

**COURSE  
GUIDE**

**CRD 120  
SOCIOLOGY OF COOPERATION**

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## **INTRODUCTION**

Sociology of Cooperation is a basic introductory course designed to meet the study needs of students and practitioners of cooperative management, rural development, sociology and anthropology and social works.

The course material is designed to instruct readers on background knowledge about cooperatives and other network of thrust. The comprehensive nature renders it useful to beginners and learners with no previous or background knowledge of sociology of cooperation. Cooperative movement is as old as human enterprise organization. It was initiated first as a means to protect suppliers from the exploitative influences of large and dominant business firms. Economics of cooperation yield to the individual small cooperating units advantages that they singularly cannot achieve working in isolation. Cooperation imposes a stronger and more influential negotiating power for supply and production cooperatives. Sociology of cooperation posits cooperative action and cooperative formation motives on basic elements of sociology. Cooperative as a social organization is established to meet social needs and the socio-cultural background and orientation of members will affect the success and its ability to meet setup objectives.

## **COURSE AIMS AND OBJECTIVES**

The Course aims to equip readers with basic knowledge of sociology of cooperation especially within the framework of developing economies. Specifically, topics relating to cooperative development, the Rochdale principles, formation and management of cooperatives, typologies of cooperative societies and mechanisms for promoting cooperative actions would be covered. The course is intended to equip students and practitioners with knowledge of the sociological basis of mutual groups set up to address the issue of limitations associated with small means. The course sets out the development sustainability features of rural cooperatives. It identifies key causes of cooperatives failures and proffer recommendations for success. The course is also aimed at understanding the features and provision needed to make a social and economic group successful in the African setting.

## **ABOUT THIS COURSE MATERIAL**

This course material is written for University undergraduate students as a basic introductory text for cooperative sociology. The empirical agrarian focus also makes the text a useful resource for students in rural sociology and rural development. The text is plainly written and well set out to allow a systematic upgrade of the relevant elements in cooperative sociology.

As an introductory text, it is plainly written and it assumes that the students have no prior knowledge or familiarity with cooperative sociology. Each chapter progressively offers a series of key terms or vocabulary that will inform the text as a whole. Therefore, new comers to cooperative sociology, and in general to cooperative management stands to gain from the rich discussion, logical and simplified presentations of the units in each of the module. The module on management of cooperatives from the sociological perspective outline the basic ingredients and elements needed to successfully manage networks of trust in developing economies. The text aims to equip students with the ability to critically examine social issues relating specifically to cooperative network and to encourage students to explore the Rochdale principles that defines attributes of cooperatives based on the voluntary nature of the association.

At the end of each unit, there are Tutor–Marked Assignments (TMAs) which students are expected to answer as a refresher and comprehension guide for each module; they serve as revision guide. Students are encouraged to use the on-line, NOUN i-learn, portal to discuss among themselves, ask questions, seek further clarifications and receive feedback from the facilitator.

## **STUDY UNITS**

The study units are eighteen in number, as follows:

Unit 1 Defining the Co-operative and the Double/Dual Nature of Cooperatives

Unit 2 The Rochdale Principle: Principles or Practices

Unit 3 The Concept of the Sociological Group and the Co-operative Business Enterprise.

Unit 4: Classification of Co-operatives: Types and Criteria

Unit 5: Motives for Forming/Joining Cooperatives

Unit 6: Forming a Cooperative

Unit 7: Multi Dimensions of a Cooperative.

Unit 8: Cooperatives, Sustainability and Food Security

Unit 9: Cooperative as a Hybrid Organization

Unit 10: The Financing of the Co-Operative Enterprise

Unit 11: Cooperative Internal Financing

Unit 12: Multi-Stakeholders Cooperatives

Unit 13: Internal Working of Group

Unit 14: Managing Cooperatives for Success.

Unit 15: Cooperative Manager

Unit 16: Market Pooling

Unit 17: Financing Cooperative Activities

Unit 18: The Gearing Ratio

**TEXTBOOKS AND REFERENCES**

Fekete, F.; Heady, E.O. and Holdren B. R.: Economics of Cooperative farming. Springer Science and Business media, 1976

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Winter, M. 'The rural economy', in White-Spundner, B. (ed.) Our Countryside. Cambridge, Pearson, 1998.

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Bell, C. and Newby, H: Community Studies: an Introduction to the Sociology of the Local Community. London, Allen and Unwin, 1971.

**HOW TO GET THE BEST FROM THIS COURSE**

In the National Open University of Nigeria (NOUN), there are no visible lecturers unlike the Conventional University. It counts on your maturity and initiatives to study the course materials. Your intrinsic motivation and serious cognitive engagement and determination are what you need to be successful. Your effort and adherence to the course requirements will determine when to complete the B.Sc. Programme successfully.

Even though there are no visible lecturers, you should read the study materials as if you are listening to the lecturers, and of course you are listening to the lecturers indirectly.

All the units have the same structure namely; the introduction, the aims/objectives of the course, the course content, conclusion, Self-Assessment exercises which you should carefully practice to know your extent of acquisition of the lessons in the unit. Other items in the structure of the units include Tutor-Marked Assignments (TMAs). You should answer them as your final examination questions come from these ones. You should also curiously peer into the references and textbooks provided as this will expand the scope of your knowledge in the course.

As a strategy to go through and understand the course, the followings are suggested:

1. Read the Course Guide carefully.
2. Work out your private time table based on the most convenient time to study the materials.
3. Stick to your time-table. However, allow flexibility when and where necessary.
4. Start unit one and go through it before Unit 2 and finally unit 15. You have been told never to leap frog jump any unit.
5. As you work through the units, you will be instructed on what to do. You may be asked to go to a previous course you have done before for more information and/or reminder of some basic facts.
6. Compare the objectives of each unit with the content of your total assimilation of it. If there is a deviation, go back to the study material and reread it.
7. When a submitted assignment is returned to you, go through it and observe comments made. If there is doubt, contact the course tutor.
8. Your completion of the last unit is an indication that you are ready for the final examination.

### **FACILITATORS/TUTOR AND TUTORIALS**

During tutorials, your tutor will grade you, comment on your assignment and monitor your progress. Try your best to attend the tutorials .This is the only way to have face to face contact with your tutor. Questions and answers are handled during this session. Do not hesitate to contact your tutor through phone or e-mail if you need help.

The course tutor will be willing to:

- i. Provide answers to your questions;
- ii. Co-ordinate discussions based on the unit;
- iii. Provide feedback on tutor marked assignments;
- iv. Get feedback from students on their understanding of the unit(s); Tutorials will take place in the study centre nearest to you. You have to arrange the time and other details with your facilitator.

## **SUMMARY**

As an introductory text this course materials only presents a birds' eye view of the key themes in sociology of cooperation. Attempts were made to relate the issues discussed in the text to the real time peculiar conditions in developing economies. It is envisaged that a systematically reading and application of the key themes will equip readers with foundational knowledge and theories for a more advance incursion into sociology of cooperation.

## **FINAL EXAMINATION AND GRADING**

As an introductory course, the final score of the student will be made of the combined scores from the assignments and e-assessment at the end of the semester. The Tutor Marked Assignments provided at the end of each module is to guide the student to ascertain their full comprehension of the key issues discussed per unit. As guided questions the students are encouraged to attempt the assignments for a full comprehension of the topic covered.

The evaluation rating is as follows:

Assignments- 30%

Examination-70%

**Total- 100%**

The best 10 of the assignments attempted are usually considered with a unit score of 3marks each making 30%.



**MAIN  
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**MODULE ONE: PERSPECTIVE DEFINITIONS OF COOPERATIVE,  
CLASSIFICATIONS AND ROCHDALE PRINCIPLES**

**Unit 1: Defining the Co-Operative**

**UNIT STRUCTURE**

- 1.1 Introduction
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  - 1.3.2 Agricultural and rural Cooperatives
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  - 1.3.3. The Double/Dual Nature of Cooperatives
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    - 1.3.3.3 Investor Oriented Corporation
    - 1.3.3.4 The Cooperative Corporation
- 1.4 Summary
- 1.5 Glossary
- 1.6 References/Further Readings
- 1.7 Answers to Self-Assessment Exercise(s) within the content

## **1.1 Introduction**

The unit sets the stage for a better understanding of cooperatives; definition and the dual nature. The roles of cooperatives are highlighted from a discussion of the problems of agricultural cooperatives in developing economies. The rural underpinning of cooperative action posits this discussion on cooperation as an instrument for agrarian reform and rural development. The difference between the investor oriented corporation and the cooperative corporation is highlighted in it.

## **1.2 Learning Outcomes**

By the end of this unit, you will be able to:

- Understand what co-operative entails
- Describe Agricultural and rural Cooperatives
- Explain the nature of co-operatives

## **1.3. Main Content**

### **1.3.1 What is a co-operative?**

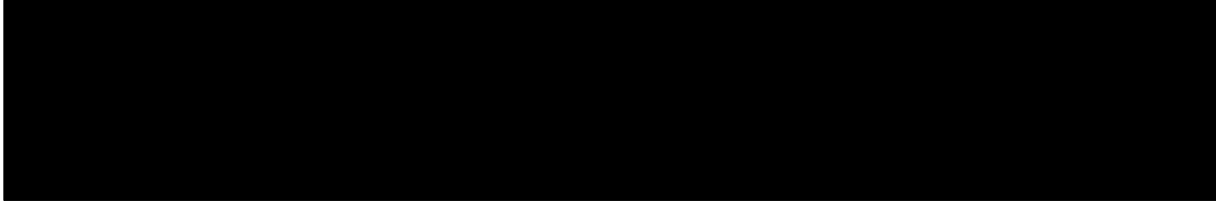
A cooperative is an association of individuals of common/same means and aspirations who have voluntarily come together, by pooling resources together with the objective of benefiting (social and economic) from the association. A cooperative is a network of trust where members benefit from the brotherhood economics associated with the group. It is an attempt by people to use group action to improve their personal lot by overcoming the limitations or reduce the cost of achievement they will have if they act singly. The original co-operative objective of the Rochdale Pioneers was the mobilization of capital from the members to start a profit-making business, for the sole purpose of pecuniary benefit and improvement of the social and economic conditions of its members. It is the emphasis on the provision of services to members, rather than profits to investors which has resulted in co-operatives traditionally regarding themselves as organizations of people and not capital.

Features of a cooperative thus includes: Voluntary and open membership; democratic control of the society by its membership; limited interest in the capital by the members (as opposed to shareholders in a company); distribution of surplus assets for the purposes of the society under its own rules; a

commitment to the education of its members either generally or in relation to the use of their own property; and a federalizing tendency to act together with other co-operatives.

Legal definitions of a cooperative may vary depending upon the source, but most agree that a true cooperative is one that (1) provides service at cost, (2) is democratically controlled by its member-patrons, and (3) limits returns on equity capital. A farmer marketing cooperative, for example, is an association of business firms, farmers, who have pooled their marketing activities in an attempt to make needed services available to themselves. The net margin of a marketing cooperative are returned to its members on the basis of their use, patronage, or economic participation in their cooperative.

### **Self-Assessment exercises 1**



### **1.3.2 Agricultural and Rural Co-operatives**

Agricultural and rural cooperatives are a specific type of cooperative that is formed by farmers and residents in rural areas to address their unique needs and challenges. These cooperatives play a crucial role in the agricultural and rural development of many regions around the world.

Agriculture, including farming, forestry, fisheries and livestock, is the main source of employment and income in rural areas, where the majority of the world's poor and hungry people live. Agricultural cooperatives play an important role in supporting men and women small agricultural producers and marginalized groups by creating sustainable rural employment. In Africa, smallholder farmers gain big benefits from agricultural cooperatives. These includes increased bargaining power and resource sharing that lead to food security and poverty reduction for millions.

The importance of agricultural cooperatives in improving the lives of millions of smallholder farmers and their families cannot be overstated. Empowered by being a part of a larger group, smallholder farmers can negotiate better terms in contract farming and lower prices for agricultural inputs like seeds, fertilizer and equipment. In addition, cooperatives offer prospects that smallholder

farmers would not be able to achieve individually such as helping them to secure loans, land rights and better market opportunities. Producer cooperatives offer men and women smallholders market opportunities, and provide them with services such as better training in natural resource management, and better access to information, technologies, innovations and extension services.

The purpose of agricultural cooperatives is to help farmers increase their yields and incomes by pooling their resources to support collective service provisions and economic empowerment. Given their primary remit to contribute to smallholder farmer production, agricultural cooperatives are seen as critical in achieving the government's development targets in the Growth and Transformation Plan, and focusing on other types of cooperatives requires an alternative framework for analysis. The main categories of agricultural co-operatives fall into mainstream activities of agricultural undertaking including supply of agricultural inputs, joint production and agricultural marketing.

Input supply includes the distribution of seeds and fertilizers to farmers. Cooperatives in joint agricultural production assume that members operate the cooperative on jointly owned agricultural plots. The third category consists of joint agricultural marketing of producer crops, where farmers pool resources for the transformation, packaging, distribution and marketing of an identified agricultural commodity.

### **Some Key Aspects of Agricultural and Rural Cooperatives**

#### **Agricultural Cooperatives:**

- Agricultural cooperatives are typically formed by farmers to collectively address various aspects of their agricultural activities, such as production, marketing, and distribution of agricultural products.
- Farmers may join these cooperatives to pool their resources, share knowledge, and collectively negotiate better prices for their produce in the marketplace.
- Examples of agricultural cooperatives include those focused on marketing crops, processing agricultural products, and purchasing farm inputs like seeds, fertilizers, and machinery.

**Rural Cooperatives:**

- Rural cooperatives encompass a broader range of cooperative enterprises that serve the needs of rural communities beyond just agriculture.
- They can include cooperatives involved in rural development, community services, healthcare, education, housing, and more.
- Rural cooperatives often focus on improving the overall quality of life in rural areas by addressing economic, social, and cultural needs.

**Objectives:**

- The primary objectives of agricultural and rural cooperatives are to enhance the economic well-being of farmers and rural residents while promoting sustainable agricultural practices and community development.
- These cooperatives aim to empower their members by providing access to resources, services, and markets that may be challenging for individuals to access on their own.

**Activities:**

- Agricultural cooperatives can engage in activities such as bulk purchasing of agricultural inputs, collective marketing of agricultural products, value-added processing, and even providing agricultural credit and insurance services.
- Rural cooperatives may offer a wide range of services, including healthcare, education, housing, and infrastructure development in rural areas.

**Democratic Governance:**

- Agricultural and rural cooperatives typically follow democratic governance principles, with one member, one vote. This means that all members, regardless of the size of their farms or contributions, have an equal say in decision-making processes.

**Economic and Social Impact:**

- These cooperatives contribute to economic stability and development in rural areas by creating opportunities for income generation and employment.

- They also help retain and improve the quality of life in rural communities by providing essential services and addressing community needs.

### **1.3.2.1: Roles of Co-operatives in Agriculture**

Cooperatives play several important roles in agriculture, benefiting farmers and the agricultural sector as a whole. These roles help improve the economic and social well-being of farmers and promote sustainable agricultural practices. Cooperatives in agriculture are a valuable mechanism for improving the livelihoods of farmers, increasing their resilience, and supporting the growth and sustainability of the agricultural sector. They provide a platform for farmers to work together, share resources, and collectively address the challenges and opportunities in agriculture.

Here are some of the key roles of cooperatives in agriculture:

#### **1. Collective Bargaining and Marketing:**

- Agricultural cooperatives enable farmers to collectively negotiate better prices for their agricultural products when selling in the marketplace. By pooling their produce, farmers can achieve economies of scale and have greater bargaining power with buyers, including wholesalers, processors, and retailers.
- Cooperatives often provide marketing services, helping farmers access wider markets, establish brand recognition, and navigate complex supply chains.

#### **2. Access to Inputs and Services:**

- Cooperatives facilitate the bulk purchasing of agricultural inputs, such as seeds, fertilizers, pesticides, and machinery. This allows members to obtain these resources at lower costs and with improved quality.
- They can provide technical assistance, training, and information to help farmers adopt modern and sustainable farming practices.

#### **3. Value Addition and Processing:**

- Many agricultural cooperatives engage in value-added activities, such as processing, packaging, and branding of agricultural products. This can increase the profitability of farming operations and create new market opportunities.
- Cooperatives may operate food processing plants, dairy cooperatives, or wineries, allowing members to capture more of the value chain's benefits.



**4. Risk Mitigation:**

- Some agricultural cooperatives offer risk management services, such as crop insurance and risk-sharing mechanisms. These services can help farmers protect their livelihoods in the face of unforeseen events like natural disasters or market fluctuations.

**5. Access to Credit and Financing:**

- Agricultural cooperatives often provide members with access to credit and financial services, including loans, savings, and investment opportunities. This can help farmers invest in their operations, purchase equipment, and improve their overall financial stability.

**6. Research and Development:**

- Cooperatives may participate in agricultural research and development initiatives, fostering innovation and the adoption of new technologies among their members.
- They can collaborate with agricultural extension services, universities, and research institutions to access cutting-edge knowledge and practices.

**7. Education and Training:**

- Many agricultural cooperatives emphasize education and training to empower their members. This includes training on modern farming techniques, financial literacy, and business management skills.
- This focus on education helps farmers make informed decisions and enhance the sustainability of their operations.

**8. Social and Community Development:**

- Cooperatives often have a strong community focus, contributing to rural development by building infrastructure, providing healthcare and education services, and supporting other community needs.
- They help maintain the social fabric of rural areas by fostering cooperation and solidarity among members.

**9. Sustainability and Environmental Stewardship:**

- Some agricultural cooperatives promote sustainable and environmentally friendly farming practices, including organic farming, conservation agriculture, and responsible land management.

**10. Policy Advocacy:**

- Cooperatives can engage in advocacy efforts to influence agricultural policies at local, regional, and national levels, ensuring that the interests of farmers are considered in government decisions.

**1.3.2.2: Problems of Agricultural Co-operatives**

While agricultural cooperatives offer numerous benefits to their members and the agricultural sector, they also face various challenges and problems.

Some of the common issues and problems that agricultural cooperatives may encounter include:

**1. Lack of Member Participation:**

- One of the fundamental principles of cooperatives is democratic member control. When members do not actively participate in the decision-making and management of the cooperative, it can weaken its effectiveness.

**2. Leadership and Governance Issues:**

- Weak leadership, lack of skilled management, and governance problems can hinder the efficient operation of agricultural cooperatives. Effective leadership is crucial for making strategic decisions, managing finances, and ensuring transparency.

**3. Financial Sustainability:**

- Financial sustainability can be a significant challenge for agricultural cooperatives, particularly small and newly established ones. They may struggle to secure adequate capital, access loans, or generate sufficient revenue to cover operational expenses.

**4. Market Access and Price Volatility:**

- Agricultural cooperatives often face challenges related to accessing markets and dealing with price volatility. Market fluctuations, middlemen, and trade barriers can affect the profitability of members' products.

**5. Infrastructure and Technology:**

- Outdated infrastructure and limited access to modern technology can hinder the ability of agricultural cooperatives to compete in the market and adopt sustainable farming practices.

**6. Resource Management:**

- Poor resource management can lead to inefficiencies and financial losses. This includes issues related to the allocation of resources, use of agricultural inputs, and maintenance of assets.

**7. Diversification and Value Addition:**

- Some agricultural cooperatives may struggle to diversify their product offerings and add value to their products. This can limit their ability to adapt to changing market demands and increase their profitability.

**8. Conflict and Social Issues:**

- Internal conflicts, disputes among members, and issues related to equitable benefit-sharing can disrupt the functioning of agricultural cooperatives. Conflict resolution mechanisms and dispute prevention strategies are crucial.

**9. Competition and External Challenges:**

- Agricultural cooperatives may face competition from large, commercial agribusinesses, which can make it challenging to maintain a competitive edge. They may also encounter external challenges such as changing regulations, trade policies, and environmental concerns.

**10. Capacity Building and Training:**

- Many agricultural cooperatives lack the necessary skills and knowledge to effectively manage their operations, engage in financial planning, and implement modern agricultural practices. Training and capacity-building programs are essential to address this issue.

**11. Access to Credit and Capital:**

- Access to affordable credit and capital is often a significant problem for agricultural cooperatives, especially in regions where financial services are limited. Securing funding for expansion or investment can be challenging.

**12. Government Support and Policy Environment:**

The regulatory and policy environment can impact agricultural cooperatives significantly. Changes in government policies, inadequate support, and lack of infrastructure investment can create obstacles for cooperative development.

**Self-Assessment exercises 2**

While agricultural cooperatives offer numerous benefits to their members and the agricultural sector, they also face various challenges and problems. Discuss these challenges

### **1.3.3 The Double/Dual Nature of Co-operatives**

The term 'cooperative farm' covers several different kinds of farm organization, in which the principles of individual and joint ownership and operation are combined in differing degrees. In practice there is much variety within the above general concept of the cooperative farm in which individual and collective objectives appear jointly and simultaneously. Within this unified general conception of the cooperative farm, farmers' cooperatives have developed as the chief form of decision units in socialist agriculture. Cooperatives have clear-cut dual character.

On one side it is a social organization, and on the other, an economic organization, primarily a business firm (enterprise). As a social organization it undoubtedly belongs to a wider category involving all cooperatives organized in the fields of marketing, retailing, services, housing, savings, and manufacturing. In this one-sided aspect there is no substantial difference between cooperatives and other social institutions (for example, trade unions) according to the Marxist theory of political organization. The real difference is the double character of the cooperative as a social organization and as an economic organization. Under the conditions of a socialist society, all types of cooperatives are of socialist character.

#### **1.3.3.1 The Co-operative as a Social Group**

Cooperative ownership as a form of socialist ownership is obviously a narrower form of ownership in comparison with state ownership since the property of state-owned factories and farms is conceived of as the property of the whole nation. At the same time, cooperative farms represent Agricultural economists had to recognize that it was not possible to understand the complex nature of cooperative farming, and even much less possible to solve its important problems if the farmers' cooperative is not conceived of as a defined organization. Keeping to such basically non-economic concepts as "farmers' association", "farmers' union", "social mass organization", or "cooperative membership", neither the objectives nor the material interests associated with cooperative farming, with its individual members and managers can be clearly shown. Not even a comprehensive unified model of farmers' cooperative can be unambiguously formulated. The conclusion is drawn that the farmers' cooperative must be conceived of as an economic organization embodied in the cooperative farm. The cooperative farm consists of two constituent parts: the large-scale cooperative farm and the small-scale home plot farms of cooperative members. The large-scale cooperative farm is

considered as a business organization and, because of collective-cooperative ownership, as a special type of business firm characterized by collective management and decision-making at the top level; and by its members as being both partners (co-owners) and laborers (employees). The members' home plot farms must also be conceived of as an economic, partially business-type organization.

### **1.3.3.2 The Cooperative as a Corporation**

A corporation, whether investor-oriented or cooperative, has its own legal personality created by the state government through a charter. It may acquire resources, own assets, produce and sell, incur debt, and extend credit. It may sue and be sued. It can be formed only by strict compliance with the laws of the State in which it is being organized. A certain number of people, usually three or more, may form a corporation by filing the articles of incorporation giving required information with the Secretary of State and paying required fees. A corporation may be organized for a specific period of time until a specific task is completed or in perpetuity. It provides for continuous existence in that death, disability, or bankruptcy of a stockholder or officer does not bring it to an end. Creditors are limited in their claims to the assets of the corporation.

### **1.3.3.3 Investor Oriented Corporation**

Those who contribute to the capital of the investor-oriented type of corporation do not necessarily participate in its management or operation. Management may be concentrated in the hands of a group of experts who may own only a small portion of the outstanding stock. This is often mentioned in discussing personal commitment, or lack of it, on the part of management that has little or no ownership interests. The investor-oriented type of corporation provides goods and services to anyone who wishes to purchase them. For the most part, the customers are non-owners. It engages in activities designed to serve customers' needs, but its basic objective is to make a profit for and serve the investors. This type of corporation is owned by those who have bought its stock. The stocks are purchased with the expectation that dividends would be received and with the hope that the selling price of the shares would be greater when sold than when they were bought. This return on investment emphasis rather than the production of a needed good or service serves to differentiate the investor-oriented corporation from the cooperative corporation. The business is owned by the stockholders, and it is they who vote at annual meetings on policies recommended by management, common stockholders, and the board of directors. The number of votes allowed for a stockholder is

based upon the number of shares of stock owned. Because the motivating force in purchasing stock of the corporation is a return on the investment, there is no legal limitation on size of the return that might be received on the capital investment. Since the stockholders own the corporation, the operating proceeds will go to them in proportion to the number of shares of stock they own.

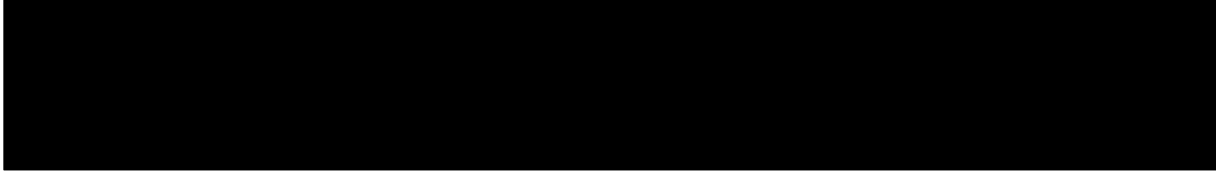
#### **1.3.3.4 The Cooperative Corporation**

The cooperative corporation, as contrasted with the investor-oriented corporation, is owned by the member-patrons. It is they who use the services provided by the cooperative, and it is usually these services which they could not obtain as individuals or which were not available to them elsewhere that brought about the cooperative formation in the first place. The members have control over policies of the cooperative through their election of the board of directors and through voicing their positions on various issues. Voting is usually done on a one-person-one-vote basis, and rarely are other factors taken into account. Any deviation from the democratic principle of one person-one vote stems from differences in patronage or participation in the cooperative and not from differences in capital investment. The service orientation of the cooperative corporation is emphasized by the limited returns permissible on ownership capital, this is usually 8% or less. Since the corporation is owned and controlled by its members, it is they who get any returns that might be realized. These go to the member-owners on the basis of their patronage or economic participation in their cooperative. Agricultural cooperatives have a long history of successes and failures both in the developed and the developing world. In some European countries the formation of agricultural cooperatives has made a major contribution to the development of agriculture over the last 150 years. These cooperatives were usually initiated by small scale farmers, as a response to their weak position in the market. By joining forces they could improve this position and obtain better prices and services for the purchase of inputs and the marketing of produce.

In developing countries the experience has been more mixed. One reason for failure has been the misuse of the cooperative concept for ideological or political purposes. This resulted in many poorly developed or unsustainable cooperatives being created. Some developing countries are still left with the remnants of these state-controlled “pseudo-cooperatives”. However, under the influence of current trends in market oriented reform, privatization, decentralization and participation, cooperatives are being rediscovered as a suitable organizational structure for farmers to improve

their livelihoods. Agricultural cooperatives in which the members both participate and contribute can become powerful instruments for the development of the rural economy.

### **Self-Assessment exercises 3**



## **1.4 Summary**

This Unit has succinctly explained the roles of cooperatives are highlighted from a discussion of the problems of agricultural cooperatives in developing economies. The rural underpinning of cooperative action was discussed and posited against cooperative action as an instruments for agrarian reform and rural development.

## **1.5 References/Further Readings**

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**1.6 Answers to SAEs - UNIT 1**

Answers to SAEs within the course content, arranged accordingly.

**Answers to SAEs 1**

1. A cooperative is an association of individuals of common/same means and aspirations who have voluntarily come together, by pooling resources together with the objective of benefiting (social and economic) from the association. A cooperative is a network of trust where members benefit from the brotherhood economics associated with the group. It is an attempt by people to use group action to improve their personal lot by overcoming the limitations or reduce the cost of achievement they will have if they act singly.

2. Features of a cooperative thus include: Voluntary and open membership; democratic control of the society by its membership; limited interest in the capital by the members (as opposed to shareholders in a company); distribution of surplus assets for the purposes of the society under its own rules; a commitment to the education of its members either generally or in relation to the use of their own property; and a federalizing tendency to act together with other co-operatives.

**Answers to SAEs 2****1. Roles and problems Agriculture Co-operatives****1. Collective Bargaining and Marketing:**

- Agricultural cooperatives enable farmers to collectively negotiate better prices for their agricultural products when selling in the marketplace. By pooling their produce, farmers can achieve economies of scale and have greater bargaining power with buyers, including wholesalers, processors, and retailers.
- Cooperatives often provide marketing services, helping farmers access wider markets, establish brand recognition, and navigate complex supply chains.

**2. Access to Inputs and Services:**

- Cooperatives facilitate the bulk purchasing of agricultural inputs, such as seeds, fertilizers, pesticides, and machinery. This allows members to obtain these resources at lower costs and with improved quality.



- They can provide technical assistance, training, and information to help farmers adopt modern and sustainable farming practices.

**3. Value Addition and Processing:**

- Many agricultural cooperatives engage in value-added activities, such as processing, packaging, and branding of agricultural products. This can increase the profitability of farming operations and create new market opportunities.
- Cooperatives may operate food processing plants, dairy cooperatives, or wineries, allowing members to capture more of the value chain's benefits.

**4. Risk Mitigation:**

- Some agricultural cooperatives offer risk management services, such as crop insurance and risk-sharing mechanisms. These services can help farmers protect their livelihoods in the face of unforeseen events like natural disasters or market fluctuations.

**5. Access to Credit and Financing:**

- Agricultural cooperatives often provide members with access to credit and financial services, including loans, savings, and investment opportunities. This can help farmers invest in their operations, purchase equipment, and improve their overall financial stability.

**6. Research and Development:**

- Cooperatives may participate in agricultural research and development initiatives, fostering innovation and the adoption of new technologies among their members.
- They can collaborate with agricultural extension services, universities, and research institutions to access cutting-edge knowledge and practices.

**7. Education and Training:**

- Many agricultural cooperatives emphasize education and training to empower their members. This includes training on modern farming techniques, financial literacy, and business management skills.
- This focus on education helps farmers make informed decisions and enhance the sustainability of their operations.

**8. Social and Community Development:**

- Cooperatives often have a strong community focus, contributing to rural development by building infrastructure, providing healthcare and education services, and supporting other community needs.

- They help maintain the social fabric of rural areas by fostering cooperation and solidarity among members.

**9. Sustainability and Environmental Stewardship:**

- Some agricultural cooperatives promote sustainable and environmentally friendly farming practices, including organic farming, conservation agriculture, and responsible land management.

**10. Policy Advocacy:**

- Cooperatives can engage in advocacy efforts to influence agricultural policies at local, regional, and national levels, ensuring that the interests of farmers are considered in government decisions.

**2. Problems of Agricultural Co-operatives****1. Lack of Member Participation:**

- One of the fundamental principles of cooperatives is democratic member control. When members do not actively participate in the decision-making and management of the cooperative, it can weaken its effectiveness.

**2. Leadership and Governance Issues:**

- Weak leadership, lack of skilled management, and governance problems can hinder the efficient operation of agricultural cooperatives. Effective leadership is crucial for making strategic decisions, managing finances, and ensuring transparency.

**3. Financial Sustainability:**

- Financial sustainability can be a significant challenge for agricultural cooperatives, particularly small and newly established ones. They may struggle to secure adequate capital, access loans, or generate sufficient revenue to cover operational expenses.

**4. Market Access and Price Volatility:**

- Agricultural cooperatives often face challenges related to accessing markets and dealing with price volatility. Market fluctuations, middlemen, and trade barriers can affect the profitability of members' products.

**5. Infrastructure and Technology:**

- Outdated infrastructure and limited access to modern technology can hinder the ability of agricultural cooperatives to compete in the market and adopt sustainable farming practices.

**6. Resource Management:**

- Poor resource management can lead to inefficiencies and financial losses. This includes issues related to the allocation of resources, use of agricultural inputs, and maintenance of assets.

**7. Diversification and Value Addition:**

- Some agricultural cooperatives may struggle to diversify their product offerings and add value to their products. This can limit their ability to adapt to changing market demands and increase their profitability.

**8. Conflict and Social Issues:**

- Internal conflicts, disputes among members, and issues related to equitable benefit-sharing can disrupt the functioning of agricultural cooperatives. Conflict resolution mechanisms and dispute prevention strategies are crucial.

**9. Competition and External Challenges:**

- Agricultural cooperatives may face competition from large, commercial agribusinesses, which can make it challenging to maintain a competitive edge. They may also encounter external challenges such as changing regulations, trade policies, and environmental concerns.

**10. Capacity Building and Training:**

- Many agricultural cooperatives lack the necessary skills and knowledge to effectively manage their operations, engage in financial planning, and implement modern agricultural practices. Training and capacity-building programs are essential to address this issue.

**11. Access to Credit and Capital:**

- Access to affordable credit and capital is often a significant problem for agricultural cooperatives, especially in regions where financial services are limited. Securing funding for expansion or investment can be challenging.

**12. Government Support and Policy Environment:**

- The regulatory and policy environment can impact agricultural cooperatives significantly. Changes in government policies, inadequate support, and lack of infrastructure investment can create obstacles for cooperative development.

**Answers to SAEs 3**

1. Co-operative on one side is a social organization, and on the other, an economic organization, primarily a business firm (enterprise). As a social organization it undoubtedly belongs to a wider category involving all cooperatives organized in the fields of marketing, retailing, services, housing, savings, and manufacturing. In this one-sided aspect there is no substantial difference between cooperatives and other social institutions (for example, trade unions) according to the Marxist theory of political organization. The real difference is the double character of the cooperative as a social organization and as an economic organization. Under the conditions of a socialist society, all types of cooperatives are of socialist character.

2. A corporation, whether investor-oriented or cooperative, has its own legal personality created by the state government through a charter. It may acquire resources, own assets, produce and sell, incur debt, and extend credit. It may sue and be sued. It can be formed only by strict compliance with the laws of the State in which it is being organized. A certain number of people, usually three or more, may form a corporation by filing the articles of incorporation giving required information with the Secretary of State and paying required fees. A corporation may be organized for a specific period of time until a specific task is completed or in perpetuity. It provides for continuous existence in that death, disability, or bankruptcy of a stockholder or officer does not bring it to an end. Creditors are limited in their claims to the assets of the corporation.

**UNIT 2: The Rochdale Principles: Bona Fide Principles or Practices As Applicable Today****UNIT STRUCTURE**

2.1 Introduction

2.2 Learning Outcomes

2.3 Main Content

2.3.1 The Rochdale Principles: Bona Fide Principles or Practices as Applicable Today

2.4 Summary

2.5 References/Further Readings

2.6 Answers to Self-Assessment Exercise(s) within the content

**2.1 Introduction**

The unit particularly address the issue of *Bona fide* principles and practices guiding cooperative formation and management. The Rochdale principle is highlighted by discussing the key elements of the principles that distinguishes it as a social network of thrust. The principle of practice is discussed to highlight the key peculiarities for cooperative management.

**2.2 Learning Outcomes**

By the end of this unit, you will be able to:

- Understand and explain the Rochdale Principles: Bona Fide Principles or Practices as Applicable Today

**2.3 Main Content****3.3.1 The Rochdale Principles: Bona Fide Principles or Practices as Applicable Today**

The cooperative legislation we have today was influenced by the Rochdale Society, which began in England in 1844. It was retail cooperative selling consumer goods and operated under what was referred to as certain principles. They were as follows:

1. Open membership to everyone
2. One person-one vote- the person rather than the number of shares owned should be the basis for voting.
3. Cash trading
4. Membership education
5. Political and religious neutrality
6. No unusual risk assumption
7. Limited return on stock
8. Goods sold at regular retail prices
9. Limitation on the number of shares of stock owned
10. Net margins (savings) distributed according to patronage

### **Bona Fide Principles or Practices as Applicable Today**

If we define a principle as some sort of fundamental law, it would be correct to assume that an organization is not a bona fide cooperative if it doesn't follow the principle(s). Using this definition and applying each of the so-called principles to our cooperatives quickly reveals that most do not apply today. Since such an exercise complements our objectives in this chapter, that is, getting acquainted with the cooperative corporation as a form of business organization and comparing it with other forms, let's examine each of the principles. Should it appear that any are not fundamental to the concept of cooperatives today, they may be eliminated or renamed to something of a less crucial nature?

**Open Membership:** The first so-called principle-open membership-is obviously open to question today. There is no state cooperative law requiring cooperatives to accept any and all membership applications submitted to them. A cooperative should have intelligent, informed, interested, and knowledgeably involved membership who recognize the need for a cooperative and who will contribute to its effective functioning. Applications should be received only during specified periods from producers of the relevant commodity -profession or trade group, and they should not be automatically accepted but rather they should be carefully processed before admitting would be members. A very good example is the Yu-heng watermelon cooperative in China. In 1995, it had 129 members. Membership is closed in this cooperative. Although the charter stipulates the membership policy as 'free entry and free exit', the practice of membership is different. On the one

hand, to become a member, farmer growers have to reach a certain scale of growing watermelons and have to meet a certain technical requirement. The cooperative is very cautious to accept new members. For example, the cooperative will monitor the performance of a potential member for one year before making a final decision. On the other hand, to leave the cooperative, current members are required to submit a written application to the cooperative. The member can get their equity investment back when the application to leave is accepted by the board of directors. However, current members are not allowed to leave when the cooperative is experiencing losses.

**One Person-One Vote:** The one person-one vote rule is designed to emphasize the service aspect of the cooperative as contrasted with the investment aspect of a business or the investor-oriented type of corporation. The basic reason for and justification of a cooperative is that it makes it possible for members to provide themselves with a service(s) which they were not able to get otherwise or the services may be provided more efficiently through this means. Despite the importance of the service rather than the investment orientation, this rule has been modified to reflect some of the changes that have taken place in our agricultural sector. Voting plans now being used include the following:

1. One person-one vote.
2. Vote according to patronage on a dollar volume basis, but with a limitation on the number of votes that may be cast.
3. One person-one vote plus additional votes based on patronage.
4. Vote according to shares of stock (Mississippi State law in USA permits this method).

**Cash Trading:** The rule regarding cash trading has little relevance today for agricultural marketing cooperatives. Credit trading and future pricing are commonly accepted norms in contracts that Cooperatives have had to align with emerging contract terms in trading.

**Member Education:** Member education can hardly be classified as a principle, but it is a most worthy objective. As will be discussed in a later section, understanding, interest, and knowledgeable involvement of members in their cooperative is an essential ingredient for success. The development of leadership on the part of members, especially young leadership, is also essential. The tangible and psychological benefits of communications within the cooperative and in providing an understanding of cooperatives to those outside are all educationally based.

**Political and Religious Neutrality:** The rule relating to political and religious neutrality takes on a special meaning in today's activist society. Farmers, by nature, have tended to leave political activity to others, but a relatively new form of action on the part of cooperatives has emerged over the past few years. Political Action Committees (PACs) have been formed by many cooperatives in many developed economies such as US, Australia and in The Netherlands. The PACs function as political pressure groups and funding is provided by members either on a voluntary basis or by mandatory assessment. In most cases, activity has been confined to determining the views of candidates for political office regarding agriculture in general and of cooperatives and their particular interests and problems. A basic aim has been toward educating the candidates and officeholders. Such a movement may have been prompted by a recognition that agriculture as a percentage of the total population has grown very small. Influence could easily wane. Also, with many other groups playing strong activist roles, cooperative members may have overcome some of their past reluctance to engage in such activity. This is particularly true if they view such activities as being basically educational in nature and not completely political in the usual sense.

**No Unusual Risk Assumption:** No problems would usually be involved with agricultural cooperatives in avoiding unusual risks, even if this rule were considered as being a principle. Agricultural groups have tended to be rather conservative in making decisions regarding such items as expansion, addition of facilities, and diversifying into new ventures. Only in those cases where membership and boards of directors of cooperatives have not been knowledgeably involved and have to some extent abdicated their decision-making positions and roles is there evidence of unusual risk assumption.

**Limited Returns on Stock:** The rule relating to limited returns on stock comes very close to being a principle. This is designed to stress the service orientation of cooperatives and to prevent capital investment and return on investment from becoming the sole objective of membership. Many cooperatives are not organized on a stock-share basis, and interest may be paid on the money invested regardless of the form in which it is invested. The principle of limiting interest is a sound one because cooperatives are organized to serve their members as patrons-not as investors as contrasted with investor-oriented private corporations.



Many cooperatives do not pay interest on common stock, and each member usually has only one share. In the case of preferred stock where members hold varying amounts, interest is usually paid. Interest is paid on this preferred, non-voting stock or equity because not all members have invested equally in stocks or equity.

**Goods Sold at Regular Retail Prices:** For several reasons, most cooperatives follow a price maintenance policy rather than selling at cost. It is difficult, if not impossible, for management to predict what costs will be well in advance, with the risk of loss of equity always possible in trying to follow an at-cost policy on pricing. There is also the possibility of retaliation by profit-type businesses, resulting in price wars if an at-cost policy is followed. In some cases with some types of cooperatives, non-members would be given the benefit of lower prices, and this is viewed as unfair to members. Managers prefer to pass along net savings to members at the end of the year, thus easing capital requirements. This is not a cooperative principle, but is a business policy which may be changed from time to time as conditions warrant changes. The point is that net margins or savings belong to the members of the cooperative in any event. Whether they are passed along on a day-to-day basis in the form of at-cost pricing or in a lump sum at the end of the year as a so-called thirteenth month return is a decision to be made by the board of directors.

**Number of Shares of Stock Owned Is Limited:** The Rochdale principle relating to limitations on the number of shares of stock owned is viewed as a power control measure. There are non-stock cooperatives, so the rule would not apply to them. If voting is restricted by a cooperative to one person-one vote or in the variations of this practice, there is no danger of misuse of power. If interest or dividend payments are limited, no undue power influence would be possible from this source. The dangers from any of these sources appear to be illusory. Despite the fact that in some credit unions, which are not cooperatives, there are limitations on the number of shares of stock owned by members, this rule cannot be given the status of a principle.

**Net Margins Distributed According to Patronage:** The last rule listed as a Rochdale principle, that net margins (savings) are distributed in accordance with patronage, is probably the most secure and everlasting of all cooperative principles. All net income of a cooperative is distributed according to the volume of business done with the cooperative. This practice is in complete accord with all the

user owner-service concepts applicable to the agricultural cooperative way of doing business. It may be that this is the only real and universal cooperative principle.

### **Principles or Practices?**

In the light of the present day understanding, the following so-called Rochdale principles may be rejected as principles and, instead, classified as practices:

- a) Cash trading
- b) Member education
- c) Political and religious neutrality
- d) No undue risk assumption, and
- e) Goods sold at regular retail prices.

These may be accepted, with some degree of reservation, as being somewhere between a principle and a practice:

- a) Open membership
- b) One person-one vote
- c) Limited interest on stock, and
- d) Limitation on number of shares of stock owned.

The following are principles without reservation or qualification:

Net margins (savings) distributed according to patronage

### **Self-Assessment Exercises 1**

1. List eight of the Rochdale' principles you know and explain five
2. In the light of the present day understanding, the following so-called Rochdale principles which may be rejected as principles but instead, classified as practices. List them

## **2.4 Summary**

The Unit succinctly explained the Rochdale principle by discussing the key elements of the principles that distinguishes it as a social network of thrust. The principle of practice is discussed to highlight the key peculiarities for cooperative management. The rural underpinning of cooperative action was discussed and posited against cooperative action as an instruments for agrarian reform and rural development.

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## **2.6 Answers to SAEs - UNIT 2**

Answers to SAEs within the course content, arranged accordingly.

### **Answers to SAEs 1**

#### **1. Rochdale Principles**

**Open Membership:** The first so-called principle-open membership-is obviously open to question today. There is no state cooperative law requiring cooperatives to accept any and all membership applications submitted to them. A cooperative should have intelligent, informed, interested, and knowledgeably involved membership who recognize the need for a cooperative and who will contribute to its effective functioning. Applications should be received only during specified periods from producers of the relevant commodity -profession or trade group, and they should not be

automatically accepted but rather they should be carefully processed before admitting would be members.

**One Person-One Vote:** The one person-one vote rule is designed to emphasize the service aspect of the cooperative as contrasted with the investment aspect of a business or the investor-oriented type of corporation. The basic reason for and justification of a cooperative is that it makes it possible for members to provide themselves with a service(s) which they were not able to get otherwise or the services may be provided more efficiently through this means. Despite the importance of the service rather than the investment orientation, this rule has been modified to reflect some of the changes that have taken place in our agricultural sector. Voting plans now being used include the following:

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**Cash Trading:** The rule regarding cash trading has little relevance today for agricultural marketing cooperatives. Credit trading and future pricing are commonly accepted norms in contracts that Cooperatives have had to align with emerging contract terms in trading.

**Member Education:** Member education can hardly be classified as a principle, but it is a most worthy objective. As will be discussed in a later section, understanding, interest, and knowledgeable involvement of members in their cooperative is an essential ingredient for success. The development of leadership on the part of members, especially young leadership, is also essential. The tangible and psychological benefits of communications within the cooperative and in providing an understanding of cooperatives to those outside are all educationally based.

**Political and Religious Neutrality:** The rule relating to political and religious neutrality takes on a special meaning in today's activist society. Farmers, by nature, have tended to leave political activity to others, but a relatively new form of action on the part of cooperatives has emerged over the past few years. Political Action Committees (PACs) have been formed by many cooperatives in many

developed economies such as US, Australia and in The Netherlands. The PACs function as political pressure groups and funding is provided by members either on a voluntary basis or by mandatory assessment. In most cases, activity has been confined to determining the views of candidates for political office regarding agriculture in general and of cooperatives and their particular interests and problems. A basic aim has been toward educating the candidates and officeholders. Such a movement may have been prompted by a recognition that agriculture as a percentage of the total population has grown very small. Influence could easily wane. Also, with many other groups playing strong activist roles, cooperative members may have overcome some of their past reluctance to engage in such activity. This is particularly true if they view such activities as being basically educational in nature and not completely political in the usual sense.

**No Unusual Risk Assumption:** No problems would usually be involved with agricultural cooperatives in avoiding unusual risks, even if this rule were considered as being a principle. Agricultural groups have tended to be rather conservative in making decisions regarding such items as expansion, addition of facilities, and diversifying into new ventures. Only in those cases where membership and boards of directors of cooperatives have not been knowledgeably involved and have to some extent abdicated their decision-making positions and roles is there evidence of unusual risk assumption.

**Limited Returns on Stock:** The rule relating to limited returns on stock comes very close to being a principle. This is designed to stress the service orientation of cooperatives and to prevent capital investment and return on investment from becoming the sole objective of membership. Many cooperatives are not organized on a stock-share basis, and interest may be paid on the money invested regardless of the form in which it is invested. The principle of limiting interest is a sound one because cooperatives are organized to serve their members as patrons-not as investors as contrasted with investor-oriented private corporations.

Many cooperatives do not pay interest on common stock, and each member usually has only one share. In the case of preferred stock where members hold varying amounts, interest is usually paid. Interest is paid on this preferred, non-voting stock or equity because not all members have invested equally in stocks or equity.

**Goods Sold at Regular Retail Prices:** For several reasons, most cooperatives follow a price maintenance policy rather than selling at cost. It is difficult, if not impossible, for management to predict what costs will be well in advance, with the risk of loss of equity always possible in trying to follow an at-cost policy on pricing. There is also the possibility of retaliation by profit-type businesses, resulting in price wars if an at-cost policy is followed. In some cases with some types of cooperatives, non-members would be given the benefit of lower prices, and this is viewed as unfair to members. Managers prefer to pass along net savings to members at the end of the year, thus easing capital requirements. This is not a cooperative principle, but is a business policy which may be changed from time to time as conditions warrant changes. The point is that net margins or savings belong to the members of the cooperative in any event. Whether they are passed along on a day-to-day basis in the form of at-cost pricing or in a lump sum at the end of the year as a so-called thirteenth month return is a decision to be made by the board of directors.

**Number of Shares of Stock Owned Is Limited:** The Rochdale principle relating to limitations on the number of shares of stock owned is viewed as a power control measure. There are non-stock cooperatives, so the rule would not apply to them. If voting is restricted by a cooperative to one person-one vote or in the variations of this practice, there is no danger of misuse of power. If interest or dividend payments are limited, no undue power influence would be possible from this source. The dangers from any of these sources appear to be illusory. Despite the fact that in some credit unions, which are not cooperatives, there are limitations on the number of shares of stock owned by members, this rule cannot be given the status of a principle.

**Net Margins Distributed According to Patronage:** The last rule listed as a Rochdale principle, that net margins (savings) are distributed in accordance with patronage, is probably the most secure and everlasting of all cooperative principles. All net income of a cooperative is distributed according to the volume of business done with the cooperative. This practice is in complete accord with all the user owner-service concepts applicable to the agricultural cooperative way of doing business. It may be that this is the only real and universal cooperative principle.

2. Rochdale principles which may be rejected as principles but instead, classified as practices are:
- a) Cash trading
  - b) Member education
  - c) Political and religious neutrality
  - d) No undue risk assumption, and
  - e) Goods sold at regular retail prices.

**UNIT 3: THE CONCEPT OF THE SOCIOLOGICAL GROUP AND THE CO-OPERATIVE  
BUSINESS ENTERPRISE****UNIT STRUCTURE**

- 3.1 Introduction
- 3.2 Learning Outcomes
- 3.3 Main Content
  - 3.3.1 The concept of the sociological group and the co-operative business enterprise
- 3.4 Summary
- 3.5 References/Further Readings
- 3.6 Answers to Self-Assessment Exercise(s) within the content

**3.1 Introduction**

The unit addresses the basic concept of a sociological group and cooperative business. It discusses the key elements of social groups in business for the common good of members. The issue of brotherhood economics as a key attraction of cooperative is reemphasized. At the end of the unit readers would be familiar with how social groups conduct business with profit maximization objective.

**3.2 Learning Outcomes**

By the end of this unit, you will be able to:

- Understand and explain the concepts of the sociological group and the cooperative business in several ways

**3.3 Main Content****3.3.1 The Concepts of the Sociological Group and the Co-operative Business Enterprise**



The concepts of the sociological group and the cooperative business enterprise are related in the context of sociology, as they both involve the collective actions of individuals working together for common goals. However, they differ in their primary objectives and structures.

**Here's an explanation of both concepts:**

### **Sociological Group**

A sociological group refers to a collection of people who interact with one another, share common interests, values, norms, and social ties, and are aware of their belonging to the group. These groups can vary in size and can be based on various factors, such as family, friendship, social class, culture, or shared interests.

The primary purpose of a sociological group is to fulfill the social, emotional, and psychological needs of its members. These groups provide a sense of identity, belonging, and social support.

Examples of sociological groups include families, friendship circles, religious communities, social clubs, and cultural organizations. These groups are often not primarily focused on economic activities but instead on social interaction and mutual support.

### **Cooperative Business Enterprise**

A cooperative business enterprise, often simply referred to as a cooperative or co-op, is an organized business entity formed by individuals or groups who pool their resources, both financially and in terms of labor or skills, to achieve common economic goals.

The primary purpose of a cooperative is to provide economic benefits to its members. This may include better access to goods or services, improved market opportunities, cost savings, and a fair distribution of profits or benefits among members.

Cooperatives operate under the principles of democratic governance, with members having a say in the decision-making processes and often following the "one member, one vote" rule. Profits generated by the cooperative are typically reinvested in the business or distributed among members based on their participation.

While there are distinctions between sociological groups and cooperative business enterprises, it's important to note that these concepts can overlap in practice. Some cooperatives may develop strong social bonds among their members, forming sociological groups within the cooperative. For example, in a worker cooperative, employees may develop close relationships and shared values, forming a sociological group within the cooperative structure.

Additionally, cooperatives may be involved in activities that extend beyond purely economic objectives. They can address social and community needs, and some cooperatives prioritize sustainability, environmental stewardship, and social responsibility as part of their mission.

In summary, sociological groups focus on fulfilling social and emotional needs, while cooperative business enterprises primarily aim to provide economic benefits to their members. However, these concepts can intersect in cooperative enterprises where social bonds and shared values play a significant role in their functioning and success.

### **Self-Assessment Exercises 1**

1. Distinguish between a sociological and a cooperative business enterprise
2. What is the primary purpose of a sociological and a cooperative business enterprise?

### **3.4 Summary**

The Unit discusses the key elements of social groups in business for the common good of members. The issue of brotherhood economics as a key attraction of cooperative is reemphasized. At the end of the unit readers would be familiar with how social groups conduct business with profit maximization objective.

### **3.5 References/Further Readings**

<https://www.google.com/search?q=The+Concepts+of+the+Sociological+Group+and+the+Cooperative+Business+Enterprise&oq=The+Concepts+of+the+Sociological+Group+and+the+Cooperative+Business+Enterprise&aqs=chrome..69i57.503j0j7&sourceid=chrome&ie=UTF-8>

<https://study.com/learn/lesson/cooperatives-business-role-examples.html>

**1.6 Answers to SAEs - UNIT 3**

Answers to SAEs within the course content, arranged accordingly.

**Answers to SAEs 1****Sociological Group**

.1 A sociological group refers to a collection of people who interact with one another, share common interests, values, norms, and social ties, and are aware of their belonging to the group. These groups can vary in size and can be based on various factors, such as family, friendship, social class, culture, or shared interests. On the hand, a cooperative business enterprise, often simply referred to as a cooperative or co-op, is an organized business entity formed by individuals or groups who pool their resources, both financially and in terms of labor or skills, to achieve common economic goals.

2. The primary purpose of a sociological group is to fulfill the social, emotional, and psychological needs of its members. These groups provide a sense of identity, belonging, and social support, while the primary purpose of a cooperative is to provide economic benefits to its members. This may include better access to goods or services, improved market opportunities, cost savings, and a fair distribution of profits or benefits among members.

**UNIT 4: CLASSIFICATION OF CO-OPERATIVES: TYPES AND CRITERIA****UNIT STRUCTURE**

- 4.1 Introduction
- 4.2 Learning Outcomes
- 4.3 Main Content
  - 4.3.1 Types of cooperatives and the criteria
- 4.4 Summary
- 4.5 References/Further Readings
- 4.6 Answers to Self-Assessment Exercise(s) within the content

**4.1 Introduction**

The unit discusses the classification methods and criteria for different cooperative groups. The issue of cooperative marketing is set forth as an example of a type of cooperative with the objective of facilitating increased profit from marketing activities of members. The roles of marketing cooperatives are discussed with emphasis on primary agricultural sector. It is envisaged that at the end of this Unit readers will be familiar with the different classification criteria used in cooperative groups and the underlying tenets of cooperative marketing.

**4.2 Learning Outcomes**

By the end of this unit, you will be able to:

- Understand the different classification criteria used in cooperative groups and the underlying tenets of cooperative marketing

**4.3 Main Content****4.3.1 Types of Cooperatives and the Criteria**

Key differences between the traditional structure of business and a cooperative structure come in the order of priorities. For a cooperative, the primary objective is to meet the needs of its membership in a productive, self-sufficient and socially responsible manner. In recognizing the importance of a cooperative, the benefits of doing business the cooperative way are usually linked to the five different types of Cooperatives:

- a) **Multipurpose or hybrid Co-operative Societies** –The multipurpose nature opens this type of cooperative to different portfolios of investments and activities. Most hybrid cooperatives takes on additional activities and investments with time to satisfy present members and to attract potential members. The sequence is generally for firms to begin as single product and subsequently become multi-product, rather than the other way around. Firms maintain a constant level of coherence between neighboring activities; firms not only add businesses, they also commonly divest. They are very flexible in investment niche and can furnish members with a wide array of economic options from rentals to credit and thrift.
- b) **Consumer Co-operative Societies** - provide a wide range of retail to both rural and urban communities. As a consumer cooperative the focus is to furnish members with quality consumer products at affordable prices. The cooperative is able to negotiate price and purchase at wholesale prices usually from producers or their agents. The members benefit from reduced retail prices as a result of quantity-price discounts
- c) **Producer Co-operative Societies** - make products or offer a service to sell for profit where the workers are members or worker-owners; they work in the business, govern it and manage it. Some producers' cooperatives can also buy production inputs at low prices- quantity discount and better bargaining power of the group purchase.
- d) **Marketing Co-operative Society** - find better markets for members' produce and provide credit and other inputs to increase members' production levels.
- e) **Savings and Credit Co-operative Societies (SACCOS)** - members pool their savings together with the aim of obtaining loans from their pooled resources for provident (carefully planned future needs) and productive purposes. Interest is usually charged as administrative charges and to offset bank charges.

### **Cooperative Marketing Emphasized**

Cooperative marketing is any agreement to combine marketing efforts, and thus it can appear in many forms. Complementary companies, as well as direct competitors, can create effective and mutually beneficial cooperative marketing campaigns. This is also called Alliance marketing. Economy of scale is an enormous benefit. Likewise, combining the efforts of an entire industry into one marketing campaign benefits everyone in the industry, even if they're competing for the same naira.

### **Advantages of Cooperative Marketing**

1. Economic efficiency
2. Shared resources
3. Broader visibility
4. Access to target market
5. Consumer convenience

Resource sharing is a significant reason to cooperatively market. Cooperative marketers often use their power in collective bargaining as well. While one farmer may have a difficult time getting the highest price for his cotton harvest, 100 cotton farmers joining forces control a significant portion of the supply, thus increasing their bargaining power.

### **Cooperative or Competitive?**

While cooperative marketing can be mutually beneficial, it can also be tricky at times. Here are some pitfalls to avoid:

- **Win/Lose agreements:** Avoid agreements that benefit one party more than the other.
- **Leader/Leader:** Determine how exactly decision-making will be made or shared.
- **Failure/Blame:** If an event doesn't get the attendance promised, don't point fingers at the organizers.
- **Prejudicial allocation of real estate:** If one partner gets the event booth by the door and another gets the back corner, find a way to compensate.

For small businesses, cooperative marketing can be a very powerful way to get exposure and business.

**Self-Assessment Exercises 1**

1. Discuss the classification criteria and list the five types of cooperatives you know
2. What is cooperative marketing? Highlights 5 advantages of cooperative marketing

**4.4 Summary**

The Unit discussed the key elements for the classification methods and criteria for different cooperative groups. The issue of cooperative marketing is set forth as an example of a type of cooperative with the objective of facilitating increased profit from marketing activities of members. The roles of marketing cooperatives are discussed with emphasis on primary agricultural sector. It is envisaged that at the end of this Unit readers will be familiar with the different classification criteria used in cooperative groups and the underlying tenets of cooperative marketing.

**4.5 References/Further Readings**

Hillyard, S. The Sociology of Rural Life. Berg Press, New York, 2007

Harper, D: Changing Works: Visions of a Lost Agriculture. Chicago, Chicago University Press. 2001

Bell, C. and Newby, H. Community Studies: an Introduction to the Sociology of the Local Community. London, Allen and Unwin, 1971.

**4.6 Answers to SAEs - UNIT 4**

Answers to SAEs within the course content, arranged accordingly.

**Answers to SAEs 1****1. Five different types of Cooperatives:**

- a) **Multipurpose or hybrid Co-operative Societies** –The multipurpose nature opens this type of cooperative to different portfolios of investments and activities. Most hybrid cooperatives takes on additional activities and investments with time to satisfy present members and to attract potential members. The sequence is generally for firms to begin as single product and subsequently become multi-product, rather than the other way around. Firms maintain a constant level of coherence between neighboring activities; firms not only add businesses, they also commonly divest. They are very flexible in investment niche and can furnish members with a wide array of economic options from rentals to credit and thrift.
- b) **Consumer Co-operative Societies** - provide a wide range of retail to both rural and urban communities. As a consumer cooperative the focus is to furnish members with quality consumer products at affordable prices. The cooperative is able to negotiate price and purchase at wholesale prices usually from producers or their agents. The members benefit from reduced retail prices as a result of quantity-price discounts
- c) **Producer Co-operative Societies** - make products or offer a service to sell for profit where the workers are members or worker-owners; they work in the business, govern it and manage it. Some producers' cooperatives can also buy production inputs at low prices- quantity discount and better bargaining power of the group purchase.
- d) **Marketing Co-operative Society** - find better markets for members' produce and provide credit and other inputs to increase members' production levels.
- e) **Savings and Credit Co-operative Societies (SACCOS)** - members pool their savings together with the aim of obtaining loans from their pooled resources for provident (carefully planned future needs) and productive purposes. Interest is usually charged as administrative charges and to offset bank charges.

2. Cooperative marketing is any agreement to combine marketing efforts, and thus it can appear in many forms. Complementary companies, as well as direct competitors, can create effective and mutually beneficial cooperative marketing campaigns. This is also called Alliance marketing. Economy of scale is an enormous benefit. Likewise, combining the efforts of an entire industry into



one marketing campaign benefits everyone in the industry, even if they're competing for the same naira.

Advantages of marketing co-operatives are:

1. Economic efficiency
2. Shared resources
3. Broader visibility
4. Access to target market
5. Consumer convenience

**MODULE TWO: RATIONALE FOR ESTABLISHING COOPERATIVES, DIMENSIONS  
AND FOOD SECURITY**

**Unit 5: Motives For Forming/Joining Cooperatives**

**UNIT STRUCTURE**

- 5.1 Introduction
- 5.2 Learning Outcomes
- 5.3 Main Content
  - 5.3.1 Motives for forming/joining cooperatives
- 5.4 Summary
- 5.5 References/Further Readings
- 5.6 Answers to Self-Assessment Exercise(s) within the content

## **5.1 Introduction**

The co-operative is made up persons (who maintain individual private business enterprises or households) and the jointly owned co-operative business enterprise. In characterizing the co-operative group, one major element has been the existence of one or more common aim(s)/objective(s)/goal(s)/interest(s). This aim will in most cases be economic in nature; however, at the same time many other non-economic aims may also exist.

## **5.2 Learning Outcomes**

By the end of this unit, you will be able to:

- Understand and discuss motives for forming/joining cooperatives

## **5.3 Main Content**

### **5.3.1 Motives for Forming/Joining Cooperatives**

The co-operative is made up persons (who maintain individual private business enterprises or households) and the jointly owned co-operative business enterprise. In characterizing the co-operative group, one major element has been the existence of one or more common aim(s)/objective(s)/goal(s)/interest(s). This aim will in most cases be economic in nature; however, at the same time many other non-economic aims may also exist (Chukwu, 1990).

These different motives as stated by Chukwu (1990) are discussed below:

#### **a. Economic Motives**

The economic motives for joining the co-operatives are those which have a direct bearing on the economic functioning and results of the individual member's economy i.e. private enterprise and/or household. It has to do with dollars and cents, pounds and pence among others; it boils down to the desire to improve the member's economic position, in most cases in the form of achieving increased incomes.

The member joins the co-operative because it promises to be the most effective instrument towards gaining increased income. This member can, on his own, often find ways of rationalizing one or the

other of his business activities (i.e. carrying out the activity in an economically more rational/ sensible/ rewarding way) but he may find that the extent to which he can do this can be done on a larger scale (group basis). His joining the cooperative is thus an attempt to reap relatively higher economic advantages. This can come about by way of the co-operative for example providing goods and/or service but beyond the reach of the member, or the member enjoyed them but at very high cost. The co-operative can thus help satisfy this motive of increased income either in the form of (a) reduction in cost to the member's business enterprise/household (for instance supply activities/supply co-operatives) or (b) direct increase in returns/revenue (for example marketing activities/ marketing co-operatives) or by (c) combining both types of activities and results.

### **b. Sociological/Emotional Motives**

In contrast to the economic motives, the sociological-emotional motives which also influence persons towards joining the co-operative can often not be determined/quantified in direct monetary terms. The urge to join may for example result from an individual feeling of:

1. Isolation and loneliness. This was obviously a widespread feeling in the early periods of the industrial revolution when a drastic and quickly moving tempo of technological changes in lifestyle, pattern of production and general organization of society. This is also a feeling well-known to people in developing countries who, in line with the large-scale rural- urban drift, find themselves in a new often strange and individualistic city atmosphere, away from the safe and still relatively intact group world of the countryside which they used to. Joining the co-operative (group) can thus be an attempt to regain that missing emotional aspects of life.
2. The search for security may also be a motive for joining a co-operative. Life is normally punctuated by one or the other general or individual/ personal crisis. This is a risk which cannot be completely divorced from human life. Like most other risks, the time and magnitude of the occurrence of each crisis cannot be known in advance. They can thus catch one unprepared. Their magnitude can also be beyond the means of the individual on his own.

In the industrialized countries arrangements are now made by the state to reduce or remove the burden of many forms of such crisis (illness; unemployment, legal problems among others) from the individual citizen in the form of social security schemes which did not exist in the days of the industrial revolution and the early co-operatives. Regarding the developing countries, such schemes are in most cases not yet available or do not function satisfactorily. Added to this, the

extended family which used to play this role is often not as intact as it used to be. At the same time, with increased mobility now made possible by the modern state, the coverage and ability of the extended family system to continue providing such security service has greatly diminished. People in such countries now, therefore, tend to depend more on their individual strengths to meet such crises. For the majority, however, individual strength often proves insufficient. The old extended family group is thus replaced by other groupings and in many cases, co-operative groups, which then offer relatively more security/ insurance through pooled efforts.

In such times of crisis also, this search especially in the developing countries often goes hand in hand with the desire to ensure emotional rather than, (or in addition to) material solidarity as the case may be. This is especially the case in situations of ill-health. The belief is widespread that while the doctor's medicines do have a healing effect, the good wishes and condolences of the other human beings also make a great difference. It is thus often desired by members as shared to exhibit such emotional solidarity in case of ill-health and bereavement through visits, group companionship among others.

3. The Search for protection can also be a motive for joining the co-operative because "when the new member is integrated into an existing co-operative, the group is able to protect him against physical or spiritual threats from outside". This is usually the case when persons live in fear of, and feel dominated, dependent, and even exploited by other more powerful and even unscrupulous persons, groups or force against whom they are individually powerless. This is of great importance, for example, when the individual member's preparedness to adopt new technology is met by resolute condemnation and threats by some friends and even his family. The presence and backing of a co-operative (group) has often provided the protection and assurance needed to encourage such a member to not look back.

In most societies in the developing countries, wisdom, knowledge and status have been considered a function of age; the aged thus tend to dominate and to try to maintain the status quo. Without such protection from modern groups like the co-operative, the already slow technological development and adoption of new technology would be even slower. Thus, the motive of the individual co-operative member to shift responsibility for modern/progressive decisions and actions which they could otherwise not dare take, (because they may be regarded as running counter to old taboos and traditions) and the capacity of the co-operative to jointly

accept this responsibility and protect individual member are very important for introducing and accepting changes in the social structure of developing regions.

4. Another motive for joining the co-operative may be to simply satisfy admiration of some person(s) held in high esteem or even idolized. Through joining the co-operative, the member thus has the desired opportunity of identifying with such persons in the co-operative.
5. Furthermore, some people may also join the co-operative simply because they to be seen to be “keeping up with the Jones” i.e. their neighbours. This is often case when neighbours and friends are very conscious of each other’s social standing a co-operative is correctly or incorrectly looked upon as being elitist, classy. Membership of one neighbour or friend in such a co-operative may be viewed as one outward sign of superiority over another, who in the desire to catch up, decides to also join the cooperative.
6. Although closely related to (i) and (v) above, but yet not the same as either of them is the motive to avoid being “the odd man out”. This is the motive of identifying with all others around. This is often the case when people discover that virtually everybody around them has joined the local co-operative. They have feelings of having been left out and not being normal. Their membership in the co-operative may then result as a response to this.
7. Some persons may also join the co-operative with the motive of not missing out on any unspecified, possible advantages, which such an institution may offer. Such people do not join the co-operative because they are sure of advantages or because they are that they need the co-operative. They do so mainly because they see many people joining; they believe that so many people cannot all be wrong; that one or other advantage must out and if so, they would not want to miss out on it or them irrespective of what such an unspecified advantage may be. In this situation sight is loss of the fact that contrary to the usual expectation, such membership in the co-operative can, in fact, also give rise to disadvantages rather than advantages, the belief being that if there were any disadvantages, so many other persons would have been clever enough not to have joined. This motive is thus based on instinct, impulse, sentiment without a clear consciously directed concrete target.
8. The urge to join the co-operative may also result from a desire to adhere to family customs or tradition. This is usually the case in relatively old, often rural cooperatives in which a number of families have always lived a face-to-face life outside and inside the co-operative and one generation seem to bequeath the co-operative as put of the inheritance to the next generation.

This faithfulness to (family) tradition may not only explain why certain family names constantly occur in the membership of many rural Raiffeisen Co-operatives (for instance in Germany) but also why identical family names in many cases constantly appear in the records as administrators of such co-operatives.

9. Another motive which may give rise to membership in a co-operative is the possibility of using the co-operative as a springboard to some higher social and/or political position in the community. In such a case, individuals who nurture ambitions for public (especially elective) offices, being conscious of the fact that they are generally still not widely known to the relevant public, may look for groups/organizations which they do not only join, but in which they especially strive to hold prominent offices. This would offer them the chances of coming into the limelight, appearing on television and in the print media on matters of group/co-operative as well as general interest and, possibly, demonstrating their abilities by recounting their effective leadership roles and achievements at the level of the co-operative society and possibly co-operative movement.

The co-operative offers a special attraction to such people especially in developing ' countries where ethnic and sectional differences and interests play key roles in the thinking and actions of most people (voters). The ability to demonstrate individual - acceptance by, and successful leadership of a co-operative or co-operative movement is thus of prime importance to such people especially because the co-operative is, one of the few important organizations (movements) which as a matter of principle is regarded as being above clannishness as well as racial, political and religion differences (open membership). In addition, it is basically a grass roots organization.

### **c. External Pressure**

A motive for some people joining the co-operative may also be that of satisfying so external power under whose pressure they have come. This is often the case when so "revolutionary" governments which claim to be socialist in nature regard the operative (and co-operatives) as a socialistic organization which can very well serve their cause. They enact legislation which makes membership mandatory for instance for farmers who seek to retain the use of land (which they worked under a discredited and abolished landlord system) within the framework of a land reform programme. Since failure to join the co-operative would mean having to give up the only profession

as means of livelihood known to such formers, they effectively have no option but to joining the co-operative. A slightly milder variation often comes in the form that access to specific services for instance supply of essential consumer commodities, necessary and especially subsidized input for example, credit, are made conditional upon membership in the co-operative. While in this second case the individual is left with a choice, in the first case such a choice does not exist in reality.

As these different factors show, many motives can lead people to membership in the co-operative. A combination of a number of these motives rather than just one single reason could be at work. The individual member may not be in a position to say exactly which one of them has been decisive. Depending on the nature of the motive concerned, the member may not even admit the 'real reason(s)' for joining the co-operative. In time, the combination of motives as well as the intensity of each moth within the combination 'would vary from member to member. In all cases, however, is important for the management of the co-operative as well as those who seek to play the role of group builder to maintain an insight into the motives, their combinations and their variations over time. This is important because the attitudes and actions of the individual member will, to a great extent, be influenced by his motives. This attitude can in turn be decisive for the success or failure of the co-operative. While on the one hand the motives leading to formation of and membership in a co-operative are important, the effects which are usually associated with the co-operative in concrete terms are also important.

### **Self-Assessment Exercises 1**

1. What are the three motives for forming/joining cooperatives?
2. Discuss five emotional/social motives for forming/joining cooperatives

## **5.4 Summary**

In this unit, we have discussed the various motives for forming/joining cooperatives. It is pertinent that the students meticulously study and understand what motivates people to wanting to form or join co-operatives. It is key to understanding what co-operatives are all about.



**5.5 References/Further Readings**

Chukwu, S. C. (1990). Economics of the Co-operative Business Enterprise, Marburg Consult for Self-Help. Marburg.

**5.6 Answers to SAEs - UNIT 5**

Answers to SAEs within the course content, arranged accordingly.

**Answers to SAEs 1****1. Motives for Forming a Joining a Cooperative are:**

**Economic Motives:** The economic motives for joining the co-operatives are those which have a direct bearing on the economic functioning and results of the individual member's economy i.e. private enterprise and/or household. It has to do with dollars and cents, pounds and pence among others; it boils down to the desire to improve the member's economic position, in most cases in the form of achieving increased incomes.

The member joins the co-operative because it promises to be the most effective instrument towards gaining increased income. This member can, on his own, often find ways of rationalizing one or the other of his business activities (i.e. carrying out the activity in an economically more rational/sensible/ rewarding way) but he may find that the extent to which he can do this can be done on a larger scale (group basis). His joining the cooperative is thus an attempt to reap relatively higher economic advantages. This can come about by way of the co-operative for example providing goods and/or service but beyond the reach of the member, or the member enjoyed them but at very high cost. The co-operative can thus help satisfy this motive of increased income either in the form of (a) reduction in cost to the member's business enterprise/household (for instance supply activities/supply co-operatives) or (b) direct increase in returns/revenue (for example marketing activities/ marketing co-operatives) or by (c) combining both types of activities and results.

**Sociological/Emotional Motives:** In contrast to the economic motives, the sociological-emotional motives which also influence persons towards joining the co-operative can often not be determined/quantified in direct monetary terms. The urge to join may for example result from an individual feeling of:

**External Pressure:** A motive for some people joining the co-operative may also be that of satisfying so external power under whose pressure they have come. This is often the case when so "revolutionary" governments which claim to be socialist in nature regard the operative (and co-operatives) as a socialistic organization which can very well serve their cause. They enact legislation which makes membership mandatory for instance for farmers who seek to retain the use of land (which they worked under a discredited and abolished landlord system) within the framework of a land reform programme. Since failure to join the co-operative would mean having to give up the only profession as means of livelihood known to such farmers, they effectively have no option but to joining the co-operative. A slightly milder variation often comes in the form that access to specific services for instance supply of essential consumer commodities, necessary and especially subsidized input for example, credit, are made conditional upon membership in the co-operative. While in this second case the individual is left with a choice, in the first case such a choice does not exist in reality.

## 2. Emotional/Social Motives for Forming/Joining Cooperatives are:

- a. Isolation and loneliness. This was obviously a widespread feeling in the early periods of the industrial revolution when a drastic and quickly moving tempo of technological changes in lifestyle, pattern of production and general organization of society. This is also a feeling well-known to people in developing countries who, in line with the large-scale rural-urban drift, find themselves in a new often strange and individualistic city atmosphere, away from the safe and still relatively intact group world of the countryside which they used to. Joining the co-operative (group) can thus be an attempt to regain that missing emotional aspects of life.
- b. The search for security may also be a motive for joining a co-operative. Life is normally punctuated by one or the other general or individual/ personal crisis. This is a risk which cannot be completely divorced from human life. Like most other risks, the time and magnitude of the occurrence of each crisis cannot be known in advance. They can thus catch one unprepared. Their magnitude can also be beyond the means of the individual on his own.
- c. In the industrialized countries arrangements are now made by the state to reduce or remove the burden of many forms of such crisis (illness; unemployment, legal problems among others) from the individual citizen in the form of social security schemes which did not exist in the days of the industrial revolution and the early co-operatives. Regarding the developing countries, such schemes are in most cases not yet available or do not function satisfactorily. Added to this, the extended family which used to play this role is often not as intact as it used

to be. At the same time, with increased mobility now made possible by the modern state, the coverage and ability of the extended family system to continue providing such security service has greatly diminished. People in such countries now, therefore, tend to depend more on their individual strengths to meet such crises. For the majority, however, individual strength often proves insufficient. The old extended family group is thus replaced by other groupings and in many cases, co-operative groups, which then offer relatively more security/insurance through pooled efforts.

- d. In such times of crisis also, this search especially in the developing countries often goes hand in hand with the desire to ensure emotional rather than, (or in addition to) material solidarity as the case may be. This is especially the case in situations of ill-health. The belief is widespread that while the doctor's medicines do have a healing effect, the good wishes and condolences of the other human beings also make a great difference. It is thus often desired by members as shared to exhibit such emotional solidarity in case of ill-health and bereavement through visits, group companionship among others.
- e. The Search for protection can also be a motive for joining the co-operative because "when the new member is integrated into an existing co-operative, the group is able to protect him against physical or spiritual threats from outside". This is usually the case when persons live in fear of, and feel dominated, dependent, and even exploited by other more powerful and even unscrupulous persons, groups or force against whom they are individually powerless. This is of great importance, for example, when the individual member's preparedness to adopt new technology is met by resolute condemnation and threats by some friends and even his family. The presence and backing of a co-operative (group) has often provided the protection and assurance needed to encourage such a member to not look back.
- f. Another motive for joining the co-operative may be to simply satisfy admiration of some person(s) held in high esteem or even idolized. Through joining the co-operative, the member thus has the desired opportunity of identifying with such persons in the co-operative.
- g. Furthermore, some people may also join the co-operative simply because they to be seen to be "keeping up with the Jones" i.e. their neighbours. This is often the case when neighbours and friends are very conscious of each other's social standing a co-operative is correctly or incorrectly looked upon as being elitist, classy. Membership of one neighbour or friend in

such a co-operative may be viewed as one outward sign of superiority over another, who in the desire to catch up, decides to also join the cooperative.

- h. Although closely related to (i) and (v) above, but yet not the same as either of them is the motive to avoid being "the odd man out". This is the motive of identifying with all others around. This is often the case when people discover that virtually everybody around them has joined the local co-operative. They have feelings of having been left out and not being normal. Their membership in the co-operative may then result as a response to this.
- i. Some persons may also join the co-operative with the motive of not missing out on any unspecified, possible advantages, which such an institution may offer. Such people do not join the co-operative because they are sure of advantages or because they are that they need the co-operative. They do so mainly because they see many people joining; they believe that so many people cannot all be wrong; that one or other advantage must exist and if so, they would not want to miss out on it or them irrespective of what such an unspecified advantage may be. In this situation sight is lost of the fact that contrary to the usual expectation, such membership in the co-operative can, in fact, also give rise to disadvantages rather than advantages, the belief being that if there were any disadvantages, so many other persons would have been clever enough not to have joined. This motive is thus based on instinct, impulse, sentiment without a clear consciously directed concrete target.
- j. The urge to join the co-operative may also result from a desire to adhere to family customs or tradition. This is usually the case in relatively old, often rural cooperatives in which a number of families have always lived a face-to-face life outside and inside the co-operative and one generation seem to bequeath the co-operative as part of the inheritance to the next generation. This faithfulness to (family) tradition may not only explain why certain family names constantly occur in the membership of many rural Raiffeisen Co-operatives (for instance in Germany) but also why identical family names in many cases constantly appear in the records as administrators of such co-operatives.
- k. Another motive which may give rise to membership in a co-operative is the possibility of using the co-operative as a springboard to some higher social and/or political position in the community. In such a case, individuals who nurture ambitions for public (especially elective) offices, being conscious of the fact that they are generally still not widely known to the relevant public, may look for groups/organizations which they do not only join, but in which

they especially strive to hold prominent offices. This would offer them the chances of coming into the limelight, appearing on television and in the print media on matters of group/co-operative as well as general interest and, possibly, demonstrating their abilities by recounting their effective leadership roles and achievements at the level of the co-operative society and possibly co-operative movement.

**UNIT 6: FORMING A COOPERATIVE****UNIT STRUCTURE**

- 6.1 Introduction
- 6.2 Learning Outcomes
- 6.3 Main Content
  - 6.3.1 Starting a cooperative and registration rules
- 6.4 Summary
- 6.5 References/Further Readings
- 6.6 Answers to Self-Assessment Exercise(s) within the content

**6.1 Introduction**

The unit highlights the structural and administrative requirement for cooperative formation. As a social group cooperative are voluntary groups with unrestricted access for joining and exiting. However, there are various motives for individuals joining social networks of thrust; the band wagon effect is discussed and the negative effect of free-riding in promoting cooperation efficiency are also highlighted. The unit is expected to equip readers with the motives and rules/regulations for forming cooperatives.

**6.2 Learning Outcomes**

By the end of this unit, you will be able to:

- Understand and explain conditions required in starting a cooperative and registration rules

**6.3 The Meaning of Principle****6.3.1 Starting a Cooperative and Registration Rules**

A cooperative has been defined as a group of persons who have united voluntarily to meet common economic and social needs through a jointly owned and democratically-controlled enterprise. The international labour office, define co-operative as an association of persons, usually of limited means, who have voluntarily joined together to achieve a common economic end through the

formation of a democratically controlled business organization, making equitable contributions to the capital required and accepting a fair share of the risks and benefits of the undertaking in which members actively participate.

The rules for registering a cooperative vary from country to country. However, a primary cooperative society cannot be registered except it has at least ten (10) members who are at least 21 years old. A secondary or apex cooperative society cannot be registered unless it has at least two or more primary registered cooperative societies as its members. The word “Cooperative” must be part of the name of the society to be registered. Also, the word “Limited” shall be the last word in the name of every registered society with limited liability. Except in the case of a registered society whose principal object it is to grant loans to other registered society which is referred to as “central financing society”, the word “bank” or “banking” shall not form part of any registered society’ name. No society shall be registered by a name which is identical or resembles a name by which anybody, association of persons or society is already registered. No society shall be registered by any name which in the opinion of the Registrar may, or may be likely to mislead the public as to the identity of the society or the nature of its business. If a society through negligence or otherwise is registered by a name that is identical or that looks like that by which a society or any person is already registered, the society will change its name if the Registrar so directs. In starting a cooperative, once there is a decision by a group of people to start a cooperative society the steps involve include:

**Step 1:** Contact the nearest Co-operative Development Office:

Co-operative Development Offices are located strategically across the country in every state. The ministry of trade and industries or trade and commerce and agriculture should be the starting point.

**Step 2:** Be part of, or form a group

Remember, a Co-operative Society is about a group of individuals and not just one person.

**Step 3:** Establish the purpose of your Co-operative Society Different types of Co-operative Societies serve different purposes. Ask yourselves: What common needs do you intend to satisfy?

**Step 4:** Carry-out a feasibility/viability study.

Carry out a study to determine the economic and financial viability of the proposed Co-operative Society.

**Step 5:** Formulate bye-laws (Regulations) for your Society

Formulate bye-laws which will govern the operations of the Co-operative Society.

**Step 6:** Registration

### **Self-Assessment Exercises 1**

1. List the six steps involved in Cooperative formation and discuss any two of them
2. What governs the internal affairs of a cooperative society?

## **6.4 Summary**

This Unit discussed cooperative as voluntary groups with unrestricted access for joining and exiting. It also revealed steps for registration of cooperatives and their concomitant rules.

## **6.5 References/Further Readings**

Carballo, D. M. Cooperatives and Collective action: Archeological perspective. University Press of Colorado, 2013

Harper, D. Changing Works: Visions of a Lost Agriculture. Chicago, Chicago University Press. 2001

Crow, G. and Allan, G. Community Life: An Introduction to Local Social Relations. London, Harvester Wheatsheaf 1994.

## **6.6 Answers to SAEs - UNIT 6**

Answers to SAEs within the course content, arranged accordingly.

### **Answers to SAEs 1**

1. Steps involved in the registration of a cooperative society include:

**Step 1:** Contact the nearest Co-operative Development Office:

Co-operative Development Offices are located strategically across the country in every state. The ministry of trade and industries or trade and commerce and agriculture should be the starting point.



**Step 2:** Be part of, or form a group

Remember, a Co-operative Society is about a group of individuals and not just one person.

**Step 3:** Establish the purpose of your Co-operative Society Different types of Co-operative Societies serve different purposes. Ask yourselves: What common needs do you intend to satisfy?

**Step 4:** Carry-out a feasibility/viability study.

Carry out a study to determine the economic and financial viability of the proposed Co-operative Society.

**Step 5:** Formulate bye-laws (Regulations) for your Society

Formulate bye-laws which will govern the operations of the Co-operative Society.

**Step 6:** Registration

2. What governs the affairs of a cooperative society is the bye-laws

**UNIT 7: MULTI DIMENSIONS OF A COOPERATIVE****UNIT STRUCTURE**

- 7.1 Introduction
- 7.2 Learning Outcomes
- 7.3 Main Content
  - 7.3.1 The Multi-dimensions of Cooperatives
    - 7.3.1.1 Development and future of cooperatives
- 7.4 Summary
- 7.5 References/Further Readings
- 7.6 Answers to Self-Assessment Exercise(s) within the content

**7.1 Introduction**

The unit discuss the multi-dimensional focus of Cooperatives. It addresses the development challenges of modern cooperative as a social group against the backdrop of rapidly changing social effects. At the end of the Unit readers will be familiar with the different school of thoughts concerning the development of future cooperative action.

**7.2 Learning Outcomes**

By the end of this unit, you will be able to:

- Understand and discuss the multi-dimensions of cooperatives and development and future of cooperatives

## **7.3 Main Content**

### **7.3.1 The Multi-Dimensions of Cooperatives**

The development and future of cooperatives are shaped by various factors and trends, reflecting their adaptability and enduring relevance in diverse sectors of the economy. The development and future of cooperatives are marked by their ability to evolve and address emerging challenges and opportunities. Their enduring principles of member ownership, democratic governance, and concern for community needs position them well to continue contributing to economic and social development across the globe. Additionally, cooperatives play a significant role in promoting economic democracy and empowering individuals and communities, making them an important and sustainable model for the future.

#### **Some key aspects of the development and future of cooperatives:**

- **Diversification of Cooperative Sectors:** While cooperatives have historically been associated with agriculture and consumer retail sectors, they have diversified into various other areas, including energy, healthcare, housing, technology, and finance. This trend is expected to continue, with cooperatives emerging in response to evolving societal needs.
- **Global Expansion:** Cooperatives have a global presence, and international cooperation and networking among cooperatives are growing. As the world becomes more interconnected, cooperatives are likely to expand across borders and collaborate on global challenges.
- **Innovation and Technology:** Cooperatives are increasingly adopting technology and digital tools to improve efficiency, access to markets, and member engagement. This includes digital platforms for marketing, e-commerce, and online banking for financial cooperatives.
- **Sustainability and Environmental Focus:** Many cooperatives prioritize sustainability and environmental responsibility, promoting practices that are eco-friendly and socially responsible. This aligns with the growing awareness of climate change and environmental sustainability.
- **Inclusivity and Diversity:** Efforts to make cooperatives more inclusive and diverse are gaining importance. This includes promoting gender equality, addressing the needs of marginalized communities, and ensuring that cooperatives are accessible to a wider range of members.

- **Policy Support:** Governments and international organizations recognize the role of cooperatives in achieving economic and social goals. Policies and regulatory frameworks that support cooperatives are being developed or revised to create a more favorable environment.
- **Social Impact Investing:** Cooperatives are attracting interest from social impact investors and philanthropic organizations looking to invest in enterprises with a strong social mission. This financial support can drive the growth of cooperatives.
- **Collaboration with Traditional Businesses:** Cooperatives are increasingly collaborating with traditional business enterprises to address common challenges or opportunities. These partnerships can help cooperatives access resources and markets.
- **Challenges to Overcome:** While cooperatives have many strengths, they also face challenges, such as financial sustainability, leadership succession, and competition with larger corporations. Overcoming these challenges will be essential for their continued growth.
- **Education and Training:** Education and training programs will continue to be essential to empower cooperative members and leaders with the knowledge and skills needed to manage and grow their cooperatives effectively.
- **Digital Platforms and Cooperative Alliances:** Digital platforms and cooperative alliances are emerging to connect cooperatives, promote best practices, and enhance collective bargaining power.
- **Niche and Specialty Cooperatives:** Niche and specialty cooperatives may continue to emerge, catering to specific needs and interests of members, such as those related to organic farming, artisanal production, or renewable energy.
- **Resilience and Adaptability:** Cooperatives' capacity to adapt to changing economic, social, and environmental conditions will be crucial for their resilience and long-term success.

### **7.3.1.1 Development and Future of Cooperatives**

There are several schools of thought concerning the development and future of cooperatives, and they often reflect the dilemma of cooperatives as hybrid organizations, blending both economic and social dimensions. These schools of thought provide different perspectives on how cooperatives should evolve and what challenges they may face.

#### **Here are some of the key schools of thought:**

- **Economic Efficiency and Competitiveness:** This school of thought emphasizes that cooperatives should prioritize economic efficiency and competitiveness to ensure their long-term viability. Proponents argue that cooperatives must compete effectively in the market and manage resources efficiently to generate profits for their members.
- **Social and Community Development:** Another perspective highlights the social and community development aspect of cooperatives. This school of thought argues that cooperatives should focus on addressing social needs, improving members' quality of life, and contributing to community development, even if it comes at the expense of maximum economic returns.
- **Sustainability and Environmental Responsibility:** Some scholars and practitioners advocate for cooperatives to prioritize sustainability and environmental responsibility. This involves adopting eco-friendly practices, sustainable resource management, and environmentally responsible production processes.
- **Inclusivity and Diversity:** This perspective emphasizes the importance of ensuring that cooperatives are inclusive and diverse. It calls for efforts to address issues related to gender equality, accessibility, and the inclusion of marginalized and underrepresented groups.
- **Innovation and Adaptation:** This school of thought recognizes the need for cooperatives to innovate and adapt to changing market conditions and member preferences. It promotes embracing technology, modern management practices, and new business models.
- **Co-op Solidarity and Advocacy:** Some proponents believe that cooperatives should collaborate and advocate for cooperative values and principles on a larger scale. This involves building cooperative alliances, sharing knowledge, and advocating for policies that support cooperatives.

- **Cooperative Alliances and Networking:** Cooperative alliances and networking can enhance the collective bargaining power of cooperatives and help them access resources and markets. This perspective encourages greater collaboration among cooperatives and with external partners.
- **Hybrid Identity and Values:** This perspective acknowledges the hybrid nature of cooperatives as organizations that must balance economic and social objectives. It advocates for cooperatives to maintain their distinct cooperative identity and uphold their cooperative values while pursuing economic success.
- **Member-Centric Approach:** A member-centric approach emphasizes the importance of meeting the specific needs and preferences of cooperative members. It recognizes that member satisfaction and engagement are central to the cooperative's success.

The dilemma of cooperatives as hybrid organizations lies in balancing economic sustainability with their social and community-oriented mission. Cooperatives often face the challenge of maintaining financial stability and competitiveness while adhering to their cooperative principles and addressing social concerns.

The future of cooperatives may involve finding innovative ways to strike a balance between these often competing interests. This may include developing business models that enhance both economic viability and social impact, leveraging technology for efficiency and member engagement, and actively promoting the cooperative identity and values to differentiate cooperatives in the marketplace.

Cooperatives will continue to evolve and adapt, drawing from these various schools of thought to shape their development and future based on the specific needs and priorities of their members and communities.

### **Self-Assessment Exercises 1**

1. Discuss 5 key aspects of the development and future of cooperatives
2. Mention 7 schools of thought concerning the development and future of cooperatives and discuss any 5.

## **7.4 Summary**

The unit discussed the multi-dimensional focus of Cooperatives. It also addressed the development challenges of modern cooperative as a social group against the backdrop of rapidly changing social effects. At the end of the Unit readers will be familiar with the different school of thoughts concerning the development of future cooperative action.

## **7.5 References/Further Readings**

<https://www.google.com/search?q=The+Multi-Dimensions+of+Cooperatives&oq=The+Multi+Dimensions+of+Cooperatives&aqs=chrome.69i57.641j0j7&sourceid=chrome&ie=UTF-8>

Novkovic, S. (2023). The Role of Cooperatives in Economic and Social Development: Supporting Cooperatives as Sustainable and Successful Enterprises UNDESA. New York Cooperative to Cooperative collaboration and its impact on value-chains. International Centre for Cooperative Management Saint Mary's University, Canada.

## **7.6 Answers to SAEs - UNIT 7**

Answers to SAEs within the course content, arranged accordingly

### **Answers to SAEs 1**

#### **1. Some key aspects of the development and future of cooperatives:**

- **Diversification of Cooperative Sectors:** While cooperatives have historically been associated with agriculture and consumer retail sectors, they have diversified into various other areas, including energy, healthcare, housing, technology, and finance. This trend is expected to continue, with cooperatives emerging in response to evolving societal needs.
- **Global Expansion:** Cooperatives have a global presence, and international cooperation and networking among cooperatives are growing. As the world becomes more interconnected, cooperatives are likely to expand across borders and collaborate on global challenges.
- **Innovation and Technology:** Cooperatives are increasingly adopting technology and digital tools to improve efficiency, access to markets, and member engagement. This includes digital platforms for marketing, e-commerce, and online banking for financial cooperatives.

- **Sustainability and Environmental Focus:** Many cooperatives prioritize sustainability and environmental responsibility, promoting practices that are eco-friendly and socially responsible. This aligns with the growing awareness of climate change and environmental sustainability.
- **Inclusivity and Diversity:** Efforts to make cooperatives more inclusive and diverse are gaining importance. This includes promoting gender equality, addressing the needs of marginalized communities, and ensuring that cooperatives are accessible to a wider range of members.
- **Policy Support:** Governments and international organizations recognize the role of cooperatives in achieving economic and social goals. Policies and regulatory frameworks that support cooperatives are being developed or revised to create a more favorable environment.
- **Social Impact Investing:** Cooperatives are attracting interest from social impact investors and philanthropic organizations looking to invest in enterprises with a strong social mission. This financial support can drive the growth of cooperatives.
- **Collaboration with Traditional Businesses:** Cooperatives are increasingly collaborating with traditional business enterprises to address common challenges or opportunities. These partnerships can help cooperatives access resources and markets.
- **Challenges to Overcome:** While cooperatives have many strengths, they also face challenges, such as financial sustainability, leadership succession, and competition with larger corporations. Overcoming these challenges will be essential for their continued growth.
- **Education and Training:** Education and training programs will continue to be essential to empower cooperative members and leaders with the knowledge and skills needed to manage and grow their cooperatives effectively.
- **Digital Platforms and Cooperative Alliances:** Digital platforms and cooperative alliances are emerging to connect cooperatives, promote best practices, and enhance collective bargaining power.
- **Niche and Specialty Cooperatives:** Niche and specialty cooperatives may continue to emerge, catering to specific needs and interests of members, such as those related to organic farming, artisanal production, or renewable energy.



- **Resilience and Adaptability:** Cooperatives' capacity to adapt to changing economic, social, and environmental conditions will be crucial for their resilience and long-term success.

## **2. Schools of thought concerning the development and future of cooperatives**

- **Economic Efficiency and Competitiveness:** This school of thought emphasizes that cooperatives should prioritize economic efficiency and competitiveness to ensure their long-term viability. Proponents argue that cooperatives must compete effectively in the market and manage resources efficiently to generate profits for their members.
- **Social and Community Development:** Another perspective highlights the social and community development aspect of cooperatives. This school of thought argues that cooperatives should focus on addressing social needs, improving members' quality of life, and contributing to community development, even if it comes at the expense of maximum economic returns.
- **Sustainability and Environmental Responsibility:** Some scholars and practitioners advocate for cooperatives to prioritize sustainability and environmental responsibility. This involves adopting eco-friendly practices, sustainable resource management, and environmentally responsible production processes.
- **Inclusivity and Diversity:** This perspective emphasizes the importance of ensuring that cooperatives are inclusive and diverse. It calls for efforts to address issues related to gender equality, accessibility, and the inclusion of marginalized and underrepresented groups.
- **Innovation and Adaptation:** This school of thought recognizes the need for cooperatives to innovate and adapt to changing market conditions and member preferences. It promotes embracing technology, modern management practices, and new business models.
- **Co-op Solidarity and Advocacy:** Some proponents believe that cooperatives should collaborate and advocate for cooperative values and principles on a larger scale. This involves building cooperative alliances, sharing knowledge, and advocating for policies that support cooperatives.
- **Cooperative Alliances and Networking:** Cooperative alliances and networking can enhance the collective bargaining power of cooperatives and help them access resources and markets. This perspective encourages greater collaboration among cooperatives and with external partners.

- **Hybrid Identity and Values:** This perspective acknowledges the hybrid nature of cooperatives as organizations that must balance economic and social objectives. It advocates for cooperatives to maintain their distinct cooperative identity and uphold their cooperative values while pursuing economic success.
- **Member-Centric Approach:** A member-centric approach emphasizes the importance of meeting the specific needs and preferences of cooperative members. It recognizes that member satisfaction and engagement are central to the cooperative's success.

**UNIT 8: COOPERATIVES, SUSTAINABILITY AND FOOD SECURITY****UNIT STRUCTURE**

- 8.1 Introduction
- 8.2 Learning Outcomes
- 8.3 Main Content
  - 8.3.1 Cooperatives, sustainability and food security
    - 8.3.1.1 Finance
    - 8.3.1.2 Social
    - 8.3.1.3 Environmental
- 8.4 Summary
- 8.5 References/Further Readings
- 8.6 Answers to Self-Assessment Exercise(s) within the content

## **8.1 Introduction**

Cooperatives as a social organization seeks to meet economic and welfare needs of members. An important welfare need of members in rural developing economies is household food security. Food security is define as access by all too nutritious, safe and adequate food at all time needed to meet the body requirement for a healthy life. Cooperative sustainability is discussed in relation to how it meets the welfare needs of rural household food security status. The sustainability component discussed include financial, social and environmental sustainability.

## **8.2 Learning Outcomes**

By the end of this unit, you will be able to:

- Discuss cooperatives, their sustainability and food security

## **8.3 Main Content**

### **8.3.1 Cooperatives, sustainability and food security**

Cooperatives have been identified as viable networks for promoting sustainability and the attainment of household food security. Through cooperative actions, the tripod prong of sustainability- profit (finance), people (social), and planet (environment) are met.

#### **8.3.1.1 Finance**

Cooperatives function in the interests of their members, not shareholders. They pursue ‘stakeholder value’ not ‘shareholder value’, making them intrinsically less risky. There is good evidence to suggest that credit cooperatives contribute to greater financial stability and sustainability. Secondly, by putting human need and utility at the center of their organizational purpose, rather than profit, cooperatives do not suffer from the same problem of short-termism that afflicts all manner of financial and non-financial firms. To put this in another way, they do not suffer from the problem of ‘financialization’ that has afflicted capitalism over the past twenty years, in which financial performance is the central indicator of good business. By their nature and form of ownership, they are less likely to reduce the quality of products or services in the pursuit of profit. They thereby improve the diversity and overall ecology of business forms, introducing real choice as to how

business is done. In developing economies, such as Nigeria, they play a mainstream role in economic development, both directly and indirectly as well as supporting the introduction of new technologies.

### **8.3.1.2 Social**

Amongst the negative externalities generated by contemporary capitalism, and which the state is often tasked with addressing, are social problems associated with individualism and inequality. Some of these simply involve unnecessary human suffering, as increasingly measured by happiness economists and wellbeing surveys. Others bring monetary costs for governments, where they are manifest as health problems and crime. The study of ‘social capital’ suggests that societies with higher levels of membership associations also do better economically, in addition to enjoying higher levels of trust and democratic participation. Cooperatives make a very positive contribution here, in two ways. First, they deliver social services to the needy. The extent of ‘social co-operatives’ varies from country to country, but is a widespread phenomenon in some nations such as Italy and Japan. Cooperatives aren’t simply market operators, but also deliver services that would otherwise come from private insurance or the state.

Where this happens, there is a very strong fiscal case for states to support them in doing this, especially in the context of apparent fiscal crises. Second, membership and association are goods in and of themselves, while also acting as important resources on which successful societies – and economies – thrive. Cooperatives contribute to the stock of a nation’s ‘social capital’, in ways that investor-owned businesses do not. The United Nations recognizes this, urging Governments to encourage and facilitate “the establishment and development of cooperatives, including taking measures aimed at enabling people living in poverty or belonging to vulnerable groups to engage on a voluntary basis in the creation and development of co-operatives”. A good example of this in Nigeria is the world bank assisted Fadama programme. Vulnerable groups such as widows, people living with HIV/AIDS and unemployment youths were encourage to form economic groups in the implementation of the programme, This is crucial to developing nations. It is a factor which endears them to governments and policy-makers, and enables them to out-perform their profit-maximizing rivals in ways which are understood and appreciated.

### **8.3.1.3 Environmental**

There is a growing body of evidence demonstrating that cooperatives have a superior environmental record. There are various reasons for this. First, as participatory organizations, concerns about future environmental outcomes can simply be voiced democratically by members, without needing to be calculated in terms of return on investment. Second, where cooperatives are multi-stakeholder, the capacity for businesses to push negative environmental externalities (i.e. waste and pollution) upon particular stakeholders is diminished. The goal to position cooperatives as builders of sustainability should include establishing a wide public understanding of the business sustainability of cooperatives as businesses. There are continuing tensions within any business between economic, social and environmental interests, but through seeking to satisfy the needs of ordinary citizens, cooperatives tend to pursue a convergence between these interests. This results in greater organizational sustainability. Lastly, the goal should include the ambition for cooperatives globally through the ICA to influence the geo-political order in this vital area where individual governments struggle to make or stick to commitments.

#### **Self-Assessment Exercises 1**

1. Mention what the goal to position cooperatives as builders of sustainability should include
2. What are the growing body of evidence demonstrating that cooperatives have a superior environmental record?

## **8.4 Summary**

This unit highlighted that an important welfare need of members in rural developing economies is household food security. Food security is define as access by all to nutritious, safe and adequate food at all time needed to meet the body requirement for a healthy life. Cooperative sustainability is discussed in relation to how it meets the welfare needs of rural household food security status. The sustainability component discussed include financial, social and environmental sustainability

**8.5 References/Further Readings**

Robert K.: Social Theory and Social Structure, Free Press, 1957

Hillyard, S.: The Sociology of Rural Life. Berg Press, New York, 2007

Fekete, F.; Heady, E.O. and Holdren B. R.: Economics of Cooperative farming. Springer Science and Business media, 1976

Bryan G. and Edwards J.: An introduction to Sociology. Pergamon Press 1969.

**8.6 Answers to SAEs - UNIT 8**

Answers to SAEs within the course content, arranged accordingly

**Answers to SAEs 1**

1. The goal to position cooperatives as builders of sustainability should include establishing a wide public understanding of the business sustainability of cooperatives as businesses. There are continuing tensions within any business between economic, social and environmental interests, but through seeking to satisfy the needs of ordinary citizens, cooperatives tend to pursue a convergence between these interests. This results in greater organizational sustainability. Lastly, the goal should include the ambition for cooperatives globally through the ICA to influence the geo-political order in this vital area where individual governments struggle to make or stick to commitments.

2. The growing body of evidence demonstrating that cooperatives have a superior environmental record include:

- First, as participatory organizations, concerns about future environmental outcomes can simply be voiced democratically by members, without needing to be calculated in terms of return on investment.
- Second, where cooperatives are multi-stakeholder, the capacity for businesses to push negative environmental externalities (i.e. waste and pollution) upon particular stakeholders is diminished.

**UNIT 9: COOPERATIVES AS HYBRID ORGANIZATIONS****UNIT STRUCTURE**

- 9.1 Introduction
- 9.2 Learning Outcomes
- 9.3 Main Content
  - 9.3.1 Cooperatives as hybrid organizations with multiple goals and stakeholders
    - 9.3.1.1 Co-Production and cooperative welfare services
    - 9.3.1.2 Internal decision-making in multi-stakeholder cooperatives
    - 9.3.1.3 Problems of modern cooperatives
- 9.4 Summary
- 9.5 References/Further Readings
- 9.6 Answers to Self-Assessment Exercise(s) within the content

**9.1 Introduction**

The Unit discusses the multiple goals of cooperative societies and the need for an effective stakeholder assessment to ensure sustainability. The Hybrid nature of modern cooperatives is also discussed. At the end of the unit, readers would be familiar with the principles and complexity of internal decision making under multi-stakeholder framework. The unit also addressed problems of modern cooperatives and conflicts management tools.

**9.2 Learning Outcomes**

By the end of this unit, you will be able to:

- Understand cooperatives as hybrid organizations with multiple goals and stakeholders
- Describe co-production and cooperative welfare services
- Understand the internal decision-making in multi-stakeholder cooperatives



- Discuss the problems of modern cooperatives

### **9.3 Main Content**

#### **9.3.1 Cooperatives as Hybrid Organizations with Multiple Goals and Stakeholders**

As hybrid organizations, cooperatives experience institutional tensions that at times are strong enough to challenge their very identity. For example, if they are deeply embedded in the market and provide few, if any, social services to their members, they can more easily lose sight of their social purpose. They may focus on their market position and try to strengthen it, but often at the expense of their members, influence and staff. However democracy and the market could and should be more closely related, through intelligent organizational design. This would permit cooperatives to provide innovative solutions to contemporary social problems outside their traditional fields in the form of cooperative social services. Cooperatives could make a unique contribution to renewing social services, enriching work-life and rejuvenating democracy. Cooperatives could provide a good example and set the best practices in social services, particularly in long-term or enduring social services.

##### **9.3.1.1 Co-Production and Cooperative Welfare Services**

One way to promote democracy in the daily lives of cooperative members and ordinary citizens would be to actively promote cooperative alternatives to both public and private for-profit provision of basic welfare services. Cooperatives and social enterprises can facilitate greater citizen participation in the provision of social services by promoting greater co-production and co-governance in public services.

Co-production is the mix of activities that both public service agents and citizens contribute to the provision of public financed services. The former are involved as professionals or "regular producers", while "citizen production" is based on voluntary efforts by individuals or groups to enhance the quality and/or quantity of services they use. In complex societies there is a division of labor and most persons are engaged in full-time production of goods and services as regular producers. However, individual consumers or groups of consumers may also contribute to the production of goods and services, as consumer-producers. The participation of citizens in the provision of welfare services through cooperatives can make a unique contribution to democratic

governance not found either in public services or private for-profit firms. This also gives co-production the potential of a social innovation that can change the relationship between the professional providers of public financed services and their clients or citizens that use them.

### **9.3.1.2 Internal Decision-Making in Multi-Stakeholder Cooperatives**

The fact that cooperatives are democratic member owned and member run firms is normally reflected in their internal decision-making. Traditional models of cooperative democracy are based on the popular idea of ‘one member -one vote’, which is reflected in the statutes of most of the members of the International Cooperative Alliance or ICA. Yet, most of the cooperatives in the world are single stakeholder organizations, where the members who elect the board comprise a single category of stakeholders, while other stakeholders are unrepresented. In particular, both in consumer and agricultural cooperatives, workers seldom gain a voice on the board and they lack a vote in important decisions. However, the debate in recent years has shifted focus to ideas of giving more representation to all major groups that contribute to an organization’s or cooperatives’ production or result, or what is known as a multi-stakeholder cooperative. This is particularly notable in social service co-ops where more than one category is often represented on the board, either formally or informally.

### **9.3.1.3 Problems of Modern Cooperatives**

Seen from the perspective of hybrid organizations consumer cooperatives face a number of fundamental democratic issues related to their unique identity as organizations that attempt to unite associative and business elements. The challenging issues are:

1. Tensions between the associative and business parts of the co-ops or the logic of cooperation and the logic of bureaucratic organizations. When they come into conflict the latter often squeezes out the former. This leads to a loss of cooperative identity, declining member participation, less solidarity with the co-op movement, and eventually a loss of business.
2. Mobilizing members by facilitating and expanding possibilities for their participation in all parts of the cooperatives, both on the associational and business sides
3. The relationship between the members and the management of cooperatives.
4. Promoting innovations of organizational structure to facilitate communications and promote greater membership participation.

5. Expanding the relationship with employees, perhaps even turning consumer co-ops into multi-stakeholder organizations
6. How should cooperatives best account for their economic and social responsibility,
7. Women's changing gender roles as housewives, consumers, activists or board members, etc.
8. Financing operational capital, investments,
9. Realizing economies of scale and other advantages e.g. in cooperative networks and second (or even third) tier cooperatives.
10. Relations between the established and newer forms of consumer cooperatives, including health and social service cooperatives, energy and utility cooperatives, ecological food cooperatives, joint production and consumption cooperatives
11. Promoting greater cooperation among and between co-ops of all kinds
12. Relations with other types of voluntary associations and nonprofit organizations, including worker co-ops, labor unions, social enterprises, social movement organizations, and nonprofit agencies.

Given the nature, number and complexity of the challenges facing cooperative movements around the world, we need to move beyond the opposition between the democratic and business schools in order to develop cooperatives in a more balanced fashion in the future. Recent trends make some of those issues all the more pressing, particularly in countries and societies facing major social and political change. The worldwide trend toward bigger, but fewer consumer co-ops in most countries is seen by some as an answer to economic exigencies, but if this is not combined with innovative organizational structures for effective member participation and reflexive renewal of the cooperative identity by members and management alike, it is likely to result in a loss of cooperative identity

**Self-Assessment Exercises 1**

1. Discuss cooperatives as hybrid organizations with multiple goals and stakeholders
2. What do you understand by co-production and cooperative welfare services?
3. Highlight 10 problems of modern cooperatives

## **9.4 Summary**

In this unit, we have discussed the meaning of planning with particular reference to rural development plan and elements of plan. All the stages involved in rural development planning, implementation and appraisal have been identified and discussed.

## **9.5 References/Further Readings**

Olanrewaju, B. (2010). Fundamentals of management and administration. Abuja: Sanjane Management Books.

Okonkwo, P. C. (2010). Community and Rural Development Strategies. Principles and practice. Enugu: Impressium Publications.

## **9.6 Answers to SAEs - UNIT 9**

Answers to SAEs within the course content, arranged accordingly

### **Answers to SAEs 1**

1. As hybrid organizations, cooperatives experience institutional tensions that at times are strong enough to challenge their very identity. For example, if they are deeply embedded in the market and provide few, if any, social services to their members, they can more easily lose sight of their social purpose. They may focus on their market position and try to strengthen it, but often at the expense of their members, influence and staff. However democracy and the market could and should be more closely related, through intelligent organizational design. This would permit cooperatives to provide innovative solutions to contemporary social problems outside their traditional fields in the form of cooperative social services. Cooperatives could make a unique contribution to renewing social services, enriching work-life and rejuvenating democracy. Cooperatives could provide a good example and set the best practices in social services, particularly in long-term or enduring social services.

2. Co-production is the mix of activities that both public service agents and citizens contribute to the provision of public financed services. The former are involved as professionals or "regular producers", while "citizen production" is based on voluntary efforts by individuals or groups to enhance the quality and/or quantity of services they use. In complex societies there is a division of

labor and most persons are engaged in full-time production of goods and services as regular producers. However, individual consumers or groups of consumers may also contribute to the production of goods and services, as consumer-producers. The participation of citizens in the provision of welfare services through cooperatives can make a unique contribution to democratic governance not found either in public services or private for-profit firms. This also gives co-production the potential of a social innovation that can change the relationship between the professional providers of public financed services and their clients or citizens that use them.

3. Problems of modern cooperatives include the following:

1. Tensions between the associative and business parts of the co-ops or the logic of cooperation and the logic of bureaucratic organizations. When they come into conflict the latter often squeezes out the former. This leads to a loss of cooperative identity, declining member participation, less solidarity with the co-op movement, and eventually a loss of business.
2. Mobilizing members by facilitating and expanding possibilities for their participation in all parts of the cooperatives, both on the associational and business sides
3. The relationship between the members and the management of cooperatives.
4. Promoting innovations of organizational structure to facilitate communications and promote greater membership participation.
5. Expanding the relationship with employees, perhaps even turning consumer co-ops into multi-stakeholder organizations
6. How should cooperatives best account for their economic and social responsibility,
7. Women's changing gender roles as housewives, consumers, activists or board members, etc.
8. Financing operational capital, investments,
9. Realizing economies of scale and other advantages e.g. in cooperative networks and second (or even third) tier cooperatives.
10. Relations between the established and newer forms of consumer cooperatives, including health and social service cooperatives, energy and utility cooperatives, ecological food cooperatives, joint production and consumption cooperatives
11. Promoting greater cooperation among and between co-ops of all kinds

12. Relations with other types of voluntary associations and nonprofit organizations, including worker co-ops, labor unions, social enterprises, social movement organizations, and nonprofit agencies.

**MODULE THREE: COOPERATIVE FINANCE AND GROUP OPERATIONS****Unit 10: The Financing of the Co-operative Enterprise****UNIT STRUCTURE**

- 10.1 Introduction
- 10.2 Learning Outcomes
- 10.3 Main Content
  - 10.3.1 Financing the cooperative
- 10.4 Summary
- 10.5 References/Further Readings
- 10.6 Answers to Self-Assessment Exercise(s) within the content

**10.1 Introduction**

The unit outlines issues of financing the cooperative society. It explores the various forms and sources of finance and identifies the pros and cons of each. In order to build cooperative sustainability the issues of sourcing initial capitals and the roles of promoters and facilitators are outlined. Other financial indexes of sustainability such as debt to capital ratio is discussed. At the end of the unit, readers will be able to identify the various financing options available for cooperatives and the merit and demerits of each.

**10.2 Learning Outcomes**

By the end of this unit, you will be able to:

- Understand financing the cooperative
- Describe initial Capital of the Cooperative
- Discuss Member Investment-Capital Plan
- Explain Debt Capital

### **10.3 Main Content**

The cooperative has its own legal personality created through a charter. It may acquire resources, own assets, produce and sell, incur debt, and extend credit. It may sue and be sued. A corporation may be organized for a specific period of time until a specific task is completed or in perpetuity. As an entity, the cooperative needs regular a timely and sustained funding scheme to effectively perform its role of satisfying the members that have invested their means and goodwill in the group. Funding stress is a major cause of the collapse of many groups as it is an indication of lack of support by members. To ensure a sustainable funding regime, most cooperatives have adopted multiple means of financing apart from the conventional members' annual subscription fees. However, it must be

### **10.3 Main Content**

#### **10.3.1 Financing the Cooperative**

The cooperative has its own legal personality created through a charter. It may acquire resources, own assets, produce and sell, incur debt, and extend credit. It may sue and be sued. A corporation may be organized for a specific period of time until a specific task is completed or in perpetuity. As an entity, the cooperative needs regular a timely and sustained funding scheme to effectively perform its role of satisfying the members that have invested their means and goodwill in the group. Funding stress is a major cause of the collapse of many groups as it is an indication of lack of support by members. To ensure a sustainable funding regime, most cooperatives have adopted multiple means of financing apart from the conventional members' annual subscription fees. However, it must be borne in mind that members financing is the most dependable source of funding.

Generally, the types of funding options available are:

#### **Initial Capital of the Cooperative**

Two kinds of initial capital will be needed-fixed and operating. Fixed capital is needed to purchase relatively large capital items of a fixed nature such as land, buildings, and equipment. Operating capital is needed for everyday uses to keep the business going. These include employee salaries (payroll), utilities, and buying supplies (consumables) such as packing cartons and office supplies.

The initial capital can come from several sources. These include:



1. The members,
2. The investing public who may invest capital to earn dividends, and
3. From lending agencies such as a bank for cooperatives, NGOS or a commercial bank.

Providing initial capital is a basic member responsibility. This is evidence of belief/trust in or of good faith on the part of the members that the cooperative is needed and will be a growing concern. Without this evidence of good faith, the cooperative will be hard pressed to secure borrowed capital, since a basic question of potential lenders relates to the extent to which the members have provided initial capital. No fixed percentage of the initial capital needed that must be provided by the members can be established since circumstances can vary. In recent times, development partners have emphasized counterpart funding as a way of domesticating development projects for groups' benefit. Counterpart funding also help to enforce members' commitments especially for public projects or infrastructure. An often-used thumb rule, however, is that at least 50% of the initial needs for fixed and operating capital should be provided by the members. Each member's share of the initial capital should be based upon the use the member expects to make of the cooperative. In some cases, members may be willing and able to provide more than their share of the initial capital. This should be encouraged, but it will not entitle such members to any special privileges.

### **Member Investment-Capital Plan**

Probably one of the first questions potential members will ask is how much money will I have to put up to get the cooperative going. The Committee must be prepared to answer this question, and to do so a capital plan must be worked out. Such a plan should include:

- a) Whether the cooperative will be stock or non-stock
- b) An estimate of the amount of initial capital that will be needed. Possible sources and amounts or percentages from each source should be indicated
- c) A suggested plan for revolving funds for capital financing; and
- d) A plan for capital reserve accumulation.

No set rule can be established for determining whether a cooperative should be organized with or without capital stock. Nigeria permit either form if the decision is to organize as a capital stock cooperative, members subscribe capital and are issued stock certificates as evidence. In most cases,

one share of stock is issued to each member as evidence of membership. This is usually the voting stock. Additional shares of preferred (non-voting) stock are issued as evidence of additional capital contribution to the cooperative. If the cooperative is to be organized as a nonstock organization, a revolving fund certificate may be issued in the amount of each member's contribution. A membership fee is often used to raise a large part of the original capital needs.

The capital structure should be kept as simple as possible. It is important that the capital needs of the cooperative be fairly accurately estimated and that its needs are met. The amount needed will depend on the volume of business the cooperative is expected to do and the type of service(s) it will provide. In any event, total capital needs will be related to the number of members and the volume of business that will be done.

### **Debt Capital**

In order to make clear the members' responsibility in providing initial equity capital, the estimated needs should be specified by type. Once the members' responsibilities are specified and based upon the extent to which they are met, the amount of debt capital needed will be known. As indicated, the amount of debt capital which may be obtained is directly related to how much equity capital the members are willing to provide. In most cases, evidence of members' capital contributions do not include a due date or a date by which it must be repaid. This makes it possible for the capital to be used as collateral for outside loans, so it is easy to see that the more initial capital the members supply the easier it will be to get the additional capital needed from outside sources. The Committee should look into all possible sources of outside loans for fixed capital, taking into account the needs of the cooperatives and the policies of the lending institutions. It should then recommend the agency or agencies that can supply the capital needed under the conditions most suited to the needs of the cooperative. Sources of these loans include banks for cooperatives, commercial banks, insurance companies, and other cooperatives.

Operating loans, usually for a year or less, may be obtained from banks for cooperatives, commercial banks, and other sources. It is extremely important that loans for any purpose, long- or short-term, be suited to the needs of the cooperative. This places a special obligation on the Committee to properly assess the needs and to recommend sources of capital which most nearly meet those needs.

**Self-Assessment Exercises 1**

1. What is the difference between fixed capital and operating capital in cooperative?
2. Highlight sources of initial capital plan in cooperative
3. What plans are considered in member investment-capital plan?

**10.4 Summary**

The Unit discussed financing the cooperative society. It explored the various forms and sources of finance and identifies the pros and cons of each. In order to build cooperative sustainability the issues of sourcing initial capitals and the roles of promoters and facilitators are outlined. Other financial indexes of sustainability such as debt to capital ratio is discussed. At the end of the unit, readers will be able to identify the various financing options available for cooperatives and the merit and demerits of each.

**10.5 References/Further Readings**

Robert K.: Social Theory and Social Structure, Free Press, 1957

Hillyard, S.: The Sociology of Rural Life. Berg Press, New York, 2007

Winter, M. 'The rural economy', in White-Spundner, B. (ed.) Our Countryside. Cambridge, Pearson, 1998.

Bell, C. and Newby, H : Community Studies: an Introduction to the Sociology of the Local Community. London, Allen and Unwin, 1971.

Bryan G. and Edwards J.: An introduction to Sociology. Pergamon Press 1969.

**10.6 Answers to SAEs - UNIT 10**

Answers to SAEs within the course content, arranged accordingly

**Answers to SAEs 1**

1. Fixed capital is the capital needed to purchase relatively large capital items of a fixed nature such as land, buildings, and equipment. While operating capital is the capital needed for everyday uses to keep the business going. These include employee salaries (payroll), utilities, and buying supplies (consumables) such as packing cartons and office supplies.

2. Sources of initial capital in cooperative include:
  1. The members,
  2. The investing public who may invest capital to earn dividends, and
  3. From lending agencies such as a bank for cooperatives, NGOS or a commercial bank
  
3. Plans to be considered in member investment-capital plan include:
  - a) Whether the cooperative will be stock or non-stock
  - b) An estimate of the amount of initial capital that will be needed. Possible sources and amounts or percentages from each source should be indicated
  - c) A suggested plan for revolving funds for capital financing; and
  - d) A plan for capital reserve accumulation

**UNIT 11: COOPERATIVE INTERNAL FINANCING**

**UNIT STRUCTURE**

11.1 Introduction

11.2 Learning Outcomes

11.3 **Main Content**

11.3.1 Internal Financing

11.3.1.1 Reserve Funds

11.4 Summary

11.5 References/Further Readings

11.6 Answers to Self-Assessment Exercise(s) within the content

## **11.1 Introduction**

The unit specifically address internal financing of Cooperatives. Reserve fund uses and importance is also discussed for cooperatives involved in business activities. The Unit will expose readers to the challenges of managing the cooperative with respect to financial inputs needed for the smooth functioning of the cooperative.

## **11.2 Learning Outcomes**

By the end of this unit, you will be able to:

- Understand cooperative internal financing

## **11.3 Main Content**

### **11.3.1 Internal Financing**

Once the cooperative is operating and doing business with its members, a revolving capital financing plan is most appropriate for use by the cooperative in meeting equity capital needs. Under such a plan, a member authorizes the cooperative to use a certain amount of the money furnished to the cooperative through the member's economic participation. This may be a specified amount for each unit of product bought or sold or a specified percentage of the value of each unit. This money, sometimes called capital retains, is credited to the member's account on the cooperative's books. At the end of the year or the relevant accounting period, the member is issued a certificate in the total amount of capital retains for the period. It thus becomes the member's capital investment in the cooperative. The capital retains go into a revolving fund which is usually used in the first years of the cooperative's existence to pay the long-term debt incurred when the cooperative started. After such debt obligations are sufficiently satisfied, the remaining are returned to the members in the order in which they contributed to the fund.

This method serves the very basic purpose or aim of cooperatives in making it possible for the members to build up equity in their cooperative in direct proportion to the amount of business done with it. It also makes it possible for the "rule of currency" to be followed, and members who are currently using the cooperative will be supporting it. Persons who are no longer members for

whatever reason can be repaid their investment. It provides the cooperative with a degree of flexibility in meeting changing conditions which bring about changed or changing financial needs.

#### **11.3.1.1 Reserve Funds**

The Committee should also concern itself with a sound reserve position for the cooperative and make recommended provision for adequate reserves. This is for contingencies or unforeseen circumstances, and, are over and above the usual reserves established for depreciation or bad debts. Almost inevitably poor business years may be experienced for various reasons. Reserve funds should be available for buffering such situations. New or expanded facilities may be needed from time to time. Reserves would eliminate the need for using borrowed funds and impairing capital. Reserves serve as a protection or insurance of the capital investments of members. When reserves have built to an amount considered adequate, they can be revolved out to the members in the same way as revolving funds. There may be provisions in state cooperative laws which relate to the amount of reserves that may be held. However, this in no way suggests that adequate reserve funds are not appropriate.

#### **Self-Assessment Exercises 1**

1. Discuss internal financing of cooperative
2. Discuss reserve funds

#### **11.4 Summary**

The Unit discussed Reserve fund uses and importance for cooperatives involved in business activities. The Unit exposed readers to the challenges of managing the cooperative with respect to financial inputs needed for the smooth functioning of the cooperative.

#### **11.5 References/Further Readings**

Robert K.: Social Theory and Social Structure, Free Press, 1957

Hillyard, S.: The Sociology of Rural Life. Berg Press, New York, 2007

Fekete, F.; Heady, E.O. and Holdren B. R.: Economics of Cooperative farming. Springer Science and Business media, 1976

Bryan G. and Edwards J.: An introduction to Sociology. Pergamon Press 1969.

## **11.6 Answers to SAEs - UNIT 11**

Answers to SAEs within the course content, arranged accordingly

### **Answers to SAEs 1**

#### **1. Internal Financing**

Once the cooperative is operating and doing business with its members, a revolving capital financing plan is most appropriate for use by the cooperative in meeting equity capital needs. Under such a plan, a member authorizes the cooperative to use a certain amount of the money furnished to the cooperative through the member's economic participation. This may be a specified amount for each unit of product bought or sold or a specified percentage of the value of each unit. This money, sometimes called capital retains, is credited to the member's account on the cooperative's books. At the end of the year or the relevant accounting period, the member is issued a certificate in the total amount of capital retains for the period. It thus becomes the member's capital investment in the cooperative. The capital retains go into a revolving fund which is usually used in the first years of the cooperative's existence to pay the long-term debt incurred when the cooperative started. After such debt obligations are sufficiently satisfied, the remaining are returned to the members in the order in which they contributed to the fund.

This method serves the very basic purpose or aim of cooperatives in making it possible for the members to build up equity in their cooperative in direct proportion to the amount of business done with it. It also makes it possible for the "rule of currency" to be followed, and members who are currently using the cooperative will be supporting it. Persons who are no longer members for whatever reason can be repaid their investment. It provides the cooperative with a degree of flexibility in meeting changing conditions which bring about changed or changing financial needs.

#### **2. Reserve Funds**

The Committee should also concern itself with a sound reserve position for the cooperative and make recommended provision for adequate reserves. This is for contingencies or unforeseen circumstances, and, are over and above the usual reserves established for depreciation or bad debts. Almost inevitably poor business years may be experienced for various reasons. Reserve funds should



be available for buffering such situations. New or expanded facilities may be needed from time to time. Reserves would eliminate the need for using borrowed funds and impairing capital. Reserves serve as a protection or insurance of the capital investments of members. When reserves have built to an amount considered adequate, they can be revolved out to the members in the same way as revolving funds. There may be provisions in state cooperative laws which relate to the amount of reserves that may be held. However, this in no way suggests that adequate reserve funds are not appropriate.

**UNIT 12: MULTI-STAKEHOLDERS COOPERATIVES**

**UNIT STRUCTURE**

- 12.1 Introduction
- 12.2 Learning Outcomes
- 12.3 Main Content
  - 12.3.1 Multi-stakeholders cooperatives
- 12.4 Summary
- 21.5 References/Further Readings
- 12.6 Answers to Self-Assessment Exercise(s) within the content

## **12.1 Introduction**

This unit is especially dedicated to elaborate on cooperative as a multi-stakeholder platform. The complex mix of stakeholders with different socio-cultural background and interests require detailed stakeholder's assessment. At the end of the unit, readers will be exposed to management of influences of different stakeholders and how the influence structure can be aligned for cooperative sustainability

## **12.2 Learning Outcomes**

By the end of this unit, you will be able to:

- Describe Multi-Stakeholders Cooperatives

## **12.3 Main Content**

### **12.3.1 Multi-Stakeholders Cooperatives**

Multi-stakeholder cooperatives, also known as multi-stakeholder enterprises (MSEs) or multi-stakeholder organizations (MSOs), are a unique form of cooperative structure that extends beyond the traditional model where only one type of member participates. In multi-stakeholder cooperatives, multiple categories or classes of members with varying interests, roles, and purposes come together to collectively own and manage the cooperative. These cooperatives aim to balance the needs and objectives of different stakeholder groups within a single organization.

Multi-stakeholder cooperatives are an innovative and inclusive approach to cooperative organization that recognizes the interconnectedness of various stakeholders in specific sectors. They allow diverse groups to work together to achieve common goals while respecting the unique interests and contributions of each member category. This model can be particularly useful in addressing complex issues that require a multifaceted approach and in promoting collaboration among stakeholders with different perspectives and expertise.

### Features and Characteristics of Multi-Stakeholder Cooperatives

1. **Diverse Membership:** Multi-stakeholder cooperatives have diverse categories of members, each representing distinct interests or stakeholder groups. These groups can include consumers, producers, workers, investors, community members, and others.
2. **Democratic Governance:** Like other cooperatives, multi-stakeholder cooperatives typically operate under democratic principles. Each category of members has a voice and a vote in the cooperative's decision-making processes.
3. **Cooperative Principles:** Multi-stakeholder cooperatives adhere to the cooperative principles, including voluntary and open membership, democratic member control, member economic participation, autonomy and independence, education and training, cooperation among cooperatives, and concern for the community.
4. **Common Goals and Objectives:** While multi-stakeholder cooperatives have diverse membership categories, they share common goals and objectives that align with their cooperative identity. These goals can include providing quality products or services, promoting sustainable practices, and ensuring equitable benefits for members.
5. **Balancing Stakeholder Interests:** One of the primary challenges for multi-stakeholder cooperatives is to balance the interests and needs of various stakeholder groups. This requires effective governance structures and decision-making processes that consider the perspectives of all members.
6. **Legal Structure:** The legal structure of multi-stakeholder cooperatives can vary depending on the jurisdiction, but it typically allows for the existence of multiple membership categories with distinct rights and responsibilities.
7. **Categories of Members:** Member categories within multi-stakeholder cooperatives can include consumer members, producer members, worker members, and investor members. Each category may have different rights, such as voting power, profit-sharing, or eligibility to serve on the board.
8. **Economic Benefits:** Economic benefits generated by the cooperative, such as profits or dividends, are typically distributed based on the participation or usage of the cooperative's services within each member category.

9. **Social and Environmental Focus:** Multi-stakeholder cooperatives may emphasize social and environmental responsibility, reflecting the concerns and values of their various member categories.
10. **Flexible and Adaptable:** These cooperatives are often flexible and adaptable in responding to changing circumstances and the needs of their members. They can evolve over time to address new challenges and opportunities.

**Self-Assessment Exercises 1**

1. Describe multi-stakeholder cooperatives
2. Explain 7 characteristics of multi-stakeholder cooperatives

**12.4 Summary**

The Unit discussed the complex mix of stakeholders with different socio-cultural background and interests that requires detailed stakeholder's assessment. Readers were exposed to management of influences of different stakeholders and how the influence structure can be aligned for cooperative sustainability.

**12.5 References/Further Readings**

Borzaga, C. & Sacchetti, S. (2015). Why Social Enterprises Are Asking to Be Multi-stakeholder and Deliberative: An Explanation around the Costs of Exclusion, Euricse Working Papers n. 75|15

<https://chat.openai.com/c/e8cbc6fa-0a87-4642-9231-71eb35b6f3a7>

<https://thenextsystem.org/learn/stories/multi-stakeholder-cooperative>

<https://www.google.com/search?q=Describe+multistakeholder+cooperatives&oq=Describemultistakeholder+cooperatives&aqs=chrome.69i57j0i546l3.6539j0j7&sourceid=chrome&ie=UTF-8>

**12.6 Answers to SAEs - UNIT 12**

Answers to SAEs within the course content, arranged accordingly

**Answers to SAEs 1**

1. Multi-stakeholder cooperatives, also known as multi-stakeholder enterprises (MSEs) or multi-stakeholder organizations (MSOs), are a unique form of cooperative structure that extends beyond the traditional model where only one type of member participates. In multi-stakeholder cooperatives, multiple categories or classes of members with varying interests, roles, and purposes come together to collectively own and manage the cooperative. These cooperatives aim to balance the needs and objectives of different stakeholder groups within a single organization.

**2. Features and Characteristics of Multi-Stakeholder Cooperatives**

- a. **Diverse Membership:** Multi-stakeholder cooperatives have diverse categories of members, each representing distinct interests or stakeholder groups. These groups can include consumers, producers, workers, investors, community members, and others.
- b. **Democratic Governance:** Like other cooperatives, multi-stakeholder cooperatives typically operate under democratic principles. Each category of members has a voice and a vote in the cooperative's decision-making processes.
- c. **Cooperative Principles:** Multi-stakeholder cooperatives adhere to the cooperative principles, including voluntary and open membership, democratic member control, member economic participation, autonomy and independence, education and training, cooperation among cooperatives, and concern for the community.
- d. **Common Goals and Objectives:** While multi-stakeholder cooperatives have diverse membership categories, they share common goals and objectives that align with their cooperative identity. These goals can include providing quality products or services, promoting sustainable practices, and ensuring equitable benefits for members.
- e. **Balancing Stakeholder Interests:** One of the primary challenges for multi-stakeholder cooperatives is to balance the interests and needs of various stakeholder groups. This requires effective governance structures and decision-making processes that consider the perspectives of all members.

- f. **Legal Structure:** The legal structure of multi-stakeholder cooperatives can vary depending on the jurisdiction, but it typically allows for the existence of multiple membership categories with distinct rights and responsibilities.
- g. **Categories of Members:** Member categories within multi-stakeholder cooperatives can include consumer members, producer members, worker members, and investor members. Each category may have different rights, such as voting power, profit-sharing, or eligibility to serve on the board.
- h. **Economic Benefits:** Economic benefits generated by the cooperative, such as profits or dividends, are typically distributed based on the participation or usage of the cooperative's services within each member category.
- i. **Social and Environmental Focus:** Multi-stakeholder cooperatives may emphasize social and environmental responsibility, reflecting the concerns and values of their various member categories.
- j. **Flexible and Adaptable:** These cooperatives are often flexible and adaptable in responding to changing circumstances and the needs of their members. They can evolve over time to address new challenges and opportunities.

**UNIT 13: INTERNAL WORKING OF GROUP****UNIT STRUCTURE**

- 13.1 Introduction
- 13.2 Learning Outcomes
- 13.3 Main Content
  - 13.3.1 Internal working of group
    - 13.3.1.1 Management roles of the members
- 13.4 Summary
- 13.5 References/Further Readings
- 13.6 Answers to Self-Assessment Exercise(s) within the content

**13.1 Introduction**

Internal management of cooperative is discussed using clear role and responsibilities assignments to different members. The management roles of the Board of Directors in their oversight function are discussed. The selection process and responsibilities of the cooperative manager is also indicated. The provisions for specific committees and their membership is also discussed. At the end of the Unit readers would be familiar with the provisions for managing modern cooperative for success.

**13.2 Learning Outcomes**

By the end of this unit, you will be able to:

- Describe internal working group
- Understand the management roles of members

**13.3 Main Content****13.3.1 Internal Working of Group**



In addition to the very basic areas previously covered relating to numbers of members, volume of business, financing, and so on, the Survey Committee should include other items in its report to the potential members at the second meeting. Among other things, it should include recommendations as to the size or number of services the cooperatives will provide, the area from which the members will come and the requirements or qualifications for membership, the membership fee, where the business will be located and what the business hours are, number of directors on the board and how they would be elected, how members will be paid for their product, how supplies and services provided by the cooperative will be priced, whether an organization agreement will be used in which potential members sign a document agreeing to belong to and patronize the proposed cooperative and provide a specified amount of initial capital, whether business will be done with nonmembers, the name of the organization, voting procedure, and other rules. Also, since there will be costs of getting organized and since some expense may have already been incurred by the Committee in its work, these costs should be estimated and the amount that each member would be assessed to cover the costs should be indicated. Such costs would include attorneys' fees, other expert advice, and filing fees. The Committee now is ready to summarize its findings and decisions in some sort of orderly manner and prepare for its report to the prospective members at the second meeting. It should be prepared to answer each and every question that might be raised at the meeting. It might be appropriate to prepare summaries of the report for distribution at the meeting as an aid in the discussion and for later reference.

#### **13.3.1.1 Management Roles of the Members**

Members of a cooperative have a role in management which differs from that of stockholders in the investor-oriented corporation because, as has been indicated, they own and control the cooperative. Its function is to provide needed services. In this capacity, they have certain rights and privileges in taking an active part in the management of the cooperative. This right and privilege has other facets, of course, and these include the responsibility and obligation to participate in this function in an intelligent, informed, and constructively critical manner. Members are the beneficiaries of good management and must carry the burden of poor management.

The success or failure of a cooperative is tied so closely to the acceptance of this responsibility and obligation and positive performance in this unique role that it deserves special attention. Membership

is one of the great strengths of a cooperative if its legitimate role is effectively exercised. Positive results from this potential strength will not be realized if it is not effectively exercised. Specific rights that come with membership in a cooperative and that reflect members' roles in management of their cooperative include the following:

- a) Adopting and amending of by-laws
- b) Selecting a competent and qualified board of directors
- c) Approving plans for and changes in the capital structure of the cooperative
- d) Being knowledgeable in regard to annual reports, financial statements, and so on, and being able to ask relevant questions at all times.
- e) Being familiar with the cooperative's bylaws and Articles of Incorporation, membership contracts, and other relevant documents, and requiring officers, directors, and all others to comply with them.
- f) Holding directors and officers liable for any acts of omission or commission not in accord with relevant legal documents.
- g) Approving all organization changes such as mergers, federations, and dissolution and all other fundamental policies of the cooperative.

It is quite obvious that if members of a cooperative are to exercise their role in managing their cooperative in an intelligent and informed manner and be able to ask meaningful questions in a constructively critical manner, it is absolutely essential that they keep themselves informed and participate in the affairs of their cooperative. They, as owners of the cooperatives, have a stake in the effectiveness with which the cooperative achieves its goals, and this is directly related to the effectiveness with which the management function is performed.

### **Self-Assessment Exercises 1**

1. Members of a cooperative have a role in management which differs from that of stockholders in the investor-oriented corporation. Why?
2. Succinctly highlight members' roles in management of their cooperative

### **13.4 Summary**

The Unit discussed the management roles of the Board of Directors in their oversight function. The selection process and responsibilities of the cooperative manager is also indicated. The provisions for specific committees and their membership is also discussed. At the end of the Unit readers would be familiar with the provisions for managing modern cooperative for success.

### **13.5 References/Further Readings**

Emelianoff, I V.: Economic theory of cooperation. Edwards Brothers, Inc. Washington, D. C., 1942.

Winter, M. 'The rural economy', in White-Spundner, B. (ed.) Our Countryside. Cambridge, Pearson, 1998.

Crow, G. and Allan, G: Community Life: An Introduction to Local Social Relations. London, Harvester Wheatsheaf 1994.

Bell, C. and Newby, H: Community Studies: an Introduction to the Sociology of the Local Community. London, Allen and Unwin, 1971

### **13.6 Answers to SAEs - UNIT 13**

Answers to SAEs within the course content, arranged accordingly

#### **Answers to SAEs 1**

1. Members of a cooperative have a role in management which differs from that of stockholders in the investor-oriented corporation because, as has been indicated, they own and control the cooperative. Its function is to provide needed services. In this capacity, they have certain rights and privileges in taking an active part in the management of the cooperative. This right and privilege has other facets, of course, and these include the responsibility and obligation to participate in this function in an intelligent, informed, and constructively critical manner. Members are the beneficiaries of good management and must carry the burden of poor management.

The success or failure of a cooperative is tied so closely to the acceptance of this responsibility and obligation and positive performance in this unique role that it deserves special attention. Membership

is one of the great strengths of a cooperative if its legitimate role is effectively exercised. Positive results from this potential strength will not be realized if it is not effectively exercised.

Members' roles in the management of their cooperative include the following:

- a) Adopting and amending of by-laws
- b) Selecting a competent and qualified board of directors
- c) Approving plans for and changes in the capital structure of the cooperative
- d) Being knowledgeable in regard to annual reports, financial statements, and so on, and being able to ask relevant questions at all times.
- e) Being familiar with the cooperative's bylaws and Articles of Incorporation, membership contracts, and other relevant documents, and requiring officers, directors, and all others to comply with them.
- f) Holding directors and officers liable for any acts of omission or commission not in accord with relevant legal documents.
- g) Approving all organization changes such as mergers, federations, and dissolution and all other fundamental policies of the cooperative.

**MODULE FOUR: COOPERATIVE MANAGEMENT AND GEARING RATIO****Unit 14: Managing Cooperatives for Success****UNIT STRUCTURE**

- 14.1 Introduction
- 14.2 Learning Outcomes
- 14.3 Main Content
  - 14.3.1 Managing the cooperative for success
  - 14.3.2 Roles of Members
  - 14.3.3. The Role of the Cooperative Board of Directors
    - 14.3.3.1 Selection and Election of Board Members
    - 14.3.3.2 Selecting and Hiring a Manager
    - 14.3.3.3 Policies and Programs
    - 14.3.3.4 Evaluation of Performance
    - 14.3.3.5 Selecting Qualified Directors
    - 14.3.3.6 Directors Act as Agents of Members
    - 14.3.3.7 Number of Directors and Their Terms
    - 14.3.3.8 Committees
    - 14.3.3.9 Length of Term for Directors
- 14.4 Summary
- 14.5 References/Further Readings
- 14.6 Answers to Self-Assessment Exercise(s) within the content

## **14.1 Introduction**

Internal management of cooperative is discussed using clear role and responsibilities assignments to different members. The management roles of the Board of Directors in their oversight function are discussed. The selection process and responsibilities of the cooperative manager is also indicated. The provisions for specific committees and their membership is also discussed. At the end of the Unit readers would be familiar with the provisions for managing modern cooperative for success as well as method for performance evaluation of hired staff.

## **14.2 Learning Outcomes**

By the end of this unit, you will be able to:

- Understand managing the cooperative for success
- Describe roles of Members
- Describe the Role of the Cooperative Board of Directors

## **14.3 Main Content**

### **14.3.1 Managing the Cooperative for Success**

Cooperatives have generally been set up by people to improve their economic conditions by working together. This tradition of service to the community is still very much alive today. To realize this objective, cooperatives need to continuously develop to maintain their members' loyalty and commitments in the face of growing competition. The cooperative management triangle shows the members as constituting the base or the foundation of the management team. This is significant. It reflects the strategic role which can and should be played by the owner-members of the cooperative- a role that comes about because people have formed cooperatives to obtain services which they could not get as economically, efficiently, or as effectively as individuals. They formed a legal entity to achieve an economic objective through joint participation of its members. The investment and operational risks, benefits gained or losses incurred, are shared by the members in proportion to their use of their cooperatives' services. It is democratically controlled by its members on the basis of their status as member-users and not as investors in the capital structure of the cooperative. Thus, members, as owners of the cooperative, are responsible for its management and its effectiveness in providing the services for which it was formed.

**Self-Assessment Exercises 1**

1. What does managing the cooperative for success entail?
2. What does the cooperative management triangle signify?

**14.3.2 Roles of Members**

Let's examine the role of members in the management triangle as related to other parts of the triangle and to the potential of the cooperative in achieving its goals.

1. Selecting members to serve on the board of directors who are most qualified. Once elected to the board, their performance will be constantly checked.
2. Nominating and electing members to serve on the board of directors will be a procedure far removed from the "good ole boy" syndrome, but will be based on a complete understanding of the cooperative, its particular needs at the time, and whether potential nominees have the ability, knowledge, and experience to meet those needs and are willing to serve the cooperative in accordance with the nominee's qualifications and the cooperative's needs.
3. Knowing and understanding the cooperative, its reason for being, its business methods and results, and developing reasonable expectations in regard to its performance based upon knowledge and understanding.
4. Using proper channels in seeking information about the cooperative and being armed with factual information regarding it at all times.
5. Never approaching employees directly about their work or duties in carrying out administration. Any questions or suggestions should be handled through proper officials, usually the board member representing the district or area in which the member lives.
6. Being completely loyal to the cooperative and supporting it on the basis of facts and adequate information.
7. Keeping the board of directors informed in a very constructive manner on matters relating to relevant policy matters by making the views of the members known.
8. Establishing a reasonable and soundly based position in regard to length of term for directors and the number of terms which they should serve.

9. Attending meetings regularly and discussing business matters in a knowledgeable manner. Discouraging policy of allowing proxy voting.
10. Through the board of directors, allowing the manager to manage. Allowing latitude for the manager to exercise judgment in performance of duties.
11. Accepting the position that unless members are actively and intelligently involved in their proper management role, they have no basis for complaint if the performance of the cooperative is not satisfactory.
12. Recognizing the right of the general public to ask questions about this particular cooperative and about agricultural cooperatives in general. Being prepared with factual information to explain the rationale for the existence of cooperatives, how they operate, and why they operate as they do.

One of the most important roles performed by the member base of the triangle is the selection and election of the members of the board of directors. This is because the statutes under which a cooperative is established and upon which its Articles of Incorporation are based specify that the board of directors is responsible for whatever the cooperative does or does not do. This means that the board is responsible for the management of the cooperative, in accordance with the policy lines agreed upon and adopted by the member base of the management triangle. This arrangement serves to emphasize again the importance of the process of selecting and electing members to the board because it is through the representatives on the board that members (the member base of the triangle) exercise their control over management. If this role of the member base is not effectively exercised by weighing carefully the qualifications of any member who is nominated to the board before election to serve on the board, the cooperative is likely to suffer from poor management. Nominees to the board are required to be members of the cooperative, but qualifications go far beyond membership. One of the most frequently stated reasons for failure of cooperatives is poor management. It is generally accepted that the character and ability of management as reflected in the management function is a crucial factor in the success or failure of a cooperative. The role of the member in the management trio is not one which is based upon direct involvement in the myriad of activities of a cooperative, such as member relations, maintaining accounting and other records, pooling, purchasing supplies, and handling of members' products. Rather, it is effectively exercised only through an adequate knowledge base regarding the cooperative and intelligent, knowledgeable participation in the affairs of the cooperative.



Intelligent, constructive criticism and evaluation are necessary ingredients of this role. The legitimacy of the roles of the two sides of the management triangle stems from the member base of the triangle. Once the distinctive role of the member base is understood and adequately performed, and assuming the cooperative is soundly conceived in the beginning, the poor management reason for cooperative failure will be given far less frequently.

**Self-Assessment Exercises 2**

1. Discuss 8 roles of the role of members in the management triangle as related to other parts of the triangle and to the potential of the cooperative in achieving its goals
2. One of the most important roles performed by the member base of the triangle is the selection and election of the members of the board of directors. Why?

**14.3.3. The Role of the Cooperative Board of Directors**

The right side of the management triangle is the board of directors. This continues the total management concept which is a distinctive feature of the agricultural cooperative. It serves to emphasize further the responsibility and obligations lodged with the owners-users of an institutional arrangement that is unique as a business organization form under the free enterprise system. It reflects again the service orientation of the cooperative in which the motivation for its genesis is not a return on investment, but the provision of a service to a group of people which might not be available to them as individuals.

**14.3.3.1 Selection and Election of Board Members**

The board of directors is empowered and obligated to run the affairs of the cooperative. They do this by

- a) Selecting and hiring the manager;
- b) Establishing policies for the cooperative
- c) Delegating authority to the manager to develop programs designed to carry out policy which it establishes
- d) Evaluating the effectiveness of the programs developed by the manager to carry out the policies; and

- e) Evaluating the performance of the cooperative and reporting to the members.

In addition to these specific responsibilities, other less tangible responsibilities of direction include recognizing and fully appreciating the fact that they are functioning as trustees for the members whom they represent. They should fully understand that they are obligated to preserve and strengthen the cooperative character of the organization, especially through encouraging member involvement and in keeping the members informed.

#### **14.3.3.2 Selecting and Hiring a Manager**

Selecting and hiring a competent manager is undoubtedly the most important responsibility of the cooperative's board of directors. This is because success or failure of a cooperative, as previously indicated, is so often linked to poor management. Specifying the technical qualifications and other relevant criteria is necessary to guide the process of selecting a manager for the cooperative. Once a manager is hired, the board of directors has the responsibility to apprise the manager regarding the policies it has established for the cooperative and delegate sufficient authority to formulate programs necessary to carry out the policies. It must be noted that the board is responsible for everything that happens or does not happen with the cooperative. It can delegate authority to carry out programs or duties, but its responsibility cannot be delegated (*delegatus non potest delegare*).

#### **14.3.3.3 Policies and Programs**

As indicated, a basic responsibility of the board of directors is to establish policies for the cooperative. The cooperative policy is an overall general statement of objectives of the cooperative. An example might be that the cooperative would increase its share of the market in a certain area and for a certain product. Another example would relate to the cooperative's ability to guarantee a market for its members' product over the next 10 years. Once these policies have been established and enunciated by the board of directors, they are passed along to the manager. It is then the responsibility of the manager to devise programs to carry out the policies. In the first example, it might be by arranging for more outlets for the product in the area. In the second, it might entail the development of a long-term planning model covering estimated supplies and demand for the product over the period in question and determination of the likelihood of whether present handlers of the

product for the cooperative would be adequate. Very definite steps or actions by the board may be suggested if the guarantee of market policy of the cooperative is to be honored.

In formulating the policies and articulating them to the manager for designing programs to carry them out, it may be that a reasonable period of time has been specified to operate the programs. This suggests an appraisal or evaluation of the effectiveness of the programs that the manager put into operation and this is the responsibility of the board. Along with delegating sufficient authority to the manager to carry out the programs, the board is obligated to engage in the evaluation process as a part of the accountability posture that has to be assumed by the board. The impression may have been given in this discussion that the manager would never be involved in the formulation of policy and that the board would follow a strictly hands-off procedure with respect to the programs implemented by the manager. This is not the case. The manager would, in most cases, be involved in an advisory capacity in the development of policy. Data and information would, in many cases, be supplied by the manager in helping the board to formulate policies. Moreover, the board may make suggestions to the manager in regard to program alternatives in carrying out the policies. The point to be made has to do with where the responsibility lies. Policy formulation is the responsibility of the board of directors, and it cannot be delegated and should never be usurped by anyone.

Programs to carry out the policies of the board are the responsibility of the manager, and sufficient authority must be delegated to carry them out. The manager should be given a free rein in doing this. The board then has the responsibility of measuring the effectiveness of the program and, depending on the evaluation, taking appropriate steps. It is assumed in all of this, of course, that the members are performing their roles in advising the board about their views on issues. In this manner, they too are involved in policy formulation and program development and execution. The tangible part of the members' role in policy formulation is reflected in resolutions introduced and accepted at local, district, area, and annual meetings of the cooperative members or voting delegates.

#### **14.3.3.4 Evaluation of Performance**

The remaining responsibility of the board of directors is that of evaluating the overall performance of the cooperative in reaching the goals established for it and of giving an accounting of this evaluation to the members. This has implications for at least three areas. It suggests that the board of directors has a clear picture at all times of what the goals of the cooperative are and of policies

designed to articulate those goals to the manager for taking action. It also implies that the members are aware of what the cooperative goals are and that they are evaluating the effectiveness of the board. Members do this in exercising their role in the management triangle. In addition, it implies that the effectiveness of the programs which have been designed by the manager to effectuate the policies or goals of the cooperative is being evaluated. If each of these implications is, in fact, correct, then the unique roles, as depicted in the management triangle, are being exercised as they should be. The members elected a board they thought was qualified to establish the appropriate goals for the cooperative. The board accepted this mandate and took steps to specify the appropriate policies and charge the manager with designing programs to carry out the policies. The board evaluated the programs in terms of their effectiveness and, in the process, evaluated the manager. It then reported to the members in financial or other forms at the annual meeting or at other forums with respect to the cooperative's performance for a specified period. All in all, this is accountability in its best form and to a rather large measure constitutes the essence of cooperation.

#### **14.3.3.5 Selecting Qualified Directors**

If the role of the board of directors is so important in the cooperative scheme of things, their selection and election to membership on the board should be based upon their fitness for the position. Since the member base of the triangle is responsible for the makeup of the board, it is they who should sense the importance of assuring, to the fullest extent possible, that those elected to the board have the requisite qualifications.

So who is qualified to serve in this critical role?

- a) It is essential that the members who will be selecting persons as candidates for board positions have a complete understanding of the cooperative, its reason for being, its goals, and, of greatest importance, its particular needs at the given time. Are there particularly important issues such as expansion, merger, consolidation, integration, federation, and financing which must be faced by the board over the next few years? Rarely is there a situation or prolonged period of time when a board of directors is not called upon to make decisions for the cooperative as representatives of the member base of the management triangle. The relative importance of the issues, as measured on the basis of the consequences of the outcome of the decision, will vary, but questions of importance are constantly faced

by the board of directors, and they must make decisions regarding them. This serves to emphasize the importance of the voting members having a grasp of the workings, aims, and objectives of the cooperative and of questions that will have to be faced and resolved by the board of directors.

- b) The members, having this understanding, can then determine or make judgments regarding the particular area(s) of competence board members will need in order to address the pending issues and to enhance the chances that the decisions reached will be soundly based and in the best interest of the cooperative in the long run. Armed with this understanding of the cooperative and its ongoing and currently important issues that must be faced and decided upon, and with an appreciation of competencies or skills needed by potential board members to properly handle the issues, the member base is in a position to make sound judgments in their director selection and election process.

Specific questions that may be asked regarding the prospective director's fitness to serve as a director might include the following:

- a) Does this person have the ability to make sound business judgments as reflected by the manner in which the farm business is managed?
- b) What is the track record of the person in regard to cooperatives, group action, and the like? Is there a history of working with others?
- c) Has the person demonstrated leadership capacity? Is the person respected by neighbors? Is the person willing to work and put in the time that will be necessary in performing the duties of a director?
- d) What particular skills does this person have which are needed by the cooperative at this time?

No one is likely to have perfect scores in this assessment procedure, but anyone who is seriously considered as a candidate for membership on the board of directors should have satisfactory scores on these and other relevant questions. To the extent that an effort is made to understand the cooperative and its needs at a particular time and to assess prospective directors' demonstrated fitness to match those needs, the chances of selecting competent persons to play the important role of cooperative director in the management triangle will be enhanced.

**14.3.3.6 Directors Act as Agents of Members**

In performing their role, the directors are acting as agents for the member base of the management triangle. In carrying out this agency relationship, the directors have many responsibilities to those for whom they are agents.

As previously indicated, these are important, though not all inclusive

- a) Select a competent manager and delegate authority to carry out programs and perform necessary duties.
- b) Evaluate effectiveness of programs and overall performance of the cooperative and then report to members.
- c) Establish policies based upon relevant data and information.
- d) Keep membership informed and keep lines of communication open.

Perhaps of greatest importance are the attitudinal characteristics of the board members. The manner in which they view their work, and, their understanding/appreciation of what is involved in cooperative action determine to a large extent the character of the cooperative. An active, capable, and enthusiastic board seems to generate enthusiasm on the part of members and goes far in assuring the proper relationship between the various parts of the management triangle. On the other hand, an indifferent, unenthusiastic, go-through-the-motions type of board may bring about the same posture for the members of the cooperative. It may bring about a vacuum in leadership into which a manager who is so inclined may step and create a one-person organization with a rubber stamp board. This is not cooperation, of course, and could not be expected to continue under the cooperative agenda. It will, in all likelihood, lead to failure of the cooperative.

**14.3.3.7 Number of Directors and Their Terms**

In determining the number of directors and their geographic location or distribution, the agency or representation role of the board of directors vis-a-vis the member base should be overriding. The board of directors represents members, and lines of communication in both directions must be kept open and logistically possible. The director-membership ratio should be such that members are assured of direct communication with a board member within a reasonable length of time. The

geographic boundaries are important in determining this ratio. Accessibility of directors and open lines of communication are essential if a cooperative is to perform satisfactorily.

These considerations may also be used in determining whether some type of districting or other boundary concept is appropriate in providing for voting arrangement for members at the annual meeting. A delegate system, with delegates from a given district representing a certain number of members, may be suggested. Open, easy, accessible lines of communication and representation are hallmarks of genuine cooperation.

#### **14.3.3.8 Committees**

Depending upon the cooperative bylaws, the board is empowered to organize itself, usually after its annual meeting, and to establish committees for dealing with phases of the cooperative's business. Examples would be a finance committee, an executive committee, a marketing committee, or an auditing committee. Each committee would be authorized by the board of directors to study problems in its particular field and make recommendations to the board of directors. Again, depending upon the by-laws, in some instances the committees may be given certain powers to act for the board, subject to review by the entire board. An executive committee made up of a specified number of members of the board performs certain duties as authorized by the board and in accordance with the legal power of the board to make such authorization.

#### **14.3.3.9 Length of Term for Directors**

In addition to taking all steps possible to assure that members who have the requisite qualifications are elected to the board, members should concern themselves with the bylaw provision which specifies the length of term a director serves. Also, the bylaws relate to whether a director may serve successive terms and how many terms may be served. The question as to whether cooperative boards of directors should rotate membership at regular intervals comes up very frequently. Those who argue that membership on a cooperative board should be rotated periodically base their position on their feeling that this would:

- a) Inject new ideas,
- b) Engender enthusiasms,
- c) Provide greater opportunity for more members to serve the cooperative, and generally be helpful to the cooperative.

They advocate a specific bylaw provision specifying that a director may not serve more than a specified number of consecutive terms and that the length of term be relatively short. Those on the other side of the argument base their case on the too rapid removal of experience and possibly quality and that this process may be expensive to the cooperative. They argue that a period of time is needed for any member who is elected to the board to learn the workings of the cooperative and the procedures that must be followed in carrying out a director's duties and responsibilities.

While automatic rotation may result in a loss of experience and knowledge which comes only after the learning period is over and from a continuous process of learning the ropes. However the gains include that:

1. Unwanted or incompetent directors would be weeded out, of course, but there should be no mechanism that would automatically force a good person out of office. Automatic rotation would do this, since the criterion for tenure becomes length of time rather than quality of service.
2. New blood brings new ideas and prevents staleness,
3. Old problems may be seen in a different light by new members, and solutions may be more readily found.
4. Membership on a board is both a privilege and a burden at times, so all members should share the positive aspects of the privilege and the long hours required of conscientious board members.
5. Service as a member of the board helps to develop leadership among cooperative members, and the knowledge that a position on the board is possible will motivate young potential leaders.
6. Membership on a board of directors is one of the best teaching devices to bring about well-informed members, so more frequent openings on the board will bring about a more informed membership.
7. A definitely established policy of rotation, whether it is written into the by-laws or not, serves as a means to avoid embarrassment that may arise in unseating a director who has been in office for a long time and, for a number of reasons, may not be suited to continue.



Those who argue the other side of the question offer the following points in support of their position:

- a) An experienced, able director is more valuable than an inexperienced one with equal innate ability.
- b) Competency of board members is restricted by automatic rotation just as much as incompetency.
- c) Automatic limitation is a restriction on the democratic right of anyone to be elected to office, including reelection of the incumbent.
- d) There may not be enough qualified members to serve on the board to permit the practice of rotating directors.

We may disagree with the positions reflected by these statements on either or both sides of the argument. However, there is one position with which everyone agrees and that is that the selection of directors is one of the most important, if not the most important, aspects of the operation of a cooperative.

There is much to be said for providing an opportunity for the development of potential leaders and greater understanding of cooperative philosophy and operation, but there is a reluctance to establish a system of arbitrary rotation to achieve this.

Forcing good persons off the board right along with the poor ones might be a too heavy price to pay. It might be better to be left with a poor board member than to risk losing a good one. Very few cooperatives provide in their bylaws for any limitation on length of service of directors. So what should be done about this question? How can most of the recognized advantages of rotation be captured while avoiding some of the disadvantages? Cooperative leaders have offered these suggestions to achieve this goal:

- a) Terms of office of directors might be staggered so that only a portion of experienced directors go off the board each year.
- b) Bye-laws should provide for at least two nominees for each board vacancy to be filled.
- c) A nominating committee, appointed by the president of the cooperative, should present a number of nominees for the positions to be filled. No member of the board would serve on the committee. Other nominations would be accepted from the floor from the members.

- d) Voting would be by secret ballot.

These suggestions may permit most of the advantages and avoid some of the disadvantages of arbitrary rotations of board members. It might work. Other plans might be devised that would work as well or better.

### **Self-Assessment Exercises 3**

1. Highlight the roles of the cooperative board of directors
2. Discuss the gains that come as a result of automatic rotation which may result in a loss of experience and knowledge
3. Discuss the managerial function of the board of directors in selecting and hiring a manager

## **14.4 Summary**

This Unit discussed the internal management of cooperative and discussed roles and responsibilities of different members. The management roles of the Board of Directors in their oversight function are also discussed. The selection process and responsibilities of the cooperative manager is indicated. The provisions for specific committees and their membership is also discussed.

## **14.5 References/Further Readings**

Robert K.: Social Theory and Social Structure, Free Press, 1957

Hillyard, S.: The Sociology of Rural Life. Berg Press, New York, 2007

Winter, M. 'The rural economy', in White-Spundner, B. (ed.) Our Countryside. Cambridge, Pearson, 1998.

Harper, D.: Changing Works: Visions of a Lost Agriculture. Chicago, Chicago University Press. 2001

Crow, G. and Allan, G: Community Life: An Introduction to Local Social Relations. London, Harvester Wheatsheaf 1994.

**14.6 Answers to SAEs - UNIT 14**

Answers to SAEs within the course content, arranged accordingly

**Answers to SAEs 1**

1. Cooperatives have generally been set up by people to improve their economic conditions by working together. This tradition of service to the community is still very much alive today. To realize this objective, cooperatives need to continuously develop to maintain their members' loyalty and commitments in the face of growing competition. The cooperative management triangle shows the members as constituting the base or the foundation of the management team. This is significant. It reflects the strategic role which can and should be played by the owner-members of the cooperative-a role that comes about because people have formed cooperatives to obtain services which they could not get as economically, efficiently, or as effectively as individuals. They formed a legal entity to achieve an economic objective through joint participation of its members. The investment and operational risks, benefits gained or losses incurred, are shared by the members in proportion to their use of their cooperatives' services. It is democratically controlled by its members on the basis of their status as member-users and not as investors in the capital structure of the cooperative. Thus, members, as owners of the cooperative, are responsible for its management and its effectiveness in providing the services for which it was formed.

2. The cooperative management triangle signifies the members as constituting the base or the foundation of the management team. This is significant. It reflects the strategic role which can and should be played by the owner-members of the cooperative-a role that comes about because people have formed cooperatives to obtain services which they could not get as economically, efficiently, or as effectively as individuals.

**Answers to SAEs 2**

1. The roles of members in the management triangle as related to other parts of the triangle and to the potential of the cooperative in achieving its goals are:

- a) Selecting members to serve on the board of directors who are most qualified. Once elected to the board, their performance will be constantly checked.

- b) Nominating and electing members to serve on the board of directors will be a procedure far removed from the "good ole boy" syndrome, but will be based on a complete understanding of the cooperative, its particular needs at the time, and whether potential nominees have the ability, knowledge, and experience to meet those needs and are willing to serve the cooperative in accordance with the nominee's qualifications and the cooperative's needs.
- c) Knowing and understanding the cooperative, its reason for being, its business methods and results, and developing reasonable expectations in regard to its performance based upon knowledge and understanding.
- d) Using proper channels in seeking information about the cooperative and being armed with factual information regarding it at all times.
- e) Never approaching employees directly about their work or duties in carrying out administration. Any questions or suggestions should be handled through proper officials, usually the board member representing the district or area in which the member lives.
- f) Being completely loyal to the cooperative and supporting it on the basis of facts and adequate information.
- g) Keeping the board of directors informed in a very constructive manner on matters relating to relevant policy matters by making the views of the members known.
- h) Establishing a reasonable and soundly based position in regard to length of term for directors and the number of terms which they should serve.
- i) Attending meetings regularly and discussing business matters in a knowledgeable manner. Discouraging policy of allowing proxy voting.
- j) Through the board of directors, allowing the manager to manage. Allowing latitude for the manager to exercise judgment in performance of duties.
- k) Accepting the position that unless members are actively and intelligently involved in their proper management role, they have no basis for complaint if the performance of the cooperative is not satisfactory.
- l) Recognizing the right of the general public to ask questions about this particular cooperative and about agricultural cooperatives in general. Being prepared with factual information to explain the rationale for the existence of cooperatives, how they operate, and why they operate as they do.

2. One of the most important roles performed by the member base of the triangle is the selection and election of the members of the board of directors. This is because the statutes under which a cooperative is established and upon which its Articles of Incorporation are based specify that the board of directors is responsible for whatever the cooperative does or does not do. This means that the board is responsible for the management of the cooperative, in accordance with the policy lines agreed upon and adopted by the member base of the management triangle.

### **Answers to SAEs 3**

1. The Roles of the Cooperative Board of Directors include the following:

- a) Selection and election of board members
- b) Selecting and hiring a manager
- c) Policies and programs
- d) Evaluation of performance
- e) Selecting qualified directors
- f) Directors act as agents of members
- g) Number of directors and their terms
- h) Committees
- i) Length of term for directors

2. While automatic rotation may result in a loss of experience and knowledge which comes only after the learning period is over and from a continuous process of learning the ropes. However the gains include that:

- a) Unwanted or incompetent directors would be weeded out, of course, but there should be no mechanism that would automatically force a good person out of office. Automatic rotation would do this, since the criterion for tenure becomes length of time rather than quality of service.
- b) New blood brings new ideas and prevents staleness,
- c) Old problems may be seen in a different light by new members, and solutions may be more readily found.

- d) Membership on a board is both a privilege and a burden at times, so all members should share the positive aspects of the privilege and the long hours required of conscientious board members.
- e) Service as a member of the board helps to develop leadership among cooperative members, and the knowledge that a position on the board is possible will motivate young potential leaders.
- f) Membership on a board of directors is one of the best teaching devices to bring about well-informed members, so more frequent openings on the board will bring about a more informed membership.
- g) A definitely established policy of rotation, whether it is written into the by-laws or not, serves as a means to avoid embarrassment that may arise in unseating a director who has been in office for a long time and, for a number of reasons, may not be suited to continue.

### **3. Managerial function of the board of directors in selecting and hiring a manager**

Selecting and hiring a competent manager is undoubtedly the most important responsibility of the cooperative's board of directors. This is because success or failure of a cooperative, as previously indicated, is so often linked to poor management. Specifying the technical qualifications and other relevant criteria is necessary to guide the process of selecting a manager for the cooperative. Once a manager is hired, the board of directors has the responsibility to apprise the manager regarding the policies it has established for the cooperative and delegate sufficient authority to formulate programs necessary to carry out the policies. It must be noted that the board is responsible for everything that happens or does not happen with the cooperative. It can delegate authority to carry out programs or duties, but its responsibility cannot be delegated (*delegatus non potest delegare*).

**UNIT 15: COOPERATIVE MANAGER****UNIT STRUCTURE**

- 15.1 Introduction
- 15.2 Learning Outcomes
- 15.3 Main Content
  - 15.3.1 The Cooperative Manager
    - 15.3.1.1 The Manager's Strategic Position
    - 15.3.1.2 Manager's Duties and Responsibilities
    - 15.3.1.3 The Managerial Functions
      - 15.3.1.3.1 Planning
      - 15.3.1.3.2 Organizing for Action
      - 15.3.1.3.3 Directing Resources
      - 15.3.1.3.4 Controlling and Evaluation
- 15.4 Summary
- 15.5 References/Further Readings
- 15.6 Answers to Self-Assessment Exercise(s) within the content

**15.1 Introduction**

The Unit identifies the roles and responsibilities of the cooperative manager. The strategic position of the manager and the issues involved in planning the day to day functioning of the cooperative are highlighted. At the end of the Unit readers would be familiar with the planning activities of organizing, directing, staffing and control and evaluation in a modern cooperative.

## **15.2 Learning Outcomes**

By the end of this unit, you will be able to:

- Identify the roles and responsibilities of the cooperative manager.
- Understand the strategic position of the manager and the issues involved in planning the day to day functioning of the cooperative
- Understand the planning activities of organizing, directing, staffing and control and evaluation in a modern cooperative.

## **15.3 Main Content**

### **15.3.1 The Cooperative Manager**

We now move to the third part of the management triangle-the hired manager. It is an extremely important part of the triangle, and adequately filling this position is often cited as the number one responsibility of the board of directors. Its importance is reflected by the fact that with this position goes the responsibility of achieving organization objectives by effectively utilizing the resources of people, money, and materials within the policies established by the board. It is here that the programs, the means, are developed for the purpose of carrying out the objectives, the ends, or policies established by the board of directors. Its importance is further emphasized by the findings in studies of cooperatives that have failed that poor or inefficient management is the most frequently given reason for failure.

#### **15.3.1.1 The Manager's Strategic Position**

As is being stressed, the management triangle involves more than the hired manager, and weaknesses may be found in one or more of the other areas. The hired manager, however, occupies a strategic position in the triumvirate. In addition to being responsible for planning a program that will carry out the policies and objectives determined by the board of directors, the manager is responsible for hiring and directing employees to do the work. It is in the capacity of planning, organizing, directing, and controlling the affairs of the cooperative that the manager is perhaps most visible and is most often judged. It may be, however, that the more intangible capacity to reflect cooperatives' ideals and bring about a proper relationship between the three parts of the management triangle is a more fundamental test of the quality of hired management. Ability to be properly concerned with details



while seeing the big picture and generally setting the cooperative's tone in a business-like setting are skills and attributes of hired management which are so important in business management. The added attitudinal attribute is a prerequisite for managing a cooperative.

### **15.3.1.2 Manager's Duties and Responsibilities**

As has been pointed out, the hired manager is responsible for designing programs and developing the means by which the policies established by the board of directors are carried out or achieved. The details of management as a part of the management triangle rest with the hired manager and the employees. The act of combining such things as ideas, processes, materials, facilities, and people to achieve the policy goals is a direct responsibility of hired management. As this process proceeds, there is the ongoing relationship with the board of directors and the members, and it is this unique relationship in the cooperative that stamps the role of hired management as unique. There are two ways of looking at the role of hired management in a cooperative. One is to look at what management does and the other is to look at the people involved in running the cooperative. Since the people involved in the management triangle-the members, the board of directors, and the hired manager-have already been discussed, only the functional aspects of hired management will be covered here. These relate to the usual functions of business management-planning, organizing, directing, and controlling-with only the distinctive elements that serve to differentiate cooperative business management from other types of business management being stressed.

### **15.3.1.3 The Managerial Functions**

#### **15.3.1.3.1 Planning**

Planning is the thinking, judging, and deciding phase of management. It is a basic part of the process because it must precede any course of action. In most cases, there are alternative courses of action which can be taken, and an essential part of the first step in planning is the analysis of relevant data and information in deciding which alternative is most feasible. Prior to this, of course, is a thorough understanding of the policy or policies that have been formulated by the board of directors and that reflect the input of members' suggestions. The full use of the manager's experience, knowledge, and counsel would have been made by the board in formulating the policy, so the manager would not have been unaware of the policy and the underlying thinking. The close involvement of the manager and the board of directors is essential in the process of formulating policy, but once this has been

done, the board should step aside and let the manager manage. The planning function is the preparation for work and not the actual performance of the work. There is no substitute for this critical step, and it stands to reason that the better the planning, the better the following action is likely to be.

#### **15.3.1.3.2 Organizing for Action**

Once the planning part of the management function has been completed and the most feasible course of action has been decided upon, the organizing step takes place. This is the gearing up process of assembling the resources to carry out the plan. Personnel, facilities, and equipment will be needed and a system or systems established to perform the plan decided upon to carry out the relevant policy.

#### **15.3.1.3.3 Directing Resources**

Once the resources have been assembled, the next functional step of management is directing the deployment and use of the resources. This is a day-to-day execution of detailed activities in accordance with the necessary instructions. The manager is responsible for the outcome of a particular effort in relation to all other efforts. This is the process of coordination which the manager must be aware of at all times. It is here that the manager must be able to see the big picture while working with the parts.

#### **15.3.1.3.4 Controlling and Evaluation**

The fourth management function is that of controlling or evaluating the results being achieved in carrying out the actions designed to attain policy objectives. In this process, management determines the results which were obtained and measures them against the objectives or goals that were set up for the activity. Constant evaluation or controlling may provide bases for in-course corrections. Final assessments of the results achieved will provide bases for future activities of a similar nature, for reporting results to the board of directors and members, and for possible future policy goals. The manager's job of supervising and coordinating various activities in the programmatic efforts to achieve policy goals covers the technical operations area and the management of human resources. Both are important and both must be done efficiently.

#### **Self-Assessment Exercises 1**

1. Highlight five functions of a cooperative manager and discuss two that you think are core success criteria
2. Explain manager's duties and responsibilities

## **15.4 Summary**

This Unit discussed the roles and responsibilities of the cooperative manager. The strategic position of the manager and the issues involved in planning the day to day functioning of the cooperative are highlighted. It familiarizes readers with the planning activities of organizing, directing, staffing and control and evaluation in a modern cooperative.

## **15.5 References/Further Readings**

Carballo, D. M.: Cooperatives and Collective action: Archeological perspective. University Press of Colorado, 2013

Emelianoff, I V.: Economic theory of cooperation. Edwards Brothers, Inc. Washington, D. C., 1942.

Robert K.: Social Theory and Social Structure, Free Press, 1957

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Hillyard, S.: The Sociology of Rural Life. Berg Press, New York, 2007

## **15.6 Answers to SAEs - UNIT 15**

Answers to SAEs within the course content, arranged accordingly

### **Answers to SAEs 1**

#### **1. The Managerial Functions**

**Planning:** Planning is the thinking, judging, and deciding phase of management. It is a basic part of the process because it must precede any course of action. In most cases, there are alternative courses of action which can be taken, and an essential part of the first step in planning is the analysis of relevant data and information in deciding which alternative is most feasible. Prior to this, of course, is a thorough understanding of the policy or policies that have been formulated by the board of directors and that reflect the input of members' suggestions. The full use of the manager's experience, knowledge, and counsel would have been made by the board in formulating the policy, so the

manager would not have been unaware of the policy and the underlying thinking. The close involvement of the manager and the board of directors is essential in the process of formulating policy, but once this has been done, the board should step aside and let the manager manage. The planning function is the preparation for work and not the actual performance of the work. There is no substitute for this critical step, and it stands to reason that the better the planning, the better the following action is likely to be.

**Organizing for Action:** Once the planning part of the management function has been completed and the most feasible course of action has been decided upon, the organizing step takes place. This is the gearing up process of assembling the resources to carry out the plan. Personnel, facilities, and equipment will be needed and a system or systems established to perform the plan decided upon to carry out the relevant policy.

**Directing Resources:** Once the resources have been assembled, the next functional step of management is directing the deployment and use of the resources. This is a day-to-day execution of detailed activities in accordance with the necessary instructions. The manager is responsible for the outcome of a particular effort in relation to all other efforts. This is the process of coordination which the manager must be aware of at all times. It is here that the manager must be able to see the big picture while working with the parts.

**Controlling and Evaluation:** The fourth management function is that of controlling or evaluating the results being achieved in carrying out the actions designed to attain policy objectives. In this process, management determines the results which were obtained and measures them against the objectives or goals that were set up for the activity. Constant evaluation or controlling may provide bases for in-course corrections. Final assessments of the results achieved will provide bases for future activities of a similar nature, for reporting results to the board of directors and members, and for possible future policy goals. The manager's job of supervising and coordinating various activities in the programmatic efforts to achieve policy goals covers the technical operations area and the management of human resources. Both are important and both must be done efficiently.

## **2. Manager's Duties and Responsibilities**

As has been pointed out, the hired manager is responsible for designing programs and developing the means by which the policies established by the board of directors are carried out or achieved. The details of management as a part of the management triangle rest with the hired manager and the

employees. The act of combining such things as ideas, processes, materials, facilities, and people to achieve the policy goals is a direct responsibility of hired management. As this process proceeds, there is the ongoing relationship with the board of directors and the members, and it is this unique relationship in the cooperative that stamps the role of hired management as unique. There are two ways of looking at the role of hired management in a cooperative. One is to look at what management does and the other is to look at the people involved in running the cooperative. Since the people involved in the management triangle-the members, the board of directors, and the hired manager-have already been discussed, only the functional aspects of hired management will be covered here. These relate to the usual functions of business management-planning, organizing, directing, and controlling-with only the distinctive elements that serve to differentiate cooperative business management from other types of business management being stressed.

**UNIT 16: MARKET POOLING****UNIT STRUCTURE**

- 16.1 Introduction
- 16.2 Learning Outcomes
- 16.3 Main Content
  - 16.3.1 Market Pooling
    - 16.3.1.1 How Pooling Differs from other Marketing Methods
    - 16.3.1.2 Kinds of Pools
    - 16.3.1.3 Advantages in pooling
- 16.4 Summary
- 16.5 References/Further Readings
- 16.6 Answers to Self-Assessment Exercise(s) within the content

**16.1 Introduction**

The Unit identifies the roles and responsibilities of the cooperative manager. The strategic position of the manager and the issues involved in planning the day to day functioning of the cooperative are highlighted. At the end of the Unit readers would be familiar with the planning activities of organizing, directing, staffing and control and evaluation in a modern cooperative.

**16.2 Learning Outcomes**

By the end of this unit, you will be able to:

- Explain market pooling
- Explain how pooling differs from other marketing methods
- Discuss types of pools
- Understand the advantages in pooling

### **16.3 Main Content**

#### **16.3.1 Market Pooling**

For agricultural marketing cooperatives, produce from the farms of many producers are combined into a market pool for sale to various buyers. Proceeds from the sale of the product are divided among the pool members after transaction costs or expenses have been deducted. Each member of the pool receives the average price for each unit of commodity contributed to the pool. Provision can be made for differences in quality, transportation costs, or services rendered by the pool or by the producer. Once the proceeds are determined and the agreed upon costs are calculated, each producer whose commodities are in the pool receives the average or pool blend price for the products.

##### **16.3.1.1 How Pooling Differs from other Marketing Methods**

In other marketing methods such as the buy-sell operation, the producer maintains ownership rights to the product until a price and other terms of trade are mutually agreed upon. Once agreement is reached, the producer receives payment in full for the product unless some other arrangement such as a price later plan or other pricing basis is used. However, under market pooling, producers turn over the pricing and marketing decisions to the cooperative marketing staff and agree to accept the average price for the pool after adjustments for cost, quality, and any other differences have been made. In most cases, the producer receives an advance payment when the commodity is delivered or at some specified time. The amount of the advance and its timing are determined on the basis of agreement and understanding as to procedures used by the cooperative. If the pool contents are sold over time, the producer may receive progress payments as pool sales progress. After the entire pool has been sold, all operating expenses, capital retains, and any other similar items are deducted and the producer receives a final payment. It is here that final adjustments for quality, grades, standards, and the like are made.

**16.3.1.2 Kinds of Pools**

There are two main types of pools. The basic difference in the two relates to the degree of control over price which is retained by the producers of the pooled commodity. The types of pools are:

- 1) Seasonal pool and
- 2) Contract pool.

In a seasonal pool -by far the more common- the producer agrees to deliver some specified portion of a crop/produce to the cooperative and to accept the pool price which has been adjusted for all specified costs. The producer, in this case, is turning the product over to the cooperative to be comingled with the offerings of many other members. Professional marketers at the cooperative handle the marketing. The pool is calculated and the producer-member receives the pool price for the product. This plan is used by many dairy, rice, fruit, and vegetable cooperatives in developed countries such as The Netherlands and USA.

The contract pool is of two general types:

- 1) The call pool and
- 2) The purchase pool

As indicated previously, the basic difference in these types of pools is in the degree of control retained by the producer over the price and perhaps other terms of trade regarding the product offered. In a call pool, the producer sets a minimum or reservation price below which the commodity may not be sold. Delivery of the amount of the commodity which is committed is usually made before some date that was fixed early in the pooling period.

In the usual purchase pool, the producer exercises whatever price-determining power that is possible by timing of delivery to the pool. The price received is usually the expected cash price on the day of delivery. A contract pool, while being referred to as a pool and having many of the characteristics of a pool, is not actually a true pool, in its strictest sense. In such pools, prices are determined on an individual basis, as is the case in buy-sell types of transactions. Such pools are, in effect, marketing agreements that make it possible to pool expenses once individual prices have been established. It is apparent that this type of pool would not fit very well with cooperatives.



Pooling arrangements can be very flexible and can take on many forms. They can vary in form with respect to duration of the pool, the number of commodities in the pool, how grades and/or standards are handled in the pool, and any other unique characteristics of the commodity or in its production.

#### **16.3.1.3 Advantages in pooling**

Several reasons can be given for using a pooling plan in marketing agricultural commodities. These include the following such as:

- a. Possibly higher prices and/or better terms of trade for the members' products
- b. Spreading and reducing price risks
- c. Specialized efforts by marketing specialists
- d. Greater orderliness and stability in the marketing of the product
- e. More complete control of quality
- f. Complementary with movement to specification buying
- g. May reduce transaction costs
- h. Serves as an educational marketing tool
- i. Promotes cooperative ideal of unity

#### **Self-Assessment Exercises 1**

1. How does pooling differ from other marketing methods?
2. Discuss the kind of pools you known to you
3. Pooling comes with so many advantages. Succinctly highlight them

#### **16.4 Summary**

This Unit discussed the issues of market pooling as an important feature of marketing cooperatives. The methods of pooling are discussed and the pros and cons of each method is highlighted. Readers are familiarized with the provisions for managing modern cooperative for success.

**16.5 References/Further Readings**

Emelianoff, I V.: Economic theory of cooperation. Edwards Brothers, Inc. Washington, D. C., 1942.

Robert K.: Social Theory and Social Structure, Free Press, 1957

Hillyard, S.: The Sociology of Rural Life. Berg Press, New York, 2007

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Crow, G. and Allan, G: Community Life: An Introduction to Local Social Relations. London, Harvester Wheatsheaf 1994.

**16.6 Answers to SAEs - UNIT 16**

Answers to SAEs within the course content, arranged accordingly

**Answers to SAEs 1**

1. In other marketing methods such as the buy-sell operation, the producer maintains ownership rights to the product until a price and other terms of trade are mutually agreed upon. Once agreement is reached, the producer receives payment in full for the product unless some other arrangement such as a price later plan or other pricing basis is used. However, under market pooling, producers turn over the pricing and marketing decisions to the cooperative marketing staff and agree to accept the average price for the pool after adjustments for cost, quality, and any other differences have been made. In most cases, the producer receives an advance payment when the commodity is delivered or at some specified time. The amount of the advance and its timing are determined on the basis of agreement and understanding as to procedures used by the cooperative. If the pool contents are sold over time, the producer may receive progress payments as pool sales progress. After the entire pool has been sold, all operating expenses, capital retains, and any other similar items are deducted and the producer receives a final payment. It is here that final adjustments for quality, grades, standards, and the like are made.

2. Kinds of pools are:

- a. Seasonal pool and
- b. Contract pool.

In a seasonal pool -by far the more common- the producer agrees to deliver some specified portion of a crop/produce to the cooperative and to accept the pool price which has been adjusted for all specified costs. The producer, in this case, is turning the product over to the cooperative to be comingled with the offerings of many other members. Professional marketers at the cooperative handle the marketing. The pool is calculated and the producer-member receives the pool price for the product. This plan is used by many dairy, rice, fruit, and vegetable cooperatives in developed countries such as The Netherlands and USA.

In the usual purchase pool, the producer exercises whatever price-determining power that is possible by timing of delivery to the pool. The price received is usually the expected cash price on the day of delivery. A contract pool, while being referred to as a pool and having many of the characteristics of a pool, is not actually a true pool, in its strictest sense. In such pools, prices are determined on an individual basis, as is the case in buy-sell types of transactions. Such pools are, in effect, marketing agreements that make it possible to pool expenses once individual prices have been established. It is apparent that this type of pool would not fit very well with cooperatives.

3. Advantages in pooling are:

Several reasons can be given for using a pooling plan in marketing agricultural commodities. These include the following such as:

- a. Possibly higher prices and/or better terms of trade for the members' products
- b. Spreading and reducing price risks
- c. Specialized efforts by marketing specialists
- d. Greater orderliness and stability in the marketing of the product
- e. More complete control of quality
- f. Complementary with movement to specification buying
- g. May reduce transaction costs
- h. Serves as an educational marketing tool
- i. Promotes cooperative ideal of unity

**UNIT 17: FUNDING COOPERATIVE ACTIVITIES****UNIT STRUCTURE**

- 17.1 Introduction
- 17.2 Learning Outcomes
- 17.3 Main Content
  - 17.3.1 Financing Cooperative Activities
    - 17.3.1.1 Cooperation and Free-Riding
    - 17.3.1.2 Mechanisms Promoting Cooperation: The Four Rs
- 17.4 Summary
- 17.5 References/Further Readings
- 17.6 Answers to Self-Assessment Exercise(s) within the content

**17.1 Introduction**

The unit discuss the issues of financing cooperative activities as an important feature of modern cooperatives. The mechanism of promoting cooperation using the 4Rs are discussed. At the end of the Unit readers would be familiar with the provisions for managing modern cooperative for success.

**17.2 Learning Outcomes**

By the end of this unit, you will be able to:

- Understand what financing cooperative activities entails
- Describe cooperation and free-riding
- Explain the Mechanisms of Promoting Cooperation: The Four Rs

### **17.3 Main Content**

#### **17.3.1 Financing Cooperative Activities**

Cooperatives have always been referred to as “member-owned” organizations, yet in countries where cooperatives have depended too heavily on outsiders for financial support, that sense of ownership and personal financial stake has been lost. It is not uncommon to hear farmers and shareholders refer to their cooperative as the “government’s cooperative” instead of their own cooperative. This is largely because the financial stake or contribution of the membership of the cooperative is small relative to the non-member stake. In spite of the one-member-one-vote principle, the major suppliers of capital, in this case non-members, have the largest say and tend to determine the main priorities of the cooperative business. Cooperative member participation drops and the cooperative promise is weakened.

The greater the amount of capital held by the cooperative, the greater its ability to purchase more efficient technology, invest in staff training and education and make other improvements to the running of the business. Capital for the operation and improvement of the cooperative business can come from three main sources:

- Directly from members themselves
- From retained surpluses generated by the cooperative business
- From outsiders

Members help finance the operations and growth of the cooperative through the following means:

- a. A one-time or annual membership fees
- b. Members’ contribution with no individual ownership attached, such as service fees
- c. Members’ share capital
- d. Individual member deposits with the cooperative which may be used for business
- e. Deferred payment to members for part or all of their produce delivered to the cooperative

Member share capital represents individual member commitment to the cooperative form of business. It also identifies the individual member’s financial stake. It is withdrawn only when the member leaves the cooperative. Some other forms of member contributions, usually related to

patronage, are more variable but once given cannot be withdrawn and hence are a particularly useful form of cooperative capital.

Funds created through the retention of cooperative business surpluses that are not directly allocated to members are another important source of cooperative capital. This is a long term source of funds since most cooperatives' rules allow these funds to be distributed only when a cooperative is liquidated. Unlike loans, or individual member deposits, the cooperative does not have to pay interest to use these funds. Of course, retaining such funds by the cooperative also represents a cost to the individual members who otherwise would have had that portion of the surplus allocated to them. Members willingly accept this cost when the benefits it creates for them are clear and worthwhile. This source of funds from retained surpluses is often called "institutional capital" and represents the collectively-owned wealth of the cooperative.

In addition to institutional capital and member capital, cooperatives often make use of external sources of funds to run their operations or to finance investments. These non-member sources of funds may include cooperative or commercial banks, suppliers, government or donor agencies. External funding may be provided in the following ways:

- As a grant
- As a short-term loan
- As a long-term loan
- As trade credit offered by a supplier.

Commercial providers of funds, such as banks, generally provide credit or loans that are legally secured by collateral (pledged assets of the cooperative). They are motivated by profit and seek to minimize risk. Non-commercial providers, such as governments or donors, generally provide credit on more generous terms at below market rates of interest or provide grants. Their motivations may be social, political or economic - often a mixture of all three.

**17.3.1.1 Cooperation and Free-Riding**

When cooperation leads to the production of non-excludable resources, free-riders can gain all the benefits of cooperative ventures without incurring any of the costs. Rational choices on the part of self-interested individuals who aim to gain maximum benefits at the lowest possible costs encourage free-riding in such settings. The behavior is irrational at a higher group level, where cooperation would lead to higher payoffs for the group as a whole, but makes sense to individuals seeking to maximize personal fitness. This result is also sometimes known as the “Tragedy of the Commons” problem, described by Garrett Hardin (1968), and has spurred decades of research on cooperation and individual action among social and evolutionary scientists. Examples of situations when free-riding can be tolerated include:

- 1) When resource package size is larger than can be used by an individual in a short amount of time, there is little benefit to hoarding.
- 2) When the costs of defending a resource outweigh the benefits of consuming it in the near (or distant) future, people will tolerate some theft (also known as *tolerated scrounging*).
- 3) Likewise, free-riding may also be tolerated if the supplier is paid in an alternative currency, such as prestige (benefactor status recognition) or other opportunities.

While sometimes tolerated, in most cases free-riding is a drain on energy expenditure and offers little incentive for individuals to increase production beyond the bare minimum required to survive (subsistence). As a result, individuals are not inspired to undertake cooperative ventures that would otherwise increase their net production of food (or prestige or any other currency). In these cases, free-riding is not tolerated, and individuals will seek means to limit its effects. In short, to foster larger-scale cooperation and gain the potential benefits of cooperative ventures (e.g., higher returns per unit of time, space, or energy invested), people must resolve the free-rider issue.

Much theorizing and empirical research on how humans go about eliminating the effects of free-riders suggests that there are three types of solutions to the problem. Note that these types are not necessarily mutually exclusive.

1. The strategy is to somehow transform non-excludable resources into excludable ones. A common means to achieve this end is to restrict access to the resources subject to free-riding. For example,

governments typically issue permits, at a small cost, to certain individuals to graze land or mine minerals. With competitors, there are incentives for free-riders to overgraze, since all users pay the environmental costs while one person gains the benefits. Likewise, with mining, there is little incentive on the part of individuals to build and maintain significant infrastructure, such as access roads or electricity lines, if all users gain the benefits. By limiting the number of competitors the number of free-riders is minimized, and there is less incentive on the part of individuals to overgraze; or, in the case of mines, there is more incentive to build and maintain the infrastructure necessary to exploit resources. Transferring ownership over resources to individuals eliminates free-riding, in which case free-riding becomes outright theft from another. At the same time, privatization also restricts the scale of non-kin cooperation. As a result, the construction of pyramids, freeway systems, and other large-scale ventures that require the coordination and cooperation of hundreds to tens of thousands of individuals are difficult to realize under this solution.

2. A solution to the free-rider problem which is similar to the first, but restricts the spatial or social scale of cooperation to a level that is above the individual, but below all potential individuals who might want to access the resource. Often this is accomplished by restricting access to the resource, and cooperation in exploiting it, only among close kin. In any case, as with privatization, this solution severely limits the scale of cooperation and does not foster large-scale cooperative projects.

3. Another solution involves increasing the costs to those who free-ride. It has been shown that some type of physical or social punishment, or often just the threat of punishment, is usually enough to deter potential free-riders. Thus, governments can use the threat of fines, jail, or even death to enforce conformance to cooperative rules (e.g., paying taxes to construct bridges and other public infrastructure). Likewise, small-scale groups can use gossip, public humiliation, ostracization, or physical violence to punish cheaters. Punishment can even involve the threat of supernatural punishment, which may explain the important role of religion and morality in fostering cooperative behaviors. The deliverance of punishment, or threat thereof, generally requires some degree of organization or coordination among cooperators. Such organization usually necessitates the presence of one or more recognized leaders with the authority and/or power to mete out punishment. A potential threat to the benefits of cooperation, of course, are leaders who abuse such powers and cheat the system themselves (e.g., by taking a greater percentage of the product) or abuse their ability to punish.



The solutions that individuals and societies collectively settle upon to solve free-riding problems will vary with social, economic, and demographic conditions.

### **17.3.1.2 Mechanisms Promoting Cooperation: The Four Rs**

Many contemporary evolutionary approaches emphasize the following four mechanisms in promoting cooperation, conveniently all beginning with the letter r: (1) reciprocity, (2) reputation, (3) retribution, and (4) rewards.

**Reciprocity** is perhaps the best known method for promoting cooperation especially in small groups. The theory of tit-for-tat (i.e., “You scratch my back, I scratch yours”) center on reciprocity and have been influential in theorizing contemporary international politics. “Tit-for-tat” have many iterations depending on how forgiving actors are considered to be in cases of deviation from reciprocal relations. Some researchers criticize these models on the grounds that they only work well when groups are small and there is little restraint in the transmission of information on cooperative intent among actors, which is usually not how humans interact in real-world settings

**Reputation** is directly tied to reciprocity because, aside from kinship or other corporate-group ties, individuals should make decisions concerning the choice of partners based on favorable or unfavorable information. Indeed, reputation is often referred to as indirect reciprocity in the cooperation literature, and negative reputations which may be justly earned based on previous behavior, or unjustly earned through malicious gossip could be used by third parties as a light form of retribution. Reputation effects within communities may act as strong leveling mechanisms in certain instances or, alternatively, could be effectively manipulated by individuals in order to aggrandize themselves through strategic displays of largesse. A focus on more proximate explanations for cooperation more frequently refer to mutual monitoring and the generation of common knowledge with the same understanding that individuals who have been witnessed transgressing suffer poor reputations.

**Retribution** may be better known under the more frequently used terms punishment or sanctioning. In either case, it is a central feature of many proposed frameworks for the evolution of cooperation. Retribution against defectors and free-riders-along with retribution of individuals who do not punish such transgressions (i.e. second order free-rider problems or third-party sanctions) can effectively

stabilize norms of cooperation within a population. It should be noted that the formalization of retribution suggest that it can serve to stabilize virtually any norm within a population

**Reward** to our list of mechanisms promoting cooperation following these first “three Rs” we could add a fourth based on more recent studies: rewards. Several classic works in sociology list rewards as a natural counterpart to sanctions, or the latter as being defined either positively or negatively. Studies have shown that rewarding cooperative behaviors or withholding reciprocity from non-cooperators, encourages cooperation more effectively than does retribution.

### **Self-Assessment Exercises 1**

1. In what ways do members help finance the operations and growth of the cooperative?
2. What do you understand by cooperation and free-riding, citing examples?
3. The effects of free-riders suggests that there are three types of solutions to the problem.  
Discuss these solutions
4. Discuss the four mechanisms promoting cooperation

### **17.4 Summary**

This Unit discussed the issues of financing cooperative activities as an important feature of modern cooperatives. The mechanism of promoting cooperation using the 4Rs were discussed.

### **17.5 References/Further Readings**

Carballo, D. M.: Cooperatives and Collective action: Archeological perspective. University Press of Colorado, 2013

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**17.6 Answers to SAEs - UNIT 17**

Answers to SAEs within the course content, arranged accordingly

**Answers to SAEs 1**

1. Members help finance the operations and growth of the cooperative through the following means:

- a) A one-time or annual membership fees
- b) Members' contribution with no individual ownership attached, such as service fees
- c) Members' share capital
- d) Individual member deposits with the cooperative which may be used for business
- e) Deferred payment to members for part or all of their produce delivered to the cooperative

2. When cooperation leads to the production of non-excludable resources, free-riders can gain all the benefits of cooperative ventures without incurring any of the costs. Rational choices on the part of self-interested individuals who aim to gain maximum benefits at the lowest possible costs encourage free-riding in such settings. The behavior is irrational at a higher group level, where cooperation would lead to higher payoffs for the group as a whole, but makes sense to individuals seeking to maximize personal fitness. This result is also sometimes known as the "Tragedy of the Commons" problem, described by Garrett Hardin (1968), and has spurred decades of research on cooperation and individual action among social and evolutionary scientists.

Examples of situations when free-riding can be tolerated include:

- When resource package size is larger than can be used by an individual in a short amount of time, there is little benefit to hoarding.
- When the costs of defending a resource outweigh the benefits of consuming it in the near (or distant) future, people will tolerate some theft (also known as *tolerated scrounging*).
- Likewise, free-riding may also be tolerated if the supplier is paid in an alternative currency, such as prestige (benefactor status recognition) or other opportunities.

3.

- a) The strategy is to somehow transform non-excludable resources into excludable ones. A common means to achieve this end is to restrict access to the resources subject to free-riding. For example, governments typically issue permits, at a small cost, to certain individuals to graze land or mine minerals. With competitors, there are incentives for free-riders to overgraze, since all users pay the environmental costs while one person gains the benefits. Likewise, with mining, there is little incentive on the part of individuals to build and maintain significant infrastructure, such as access roads or electricity lines, if all users gain the benefits. By limiting the number of competitors the number of free-riders is minimized, and there is less incentive on the part of individuals to overgraze; or, in the case of mines, there is more incentive to build and maintain the infrastructure necessary to exploit resources. Transferring ownership over resources to individuals eliminates free-riding, in which case free-riding becomes outright theft from another. At the same time, privatization also restricts the scale of non-kin cooperation. As a result, the construction of pyramids, freeway systems, and other large-scale ventures that require the coordination and cooperation of hundreds to tens of thousands of individuals are difficult to realize under this solution.
- b) A solution to the free-rider problem which is similar to the first, but restricts the spatial or social scale of cooperation to a level that is above the individual, but below all potential individuals who might want to access the resource. Often this is accomplished by restricting access to the resource, and cooperation in exploiting it, only among close kin. In any case, as with privatization, this solution severely limits the scale of cooperation and does not foster large-scale cooperative projects.
- c) Another solution involves increasing the costs to those who free-ride. It has been shown that some type of physical or social punishment, or often just the threat of punishment, is usually enough to deter potential free-riders. Thus, governments can use the threat of fines, jail, or even death to enforce conformance to cooperative rules (e.g., paying taxes to construct bridges and other public infrastructure). Likewise, small-scale groups can use gossip, public humiliation, ostracization, or physical violence to punish cheaters. Punishment can even involve the threat of supernatural punishment, which may explain the important role of religion and morality in fostering cooperative behaviors. The deliverance of punishment, or threat thereof, generally requires some degree of organization or coordination among

cooperators. Such organization usually necessitates the presence of one or more recognized leaders with the authority and/or power to mete out punishment. A potential threat to the benefits of cooperation, of course, are leaders who abuse such powers and cheat the system themselves (e.g., by taking a greater percentage of the product) or abuse their ability to punish.

**4.**

- a. **Reciprocity** is perhaps the best known method for promoting cooperation especially in small groups. The theory of tit-for-tat (i.e., “You scratch my back, I scratch yours”) center on reciprocity and have been influential in theorizing contemporary international politics. “Tit-for-tat” have many iterations depending on how forgiving actors are considered to be in cases of deviation from reciprocal relations. Some researchers criticize these models on the grounds that they only work well when groups are small and there is little restraint in the transmission of information on cooperative intent among actors, which is usually not how humans interact in real-world settings
- b. **Reputation** is directly tied to reciprocity because, aside from kinship or other corporate-group ties, individuals should make decisions concerning the choice of partners based on favorable or unfavorable information. Indeed, reputation is often referred to as indirect reciprocity in the cooperation literature, and negative reputations which may be justly earned based on previous behavior, or unjustly earned through malicious gossip could be used by third parties as a light form of retribution. Reputation effects within communities may act as strong leveling mechanisms in certain instances or, alternatively, could be effectively manipulated by individuals in order to aggrandize themselves through strategic displays of largesse. A focus on more proximate explanations for cooperation more frequently refer to mutual monitoring and the generation of common knowledge with the same understanding that individuals who have been witnessed transgressing suffer poor reputations.
- c. **Retribution** may be better known under the more frequently used terms punishment or sanctioning. In either case, it is a central feature of many proposed frameworks for the evolution of cooperation. Retribution against defectors and free-riders-along with retribution of individuals who do not punish such transgressions (i.e. second order free-rider problems or third-party sanctions) can effectively stabilize norms of cooperation within a population.

It should be noted that the formalization of retribution suggest that it can serve to stabilize virtually any norm within a population

- d. **Reward** to our list of mechanisms promoting cooperation following these first “three Rs” we could add a fourth based on more recent studies: rewards. Several classic works in sociology list rewards as a natural counterpart to sanctions, or the latter as being defined either positively or negatively. Studies have shown that rewarding cooperative behaviors or withholding reciprocity from non-cooperators, encourages cooperation more effectively than does retribution.

**UNIT 18: THE GEARING RATIO****UNIT STRUCTURE**

- 18.1 Introduction
- 18.2 Learning Outcomes
- 18.3 Main Content
  - 18.3.1 The Gearing Ratio
    - 18.3.1.1 Funding the Cooperative for Success
    - 18.3.1.2 Legal Framework for Successful Cooperative Activities
    - 18.3.1.3 Privileges, Responsibilities and Dependence
    - 18.3.1.4 Declining External Support for Cooperatives
    - 18.3.1.5 Maintaining Market Share of Cooperatives
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## **18.1 Introduction**

The unit discuss basic issues in determining cooperative success and sustainability. The gearing ratio as an index is discussed in determining the financial strength of the cooperative. Legal issues and responsibilities as well as avenues for encouraging participation are discussed. Issues relating to declining external support and how modern cooperative can increase and sustain market share are discussed.

## **18.2 Learning Outcomes**

By the end of this unit, you will be able to:

- Understand the gearing ratio
- Understand the funding of cooperative for success
- Describe the legal framework for successful cooperative activities
- Explain privileges, responsibilities and dependence
- Evaluate the declining external support for cooperatives
- Explain how cooperatives maintaining market share

## **18.3 Main Content**

### **18.3.1 The Gearing Ratio**

The more assets the cooperative owns and has fully paid for - buildings, equipment, stock and financial reserves - the more others are willing to lend additional funds. Also, the greater the amount of the cooperative's institutional plus member capital, the higher the amount that can safely be borrowed from outside sources. Financial leverage, or gearing, is expressed by a percentage ratio which gives an indication of the amount of risk involved in borrowing funds. The higher the gearing ratio, the higher the risk the cooperative runs in losing their assets in the event of inability to repay a loan. The gearing ratio relates the amount of externally borrowed capital to the total capital employed by the cooperative (institutional and member capital plus funds borrowed).

**Gearing = [funds borrowed/(institutional and member capital + funds borrowed)] X 100**



For example, a cooperative might have N500,000 of assets that it has fully paid for. If it borrows N500,000 from a bank, it would have a high gearing ratio (50%). If on the other hand, the cooperative borrows only N100,000, the low gearing ratio of 6% indicates a much lower level of risk. The gearing ratio and hence the level of risk involved in borrowing a given amount will vary according to the type of business a cooperative conducts. A consumer organization with a high level of turnover but relatively low investment in fixed assets (such as buildings and machinery), may be able to safely take on relatively high short term debt in proportion to its total assets. The same gearing ratio would represent a higher level of risk for an agro-processing society with relatively large investment in fixed assets.

Institutional and member capital are lower risk than outsider funding since they are provided by the members and hence the assets of the cooperative are less at risk. In most situations, therefore, they are often a preferred form of funding. Institutional capital, in addition, is the cheapest form of capital since generally no interest needs to be paid.

#### **18.3.1.1 Funding the Cooperative for Success**

Institutional and member capital are the lowest risk, safest forms of funding and hence should be the first choice in most cases. However these types of funding are sometimes not enough (limited), or are not available at the time when they are needed (irregular). Funds may, for example be needed to cover running costs until harvest is sold. In this case, a short term loan from an outside source may be taken and repaid after the harvest. In other cases, funds may be required for a longer period. This may be the case when the cooperative decides that the purchase of a new piece of equipment is economically justified. The group may then decide to obtain a long term loan. In all cases, borrowing from non-members, such as banks and suppliers, is a good strategy only when the returns from such borrowing are larger than the cost of borrowing.

The type and source of capital is important because they determine the terms and conditions attached. For example, share capital which can generally be withdrawn by the member-owner only upon leaving the cooperative, is a relatively stable and long-term source of funds. The cost of share capital is low because of the cooperative practice of making low (or in some cases no) payments to the members based on their share holdings. It is also low risk since no collateral is required to secure the funds.

Commercial loans from banks are higher cost as interest has to be paid on them. They are also higher risk since cooperative assets used as collateral may be forfeited to the lender in the event of inability to repay the loan and interest. Equipment suppliers may also effectively provide a loan to a cooperative by allowing payments to be spread over a period. Again, the lender may be protected against risk through cooperative assets pledged as collateral. Short term seasonal loans from a bank to finance the purchase of a harvest by a marketing society for example, have to be repaid within a few months of the harvest. These funds are also generally relatively expensive. However as this example suggests, such short term loans can be very useful for a cooperative.

#### **18.3.1.2 Legal Framework for Successful Cooperative Activities**

Many of the regulations governing the operation of cooperatives were established before the recent changes in the world economy mentioned in the introduction (declining donor support, globalization of markets and increasing privatization) began to take effect. Some of the regulations are still appropriate, others less so. Many laws and regulations, for example, tend to restrict cooperatives in their business activities. For example:

A specified percentage of the sales revenue of the cooperative may have to be returned to members within a specified short period of time, regardless of the financial condition of the cooperative.

Payouts of patronage refunds may have to equal a specified minimum percentage of the surplus, regardless of the wishes of members.

A certain portion of the surplus may have to be placed in reserve with a government authority or an apex cooperative organization, or dedicated to community improvement such as maintenance of parks or roads, regardless of alternatives that would otherwise be available and possibly of greater use to members.

Some cooperatives may be required to deliver their produce to government agencies at prices that are not attractive, or to sell government-rationed goods at mark-ups that are not remunerative.

Financial support and privileges for cooperatives are decreasing and cooperatives are obliged to operate in competition with conventional businesses. Without the former associated privileges, many of the above regulations put cooperatives at a competitive disadvantage in the market place. Many

current business laws and regulations are however also appropriate and benefit cooperatives, such as those:

- a. That guarantee that business contracts will be enforced.
- b. That permit land and property to be confiscated on non-repayment of loans and hence allow them to be used as collateral.
- c. That promote greater transparency in business transactions, and
- d. That require accounts to be periodically audited.

A review of government laws and regulations governing agricultural cooperative businesses is needed in many countries to enable farmer cooperatives to successfully participate in increasingly competitive markets.

### **18.3.1.3 Privileges, Responsibilities and Dependence**

Over the past few decades, the promise of cooperatives attracted many supporters that were not members of cooperatives or that were not directly involved in the business of cooperatives. These have included government departments and donors such as the United Nations Food and Agriculture Organization and the World Bank as well as development assistance agencies of industrialized countries. Support to cooperatives has been provided in the form of money and technical assistance as well as special privileges and responsibilities.

- Privileges have included: special or exclusive rights to deal in certain goods or commodities, such as milk or certain grades of cloth; fixed prices that are favourable to cooperatives or to their members; loans at low rates of interest; grants and tax benefits.
- Responsibilities have often included: processing, marketing or provision of goods and services as requested by the government or donor agency.
- Dependency support results have been mixed. Support has often led to dependency threatening the cooperative's stability when there are changes in prices or in the degree of government or donor support. In many cases it has also undermined the cooperative's financial and management independence, leading members to consider the cooperative as belonging to the government or other agency rather than themselves.

**18.3.1.4 Declining External Support for Cooperatives**

External support for cooperatives is declining. This is the result of three new trends that have little to do directly with cooperatives:

- a. The decreasing flow of development assistance: Most donor agencies are now faced with budgetary problems and changing priorities of their own which have led to a decline in aid to the agricultural sector and to agricultural cooperatives,
- b. The globalization of trade and deregulation of domestic markets: Countries are removing barriers, promoting freer trade domestically and internationally. As a consequence, consumers are increasingly able to obtain cheaper goods and services from alternative and more efficient providers. Under these conditions, it is more and more difficult to reserve special privileges or offer special price benefits to cooperatives
- c. Privatization of state agencies and businesses: The new owners of privatized state agencies such as marketing boards and banks are interested in dealing with cooperatives as business enterprises. The cooperatives' roles as government-led sources of supply of agricultural commodities or vehicles of social change are not their concern. To work with these boards and agencies, cooperatives need to be efficient and well run competitors in the open market.

To summarize, cooperatives increasingly find themselves with lower levels of financial support than before, and are obliged to compete in the open market. As external assistance and government support declines and market competition increases, cooperatives will have to fend for themselves. On the other hand, greater independence can create new opportunities for cooperatives to grow and prosper on their own terms, offering new ways of achieving the cooperative promise and potential.

Cooperatives need to adapt to these new trends, finding ways to finance their operations and to continue to compete, while maintaining cooperative principles and identity. Cooperatives which do not adapt, and continue to rely on the reducing privileges and financial support from external non-member sources will be increasingly unable to compete with other, more efficient types of business.

**18.3.1.5 Maintaining Market Share of Cooperatives**

Cooperatives can increase the financial returns to their members only through business transactions. Typical transactions include members' delivery of produce to the cooperative for processing or marketing, or purchase of inputs and materials from their cooperative. Cooperatives can maintain markets share by:

1. **Serving members need to build loyalty.** This is essential for maintaining a strong and successful operation - the basis for a sound cooperative business. Promoting increased member patronage should be a key element in the cooperative's new strategy. Cooperatives that pay little attention to serving their members are unlikely to survive against the competition. In order to improve services, the cooperative must first be sure what the members want - what are their needs and priorities? Perhaps the cooperative no longer provides a service that members want, or perhaps the same service is provided better or more cheaply elsewhere. Members are more likely to make use of a cooperative if it provides responsive services at competitive prices. To be successful, a cooperative needs at least to maintain its volume of member transactions. With increased competition, it can do this only through continual improvements in services while maintaining competitive prices. Improved service may mean expanding the range of services offered to members or improving the delivery of existing services. Among the issues to consider in maintaining member loyalty is prompt payment to members for produce delivered. Cooperatives may also consider offering credit, both to keep existing members and to attract new ones. For example, a marketing or food processing cooperative may provide advance payments to its members during the growing season to be repaid after the sale of the crop delivered to the cooperative. Input supply cooperatives may provide goods on credit, to be repaid after harvest. Prompt payment and provision of credit are of course possible only when the cooperative has funds to advance to members. In a competitive market, members will increasingly seek providers who serve them best. As member service-oriented businesses, cooperatives should lead the way in providing the services they need, when they need them.

2. **Minimizing costs, maximizing service:** To be competitive, cooperatives have to offer efficient services at attractive prices. Increased efficiency means reducing or minimizing costs while maintaining or improving quality. This can be achieved in a number of ways:

- a. **Through better management and use of existing facilities, equipment, finance, procedures and people.** Many cooperatives have reduced their costs significantly through improved management. Management training programmes can help to improve the efficient use of available resources. General member education is also important so that democratic control is exercised intelligently in ways that are consistent with efficient operations and long-run sustainability. Technical skills training may also help to ensure equipment and facilities are operated as efficiently as possible.
- b. **Through purchase of new or more efficient equipment.** Replacing old technology with improved technology can contribute to efficiency and reduce costs. More efficient equipment can increase the rate, volume or quality of output, or reduce the quantity of inputs used per unit of output. It may also reduce the amount of labour needed per unit of output, allowing an increase in production for the same labour requirement. However purchase of new equipment is worthwhile only if the returns to the business are higher than the cost of the equipment (since the cost of the new equipment has to be repaid by higher turnover and income to the cooperative). Businesses that cannot purchase more efficient technology because it is too expensive are likely to face increased competition from those with the funds to purchase it. Those that are able to purchase improved technology but unable to manage it so that it produces increased returns to the cooperative, are also unlikely to be competitive. Similarly, the cooperative needs to ensure that it will have sufficient demand for increased or improved production to justify the costs of the new equipment.

**Self-Assessment Exercises 1**

1. Discuss the examples of many laws and regulations that tend to restrict cooperatives in their business activities
2. External support for cooperatives is declining. This is the result of three new trends that have little to do directly with cooperatives. Explain these new trends
3. Discuss the ways cooperatives can minimizing costs, maximizing service

**18.4 Summary**

This Unit discussed the gearing ratio as an index in determining the financial strength of the cooperative. Legal issues and responsibilities as well as avenues for encouraging participation are discussed. Issues relating to declining external support and how modern cooperative can increase and sustain market share are discussed.

**18.5 References/Further Readings**

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**18.6 Answers to SAEs - UNIT 18**

Answers to SAEs within the course content, arranged accordingly

**Answers to SAEs 1**

1. Examples of many laws and regulations that tend to restrict cooperatives in their business activities are:

- a) A specified percentage of the sales revenue of the cooperative may have to be returned to members within a specified short period of time, regardless of the financial condition of the cooperative.
- b) Payouts of patronage refunds may have to equal a specified minimum percentage of the surplus, regardless of the wishes of members.
- c) A certain portion of the surplus may have to be placed in reserve with a government authority or an apex cooperative organization, or dedicated to community improvement such as

maintenance of parks or roads, regardless of alternatives that would otherwise be available and possibly of greater use to members.

- d) Some cooperatives may be required to deliver their produce to government agencies at prices that are not attractive, or to sell government-rationed goods at mark-ups that are not remunerative.

2. Three new trends that have little to do directly with cooperatives are”

- a. The decreasing flow of development assistance: Most donor agencies are now faced with budgetary problems and changing priorities of their own which have led to a decline in aid to the agricultural sector and to agricultural cooperatives,
- b. The globalization of trade and deregulation of domestic markets: Countries are removing barriers, promoting freer trade domestically and internationally. As a consequence, consumers are increasingly able to obtain cheaper goods and services from alternative and more efficient providers. Under these conditions, it is more and more difficult to reserve special privileges or offer special price benefits to cooperatives
- c. Privatization of state agencies and businesses: The new owners of privatized state agencies such as marketing boards and banks are interested in dealing with cooperatives as business enterprises. The cooperatives’ roles as government-led sources of supply of agricultural commodities or vehicles of social change are not their concern. To work with these boards and agencies, cooperatives need to be efficient and well run competitors in the open market.

3. The ways cooperatives can minimizing costs, maximizing service are:

- **Through better management and use of existing facilities, equipment, finance, procedures and people.** Many cooperatives have reduced their costs significantly through improved management. Management training programmes can help to improve the efficient use of available resources. General member education is also important so that democratic control is exercised intelligently in ways that are consistent with efficient operations and long-run sustainability Technical skills training may also help to ensure equipment and facilities are operated as efficiently as possible.
- **Through purchase of new or more efficient equipment.** Replacing old technology with improved technology can contribute to efficiency and reduce costs. More efficient equipment



can increase the rate, volume or quality of output, or reduce the quantity of inputs used per unit of output. It may also reduce the amount of labour needed per unit of output, allowing an increase in production for the same labour requirement. However purchase of new equipment is worthwhile only if the returns to the business are higher than the cost of the equipment (since the cost of the new equipment has to be repaid by higher turnover and income to the cooperative). Businesses that cannot purchase more efficient technology because it is too expensive are likely to face increased competition from those with the funds to purchase it. Those that are able to purchase improved technology but unable to manage it so that it produces increased returns to the cooperative, are also unlikely to be competitive. Similarly, the cooperative needs to ensure that it will have sufficient demand for increased or improved production to justify the costs of the new equipment.