

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

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Abstract

Although worker co-operatives form an integral part of the South African government's social and economic development efforts, these entities have so far not lived up to expectations.

Based on the findings in previous studies, this research represents an endeavour to indicate that worker co-operatives have to achieve business success before they can achieve any social impact. For this reason, criteria for worker co-operatives to be classified as successful have been established and business success factors determined. The general conditions within South African worker co-operatives and the way in which these entities are managed and operated were investigated. The 111 respondent worker co-operatives were evaluated against the specified business success factors in order to establish the challenges they experience and management and operational shortcomings were investigated. Furthermore, a comparison was drawn between the management and operations of the more successful and those of unsuccessful co-operatives to establish differentiating factors. The article also contains a comment on the impact which these worker co-operatives would have on their communities, given their current circumstances.

The results of the research clearly indicate the need for a different approach to worker co-operative development in South Africa. The article also aims to serve as indication of what possible future research is needed in respect of the management and operations of worker co-operatives.

Key phrases

business success criteria; co-operative management; social development; worker co-operatives

1. INTRODUCTION

Worker co-operatives, as part of the co-operative sector, form a very important part of the South African Government's economic and social development efforts (Davies 2009:1). In 1999, former President Thabo Mbeki stated that the government would emphasize co-operative development in the country to combine financial, labour and other resources to rebuild communities and involve people in their own development (DTI 2004:2). Since then, new co-operative legislation has been promulgated and several provinces have initiated co-operative development policies.

According to Section 1 of the Co-operatives Act 14 of 2005 (South Africa 2008:10) the concept "co-operative" means "an autonomous association of persons united voluntarily to meet their common economic and social needs and aspirations through a jointly owned and democratically controlled enterprise organized and operated on co-operative principles."

Theron (2004:34) states that a co-operative is an internationally recognized form of enterprise. Members contribute the capital needed and the aim is to generate a surplus. Normally a part of the surplus will then be utilized for the benefit of the community. Dash (2013: 42) explains that co-operatives derive their institutional strength from the blending of economic, social and environmental values to create positive outcomes for members' well-being and community development by means of a democratic structure and management.

The Co-operative Act, Section 1 (South Africa 2008:12), defines a worker co-operative as "a primary co-operative whose main objectives are to provide employment to its members, or a secondary co-operative providing services to primary worker co-operatives." The Co-operatives Amendment Act of 2012 (Koekemoer, Nong & Lebaea 2014:13) defines a primary co-operative as a co-operative which provides employment or services to its members and facilitates community development.

According to Philip (2003:5), the key defining feature of worker co-operatives is that the worker-members in the co-operative own and control it on a basis of "one member, one vote". These co-operatives provide a radical alternative to the employment relationships found in conventional enterprises. The most widely utilised and quoted set of principles to which co-operatives adhere are those adopted by the International Co-operative Alliance (ICA 2010:1). These principles are as follows:

- voluntary and open membership;

- democratic member control;
- member economic participation;
- autonomy and independence;
- education, training and information;
- co-operation among co-operatives; and
- concern for the community.

2. PROBLEM INVESTIGATED

Worker co-operatives have not had the intended effect on the socio-economic welfare of the country's population, although large sums have been expended on funding and support. In fact, the sector has gained itself a reputation of incompetence and inefficiency, with one author (Ressel 2014:2) going as far as to proclaim the entire co-operative business model as being fatally flawed.

The DTI Baseline study (Redrebel 2009:33), which included worker co-operatives found that 84.1% of co-operatives in South Africa employed fewer than fifteen people, while 48% employed between one and five employees. The study, therefore, found that the impact of co-operatives on unemployment is negligible. On the other hand, co-operatives provide more than 100 million jobs globally. This exceeds those provided by multinational enterprises by 20% (ICA 2012:2).

According to Theron (2005:312), in 2005 more than half of co-operatives had a turnover of below R10 000 per annum while 30.2% received no income at all. The DTI study (Redrebel 2009:35) found that most emerging co-operatives in South Africa are not operational at a level at which they can make any contribution to the alleviation of poverty. To exacerbate the problem further, for some time a debate raged about the measurement of co-operative success, mainly on account of the social goals that form part of the co-operative principles of the International Co-operative Alliance (ICA 2010:1).

Dash (2013:43) argues that it would be incorrect to measure the efficiency of co-operatives in like manner to other business entities since it fails to provide information on their impact in advancing individual, social and environmental wellbeing. The author, however, admits that no management system and tools have been developed that would effectively measure the performance of co-operatives on the "triple bottom line" of financial, social and environmental success.

Fairbairn (2002:117) states that many researchers share the opinion that the economic concerns of co-operatives should be subordinate to their social goals. However, unless the social goals are met by economic activities, it would make no sense to start an economic enterprise to achieve them. Similarly, Chamard and Webb (2006:5) stress that the financial health of the co-operative is very important, since bankrupt co-operatives do not meet members' needs.

The approach in this study was that worker co-operatives need to meet financial objectives in order for them to meet their social objectives. Success will then depend on the business performance of the co-operative. This approach is supported by Develtere, Pollet and Wanyama (2008:IX), who state that the World Bank acknowledge the developmental potential of co-operatives, provided that they adhere to business principles prevalent in a market economy.

3. GOAL AND OBJECTIVES OF THE RESEARCH

3.1 Goal of the research

Emanating from the above discussion, the goal of this study is to evaluate South African worker co-operatives against predetermined business success factors in order to measure their success as business entities and identify their limitations in this regard.

3.2 Objectives

The objectives of the study are the following:

- to establish the criteria for measuring the business success of worker co-operatives;
- to evaluate the business success of South African worker co-operatives against these criteria;
- to identify the problems experienced by these worker co-operatives;
- to compare the management and operations of successful worker co-operatives with unsuccessful ones;
- to establish the social impact, if any, of worker co-operatives on members and their communities.

4. BUSINESS SUCCESS FACTORS

Due to the business approach towards the success of co-operatives in the study, the factors influencing the success of “normal” or conventional business enterprises will then likewise apply to worker co-operatives.

Watson, Hogarth-Scott and Wilson (1998:219) have developed an analytical framework to show the factors purported to be important in affecting business outcomes. This framework (as adapted in Figure 1 below) was utilised for the purposes of this study and may be graphically presented as follows:

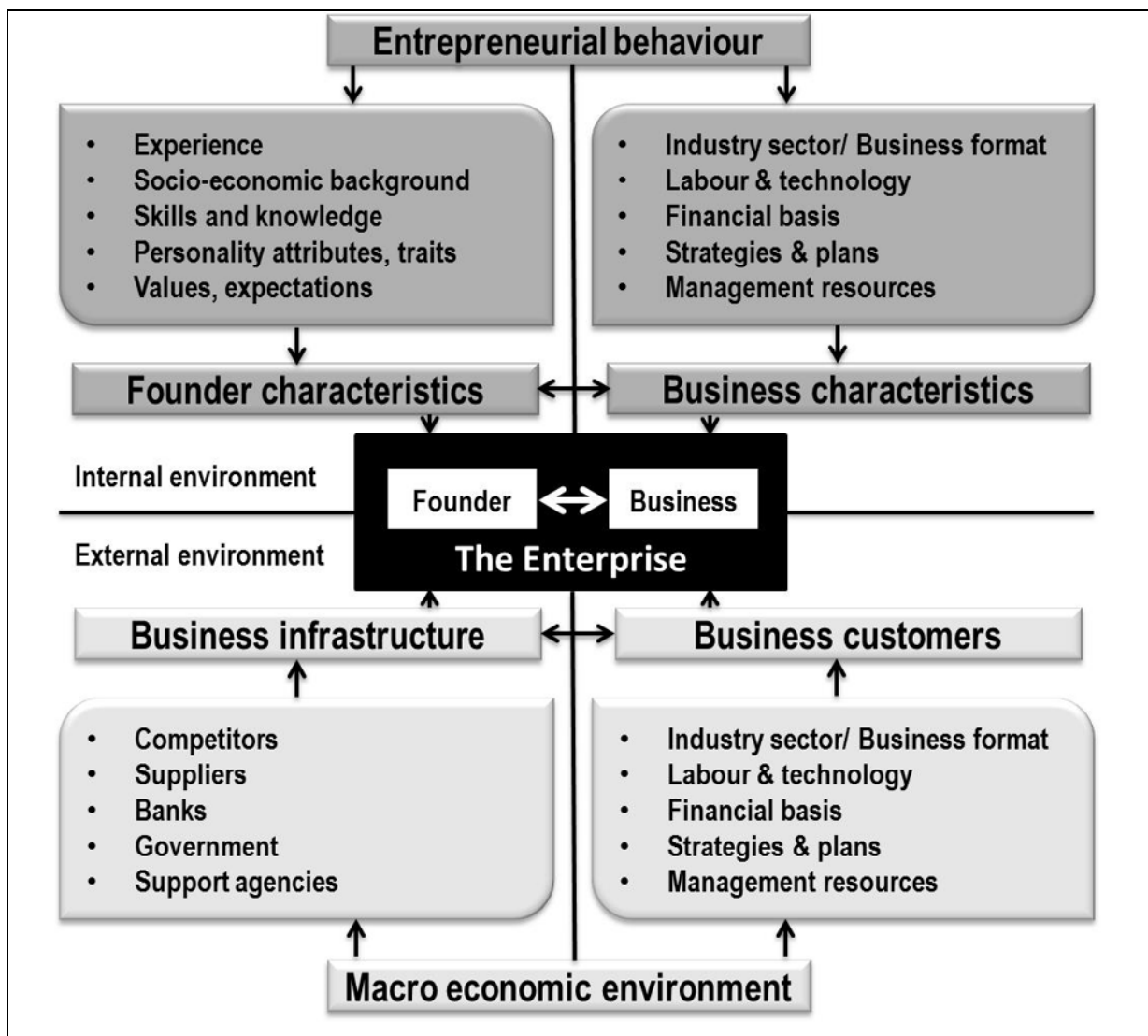


FIGURE 1: Framework for small business success

Source: Watson, Hogarth-Scott & Wilson 1998:219

4.1 Characteristics of the founder/s

Dvir, Sadeh and Malach-Pines (2010:45) conclude that background characteristics play a role in success. Prior management experience, start-up experience, management team experience, experience in the line of business, knowledge, skills and abilities are background characteristics that have been shown to play a significant role in business success.

Cornforth, Thomas, Lewis and Spear (1988:90) found that worker co-operatives depend heavily on the skills and commitment of their workers. However, according to Philip (2003:21), limited internal skills affect the viability of South African co-operatives.

4.2 Characteristics of the business

The development of basic day-to-day operational and management systems is of importance.

4.2.1 Operational systems

These include the development of systems for accounting, billing, collection, advertising, personnel recruiting and training, sales, production, delivery and other related systems (Flamholtz & Aksehirli 2000:490). Because entrepreneurial businesses tend to outgrow their administrative systems fairly quickly, it is necessary to develop sufficient operational systems on time to build successful organisations.

4.2.2 Management systems

Management systems include systems for:

- **Planning** - Gruber (2007:783) found a positive correlation between planning and business performance, even in highly dynamic environments. Planning systems include planning for the overall development of the business and the development of scheduling and budgeting operations. It entails strategic planning, operational planning and contingency planning (Flamholtz & Aksehirli 2000:490).
- **Organisation** - Organisational structure involves the ways in which people are organised and activities are coordinated. Success depends on the match between the structure and business strategy. Challenges with regard to free-riders are evident in co-operatives. For this reason, Philip (2003:22) concludes that a division of labour and differentiated pay rates are conditional for a successful long-term business strategy in worker co-operatives.

- **Management development** - This refers to the development of people who are needed to run the business as it grows. This corresponds with the fifth ICA principle (ICA 2010:1) of Education, Training and Information to members.
- **Control** - The control system comprises a set of processes and mechanisms that are developed to help the business to achieve its objectives. It includes budgeting, goal setting and performance appraisals (Flamholtz & Aksehirli 2000:490). Control can be used to enforce rules and sanction those who violate them, ensuring that members or employees act according to expectations (Fergus 2006:34). Formalized rules to ensure transparency included regular meetings and auditing (Fergus 2006:42).

4.3 The business infrastructure

4.3.1 Networking

Paige and Littrell (2002:316) quote several research studies showing networking as a mechanism for small businesses to overcome disadvantages on account of small-scale operations, to reduce uncertainty and to thrive under conditions of increased competition. Chell and Baines (2000:201) found that business owners use customers and other business owners as their primary sources of useful business information. Chambers of commerce, professional bodies and trade associations were also among the channels considered to be reliable.

Similarly, the co-operative movement is key to the success of individual co-operatives (Winther & Duhaime 2002:39). Satgar and Williams (2008:126) found that co-operation between co-operatives was imperative for co-operative success.

4.3.2 Support from government institutions

As they form the basis of what co-operatives are and what they stand for, the ICA co-operative principles (ICA 2010:1), as discussed earlier, should be taken into account in development programmes.

As an example, Van der Walt (2006:4) states that it is imperative that the co-operative be started through the initiative of the members themselves, that membership is voluntary and that the members manage the venture. Harms (2012:5) similarly states that government structures should not endeavour to start co-operatives but should leave this to members to do so.

4.4 The business customers

Business owners aiming for high sales growth need to pay particular attention to the following marketing issues, as they need to increase levels of demand from new and existing customers (Brush, Greene, Hart & Haller 2001:484):

- finding customers;
- communicating product features;
- attractively priced products and services;
- establishing effective distribution channels;
- implementing sales and marketing efforts to win and retain clients;
- undertaking continued product development to sustain sales.

5. CRITERIA FOR MEASURING THE SUCCESS OF WORKER CO-OPERATIVES

Hough, Wilson and Corcoran (2010:14) state that it is obvious that financial viability is a key criterion for the success of co-operatives, as the co-operative would otherwise cease to exist. Other factors are, however, more complicated. In their study the research respondents were asked what factors they considered as epitomising success and in which ways they thought their co-operative was successful. Longevity, living wages, meaningful work, personal development, financial success (profitability) and value-driven products were the predominant factors quoted.

Brazda and Schediwy (2001:35) suggest that the success of co-operatives should be measured in terms of simple economic survival. Similarly, Theron (2005:71) states that most support agencies and donors accentuate the importance of recognizing co-operatives as private economic enterprises that have to make profits or surpluses. Therefore, the emphasis should be on financial management, solvency, profitability, financial sustainability, market penetration and return on investment.

After the criteria for success used in the above and other previous studies (Chibanda, Ortman & Lyne 2009:296, Cornforth *et al.* 1988:24, Mqingwana 2010:25, Skibbens & Chamard 2006:40) were considered, it was decided that the following criteria should be utilised as the basis for the measurement of the business success of worker co-operatives:

5.1 Longevity

Sustainability represents a good measure of financial success, while longevity is an indication of sustainability. A term of three years of existence was used in the survey as a minimum criterion for longevity.

5.2 Financial independence

Sustainability without financial independence is meaningless. It was therefore decided that to be categorized as successful, the worker co-operative should not have received outside funding in the form of loans or grants for at least a year.

5.3 Profitability

For the purposes of this study, in order to be successful, the worker co-operatives needed to have been profitable for at least one year.

5.4 Member income

A co-operative needs to pay its members a living wage. It was, therefore, decided that the worker co-operatives in the study should have been able to pay their members at least R955 per month for the co-operative to be categorized as successful.

6. RESEARCH METHODOLOGY

6.1 Research population

The research population was actively operating worker co-operatives registered with the Small Enterprise Development Agency (Seda) as clients. Therefore, a list containing more than a thousand worker co-operatives registered with Seda from 2009 to 2013 was obtained from the Co-operatives and Private Public Partnerships Unit and the co-operatives contacted to complete the questionnaire. Eventually, 111 only completed questionnaires were received due to the fact that many of the co-operatives on the list have since ceased operations.

6.2 Questionnaire

The questionnaire contained 140 multiple choice questions pertaining to the following:

- Identification, including sector, year of establishment and other related questions;
- Membership, including questions on the number of members, the demographics of membership, their education and experience;

- Finances, such as history of funding, profitability, financial contributions by members, cash flow, member income, financial practices and systems and the external financial impact of the co-operative;
- Marketing, including information on the competition, customers, target market, marketing methods, market research, customer relations, quality management and networking;
- Operations, which included stock control, process control, layout, equipment and its condition and operational training of members;
- Human resources, for instance questions on remuneration, working conditions, HR policies and systems and challenges experienced;
- Management processes, including organisation and systems, decision-making processes, communication, teamwork and conflict management;
- Support from external institutions, such as organisations from which support was received and the type of support received

6.3 Analyses

When the worker co-operatives in the study were compared with the criteria for success and it was found that only three of them met all the criteria. This did not constitute a sufficiently large group for statistical analysis. A group of thirteen of the worker co-operatives in the study met all the criteria, except for the criterion for member income. This group, which was considered large enough for statistical analyses, was labelled as “Relatively Successful” and utilised for comparisons.

Twenty-two constructs relating to this article were developed and Cronbach alpha reliability coefficients were computed for each construct. The Cronbach alpha values of the constructs ranged from 0.5 to 0.88. The relevant constructs combined questions on the following:

- Financial management and financial analysis;
- Marketing activities, customer relations, marketing capability challenges, marketing financial challenges and networking;
- Stock control, operations administration, human operational challenges, equipment operational challenges and operational capabilities;
- Remuneration, HR systems, training, working conditions and motivation;
- Conflict and strategic management

Phi-coefficients were calculated to determine if there were relationships between relative success and certain conditions and practices in the worker co-operatives in the study.

The research did not involve random sampling. Therefore, interpretation of comparisons between the various groups' means was done using Cohen's effect size (d) (Cohen 1988:24). Effect sizes indicating practical significance, where the difference was large enough to have an effect in practice (Steyn 2009:7) were discussed.

Moreover, interpretations of the practical significance of effects were effected by using the phi-coefficient and Pearson correlation coefficient as effect sizes. For this reason, no inferential statistics were interpreted, despite the fact that p-values are reported as if assuming random sampling.

The guidelines utilised for d-values regarding differences between means are as follows:

small effect: $d = |0.3|$;

medium effect (noticeable with the naked eye): $d = |0.5|$;

large effect (practically significant): $d = |0.8|$.

Guidelines for interpreting the phi-coefficient are as follows (Cohen 1988:223):

= $|0.1|$ (small effect) ;

= $|0.3|$ (medium effect, noticeable with the naked eye);

$|0.5|$ (large effect or practically significant).

Guidelines for practical interpretation of the strength of correlation coefficients, r , according to Cohen (1988:204), are the same as those for the phi-coefficient.

7. RESULTS AND DISCUSSION

7.1 The success of worker co-operatives

The findings in terms of the criteria for success were as follows:

7.1.1 Longevity

Of the 111 worker co-operatives which participated in the study, 90.65% had been operating for more than three years, while 4.5% of them had been registered more than ten years earlier.

7.1.2 Financial independence

External financial support had not been received by 79.66% of the co-operatives during the twelve months prior to participation in the survey.

7.1.3 Profitability

Only 35.65% of the co-operatives indicated that they were generating a surplus at the time of the completion of the questionnaire.

7.1.4 Member income

The members of 36.26% of the co-operatives in the study earned less than R200 per month, in 65.93% they earned less than R500 per month and in 81.31% they earned less than R955 per month. As indicated earlier, only three of the corresponding co-operatives in the study met all of the above criteria for success (a success rate of 2.7%) and thirteen met the first three criteria. These findings raise serious questions regarding the viability of worker co-operatives and the way in which they are operated and managed.

7.2 Member characteristics

More than half of the worker co-operatives in the study had no members with any experience in their industry while about two-thirds of the co-operatives had no members with business experience. More than 34% had members with neither business nor industry experience.

The general lack of business management knowledge and experience prevalent in the worker co-operatives in the study are clear from the following factors:

- lack of financial systems, financial analyses and financial planning;
- neglect of marketing activities and under-utilisation of market research;
- lack of compliance with regard to human resource issues;
- general inability to address bottlenecks and delays in customer deliveries;
- the notable number of respondents who could not provide key basic information, like the profitability of the co-operative (16.83%), whether the co-operative could cover operational expenses without external funding (16.67%), turnover levels (20.72%), whether sales were increasing (47.75%), monthly expenses (19.82%), the prevalent market conditions (29.91%), their products conforming to industry standards and norms (29.09%) and their compliance with the Basic Conditions of Employment Act and other basic legislation (27.78%).

It was found that, in terms of experience, there was no notable statistical difference between the relatively successful group and the unsuccessful group. These findings are not in line with those of Dvir *et al.* (2010:45), Simpson, Tuck and Bellamy (2004:486), Timmons (1999:93) and Urban, Van Vuuren and Barreira, (2008:58) on the importance of previous industry experience in the prospects for success of small business ventures.

Although not all the members in the co-operative are expected to have industry-and/or business management experience, the co-operative structure provides the opportunity to unite people with diverse backgrounds to improve the possibility of creating a successful business venture.

7.3 Characteristics of the business

7.3.1 Finance and financial management

Of the co-operatives in the study, 77.27% had a turnover of below R10 000 per month. While 35.64% of them were profitable, for 52.78% of these the surplus was less than R10 000 per year. Only 16.5% had a regular positive cash flow.

Only about a third (34.26%) of the worker co-operatives could cover their operational expenses without external assistance. Only 27.93% of the co-operatives in the study were experiencing increasing sales and sales trends.

The research indicates a general lack of good governance and financial-control and -analysis in the worker co-operatives in the research. This statement is supported by the following findings:

- of the co-operatives in the study, 44.44% had no formal financial controls in place;
- a fifth of the respondents did not know what their average turnover per month was;
- more than three-quarters failed adequately to keep track of overhead expenses;
- more than 65% failed to have a system in place that required more than one person to approve payments;
- approximately 66% did not have a financial management system in place;
- less than a third frequently carried out financial analyses;
- only 18.69% calculated and managed distribution costs on a continuous basis;
- less than half used budgets on a regular basis.

The relatively successful worker co-operatives tended, with a practically significant effect ($d=0.8$, $p=0.01$), to have more financial controls and financial management systems in place

than the unsuccessful co-operatives. There was, however, no statistically significant difference in the financial analyses carried out by the two groups, thus indicating that the relatively successful group did not sufficiently utilise the available financial information.

7.3.2 Operational management and operational systems

The relatively successful group of co-operatives in the study, to a medium effect ($d=0.7$, $p=0.02$), tended to have a stock control system in place which allowed for effective stock control, whereas the unsuccessful group tended to lack such a system.

Nearly a third of the co-operatives (30.77%) indicated that on-time deliveries to customers were a problem. Some form of bottleneck which kept them from operating at full capacity was experienced by 45.71%. Of these, 56.25% identified insufficient equipment as the main cause of bottlenecks and 33.3% indicated that non-productive employees were a challenge. A mere 20% indicated success at addressing bottlenecks. The relatively successful group, to a noticeable effect ($d=0.3$, $p=0.02$) tended to experience fewer bottlenecks.

The effect of the lack of operational experience and knowledge among members is evident from the fact that 37.5% of those experiencing bottlenecks blamed this on a lack of specialised knowledge and trained personnel. The predominant cause of rejects (33.95%) was human error, even for those co-operatives, which indicated that they had a quality control system in place.

Many of the co-operatives in the study experienced challenges with bottlenecks (29.17%) and rejects (22.58%) due to faulty/outdated and insufficient equipment. This was to be expected, given their financial position. The effectiveness of quality control within the worker co-operatives needs to be questioned since all those who indicated that they had a system in place were still experiencing operational challenges. An effective system would have been able to address at least the challenges experienced with irregular/unreliable stock deliveries and sub-standard/faulty material since these challenges are caused by external factors.

The findings indicate a need for some formalisation of management and operational systems. Care should, however, be taken that generic systems are not introduced and that systems allow for the skills of members and the needs of that particular worker co-operative. In most of the worker co-operatives, simple paper-based systems would suffice.

7.3.3 Human resources management

Most of the worker co-operatives (56.48%) indicated that they complied with the Basic Conditions of Employment Act 75 of 1977. However, 50.46% either were not registered with the relevant government institutions with regard to human resources, such as SARS and the Compensation Commissioner or did not know whether they were in fact registered.

In the study 64.19% of the co-operatives relied on trust only to regulate relations between members. The research revealed that there was very little pay differentiation in worker co-operatives. It was found that in 72.9% of the co-operatives in the study, all members earned the same income. Even in the relatively successful group 12 out of 13 co-operatives paid their members the same income.

7.3.4 Management processes

In most of the co-operatives, major (84.55%) and day-to-day (61.90%) decisions were made by members during meetings. However, democratic decision-making processes were challenging in a third of the responding co-operatives. Eighteen co-operatives indicated that the system did not work at all while fourteen left major decisions to board members. Moreover, most of those who indicated that day-to-day decisions were made by members during meetings only met once a month (44.6%) whereas only 21.5% met once a week.

The second ICA Co-operative principle prescribes member democratic control, involving members' active participation in setting policies and the making of decisions (ICA 2010:1). It is understandable that day-to-day decisions are left in the hands of delegates to speed up decision-making processes, but for members to leave major decisions in the hands of the board of directors leaves them open to exploitation and increases the likelihood of mismanagement, fraud and corruption.

Conflict in co-operatives is inevitable, with people from different backgrounds coming together and having equal ownership of a business entity. Some level of member conflict was indicated by 89.89% of the co-operatives, with more than 37.6% indicating that it happened frequently. Of the co-operatives, 81.66% admitted to conflict resulting from differences of opinion as to what was in the best interests of members.

Of the respondent co-operatives, 77.47% had members who joined from a position of unemployment. This would affect the amount of conflict within their co-operatives since

many of them would put their own financial position above the long-term survival needs of the co-operative.

7.3.5 Planning

If one looks at the low success rate of the co-operatives in the study when compared to the business success factors, the viability of these ventures becomes suspect. This rate also questions the quality and effectiveness of any pre-startup research conducted to investigate feasibility. Of those co-operatives who received funding, 11.47% indicated that no pre-startup research in any form had been done. Business plans were developed for fewer than half of the supported co-operatives in the study. This implies that those who started the co-operatives without any market research started them blindly without considering the most basic aspects of feasibility. It is not surprising, therefore that 38.7% of the worker co-operatives operated in less than ideal markets.

For a business plan to be effective, it should investigate and find a strategic fit for the driving forces for successful venture creation as described by Timmons (1999:37). These forces are the opportunity, the entrepreneurial team and the resources. As indicated by the background and knowledge of members and the small number of successful worker co-operatives in the study, however, it may be inferred that resources are the main consideration of funding institutions. This leads to the funding of worker co-operatives without any market research or business plans to investigate the other two forces.

In terms of other issues with regard to planning the following:

- Of the worker co-operatives in the survey, 48.62% made use of budgets on a regular basis.
- Only 13.52% of the respondents did market research on a regular basis. There was no statistically significant difference between the amount of market research carried out by the relative successful group when compared to the unsuccessful ones.
- Only 54.13% of the co-operatives indicated that they had formal goals and objectives in place. Again, there was no statistically significant difference between the two groups in this regard.

From the findings it becomes clear that there is a definite lack of planning among the co-operatives in the study.

7.4 The business infrastructure

7.4.1 *Networking*

Except for normal business contact, the researched worker co-operatives were not adequately engaged in networking activities. Only 7.48% of the co-operatives in the study belonged to a secondary co-operative, 20.2% belonged to a business chamber, 6.9% to an industry organisation and 13.33% to other business organisations. The relatively successful group was generally no better off than the unsuccessful group. In fact, not one co-operative from the relatively successful group belonged to a secondary co-operative.

The low level of participation in co-operative structures is not in line with the ICA principle of co-operation among co-operatives (ICA 2010:1). Although the costs involved in belonging to these co-operatives might be a debilitating factor, the joining and/or establishing of secondary co-operatives should be encouraged. By failing to belong to formal business organisations, worker co-operatives deny themselves the benefits of the marketing opportunities, free business advice and other advantages these entities offer.

7.4.2 *Support from government institutions*

Eighty of the co-operatives in the study received support or funding from government institutions. Of these 34 received support on financial management, and 32 on business planning. Thirty-two received mentorship, 25 received assistance with tender applications and 24 were assisted with marketing and promotion.

Four constructs, Mentorship and Coaching, Management and Operational Support, Financial Management Support and Marketing Support, were formulated with regard to support. The result of the statistical analysis revealed no statistically significant differences in the support received by the two groups in the study. For this reason, it was deduced that the difference in the success between the two groups were not mainly due to the amount and type of support they received.

The most prevalent training received by co-operative members occurred in Record keeping and Filing, with 57 of the participants indicating that their members received training in this regard. This was followed by basic bookkeeping (54), marketing (48), business management (35) and technical/industry related training (35). Three training constructs were identified, namely: Management Training, Marketing Training and Financial Training. As in the case of

support, the training provided by support institutions made no statistical difference to the success of the co-operatives in the study.

7.4.3 Adherence to the ICA principles

Of the co-operatives in the study, 65.77% were started or joined due to improper influence, either through promises of funding (57.54%), creating the impression that co-operatives are funded more easily than other business organisations (61.18%), direct initiative from government or support agency employees (9.35%), or a combination of these.

This contravenes the first ICA principle of voluntary and open membership (ICA 2010:1). Several authors, among others Brazda and Schedivy (2001:36), Satgar (2008:19), Satgar and Williams (2011:205), Theron (2005:128) and Van der Walt (2006:4) warn of the dangers and inappropriateness of this approach to co-operative development.

It was found that democratic decision-making, as prescribed by the second ICA principle, represents a challenge in at least 37 of the responding co-operatives. However, there was a statistically significant difference found between the relatively successful and unsuccessful groups in this regard. 41.67% of the relatively successful group indicated that members actively took part in the process and a third indicated that the process worked fairly well. In the unsuccessful group, 15.38% of the co-operatives indicated that major decisions were left to the board and in one co-operative they were left to the chairperson. This practice does not correspond with the findings of Cornforth *et al.* (1988:198) that democratic management needs to be reinforced by creating a democratic culture with members gaining positive experiences of participation. Sixteen of the eighteen co-operatives which responded that the decision-making processes do not work at all belonged to the unsuccessful group.

The respondents in the study struggled to meet the third ICA principle of member economic participation with the members of 48% being unable to pay regular member contributions. The findings support the statement from Jara and Satgar (2009:33) that many co-operatives have not been able to reach the development stage where they are able start building self-financing institutions.

With regard to the fourth ICA principle of Autonomy and Independence, it was found that 12.04% of the co-operatives in the study felt forced or coerced to make certain decisions during their interactions with government or support agency employees. Furthermore, the low success rate among the co-operatives in the study, the lack of pre-startup research to

ensure viability and sustainability, even among supported co-operatives, and the lack of business and technical experience within the co-operatives will seriously hamper the ability of worker co-operatives to operate independently and autonomously.

Most of the co-operatives in the study did not possess the financial resources to enable them to provide their members with education and training as required by the fifth principle.

7.5 Business customers

According to the worker co-operatives in the study, for 42.2% of them the majority of their turnover came from fewer than five customers.

It was found that 32.71% of the co-operatives were operating in mature markets with many large competitors while 18.69% operated in growing markets with many competitors. The relatively successful group, to a medium effect tended to operate in growing markets ($\beta = 0.4$, $p = 0.02$). The largest proportion of unsuccessful co-operatives (50%) was operating in very competitive markets with many large players.

Most of the co-operatives in the study identified insufficient sales (68 of the respondents), unaffordable marketing costs (66) and high distribution and transportation costs (51) as the predominant marketing challenges they experienced. Only 10.91% of the responding co-operatives expended time and money on marketing activities while only 13.52% did market research on a regular basis. The low turnover and profitability levels should, therefore, not be surprising.

There was no significant statistical difference between the relatively successful and unsuccessful groups in this regard. This is arguably one of the reasons why the relatively successful group has not achieved complete success. The relatively successful group, with a practically significant effect ($d = 1.02$, $p = 0.001$) tended to utilise customer relations policies and systems and customer feedback systems, while the unsuccessful ones tended not to have them in place.

The results suggest a general lack of access to markets. This is evident from the few customers upon whom the co-operatives in the study depended for their turnover, from the low levels of spending on marketing and from the insufficient sales they identified as their main marketing challenge. The effects are increased by the fact that many of them operate in highly competitive markets with large competitors and that, apart from normal business contacts, they tended to operate in isolation.

7.6 Comparison between relatively successful and unsuccessful worker co-operatives

During the analysis it was found that the relatively successful co-operatives differentiated themselves from the unsuccessful ones to a medium (observable) or significant effect with regard to the following:

- members tended to contribute financially to the co-operative more frequently and in larger amounts;
- they were more inclined to have established financial controls and financial management systems;
- they tended to operate in growing markets, compared to the unsuccessful ones, which tended to be operative in mature markets;
- they had established customer feedback and customer relations measures;
- they tended to have established stock control systems;
- they tended to have resolved their bottlenecks to such an extent that they did not hamper their operational capacity;
- they were inclined to have established formal contracts between members and have formal sanctioning systems;
- they tended to have better working conditions than the unsuccessful co-operatives;
- members took an active part in co-operative decision-making processes and these processes worked fairly well. Furthermore, they did not leave major decisions to be decided on by the board of directors.

It is notable that these worker co-operatives tended to outperform the unsuccessful ones in one or more aspect of every business management factor researched, namely financial management, marketing management, operations management, human resource management and management processes. These findings imply that complete success will require efficiency and effectiveness in all the business management factors while considering the co-operative principles.

It was evident from the results that in the relatively successful worker co-operatives there was more formalisation of systems than in the unsuccessful ones.

7.7 The impact of worker co-operatives on their communities

Except for a sense of belonging and the measure of pride that accompanies their shared ownership in a business organisation, the worker co-operatives in the study and their members are set to have no real impact on their communities.

With more than 80% of the co-operatives unable to pay their members more than R955 per month, they are making no economic impact whatever. These members will neither be able to survive on their own nor to take care of their families.

The low turnover- and profitability levels, and the unsustainability due to inefficient management and operational practices have the effect that the co-operatives will also be unable to spend money on social initiatives.

The general inefficiency of the sector and the negative image the worker co-operatives have built for themselves over the past years, will have the effect that members of communities will not aspire to form their own co-operatives for the right reasons. The only inspiration will come from the prospect of easy access to funds. Furthermore, the lack of industry and business experience will not enable these co-operatives to run effective development and training programmes in their communities.

For the above reasons, it is submitted that worker co-operatives do not have a real social impact on their communities at this stage. This is a further reason for the reconsideration of support initiatives. These co-operatives will only have the desired social impact if the sector is built to be sustainable and allows worker co-operatives to be self-reliant.

8. CONCLUSION – CONTRIBUTION OF THE RESEARCH

The study revealed numerous challenges in the way in which South African worker co-operatives operate and are managed. Support initiatives should take these into account and address them to increase the general business success of the sector. Pre-startup research to ensure the viability (including the presence of a real business opportunity and the necessary industry knowledge) of the venture, the establishment of the necessary management and operational systems and training necessary to address the lack of business knowledge are the most important of these.

It is hoped that this research will lead to further research, other than baseline studies, into specific challenges experienced by worker co-operatives, their management and how they are operated. This will establish a body of knowledge for improved training and development

initiatives so that these entities may be able to reach their full potential in terms of social and economic development in South Africa. Furthermore, it will open up the possibility of the establishment of possible specialised tertiary qualifications in the field.

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