-operative in the study group had two white members and one had four Indian members. Out of a total of 164 coloured members, one hundred belonged to a single co-operative.

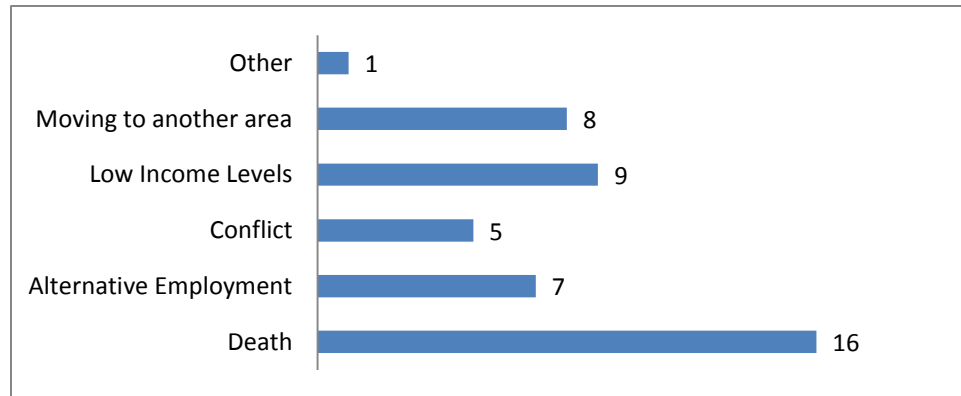
e) Founding Member Retention

Of the responding co-operatives, 77.06% indicated that all the founding members of the co-operative were still involved in the co-operative. Of those who lost some of their founding members, most (sixteen) indicated that the cause was death, while the second highest reason for loss was given as low income levels. Eight of the co-operatives indicated that the members concerned moved to other areas.

The graph below shows the proportions of reasons for founding members to leave the co-operatives.

Figure 11

Reasons for Founding Members Leaving the Worker Co-operatives



The number of co-operatives losing members due to “low income levels”, “conflict” and “alternative employment” (21 in total) is important as these reasons may be directly attributed to conditions within the co-operative. This implies that the majority of the responding co-operatives, which experienced founding member losses, did so due to adverse conditions within the co-operative.

f) Member Background

i) Employment before joining the co-operative

Among the co-operatives in the study, 77.47% had members who were unemployed before joining the co-operative. Members who were unemployed immediately before joining the co-operative numbered 563 out of 1228 (45.84% of the total). No distinction between formal and informal employment and permanent or temporary employment was made in the questionnaire. This implies that some of those who were reported to be employed before joining the co-operative could have been in informal or temporary employment.

These statistics support the statement by Philip (2003:23), quoted under 3.3.8, that co-operative development initiatives target mainly unskilled, unemployed individuals who, from a state of chronic poverty, are expected to employ themselves, lead the way in building alternative models of work organisation, worker self-management and worker ownership.

ii) Educational Levels

The largest proportion of the members of the co-operatives had received a secondary school education without matric, followed by those who had attained a matric qualification. Members without matric comprised 56.19%. The following table shows a comparison between the national education statistics published by Statistics SA (2013:21) and the educational profile of the members of the working co-operatives in the research:

Table 11
Comparison between Educational Levels in the Current Research and National Educational Statistics

Educational Level	National Statistics	Current Research
No schooling	5,8%	0,81%
Primary school	16,2%	15,44%
Secondary without matric	38%	39,95%
Matric	27,2%	37,88%
Tertiary Qualification	12,5%	5,92%

From the above it is clear that the members of the co-operatives in the study, were in general better educated than the general population in South Africa, but that co-operatives appear to be unattractive to people with a tertiary qualification.

No statistically significant differences were found in terms of education levels between the relatively successful group of co-operatives in the study and the unsuccessful ones.

iii) Experience

In terms of experience the following was found:

- Of the worker co-operatives taking part in the survey, 82.69% had no members with previous experience as member of a co-operative.
- 51.92% of the co-operatives had no members with previous experience in the sector in which the co-operative operated. In fact, out of all the members, only 179 (14.58%) had experience in the field of operations.

- Of the co-operatives taking part in the study, 67.31% had no members with previous business management experience.
- In the survey it was found that 69.23% of the co-operatives had no members with financial management experience.
- Previous experience as a business owner was held by 76 members out of the 1 228 (6.18%).
- The co-operatives which had no members with experience in the management of teams adds up 58.65%.
- Of the responding co-operatives 34.23% had members who possessed neither business experience nor industry related experience.

Despite the discussion on the effect of the background of entrepreneurs on the success of business ventures in Chapter 5, the co-operatives in the study showed a deplorable lack of experience in members, particularly in terms of industry experience. No statistically significant differences were found during the comparison of the experience of the relatively successful group with that of the unsuccessful group.

Timmons (1999:93) states that a successful team will have proven profit and loss experience in the same technology, market and service area and that members will have complementary and compatible skills. He further indicates that it is highly desirable that there be a management track record of significant accomplishment in the industry, the technology applicable to that industry and in the market area where the business is competing. The members of the team should also display “intellectual honesty”, knowing their strengths and weaknesses and how to deal with any shortcomings or gaps in the team. The absence of such a team makes any business opportunity unattractive. According to Timmons (227) successful entrepreneurs have at least eight to ten years of experience and have found and nurtured the relevant business and other contacts and networks to contribute to the success of the business. Having the relevant experience, know-how, attitude, behaviour and skills appropriate to that business dramatically improves the odds for success.

In general, the members of the worker co-operatives in the study, did not answer to these requirements and, as Philip (2003:22), quoted under 3.3.8, states, high levels of facilitation will be necessary to address the skills challenges. Raising the business and financial skills levels within the whole co-operative is a pre-condition for participatory decision-making and requires significant skills input.

g) Initiative to start the co-operative

During the survey 87.85% of the co-operatives indicated that the initiative to start the co-operative came from members themselves. However, of those who declared that the initiative came from members, 52.13% indicated that they were persuaded by promises of funding or the impression that co-operatives obtain funding more easily than other businesses, thus indicating that there was at least some improper influence on the decision made by members. Of the co-operatives in the study, 9.35% indicated that the initiative to start co-operatives came from government or support agency employees and 0.93% from other outside persons.

All those co-operatives which indicated that the initiative to start the co-operative came from government or support agency employees were categorised as unsuccessful and constituted 10.53% of the unsuccessful co-operatives.

Of the co-operatives in the study, 62.26% responded that they were promised funding or grants before they started the co-operative or during start-up. Sixty one (92.42%) of these indicated that these promises influenced their decision to start a business, form a co-operative or join a co-operative. A number of the respondents (68.18%) felt that co-operatives obtain funding or grants more easily than other forms of business and 90.67% of them indicated that this perception influenced their decision to form or join a co-operative.

Of the co-operatives in the study, 73 (65.77%) were started or joined due to improper influence. Many of these co-operatives could, therefore, have been

exclusively formed for the sake of gaining access to funding and not due to entrepreneurial aspirations.

In terms of the Improper Influence construct the difference, if any, between the relatively successful and unsuccessful groups in this regard was investigated. The construct combined the questions with regard to the influence of promises of funding, and the impression that co-operatives obtain funding more easily than other businesses, on members starting or joining co-operatives. The result of the statistical analysis is summarised in the following table:

Table 12
Descriptive Statistics and Effect Sizes for the Improper Influence construct for Relatively Successful vs. Unsuccessful Worker Co-operatives

Construct	Group	n	Min	Max	Mean	Std Dev	p-value (when random sampling is assumed)	Effect Size (d)
Improper Influence	1	13	1	2	1.15	0.38	.02*	.6 ^Δ
	2	96			1.44	0.48		

Note: Group 1 = Relatively Successful, Group 2 = Unsuccessful

^Δ - Medium Effect in practice at $\geq .5$

* - Statistically significant at 0.05 level according to t-test results for independent groups

With both means at less than 1.5, the results reveal that both the relatively successful and the unsuccessful groups tended to be influenced to join or start co-operatives on account of the influence of promises of funding and the perception that co-operatives obtain funding more easily than other business entities. The members of the relatively successful group, however, were more inclined to be influenced. As will be seen later, all the relatively successful worker co-operatives in the study received assistance from support institutions. This could have influenced the statistically noticeable effect the construct had on relative success.

For worker co-operatives to be successful, shared values and beliefs among members are necessary. These values and beliefs will influence the way the co-operative operates, the way it is managed and its strategic decisions, which will, in turn, have an effect on the success of the co-operative as a business.

Wessels (2014:32) hypothesises that the likelihood of successful enterprise growth is fairly low and a higher failure rate of co-operatives as formal enterprises will surely follow if there is undue influence on members in communities to form co-operatives.

Timmons (1999:282) further indicates that a successful entrepreneurial team is anchored in terms of values and goals. In successful business operations the personal goals and values of team members are aligned and they together champion the goals of the business. For this reason it is preferable for there to be a significant overlap of the personal goals of individual members with those of the team and, in turn, of the team goals with those of the business.

Undue influence by making promises of funding, creating an expectancy of funding or getting a group of strangers together to start a co-operative in order to fund them, works against the alignment of the goals of individual members and combining their goals with that of the co-operative.

Despite the challenges offered when co-operatives are initiated from the top down, as discussed in Chapter 3 (under 3.2.1), and the threats to the voluntary and open membership aspect of co-operatives as intended in the first ICA principle (ICA,2010:1), it appears as though support agencies continue with these practices, threatening the long-term survival prospects of the co-operatives in which they are involved. Employees and/or representatives tend actively to promise individuals funding if they start co-operatives. This will result in the establishment of more co-operatives for the wrong reasons, even if the individuals are not directly promised funding.

6.6.3 Finances and Financial Management

a) External Funding/Grants

Of the worker co-operatives taking part in the study, 61 (54,95%) indicated that they had received grants or funding before or since start-up. The total amount in funding received by the co-operatives included in the study was R61 636 282.

The largest amount of funding to one co-operative was R20 150 000 and thirteen received grants or funding in excess of R1 000 000. Of the co-operatives, 31 received between R 100 000 and R 999 999.

Of the co-operatives in the study, 37.7% of those which received funding or grants received it from more than one support organization.

b) Member Contributions

It was indicated in the study that 51.82% of the co-operative members pay regular members’ contributions to the co-operative. Of these, 26.14% received contributions from members on a monthly basis, with only four of the co-operatives indicating that members’ contributions amounted to R500 and more. Fifty-five of those who received members’ contributions received less than R200 from each member.

The results of the statistical analysis with regard to relative success are as follows:

Table 13
Descriptive Statistics and Effect Sizes for the payment of regular member contributions for Relatively Successful vs. Unsuccessful Worker Co-operatives

Do members pay a regular members’ contribution to the co-operative?						
		n	Yes	No	p-value (when random sampling is assumed)	Effect Size
Relatively Successful	Frequency	12	12	1	.002*	Φ=.3 ^Δ
	Percent		92.31%	7.69%		
Unsuccessful	Frequency	95	45	52		
	Percent		46.39%	53.61%		

^Δ - Medium Effect in practice at >=.3

* - Statistically significant at 0.05 level according to Chi-square results for independent groups

The members of the relatively successful co-operatives, with an effect of $d=.74$ ($p=.001$), tended to pay monthly contributions at more regular intervals (between a month and two months) than those of unsuccessful co-operatives (between every quarter and every six months). They also, on average, with an effect of $.8$ ($p=.02$)

tended to pay larger contributions to the co-operative (about R350) than the members of unsuccessful co-operatives (approximately R160) per payment.

However, this should be seen in context. The relative success of the co-operative and the resultant higher income of members conceivably enable them to pay more regular and larger contributions.

Although the third ICA principle (ICA,2010:1), as discussed in previous chapters, demands member economic participation, which includes regular member financial contributions to the co-operative, the situation in worker co-operatives is unique in that members are dependent on the co-operative for their monthly income. Hence it seems illogical for them to pay back some of their earnings in the form of a monetary contribution to the co-operative. It is submitted that, in this type of co-operative, members' economic participation in terms of the third ICA principle will be expressed in the form of the labour they provide to the co-operative. The only logical way for these co-operatives to receive monetary contributions from members is to retain some of the surplus (if any) before it is disbursed to members.

c) Profitability

Of the co-operatives, only 35.64% indicated that they were making a surplus at the time of the completion of the questionnaire and 16.83% of them indicated that they were unaware whether or not they had. For those who indicated that they were making a surplus, this surplus amounted to less than R10 000 in 52.78% of cases in the previous financial year and less than R50 000 in 91.67% of the profitable ones.

The basic aim of any business, no matter in what form, is profit and the potential realisation of profits is the reason businesses are formed. Even in the Grade 7 Economic and Management Sciences textbook (Booyesen *et al.*,2013:53), it is stated that the purpose of a business is to make more profit than could have been made from other investments.

The general lack of profitability in the co-operatives in the study indicates that there are underlying challenges present in the majority of these. Startup challenges

cannot be the main contributor to this, since more than 90% of them had been operating for more than three years at the time of the survey (See 6.6.1). As may be seen from the rest of the chapter, a lack of pre-startup research, the background of members and the way the worker co-operatives are managed and operated can all have a certain degree of influence on the profitability and financial success of the co-operative.

d) Financial Independence

Of the co-operatives, only 34.26% of indicated that they were able to cover operational costs without external funding or grants while 16.67% did not know if they were able to cover costs.

In the following table the results of the statistical analysis in this regard are summarised:

Table 14

Descriptive Statistics and Effect Sizes for covering operational expenses without external funding for Relatively Successful vs. Unsuccessful Worker Co-operatives

		Can the co-operative cover its own operational costs without external funding?				
		n	Yes	No	p-value (when random sampling is assumed)	Effect Size
Relatively Successful	Frequency	11	10	1	.0003*	Φ=.4 ^Δ
	Percent		90.91%	9.09%		
Unsuccessful	Frequency	79	27	52		
	Percent		34.18%	65.82%		

^Δ - Medium Effect in practice at >=.3

* - Statistically significant at 0.05 level according to Chi-square results for independent groups

As may be seen from the table above, the relatively successful co-operatives were, to a medium effect, more capable of covering their own operational costs without external funding than the unsuccessful ones, which is understandable. However, this result is accompanied by a degree of sacrifice from members in some of the co-operatives since the majority of these co-operatives were unable to pay their members a decent salary (see (e) below).

Those who indicated that they would be able to expand operations without external funding or grants made up only 12.96% of the study group while 13.89% indicated

that they were unaware whether they would be able to meet this criterion. Only two of the co-operatives in the relatively successful group indicated that they would be able to expand operations without external funding.

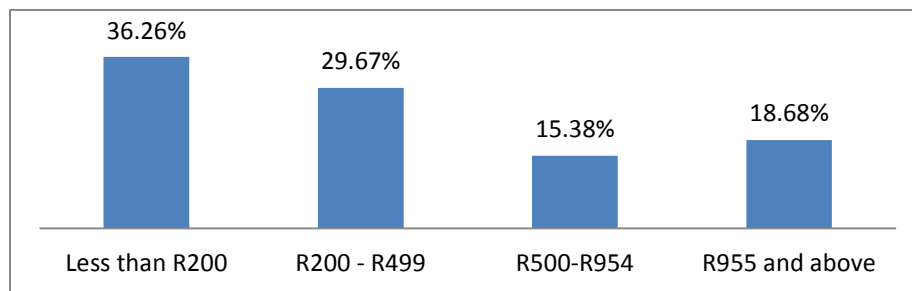
These findings correspond with the statement of Ndumo (cited in Moodley,2009:8) quoted under 3.3.7, that self-reliance and self-sufficiency are major challenges in worker co-operatives.

e) Member Income

The members of 36.26% of the co-operatives in the study earned less than R200 per month, in 65.93% they earned less than R500 per month and in 81.31% of the co-operatives the members earned below R955 per month. The criterion for success with regard to member income was met by only 18.68% of the co-operatives by paying members more than R955 per month. The average member income in ten of the thirteen co-operatives in the relatively successful group was less than R955 per month. This indicates that, although they had been able to survive for longer than three years, make a surplus and operate without external funding for more than a year, this had come at a price, with members sacrificing personal income to enable the co-operative to survive. The average member income is depicted in the following graph:

Figure 12

Average income per member per month



The findings support the literature reviewed and discussed under 3.3.3 which showed that low member income is a major challenge in worker co-operatives.

f) Turnover and Expenses

Of the co-operatives studied, 20.72% did not know the size of their average turnover per month. Of those who did know, the turnover of the largest proportion, 77.27% were below R10 000 per month.

Of the respondents, 27.93% indicated that their sales and sales trends were growing, while 47.75% were unable to confirm whether sales and sales trends were growing or not.

Of the respondents, 19.82% did not know what the total monthly expenses of their co-operative were.

Those who indicated that they constantly kept track of overhead expenses made up 23.08% of the co-operatives in the study while 6.73% indicated that they failed to keep track.

g) Cash Flow

Of the co-operatives studied, 18.45% never had a positive cash flow, while only 16.5% usually or always had a positive cash flow and 3.88% of the respondents did not know whether their cash flow was positive.

h) Financial Management

Of the respondents, 55.56% indicated that financial controls were in place in their co-operatives. However, 65.09% of them had no system in place that required payments to be approved by more than one member while 66.36% did not use a financial management system that includes stock -, debtor - and creditor control and cash flow management.

Only 31.1% of the worker co-operatives in the survey carried out frequent financial analyses, while 48,62% made use of budgets on a regular basis.

Only 56.6% of the co-operatives indicated that they were keeping expenses as low as possible to minimise the need for external funding while 28.3% of the respondents were unaware of doing so.

The Financial Management and Financial Analysis constructs were used to compare statistically the relatively successful and unsuccessful groups with regard to finance. The first Financial Management combined the presence of financial controls, the practice of having more than one member approve payments and the utilisation of a financial management system that included inventory management, debtors, creditors and cash flow management. The second construct combined questions about the co-operatives keeping track of overhead expenses, doing regular financial analysis and the use of budgets. The results of the statistical comparisons were as follows:

Table 15
Descriptive Statistics and Effect Sizes for the Financial Management and Financial Analysis constructs for Relatively Successful vs. Unsuccessful Worker Co-operatives

Construct	Group	n	Min	Max	Mean	Std Dev	p-value (when random sampling is assumed)	Effect Size (d)
Financial Management	1	13	1	2	1.27	0.36	.01*	.8 ^{△△}
	2	96			1.57	0.38		
Financial Analysis	1	13	1	5	3.59	0.91	.10	.4
	2	93			3.10	1.21		

Note: Group 1 = Relatively Successful, Group 2 = Unsuccessful

[△] - Medium Effect in practice at $\geq .5$

* - Statistically significant at 0.05 level according to t-test results for independent groups

As can be seen from the above table, the worker co-operatives categorised as relatively successful were, with a practically significant effect, more inclined to have financial controls and financial management systems in place than the unsuccessful co-operatives. There was no statistically significant difference in the financial analysis carried out by the relatively successful co-operatives and the unsuccessful ones. For both groups, the means obtained during the analysis indicate that financial analyses are not carried out as often as they should be. These results imply that the relatively successful group tended not to utilise the financial

information they would have at their disposal through the management systems to their advantage by carrying out frequent financial analyses.

Financial control and financial management are of the utmost importance for business success.

The financial situation of the worker co-operatives in the study represents an area of concern. For the large number of co-operatives which were unable to cover their own operating expenses, dependency on external funding for survival is the only alternative. Although it is normal for any small business to require financial assistance at startup nearly 91% of the worker co-operatives in the study had already been operating for over three years. The fact that nearly 50% were still dependent on external funding to cover their day-to-day expenses indicates the vulnerability of the sector and the continued dependency of worker co-operatives on external funding, as discussed under 3.2.4 and 4.2. This situation undermines their autonomy and independence as required in the fourth ICA principle (ICA,2010:1). It leaves them at the mercy of outside funders and, consequently, open to manipulation.

The relatively large percentage of respondents who indicated that they did not know whether they were making a profit, whether their sales were growing, whether or not they were able to cover operating expenses and/or expand without external funding indicates that financial control or knowledge of financial systems (or both) might be a challenge.

To maximise profits in a business it is necessary to raise turnover as high as possible, while keeping expenses as low as possible. To be able to do so requires financial knowledge and effective controls. Effective controls include regular financial analysis and budgeting. Brownley (2006:32) states that the measuring of performance and the results of a business decision is the only way to determine success and failure. Regular analyses equip the owners to make better business decisions.

The question that needs to be asked is how the board members in these co-operatives provide feedback to members at meetings unless they carry out regular analyses on the financial performance of the business.

In an entity with the structure of a co-operative a system of good governance is included in effective financial control. This in turn includes requiring more than one member to authorise payments since it improves accountability and transparency. Such a system also improves trust in an organisation.

Overall, the financial situation of the worker co-operatives in the study supports the findings of previous research. It indicates, moreover, that the co-operatives experience the same challenges as normal businesses as discussed under 3.3.2.

The low turnover levels and lack of profitability, even after the large majority have been operating for longer than three years, confirms Philip's (2003:20) submission that viability is a major concern in worker co-operatives.

Cornforth *et al.* (1988:34) found that worker co-operatives did not fail as soon after start-up as do conventional small businesses on account of an unwillingness to accept failure and more external assistance. It appears that the co-operatives in the study are kept afloat by artificial means, such as continuous funding. In a similar situation, owners of conventional businesses situation would struggle to secure funding for their businesses. This is confirmed by the fact that the largest proportion of respondents was of the opinion that co-operatives obtain funding more easily than other businesses do. Any owner of a business would have accepted defeat in the light of these turnover- and profit levels and personal income.

6.6.4 The Market, Marketing and Marketing Management

a) Customers

According to 42.2% of the co-operatives in the study, the majority of their income came from fewer than five customers, while two-thirds (66.77%) depended on fewer than twenty customers for the largest part of their turnover.

The table below presents a breakdown of the customer base per industry in which the co-operatives operate.

Table 16
Breakdown of number of customers per industry

Customers Interval (Total number of Customers)	Percentage of worker co-operatives per industry with total number of customers falling in that customer interval		
	Manufacturing	Agriculture	Service
1 to 5	46.43%	43.14%	38.89%
6 to 10	21.43%	5.88%	22.22%
11 to 20	3.57%	7.84%	16.67%
> 20	28.57%	43.14%	22.22%

The table and statistics underscore a general inability among worker co-operatives to penetrate their target market. This submission is confirmed by the marketing challenges they experienced (as discussed under (d) below).

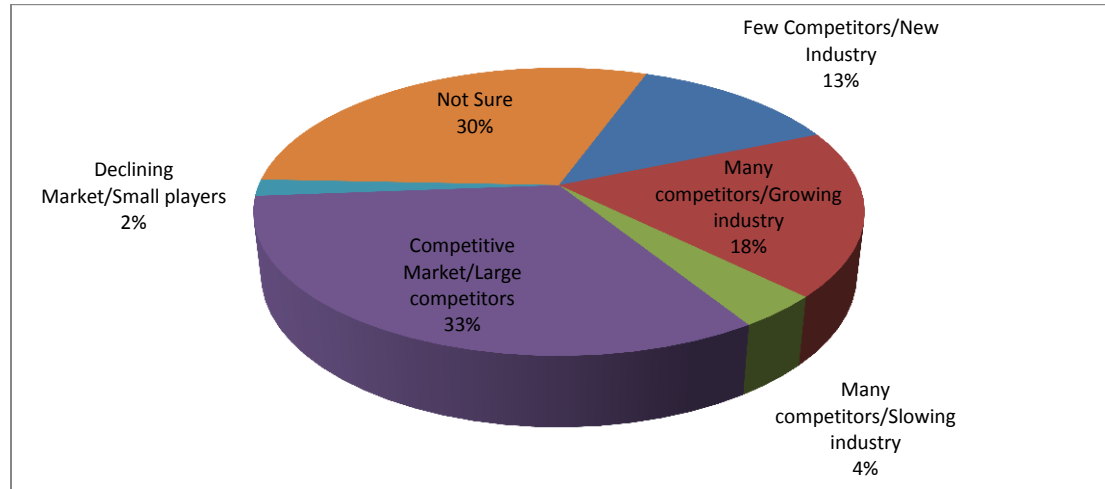
The findings support those of Philip (2003:20), as quoted under 3.3.2. that access to markets is most often the primary constraint for co-operatives as they find themselves unable to sell their products.

b) Market Perceptions

Of the participating co-operatives, 32.71% indicated that they were operating in a very large market with many large players, while 18.69% were operating in a growing market with many competitors. The graph below shows the co-operatives' perceptions of the market in which they operated.

Figure 13

Perception of worker co-operatives with regard to the market in which they operate



As may be seen, a large proportion of the co-operatives (29.91%) expressed uncertainty about their description of the market in which they were operating.

The results of the statistical analysis with relation to relative success are as follows:

Table 17
Descriptive Statistics and Effect Sizes for perception of competition in the industry for Relatively Successful vs. Unsuccessful Worker Co-operatives

		How would you describe the competition in your industry?						P-value (when random sampling is assumed)	Effect Size
		n	Few Competitors, new industry	Many competitors, growing market	Many competitors, slowing market	Very competitive, many large players	Declining market, small players		
Relatively Successful	Freq	11	0	6	2	3	0	.02*	Φ=.4 ^Δ
	%		0%	54.6%	18.2%	27.3%	0%		
Unsuccessful	Freq	64	14	14	2	32	2		
	%		21.9%	21.9%	3.1%	50%	3.1%		

^Δ - Medium Effect in practice at >=.3

* - Statistically significant at 0.05 level according to Chi-square results for independent groups

The table above shows that, to a medium effect, the largest proportion of the relatively successful co-operatives was perceived to operate in growing markets with many competitors. Most of the unsuccessful co-operatives (50%) tended to operate in very competitive markets with many large players.

These findings correspond with those of Staber (1993:139) as cited in Chapter 4, who indicated that co-operatives tended to operate in sectors where competition is rife.

Timmons (1999:89) submits that a large and growing market, in which the capture of a small market share can represent significant and growing turnover levels, is attractive. Nearly 55% of the relatively successful group indicated that they were operating in this type of market, versus 22% of the unsuccessful ones. A too large, stable and mature market will result in competition from large companies, driving down margins and profits. Unfortunately, this is where 50% of the unsuccessful co-operatives were positioned. Too small a market is likewise unattractive, but fourteen of the unsuccessful co-operatives indicated that they were operating in such a market.

Again, the number of those who were not sure is a concern, as knowledge of the market in which it operates is imperative for a business's survival.

c) Target Market

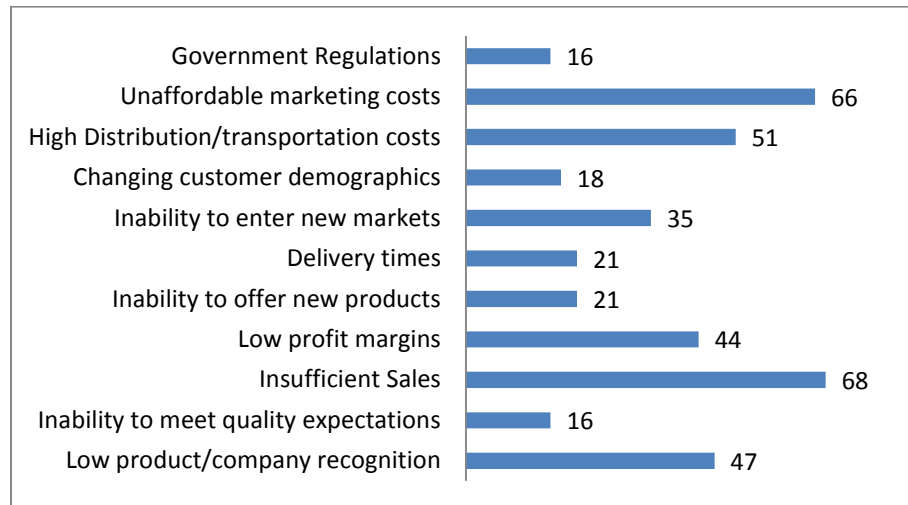
By far, most of the co-operatives in the study targeted local consumers (99 of the respondents) and local businesses (49) in their marketing efforts. This is in accordance with expectations and corresponds with the submission of Phillip (2003:20), quoted under section 3.3.2, that most co-operatives target their local market because it simplifies distribution and marketing. However, she indicates that these markets often tend to be poor, highly dispersed and buy a limited range of products. She also indicates that these markets are highly price- and brand sensitive and that local producers struggle to compete.

d) Marketing Challenges

As may be seen in the graph below, the predominant marketing challenges cited by the worker co-operatives in the study were insufficient sales, marketing costs,

transportation and distribution costs. This confirms the conclusion that access to markets is a major challenge among them.

Figure 14
Marketing Challenges experienced



Taking into account the financial position of the co-operatives, it is not surprising that four of the five challenges most of them faced were concerned with finance or had financial implications. The financial position and lack of profitability of most of the co-operatives in the study will prevent them from addressing the challenges faced with regard to access to markets. Moreover, they will, most likely, confine them to this position for a long time to come since they are unlikely to have the financial resources to increase their spending on marketing.

Two constructs with regard to marketing challenges were created, namely Marketing Capability Challenges and Marketing Financial Challenges in order to compare the major causes of marketing challenges in the co-operatives in the study. The results of the analysis show that these two constructs had virtually no effect on the relative success of the worker co-operatives. It may, therefore, be deduced that there were no differences in the challenges faced by the relatively successful group when compared to the unsuccessful group.

Of the respondents in the study, 64.86% was of the opinion that there was a large enough market for their products or services in their geographical area to render the business viable. A significant number (25.23%) of them did not know if the market

was large enough. This emphasizes the need for proper research to establish whether a sufficiently large market exists before start-up.

e) **Marketing Management**

By far most of the responding co-operatives (100) used Word of Mouth as a means of advertising their businesses. Logically, the way the business advertised will depend on its target market and financial position. The means of advertising is summarised in the following table:

Table 18
Number of respondents using different advertising methods

Means of advertising			
Method	Used	Method	Used
Pamphlets	37	Personal Selling	27
Brochures	26	Radio/Television	12
Local/Regional Newspapers	24	E-mails/SMSs	36
National Newspapers	3	Trade shows/Expos	15
Magazines	6	Websites	13
Word of Mouth	100	Other	26

Of the co-operatives, only 43.93% indicated that their competitors advertised in the same way as they did. For the relatively successful group, the figure was 46.15%. The statistical analysis on relative success, therefore, showed no significant effect ($\Phi=.02$, $p=.86$) in this regard. As worker co-operatives depend heavily on word of mouth and, to a lesser degree, on pamphlets to market their businesses, it is unlikely that they use more innovative marketing techniques than their competitors. This confirms the conclusion that the co-operatives were unable to advertise their products and services effectively due to the marketing challenges they experienced.

This conclusion is further supported by the fact that only 10.91% of the co-operatives in the study spent time and money on marketing activities and only 13.52% did market research on a regular basis. Moreover, there was no significant difference between the amount of market research done by the relevant successful group when compared to the unsuccessful group ($d=.16$, $p=.6$)

For the strategic management of any business entity it is imperative that the owners/members have an intricate knowledge of the market in which it operates and what the business's competitors are doing. This is confirmed by Timmons (1999:223) when he states that successful entrepreneurs are intimately familiar with their industries, customers and competition.

For the worker co-operatives to be able to gain any form of competitive advantage, to increase turnover and, consequently, surpluses, members need to know this as well as the services provided by competitors and their pricing. Market research will provide information on the position of opportunities in the market. It will provide early warning with regards to threats, including new entrants and changes in technology that will influence the business. However, for this to happen, market research needs to be carried out on a regular basis, whereas the findings indicate that very few of the co-operatives in the study engaged in research activities.

f) Customer Relations and Quality Management

Questions regarding the co-operative having a formal customer relations policy and system in place and whether it had a system of customer feedback in place were used to form a Customer Relations construct. The results obtained during the statistical analysis were as follows:

Table 19

Descriptive Statistics and Effect Sizes for the Customer Relations construct for Relatively Successful vs. Unsuccessful Worker Co-operatives

Construct	Group	n	Min	Max	Mean	Std Dev	p-value (when random sampling is assumed)	Effect Size (d)
Customer Relations	1	13	1	2	1.19	0.38	.001*	1.02 ^{ΔΔ}
	2	98			1.64	0.44		

Note: Group 1 = Relatively Successful, Group 2 = Unsuccessful

Δ - Medium Effect in practice at >=.5

* - Statistically significant at 0.05 level according to t-test results for independent groups

The above shows that the relatively successful co-operatives, with a practically significant effect, tended to utilise the indicated customer relations systems, while the unsuccessful ones tended not to have them in place.

To the question whether their products or standards conformed to accepted standards in the market, 57.27% of the co-operatives reflected that they were. Although eleven of the relatively successful co-operatives indicated that their products or standards conformed to accepted standards in the market, the effect calculated through the statistical analysis of relative success remained small and not statistically significant ($\Phi=.2$, $p = .08$).

Again, the fact that nearly a third of the respondents (29.09%) did not know whether their products conformed to accepted standards gives rise to concern. Although this is a perception issue, it would be expected that any business owner (or in this case, member/s of the co-operatives) should know what the expected quality of products or standards in the market is and have an idea of the quality of their products or services compared to those expectations.

g) Networking

Although the management of 69.44% of the co-operatives in the study had frequent contact with other business or co-operatives, it appears that apart from normal business related contact, the worker co-operatives operate in isolation. Of their number, only 7,48% belonged to a secondary co-operative and only one had representation in a tertiary co-operative.

On account of the low membership in co-operative structures and the fact that none of the relatively successful co-operatives belonged to any co-operative structure, the statistical analysis showed no significant differences between the relatively successful group and the unsuccessful ones with $\Phi=.1$ ($p=.5$).

These results are not in line with the expectations of the sixth ICA principle, which recommends co-operation among co-operatives (ICA,2010:1). This situation will

deprive the co-operatives of the bargaining power, technical support, training support, market opportunities and potential influence on policies and politics the formal co-operative structure can offer them. It is possible that the financial implications of belonging to a secondary co-operative may have an influence on the low levels of participation in the formal co-operative structure.

The importance of co-operatives taking part in the secondary and tertiary structures of the co-operative movement was discussed under 3.2.6.

Of the participating co-operatives, 20.20% belonged to their local business chamber, 6.9% to an industry organisation and 13.33% to other business organisation.

The Networking construct combined the questions regarding contact with other businesses and membership of industry and business organisations. However, the statistical analysis showed a very small effect of no statistical significance whatever ($d=.4$, $p=.11$).

It is clear that the co-operatives do not understand the value of networking and the positive influence this may have on their business operations. Membership of the formal co-operative structure, business and industry organisations can play a decisive role in improving the low company recognition many of the co-operatives cited as a challenge under (d) above. The correct business linkages can also strengthen the competitive ability of the co-operative. Timmons (1999:285) states that networking can also be a cost-saving measure in terms of advice and knowledge, since many business people are prepared to part with knowledge. Networking further provides opportunities to gain resources at a fraction of the normal cost.

From this section's findings it is clear that the worker co-operatives were unable to penetrate the markets in which they operated and market their business activities effectively. The fact that many of them were operating markets that will not allow them to

grow and compete effectively aggravated their circumstances. Furthermore, they rarely engaged in market activities and market research.

On the whole, the unsuccessful group tended towards failure to have a system of customer feedback in place, and many of them did not know if their products conformed to accepted standards in the market. This could result in their being exposed to negative word of mouth for failing to address customer needs.

From the analysis of the marketing challenges they were experiencing it is clear that the co-operatives in the study might not have the financial abilities to market their businesses effectively. A lack of creativity in terms of marketing on a stringent budget might also be a problem.

6.6.5 Operations and Operations Management

a) Stock Control

Of the co-operatives that took part in the survey, 57.66% carried stock. Of these, 98.46% had a formal stock control system in place. Of this number, their stock control systems allowed 75% to keep stock to a minimum, to know what stock to purchase and when the relevant time for refill of stock occurred.

The stock control construct investigated the presence of a stock control system and its effectiveness. The results of the statistical analysis of the construct in terms of relative success were as follows:

Table 20

Descriptive Statistics and Effect Sizes for the Stock Control construct for Relatively Successful vs. Unsuccessful Worker Co-operatives

Construct	Group	n	Min	Max	Mean	Std Dev	p-value (when random sampling is assumed)	Effect Size (d)
Stock Control	1	12	1	2	1.19	0.36	.02*	.7 ^Δ
	2	91			1.52	0.44		

Note: Group 1 = Relatively Successful, Group 2 = Unsuccessful

^Δ - Medium Effect in practice at $\geq .5$

* - Statistically significant at 0.05 level according to t-test results for independent groups

From the analysis, it is clear that the relatively successful group of worker co-operatives, with a medium effect, tended to have a stock control system in place which allowed for effective stock control, whereas the unsuccessful group tended to lack such a system in place.

b) Process Control

Of the respondents in the study, 50.93% indicated that they had a documented system in place to handle orders. Of this number, 45.71% had bottlenecks that kept them from operating at full capacity. During the comparison regarding their bottlenecks between the relatively successful and the unsuccessful groups the following results were obtained:

Table 21

Descriptive Statistics and Effect Sizes for Bottlenecks for Relatively Successful vs. Unsuccessful Worker Co-operatives

Do you have bottlenecks that keep you from operating at full capacity?						
		n	Yes	No	p-value (when random sampling is assumed)	Effect Size
Relatively Successful	Frequency	7	2	5	.02*	$\Phi=.3^{\Delta}$
	Percent		28.57%	71.43%		
Unsuccessful	Frequency	65	46	19		
	Percent		70.77%	29.23%		

^Δ - Medium Effect in practice at $\geq .3$

* - Statistically significant at 0.05 level according to Chi-square results for independent groups

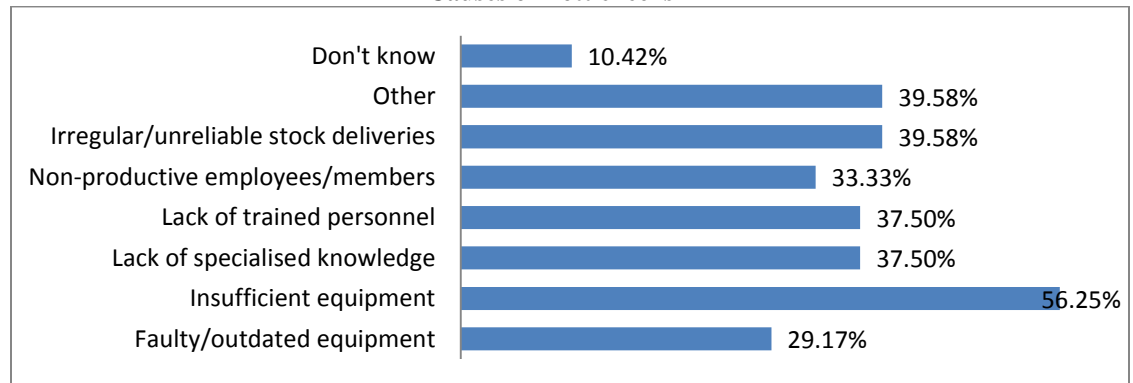
From the table it may be deduced that, to a noticeable effect, the relatively successful co-operatives tended not to experience bottlenecks which hampered operations, while the unsuccessful group tended to experience such bottlenecks.

Of the respondents, 31.43% did not know if they had any bottlenecks. Once again, this is a matter for concern. Those who had identified bottlenecks are at least able to address this issue, but those who did not know would not know how to improve productivity and/or production. This high number could again be ascribed to ignorance, but might also indicate indifference.

The most prevalent cause of bottlenecks identified was insufficient equipment, with 27 of the co-operatives experiencing this challenge. Nineteen of the co-operatives identified insufficient or irregular deliveries of stock as a cause of bottlenecks. The following graph shows the different bottlenecks identified and their prevalence.

Figure 15

Causes of Bottlenecks



Only 20% of the responding co-operatives indicated total success in addressing the bottlenecks in their processes, with 52.96% indicating mixed success and 27.14% failing any success whatever.

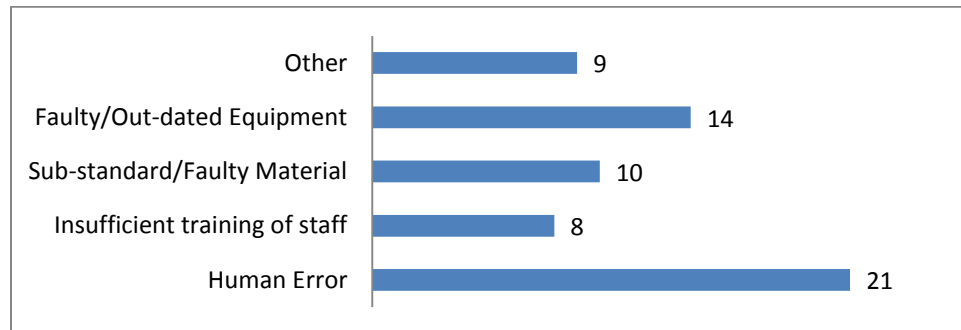
Of the co-operatives, 22.86% indicated that reject rates were not applicable to their operations. Of the others, 41.98% declared that their reject rate was at acceptable levels, with a further 41.98% failing to know if their reject rates were acceptable. A comparison between the relatively successful group and the unsuccessful group showed no statistically significant difference in this regard, with $\Phi=0.2$ ($p=0.1$)

The fact that such a large percentage of the co-operatives indicated their lack of knowledge whether their reject rates were acceptable is of concern. This high number could possibly be due to one or more of the following factors:

- Ignorance regarding what acceptable reject levels in their industry would be;
- Ignorance regarding the calculation of reject levels;
- Indifference to or ignorance of the importance of keeping reject levels as low as possible, and/or;
- Management indifference or incompetence.

Most of the responding co-operatives cited human error as the main cause of their rejects, with faulty or out-dated equipment being the second largest contributor to reject levels. The following graph indicates the main causes of reject rates as identified by the respondents.

Figure 16
Causes of Rejects



The Human Operational Challenges construct combined the challenges experienced regarding bottlenecks and rejects traceable to human factors, while the Equipment Operational Challenges construct combined the equipment challenges and those experienced with production material. The results of the statistical analysis were as follows:

Table 22

Descriptive Statistics and Effect Sizes for the Operational Challenges constructs for Relatively Successful vs. Unsuccessful Worker Co-operatives

Construct	Group	n	Min	Max	Mean	Std Dev	p-value (when random sampling is assumed)	Effect Size (d)
Human Operational Challenges	1	3	1	2	1.33	0.58	.67	.3
	2	45			1.17	0.33		
Equipment operational Challenges	1	6	1	2	1.08	0.20	.35	.3
	2	44			1.18	0.36		

Note: Group 1 = Relatively Successful, Group 2 = Unsuccessful

^Δ - Medium Effect in practice at $\geq .5$

* - Statistically significant at 0.05 level according to t-test results for independent groups

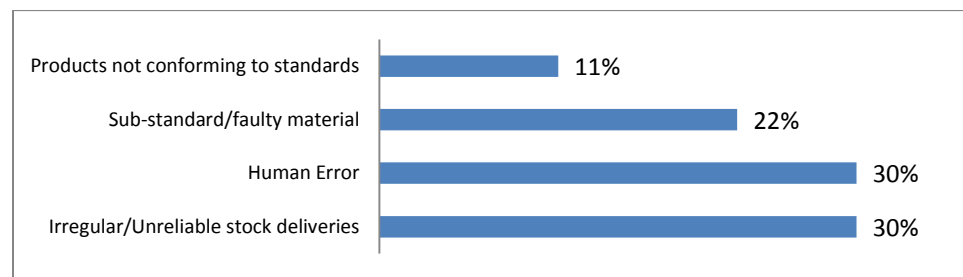
The table indicates that there were no statistically significant differences between the operational challenges experienced by the relatively successful worker co-operatives in the study and the unsuccessful co-operatives. In fact, both groups tended to experience both types of challenges (mean < 1.5), although in the

relatively successful group equipment challenges appeared to be more prevalent than human resource challenges.

Of the worker co-operatives taking part in the survey, eighteen (16.2%) experienced both human and equipment-related challenges in operations.

Of the responding co-operatives, only 25% had a form of quality control system in place in order to control every step of the production or service delivery process. However, all these worker co-operatives nonetheless experienced operational challenges which should have been eliminated by such a system. The following graph summarises the findings in this regard:

Figure 17
Operational challenges experienced by Worker Co-operatives with a Quality Control System in place



Implementation and maintenance of a quality control system requires both diligence and effort. The above graph casts some doubt over both the quality of the implemented systems and the diligence with which these systems are maintained.

Forty-one of the respondents indicated that keeping record of goods returned were not applicable to them. Of the others, 53.73% indicated they did not keep record of either returned goods or the reasons for return. Of those who did not keep records of returned goods, 17.11% indicated that their products did not conform to acceptable market standards.

Of the co-operatives, 46.30% indicated that they fully utilised their production capacity and 10.19% did not know whether they did. This aspect had no statistically significant effect on relative success, with $\Phi=.2$ ($p = .09$).

Of those who fully utilised their production capacity, 34% cited insufficient equipment and 56% insufficient sales as challenges. The prospects for success of these co-operatives and those unsuccessful co-operatives which were utilising their full capacity look bleak. They will be unlikely to be able to improve turnover levels without improving capacity and will be unable to access loan funding given their financial position.

Of the co-operatives in the study, only 18.69% calculated and managed distribution costs on a continual basis, while 52.33% did so infrequently and 9.35% never did.

Of the co-operatives that were surveyed, 84.26% indicated that their staff were adequately trained to operate the tools and equipment utilised in operations. Of this number, 59.81% declared that their plant and equipment complied to industry standards on health and safety. Again, a large number (29.91%) did not know whether their equipment complied to health and safety norms.

The Operations Administration construct included questions on operational record-keeping and the presence of a quality control system, while the Operational Capabilities construct considered the training of members and employees to operate equipment and the compliance of equipment with accepted standards. The results of the statistical analysis of the above mentioned constructs with regard to relative success were as follows:

Table 23

Descriptive Statistics and Effect Sizes for the Operations Administration and Operational Capabilities constructs for Relatively Successful vs. Unsuccessful Worker Co-operatives

Construct	Group	n	Min	Max	Mean	Std Dev	p-value (when random sampling is assumed)	Effect Size (d)
Operations Administration	1	13	1	2	1.53	0.31	.43	.2
	2	95			1.60	0.40		
Operational Capabilities	1	13	1	2	1.00	0.00	<.0001*	.5 ^Δ
	2	95			1.17	0.33		

Note: Group 1 = Relatively Successful, Group 2 = Unsuccessful

^Δ - Medium Effect in practice at $\geq .5$

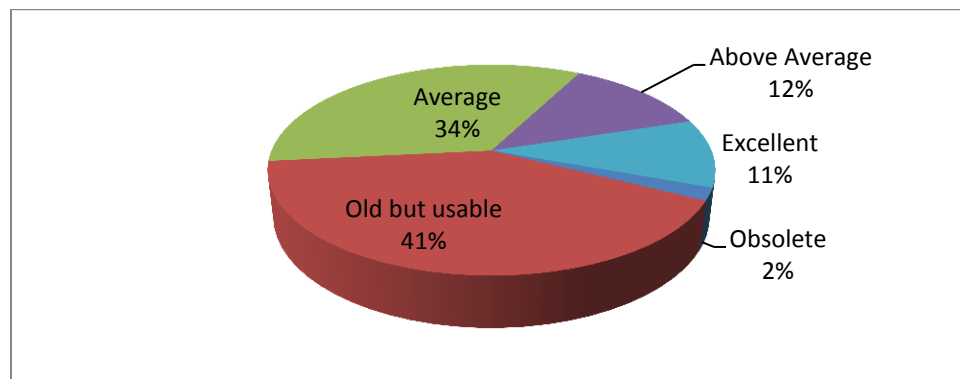
* - Statistically significant at 0.05 level according to t-test results for independent groups

No statistically significant effect was found in terms of Operations Administration. However, in terms of Operational Capabilities, it is evident (with a mean of 1 and standard deviation of 0) that all the relatively successful co-operatives indicated that their people were adequately trained to handle their equipment and that their equipment complied with industry norms on health and safety. For this reason a medium (noticeable) effect was obtained during the analysis.

Of the study group, 40.95% described their equipment as old but usable, while 34.29% described their equipment to be in an average state. The following graph shows the condition of equipment in the co-operatives taking part in the study:

Figure 18

Condition of Equipment in Worker Co-operatives



Of the respondent co-operatives, 56.73% never or rarely experienced equipment downtime. Only 7.69% of them experienced downtime on a regular or continuous basis.

From the above it is evident that there are challenges with regard to process control within the co-operatives which participated in the study.

Most of the co-operatives experienced bottlenecks which were caused by various combinations of human and equipment factors. Although some did have quality control systems in place, these appeared to be mostly ineffective since all continued to experience operational challenges.

6.6.6. Human Resources

Other than members, 431 people were employed by the co-operatives in the study. Of this number, 40.63% employed no staff beyond members while 27.08% employed only temporary workers. Of those who employed staff, 25.32% employed five or fewer people. The statistical mean for number of employees was 9.17.

a) Remuneration and Working Conditions

Of the respondents, 75.25% indicated that the remuneration of employees and members were in line with industry norms. This is in stark contrast with the fact that 65.93% of members earned less than R500 per month as discussed earlier. This indicates that the co-operatives are not aware what their different industries' norms are, except in comparison with other worker co-operatives.

In 72.90% of the co-operatives, all members earned the same income. There was no marked statistical difference ($\Phi=.2$, $p=.1$) in this regard when the relatively successful co-operatives and unsuccessful co-operatives were compared.

In terms of member remuneration, only 13.76% of the surveyed co-operatives had in place a reward system that compensated members in terms of contribution, performance and results. Likewise, only 23.15% differentiated member income in terms of experience, seniority and qualifications and only 19.27% did so in terms of skills and responsibilities.

The HR Remuneration construct contained the questions relating to member income being in line with industry norms and differentiation with regard to wages and rewards and incentives. The results showed that there was virtually no difference in

the way the relatively successful co-operatives and the unsuccessful ones approached remuneration of employees ($d=.04$, $p=.9$). Given the financial position of the worker co-operatives in the study, this is not surprising since they are unlikely to have the financial resources to reward individual members financially in terms of seniority, experience, qualifications, contribution, performance and results. However, Timmons (1999:280) submitted that in successful teams rewards are based on contribution, performance and results over time. He further states (285) that the reward system needs to recognise the difference in contributions by individual members and that rewards need to be a function of performance.

Notably, 67.67% of the respondents did not know if such a difference existed, 16.15% did not know if they paid members or employees according to their skills and responsibilities and 18.35% did not know if they had a reward system in place. This could show either indifference or a lack of knowledge on what differentiation in terms of wages and a reward system could do in terms of the retention and motivation of key members and employees in the co-operative.

This important aspect was discussed under 3.3.3. In this section Philip (2003:22) was quoted as having pointed out that, in order to be competitive, co-operatives need to optimise productivity. To achieve this goal division of labour as well as differentiation of skills and, consequently, differentiation in wages are necessary.

Of the respondents, 67.89% were of the opinion that proceeds were shared in a fair and just way among members, while 23.85% did not know if this was the case. There was no statistically significant effect regarding this aspect in terms of relative success, with an effect size of $d = .13$ and $p=.39$. Complaints from members were never or rarely received in this regard by 64.49%, while 35.51% frequently received such complaints.

Members of 61.47% of the co-operatives, never or rarely worked overtime, while 31.19% sometimes worked overtime. A total of 64.49% never or rarely paid their members for overtime worked, while only 15.89% always did so. There was no significant statistical difference between the relatively successful group and the

unsuccessful group with regard to the remuneration of employees for overtime worked ($d=.2$, $p=.6$).

b) HR Policies and Systems

Fifty-seven of the co-operatives in the study (51.35%) made use of formal procedures to address misbehaviour, while 56 (50.45%) of them utilized informal sanctioning. Two of the responders indicated that they used both ways of addressing misbehaviour.

Of the responding co-operatives, 62.13% indicated that relationships within the co-operative were built on trust only, while the rest indicated that formal contracts were utilized to regulate the relationships among members.

Two constructs were created to test the effect of HR Systems statistically. HR Systems 1 tested the presence of formal procedures of member sanctioning and the use of formal contracts to regulate the relationships between members while HR Systems 2 calculated the effect of informal sanctioning and relationships being governed by trust only. The results of the statistical analysis with regard to relative success were as follows:

Table 24

Descriptive Statistics and Effect Sizes for the HR System constructs for Relatively Successful vs. Unsuccessful Worker Co-operatives

Construct	Group	n	Min	Max	Mean	Std Dev	p-value (when random sampling is assumed)	Effect Size (d)
HR Systems 1	1	10	1	2	1.15	0.34	.05*	.6 ^Δ
	2	76			1.41	0.45		
HR Systems 2	1	11	1	2	1.59	0.49	.07	.6
	2	87			1.28	0.42		

Note: Group 1 = Relatively Successful, Group 2 = Unsuccessful

^Δ - Medium Effect in practice at $\geq .5$

* - Statistically significant at 0.05 level according to t-test results for independent groups

From the above it is clear that, to a medium effect, the relatively successful group tended to have more formal systems for sanctioning and the regulation of relationships in place than the unsuccessful group.

Of the co-operatives, 99.83% had training options and/or the sharing of technical skills available to members and employees. Of the co-operatives, 49.54% did not utilize a job-rotation system, while 8.26% of the respondents did not know whether or not they did.

c) **HR Challenges**

Of the surveyed co-operatives, 14.64% indicated that members complained that the working hours and the circumstances within their co-operative had an effect on their personal lives.

This finding is not surprising given the fairly low percentage of co-operatives with members who worked overtime, as discussed under (a) above. This is in contrast with the literature reviewed under 3.3.3, where the long working hours and self-exploitative nature of work in worker co-operatives were discussed. If read together with the low turnover levels and the challenges discussed under marketing, this may support a conclusion of low market penetration levels and imply that it is not necessary for the members and employees to work overtime on account of a lack of demand for their products or services.

Of the co-operatives, 14.55% indicated that members had left the co-operative in the past because of low income levels. Only 6.36% had members that had left because of long working hours.

Of the co-operatives, 40.91% described member motivation or morale to be fairly positive, 20.91% described it as very positive, while 30.91% described the morale as indifferent.

The number of co-operatives with members who complained about other members not pulling their weight on a regular basis numbers 50.91%. This confirms the findings of Cornforth *et al.* (1988:105), as quoted under 3.3.4, who found that the performance of other people was a source of tension within worker co-operatives.

The tension originates from the perception that others are not working hard enough, have the wrong attitude to work or are seen to lack commitment.

The complaints could also stem from the lack of differentiation in wages, as discussed under (c) above. Philip (2003:22) states that equal pay causes conflict as members with more skills, those who work more efficiently or those who do high quality work, feel that it is unfair that they receive the same remuneration as those who do not do so.

Of the respondents, 58.19% indicated that they never or rarely experienced problems with absenteeism. However, the fact that more than 41% of them did experience these problems more often in a varying degree, might indicate underlying problems, such as lower than perceived morale than the respondents were willing to admit to. It could also indicate a lack of commitment from members to the co-operative as a business enterprise.

Of the responding co-operatives 74.55% had never had members leave the co-operative for other employment opportunities.

The Working Conditions construct combined the questions with regard to working hours, low income levels and the influence of the co-operative on members' personal and family lives. The results of the statistical analysis with regard to relative success were as follows:

Table 25

Descriptive Statistics and Effect Sizes for the Working Conditions construct for Relatively Successful vs. Unsuccessful Worker Co-operatives

Construct	Group	n	Min	Max	Mean	Std Dev	p-value (when random sampling is assumed)	Effect Size (d)
Working Conditions	1	12	1	2	2.00	0.00	.0001*	.5 ^Δ
	2	96			1.87	0.27		

Note: Group 1 = Relatively Successful, Group 2 = Unsuccessful

^Δ - Medium Effect in practice at $\geq .5$

* - Statistically significant at 0.05 level according to t-test results for independent groups

The results show that all the respondents of the relatively successful group have reported no adverse working conditions (Mean = 2, standard deviation = 0), while the unsuccessful group tended to experience more negative effects in terms of working conditions.

The Motivation construct combined the questions with regard to members complaining about other members not doing their part, members working overtime on a regular basis and members leaving the co-operative for other employment opportunities. However, there was no statistically significant effect in this regard between the members of the relatively successful worker co-operatives and the unsuccessful ones, with $d=.3$ ($p=.3$).

There is a lack of formalisation with regard to Human Resources evident in the study. This submission is based on the following:

- The general lack of differentiation in remuneration.
- Only about half of the co-operatives (56.5%) complied with the Basic Conditions of Employment Act.
- Less than half of them (49.55%) were registered with the relevant authorities, such as SARS, UIF and the Compensation Commissioner.
- Less than 40% of them had formal contracts with members.

It was, therefore, surprising that only 17.5% of the supported co-operatives received assistance in terms of HR Systems.

6.6.7. Management Processes

a) Organisation and Systems

Out of the surveyed co-operatives, 74.55% indicated that all members of the co-operative were part of management, 23.64% used a Representative Board and 1.82% had a management structure of more than two levels. Such management structures depend on the size of the co-operative in terms of membership. Given the relatively small size of the worker co-operatives in the study, where 36.7% had

five members, as discussed under 6.6.2 (a), the large number of co-operatives where all members are part of management comes as no surprise.

Those co-operatives which indicated that they did not employ the services of a manager for the day-to-day running of business activities comprised 66.06%. Taking into account the turnover and profitability levels of the co-operatives it is doubtful whether the 33.94% who indicated that they do employ the services of a manager could afford the services of a professional person.

Of the co-operatives, 62.73% indicated that they do not have documented management systems and policies in place. Again, there was no significant effect evident from the comparison between the relatively successful group and the unsuccessful group in this regard ($\Phi=.2$, $p=.05$).

Only 54.13% of the co-operatives indicated that they had formal goals and objectives. There was no statistically significant difference found when the unsuccessful and relatively successful groups were compared ($\Phi=.1$, $p=.2$).

b) Decision-making Processes

Of the respondent co-operatives, 24.27% submitted that during their democratic decision-making processes options were discussed and decisions were taken quickly, but 17.48% indicated that their processes did not work at all.

A practically significant effect was found with regard to the description of the decision-making processes and relative success during the statistical analysis. The following table summarises the results:

Table 26**Descriptive Statistics and Effect Sizes for decision-making processes for Relatively Successful vs. Unsuccessful Worker Co-operatives**

Which one best describes the democratic decision-making process in the co-operative?				
	Relatively Successful		Unsuccessful	
	Freq	%	Freq	%
Number of respondents (n)	12		91	
Discussed by everybody, decision made quickly	0	0.0%	25	27.47%
Major decisions left to the Board	0	0.0%	14	15.38%
Members actively take part	5	41.67%	25	27.47%
Takes too long to finalise	0	0.00%	1	1.10%
Debated lively, but constructively	1	8.33%	4	4.40%
Members do not take part as they should	0	0.0%	4	4.40%
Major decisions accompanied by conflict	0	0.0%	0	0.0%
The system does not work at all	2	14.67%	16	17.58%
Members sometimes do not understand what decisions are about	0	0.0%	0	0.0%
The system works fairly well	4	33.33%	2	2.20%
The system works extraordinarily well	0	0.0%	0	0.0%
p-value (when random sampling is assumed)	.0009*			
Effect Size	$\Phi=.5^{\Delta\Delta}$			

^Δ - Medium Effect in practice at $\geq .3$

* - Statistically significant at 0.05 level according to Chi-square results for independent groups

As may be seen, sixteen of the eighteen co-operatives which indicated that the system did not work at all fell in the unsuccessful group. In general, the results show that there are clear challenges with regard to decision-making in some worker co-operatives. This is supported by the number of respondents who were of the opinion that the system in their co-operatives do not work at all, those who indicated that members do not take part in the processes as they should or that decisions take too long to finalise and the large number who indicated that major decisions are left to the board. This means that decision-making poses challenges in a third of the co-operatives (37) in the study. It suggests moreover that the principle of democratic control, which is clearly practically significant for the success of co-operatives, does not work as it should. If decision-making processes pose challenges, this fact will lead some members to feel that they are being alienated from the management processes in the co-operative and result in discontent and conflict.

Major or Strategic decisions are made by all members during a meeting in 84.55% of the co-operatives. These decisions were left to the Board by 14.55% while in one of the co-operatives these decisions were taken by the Chairperson.

Again, the large number of co-operatives who left these decisions to the board (or to the chairperson of the board!) is disconcerting. Members, as owners of the enterprise, should have a say in the strategic direction of the co-operative in order to exercise their ownership rights effectively for the sake of the principle of member democratic control.

In 61.90% of the co-operatives day-to-day decisions are made by all members during a meeting, while 20.95% left these decisions to the manager and in 16,19% the day-to-day decisions were taken by the Board. Again, there was no statistically significant difference between the relatively successful and unsuccessful groups in this regard ($\Phi=.2$, $p=.4$). However, it was found that for those who indicated that day-to-day decisions were taken by members during meetings, only 21.5% met once a week, while 44.6% of them met once a month and 30.7% indicated that they met more than once a month but less than once a week. This begs a question with regard to the effectiveness of decision-making processes in these co-operatives, if the largest proportion made operational decisions only once a month.

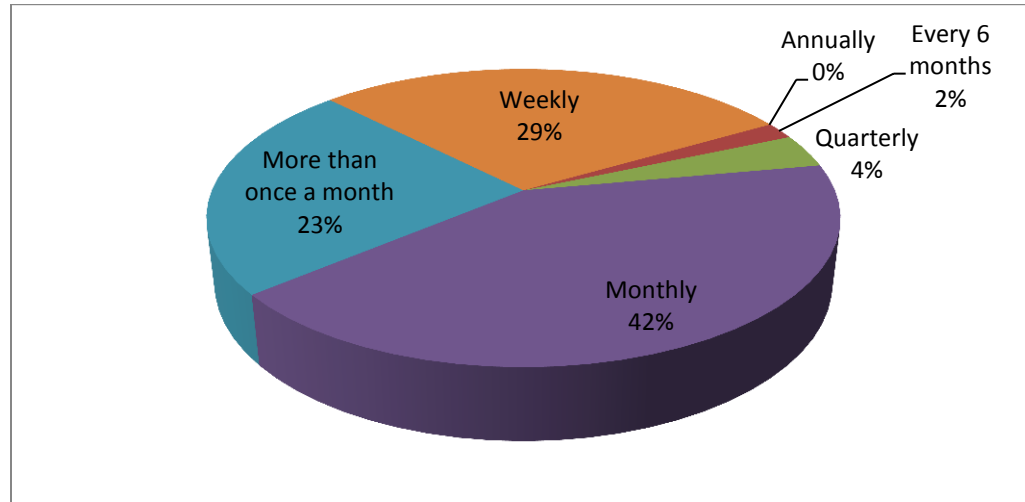
Philip (2003:5), as quoted under 3.3.4, highlights the tension between democratic decision-making processes and business efficiency.

c) Communication

The following graph depicts the frequency of member meetings within the co-operatives. As may be seen, 41.82% of the co-operatives in the study indicated that they held meetings once a month, while 29.09% held meetings once a week.

Figure 19

Frequency of member meetings



d) Teamwork and Conflict Management

Of the respondents, 66.36% described the situation in their co-operative as being one of minor conflict from time-to-time. According to 5.45% there is regular conflict among individual members, with one co-operative admitting to constant conflict.

Tension and disagreement on account of difference in leadership styles occurred at least sometimes in 50.01% of the boards of the participating co-operatives, while conflict resulting from differences of opinion on what is in the best interest of members occurred at least sometimes in 55.05% of the co-operatives. In 37.6% of the co-operatives, personal conflict among members occurred on a regular basis, while 89.89% confessed that personal conflict between members do occur to some degree.

The above supports the finding by Cornforth *et al.* (1988:147) as quoted under 3.3.10 that the clashing of different leadership styles is a major source of conflict in worker co-operatives and may lead to splits. Cornforth *et al.* (1988:155) also found that differences in opinion on what is in the best interests of members are inevitable since there is frequently a conflict between what is necessary for the long-term

survival of the co-operative (which is in the interests of members) and the personal, immediate needs and expectations of individual members.

In order to analyse the conflict and potential for conflict experienced in the co-operatives taking part in the survey, a conflict construct was established. This construct combined questions on complaints from members, tension and conflict. However, no statistically significant difference in terms of conflict with regard to decision-making and complaints between the relatively successful and unsuccessful groups was found ($d=.2$, $p=.38$). This means that both groups experience nearly the same amount of conflict, as discussed earlier.

Working conditions may also lead to conflict. Therefore, the results obtained during the analysis of the Working Conditions construct, as discussed under 6.6.6. (c) should likewise be kept in mind.

As indicated under 3.3.11, personal conflict is inevitable in worker co-operatives and there are different sources of this conflict which need to be addressed.

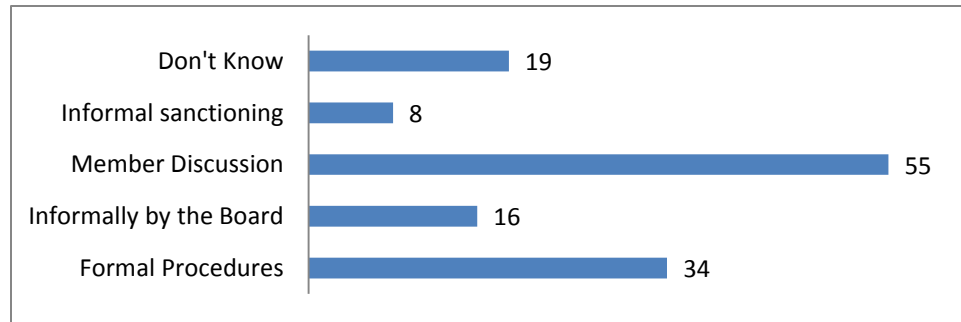
Timmons (1999:281) is of the opinion that team members who complement, not duplicate, each other, contribute high value to the business. However, teams that are ill-conceived from the outset may easily be caught up in unexpected responses to crises, conflict and changes. This is one of the reasons why development agencies should not initiate, or interfere in, the formation of worker co-operatives.

Fifty-five of the co-operatives in the study indicated that conflict and tension within the organization were resolved through member discussions, while 34 indicated that formal procedures were in place. Nineteen indicated that they did not know how conflict resolution was done.

The following graph summarises the different ways in which conflict and tensions were resolved.

Figure 20

Means of tension and conflict resolution utilised



None of the relatively successful co-operatives in the study used a system of informal sanctioning in order to resolve conflict and tension, while eight unsuccessful co-operatives, as indicated in the graph above, did so. No statistically significant effects were found in the conflict and tension resolution systems during the statistical analysis of the relatively successful and unsuccessful groups.

Of the co-operatives in the study, 27.27% described the teamwork within the co-operative as totally harmonious, which is not credible since minor conflict, indicated by the above discussed results, is bound to happen wherever a group of people works together in close proximity.

e) Strategic Management

Two Strategic Management constructs were developed in order to analyse the levels of strategic management within the worker co-operatives in the study. The Strategic Management 1 construct dealt with the knowledge and control over expenses, distribution costs and overhead expenses, the utilisation of financial analysis and market research. The Strategic Management 2 construct dealt with market analysis, customer feedback and returns of goods, the handling of orders, quality control, the availability of technical skills and the sharing thereof, job rotation, management systems, policies, and goals and objectives.

The results of the statistical analysis with regard to these constructs are as follows:

Table 27

Descriptive Statistics and Effect Sizes for the Strategic Management constructs for Relatively Successful vs. Unsuccessful Worker Co-operatives

Construct	Group	n	Min	Max	Mean	Std Dev	p-value (when random sampling is assumed)	Effect Size (d)
Strategic Management 1	1	13	1	5	3.31	0.85	.19	.4
	2	98			2.95	0.96		
Strategic Management 2	1	13	1	2	1.44	0.18	.40	.2
	2	98			1.48	0.21		

Note: Group 1 = Relatively Successful, Group 2 = Unsuccessful

Δ - Medium Effect in practice at >=.5

* - Statistically significant at 0.05 level according to t-test results for independent groups

The means obtained during the analysis show that, in terms of the Strategic Management 1 construct, the relatively successful group of worker co-operatives in the study tended at times to use the various ways of assisting with strategic management, while the unsuccessful group rarely did so. However, the effect obtained is not statistically significant. Moreover, there was no significant statistical difference between the two groups in terms of the Strategic Management 2 construct. These results imply that there is no significant difference in the strategic management practices of the two groups.

6.6.8. Support from external institutions

a) Pre-start-up research and planning

Market research was conducted before start-up for 48.1% of the co-operatives in the study and viability studies were done in 30.49% of cases. Complete business plans were developed for/by only 46.24% of the co-operatives in the study. Of this number, 14.4% indicated that no pre-startup research in any form has been carried out.

No pre-startup research was carried out for 11.47% of funded worker co-operatives and complete business plans were developed for only 47.54% of them. This means that 32 of the 61 worker co-operatives were funded or received grants without having submitted a business plan. These findings confirm the challenge with a lack of feasibility studies in development projects as identified by Harms (2012:5) and quoted under 5.4.5.

The three issues above, market research, viability studies and business plans before start-up, were combined in a Pre-startup Research construct as part of the statistical analysis. The following table represents a summary of the findings:

Table 28

Descriptive Statistics and Effect Sizes for the Pre-start-up Research construct for Relatively Successful vs. Unsuccessful Worker Co-operatives

Construct	Group	n	Min	Max	Mean	Std Dev	p-value (when random sampling is assumed)	Effect Size (d)
Pre-Start-up research	1	10	1	2	1.25	0.32	.45	.2
	2	81			1.34	0.41		

Note: Group 1 = Relatively Successful, Group 2 = Unsuccessful

Δ - Medium Effect in practice at $\geq .5$

* - Statistically significant at 0.05 level according to t-test results for independent groups

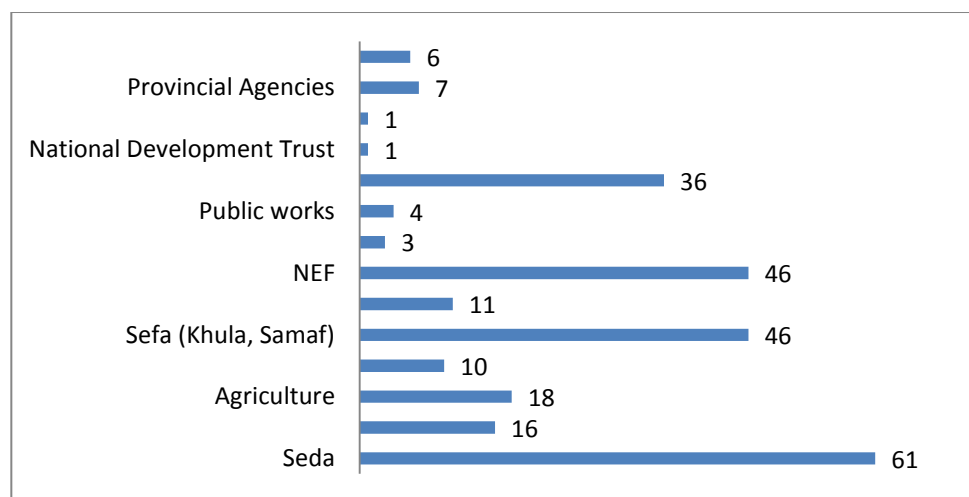
As seen above, there was almost no difference between the startup research carried out for the relatively successful co-operatives in the study and the unsuccessful ones.

b) Support from agencies and/or government departments

Sixty-one of the co-operatives indicated that they had received assistance from Seda, while forty-six had each received assistance from the NEF and Sefa. The following graph shows the involvement of development agencies and government departments in the co-operatives in the study.

Figure 21

Support received from support organisations by worker co-operatives, per organisation



As may be seen, Seda, Sefa, NEF and the DTi stand out in the support of the co-operatives in the study group.

c) Advice and support received

Of the responding co-operatives, 66.04% received advice and/or instructions from supporting organisations on how to operate, 60% on decision-making and 60.19% on how to handle financial affairs. The Advice construct was formed by combining the questions on these issues. The table below shows the results obtained:

Table 29
Descriptive Statistics and Effect Sizes for the Advice construct for Relatively Successful vs. Unsuccessful Worker Co-operatives

Construct	Group	n	Min	Max	Mean	Std Dev	p-value (when random sampling is assumed)	Effect Size (d)
Advice	1	13	1	2	1.18	0.29	.05*	.4
	2	95			1.38	0.47		

Note: Group 1 = Relatively Successful, Group 2 = Unsuccessful

Δ - Medium Effect in practice at >=.5

* - Statistically significant at 0.05 level according to t-test results for independent groups

It may be seen that the effect size with regard to this construct was small and that there was no noticeable difference in the advice received by the two groups.

The following graph shows the type of support received by the co-operatives.

Figure 22
Type of support interventions received by worker co-operatives



Thirty-four of the co-operatives in the study indicated that they received support on financial management and thirty-two received support on business planning.

With regard to support, four constructs were formulated. They were Mentorship and Coaching; Management and Operational Support; Financial Management Support, combining Procurement Processes and Financial Management, and; Marketing Support combining Marketing and Promotion with Tender Applications. The results of the statistical analysis revealed no statistically significant differences in the support received by the relatively successful group as compared to the unsuccessful ones.

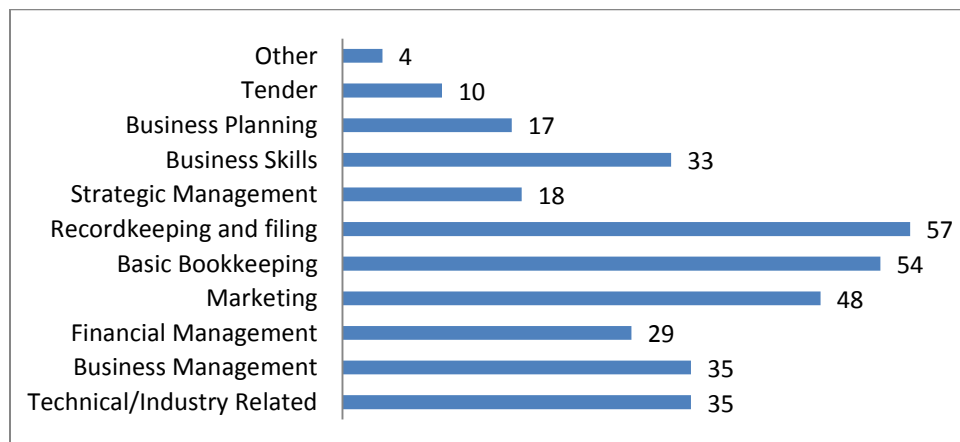
For this reason it may be deduced that the difference in success between the two groups were not due mainly to the amount of support they received. Although the unsuccessful group did not receive significantly less support than the relatively successful ones it did not make a difference to their success.

d) Training received

The most prevalent training received by co-operative members occurred in record-keeping and filing with fifty-seven of the participating co-operatives indicating that their members received training in this regard. The following bar chart shows the training and extent thereof received by the co-operatives in the study.

Figure 23

Training received from support organisations by co-operatives



The Training construct contained all the questions with regard to business training in the questionnaire. However, three constructs regarding specific types of trainings were also identified, namely:

- Management Training.
- Marketing Training, combining marketing and tender trainings.
- Financial Training, (financial management, basic bookkeeping and recordkeeping and filing trainings).

The results of the statistical analysis were as follows:

Table 30
Descriptive Statistics and Effect Sizes for the Training constructs for Relatively Successful vs. Unsuccessful Worker Co-operatives

Construct	Group	n	Min	Max	Mean	Std Dev	p-value (when random sampling is assumed)	Effect Size (d)
Training	1	13	1	2	1.26	0.23	.22	.4
	2	97			1.34	0.24		
Management Training	1	9	1	2	1.22	0.44	.76	.1
	2	63			1.27	0.40		
Marketing Training	1	7	1	2	1.21	0.39	.48	.3
	2	59			1.33	0.43		
Financial Training	1	9	1	2	1.15	0.29	.79	.1
	2	81			1.18	0.35		

Note: Group 1 = Relatively Successful, Group 2 = Unsuccessful

△ - Medium Effect in practice at $\geq .5$

* - Statistically significant at 0.05 level according to t-test results for independent groups

Again, there was no statistically significant difference with regard to training found between the relatively successful and the unsuccessful groups. As in the case of the support, the training made no significant difference to the success of the co-operatives in the study.

Although it may be argued that the organisations which provided the training had no control over how the recipients of training handled the knowledge they received during the training, the results show that serious questions will need to be asked with regard to the types of training conducted and the means by which the training is conducted with regard to practical knowledge gained.

e) **Other aspects with regard to support received**

Of the co-operatives in the study, 83.02% indicated that members make the decisions about the utilization of external funding and the use of funds after funding has been received while in 9.43% of the co-operatives board members made these decisions.

Of the co-operatives which received support from external institutions, 54.1% stated that they were very supportive while 6.55% considered them too prescriptive and 21.31% of the co-operatives indicated that they had not seen employees from these institutions since getting funded.

The high number of respondents indicating that they had not received any follow-up support since getting funded is in stark conflict with the need for sustained support, as suggested by Philip (2003:22) under 3.3.8.

One eighth (12.04%) of the respondents felt that they had been forced or coerced to make certain decisions during their interactions with employees of support organisations. There was no statistical difference found during the analysis of the relatively successful group and the unsuccessful ones ($\Phi=.04$, $p=.7$) in this regard.

Those worker co-operatives which indicated that they did not have regular contact with supporting agencies for advice, counseling, guidance or auditing purposes, numbered 54.55%. The comparison of the relatively successful and unsuccessful groups again resulted in no statistically significant difference ($\Phi=.05$, $p=.6$). This finding confirms the lack of after-care, coaching and mentoring identified by Harms (2012: 5) as discussed under 5.4.5.

6.7. The Impact of Support Initiatives on the operations of worker co-operatives

As seen from the discussion under 6.6.8 above, the support from external institutions had almost no statistical effect on the prospects of the worker co-operatives in terms of success. This section represents an effort to examine the effects of support initiatives in more detail.

For the analysis of the effect of support initiatives, the same constructs utilised for the comparison of the relatively successful and unsuccessful groups were again consulted. As stated, eighty of the worker co-operatives in the study had received support from support organisations at the time of the survey, while thirty one had not. It might be expected that the way the members of the two groups managed their co-operatives and operated them would be different as an effect of the support some of them had received. A discussion of the results obtained during the statistical comparison between the two groups follows below.

6.7.1. Effect of support initiatives on the financial position of worker co-operatives

All the co-operatives classified as successful and those classified as relatively successful were part of the group of worker co-operatives in the study that had received support. However, they only made up 2.7% and 11.71% of the total respectively. It should be borne in mind that nearly 89% of the supported co-operatives were in existence for more than three years. For this reason, the inability of 96.25% of them to meet all the criteria for success cannot be attributed to start-up challenges.

In the table below a summary is provided of the findings with regard to the effect of support initiatives on individual financial indicators.

Table 31
Effect of support initiatives on individual financial indicators in worker co-operatives

Factor	Supported	Unsupported	All	
% of Co-operatives that are profitable	41.1%	21.43%	35.64%	
% that are able to cover operational expenses	39.24%	20.69%	34.26%	
% that are able to expand operations without external funding	13.92%	10.34%	12.96%	
Member Income (per member pm)	<R200	31.34%	50%	36.26%
	R200 – R499	25.37%	41.67%	29.67%
	R500 – R954	17.91%	8.33%	15.38%
	R955+	25.37%	0%	18.68%
Turnover per month (< R10 000)	76.56%	87.50%	77.27%	
Positive Cashflow	Never	17.33%	21.43%	18.45%
	Rarely	28%	57.14%	35.92%
	Sometimes	26.67%	21.43%	25.24%
	Usually	17.33%	0%	12.62%
	Always	5.33%	0%	3.88%
	Don't Know	5.33%	0%	3.89%

According to the table above, the support initiatives exercised a positive effect on individual financial indicators of the co-operatives in the study. This was to be expected when the average of funding/grants of R770 453 per co-operative in the supported group is taken into account.

The success of support lies in assisting worker co-operatives to achieve total financial independence, thus meeting a combination of financial criteria. Being profitable without rewarding members with a decent income, or paying members a decent income while being dependent on repeat funding, does not suffice. This fact is supported by several authors quoted under 5.7.1. Theron (2005:71), for instance, submitted that the emphasis should be on financial management, solvency, profitability, financial sustainability, market penetration and return on investment.

More than 60% of the supported co-operatives were still not able to cover their operating expenses despite the funding they have received and more than 86% were unable to expand operations without additional funding. Of the supported worker co-operatives, 74.63% were still unable to pay their members an adequate income and most of them still had an infrequent positive cashflow.

6.7.2. Financial Management

As indicated under 6.6.3 (h), two financial management constructs were utilised. The results of the statistical analysis in terms of these constructs with regard to support were as follows:

Table 32

Descriptive Statistics and Effect Sizes for the Financial Management and Financial Analysis constructs for Supported vs. Unsupported Worker Co-operatives

Construct	Group	n	Min	Max	Mean	Std Dev	p-value (when random sampling is assumed)	Effect Size (d)
Financial Management	1	78	1	2	1.50	0.38	.17	.3
	2	31			1.62	0.40		
Financial Analysis	1	75	1	5	3.27	1.21	.14	.3
	2	31			2.90	1.10		

Note: Group 1 = Supported, Group 2 = Not supported

△ - Medium Effect in practice at $\geq .5$

* - Statistically significant at 0.05 level according to t-test results for independent groups

The means obtained during the analysis shows that both groups tended not to use the ways of financial management identified. Although the unsupported did so less than the supported group, the difference was too small to be statistically significant. There was also no statistically significant difference in terms of the financial analysis construct.

6.7.3. Marketing Management

Despite all the advice the supported group received from development institutions and 60% of them receiving training in marketing (See 6.6.8. (d)) 41.7% of them (vs. 42.2% for all the co-operatives in the study) still indicated that they were dependent on less than five customers for the majority of their turnover.

The results of the statistical analysis of the Marketing Activities construct with regard to the effect of support initiatives were as follows:

Table 33
Descriptive Statistics and Effect Sizes for the Marketing Analysis and Marketing Activities constructs for Supported vs. Unsupported Worker Co-operatives

Construct	Group	n	Min	Max	Mean	Std Dev	p-value (when random sampling is assumed)	Effect Size (d)
Marketing Activities	1	80	1	5	2.59	1.02	.40	.1
	2	31			2.45	0.62		

Note: Group 1 = Supported, Group 2 = Not supported

Δ - Medium Effect in practice at $\geq .5$

* - Statistically significant at 0.05 level according to t-test results for independent groups

Both groups rarely tended to engage in the marketing activities identified and, therefore, no significant statistical difference was found in this regard. The expectation would have been that the supported group would know the importance of these marketing activities and engage in them more frequently. The expectation would further have been that, with the amount of funding they received, the supported group would have been able to engage in marketing activities more frequently.

With regard to marketing analysis, no statistically significant differences were found between the two groups in terms of the following:

- Whether they had a large enough market for their products in the geographical area in which they were operating ($\Phi=.05$, $p=.63$), and
- Whether their location was the correct one to reach their target market ($\Phi=.1$, $p=.13$).

An insignificant (not noticeable) effect was obtained for the following during the analysis:

- Keeping up-to-date with competitor activities ($\Phi=.2$, $p=.02$), and
- Remaining informed on market trends and movements ($\Phi=.2$, $p=.01$).

As indicated earlier in the chapter under 6.6.4.(e), one hundred of the respondents indicated that they utilised Word of Mouth advertising. The Other Advertising construct were formed to analyse the use of advertising other than Word-of-Mouth.

The result of the analysis with regard to supported and unsupported groups were as follows:

Table 34
Descriptive Statistics and Effect Sizes for the Other Advertising construct for Supported vs. Unsupported Worker Co-operatives

Construct	Group	n	Min	Max	Mean	Std Dev	p-value (when random sampling is assumed)	Effect Size (d)
Other Advertising	1	79	1	2	1.13	0.29	.45	.2
	2	31			1.19	0.36		

Note: Group 1 = Supported, Group 2 = Not supported

^Δ - Medium Effect in practice at $\geq .5$

* - Statistically significant at 0.05 level according to t-test results for independent groups

As indicated by the above table, there was no statistically significant difference in the way the two groups utilised other advertising methods than Word of Mouth.

In terms of the Customer Relations construct, the results of the analysis with regard to the supported and unsupported groups also showed nearly no difference ($d=.1$, $p=.59$).

The results of the statistical analysis with regard to the Marketing Capability Challenges and the Marketing Financial Challenges constructs were as follows:

Table 35
Descriptive Statistics and Effect Sizes for the Marketing Challenges constructs for Supported vs. Unsupported Worker Co-operatives

Construct	Group	n	Min	Max	Mean	Std Dev	p-value (when random sampling is assumed)	Effect Size (d)
Marketing Capability Challenges	1	55	1	2	1.24	0.33	.18	.3
	2	16			1.13	0.26		
Marketing Financial Challenges	1	74	1	2	1.09	0.23	.01*	.3
	2	29			1.02	0.06		

Note: Group 1 = Supported, Group 2 = Not supported

Δ - Medium Effect in practice at $\geq .5$

* - Statistically significant at 0.05 level according to t-test results for independent groups

The table clearly shows that there is virtually no difference between the challenges experienced by the supported group of worker co-operatives when compared to the unsupported group. Again, one would have expected the supported group to experience these challenges to a lesser degree.

The results with regard to the statistical comparison between the supported and the unsupported group on the Networking construct were as follows:

Table 36
Descriptive Statistics and Effect Sizes for the Networking construct for Supported vs. Unsupported Worker Co-operatives

Construct	Group	n	Min	Max	Mean	Std Dev	p-value (when random sampling is assumed)	Effect Size (d)
Networking	1	80	1	2	1.58	0.38	<0.0001*	.6 ^Δ
	2	30			1.82	0.20		

Note: Group 1 = Supported, Group 2 = Not supported

Δ - Medium Effect in practice at $\geq .5$

* - Statistically significant at 0.05 level according to t-test results for independent groups

The table indicates that, to a medium effect, the support of the worker co-operatives has led to a positive difference between the two groups in the way they tended to engage in networking activities. This is because all the supported worker co-operatives in the study indicated that they belonged to industry organisations and local business chambers. Moreover, most of the co-operatives belonging to other business organisations were part of the supported group.

6.7.4. Operations Management

Of the supported worker co-operatives in the study, 52% indicated that they experienced bottlenecks which kept them from operating at full capacity and only 14.29% of them had been able to successfully address these bottlenecks.

Regarding the operational management questions and constructs, no statistically noticeable differences were found between the two groups in relation to the following:

- Stock Control (d=.01, p=.97)
- Operations administration (d=.3, p=.11)
- Management systems and policies (Φ =.02, p=.85)
- Formal goals and objectives (Φ =.1, p=.24)

The results in terms of the Operations Administration and the Operational Capabilities constructs were as follows:

Table 37
Descriptive Statistics and Effect Sizes for the Marketing Challenges constructs for Supported vs. Unsupported Worker Co-operatives

Construct	Group	n	Min	Max	Mean	Std Dev	p-value (when random sampling is assumed)	Effect Size (d)
Operations Administration	1	80	1	2	1.56	0.40	.11	.3
	2	28			1.69	0.36		
Operational Capabilities	1	79	1	2	1.20	0.35	<.0001*	.5 ^Δ
	2	29			1.02	0.09		

Note: Group 1 = Supported, Group 2 = Not supported

^Δ - Medium Effect in practice at $\geq .5$

* - Statistically significant at 0.05 level according to t-test results for independent groups

From the table it is clear that there was a noticeable statistical difference in the operational capabilities between the two groups. However, it is surprising that the group which had not received support tended, to a medium effect, to indicate that their equipment complied with health and safety regulations and that their members were adequately trained to handle the equipment, more so than the supported group, of which 76.25% had received funding as part of the support. The results could have been influenced by the sophistication of the equipment used by those co-operatives which did not receive funding. These co-operatives tend to utilise more manual labour and less sophisticated equipment. Compliance with standards in terms of equipment and competence to use the equipment would then not be a challenge.

The statistical comparison between the supported and unsupported group in terms of the calculation and management of distribution costs is depicted in the following table:

Table 38
Descriptive Statistics and Effect Sizes for the calculation of distribution costs for Supported vs. Unsupported Worker Co-operatives

		Do you calculate and manage distribution costs?						p-value (when random sampling is assumed)	Effect Size
		n	Never	Rarely	Sometimes	Usually	Always		
Supported	Frequency	78	9	17	14	18	20	.0001*	Φ=.5 ^{ΔΔ}
	Percent		11.5%	21.8%	18%	23%	25.6%		
Unsupported	Frequency	29	1	19	6	3	0		
	Percent		3.5%	65.5%	20.7%	10.3%	0%		

^Δ - Medium Effect in practice at >=.3

* - Statistically significant at 0.05 level according to Chi-square results for independent groups

From the table above it is clear that the supported group of worker co-operatives in the study tended, to a statistically significant effect, to manage and calculate distribution costs more often than the unsupported group.

6.7.5. Human Resource Management

Five Human Resource constructs were identified and utilised. The results showed no statistically significant differences in these constructs with regard to the supported and unsupported groups. It seems as if the support from the support

institutions has had little effect on how the worker co-operatives manage their human resources and the conditions within the co-operatives for members and employees.

Table 39
Descriptive Statistics and Effect Sizes for the Human Resources constructs for Supported vs. Unsupported Worker Co-operatives

Construct	Group	n	Min	Max	Mean	Std Dev	p-value (when random sampling is assumed)	Effect Size (d)
HR Remuneration	1	79	1	2	1.59	0.38	.07	.4
	2	29			1.44	0.38		
HR Systems 1	1	69	1	2	1.41	0.43	.22	.3
	2	29			1.26	0.45		
HR Systems 2	1	69	1	2	1.29	0.41	.38	.2
	2	29			1.38	0.48		
Working Conditions	1	78	1	2	1.88	0.25	.91	.02
	2	30			1.88	0.28		
Motivation	1	79	1	5	2.15	0.84	.50	.1
	2	31			2.26	0.69		

Note: Group 1 = Supported, Group 2 = Not supported

Δ - Medium Effect in practice at >=.5

* - Statistically significant at 0.05 level according to t-test results for independent groups

6.7.6. Management Processes

The table below shows the results of the statistical analysis of the respondents' perception of the decision-making processes in their worker co-operatives

Table 40
Descriptive Statistics and Effect Sizes for decision-making processes for Supported vs. Unsupported Worker Co-operatives

Which one describes the democratic decision-making process in the co-operative the best?				
	Supported		Unsupported	
	Freq	%	Freq	%
Number of respondents (n)	73		30	
Discussed by everybody, decision made quickly	24	32.88%	1	3.33%
Major decisions left to the Board	9	12.33%	5	16.67%
Members actively take part	21	28.77%	9	30%
Takes too long to finalise	1	1.37%	0	0%
Debated lively, but constructively	4	5.48%	1	3.33%
Members do not take part as they should	2	2.74%	2	6.67%
Major decisions accompanied by conflict	0	0%	0	0%
The system does not work at all	8	10.96%	10	33.3%

Members sometimes do not understand what decisions are about	0	0%	0	0%
The system works fairly well	4	5.48%	2	6.67%
The system works extraordinary well	0	0%		
p-value (when random sampling is assumed)	0.03*			
Effect Size	.4 ^Δ			

^Δ - Medium Effect in practice at >=.3

* - Statistically significant at 0.05 level according to Chi-square results for independent groups

The analysis shows a statistical difference, to a medium effect, with regard to decision-making processes. From the table the following is evident:

- The largest proportion of the supported worker co-operatives (32.88%) indicated that decisions were discussed by all and resolved swiftly, while the largest proportion of the unsupported co-operatives (33.33%) indicated that the system did not work at all.
- While decision-making were perceived to work better in the supported co-operatives, it was still problematic in 29.4% of them (decision-making taking too long, not working at all, members not taking part as they should and major decisions left to the board). However, the percentage is much lower than the 56.67% for the unsupported group.

Three constructs pertaining to management processes were identified. These were as follows:

- Conflict;
- Strategic Management 1, and;
- The Strategic Management 2.

The following table summarises the results of the statistical analysis in this regard:

Table 41
Descriptive Statistics and Effect Sizes for the Human Resources constructs for Supported vs. Unsupported Worker Co-operatives

Construct	Group	n	Min	Max	Mean	Std Dev	p-value (when random sampling is assumed)	Effect Size (d)
Conflict	1	79	1	5	2.27	0.69	.08	.3
	2	31			2.50	0.60		
Strategic Management 1	1	80	1	5	3.11	0.99	.04*	.4
	2	31			2.73	0.80		
Strategic Management 2	1	80	1	2	1.47	0.21	.28	.2
	2	31			1.51	0.21		

Note: Group 1 = Supported, Group 2 = Not supported

^Δ - Medium Effect in practice at $\geq .5$

* - Statistically significant at 0.05 level according to t-test results for independent groups

From the table it can be seen that there were no statistically significant differences with regard to the Conflict and the Strategic Management 2 constructs between the supported and unsupported groups. The only construct for which a very small statistically significant difference could be found between the two groups was the Strategic Management 1 construct. Supported worker co-operatives tended to utilise the identified management tools a bit more than the unsupported group who rarely utilised it.

6.7.7. Other aspects

Of the co-operatives that received support, 3.75% indicated they were asked to pay/reward employees of support organisations in their private capacity for services rendered or in order to access funding/grants.

In terms of the training received being applicable to needs of the members in the supported worker co-operatives, the following were found:

- Fifteen of the 26 co-operatives who indicated that they never or rarely managed and calculated distribution costs (57.7%) received financial training.
- Only sixteen of the 41 co-operatives who had no members with industry related experience (39%) received industry related training;

- 23 of the 49 respondents which had no members with previous management experience (46.9%) received some sort of business management training.
- Forty of the 48 co-operatives in the supported group who had no members with previous financial management experience (83.3%) received training in financial management.

The above statistics indicate that, except for financial management training, worker co-operatives might not receive the training that would address their most basic needs. Business and industry related experience and its effect on the success of any business were discussed under 5.3.1.2. If co-operatives with a lack of knowledge and experience in these aspects were to be supported, training in this regard should be the first provided and override any other support. This will, to a large part, determine their prospects of success.

6.8. Conclusion

The findings obtained in the research primarily highlighted the dire conditions in which worker co-operatives in South Africa find themselves. They accentuate both the low success levels and the reasons for these and the challenges faced by support institutions to help these organisations reach their potential.

In the next chapter, a summary of the results will be provided together with final conclusions in respect of the research results and a recommendation of a framework for worker co-operative assistance.

Chapter 7

Conclusion and Recommendations

7.1. Introduction

The fact that worker co-operatives have the ability to play a significant role in the alleviation of poverty and social development in our country is undisputable. This fact was investigated in detail in Chapter 2. However, before they can play their role in the socio-economic circumstances experienced by a large portion of the South African population, these entities need to achieve at least a basic level of business success, as discussed in Chapter 5. This includes being profitable, being independent of continuous external funding and paying members and employees an adequate living wage. As seen in the results, the majority of these co-operatives are unable to achieve these basic goals. The research exposed numerous shortcomings in operations and management of these co-operatives and the efforts to develop them.

The research also revealed the vulnerability of the sector, accentuated by the large number of non-operating co-operatives during the time of the survey. Most of these entities do not appear to have long-term survival prospects.

The correct approach and amount of patience are needed in order to assist the sector to reach its full potential. This final chapter contains a summary of the main findings and a suggested framework for the development of the sector.

Again, reference to co-operatives means the worker co-operatives as only worker co-operatives formed part of the research.

7.2. Discussion of results

The results of the research conducted were discussed extensively in Chapter 6. The following discussion is a summary of the findings and reaches some conclusions about the conditions within worker co-operatives, what is necessary in order for their survival, and the effect of support initiatives.

7.2.1. Conditions within worker co-operatives

The most important results from the research regarding general conditions within the worker co-operative sector may be summarised as follows:

a) General

Main Findings:

- i. Of the responding co-operatives, 18.9% have lost founding members due to adverse conditions within the co-operative.
- ii. The worker co-operative sector, although evincing a slightly better educational profile than national statistics, does not appear to be attractive to individuals with tertiary qualifications. In fact, the proportion of individuals with tertiary qualifications were comprised than half that of national statistics.
- iii. More than half of the worker co-operatives in the study had no members with experience in their industry and about two-thirds of them had no members with business experience. More than 34% had neither members with business nor with industry experience.
- iv. There was a general lack of business management knowledge and experience prevalent in the worker co-operatives in the study. This is clear according to the following factors:
 - Lack of financial systems, financial analysis and financial planning.
 - Neglect of marketing activities and under-utilisation of market research.
 - Operational challenges experienced, even though some of them indicated that they had a quality control system in place.
 - Lack of compliance with regard to human resource issues.
 - General inability to address bottlenecks and delays in customer deliveries.
 - Notable number of respondents who did not know:
 - whether their co-operative was profitable,
 - whether their co-operative could cover its operational expenses without external funding,

- what their co-operative's monthly turnover was,
- whether sales were increasing,
- what their monthly expenses were,
- how to describe their market,
- whether their products or services conformed to industry norms and standards, and/or,
- whether they complied with both the Basic Conditions of Employment Act and registration with the relevant institutions as required by law.

This situation contradicts the findings as discussed under 5.3.1.2. Dvir *et al.* (2010:45), among others, was quoted as having proved that background characteristics such as prior management experience, start-up experience, management team experience, experience in the line of business, knowledge, skills and abilities play a significant role in business success.

b) Finance and Financial Management

Main Findings:

- i. Of the responding co-operatives in the study, 77.27% had a turnover of less than R10 000 per month. While 35.64% of them were profitable, for 52.78% of these the surplus was less than R10 000 per year. Only 16.5% had a regular positive cash flow. To a large extent this confirms the findings discussed under 4.6. It is a matter for concern that the situation has not improved notably since the DTI baseline study in 2008 (Redrebel,2009:33).
- ii. Only about a third (34.26%) of the worker co-operatives could cover their operational expenses without external assistance and only 12.96% could cover expansion costs from their own funds.
- iii. Nearly two-thirds (65.93%) of the co-operatives in the study paid their members less than R500 and 81.31% less than R955 per month. This finding shows that little has improved since the NCASA study in 2002, as quoted under 4.5.3., in this regard.

- iv. Only 27.93% of the co-operatives in the study were experiencing increasing sales and sales trends.
- v. Only 23.08% of the co-operatives kept track of overhead expenses. 44.44% had no formal financial controls in place, only 31.1% of these carried out frequent financial analysis, only 18.69% calculated distribution costs on a regular basis and only 48.6% made use of budgets on a regular basis.

From the above it is clear that the conditions within worker co-operatives are far from ideal. The co-operatives in the study showed low turnover and profitability levels and at least four-fifths of them were not able to pay their members an adequate salary. These business entities are struggling to survive and most of them will not be able to do so without repeated external funding. This can be deduced from the fact that a large number of them are unable to cover their own operational expenses.

Furthermore, conditions for most of the co-operatives are not improving as is evident from the large percentage of those who are not experiencing an improvement in sales and sales trends.

The research indicates a general lack of financial control and analysis in the worker co-operatives in the research. This statement is supported by the following findings:

- A fifth of the responders did not know what their average turnover per month was.
- More than three-quarters failed to keep track of overhead expenses in an effective manner.
- More than 65% failed to have a system in place that required more than one person to approve payments
- Approximately 66% did not have a financial management system in place
- Only 31% of them did frequently carried out financial analysis.

- Only 18.69% of them calculated and managed distribution costs on a continuous basis while 9.35% of them never did so.
- Less than half of them used budgets on a regular basis.
- Less than half endeavoured to keep expenses as low as possible.

c) **Marketing and Marketing Management**

Main Findings:

- i. Of the worker co-operatives in 42.2% the majority of their turnover came from fewer than five customers. While 67.86% of those in the manufacturing sector, 49.02% of those in the agricultural sector and 61.11% of those in the service sector were dependent on fewer than ten customers for the largest part of their turnover.
- ii. In the study it was found that 32.71% of the co-operatives were operating in mature markets with many large competitors while 18.69% operated in growing markets with many competitors and 13.08% were operating in small markets.
- iii. Most of the co-operatives in the study identified insufficient sales (68 of the respondents), unaffordable marketing costs (66) and high distribution and transportation costs (51) as the predominant marketing challenges they were experiencing.
- iv. Only 10.91% of the responding co-operatives spent time and money on marketing activities while only 13.52% did market research on a regular basis.
- v. Only 7.48% of the co-operatives in the study belonged to a secondary co-operative.

There is a general lack of access to markets. This is evident from the few customers upon whom the co-operatives in the study depend for their turnover and from the insufficient sales they identified as the main marketing challenge they experience. This is caused by their inability to spend money and time on marketing activities and the fact that the majority do not do market research on a regular basis. In view of the low turnover and profitability levels they

experience, it is not surprising that the co-operatives cannot spend money on marketing activities. This statement is supported by their identification of unaffordable marketing costs as the second most experienced marketing challenge to themselves and by their using word of mouth as their main marketing mechanism.

It is not helpful that many of them operate in highly competitive markets with large competitors and neither is the fact that apart from normal business contacts they tended to operate in isolation. Less than 10% of them belonged to a secondary co-operative. Moreover, money plays a role since most of them may not have been able to pay the regular contributions that would be expected of them if they were to be part of a secondary co-operative.

d) Operations Management

Main Findings:

- i. The majority of those who carried stock (98.46%) had a formal stock control system in place and for 75% of them this allowed them to keep stock levels at a minimum and know what to purchase and when.
- ii. Nearly a third of the co-operatives (30.77%) indicated that on-time deliveries to customers were a problem.
- iii. Some form of bottleneck was experienced by 45.71% which kept them from operating at full capacity, with insufficient equipment and insufficient or irregular stock deliveries being the most cited, but only 20% indicating success at addressing these bottlenecks.
- iv. Among those who indicated that they were experiencing bottlenecks in their operational processes, 37.5% identified lack of trained personnel as a cause. The same percentage identified a lack of specialised knowledge, 56.25% identified insufficient equipment as the main cause of bottlenecks and 33.3% indicated that non-productive employees were a challenge.
- v. Approximately 42% indicated that their reject rate stood at acceptable levels and quoted human error as the most prevalent cause of rejects.

- vi. Only a quarter of the co-operatives in the study had some sort of quality control with regard to operations in place. All of these nevertheless experienced operational challenges.
- vii. Of those to whom it applied, less than half (46.27%) kept record of goods returned and the reasons why.
- viii. Those who operated at full capacity comprised 46.30%.
- ix. In 84.26% of cases staff were adequately trained to handle and operate equipment while almost 60% indicated that their plant and equipment complied with industry standards on health and safety.

In the majority of the worker co-operatives, stock control did not appear to pose a challenge. However, nearly a third of them (30.77%) admitted to having deliveries to customers delayed regularly.

The effect of the lack of operational experience and knowledge is evident from the fact that 37.5% of those experiencing bottlenecks blamed this on a lack of specialised knowledge and trained personnel. The predominant cause of rejects was human error. Even for those co-operatives, which indicated that they had a quality control system in place to control every step of their production and services processes, human error was cited as the main cause of operational challenges.

Many of the co-operatives in the study experienced challenges with bottlenecks and their reject rate due to faulty/out-dated and insufficient equipment.

The effectiveness of quality control within the worker co-operatives needs to be questioned since all those who indicated that they had a system in place were still experiencing operational challenges. An effective system would have been able to address at least the challenges experienced with irregular/unreliable stock deliveries and sub-standard/faulty material since these challenges are caused by external factors. The lack of a quality control mindset is further underlined by the fact that just 25% of the co-operatives had established a system and that less than half of

those co-operatives to which it was applicable kept records of goods returned and the reasons for the returns.

e) Human Resources Management

Main Findings:

- i. Of the co-operatives, 75.25% thought that their remuneration levels were in line with those of the industry, in stark contrast with actual remuneration levels, as indicated under b) iii above.
- ii. The study revealed that 72.9% of the co-operatives concerned paid their members the same income while almost 68% had no system established for rewarding members on contribution, performance and results. Among 23.15% member income differed according to experience, seniority and experience and among 19.27% member income differed according to skills and responsibilities.
- iii. Most of the worker co-operatives (56.48%) indicated that they complied with the Basic Conditions of Employment Act, while 43.52% either did not comply or did not know whether they complied.
- iv. Among the co-operatives, 50.46% either were not registered with the relevant government institutions with regard to human resources, such as SARS and the Compensation Commissioner or did not know if they were.
- v. Formal systems to address misbehaviour and informal sanctioning were about evenly utilised.
- vi. In the study 64.19% of the co-operatives relied on trust only to regulate relations between members.
- vii. Of the co-operatives, 64.49% never or rarely received complaints about the sharing of proceeds, 14.64% stated that certain members complained about the effect of the circumstances within the co-operative on the personal lives, 6.36% lost members because of working hours, 50.91% had members complaining that some of the other members did not pull their weight and 58.19% never or rarely experienced problems with absenteeism;

The following challenges with regard to human resource management were identified:

- A lack of differentiation in wages and member reward and remuneration systems based on contribution, performance, results, experience, seniority, qualifications, skills and responsibilities.
- A lack of formalisation of member relationships as indicated by the large number of worker co-operatives relying on trust only to govern relationships.
- A general lack of compliance was evident from the high percentage of co-operatives who either did not comply with the Basic Conditions of Employment Act or did not know whether they were doing so, as well as the percentage who either were not registered with all the relevant government institutions or did not know whether they had been registered.

Some positives, on the other hand, were identified. One was the general impression of a relatively high morale, as indicated by the low number of co-operatives indicating that they had received complaints about the sharing of proceeds and working conditions and the low percentage which experienced problems with absenteeism. The high percentage of co-operatives describing morale as fairly positive or very positive supports this.

Remembering the circumstances from which many of the members of the worker co-operatives come, this is not surprising, as being a member of a co-operative would give them hope and a sense of belonging.

However, care should be taken to read too much into the figures about morale, as indicated by the fact that more than half of the co-operatives had members complaining that some other members did not pull their weight. The occurrence of conflict will be discussed below under Management Processes.

f) Management Processes

Main Findings:

- i. In most of the co-operatives, major (84.55%) and day-to-day (61.90%) decisions were made by the members during meetings. However, democratic decision-making processes were challenging in a third of the responding co-operatives, with 18 of them indicating that the system did not work at all and 14 leaving major decisions to board members.
- ii. Moreover, most of those who indicated that day-to-day decisions were made by members during meetings only met once a month (44.6%), while 30.7% met more often than once a month, but less than once a week and 21.5% met once a week.
- iii. Nearly two-thirds (66.36%) of the co-operatives indicated that they only experienced minor conflict, but tension and disagreement because of difference in leadership styles occurred at least sometimes in 50.01% of the boards of the participating co-operatives, while conflict resulting from differences in opinion of what is in the best interest of members occurred at least sometimes in 55.05% of them. In 37.6% of the co-operatives personal conflict among members occurred on a regular basis, while 89.89% of them admitted to at least some level of personal conflict between members.
- iv. Conflict and tension was mainly resolved through member discussions (55 of responders).
- v. Of the co-operatives, 54.13% indicated that they had formal goals and objectives.
- vi. In 35.59% of the worker co-operatives the decision-making processes posed challenges, while eighteen of the co-operatives indicated that the process did not work at all and fourteen that major decisions were left to the board of directors.

As indicated under 2.4.1 the second ICA Co-operative principle prescribes member democratic control, involving members actively taking part in setting policies and the making of decisions (ICA,2010:1). It is understandable that day-to-day decisions are left in the hands of delegates to speed up decision-

making processes, but for members to leave major decisions in the hands of the board of directors leaves them open to exploitation and diminishes them to mere workers in the organisation of which they share ownership and also increase the likelihood of mismanagement, fraud and corruption.

Although the effect of conflict was downplayed by many of the responders, as indicated by the 27.27% who described the teamwork in their co-operatives as totally harmonious, it is clear that there is much more conflict going on in the co-operatives than one was led to believe. Some level of member conflict was indicated by 89.89% of the co-operatives, with more than 37.6% of them indicating that it happened frequently. 81.66% of the co-operatives in the study admitted to conflict resulting from differences of opinion as to what was in the best interests of members, with 55.05% indicating that it happened more than rarely.

As indicated earlier, conflict in co-operatives is inevitable, with people from different backgrounds coming together and having equal ownership of a business entity. The potential for conflict will escalate unless members share goals and aspirations. The fact that many of the members in the worker co-operatives joined the co-operative from a position of unemployment will mean that many of them will put their own financial position above the long-term survival needs of the co-operative. This will have an effect on the amount of conflict within the co-operative and will play a role in most of the 77.47% of the co-operatives in the study who had members who had joined them after being unemployed. This is why it was surprising that the members of more than 85% of the surveyed co-operatives have not been trained in conflict management.

7.2.2. Evaluation against business success factors

As part of the evaluation of the worker co-operatives, certain basic criteria for the co-operatives to be classified as successful were determined. These are:

- Longevity (in existence for at least three years).
- Financial Independence (survival without outside funding for at least one year).

- Profitability (generation of a surplus for longer than one year).
- Member Income (equal to at least R955 per month).

These criteria were considered to be very basic and fair. However, when the worker co-operatives in the survey were analysed according to these criteria, only three were found to meet all of them.

A mere thirteen of the co-operatives met the first three criteria and were classified as Relatively Successful. It was this group that was used in the comparative analysis in terms of success. During the analysis, as discussed in Chapter 6, it became apparent that these criteria were too rudimentary and that, although these co-operatives were surviving, they were unsuccessful. The fact that they could not provide their members with a basic living wage as determined at the time of the compilation of the questionnaire, indicates they only survive because of the members' willingness to sacrifice a decent wage for co-operative success. It is clear that they continually struggle with profitability and cash flow issues. If these co-operatives were startups it would have been understandable, but all of them had been in existence for at least three years (as part of the criteria for success). The initial startup problems, experienced both at inception and post-startup, should already have been resolved. In fact, the average age of the relatively successful co-operatives was 5.9 years.

Although the relatively successful group of worker co-operatives did not achieve the desired success with regard to member income, they were surviving and more equipped to cover their own operational costs than the unsuccessful ones, thus diminishing the need for continual funding.

It was envisioned that the statistical comparisons between the two groups would offer proof that the relatively successful group's processes enabled said group to have greater independence than the other group.

During the analysis it was found that the relatively successful co-operatives differentiated themselves from the unsuccessful ones to a medium (observable) or significant effect with regard to the following:

- Members tended to contribute financially to the co-operative more frequently and in larger amounts.
- They were more inclined to have established financial controls and financial management systems.
- They tended to operate in growing markets, compared to the unsuccessful ones, which tended to be operative in mature markets.
- They had established customer feedback and customer relations measures.
- They tended to have established stock control systems.
- They tended to have resolved their bottlenecks to such an extent that they did not hamper their operational capacity.
- They were inclined to have established formal contracts between members and formal sanctioning systems.
- They tended to have better working conditions than the unsuccessful co-operatives.
- Members took an active part in co-operative decision-making processes and these processes worked fairly well. They furthermore did not leave major decisions to be decided on by the board of directors.

It is notable that these worker co-operatives tended to outperform the unsuccessful ones in one or more aspect of every business management factor researched. In terms of financial management they had established more financial controls and better financial management systems. As part of their marketing management they operated in markets with higher potential and had established better customer relations practices. Operations management had established stock control systems and effectively addressed bottlenecks. Under Human Resource Management formal contracts and sanctions were in place and operated in better working conditions. In terms of management processes their democratic decision-making processes worked fairly well and the members of the co-operative made the major decisions.

These findings imply that complete success will require efficiency and effectiveness in all the business management factors.

It was also evident from the results that there was more formalisation of systems in the relatively successful worker co-operatives than in the unsuccessful ones.

Relative to other success factors for small businesses and worker co-operatives as discussed in Chapter 5, the following is a summary of the factors investigated during the research and the results obtained:

a) Background of members

The members of the co-operatives in the study showed a disconcerting lack of applicable experience and the situation in the Relatively Successful group was no better than that of the unsuccessful group. This is in stark contrast with the discussion under 5.3.1.2., where Dvir *et al.* (2010:45), Simpson *et al.* (2004:486) and Urban *et al.* (2008:58) were all quoted on the importance of previous industry experience in the prospects for success of small business ventures. Timmons (1999:93) concurred.

In the study it was found that more than half of the worker co-operatives had no members with previous industry experience and two-thirds of them had no members with previous business management experience. Although not all the members in the co-operative are expected to have industry - and/or business management experience, the co-operative structure provides the opportunity to unite people with diverse backgrounds to improve the possibility of creating a successful business venture. Ideally, the co-operative should bring together members with entrepreneurial capabilities, the relevant industry background and some business experience.

b) Feasibility

If one looks at the lack of profitability, the income members receive from the co-operative's business operations, the markets in which the co-operatives

operate, the way in which the co-operatives are operated and managed and the dependency of the worker co-operatives in the study on continuous external funding, the feasibility of these ventures becomes suspect. These factors also question the quality and effectiveness of any pre-startup research done to investigate the feasibility of the co-operatives.

For any business to be feasible (and eventually viable) there should be a clear business opportunity (not just a business idea that sounds good) and this opportunity should be exploited by a team with the right amount of industry knowledge and entrepreneurial capabilities. This means that, even if the opportunity exists and the members do not have the correct amount of knowledge, experience and capabilities, these members should not be the ones to pursue the business opportunity. Viability also includes the fact that the opportunity should be able to support the number of people (members and employees) involved in the co-operative.

Of all the co-operatives, 14.4%, and 11.47% of those who received funding indicated that no pre-startup research had been done in any form. Business plans were developed for less than half of the supported co-operatives in the study.

This implies that those who started the co-operatives without any market research, started them blindly without considering the most basic aspects of feasibility. It is not surprising, therefore that 38.7% of the worker co-operatives operated in less than ideal markets, as discussed under 6.6.4 (b).

For a business plan to be effective, it should investigate the viability of the business opportunity, the background of the owners and the synergy between these two aspects. In other words, it should show that an opportunity exists and that the owners are the right people to start the business at that given time. Timmons (1999:37) supports this by describing the driving forces for

successful venture creation as the opportunity, the entrepreneurial team and the resources. These forces should have a strategic fit.

From the study, however, it can be inferred that resources are the main consideration of funding institutions. This leads to the funding of worker co-operatives without any market research or business plans to investigate the other two driving forces. The fit between the driving forces is not considered and leads to the support of co-operatives where none of the members have the correct industry- and business background and/or knowledge.

Even if a high-quality team is present, the business will not succeed if no opportunity exists. Therefore, starting a co-operative that fits the background of the co-operative members without the presence of a real opportunity in the market will likewise not suffice. Doing this leads to the situation found in the study where co-operatives are operating in markets that are not ideal.

Although it did not fall within the scope of the present study, the quality of market research and business plans will also play a significant role in success.

c) The co-operative is started on the initiative of members and members have a common purpose and cohesion

From the results of the research, it is clear that South African worker co-operatives are initiated with an unhealthy amount of improper influence, either by employees of support agencies and government departments initiating the startup of the co-operatives themselves, by direct promises of funding or by creating the impression that co-operatives are more easily funded than other business ventures.

As discussed under 3.2.1, this is contrary to the first ICA principle of voluntary and open membership (ICA,2010:1). Several authors, Van der Walt (2006:4), Theron (2005:128), Satgar (2008:19), Brazda and Schedivy

(2001:36) and Satgar and Williams (2011:205) were quoted on the dangers and inappropriateness of this approach to co-operative development.

It is essential to bear in mind the circumstances of desperation in which many of the people in South Africa live. Promises of funding or other forms of improper influence will lead people to seize the opportunity to get funding. This is the reason why worker co-operatives are started without members with the relevant industry- and business experience. The effect of the improper influence is made worse by the failure of government funding institutions to insist on sufficient and proper pre-startup research. This in turn leads to a situation where obtaining funding rather than the establishment of a viable, sustainable enterprise becomes the main purpose of the exercise. The low level of success in the study in what is supposed to be mature worker co-operatives, supports this statement.

Allowing these practices to continue may likewise lead to corruption, favouritism and nepotism. In fact, 3.75% of the supported worker co-operatives in the study did admit that corruption took place during their dealings with development agencies and/or government departments. It is suspected that this figure might be lower than the actual occurrence of corruption, as the question did not investigate non-monetary rewards to employees of support institutions and some co-operative representatives might have been reluctant to admit to having taken part in corruption.

d) The co-operative must be started with as little external interference and assistance as possible to be able to become self-sustaining

In the South African situation this will be difficult on account of the level at which the worker co-operatives operate and because of the lack of technical and business management skills inherent to the co-operatives. The situation is exacerbated by the lack of effective pre-startup research to ensure that the intended venture is viable from the start and that the co-operative members,

with the minimum of coaching and training, will be able to operate and manage the venture.

Any support initiatives will have to respect the democratic management principles in terms of which co-operatives operate as discussed under 3.2.2., have clear objectives that the membership of the co-operative agree to and have a clear exit strategy. Startup support initiatives should be formalised in a contract so that all parties will know exactly what is expected of them and what the support will entail. This will ensure that the interference is reduced to a minimum.

e) Member contributions must play a large role in the capitalization of the co-operative

This aspect was discussed under 3.2.3. It was indicated that, worker co-operatives struggled to meet the third ICA principle of member economic participation, because of the relative poverty from which members come. Jara and Satgar (2009:33) were quoted as stating that many co-operatives have not been able to reach the development stage where they could start building self-financing institutions. This submission is supported by the results of the research with more than 48% of the worker co-operatives' members being unable to pay regular member contributions.

The discussion under 6.6.3. (b) indicated the view that the economic participation of members of worker co-operatives should be measured in terms of the labour they provide to the co-operative.

To realise a situation of self-capitalisation in worker co-operatives, financial support at startup should be linked to the achievement of specified goals and the practice of continuous funding should be stopped. The fact that a percentage of profits should be retained in the co-operative's account to allow for future financial needs must form part of financial training to worker co-operatives.

f) Democratic decision-making

In the study it was found that democratic decision-making, as prescribed by the second ICA principle, is a challenge in at least 37 of the responding co-operatives. However, there was a statistically significant difference found between the relatively successful and unsuccessful groups in this regard. Although two of the co-operatives which indicated that the process did not work at all were part of the relatively successful group, 41.67% of them indicated that members actively took part in the process and a third indicated that the process worked fairly well. In the unsuccessful group, 15.38% of the co-operatives indicated that major decisions were left to the board and one of them left it to the chairperson. This practice does not correspond with the findings of Cornforth *et al.* (1988:198), as quoted under 3.2.2, stating that democratic management needs to be reinforced by creating a democratic culture with members gaining positive experiences of participation.

Sixteen of the eighteen co-operatives which responded that the process does not work at all fell in the unsuccessful group.

These findings, together with the fact that very few co-operatives in the study had established a system where payments had to be approved by more than one member, accentuate the need to address governance issues in worker co-operatives.

g) Co-operative autonomy needs to be respected

This aspect of co-operative success was discussed under 3.2.4. As indicated under 6.6.8 (c) and (e), there was no statistically significant difference between the advice and support received by the relatively successful and unsuccessful groups.

Intervention by external players in the internal matters of the co-operative affected 56.76% of the worker co-operatives in the study, in which seventeen

of them indicated that they received prescriptive guidance, twelve each indicated that external players intervened in the election of leaders and the utilisation of external funding and ten experienced intervention with regard to decision-making processes. Twenty of the co-operatives indicated that external players intervened in more than one aspect of the operations of the co-operative. About 12% indicated that they felt forced or coerced into making certain decisions during their interactions with employees of support organisations.

It is understandable that funding agencies would be prescriptive with regard to the ways in which their funding is utilised. Not being prescriptive in this regard will, in many cases, lead to the misappropriation of funding.

It is, furthermore, a fact that the worker co-operatives in the study are dependent on external funding and on non-financial support, due to the lack of business management- and industry-related knowledge and the basic level at which they operate. This vulnerability leaves them open to manipulation and should be handled with the utmost caution.

The findings as related above, support the submission that support programmes should be target-driven and include the need for a clear date of finalisation and an exit strategy. This will allow worker co-operatives to become independent and autonomous after initial assistance.

h) Strategic management-, business management-, financial- and technical skills, must be present in the co-operative

This aspect was discussed under 7.2.1 (a) and (d) above. There were no statistically significant differences between the relatively successful and the unsuccessful groups in this regard. This might be one of the main reasons why the relatively successful group had not reached their full potential.

Although some of the necessary skills can be taught, starting a co-operative where no members have any of the required skills will lead to its eventual demise.

i) The implementation of good management and operational systems

As indicated under 6.6.3 (h), the relatively successful group was, with a statistically significant effect, more inclined to have financial controls and financial management systems in place. However, in spite of the systems they had established, they failed to use the information available to them as effectively and frequently as they could because there was no significant statistical difference in this regard between them and the unsuccessful group. Only 37.27% of the worker co-operatives in the study had a documented management system and policies in place, which was to be expected as discussed under 6.6.7. (a), but only 45.87% of them had established formal goals and objectives. There was almost no statistical difference between the relatively successful group and the unsuccessful group in this regard.

The relatively successful group, as stated, to a medium effect, was more likely to have established an effective stock control system but they were not, with statistical significance, better off in terms of operational record-keeping and quality management.

The findings indicate a need for some formalisation of management and operational systems. Care should, however, be taken that generic systems are not introduced and that systems allow for the skills of members and the needs of that particular worker co-operative. In most of the worker co-operatives, simple paper-based systems will suffice.

j) Good market information and infrastructure

The discussion under 6.6.4 (e) showed that only 13.52% of the worker co-operatives carried out market research on a regular basis and only 10.91% of them spent time and money on marketing activities. Again there was no

significant statistical difference between the relatively successful and unsuccessful groups.

This is arguably a further reason why the relatively successful group has not achieved complete success. Market research should be introduced before startup and continue throughout the life of any business entity. It helps businesses to stay relevant and competitive.

With the small proportion of worker co-operatives which engage in market activities, the low turnover -and profitability levels are not surprising.

Market research and marketing, particularly ways of marketing on a restricted budget, should, therefore, form part of any training provided to worker co-operatives.

k) Networking

This aspect was discussed under 6.6.4 (g). Except for normal business contact, where 69.44% of them had frequent contact with other businesses and co-operatives, the researched worker co-operatives were not adequately engaged in networking activities. Only 7.48% of the co-operatives in the study belonged to a secondary co-operative, 20.20% of them belonged to a local business chamber, 6.9% to an industry organisation and 13.33% to other business organisations.

In this area too, the relatively successful group were generally no better off than the unsuccessful group. In fact, none of the relatively successful group belonged to a secondary co-operative.

The low level of participation in co-operative structures is not in line with the ICA principle of co-operation among co-operatives (ICA,2010:1). Although the costs involved in belonging to these co-operatives might be too much for

many worker co-operatives, the joining and/or establishing of secondary co-operatives should be encouraged.

By failing to belong to formal business organisations, worker co-operatives deny themselves of the marketing opportunities, free business advice and other advantages of these entities (See the discussions under 5.3.3.1 and 3.2.6).

l) Differentiated pay structures

The research showed that there was very little pay differentiation in worker co-operatives. It was found that in 72.9% of the co-operatives in the study members earned the same income and that only 13.76% paid members differently according to contribution, performance and results. Only 23.15% paid their members according to experience, seniority and qualifications and only 19.27% differentiated in pay in terms of skills and responsibilities. Moreover, the relatively successful group performed no better in this regard. In fact, 12 of the 13 co-operatives in this group paid their members the same income.

This aspect was discussed in full under 3.3.3.

m) Optimal usage of technology

The level at which the worker co-operatives in the study operated and the financial position in which most of them found themselves made it unlikely that they would be at the forefront of technology and utilise this to their advantage. Three-quarters (75.24%) of the co-operatives described the state of their equipment as either below average or average, while more than 29% of those who experienced bottlenecks blamed faulty or outdated equipment for such bottlenecks. Only 11.71% indicated that they use a website as a means of marketing, but more (32.4%) of them used SMSs and e-mails. This is not surprising because most of the worker co-operatives were targeting local

consumers and businesses in their business operations and would not have the need for a website for marketing purposes.

The above discussion confirms the low levels of business success prevalent in worker co-operatives. Despite the fact that most of them had received funding and/or other assistance from support institutions, most of these co-operatives were still operating at a basic level and have not reached the potential expected of them. It was thus not surprising that the co-operative sector as a whole has, in the past decade or more, earned itself a negative reputation of incompetence. One author (Ressel,2014:2) even refers to the co-operative model as “fatally flawed”.

7.2.3. The impact of support initiatives

There is no doubt that the efforts of support institutions have had an effect on the financial circumstances in some individual worker co-operatives, as discussed under 6.7.1. The main findings were as follows:

- Proportionally, more of the supported co-operatives were profitable than the unsupported ones.
- Nearly twice the percentage of supported co-operatives could cover their own operational expenses than the unsupported ones.
- More than 25% of the supported co-operatives’ members earned more than R955 per month, compared to none of the unsupported ones.
- A smaller portion of the supported co-operatives had a turnover of less than R10 000 per month.
- Nearly half of the supported co-operatives showed a positive cashflow on a regular basis versus about a fifth of the unsupported group.

If one looks at the amount of funding these co-operatives have received on average, this came as no surprise. Nonetheless, all the successful and relatively successful co-operatives in the study belonged to the group that received support. The relatively successful group was, however, still operating at such a basic level that they could not be objectively observed to be successful and upheld as an example of the success of the sector. To have a lasting effect support initiatives should have an

effect on the way worker co-operatives are operated and managed; although it is a fact that all support cannot end up in success. Only if this is accomplished will these co-operatives grow to be self-reliant and sustainable.

To measure the impact of support initiatives on worker co-operatives, a two-pronged approach was followed in this study. Firstly, it was intended to establish whether there was any statistical difference in the support received by successful (or relatively successful) worker co-operatives measured against the support received by unsuccessful ones. Secondly, it considered the difference in performance and the way co-operatives are run and managed in the supported group as measured against the unsupported group.

The findings were as follows:

a) Differences in support received by successful vs. unsuccessful worker co-operatives

The support received by the worker co-operatives in the study was discussed under 6.6.8. The findings may be summarised as follows:

- There was no noticeable difference with regard to the following assistance received by the groups:
 - Advice.
 - Mentorship and coaching.
 - Management and operational support.
 - Financial management support.
 - Marketing support.
- Likewise, there were no statistically significant differences with regard to the training received by the members of the two groups.

- There was no statistically significant difference between the two groups with regard to the amount of contact they had with support agencies for advice, counseling, guidance or auditing purposes.

As may be deduced from the above, the type of support and training received by the worker co-operatives in the study did not differ significantly between the relatively successful and unsuccessful groups; leading to the conclusion that the support received was not the predominant reason for relative success. The discussion under 7.2.2. pointed out the different factors that did differ between the two groups.

b) Differences in the operations and management of supported vs. unsupported worker co-operatives

The findings in this regard were discussed under 6.7. and may be summarised as follows:

- The support initiatives had a practically significant effect on the calculation of distribution costs within the worker co-operatives in the study.
- The support had a noticeable statistical effect on the co-operatives in the study in terms of the following:
 - Networking activities.
 - Decision-making.
- There were no statistically significant differences or a small or negligible effect with regard to the following:
 - Financial management and financial analysis.
 - Marketing activities.
 - Competitor analysis and keeping up-to-date with market trends and movements.
 - Advertising other than word of mouth.
 - Customer relations.

- Marketing Challenges.
- Operational management, such as stock control, operational administration, management systems and the use of formal goals and objectives.
- Remuneration, HR systems, working conditions and the motivation of employees.
- Conflict and strategic management.

From the above, it is clear that the impact of support initiatives on the way worker co-operatives are managed and run is very small. This will have the effect that these co-operatives will remain dependent on funding and external support in order to keep operating.

This statement is further underscored by the fact that the lack of operational and business knowledge and experience within the worker co-operatives is not adequately addressed. As discussed under 6.7.7, less than 40% of those co-operatives in the study with no members with industry experience received industry related training and less than half of those without members with no business or management experience received training to assist them.

The above findings in terms of the impact of support initiatives imply that the way in which support initiatives are implemented and the content of the support should be reconsidered. It is hoped that the framework discussed below will address this issue.

7.2.4 The impact of worker co-operatives on their communities

Except for a sense of belonging and some measure of pride that goes with their shared ownership in a business organisation, the worker co-operatives in the study and their members will have no real impact on their communities.

With more than 80% of the co-operatives not being able to pay their members more than R955 per month (which is not a living wage), they are making no economic

impact whatever. These members will neither be able to survive on their own nor take care of their families.

The low turnover- and profitability levels, and the unsustainability due to inefficient management and operational practices have the effect that the co-operatives will also be unable to spend money on social initiatives.

The general inefficiency of the sector and the negative image the worker co-operatives have built for themselves over the past years (as discussed under 7.2.2. above), will have the effect that members of communities will not aspire to form their own co-operatives for the right reasons. The only inspiration will come from the prospect of easy access to funds.

Furthermore, the lack of industry and business experience will not enable these co-operatives to run effective development and training programmes in their communities.

For the above reasons, the submission is that worker co-operatives do not have a real social impact on their communities at this stage. This is another reason for the reconsideration of support initiatives. These co-operatives will only have the desired social impact if the sector is built to be sustainable and allow worker co-operatives to be self-reliant.

7.3. Recommendations

In the light of the above findings, the following suggestions are presented in terms of worker co-operative development:

Firstly, an integrated approach to worker co-operative development is necessary. Currently, each government department and support organization follows its own rules and support depends on whatever organization the worker co-operative members approach. Sometimes the support makes no business sense at all. For this reason, government development efforts should be left to development agencies, with government departments

playing a supporting role. Even worker co-operatives which approach government departments directly should be referred to these development agencies so that the necessary assessments, research and training may be done before a strategic plan (which can then include other role players, such as academic institutions, government departments, agencies and corporates) to support that particular co-operative can be put in place.

To prevent “double dipping” and the duplication of support services, a central database should be established to track the assistance of worker co-operatives by government departments and agencies. This will serve to save money and prevent the continuous funding of unproductive and dormant co-operatives. The money saved in this manner will then be available for the support of those worker co-operatives with real growth potential.

7.3.1. Motivation to start worker co-operatives

The notion that anybody can start and run a business has been marketed by government departments, and even small business chambers, during recent years. Research results clearly show that this assumption is untrue. Timmons (1999:47) identifies it as a myth, stating that starting up a business is the easy part, but that surviving, sustaining and building the business is the difficult part.

Anybody who wishes to do so should have the opportunity to start a business. It is, furthermore commendable that the members of worker co-operatives (and others) want to improve their living and working conditions. However, not everyone has the ability and acumen to start and run a business. Starting and operating a business successfully require the right industry background, business acumen and the necessary will, skills and motivation. It demands proper timing, the identification of the correct opportunity, determination and perseverance. While it is true that some skills can be taught, starting and running a business venture demand the right combination of all the above to succeed. This, coupled with the structure of the co-operative form of business, the skills needed to manage the conflict that is bound to occur and the turnover and profitability levels required to support all the members of the co-operative, complicate the situation.

Therefore, government departments, development agencies and their employees should cease to promote co-operatives, and particularly worker co-operatives, as an easy way to get money and/or funding. This practice leads to the initiation of hundreds of worker co-operatives that should never have existed at all. It instils false hope in the members of worker co-operatives and creates a dependency on external funding which is counter-productive and leads to the wastage of money.

Moreover, it goes against the ICA principle of voluntary membership since the living conditions, poverty and state of unemployment of members will force them to join a co-operative in a desperate attempt to improve their situations. Many of these members possibly do not aspire to be business owners, but wish to obtain employment.

The practice of improper influence to start or join co-operatives has had the effect that the worker co-operative sector has gained a reputation of ineffectiveness and incompetency, as indicated earlier in this chapter.

7.3.2. Support by Development Institutions

i) Pre-Startup support

There is a difference between a business idea and a business opportunity. Although an idea might sound good, it might not necessarily be a business opportunity. To be an opportunity, the correct timing and industry conditions are needed as well as the necessary business and industry knowledge within the business. Industry conditions play a significant role, as was seen from the finding that the relatively successful group tended to operate in growing markets, compared to the mature markets in which the unsuccessful group operated (See 7.2.2.).

An objective assessment and market research of the business opportunity, the worker co-operative and its members and the fit between the opportunity and the co-operative, should be conducted. This implies that the members should have the necessary industry and business skills, knowledge and

experience to make a success of the venture. If not, realistic plans to ensure that the right amount of knowledge and skills are obtained before start-up should be established, either by bringing in members that fill the gaps or by training. If this is not possible, the co-operative should not be established.

It is true that in some businesses the relevant industry experience is not as crucial as in others. These businesses, however, often operate in congested markets where the opportunities to gain some form of competitive advantage are limited.

It is necessary to carry out market research and develop business plans that truly investigate the existence of an opportunity, and not merely to ensure funding. The research should take into account the number of members to be supported by the co-operative to ensure that, if the opportunity exists, it will be able to generate enough turnover, and will be sufficiently profitable, to support the number of members and to pay members and employees decent wages. For instance, a brick making plant in a rural town is most unlikely to be able to sustain thirty or fifty job opportunities since there may not be a large enough market. Moreover, due to market competition, it would be unlikely for such a business to obtain a foothold in other geographical areas.

Managing a co-operative can be a complex task. The co-operative brings together people with various personalities, skills and talents – and all of them are owners of the business. From the outset it should be clear to members that not all of them will be able to get their way all the time and that the deciding factor should be that which is best for the co-operative as a whole. For this reason, any pre-startup training for co-operatives should include negotiating and conflict management skills.

Audit procedures should be established to ensure that the funds are utilised as intended.

ii) Funding

The ease of funding and the expectation of continuous funding remove any urgency and lead to complacency and a lack of motivation to get the business operational and profitable. With worker co-operative members knowing that when funds dry up at one institution, an application, that will probably be successful, may be lodged at another institution further complicates the situation. The lack of effective monitoring after funding further causes the problem to escalate.

For these reasons, the grant systems of different government departments and agencies should be reconsidered, to be non-interest bearing loans or part grant and part loan. All the approved funds should not be paid at once moreover but incrementally when certain predetermined milestones have been met.

iii) Training and Development

As mentioned earlier, care should be taken that the members have the necessary technical knowledge to be able to operate the co-operative in its particular industry. This will call for effective partnerships between various stakeholders involved in technical training.

That business-related training, as it is currently being done, is not having the desired effect, is clear from the results of the study. The most obvious reason for this, is that it does not matter how much a person is trained, the implementation of what was learnt depends on the person him/herself. It is recommended that a more developmental approach be taken, with follow-up, either in the form of visits and consultations by the support agency practitioner or through a mentorship programme, to ensure that what was learnt is implemented.

From this flows the requirement that training should not be academic and theoretical, but that it should be practically implementable.

Training of co-operative members should include the following:

- Business Management.
- Financial Management, Control and Analysis.
- Human Resource Management.
- Operations management, including process control, quality management and stock management.
- Marketing.

It is a further requirement that all the members of the co-operative and not only directors be trained in the above to prevent ordinary members from being alienated by the Board of Directors on account of a lack of knowledge and an inability to take part in discussions during member meetings. This submission is confirmed by the findings of Cornforth *et al.* (1988:152) that the skills gap that may develop between the Board and ordinary members represents a major challenge in worker co-operatives.

Implementation of the knowledge gained during training will happen only when the members of the co-operatives understand the need for such skills and the implementation thereof. With each training and training topic the necessity and the effect it could have on business operations and performance should be accentuated.

Training content should be scrutinized to ensure that training provide appropriate knowledge at a practical level. The assistance of academic institutions should be sought to develop trainings where modules are interconnected and could lead to the eventual attainment of a qualification, e.g. a certificate in co-operative management, for those who wish to get a formal qualification. The practical implementation of what was learned should form part of the portfolio of evidence to obtain the qualification further to ensure a positive effect of training on the operations of worker co-operatives.

For new co-operatives, the completion of certain trainings aimed at preparing members for the startup and running of the co-operative, should be a prerequisite before other assistance, including financial assistance, be provided. These trainings could include business planning, the legislative framework applicable to worker co-operatives, basic business skills, the management of teams and conflict management.

iv) Support to established worker co-operatives

Thorough, objective assessments should be done in respect of existing worker co-operatives and those with potential to survive without continued external funding and support identified. Alternatives should be sought for those who would not be able to do so and the option of turnaround strategies contemplated. If this is impossible and the co-operative is too deeply in trouble to render it financially viable, all assistance should be stopped.

Assistance for those with potential and those which have been surviving without funding should be informed by the assessment. A meeting between various stakeholders and members of the co-operative will then become necessary to develop a project plan for the survival and growth of the enterprise. These stakeholders would include officials of different development agencies and employees of corporate enterprises and/or government departments that may be able to assist. The project plan should include specific milestones to be met.

Monitoring and regular meetings to assess progress and to contemplate changes to the project plan after the achievement of each milestone are necessary.

When external service providers are used to assist with certain steps in the project plan they should have the necessary industry and business knowledge.

v) **Mentorship and coaching**

When this research was started, the intervention of support agency practitioners into the affairs of worker co-operatives seemed excessive. As the research unfolded and the level at which most of these co-operatives operate became apparent the excessive intervention became more understandable. However, the interventions should lead to growth and eventual exit and not to a dependency among co-operatives on practitioners for all strategic and business decisions. For this reason the following is suggested:

The assessment of the worker co-operatives, its operations and its members should provide a good estimate as to the level of operations and decision-making in the co-operative and mentorship and coaching should be adapted to fit to that level.

Training and development should ensure that members know the basics of strategic management, operations, HR practices, financial management and marketing.

Mentorship and coaching should assist in the implementation of these. Mentors should have the necessary industry, technical and business knowledge to be able to lead the members of the co-operative to growth. Where mentors in technical aspects do not possess the appropriate business knowledge or background, it might be necessary to appoint two mentors, one for the technical aspects and another for the business management mentoring.

Mentors should be trained for their role, which will include training on co-operative management.

A clear mentorship plan should be developed, in terms of which the objectives, the role of the mentor/s and the members of the co-operative are

clearly set out and the exit strategy is included. The programme should stress the fact that mentors are there to lead, guide, advise and assist but not to perform the work.

The formalisation of systems applicable to the co-operative and at the level at which it is expected to operate, should form part of all mentorship programmes, for the programme to be in line with the findings discussed under 7.2.2.

Progress of the programme should be closely monitored by the support agency practitioner to ensure that the relationship between the mentor and the co-operatives stay productive, that conflict is effectively handled and that everybody play their role to make the programme a success.

Bi-weekly or monthly visits to co-operatives by the mentors would not be enough to assist co-operatives operating at a basic level. Short-term mentorship, e.g. for a period of three months, would not suffice. Appointing permanent mentors will not be cost-effective and will lead to dependency by the members of the worker co-operative on the mentor. Therefore, a system of “apprenticeship” is suggested to develop these co-operatives, in terms of which the members are afforded the opportunity to visit the mentor and learn by seeing how things are done or, if necessary, by doing it under supervision of the mentor. Coaching may also be done by the mentor in his/her own environment, showing the members how he/she conducts his/her own business. This is why it is important that mentors belong to the same industry as the worker co-operative that is being mentored. Such a programme should preferably run for at least two years in the agricultural sector (to allow the co-operative members to receive mentorship for at least two production cycles) and for six months to a year for co-operatives in other sectors.

It is recommended that worker co-operatives, which are to be mentored, be expected to appoint mentors as associate members of the co-operatives for the duration of the mentorship programme and that they be taken up as non-executive directors in the Board of Directors, as allowed for in the Co-operative Amendment Act of 2013 (Koekemoer *et al.*, 2014: 33). This will allow the mentors to advise these co-operatives at a management level and not merely at operational level.

For the first part of the mentorship programme mentors should also attend membership meetings to be able to advise members on the practical implications of decisions to be taken and to establish the required procedures, such as regular financial analysis and feedback to the membership on financial matters. In the latter part of the programme, mentors may withdraw from these meetings but they should be available to provide advice.

7.3.3. Tertiary Qualifications and research

Tertiary institutions should be mandated to develop co-operative management qualifications. This will enable support agency employees and co-operative managers to obtain a qualification in this field, leading to improved support and, in the case of co-operative members and managers, to improved management capabilities in the sector.

The establishment of qualifications specific to this sector will also lead to further research into the operational aspects and management of these businesses. This, in turn, will lead to an improved body of knowledge and specialization.

For this to be successful collaboration between support institutions, the co-operative sector and tertiary institutions are necessary.

7.4. Conclusion

This chapter represents a summary of the main findings of the research and an endeavour to show that worker co-operatives are experiencing many difficulties which prevent them from realising their expected role in the alleviation of poverty and social- and economic development.

The disconcertingly low impact of support initiatives was discussed. The research has shown that, although financing plays a role in the short term financial outlook of worker co-operatives, the financing and support from support organisations do not play a significant role in the management, operations and, therefore the sustainability, of these entities.

Although more research, to be focused on more than “baseline studies” and the effect of support on turnover levels, is necessary, the proposed framework for support initiatives should be a good starting point.

During the research, the need for research into specific areas of worker co-operative management and operations became apparent. Management, human resource practices, entrepreneurial skills and governance issues are some of their number. It is hoped that this research will provide the necessary spark to motivate such research.

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