

**TURFLOOP GRADUATE SCHOOL OF LEADERSHIP (TGSL)**

**THE ROLE OF PRIMARY CO-OPERATIVES IN ECONOMIC GROWTH AT ELIM IN  
LIMPOPO PROVINCE, SOUTH AFRICA**

**BY**

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## DECLARATION

I, M.B. Tlakula, hereby declare that this mini-dissertation submitted to the University of Limpopo, Turfloop Graduate School of Leadership for the degree of Masters of Business Administration, has not been previously submitted by me for any degree at this or any other university. I further declare that this is my work and all materials contained therein have been duly cited.

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Motlatso Brian Tlakula

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Date

## **DEDICATION**

I dedicate this mini-dissertation to all those who aspire to embark on a similar academic journey, and say to them: it is all in your hands.

## **ACKNOWLEDGEMENTS**

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- To my former Manager: Mr. N. Nokeri, thank you for your unwavering support and please continue to do so with others in future.
- To my employer, thank you for affording me this great and exciting opportunity. Indeed you are a caring employer of choice.
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## ABSTRACT

The Co-operatives and Small Medium Micro Enterprises (SMME) sector in general is known to be synonymous with job creation and economic growth. The cooperative movement is said to have a potential of aiding unemployment and poverty in South Africa. The present study aimed at identifying the role of primary-cooperatives in economic growth at Elim in Limpopo Province.

The study sought to find out what were the potential growth factors and opportunities available for co-operatives. It is also to examine the effectiveness of primary cooperatives as drivers of economic growth. The study was carried out at Elim in Limpopo Province. The methods used were questionnaires and interviews with primary co-operative members. A purposive sampling method was used because the researcher intended to interview specific members of the cooperative. Data were collected using both self-administered questionnaire and interviews.

The findings of the study revealed that the majority of these co-operatives are not growing, thus becoming unsustainable. They are also unable to drive the local economy and impact positively to such economies. Lack of access to markets and other resources has been identified in the study as a serious challenge opposed to the success to these enterprises. Subsequent to that are issues pertaining to shortage and lack of, in certain instances, business skills and education amongst members. Finally, the study provides recommendations on the impact of cooperatives on the growth of the economy and how these can be revitalized to benefit not only the local economy at the community level, but also the entire nation.

**Keywords:** *Primary cooperative, cooperatives, growth, economy, challenges, government, markets, support and finance*

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# Chapter 1

## INTRODUCTION AND ORIENTATION OF THE STUDY

### 1.1. Introduction

The South African (SA) government is promoting the use of cooperatives as organizations that could help enhance the development of small-scale farmers and other communities in South Africa (Ortmann and King, 2007). In terms of chapter 1 of the Co-operatives Act no 14 of 2005, the purpose is to promote the development of sustainable co-operatives that comply with co-operative principles, thereby increasing the number and variety of economic enterprises operating in the formal economy. It also encourages persons and groups who subscribe to values of self-reliance and self-help, and who choose to work together in democratically controlled enterprises, to register co-operatives in terms of the Act (Cooperatives act no 14 of 2005).

Chapter 2 of the Cooperatives Amendment Act no 6 of 2013 provides for the establishment of a constitution as a fundamental guideline towards operational issues of the cooperative. According to Cooperative and Policy Alternative Centre (COPAC) (2001), challenges ranging from the democratic rule of these cooperatives have also contributed to the collapse of some of these enterprises before they can break-even. Members normally group themselves to register these enterprises under the pretext of entrepreneurial spirit, whereas they are more concerned with power gains and grants (cooperatives incentives schemes) provided by government through the Department of Trade and Industry

Management composition is such that although decisions are democratically taken, those elected to lead manipulate the processes to the detriment of ordinary members without immediate detection. The enterprise resources are most often used for personal gains by those in position of authority and therefore invoke internal squabbles amongst cooperative members. As a result, enterprise resources are looted and ultimately the production comes to a standstill and close shop (Levin, 2002).

The revised cooperative concept after the democratic dispensation in South Africa has been met with serious challenges that require detailed examination and analysis for cooperatives to survive and grow in order to effectively contribute to the gross domestic product. Government has, to a large extent, created an illusion in society that these cooperatives are projects rather than profit oriented enterprises with an on-going concern and therefore their establishment are met with growth and sustainability challenges once operational (Phillip, 2007). The present study intends to explore the role of Primary Co-operatives in economic growth at Elim, Limpopo Province, South Africa.

## **1.2. Problem Statement**

According to the Department of Trade and Industry (DTI) baseline study for the period 2009 to 2011 shows that 22,619 cooperatives were registered. However, 20,221 were unoperational and only 2,644 survived and 19,975 defunct, giving a 12 percent survival rate. The challenge has been that members or potential members of a cooperative embrace the concept without fully understanding it.

Van der Walt (2013) indicates that 80 percent of cooperative members in Limpopo Province do not have the necessary knowledge about cooperatives. This group is characterized by limited skills, and as a result management and business technicalities remain a challenge where management and conflict are identified as some of the problems facing cooperatives. Due to a lack of conflict management skills, infighting within cooperatives remains an obstacle. Owing to the various inadequacies, the channelling of support from the government and other development agencies tends to create yet another challenge of overdependence.

Royer (1999) suggests that much research has focused on the problems inherent in the cooperatives' organizational form, which create disadvantages for members and ultimately affecting the cooperatives growth potential. Royer (1999) argues further that activities in which members or groups within an organization engage in are those that attempt to influence the decisions that affect the distribution of wealth or other benefits within an organization", These problems hamper the growth and

sustainability of co-operatives. Hence, the study will focus on the role of primary cooperatives in the area of economic growth.

Ortmann and King (2007) indicate that cooperatives may experience greater negative influences than other forms of organization because the individual cooperative members' participation interests are more diverse than the interests of corporate stockholders, who share a common objective of maximizing wealth.

Apart from economic and market factors, studies have found that factors affecting growth and sustainability of cooperatives are mainly as a result of insufficient entrepreneurial skills and experience on the part of members and the misconceptions often associated with the reasons for cooperatives' existence (Cook, 1995). Cooperative and Policy Alternative Centre (COPAC) (2005), found that internal squabbles are also common denominators which hinder growth and sustainability of these enterprises. These problems emanate from the differences that exist among members on management and operational issues.

Some authors hypothesize that, due to their inherent weaknesses, primary cooperatives will have to exit or reorganize as the market evolves (Royer, 1999). Cook (1995) postulated a five-stage cooperative life cycle that seeks to explain the formation, growth, and eventual decline of a cooperative. As the cooperative matures and the members become increasingly aware of the inherent problems, as well as the cooperating benefits that may be lost if operations ceased, members and their leadership will have to consider their long-term strategic options (trade-offs between the benefits and costs) and decide whether to exit, continue, or convert into another business form. Therefore members should allow the cooperative to realize the principle of on-going concern and do everything in their powers to resolve and manage internal conflicts speedily in order to allow the cooperative to grow and outlive them, thus contributing meaningfully to economic growth. If these cooperatives are left without functioning, the local economy becomes stifled naturally, forcing a greater number of people to resort to other means of survival including committing crime.

### **1.3. Motivation/Rationale for the study**

There is a need for primary cooperatives to grow and be self-sustainable. This then necessitates for a conducive environment for them to thrive in order to have a positive impact on the economy. The responsibility in ensuring success of these cooperatives lies on both cooperative members and government institutions, the latter offering the necessary technical and financial support. Royer (1999) postulates that much research has focused on the problems inherent in the cooperatives' organizational form, which creates disadvantages for members and ultimately affects the growth of cooperatives. Royer (1999) argues that cooperatives are in the main characterized by limited skills. In other words, management and business technicalities remain a challenge where management and conflict are identified as some of the problems facing cooperatives. This state of affairs will necessarily have a negative impact on sustainability of cooperatives, resulting in job losses and zero percentage contribution to the gross domestic product (GDP).

It is imperative to investigate the role which primary cooperatives has in economic growth as a social enterprises and their sustainability thereof so as to establish how they contribute to the growth of the economy. This will ensure that enough data are collated and analyzed towards finding ways and means of ensuring viable and sustainable enterprises, and continuously identifying effective systems and processes towards entrepreneurial advancement in the country.

### **1.4. Significance of the study**

The study will benefit primary cooperatives by identifying an array of potential growth factors and opportunities with which they become sustainable and better contribute towards growing the economy, and to individual co-operative members by recommending relevant training opportunities to enhance their skills, to local communities and government through the identification of business opportunities that will ensure growth of these cooperative enabling job creation and better contribution to the gross domestic product (GDP) of the country. The implementations of recommendations will suggest opportunities available the growth and sustainability of these cooperatives, therefore how jobs will be sustained, and

revenue increases to members and growth in the local economy which ultimately contribute to the gross domestic product (GDP). The study will also contribute towards the development of effective training programmes by support government agencies relevant to address the entrepreneurial and conflict resolution.

The study will also make recommendations regarding the conceptualization of a business idea that is viable, common vision and passion by members prior to registration of co-operatives in order to avoid or minimize internal squabbles. Recommendations will also be made to address the perceived gaps in the Co-operatives Act no 14 of 2005 advocating for amendment of such act.

### **1.5. Aim of the study**

The aim of the study is to explore the role of primary cooperatives in economic growth at Elim, Limpopo Province, South Africa.

### **1.6. Objectives of the study**

The objectives of the study are:

1. To explore the potential growth factors and opportunities for primary cooperatives;
2. To examine the effectiveness of primary cooperatives as drivers of economic growth, and
3. To make recommendations on how to increase primary cooperatives' contribution to the economic growth.

### **1.7. Research questions/Hypothesis**

The research questions are:

- What are the potential growth factors and opportunities available to primary cooperatives?
- How can the primary cooperative become an effective and viable business model for economic growth?

- What can be done to ensure that the primary cooperative impacts or contributes positively to the growth of the economy?

### **1.8. Literature review**

In South Africa, the focus in building a cooperative movement has been on primary cooperatives, from which the job creation impact is expected. Following the attainment of majority rule, many disadvantaged people are embracing the cooperative concept, as it promises to be one of the vehicles by which inequality and poverty can be reversed. Despite the economic and social contributions of cooperatives, evidence shows that many of them have been short-lived and others are still vulnerable (Levin, 2002).

On the United Nations (UN) International Day of Co-operatives held in New York in 2013, the International Cooperative Alliance (ICA) (2013) indicated that the UN views the cooperative model as a key to creating sustainability in global business. ICA (2013) points out that as global attention focuses on the challenge of sustainable development, cooperatives can and must play a role as creative enterprises expanding into new and innovative areas. The concept of cooperatives is viewed as a sustainable business model helping achieve sustainable outcomes for communities (ICA, 2013).

Most cooperatives in South Africa are composed of formerly disadvantaged groups, particularly old women. In a study of cooperative members in selected areas of Limpopo and Mpumalanga provinces, Nyambe (2010) found out that of the cooperatives under study, 61 percent were composed of women and that the biggest concentration of the members (21 percent) were between the ages of 41 and 44 years. The study also showed that the education levels of cooperatives members were low.

A study by National Co-op Association of South Africa's (NCASA) baseline study (2001) states that faced with massive economic restructuring and unemployment, South Africans are discovering the potential of the primary co-operative, a collective entrepreneur model that provides decent and sustainable employment and a

democratic workplace; however, it is far from the current realities. In the same study, 40% of cooperative respondents reported that they generate no income for members at all. Only 36% of the total cooperatives surveyed were willing or able to give monthly income figures.

One other challenge is that the provision of “cheap” capital or material resources reduces the motivation of members to contribute their own resources. Instead of an organic growth that is gradual through members gaining experience by growing their business, a dependency syndrome sets in which leads to demotivation when no further external assistance is received. Government officials have been accused of forming cooperatives and thereby compromising the principle of autonomy and independence (Muthuma, 2012).

According to Philip (2003), management of an enterprise involves a complex range of skills. As soon as an enterprise involves the collective management of resources, the complexity of management escalates exponentially. A large number of unemployed people facing the challenge of self-employment have little or no prior work experience, let alone business management experience, financial literacy and even basic numeracy skills.

Primary cooperatives can work but they are complex forms of enterprise; and as such, they do not provide an easy entry point into self-employment for unemployed people, particularly if they fall beyond the reach of a strong support environment. They require high levels of managerial skills internally, or sustained technical support externally to succeed. As a result, they have real limitations as an effective vehicle for job creation and economic growth. Cooperatives are stereotyped and therefore are highly difficult to organize and sustain (Cooperative Secretariat, 2004).

Mayende (2011) states that Cooperative development strategies tend to be targeted mainly at unskilled, unemployed people, on the margins of the economy. From a base of poverty, they are expected not only to employ themselves, but also to lead the way in building alternative models of work organization, worker self-management and worker ownership. Perhaps this challenge should instead be taken up by workers in the most established businesses where workers are well organized and

the skills and market share are in place. This is a more likely context for primary cooperatives to succeed in South Africa, and from that success, be able to create a support environment that could over time broaden the base of primary cooperatives and create new jobs. Therefore the study will identify and recommend various ways in which growth and sustainability of cooperative can be achieved.

## **1.9. Definition of concepts**

**Cooperative** - means an autonomous association of persons united voluntarily to meet their common economic and social or cultural needs and aspirations through a jointly owned and democratically controlled enterprise (The International Cooperative Alliance (ICA), 2005).

**Cooperative principle** - means voluntary and open membership requiring cooperatives to be voluntary organisations, open to all persons able to use their services and willing to accept the responsibility of the membership without discrimination on the basis of race, colour, gender, sex, pregnancy, culture, ethnic or social origin( Cooperative Amendment Act no 6 of 2013 ).

**Primary cooperative** - means a co-operative formed by a minimum of five natural persons whose object is to provide employment or services to its members and to facilitate community development (Cooperatives Amendment Act no 6 of 2013).

**Governance** - means a cooperative's decision making processes and its capacity to implement its decisions and is characterized by transparency (openness), accountability and participation (Landell-Mills and Serageldin, 1992).

**Sustainability** - means the establishment of local economies through enterprises that are economically viable (Clegg, 2006).

### **1.10. Choice and rationale of the research design**

The study employs both quantitative and qualitative research analysis or mixed research methods and it is investigative in approach. The rationale of using mixed research methods is to ensure that the collected data are analysed both qualitatively and quantitatively and integrating conclusions from those data into a cohesive whole.

### **1.11. Study area**

Limpopo Province comprises five district municipalities namely: Capricorn, Mopani, Waterberg, Sekhukhune and Vhembe. Vhembe District Municipality has four local municipalities namely: Thulamela, Musina, Mutale and Makhado. The study will be conducted at Elim in the Makhado municipal area. The area is situated 19 kilometres east of Makhado Municipality.

### **1.12. Population**

The size of the study population comprised 20 cooperatives consisting of 100 people [Department of Trade and Industry (DTI), 2009].

### **1.13. Sample, sampling method and sample size**

Leedy and Ormrod (2012) note that for a sampling method, we may choose people who we have decided are typical of a group or those who represent diverse perspective on an issue. The study employed a purposive sampling method. The total number of people chosen as a sample for interviews was 50 from a population of 100 people (20 cooperatives). The sample consisted of chairperson (1), secretary (1) and additional members (3) from each of the 10 cooperatives, making it 50.

### **1.14. Data collection method**

Primary and secondary sources of data were used to collect relevant information for the study, in particular through questionnaires and personal interviews. Primary data will be collected by conducting interviews and through questionnaires with the selected sample who are key informants. A semi-structured interview guide will be used to allow more probing and having intensive discussion around the issues at hand while keeping focus on the research objectives. Many of these questionnaires

will be close-ended to ensure that only relevant information is provided and less open-ended such that no amount of information that might be useful to the study is lost.

Secondary sources of data were applied in the form of literature review, journals and internet sources in order to substantiate discussions with findings of studies that have already been conducted on related matter. The data were collected on potential growth factors and opportunities for primary cooperatives, the effectiveness of primary cooperatives as a viable business model and its impact on economic growth. The other focus was on skills level of members, capacity and training needs, as well as levels of literacy.

#### **1.15. Data analysis**

Quantitative data collected will be captured onto an excel computer programme and analyzed by plotting in on graphs and tables. Qualitative data in the form of recorded interviews were first transcribed in order to provide a basis for analysis which involved the coding of data and identification of important points. This included describing and analyzing the situation within which the study was carried out and also comments made by the participants.

#### **1.16. Ethical considerations**

The purpose of the study was explained to the participants before conducting the interviews or any gathering of information from them. This included that participants were made aware of the objectives of the research and what it was expected of them. Verbal consent was sought prior to any activities and they were accorded the freedom to participate or not, without coercion. The researcher assured all the participants in the study that the information obtained from them would be treated with confidentiality and that their names would not be mentioned and that they had every right to withhold their identities. The study also adhered to copy rights and the University of Limpopo's ethical codes.

### **1.17. Research limitation**

The study looked only into the role of primary cooperatives in economic growth at Elim in the Limpopo Province. It also looked into issues of governance and conflict management, as well as the viability of cooperatives as a business concept. Entrepreneurial abilities and knowledge of members on the concept of cooperatives was also tested in this study. The study did not focus on secondary and tertiary cooperatives. It also did not look into the levels of education amongst members and prior cooperative or business experience. Also, the study did not examine the legislation regulating the cooperative industry.

### **1.18. Outline of the dissertation**

**The chapters in the present study are organized as follows:**

#### **Chapter 1**

This chapter includes introduction and background of the study. It also contains aim, objectives and methodology.

#### **Chapter 2**

This chapter includes the literature review which deals with the dynamics of cooperatives.

#### **Chapter 3**

This chapter deals with research methodology. It gives a detailed approach on how data were collected and the methods used to analyze the data.

#### **Chapter 4**

This chapter includes results and discussion, outlining how results were interpreted and discussion reached.

#### **Chapter 5**

This is the concluding chapter which contains recommendations. It also provides the way forward on this study.

## **1.19. Conclusion**

This chapter highlighted the significance of cooperatives with a particular emphasis on primary cooperatives to the economic growth at Elim village. The chapter further outlined a myriad of challenges faced by primary cooperatives. The chapter also outlined the research aims, objectives and questions. The next chapter will provide the reader with background understanding of the cooperative concept and its applicable legislation, the cooperative movement across the globe and more insights into the challenges facing primary cooperatives. The chapter will also provide a detailed coverage of the existing body of literature related to the challenges faced by these cooperatives and the experiences of other countries other than South Africa.

## Chapter 2

### LITERATURE REVIEW

#### 2.1. Introduction

A large number of South Africans who live in rural and peri-urban areas are part of the informal economy or are otherwise socially, economically and politically excluded from developmental benefits and opportunities, as well as the main stream economy of the country. Cooperatives play a significant role in helping these people in finding solutions towards cooperating out of poverty as a collective by tapping their own resources, knowledge and strengths. Cooperatives contribute to the development of local economies where the poor live through their strong community based network and unique linkages in those communities. They enable the poor to participate and have their voices heard in addition to improving their daily working and living conditions. Because cooperatives are democratic organizations and are owned by those who use their services, they therefore become an ideal instrument to empower the poor since they are participatory in nature and most responsive to local needs and able to mobilize communities and help, particularly vulnerable groups of people.

In terms of chapter 1 of the Co-operatives Act no 14 of 2005, the purpose is to promote the development of sustainable cooperatives that comply with cooperative principles, thereby increasing the number and variety of economic enterprises operating in the formal economy. It also encourages persons and groups who subscribe to values of self-reliance and self-help, and who choose to work together in democratically controlled enterprises, to register co-operatives in terms of the Act.

#### 2.2 Definition of concepts

According to Ortmann and King (2007), a model of cooperative is based on an idea of group formation with the common objective of working together as a collective for self-help by members. The model has evolved overtime centred around addressing

the needs of members' interest, hence those factors that affect the successes and failures thereof, have gained much attention and are widely documented.

### **2.2.1. A Cooperative**

A cooperative is an autonomous association of persons united voluntarily to meet their common economic and social or cultural needs and aspirations through a jointly owned and democratically controlled enterprise organized and operated on a cooperative principles and thus according to The International Cooperative Alliance (ICA), (2005).

In South Africa, the focus in building a cooperative movement has been on primary cooperatives, which is from where the job creation impact is expected. Following the attainment of majority rule many disadvantaged people are embracing the cooperative concept, as it promises to be one of the vehicles by which inequality and poverty can be reversed. Despite the economic and social contributions of cooperatives, evidence shows that many of them have been short-lived and others are still vulnerable (Levin, 2002).

### **2.2.2 Primary Cooperatives**

According to the Cooperatives Amendment Act no 6 of 2013, primary cooperative means a co-operative formed by a minimum of five natural persons whose object is to provide employment or services to its members and to facilitate community development. The most common type of primary cooperatives is a worker cooperative in the South African context which is one organized by workers, including the self-employed, who are at the same time the members and owners of the enterprise ( Cook, 1995). Its objective is to provide employment and business opportunities to its members and manage it in accordance with cooperative principles. There are as well consumer cooperatives whose objective is to procure and distribute commodities to members and non-members; there are also those in the manufacturing and production sector including the agricultural cooperatives

engaged in both commercial and small scale farming (Cooperative and Policy Alternative Centre, 2001).

### **2.2.3. Sustainability**

Clegg (2006) defines sustainability as the establishment of local economies through enterprises that are economically viable. ICA (2013) states that as global attention focuses on the challenge of sustainable development; cooperatives can and must play a role as creative enterprises expanding into new and innovative areas". The concept of cooperatives is viewed as sustainable business models helping achieve sustainable outcomes for communities.

### **2.3. Principles of co-operatives**

Cooperative principles are guidelines by which cooperatives put their values into practice towards achieving the cooperatives objectives (ICA, 1995). These principles include the following:

1. Voluntary and open membership

Co-operatives are voluntary organisations open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political, or religious discrimination.

2. Democratic member control

Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member, one vote), and cooperatives at other levels are also organized in a democratic manner.

3. Member economic participation

Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up

reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative, and supporting other activities approved by the membership.

#### 4. Autonomy and independence

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

#### 5. Education, training and information

Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of cooperation.

#### 6. Cooperation among cooperatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional, and international structures.

#### 7. Concern for community

Cooperatives work for the sustainable development of their communities through policies approved by their members.

### **2.4. Characteristics of a true cooperative**

According to Sam (2010), successful cooperatives have the following characteristics:

- Strong family-based leadership as a key factor for viable cooperative operation.
- Dynamism and versatility in income generating activities lead to both coop productivity and sustainability.
- Efficient utilization of resources (technical, financial and human) enhances cooperative productivity and sustainability.

- Networks and linkages contribute to both cooperative productivity and sustainability.
- Membership Expansion increases paid up capital, which subsequently enhances coop productivity and sustainability.

## **2.5. The Global strength of cooperatives and their role in the world economy**

A cooperative is a widespread and important governance structure within the agricultural sector. The cooperative sector worldwide is comprised of approximately 800 million members in over 100 countries and it is estimated to account for more than 100 million jobs around the world: 20% more than multinational enterprises (Skurnik, n.d.). Agricultural cooperatives, in particular, account for 80% to 99% of milk production in Norway, New Zealand and the United States; 71% of fishery production in the Republic of Korea and 40% of agriculture in Brazil (ICA, 2007). Over the years, cooperative enterprises have successfully operated locally-owned people-centered businesses while also serving as catalysts for social organization and cohesion. Cooperatives have over one billion members worldwide and can be found in sectors ranging from agriculture to finance to health (Whitman, 2011).

### **2.5.1. European Union**

Cooperatives are an important organisational structure in many agricultural markets. For example, in the European Union (EU), cooperatives firms account for over 60% of the harvest, handling and marketing of agricultural products, with a turnover of approximately 210,000 million Euros (Galdeano, Cespedes and Rodriguez, 2005). Furthermore, over 50% of the global agricultural output is marketed through cooperatives (Bibby and Shaw, 2005). Clegg (2006) urged that cooperatives have a great potential to improve the living conditions of the poor, if they can gain power in the marketing of their produce.

### **2.5.3. Brazil**

According to the Organisation of Brazilian Cooperative (OCB) (2009), there are 7,261 cooperatives active in 13 sectors of the Brazilian economy. In 2009, they exported a total of 3,6 billion dollars and had a turnover of 44,25 million dollars. The cooperative movement in Brazilian has 8,252,410 members, 274,190 employees and generates 5,39% of the Gross Domestic Product (GDP) Brazilian cooperatives closed the year 2009 continuing their maturity process initialized some years ago. This is made clear by the fact that there was an increase in the number of members (4.62%) as well as the number of jobs created (7.71%). Regarding members growth, the participation of the credit sector, with an increase of 8.76%, should be highlighted. It represented a total of nearly 282,000 new cooperators. In terms of jobs generated within the sector, the highest percentages were found in Education (24.7%), Production (20.23%) and Health (18.2%) (OCB, 2009).

### **2.5.5. Germany**

In Germany, the cooperative business model is seen to provide stability and security in tough times, and is expanding into new fields within the SME sector. In Germany there are 17 million members spread across around 5,300 co-operatives. Each one out of four is a member of a cooperative. The cooperative network is the largest economic organization in Germany. German Co-operative and Raiffeisen Confederation Registered Association (DGRV- Deutsche Genossenschafts and Raiffeisen Verband) is the apex and the auditing association as defined by the German Cooperative Act. Today cooperatives are also present in growth sectors such as the service industry, in data processing, new media industries, in the education and health sectors. This shows that cooperatives are not only engaged in current development but also that their foundation concept can be flexibly applied to the most varied industry structures.

### **2.5.6. United States of America**

In the United States of America, some of the largest health providers are consumer cooperatives. In the Pacific Northwest one cooperative provides health care for

570,000 members; in the Mid-West another has as many as 630,000 members (United Nations (UN) report, 2009). In provision of utilities, over 1000 electricity cooperatives supply power to around 12 per cent of USA households, mainly in rural areas (UN, 2009). The cooperative also is visible in the insurance sector. For example, the Mutual Insurance Federation (ICMIF) has 184 insurance companies in membership from 70 countries, with seven percent of the world's premiums (Nwankwo, Ewuim and Asoya, 2012).

### **2.5.7. Japan**

According to Michael (2014) in Japan, 120 consumer cooperatives provide health care for around three million members. There are primary producer cooperatives, which supply inputs and do marketing and processing of products for farmers, fishermen and forestry workers. They include some of the world's biggest businesses, including conglomeration of farmers, ranchers and primary cooperatives whose success made to the Fortune 500 listing. Cooperatives are also a major presence in the Japanese world of retail distribution. In the year ending March 2007, Japanese consumer cooperatives had a total turnover of \$22 billion (Thompson, 2008). That total makes the consumer cooperatives the third largest overall retailer in Japan. The wholesale activities and group purchasing done by the Japanese Consumer Cooperative Union (JCCU) add another \$3.3 billion in volume to the co-op economic activities. The 158 independent Japanese co-op societies presently hold 2.8 percent of the Japanese retail market share (JCCU, 2005). This share has risen from 2 percent in 1986 but is now beginning to erode from a high of about 3 percent, following aggressive efforts by national Japanese retailers. The retail co-ops employ over 26,000 people (Thompson, 2008). Retail consumer cooperatives in Japan now have 17 million members (2007), a growth of almost 900,000 members over 2006. Each member purchases an average of \$112 per month at the co-op. Consumer co-ops in Japan operate very differently from most other co-ops around the world. Of the retail sales of Japanese co-ops, \$8.4 billion takes place through stores, whereas home delivery creates \$13.1 billion in sales. The cost of real estate in Japan and competition for sites literally forced the co-op to think outside the box. Due to these factors, JCCU members only opened 19 new stores in 2006.

### **2.5.8. United Kingdom**

In the UK there is a cooperative that operates 400 markets on behalf of 65 cooperative market societies, through which 12,000 producers can sell directly to consumers (International Labour Office Co-operatives UK, 2008). In the UK in particular, consumer cooperatives are fifth in market share and are pre-eminent in the small supermarket sector. According to Thompson (2006), the British retail market is a functioning oligopoly, and cooperative mergers have occurred not a moment too soon. The top four British food retailers operate mainly hypermarkets and supermarkets with 75.2 percent of the total market share in their 3,326 food stores. The cooperatives have 3,301 neighborhood food stores but also 1,236 other retail stores (pharmacies, car dealerships, news agents, and funeral parlors). Although smaller in volume and market share there are still more co-op stores in more communities than any other retailer in Britain.

### **2.5.9. African Perspective**

In Africa, the cooperative sector has continued to grow, at least in a number of countries. This was in spite of the economic difficulties that have been plaguing the continent (Develtere and Pollet, 2008). Whereas there were only 1,000 cooperatives in Ghana in 1992, this has grown to 2,850 in 2005. In Kenya, the number of persons in the cooperative movement was 2.5 million in 1992 and 3.3 million in 2005. Also in Kenya, 20% of the population belongs to the cooperative movement (Vanhuynegem, 2008). Kenya Cooperative movement is currently ranked 1st in Africa and 7<sup>th</sup> internationally. In July 2013, World Council of Credit Unions (WOCCU) recognized Kenya as the fastest growing subsector in the World. Cooperative enterprises have generated employment opportunities of over 500,000 people and indirectly for 2 million. Income to co-operators has increased. There has been tremendous growth of co-operative financial organization into giant financial power houses which surpassed the normal commercial banks and other financial institutions. The Cooperative Bank of Kenya is the 3<sup>rd</sup> largest bank in Kenya, while the Co-operative Insurance Company of Kenya (CIC), is the 2nd largest insurance in Kenya and the only one of its kind in Africa.

And in Ethiopia, more than 85 per cent of Ethiopia's total inputs in rural areas are distributed through cooperatives, and over 75 per cent of its coffee is exported by cooperatives (Kirsten and Sartorius, 2002). Indeed, in all the countries of Africa, there is significant cooperative advantage in supply of farm inputs, credit extension, processing and marketing of farm produce.

Cooperative movement in **Nigeria** started with the colonial masters, with the formulation and enactment of cooperative legislation in 1935. During this period, the cocoa farmers in Western Region formed marketing societies with the sole aim of checking the excesses of middlemen and ensuring the marketing of pure and unadulterated cocoa (Okone and Ijere, 1986). In September of 1935, the Cooperative Department was inaugurated at Ibadan in Moore Plantation with total staff strength of one registrar, three cooperative inspectors, one clerk and one messenger. The following year, in 1936, the Cooperative Regulation was passed and the Cooperative Department was separated from the Department of Agriculture. The inauguration of the first Nigerian cooperative finally took place in 1937 with the registration of Gbedun Cooperative Produce Marketing Society Ltd (Nwankwo, Ewuim and Asoya, 2012). Since the year 1973, the Federal Government of Nigeria has been utilizing the Nigeria cooperative movement as a source of distribution of scarce and essential commodities. The movement spread to other parts of the country. As time went on, however, the cooperative development became a regional matter, and later Cooperative Society Division was established in the Federal Ministry of Labour for the Federal Territory of Lagos. Subsequently, some were created by various state ministries in the country just as farmers' cooperatives flourished in the then Western Nigeria which built the famous Cocoa House, the cooperative credit society and unions thrived in the Eastern part and later metamorphosed into Cooperative and Commerce Bank Nigeria Limited (Ejeakanonu, 2007). Likewise Nigerian cooperatives grew from 2,900 with a membership of 2.5 million in 1992 to 5000 with a membership of 4.3 million in 2005 (Develtere and Pollet, 2008).

## **2.5 History of co-operatives in South Africa as a vehicle of economic growth**

According to the Department of Trade and Industry (Dti) paper on promoting integrated cooperative sector in South Africa (2012), the cooperative sector is a well-established economic vehicle in South Africa which dates back to the early 20th century. The entire legislative framework and the cooperatives that emerged during that period were not in strict adherence to the international cooperative principles. For instance, the 1922, 1937 and 1981 Cooperative legislation did not articulate, nor encourage cooperatives to adhere to the seven international cooperative principles. The cooperative sector started with the establishment of the predominantly white agricultural cooperatives, aimed at developing and building the white farming community. These co-operatives eventually developed into powerful business ventures, which controlled agricultural production, marketing and processing in rural areas. The cooperatives benefited mainly through massive government support in the following forms:

- The Land Bank was established in 1912 to provide these co-operatives with access to finance.
- Other legislation enacted in support of co-operatives includes the 1912 Land Settlement Act; 1913 and 1936 Land Acts; Co-operatives Societies Acts of 1922 and 1939; and the Natives Administration Act of 1936.
- Marketing Boards were established through the promulgation of the 1937 Agricultural Marketing Act. The Boards were tasked with fixing the prices of agricultural commodities; and acted as secondary cooperatives that purchase produce from cooperatives and market it locally and internationally.
- The state also provided subsidies and tax exemptions to these agricultural cooperatives.

Black-owned agricultural cooperatives were promoted by the then government in the 1970s and 1980s as part of the apartheid economic grand-plans for the 'homelands'. However, they did not enjoy the type of state support provided to white agricultural cooperatives and remained weak and underdeveloped, with most eventually collapsing. The 1981 Cooperatives Act further promoted the

registration of agricultural cooperatives, even those owned by black people (Dti, 2012).

The post-apartheid South African government identified cooperatives as a significant means to empower the rural poor with respect to the development of income generating activities, human resource capacity, and increased savings and investment (Knight, 2006). The government deemed the Cooperatives Act of 1981 to be unsuitable for this objective, in part because it focused on larger and commercial agricultural cooperatives (Ortmann and King, 2007), and a new Cooperatives Bill was drafted by the Department of Agriculture (DoA) in 2001. This Bill introduced provisions to help cooperatives source additional capital. For example, it introduced a provision that would allow investor shares in a cooperative to be purchased by non-members. However, these provisions were contested by the Congress of South African Trade Unions (COSATU) as being contradictory to cooperative principles. In 2003, following a Presidential Growth and Development Summit, responsibility for cooperatives was transferred from the DoA to the DTI, purportedly to ensure that cooperatives are promoted as businesses in all sectors of the economy. DTI revised the Bill, taking COSATU's concerns into account, and championed its passage into law (Lyne and Collins, 2008). In essence, the new Act (Act 14 of 2005) specifies institutional arrangements typical of traditional cooperatives (TCs) and gave existing cooperatives three years in which to either comply with its provisions or to restructure as an alternative type of organisation (e.g., a company).

The promulgation of the new Co-operatives Act, No. 14 of 2005, facilitated a boom in the registration of new cooperatives never seen before in South Africa. According to the Companies and Intellectual Property Commission (CIPC) register, 19 550 new cooperatives were registered from 2005 to 2009 in various sectors, representing a growth rate of 86%. Within a period of four years, the number of new cooperative registrants has almost quadrupled the number of cooperatives that were registered over the previous 82 years (1922 – 2004). The majority of these new cooperatives are black woman-owned. Youth-owned cooperatives have also begun to emerge. However, most of these new entrants

remain vulnerable and very weak and require high and sustained levels of support (Dti, 2012).

In South Africa today, The national picture from the Department of Trade and Industry (DTI) baseline study for the period 2009 to 2011 shows that 22,619 cooperatives were registered with 20,221 died and while only 2,398 cooperatives were surviving and 19,975 defunct, giving a 12 percent survival rate.

## **2.6. Legislative frameworks which guide the establishment of co-operatives: Internationally**

### **2.6.1 Government policies**

In most developing countries, the majority of the population are poverty stricken. In an attempt to deal with the needs of consumers, governments usually develop policies which some of them turning to harm the livelihoods of cooperatives. These policies may affect the pricing models of products from manufactures to consumers and which would have an adverse effect on food production (Kruerger, Schiff and Valdes, 1988; Meyer and Larson, 1997). Such policies include price ceilings, pan-territorial or uniform pricing, pan-seasonal pricing, marketing margin controls, high import and export taxes and parastatal marketing monopolies (Meyer and Larson, 1997).

The implementation of a pricing policy, especially in developing countries, has been undertaken with a variety of contradictory motives aimed at protecting consumers and manufacturers from price instabilities (Dorward, Kydd and Poulton, 2008)

The critics of government intervention in pricing argue that this may lead to a failure to realize the benefit of competition by rewarding inefficient operations (Timmer, 1989). White (1985) argues that uniform pricing for all economic regions would increase regional income differentials by disadvantaging those areas with less favourable natural and infrastructural conditions and rewarding better endowed areas. Another point of criticism is that government failure to set efficient prices due to lack of adequate information may negatively affect producers (Dorward, Kydd and

Poulton, 2008). Those who argue for the interventions are more interested in the effects of food security, nutrition and economic growth which may be biased towards consumers, rather than producers (Myers, 2006).

In Nigeria, Cooperative Legislation and the Department of Cooperatives have been put in place since 1935. This was followed later by the regional cooperative laws and regulations. Presently there is the Nigerian Cooperatives Act (1993). The various legislations were meant to engender a vibrant and self-reliant movement. But this has not happened and most of cooperatives in Nigeria are only active when there are government projects or programmes to benefit from. This problem of over reliance on the government stems from a faulty cooperative promotion model: The formation of cooperatives was not as a result of the felt needs of the people (Nwankwo, Ewuim and Asoya, 2012). Holmes cited in Birchall (2003) notes that there were two contradictory strands in the policy towards cooperatives. There was to be development from below, with learning by doing, mutual aid, fostering self-reliance, yet the development was to be planned, and carried out by government departments. The result has been the birth of a cooperative movement that is bereft of cooperative spirit.

### **2.6.2 Regulatory framework**

Government should provide a supportive policy and legal framework consistent with the nature and function of cooperatives and guided by the cooperative values and principles (Maduegbuna, 2010). It is the contention of many, that most of the challenges facing the cooperative could be tackled through a holistic reform of the cooperative legal and regulatory environment (Vanhuynegem, 2008). For cooperatives to thrive, be successful and more responsive to needs of member's small and medium scale businesses there must be adequate laws, regulations and supportive institutions that should promote cooperatives as private sector businesses. While many countries have reformed (or are in the process of reforming) their cooperative laws, often they do not treat cooperatives with the same conditions or controls as other forms of enterprise (Develtere, 2008). Likewise, cooperatives treated as nonprofit organizations can become instruments to advance social rather than business purposes, which ultimately threaten their long-term financial viability,

increases their dependence on external government or donor funds and, in so doing, jeopardizes their autonomy and independence from governmental or other third party interests (Nwankwo, Ewuim and Asoya, 2012).

The Cooperative Law and Regulation Initiative has advocated the following nine basic principles for effective legal and regulatory systems that support cooperative businesses (United States Agency for International Development (USAID), 2006).

- **Protect democratic member control:** Law must protect the democratic character of cooperatives, vesting control of the organisation in its members;
- **Protect autonomy and independence:** Cooperatives are private sector businesses. Law must protect the autonomy and independence of cooperatives from government, persons, or entities other than members of the cooperative;
- **Respect voluntary membership:** Law must protect the voluntary nature of membership in cooperatives; membership in cooperatives should be determined by the cooperative, not mandated by law or government order;
- **Require member economic participation:** Law must protect and promote the responsibilities of membership, including the duties to contribute equitably to and democratically control the capital of the cooperative;
- **Promote equitable treatment:** Law and regulation should be no less advantageous to cooperatives than to other businesses in the same sector, while protecting and being sensitive to the mutuality of cooperatives. Incorporation, law enforcement, dispute resolution, and licensing of cooperatives should be handled in the same manner as they are for other businesses;
- **Promote access to markets:** Sector-specific regulations should provide reasonable accommodations and incentives where appropriate, that enable cooperative forms of business to operate;
- **Provide coherent and efficient regulatory framework:** Regulatory framework should be simple, predictable and efficient; should minimize bureaucratic delay and obstructions to business operation; and should

avoid conflict and duplication with other laws. Regulation with respect to the business of cooperatives should be handled by institutions with the most relevant specialized expertise;

- **Protect due process:** Cooperative organisations and their members should be accorded due process of law, including applicable rights to hearings, representation, and impartial appeals - for decisions of the state that impact cooperatives or their members, and
- **Avoid conflicts of interest:** The roles of the state in law enforcement, dispute resolution, licensing and promotion should be administered in a manner that avoids duplication, undue influence, and minimizes conflicts of interest.

## **2.7. Legislative frameworks which guide the establishment of co-operatives in South Africa**

Legislative and policy imperatives, which replaced the repealed Cooperative Act of 1981, with the aim of promoting cooperatives based on legal ground to function as formal institutions without prejudice (Satgar, 2007), are the Broad-Based Black Economic Empowerment Act No. 53 of 2003 (BBBEE), the Cooperative Development Policy for South Africa (2004), the Cooperatives Act No. 14 of 2005, and the Cooperative Banks Act No. 40 of 2007. Such legal protection should facilitate growth and job creation and complement other productive enterprises (Kanyane and Koma, 2014).

### **2.7.1. Broad-Based Black Economic Empowerment Act No. 53 of 2003 (BBBEE)**

The objectives of this Act in terms of chapter 1, pages 2 of 2003 are to facilitate broad-based black economic empowerment by:

- Promoting economic transformation in order to enable meaningful participation of black people in the economy;
- Achieving a substantial change in the racial composition of ownership and management structures and in the skilled occupations of existing and new enterprises;

- Increasing the extent to which communities, workers, cooperatives and other collective enterprises own and manage existing and new enterprises and increasing their access to economic activities, infrastructure and skills training;
- Increasing the extent to which black women own and manage existing and new enterprises, and increasing their access to economic activities, infrastructure and skills training;
- Promoting investment programmes that lead to broad-based and meaningful participation in the economy by black people in order to achieve sustainable development and general prosperity;
- Empowering rural and local communities by enabling access to economic activities, land, infrastructure, ownership and skills, and
- Promoting access to finance for black economic empowerment.

Although this act is not directly related to cooperatives it is instrumental in businesses in general.

### **2.7.2. The Cooperative Development Policy for South Africa (2004)**

The Government believes that a clear, comprehensive, and widely agreed co-operative development policy (2004) implemented successfully will:

- Create an enabling environment for cooperative enterprises which reduces the disparities between urban and rural businesses, and is conducive to entrepreneurship;
- Promote the development of economically sustainable cooperatives that will significantly contribute to the country's economic growth
- Increase the number and variety of economic enterprises operating in the formal economy;
- Increase the competitiveness of the cooperative sector so that it is better able to take advantage of opportunities emerging in national, African and international markets
- Encourage persons and groups who subscribe to values of self-reliance and self-help, and who choose to work together in democratically controlled enterprises, to register cooperatives in terms of the Act;

- Enable such cooperative enterprises to register and acquire a legal status separate from their members;
- Promote greater participation by black persons, especially those in rural areas, women, and persons with disability and youth in the formation of and management of cooperatives.
- Establish a legislative framework that will preserve the cooperative as a distinct legal entity.
- Facilitate the provision of support programmes that target cooperatives specifically cooperatives that create employment or benefit disadvantaged groups.

### **2.7.3. The Cooperatives Act No. 14 of 2005**

The purpose of this Act is to:

- Promote the development of sustainable cooperatives that comply with co-operative principles, thereby increasing the number and variety of economic enterprises operating in the formal economy;
- Encourage persons and groups who subscribe to values of self-reliance and self-help, and who choose to work together in democratically controlled enterprises, to register co-operatives in terms of this Act;
- Enable such cooperative enterprises to register and acquire a legal status separate from their members;
- Promote equity and greater participation by black persons, especially those in rural areas, women, persons with disability and youth in the formation of, and management of, co-operatives;
- Establish a legislative framework that preserves a cooperative as a distinct legal entity;
- Facilitate the provision of support programmes that target emerging cooperatives, specifically those cooperatives that consist of black persons, women, youth, disabled persons or persons in the rural areas and that promote equity and greater participation by its members;

- Ensure the design and implementation of the cooperative development support programmes by all the agencies of national departments and compliance with uniform norms and standards prescribed by this Act;
- Ensure the design and implementation of the cooperative support measures across all spheres of government, including delivery agencies, and adherence to a uniform framework of established norms and standards that reflect fairness, equity, transparency, economy, efficiency, accountability and lawfulness, and
- Facilitate the effective co-ordination and reporting mechanism across all spheres of government through the department.

#### **2.7.4. The Cooperative Banks Act No. 40 of 2007**

The purpose of this Act is to

- Promote and advance the social and economic welfare of all South Africans by enhancing access to banking services under sustainable conditions;
- Promote the development of sustainable and responsible co-operative banks; and
- Establish an appropriate regulatory framework and regulatory institutions for co-operative banks that protect members of co-operative banks, by providing for:
  - (i) The registration of deposit-taking financial services co-operatives as cooperative banks;
  - (ii) The establishment of supervisors to ensure appropriate and effective regulation and supervision of co-operative banks, and to protect members and the public interest, and
  - (iii) The establishment of a Development Agency for Cooperative Banks to develop and enhance the sustainability of co-operative banks.

## **2.8. Importance of Cooperatives and their contribution to economic growth**

A cooperative is a community-centred development business, incorporating low-income people into the socioeconomic mainstream (Majee and Hoyt 2011), a channel through which a community democratically takes control of its socioeconomic destiny, based on common geography, experiences, and a unified effort to achieve community-established goals (Brown, 1997).

Cooperative members synergistically strive toward social, economic, and environmental self-sustainability. To achieve community-established goals, members believe in ethical values of honesty, openness, social responsibility, and reciprocal care (Khumalo, 2009). The community identifies its economic, social, political, and external resources. Cooperatives must train and educate members in needed skills, promote group efforts, focus on community needs, create job opportunities, invest in community capital projects, and return net earnings to member owners, pro rata to involvement. The quality of cooperatives in community development is associated with their ability to create interdependent economic, human, and social capital (Gittell and Thompson 2001). Community networking combines social capital with community norms, each member trusting all others to ease coordination and cooperation for mutual benefit. It improves access to economic capital and political influence, which sustains human capital, crucial for community development (Woolcock and Narayan, 2000).

Most cooperatives in South Africa are composed of the formerly disadvantaged groups, particularly old women. In a study of cooperative members in selected areas of Limpopo and Mpumalanga provinces, Nyambe (2010) found out that of the cooperatives under study, 61 percent were composed of women and that the biggest concentration of the members (21 percent) were between the ages of forty-one and forty-four years. The study also showed that the education levels of cooperatives members were low.

The study by National Co-op Association of South Africa, (NCASA's) baseline study (2001) states that faced with massive economic restructuring and unemployment, South Africans are discovering the potential of the primary cooperative, a collective entrepreneur model that provides decent and sustainable employment and a

democratic workplace, however it is far from the current realities. In the same study, 40% of coop respondents reported that they generate no income for members at all. Only 36% of the total coops surveyed were willing or able to give monthly income figures. The cooperatives sector worldwide is comprised of approximately 800 million members in over 100 countries and it is estimated to account for more than 100 million jobs around the world: 20% more than multinational enterprises (Skurnik, n.d.)

Mayende (2011) states that cooperative development strategies tend to be targeted mainly at unskilled, unemployed people, on the margins of the economy. From a base of poverty, they are expected not only to employ themselves, but also to lead the way in building alternative models of work organization, worker self-management and worker ownership. Perhaps this challenge should instead be taken up by workers in the most established businesses where workers are well organized, the skills and market share are in place. This is a more likely context for primary cooperatives to succeed in South Africa, and from that success, be able to create a support environment that could over time broaden the base of primary cooperatives and create new jobs.

## **2.9. Success factors associated with cooperatives**

According to Pagdanganan (1999), government support of cooperatives is based on the principle of subsidiarity. Cooperatives are greatly affected by their relationship with the state. The government determines the legislative framework within which cooperatives must operate. They set policies in taxation and socio-economic matters. In successful countries, the government has generally respected the autonomy and independence principles of cooperatives. They see cooperatives as partners in development, and have supported rather than exploited them. Cooperative Financial Institute of South Africa (COFISA) points out some of the factors responsible for cooperative success in many countries are:

- Merging and consolidation of primary cooperatives resulted in economies of scale, and improved productivity and competitiveness.

- Professionalization of management. Training and education are a must in most countries, not just for members but also for auditors and directors. They make full use of modern technology in information and communications.
- Training and education programmes. Many countries have established excellent training centres and research and education facilities, and have developed appropriate curriculum for members and management.
- Effective auditing system. Auditors in other countries are required to undergo special training before they can be accredited. Auditing by the Cooperative Federation is compulsory in Germany for example. This has improved overall management systems and provided protection to investors.
- Strong federation of cooperatives. Cooperatives in Germany, Japan, Korea, North America, and other progressive countries have developed strong federations. These provide support in terms of consultancy services, auditing, and lobbying for a supportive policy environment. The federations are instrumental in establishing business enterprises.
- Cooperative federations have also established modern training facilities and systems, as well as insurance firms and convenience stores.
- Membership in federations is mandatory in other countries. The Bavarian Federation of Cooperatives in Germany is an outstanding example of such a federation.

## **2.10. Factors contributing to failures of Cooperatives**

One other challenge is that the provision of “cheap” capital or material resources reduces the motivation of members to contribute their own resources. Instead of an organic growth that is gradual through members gaining experience by growing their business, a dependency syndrome sets in that leads to demotivation when no further external assistance is received. Government officials have been accused of forming cooperatives and thereby compromising the principle of autonomy and independence (Muthuma, 2012).

According to Sam (2010), the following are mostly the factors dragging down cooperatives to fail in many parts countries:

- Leadership crisis leads to vulnerability and insensitivity to problems, dragging down the coops to failure.
- Failure in project implementation results in no return of investment, non-payment of loans by the borrowers, and non-productive coop operations.
- Dole out mentality leads to unproductive (passive) co-op.
- Non-utilization of technical know-how acquired from training leads to non-productive performance.
- Un-sustained networks and linkages meant lack of support mechanisms that could further enhance coop productivity and sustainability.
- Deficient record-keeping meant absence of reliable information on the coops' financial condition, making them vulnerable to further corruption.

According to Philip (2003), management of an enterprise involves a complex range of skills. As soon as an enterprise involves the collective management of resources, the complexity of management escalates exponentially. Many unemployed people facing the challenge of self-employment have little or no prior work experience, let alone business management experience, and financial literacy and even basic numeracy skills are often low.

According to the Cooperative Development Authority (1992), the following are reasons for the failure of cooperatives (as cited in Turingan, 1995):

- Lack of education and training, information, and practical know-how on the principles, nature, and operations of the cooperative organization, which led to incompetent management;
- Non-internalization of cooperative principles and practices by the members;
- Insufficient working capital;
- Inadequate marketing facilities;
- Political interference, particularly in the collection of overdue accounts, and
- Inadequate and ineffective supervision by government agencies entrusted with the development and promotion of cooperatives.

Tutigan (1995) further points out that, while government support of the cooperative movement reaffirms its commitment to the vital role of cooperatives for socio-economic development, such support has had negative effects, such as:

- Dependence of cooperative leaders on government for direction and financial support has bred a culture of patronage that does not encourage self-reliance and self-management among cooperatives;
- Dependence on government made cooperatives mere extensions of government plans and programmes, thereby hampering their growth as autonomous people's organizations; and
- Intervention by government has discouraged peoples' participation. Worse, government officials have had occasion to use cooperatives for their own political purposes.

We shall look at four underlying factors leading to some failures: historical, ideological, organizational, and operational (Kanyane, 2009).

### **Historical**

In times of need, collaboration inspires people to promote mutual assistance, as during the Industrial Revolution of the eighteenth century in the United Kingdom (Satgar, 2007:2). Over time, this phenomenon has continued in different societies, often supported by the state, positively or negatively. Cooperatives fulfil community economic needs that would otherwise go unmet. Socially, though, cooperatives target the ideal of human cooperation, providing people with a measure of control over their lives (Grott, 1987). The achievement of economic and social goals is based mainly on trust.

The response of cooperatives to a concurrent set of these goals implies that cooperatives build on material and ideological needs, influenced by the environment. South Africa's history teems with the state's bureaucratic influence, limiting the internal democracy of cooperatives (Satgar and Williams, 2008:5) and stunting their ability to reach their potential. Such a strain on them puts their existence at risk (Grott, 1987). Entailed risks could be that the loyal markets of cooperatives are no longer guaranteed, nor can cooperatives afford to support their social agenda, losing the freedom to choose their own style and direction (Grott, 1987), with government, rather than the cooperative management, the board, or the membership, in total control.

Cooperatives in South Africa, as in other African countries, are not indigenously grown institutions, but were introduced by the colonial administration (Hussi, 1993). The apartheid regime in South Africa continued with the central administrative control of cooperatives, which continues in the presently democratic South Africa, albeit with mainly poor results. Cooperatives have more or less become highly politicized government appendages, state-owned enterprise extensions, incapable of embracing maturity or independence, vulnerable, and lacking necessary state protection or support. The involvement of governments in cooperatives is best characterized as inconsistent and erratic (Shaw, 2006).

It ranges from no interference and support for cooperatives in Cape Verde and Uganda to high levels of direction and interference in Nigeria and Egypt, and somewhere in between, with legislative liberalization in recent years, in South Africa, Ghana, Kenya, and Rwanda (Shaw, 2006). Liberalization curtails regulatory powers over cooperatives. Kenya is noted to have in 2004 partially rescinded its liberalization process implemented in 1997; cooperatives in Kenya were discovered to be ill-prepared for that privilege, being riddled with corruption and mismanagement, including illicit payments and thefts. Ugandan cooperatives experienced similar problems, but unlike Kenyan cooperatives, they now depend on foreign donors for survival, rather than on the Ugandan government (Shaw, 2006).

South Africa, too, experiences large-scale mismanagement and corruption in government (Kanyane, 2014), and the level of government involvement in cooperatives remains a thorny issue. The effect of cooperatives on employment, poverty reduction, social protection, and representation (Pollet and Develtere, 2004) is expected to limit government intervention to issues related to changes in the legal framework and financial support for capacity building, member education, and staff and management training in cooperatives. Instead, cooperatives in South Africa continue to face policy, institutional, and operational constraints (Nyambe, 2010). In their present status, they are merely government-controlled, semi-public institutions that are, to some extent, involved in unions and associations and therefore used as instruments of social movement but lacking in governance standards. The result is the reduced membership in cooperatives and the near total death—no viability—of commercial cooperatives. For example, in 2005, 77.1 percent of workers' cooperatives in Gauteng could not pay wages to their members, and 71.1 percent

failed to make a surplus (Philip, 2007). Apparently, workers' cooperatives in South Africa are in dire need of government assistance (Nyambe, 2010).

### **Ideological**

Universally, cooperatives are legislated and regulated by the state, but countries differ as to their domicile. European countries like Spain and Italy use a department of labour; their cooperatives are success stories because they contribute to national development. African countries like Tanzania and Kenya utilize a ministry of cooperatives and marketing; their cooperatives generate employment and contribute to their national GDP. In India, mother bodies like the National Cooperative Union function as a protective influence over cooperatives, rendering them free from party political interferences (Satgar, 2007).

Globally, the revenue of the top 300 cooperatives is estimated at more than US\$1 trillion, and cooperatives' shares of the world market in insurance and dairy products are 25 percent and 33 percent respectively (DTI 2012:19). Somewhat substandard in performance are cooperatives in the former Soviet bloc, which experience excessive state control and are discredited as extensions for government bureaucracy or a front for a few individual entrepreneurs (Satgar, 2007). Interventions by government authorities do not always cultivate the autonomous and independent impulses needed for sustainability within and among cooperatives. South Africa seems undecided about the responsibility for cooperatives, having lacked the formulation of a practical policy reorientation to ensure that cooperatives be developed and sustained.

Exacerbating this lack of policy is the fact, generally known in the country, that at the end of apartheid, the democratic government overlooked educating citizens about social change and the social role of cooperatives (Nyambe, 2010). This oversight meant that the existing relatively sizable cooperatives in the country were seen as apartheid extensions and partially isolated on that basis. Examples are agricultural cooperatives, which, despite their large sizes, commercial potential, and members' dedication, suffered high mortality rates, explained in part by the failure to embrace democracy at a societal level (Philip, 2003:4), and because of the lack of strong support networks (DTI 2012).

Educating South Africans would constitute significant assistance by the government to cooperatives, including those seen as apartheid legacies. Presently, members trying to initiate cooperatives often do not understand their business plans, usually drawn by service providers, and cooperative members themselves do not participate in the drafting process (Eastern Cape Development Corporation (ECDC) 2011).

The government fails to institute mentorship programmes to assist potential members of cooperatives with issues about governance, group dynamics, and cooperative governing laws (ECDC 2011). Presently, substitutes to so called apartheid legacies remain elusive. With substandard capital bases, questionable internal structures, and an unhealthy competition, all typical of undeveloped cooperatives (Grott 1987), coupled with lack of education through government negligence, the demise of South African cooperatives is nearly complete. A dismally low cooperative survival rate of about 20 percent in 2010 for Limpopo Province is recorded as South Africa's highest compared to other provinces, according to the office of the registrar of cooperatives (ECDC 2011).

Lack of knowledge about how cooperatives work has created unrealistic expectations in South Africans about the real benefits of belonging to cooperatives. Many see cooperatives as a get-rich-quick route, and when that does not happen, they become disillusioned about cooperatives in general, demotivated to form new cooperatives or join existing ones (Kanyane and Koma, 2014:124).

Table1. Survival and mortality rates of cooperatives in South Africa, 2009.

Type of cooperative	CIPC 2009 Data	No. of those died Cooperatives	Mortality rate (%)
Food and agriculture	6086	5415	89
Services	4209	3852	91.5
Textiles	1247	975	78
Multipurpose	3160	2973	94
Construction	1280	1078	84

Manufacturing	1093	956	87.5
Arts and crafts	340	237	70
Social	311	221	71
Other	328	239	73
Home industry/Baking	334	251	75
Transport	856	806	94
Trading	2708	2661	98.2
Financial/CD services	233	197	85
Housing	78	53	68
Burial	65	46	71
Mining	78	66	85
Consumer	128	117	91
<u>Recycling &amp; waste management</u>	<u>85</u>	<u>78</u>	<u>92</u>

*Source:* DTI (2012:40).

Although significant progress has been made in the establishment of cooperatives as a business model, sustainability and growth is a massive challenge for the majority of cooperatives (Table 1). The national picture from the Department of Trade and Industry (DTI) baseline study for the period 2009 to 2011 shows that 22,619 cooperatives were registered with 20,221 died and while only 2,398 cooperatives were surviving and 19,975 defunct, giving a 12 percent survival rate.

Vulnerable cooperatives, often in the majority, choose to close down (Table1), while surviving cooperatives remain underdeveloped, their poor state reflected in their continuously deteriorating contribution to the domestic economy. For example, in 2003, the percentage contribution of cooperatives to the GDP was 0.98 percent; this quantity fell to 0.47 percent in 2005 and to 0.33 percent in 2007 (DTI 2012:42).

The importance of cooperatives is not in question, though, considering their functions of decentralizing capital and profit, implying that cooperatives have a social goal to spread business ownership to as many people as possible (Singerman, 1987).

The environment in which cooperatives operate in South Africa poses a major challenge (ECDC, 2011). The government bureaucratic control, short of education and financial support, has meant that potential investors are wary about involvement in cooperatives in the country (2011). Transferred from the Ministry of Agriculture to the Department of Trade and Industry (DTI), it seems like a bureaucratic dictate aimed at administering or monitoring cooperatives - a micromanagement strategy, stifling cooperative activities (Philip, 2003:14).

### **Organizational**

Confusing cooperatives with state-led enterprises risks their being formed on the basis of party politics. Similarly, placing South African cooperatives under government departments leaves cooperatives at the mercy of government bureaucrats, to the detriment of cooperative leadership, which should have the cooperatives' best interest at heart. Chances are that cooperatives' potential patrons or members will dwindle for lack of trust of leadership under government bureaucrats. With diminished societal motivation come diminished trust, member motivation, and commitment. Even structures as democratic as cooperatives become less functional with the eroded special advantage of member allegiance, burdened with structural liabilities (Grott, 1987). It is a case of having a clear identity with a meaningful sense of purpose or be phased out.

In South Africa, the majority of cooperatives choose the latter. Any direct government control of cooperatives goes against universal support for self-help fundamentalism, which grows cooperatives from the bottom up (ILO 2010:5–7). This approach is well suited to empower individuals or communities to take control of their own future, promoting or caring for the needs of their members or communities. Perhaps government should assist with financial support, as financial viability is a prerequisite for cooperatives in communities to be upgraded to enhancing nationwide socioeconomic development. That, though, does not suggest neglect for the social or environmental duties and effects of cooperatives (Satgar and Williams, 2008:6). In

South Africa, local communities, trade unions, and different government spheres are role players in the cooperative quest for local economic development.

### **Operational**

The disbandment of the National Cooperative Alliance of South Africa (NCASA) was a mistake. The alliance acted as a buffer for cooperatives against harsh market conditions and pressures from state authorities. Harsh market conditions affect cooperatives exposed to competition, especially those at infant stages. Cooperatives' loyal markets may no longer be guaranteed, especially with price competition, which could move parallel with increasing and unmanageable costs (Grott, 1987). Vulnerable cooperatives struggling for subsistence capital are hardest hit. They become followers, rather than leaders in the business, losing members and patrons who view their goal as deviating from that originally envisaged. Societal changes and reduced levels of idealism and visionary yearnings can be expected with competition (Grott, 1987). This does not bode well for cooperatives, which now must respond to market competition, rather than concentrate on their core economic and social missions.

In South Africa, the dissolution of the NCASA weakened cooperatives at a time when the cooperative legislative environment required a strong backup. Critics blamed the dysfunctional partnership agreement among the government, the South African Communist Party, and the NCASA (Satgar, 2007). The contentious issue was funding, causing the disintegration of the alliance and exposing the cooperative movement to risks of further interference by the state. For example, the Registrar of Cooperatives in the DTI is assigned the duty of supervising cooperatives, the result being that since 2005, official statistics on cooperatives has been politically influenced.

About fourteen thousand cooperatives are formally listed (Satgar and Williams, 2008:71), classified as agricultural, trade, and developmental (COPAC,1999:1–5), with several of those dysfunctional. Unknown numbers of informal cooperatives exist. There are therefore no credible data on cooperatives and their contributions to the economy. Fraudsters are reported to run fictitious cooperatives (Luka, 2009), exploiting vulnerable citizens, especially the aged and the unskilled (Philip, 2003). Such malpractice erodes trust among potential members of cooperatives.

## 2.11. Future of cooperatives

Royer (1999) suggests that five problems inherent in a traditional cooperative raise the question whether cooperatives can survive in, or adapt to, a rapidly changing economic and political environment. Even though cooperatives may have initially served a useful purpose, some authors hypothesize that, due to their inherent weaknesses (attributable to their property rights constraints), conventional cooperatives will have to exit or reorganize as the market evolves.

Cook (1995) postulates a five-stage cooperative life cycle that seeks to explain the formation, growth, and eventual decline of a cooperative. As the cooperative matures and the members become increasingly aware of the inherent problems, as well as the cooperating benefits that may be lost if operations ceased, members and their leadership will have to consider their long-term strategic options (trade-offs between the benefits and costs) and decide whether to exit, continue, or convert into another business form.

Cook (1995) suggests that under the exit option, a cooperative has two alternatives available, namely, to liquidate the business or to restructure as an Investor Owned Firm (IOF). Schrader (1989) contends that poor-performing cooperatives opt to liquidate or merge with other cooperatives, while high performing cooperatives restructure as IOFs. Jacobson (1992) points out that the reason leaders of milk cooperatives in Ireland gave for converting to Investor Owned Firms (IOF) was that additional capital was required and members were unwilling to invest that additional capital. Although Schrader (1989) felt that cooperative principles and practices placed capital constraints on growth, Jacobsen (1992) argued that the failure to effectively implement these principles and practices was the reason.

According to Cook (1995), a cooperative that opts to continue operating tends to be undercapitalized due to its property rights structure. It generally has two alternatives to raise capital, namely: (1) to seek external equity capital without restructuring as an IOF (through strategic alliances by, for example, establishing joint ventures with other cooperatives or with Investor Owned Firms (IOF)); and (2) to generate additional equity capital internally by following a proportionality strategy (i.e.,

restructuring the cooperative so that governance and funding responsibility are in proportion to patronage) (see also Royer, 1999).

Fulton (1996) argues that joint ventures and strategic alliances represent opportunities for cooperatives to profit from size economies while maintaining their separate business identities. However, for such business arrangements to be effective trust, commitment and open communication between the parties involved are required, in addition to the attention on financial and operational issues. In the third (transition) option, Cook (1995) suggests formation of a new generation cooperative (NGC). Essentially, a NGC focuses on value-added processing activities and links producer capital contributions to product delivery rights (see also Harris *et al.*, 1999; Royer, 1999). Equity shares and the associated delivery rights are tradable (subject to approval of the board of directors), and share prices can appreciate, reflecting members' expected returns over time. Thus, NGCs attempt to correct the property rights problems associated with conventional cooperatives (by linking tradable delivery rights to members' equity contributions) while preserving the cooperative character (e.g., the principle of one-member, one-vote on important policy issues, regardless of the number of shares purchased by a member; and cooperative earnings belong to the members and are distributed according to patronage).

An attractive feature of NGCs is that they are financed in proportion to use. However, NGCs have their own set of problems, such as limiting entry of new members and maintaining an effective governance structure (e.g., undue pressure exerted by members on management to link voting rights to delivery rights due to their high financial stake in the business) (Harris *et al.*, 1996; Royer, 1999). Nevertheless, NGCs have been established in the US by producers involved in emerging niche markets, such as bison processing, tilapia production, organic milling and specialty cheese processing, as well as in other, more traditional value-adding activities such as corn sweetener production, sugar beet processing and pasta production (Harris *et al.*, 1996).

Harte, as cited by Royer (1999) also suggests a life cycle model in which cooperatives are initially useful organizations for correcting or mitigating market failure. The need for cooperatives decreases, however, as market performance

improves. As transaction cost theory indicates, inefficient governance structures in competitive markets will over time be replaced by efficient structures. "Thus, to the extent that cooperative are less efficient than corporations, we can expect a transition from the cooperative organizational form to the corporate form" (Royer, 1999: 58-59). Harte, who used his life cycle model to explain the conversion of several Irish dairy cooperatives to public liability companies (IOFs), argues that cooperatives would continue indefinitely only in the case of chronic market failure, and that for the Irish dairy industry future competition would best be assured through IOFs.

Royer (1999) argues that to confirm the life cycle hypothesis, two types of empirical analyses are relevant, namely, statistical analyses of the comparative efficiency of cooperatives, and *ex post* studies of cooperative conversions. He lists several studies of the comparative efficiency of cooperatives in various agricultural industries, and highlights the study by Porter and Scully (1987) because of its influence on subsequent analyses and its reliance on neo-institutional economic concepts.

Porter and Scully (1987) also conclude that cooperatives were less efficient than IOFs and that their relative inefficiency was due to the inherent weakness in their property rights structure. They further argue that cooperatives survive, despite their relative inefficiency, because of free services provided by the USDA, favourable tax treatment, and favourable credit terms. However, after reviewing several comparative efficiency studies, Sexton and Iskow (1993) conclude that there is little credible evidence that cooperatives are less efficient than investor-owned businesses.

Although Fulton (1995) questions whether cooperatives can adapt to a rapidly changing environment characterized by technological change, industrialization of agriculture and growing individualism, Cook (1995) argues that two phenomena were occurring in agricultural cooperatives in the US, namely, (1) conventional cooperatives were adjusting to their property rights constraints by exiting, restructuring, and shifting to other organizational forms (these changes appeared to have helped to increase cooperatives' market share growth since 1988); and (2) a dramatic growth in New Generation Cooperative(NGC). King (1995) feels that the

greatest strength of cooperatives is their ability to generate institutional innovations that allow them to respond to changing conditions and needs. He continues that much can be learned by simply observing and describing the formation, evolution, and operation of successful cooperatives.

## **2.12. Conclusion**

In this chapter, the researcher has explored various concepts including defining a cooperative and primary cooperative in particular with more emphasis on the challenges they are facing domestically. Characteristics of cooperatives have been clearly outlined, as well as the history of these enterprises and also by doing a comparison and contrast of their nature both domestically and internationally. A review of policies and other regulatory frameworks governing cooperatives have also been explored, including the challenges that cooperatives are confronted with in the South African context and internationally.

In light of the above literature, it is evident that primary cooperatives globally experience barriers to growth and sustainability stemming from among others, market opportunities, financial literacy, education and technical know-how in most instances, education and training as well as political interference by government officials which erode the course for which the developmental objectives of these enterprises are to be attained.

## CHAPTER 3

### RESEARCH METHODOLOGY

#### 3.1. Introduction

This chapter covers an overview of methodology used in the study. The discussion in the chapter is structured around the research design, population sampling, data collection and data analysis. Ethical considerations and measures to provide trustworthiness are also discussed.

#### 3.2. Research Design

Research design is a general strategy for solving a research problem and provides the overall structure for the procedures the researcher follows, the data the researcher collects, and the data analyses the researcher conducts (Leedy and Ormrod, 2012).

##### 3.2.1. Dimensions of the research design

In this study, the researcher used an exploratory, descriptive and contextual qualitative research design.

##### 3.2.2.1. Exploratory research

According to Collins (2011), “exploratory actions are done in order to discover something or to learn the truth about something.” Burns and Grove (2005) define exploratory research as research conducted to gain new insights, discover new ideas and/or increase knowledge of a phenomenon. In this study, the researcher selected the exploratory method to gain new insights, discover new ideas and/or increase knowledge of experience of being involved in cooperatives. The researcher therefore entered the research field with curiosity from the point of not knowing and to provide new data regarding the phenomena in the context (Burns and Grove, 2005)

### **3.2.2.2. Descriptive research**

Descriptive research refers to research studies that have as their main objective the accurate portrayal of the characteristics of persons, situations or groups (Polit and Hungler, 2004). This approach is used to describe variables rather than to test a predicted relationship between variables.

In this study, “descriptive” refers to the experiential meaning of being involved with primary cooperatives and their role in the economy. Streubert-Speziale and Carpenter (2006) state that a descriptive method in data collection in qualitative research is central to open, unstructured qualitative research and interview investigations. A descriptive approach in data collection in qualitative research gives the ability to collect accurate data on and provide a clear picture of the phenomenon under study. This means that the researcher facilitated the cooperative members’ descriptions of their experiences of being involved in primary cooperatives, so that the phenomena under study could unfold without unnecessary hindrances.

### **3.2.2.3. Contextual research**

In a contextual research strategy, the phenomenon is studied for its intrinsic and immediate contextual significance (Mouton 1998). Burns and Grove (2003) point out that contextual studies focus on specific events in “naturalistic settings”. Naturalistic settings are uncontrolled real-life situations sometimes referred to as field settings. Research done in a natural setting refers to an enquiry done in a setting free from manipulation (Streubert Speziale and Carpenter, 2011). The present study was done where these cooperatives operate. Unstructured interviews were conducted with registered members of a cooperative. The members were purposively selected according to the sampling criteria in indicated in chapter 1 of this study.

## **3.3. Research Approach**

Henning (2004) describes methodology as a coherent group of methods that complement one another and that have the ability to fit to deliver data and findings that will reflect the research question and suit the researcher’s purpose. According to

Holloway (2005), methodology means a framework of theories and principles on which methods and procedures are based. Research approach is plans and the procedures for research that span the steps from broad assumptions to detailed methods of data collection, analysis, and interpretation. This plan involves several decisions, and they need not be taken in the order in which they make sense and the order of their presentation. The overall decision involves which approach should be used to study a topic. Informing this decision should be the philosophical assumptions the researcher brings to the study; procedures of inquiry (called research designs); and specific research methods of data collection, analysis, and interpretation (Mertens, 2009).

The study will be based on mixed research methods and investigative in approach because it involves not only collecting, analyzing and interpreting both qualitative and quantitative data, but also integrating conclusions from those data into a cohesive whole.

Mixed methods research is a research design with philosophical assumptions as well as methods of inquiry. As a methodology, it involves philosophical assumptions that guide the direction of the collection and analysis and the mixture of qualitative and quantitative approaches in many phases of the research process (Creswell, 2009). As a method, it focuses on collecting, analyzing, and mixing both quantitative and qualitative data in a single study or series of studies. Its central premise is that the use of quantitative and qualitative approaches, in combination, provides a better understanding of research problems than either approach alone (Plano Clark, 2005). The following are several good reasons for using mixed methods approach (Bryman, 2006):

- **Completeness:** to fully address the research problem and its sub problems only by collecting, analyzing and interpreting both qualitative and quantitative data.
- **Complementarity:** quantitative aspects of the study can compensate for weaknesses in qualitative research and vice versa
- **Hypothesis generation, testing and triangulation.**

When mixed-methods designs are lopsided in favour of one form of data over the other, they usually lean in the quantitative direction (Hesse-Biber, 2010). A more quantitatively oriented approach can provide a reasonable structure to guide the overall research project i.e. a structure that can keep a researcher on task and consistently focused on addressing the research problem. In many cases the two data sets are collected to address somewhat different (although certainly related) research questions.

Its disadvantage is that mixed methods can be tricky and may tend to take long because they draw largely on qualitative and quantitative research strategies. There is also another challenge of combining the two methods into a research endeavour in which all aspects substantially contribute to a single, greater whole. It is, by and large, the most challenging study a researcher can undertake because it simply requires both qualitative and quantitative research skills (Leedy and Ormrod, 2013)

### **3.4. Research Population**

Polit and Hungler (2004) refer to the population as an aggregate or totality of all the objects, subjects or members that conform to a set of specifications. The size of the study population will comprise 20 cooperatives consisting of 100 cooperative members in existence in Elim, Limpopo Province [Department of Trade and Industry (DTI), 2009]

### **3.5. Sample**

A sample is a subset of a population selected to participate in the study, it is a fraction of the whole, selected to participate in the research project (Polit and Hungler, 2004). Leedy and Ormrod (2012) say: for a sampling method, choose people who we have decided are typical of a group or those who represent diverse perspective on an issue as a sample. The study will employ a purposive sampling method because the researcher intends to interview 30 members of the cooperative.

### **3.5.1. Sampling methodology**

The study will employ a purposive sampling method because the researcher intends to interview specific members of the cooperative. Purposive sampling, also known as judgmental, selective or subjective sampling, is a type of non-probability sampling technique. Non-probability sampling focuses on sampling techniques where the units that are investigated are based on the judgement of the researcher (Leedy and Ormrod, 2013)

The advantage of this method is that whilst the various purposive sampling techniques each have different goals, they can provide researchers with the justification to make generalisations from the sample that is being studied, whether such generalisations are theoretical, analytic and/or logical in nature. On the other hand, the disadvantage of purposive samples is that it can be highly prone to researcher bias. The idea that a purposive sample has been created based on the judgement of the researcher is not a good defence when it comes to alleviating possible researcher biases, especially when compared with probability sampling techniques that are designed to reduce such biases (Collin, 2011).

### **3.5.2. Sample size**

The total number of people chosen as a sample for interviews is 50 from a population of 100 people. It constitutes 50% from the total population. It will consist of 5 members (1xChairperson, 1xSecretary and 3x additional members) from each of the 10 cooperatives. The researcher intends to make generalisation for the rest of the study from this sample since the minimum number required for members to constitute a cooperative starts from 5 in terms of the Cooperatives Act no 6 of 2013.

### **3.6. Data collection techniques**

Data gathering is the precise, systematic gathering of information relevant to the research sub-problems, using methods such as interviews, participant observation, focus group discussion, narratives and case histories (Burns and Grove, 2003).

Primary and secondary sources of data were used to collect relevant information for the study in particular through questionnaires and personal interviews. Primary data were collected by conducting interviews with the selected sample who are key informants. Secondary sources of data were also be applied in the form of structured questionnaires in order to allow participants time which is convenient for them to provide relevant information. Many of these questionnaires were close-ended to ensure that only relevant information is provided and less open-ended such that no amount of information that might be useful to the study is lost. The main data collection techniques used in this research study were the literature reviews, interviews, questionnaires, participant observation and observation.

### **3.6.1. Interviews**

Interviewing refers to structured, semi-structured or unstructured verbal communication between the researcher and the participants, in which information is presented to the researcher. Interviews were conducted on face-to-face basis for more probing and observation by the researcher. Interviews have the following advantages (Burns and Grove 2003; De Vos 2002):

- Interviewing is a flexible technique that allows the researcher to explore greater depth of meaning than can be obtained with other techniques.
- Interpersonal skills can be used to facilitate cooperation and elicit more information.
- There is a higher response rate to interviews than questionnaires, leading to a complete description of the phenomenon under study by the participants.
- Interviews allow collection of data from participants unable or unlikely to complete questionnaires, such as those whose reading, writing and ability to express themselves is marginal.

This study used Semi-structured interviews as a source of data collection. This method of interview has features of both structured and unstructured interviews and therefore use both closed and open questions. As a result, it has the advantage of both methods of interview. In order to be consistent with all the participants, the interviewer had a set of pre-planned core questions for guidance such that the same

areas are covered with each interviewee. As the interview progresses, the interviewee is given opportunity to elaborate or provide more relevant information if he/she opts to do so.

### **3.6.2. Questionnaires**

Questions are used as the vehicle for extracting the primary research data. When designing questions, it is essential to have a substantial amount of knowledge regarding the subject to ensure that the most appropriate questions are asked. It is also important to keep the potential audience in mind, as this will guide the level of question complexity (Patten, 2004).

The following steps were followed in the design of the questionnaire, as recommended by O'Leary (2004):

- New questions were drafted in line with the literature review undertaken in Chapter 2 of this study.
- The response categories for each question were decided upon, taking into consideration the effect of the response category which translates to different data types that demand quite distinct statistical treatment.
- Each question and response choice was carefully analyzed, with the view of determining whether the questions might be seen as ambiguous, leading, confrontational, offensive, based on unwarranted assumptions, double-barrelled or pretentious.
- The wording of certain questions was reformulated in line with the above considerations. These questions were then assessed by three peers and the research supervisor.
- The questions were put in an order that was deemed logical as per objectives.
- The instructions for completing the questionnaire were then formulated. These instructions were assessed by three peers and the research supervisor to ensure that they appeared clear and unambiguous, and were reformulated where necessary.
- Every effort was made to construct a clear, logical, professional and aesthetically pleasing questionnaire layout and design.

- A cover letter was then drafted, which explained the purpose of the study and why the respondents' input was required.

### **3.6.3. Literature review**

Literature review is a critical and in-depth evaluation of previous research. It is a summary and synopsis of a particular area of research, allowing anybody reading the paper to establish why you are pursuing this particular research programme. A good literature review expands upon the reasons behind selecting a particular research question (Leedy and Omrod, 2012). According to Boote and Beile (2005), a literature review is an evaluative report of studies found in the literature related to the selected area of study. The review should describe, summarize, evaluate and clarify this literature. It should give a theoretical basis for the research and help determine the nature of the research. A literature review goes beyond the search for information and includes the identification and articulation of relationships between the literature and the field of research. While the form of the literature review may vary with different types of studies, the basic purposes remain constant (Boote and Beile, 2005):

- Provide a context for the research;
- Justify the research;
- Ensure the research has not been done before (or that it is not just a "replication study");
- Show where the research fits into the existing body of knowledge;
- Enable the researcher to learn from previous theory on the subject;
- Illustrate how the subject has been studied previously ;
- Highlight flaws in previous research;
- Outline gaps in previous research;
- Show that the work is adding to the understanding and knowledge of the field, and
- Help refine, refocus or even change the topic.

### **3.7. Data analysis**

Banche (2006) notes that, “The main objective of data analysis is to transform data into meaningful forms in order to analyse the original research questions”. Content analysis was used to analyze the data which was gathered from questionnaires, personal interviews and secondary data.

According to Moore and McCabe (2005), this is the type of research whereby data gathered is categorized in themes and sub-themes, so as to be able to be comparable. The main advantage of content analysis is that it helps in data collected being reduced and simplified, while at the same time producing results that may then be measured using quantitative techniques. Moreover, content analysis gives the ability to researchers to structure the qualitative data collected in a way that satisfies the accomplishment of research objectives. However, human error is highly involved in content analysis, since there is the risk for researchers to misinterpret the data gathered, thereby generating false and unreliable conclusions (Krippendorff and Bock, 2008).

### **3.8. Validity**

Validity refers to the degree to which an instrument measures what it is supposed to be measuring” (Leedy and Ormrod, 2013). Validity can be sub-categorized as external and internal validity. Questions were based on objectives and the literature gathered to ensure that they were representative of what cooperative members should know about their enterprises they are involved in. Content validity was further ensured by consistency in administering the questionnaires. All the questionnaires were distributed to subjects by the researcher personally. The questions were formulated in simple language for clarity and ease of understanding. Clear instructions were given to the subjects and the researcher completed the questionnaires for those subjects who could not read and write.

## External validity

According to Leedy and Ormrod (2013), external validity is the extent to which the design and data of a research study allow the researcher to draw accurate conclusions about cause-and-effect and other relationships within the data. Burns and Grove (1999) describe external validity as “the extent to which the results can be generalized beyond the sample used in the study”. This usually depends on the degree to which the sample represents the population. All the persons approached to participate in the study completed the questionnaires. No single person who was approached refused to participate. Generalizing the findings to all members of the population is therefore justified.

## Internal validity

Internal validity is the extent to which the results of a research study applies to situations beyond the study itself; the extent to which conclusions can be generalized (Leedy and Ormrod, 2014).

### 3.9. Reliability

The consistency with which a measurement instrument yields a certain result when the entity being measured has not changed is called reliability. Reliability refers to the degree of consistency or accuracy with which an instrument measures the attribute it is designed to measure (Polit and Hungler, 1997). If a study and its results are reliable, it means that the same results would be obtained if the study were to be replicated by other researchers using the same method. The following are different types of reliability (Leedy and Ormrod, 2014):

- **Interrater reliability**: the extent to which two or more individuals evaluating the same product or performance give identical judgments.
- **Internal consistency reliability**: the extent to which all of the items within a single instrument yield similar results.

- **Equivalent forms reliability**: the extent to which two different versions of the same instrument yield similar results.
- **Test-retest reliability**: the extent to which a single instrument yields the same results for the same people on two different occasions.

### **3.10 Ethical considerations**

The researcher has a moral obligation to strictly consider the rights of the participants who are expected to provide this knowledge (Streubert Speziale and Carpenter 2003). The researcher considered it very important to establish trust between the participants and himself and to respect them as autonomous beings, thus enabling them to make sound decisions (Burns and Grove, 2003; Streubert Speziale and Carpenter, 2003).

Ethical considerations are an important aspect in this study; possible risks will be continuously examined to increase sensitivity to the participants and not to expose them. Ethical measures are as important in qualitative research as in quantitative research and include ethical conduct towards participants' information as well as honest reporting of the results.

The ethical measures in this study include consent, confidentiality and anonymity, self-determination, voluntary participation and the right to withdraw from the study.

The subjects' consent was obtained before they completed the questionnaires. Burns and Grove (1993) define informed consent as the prospective subjects' agreement to participate voluntarily in a study, which is reached after assimilation of essential information about the study. The subjects were informed of their rights to voluntarily consent or decline to participate, and to withdraw participation at any time without penalty. Subjects were informed about the purpose of the study, the procedures that would be used to collect the data, and assured that there were no potential risks or costs involved.

Anonymity and confidentiality were maintained throughout the study. Burns and Grove (1993) define anonymity as when subjects cannot be linked, even by the researcher, with his or her individual responses. In this study anonymity was ensured by not disclosing the cooperatives members' name on the questionnaire and research reports and detaching the written consent from the questionnaire. When subjects are promised confidentiality it means that the information they provide will not be publicly reported in a way which identifies them (Polit and Hungler, 1995).

In this study, confidentiality was maintained by keeping the collected data confidential and not revealing the subjects' identities when reporting or publishing the study (Burns and Grove, 1993). No identifying information was entered onto the questionnaires, and questionnaires were only numbered after data were collected (Polit and Hungler, 1995).

The ethical principle of self-determination was also maintained. Subjects were treated as autonomous agents by informing them about the study and allowing them to voluntarily choose to participate or not. Lastly, information was provided about the researcher in the event of further questions or complaints.

Despite all the above mentioned precautions, it was made clear to the participants that the research was only for academic purposes and their participation in it was absolutely voluntary. No one was forced to participate.

### **3.11. Limitations of the study**

The study only looked into primary cooperatives and the factors that affect growth and sustainability of primary cooperatives at Elim in Limpopo Province, South Africa. It also looked into issues of governance and conflict management, as well as the viability of cooperatives as a business concept. The entrepreneurial abilities and knowledge of members on the concept of cooperatives was also be tested in this study.

The study did not focus on secondary and tertiary cooperatives. It also did not look into the levels of education amongst members and prior cooperative or business

experience. It will also not examine the legislation regulating the cooperative industry.

### **3.12. Conclusion**

This chapter discussed the research design and the research methodology followed when conducting the study. Both qualitative and quantitative research approaches were analyzed. In this chapter, the discussion on data collection methods with focus on advantages and disadvantages for both interviews and questionnaires were conducted. Sampling has been explored and discussed to inform the type of sampling method used in this study. Ethical considerations and data analysis were carefully explored in the study. The next chapter is an analysis and interpretation of data collected from interviews and questionnaires.

## CHAPTER 4

### PRESENTATION OF THE RESULTS

#### 4.1. Introduction

This chapter presents an analysis of the results from the data collected from primary cooperatives in Elim on the role they play towards economic growth in that area. The data were collected through self-administered questionnaires of a sample of 50 from a population of 100. The questionnaires were also used to interview the respondents.

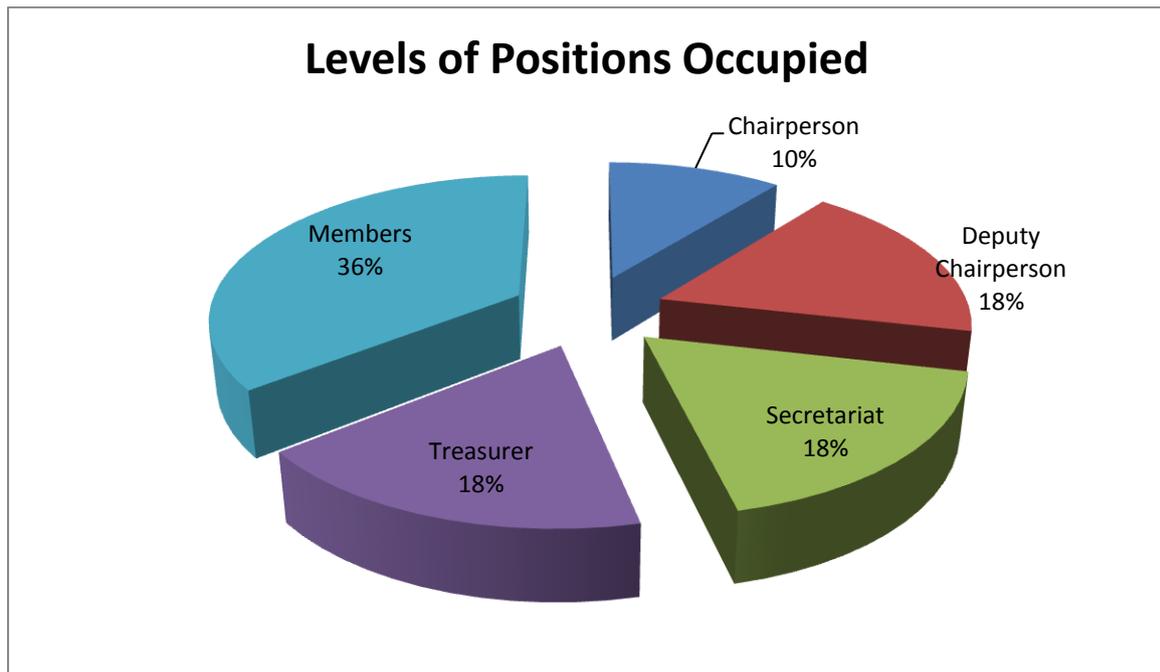
Of the 50 questionnaires distributed, 28 were completed providing a response rate of 56%. Ten cooperative members were interviewed with a response rate of about 20%. The findings of the study are presented below in tables, figures and charts. This chapter is divided in two parts consisting of section A, which provides the findings on demographic information and section B, which presents the findings on potential growth factors and opportunities for primary cooperatives, the effectiveness of primary cooperatives and recommendations on how to increase their contributions to economic growth. This chapter will present an analysis of findings to be able to answer the following research questions on the study:

- What are the potential growth factors and opportunities available to primary cooperatives?
- How can primary cooperatives become effective and viable business models?
- To what extent does the primary cooperative impact or contribute to the local economy and markets?

## 4.2. Demographic profiles

This section reports on the profile of respondents based on their positions, number of years being a cooperative member, constitution, level of literacy and job profile.

### 4.2.1. Positions occupied by respondents



**Figure 4.1.** Levels of positions occupied

The table above indicates that the majority of the respondents (36%) are ordinary members of the cooperative who normally are responsible for sales and production, whereas 10% are representative of chairpersonship with their deputies representing only 18%. These positions are regarded as authority by members of these cooperatives. Eighteen percent represents position of treasurer and secretariat occupied respectively by those who form part of the management team. The significance of measuring the positions occupied by respondents was to find out how roles and positions are spread to members and how many influence decisions since decisions in cooperatives are expected to be taken through a democratic process by means of a vote.

#### 4.2.2. Number of years on membership

**Table 4.1.** Percentage of years on cooperative membership

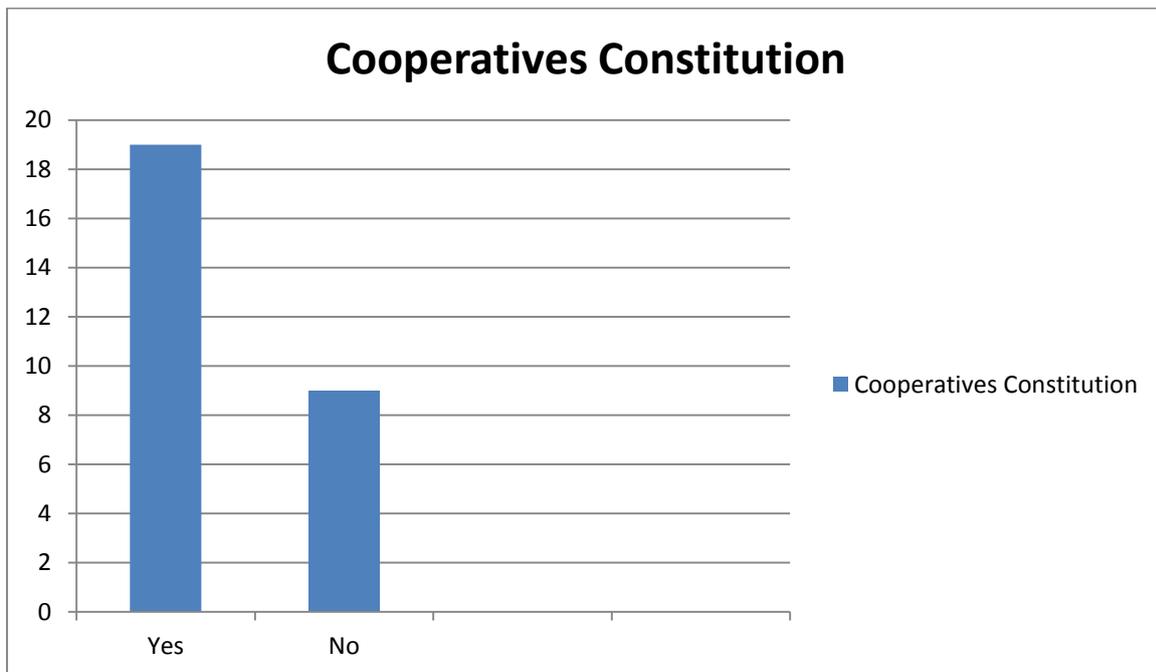
<b>Number of Years</b>	<b>Frequency</b>	<b>Percentage</b>
<2 years	8	29%
2-5 years	7	25%
5-10 years	8	29%
10-15 years	4	14%
>15 years	1	3%
	<b>28</b>	<b>100%</b>

Van der Walt (2013) indicates that 80 percent of cooperatives members in Limpopo Province do not have the necessary knowledge about cooperatives. This group is characterized by limited skills and as a result management and business technicalities remain a challenge where management and conflict are identified as some of the problems facing cooperatives.

Table 4.1. above indicates that 29% has less 2 years membership of a cooperative which suggest that they do not necessarily have enough experience, whereas 25% have been members from between 2 and 5 years and 29% have been members for almost 10 years, suggesting that they understand the cooperative concept and its operations very well. Fourteen percent have membership of between 10 and 15 years, while only 3 % have been members for more than 15 years. This measure was significant to the study to determine the levels of experience in the sector and therefore make assumptions on the skills acquired as a result.

### 4.2.3. Number of cooperatives guided by the constitution

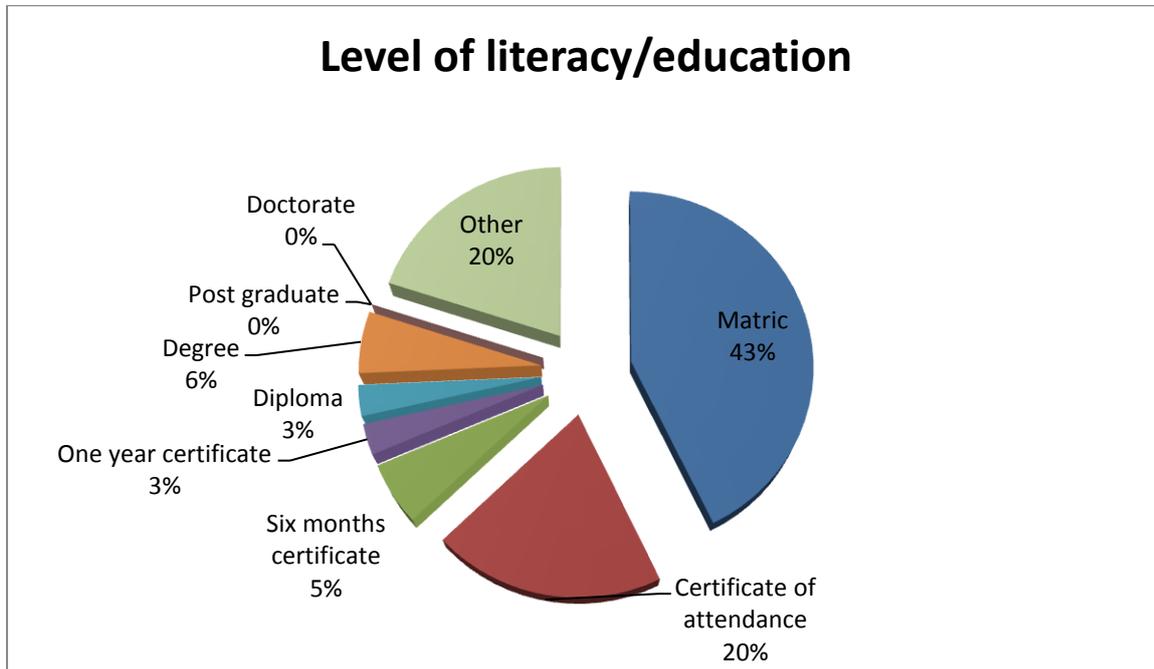
Chapter 2 of the Cooperatives Amendment Act no 6 of 2013 provides for the establishment of a constitution as a fundamental guideline towards operational issues of the cooperative.



**Figure 4.2.** Number of cooperatives guided by the constitution

Respondents were asked whether they are guided by the cooperatives constitution in their day to day operations of the cooperative. Figure 4.2. below shows that the majority of these cooperatives are knowledgeable and have a constitution as required by the Cooperative Act no 6 Of 2013, hence 68% said that they comply, whereas 32% do not comply with the Act as they do not have a constitution.

#### 4.2.4. Educational/Literacy level of respondents



**Figure 4.3.** Educational level

According to Philip (2003), Management of an enterprise involves a complex range of skills. As soon as an enterprise involves the collective management of resources, the complexity of management escalates exponentially. Many unemployed people facing the challenge of self-employment have little or no prior work experience, let alone business management experience, and financial literacy and even basic numeracy skills.

Data collected indicate in terms of Figure 4.3. above that from cooperative members who participated in the study, only 2 (7%) have degrees, whereas 15 (43%) passed Matric, only 7 (20%) possess attendance certificates and 1(3%) has a diploma. It also indicates that 1(3%) of its members has a one-year diploma, while 7 (24%) did not pass Matric at all having dropped out between standard 7 and 9. Significant to measuring the level of literacy gained by the respondents was to determine whether education plays a role to accelerate cooperatives growth and its impact to the local economy.

#### 4.2.5. Job roles

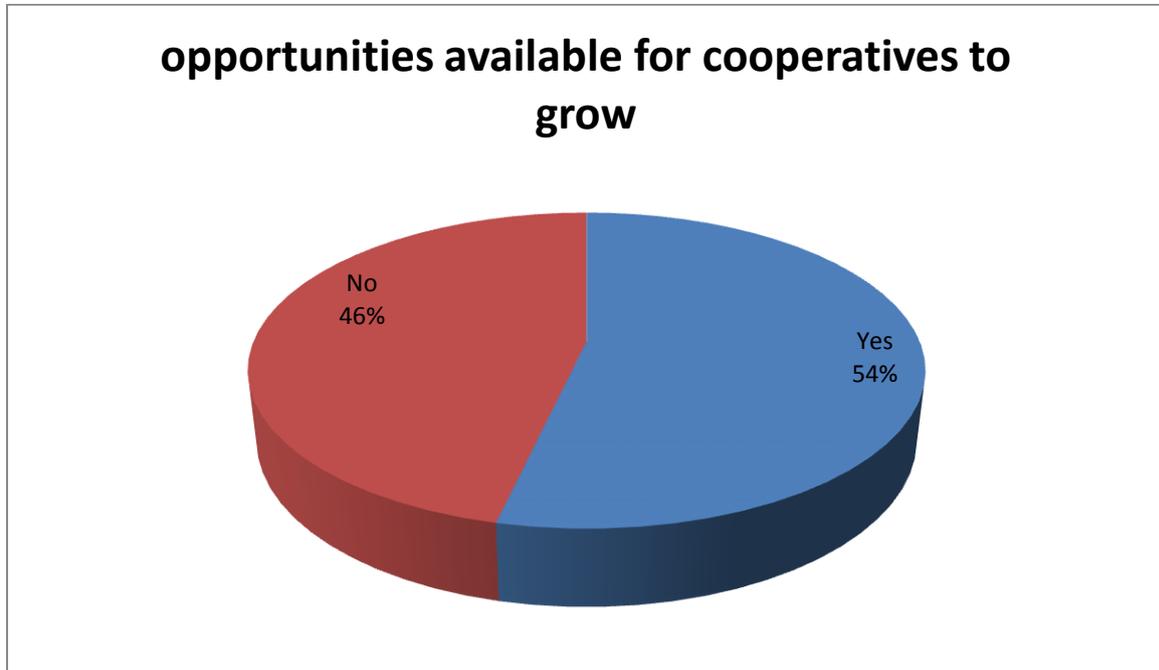
**Table .4.2.** Different levels of jobs as specified by respondents

<b>Job</b>	<b>Frequency</b>	<b>Percentage</b>
Management	6	21.4%
Sales and Marketing	10	36%
Production/Manufacturing	6	21.4%
Finance	4	14%
Secretariat	2	7%
	<b>28</b>	<b>99.8%</b>

Data collected according to Table 4.2. above show that from cooperative members who participated in the study 6 (21.4%) occupy leadership/management roles, whereas a greater number of 10 (36%) are in sales and marketing, with 6 (21.4%) members responsible for production/manufacturing. It also shows that 4 (14%) of the members are responsible for finance and only 2 (7%) arrange meetings for members. This measure was necessary in order to gauge cooperative members' responsibilities on each portfolio highlighted above and their level of contribution to the growth of the cooperative. It was also to assist in establishing how and to what extent scarce resources are allocated to different portfolios necessary to make certain business decisions.

### 4.3. Objective 1: To examine the potential growth factors and opportunities for primary cooperatives

#### 4.3.1. Availability of opportunities for cooperatives to grow

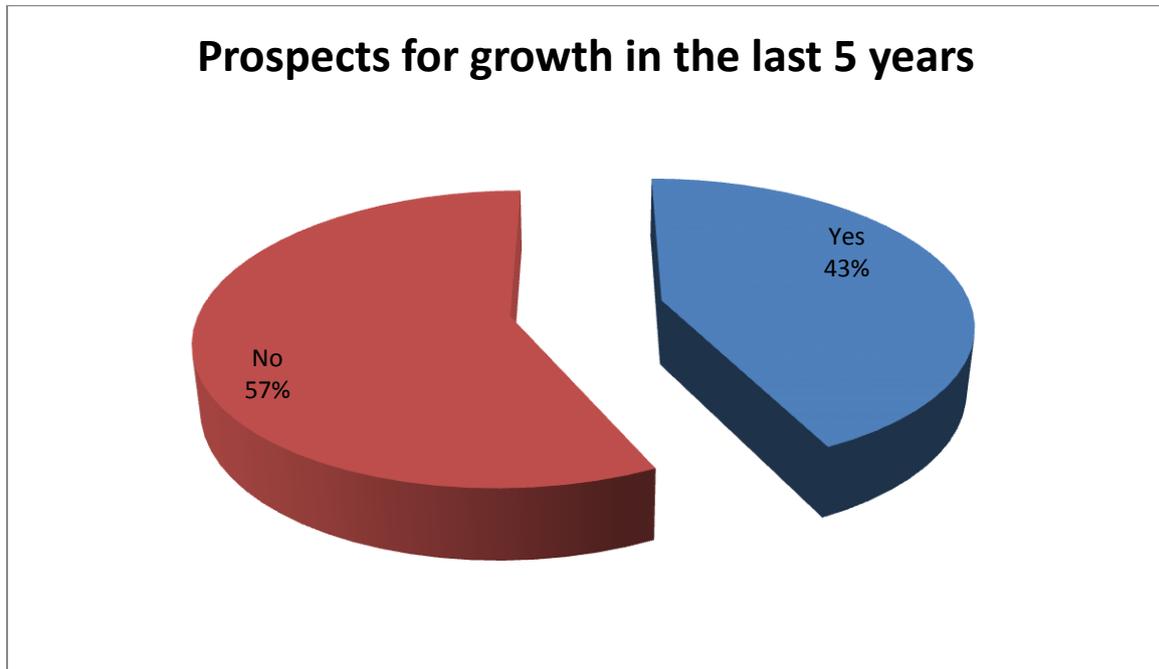


**Figure .4.4.** Availability of opportunities for growth of cooperatives

According to ICA (2013), global attention focuses on the challenge of sustainable development; cooperatives can and must play a role as creative enterprises expanding into new and innovative areas. The concept of cooperatives is viewed as sustainable business models helping achieve sustainable outcomes for communities.

Figure .4.4. above shows that 54% of the respondents agree that opportunities do exist for cooperatives. These opportunities are attributed to their cooperatives being known, leading to increased market penetration, government support and other sponsorships they receive, whereas 46% are saying there are no opportunities for cooperatives to grow at all. This measure was significant to the study in order to determine various mechanisms that might be available to these cooperatives to thrive.

#### 4.3.2. Any prospects for cooperatives growth in the last 5 years



**Figure .4.5.** Growth prospects for cooperatives in the last 5 years

The promulgation of the Cooperatives Act, No. 14 of 2005, facilitated a boom in the registration of new cooperatives never seen before in South Africa. The majority of these new cooperatives are owned by black women. Youth-owned cooperatives have also begun to emerge. However, most of these new entrants remain vulnerable and very weak and require high and sustained levels of support (Dti, 2012).

Figure .4.5. above shows that 43% of the respondents from the cooperative data were agreed that there had been growth in their enterprise, while a larger number of respondents (57%) disagreed. This was necessary to establish in order to determine whether there are markets available and potential new markets which can be explored in order to find out about availability of resources and support for these cooperatives.

### 4.3.3. Growth or Failures of cooperatives



**Figure .4.6.** Factors contributing to growth or failures of the cooperatives

According to Sam (2010), factors making cooperatives to fail in many parts of the world result from leadership crisis. This problem leads to insensitivity to pertinent issues, failure in project implementation results, no return of investment and non-utilization of technical know-how acquired from training. This in turn leads to non-productive performance, unsustainable networks and linkages. In other words, lack of support mechanisms that could further enhance sustainability and deficient record-keeping resulting in absence of reliable information on the cooperatives financial condition, making them vulnerable to corruption.

Figure .4.6. above indicates that only 10 (36%) respondents say that their cooperatives have realized growth because of a myriad of factors including working hard and commitment by their members themselves, excellent customer service, access to markets, access to training and other forms of support from government, while on the other hand 16 (57%) of the respondents have indicated that they have not grown in the last five years because of lack of materials resource, finance, infighting and looting by members, lack of access to markets and insufficient government support. Two (7%) other respondents did not respond to the question.

#### 4.4. Objective 2: To examine the effectiveness of primary cooperatives as drivers of economic growth

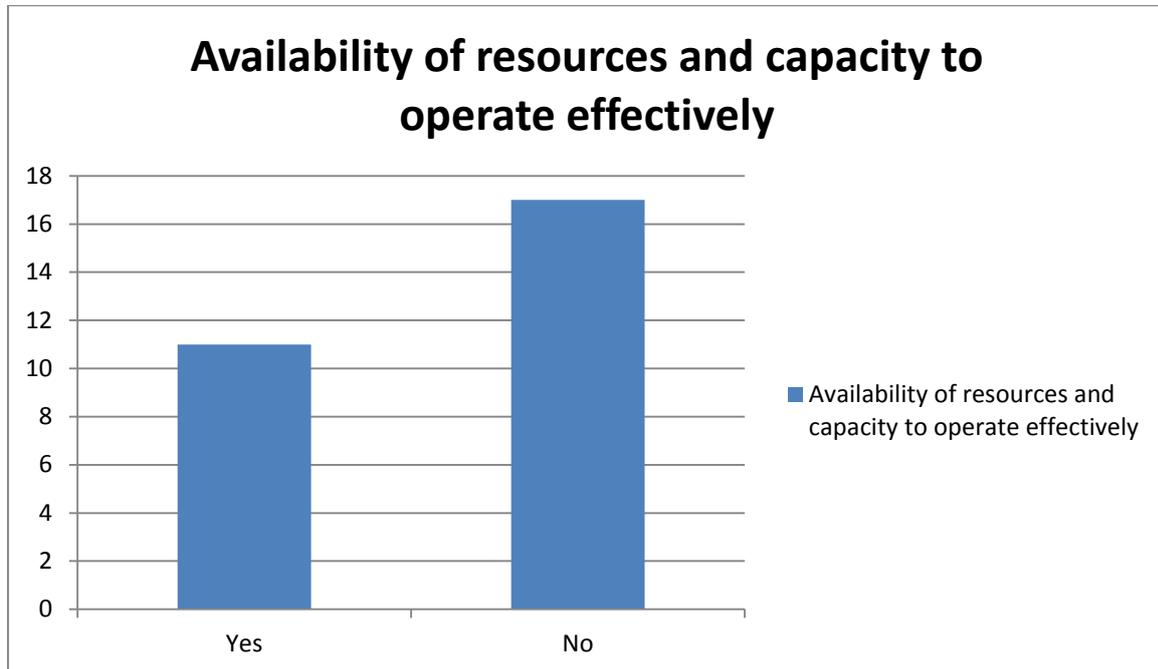
##### 4.4.1 Impact of cooperatives on local economy

**Table .4.3.** The impact of cooperatives on the local economy where they operate

<b>Impact on local economy</b>	<b>Frequency</b>	<b>Percentage</b>
Employment	13	46.4%
Support to orphanages	2	7%
No Impact	13	46.4%
	<b>28</b>	<b>99.8%</b>

Data collected according to table 4.3.above show that 13 (46.4%) of the respondents indicate that their cooperatives contribute to the local economy through employment creation and 2 (7%) support orphanage with food parcels, whereas 6 (21%) indicated that they contribute nothing at all and with 7 (25%) saying they are still at an introductory stage and have not yet contributed to the local economy respectively as they work towards ensuring growth and sustainability of their cooperative. This measure was important in particular to gauge the levels at which cooperatives accelerate growth of local economies, thereby contributing positively to livelihoods of communities where they do business.

#### 4.4.2. Availability of resources and capacity to operate effectively



**Figure.4.7.** Availability of resources and capacity for cooperatives to function effectively

Figure .4.7. above shows that 39% of the respondents indicated that they have resources and capacity to operate effectively, whereas 61% indicate that they do not have resources and capacity ranging from lack of adequate machinery and equipment, access to finance, raw materials, marketing materials, training, lack of access to markets and proper location as some of their problems. This measure was significant to the study to highlight; it could be barriers to growth and success of these cooperatives. It is indeed clear that resources vital towards cooperative operational effectiveness are running short as alluded by the majority (61%) of respondents in the study.

### 4.4.3. Challenges facing cooperatives

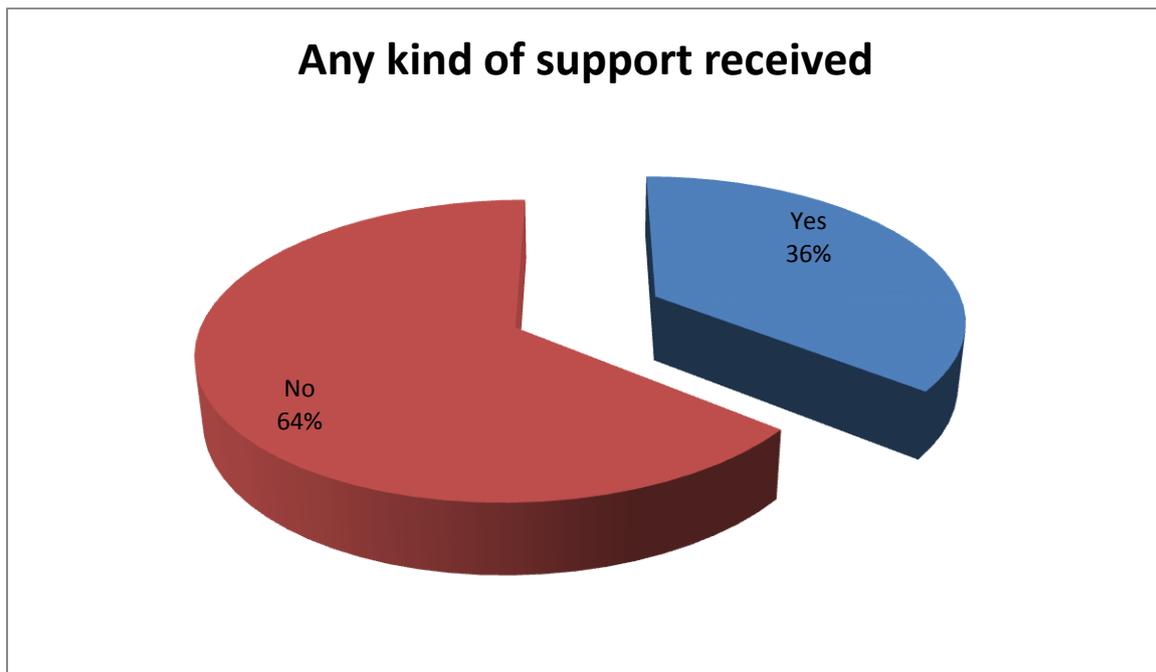
**Table.4.4.** Challenges facing cooperatives as indicated by respondents

<b>Challenges</b>	<b>Frequency</b>	<b>Percentage</b>
Lack of finance	6	21%
Infighting by members	5	18%
Inadequate equipment and	5	18%
machinery	4	14%
lack of market		
Looting of resources by	3	11%
members		
Inadequate support from	2	7%
government		
Lack of business	2	7%
management and technical		
skills		
Political interference	1	4%
	<b>28</b>	<b>100%</b>

Table.4.4. above represents percentages in terms of challenges faced by cooperatives as expressed by respondents. This was an open-ended question which then required the grouping of responses in order of similarities. The majority (21%) of the respondents said there is lack of finance to cooperatives, while 18% said they do not have adequate equipment and machinery, as well that there is a lot of infighting among cooperatives members, a situation which affects production. While 14% have raised issues of lacking a market, 7% indicated that government is not doing enough to give them support of any kind to thrive and the lack of business management skills is a challenge to them. Eleven percent of the respondents have said members loot resources once the infighting becomes intense in most cases, while 4% indicate that there is often interference from politicians who are also government officials.

**4.5. Objective 3: To make recommendations on how to increase primary co-operatives contribution to the economic growth at Elim in Limpopo.**

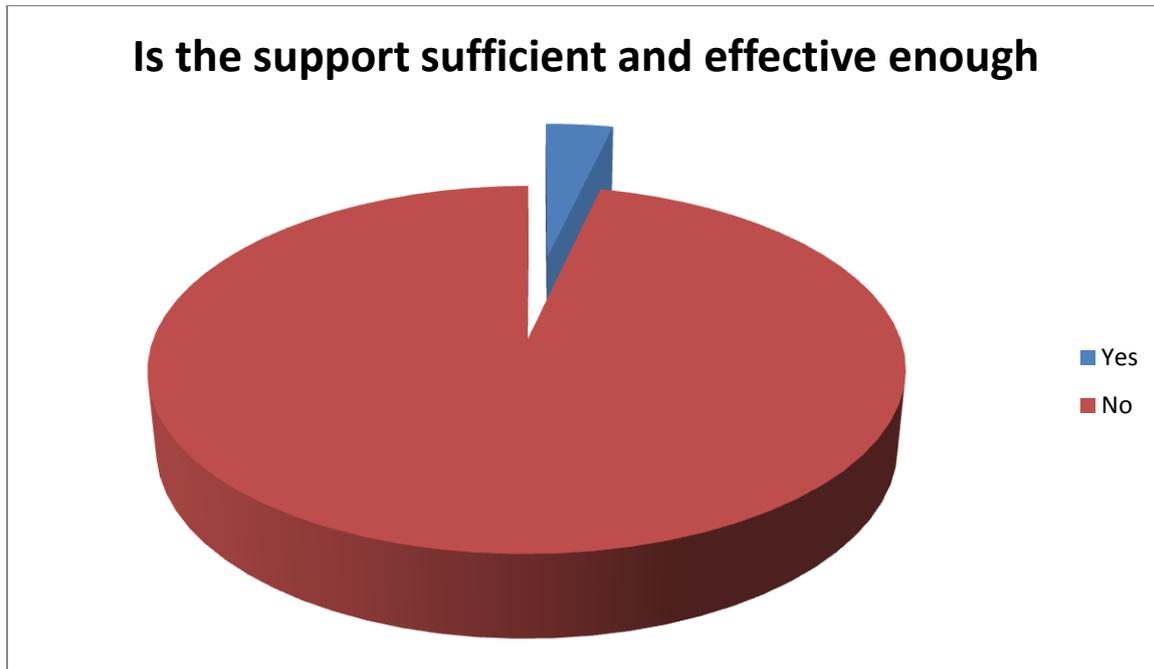
**4.5.1. Opinions of respondents on support received for Cooperatives to be effective**



**Figure. 4.8.** Opinions of respondents on support received for Cooperatives to be effective

Data collected as shown in figure. 4.8. above suggest that 36% of the respondents indicate that they receive support from government in the form of funding, training, equipment and sponsorship from other companies, whereas 64% indicated that they have not received any kind of support at all. This measure was necessary in the study to identify some of the root causes of some of the problems experienced. The government has been championing the development of cooperatives in the country and therefore should actually create a conducive environment where these enterprises can be established, grow and become sustainable.

#### 4.5.2. Is the support sufficient and effective enough?



**Figure.4.9.** Respondents who find the support received sufficient and effective enough.

From figure .4.9. above, only 4% of the respondents have said the support which they have received was sufficient and effective to continue with operations. They have indicated that the support received is training, equipment, funding and mentorship offered by Small Enterprise Development Agency (SEDA). While 96% have indicated that such support is not enough and is of little assistance to them. They require skills intervention such as business planning, pricing and financial management skills. According to Cooperative Financial Institute of South Africa (COFISA), professionalization of cooperatives management is key to the success of a cooperative, therefore training and education are a must.

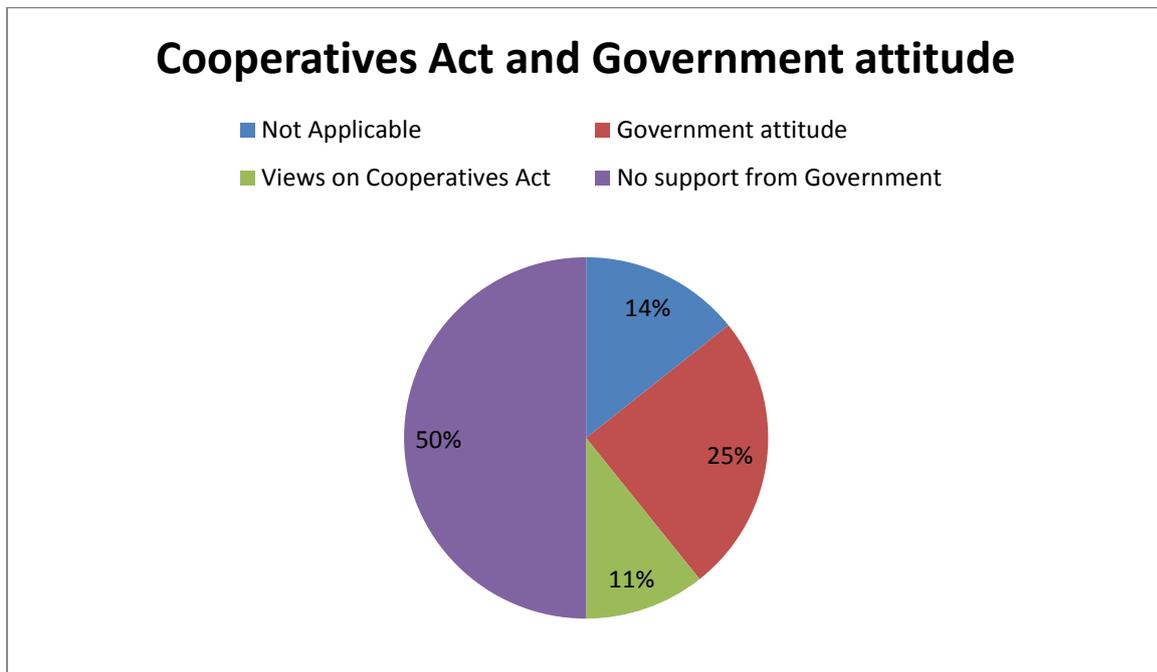
### 4.5.3. Support or Intervention required

**Table.4.5.** Some of the intervention required by respondents

<b>Intervention</b>	<b>Frequency</b>	<b>Percentage</b>
Access to finance	15	53%
Access to market	7	25%
Equipment and machinery	3	11%
Training (business management and technical skills)	3	11%
	<b>28</b>	<b>100%</b>

Table .4.5. above shows various interventions required as alluded to by the respondents. The results show that 53% requires assistance with access to finance mainly as bridging finance in order to continue operations, whereas 25% need assistance with access to markets through priority government procurement plans for their products in some instances; 11% need the provision of adequate equipment and machinery to increase their production levels in order to service bulk orders and to meet the demand in general. Lastly, 11% of the respondents show they need assistance with technical and business management training including financial management. This measure was significant to the study in order to establish the level at which resources are lacking for these cooperatives to be effective and better drive the local economies.

#### 4.5.4. Views around the Cooperative Act no 6 of 2013 and Government attitude towards cooperatives in general



**Figure.4.10.** Opinions of respondents on Cooperatives Act and attitude of government towards cooperative in general

Figure. 4.10. above indicates that 14% of the respondents chose not to respond to the question, whereas 25% of respondents said that government offers cooperatives support including assistance with registration processes, while the majority (50%) indicated that government does nothing to assist these cooperatives, with 11% of the respondents saying they are just aware that a Cooperatives Act exists, however they have not really familiarised themselves with it. This measure was necessary to establish since the Cooperatives Act in particular is a pillar with which cooperatives' principles are clearly outlined, vital for any members of a cooperative to absorb since it stresses governance issues of these institutions.

#### **4.6. Analysis of Interviews**

From the interviews carried out with 7 of the respondents, it is clear that the general feeling is that there is lack of finance to cooperatives as alluded to by 42%, while 28% said they do not have adequate equipment and machinery, as well that there is a lot of infighting among cooperative members, which affects production. While 14% have raised issues of lacking a market and also indicated that government is not doing enough to give them support in terms of training and that they lack business management skills including financial skills which they say are necessary to run a business effectively. Fourteen percent of the respondents have said members' loot resources once the infighting becomes intense. These responses raise the same concerns as those solicited from the questionnaires.

#### **4.7. Conclusion**

This chapter presented an analysis of the results collected from questionnaires and interviews from members of primary cooperatives. The data were analyzed on the basis of the three research objectives in order to answer the research questions. Section-A focused on demographic information or profiling on the kind of positions members occupy, number of years being a cooperative member, whether they are guided by the constitution and their level of literacy.

Section-B presents an analysis of potential growth factors and opportunities for primary cooperatives and the effectiveness of these institutions as drivers of economic growth. The responses were expressed in both table form and charts for ease of interpretation. The next chapter discusses the findings or results of the study.

## CHAPTER 5

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1. Introduction

This chapter covers a summary of the results, conclusions and recommendations from the study. The researcher will integrate the results with the literature reviewed in Chapter 2. The discussions in this Chapter will be based the three research objectives of the study.

#### 5.2. Summary of the findings

The researcher made the findings based on the responses from the respondents. These findings were data analysed in Chapter 4.

##### 5.2.1. Demographic data

###### Positions occupied by the respondents

The results of the study in Figure 4.1. Shows that there were more (36%) ordinary members of the cooperative who normally were responsible for sales and production, whereas few (10%) of them were representative of chairpersonship with their deputies representing only 18%. These positions are regarded as authority by members of these cooperatives. Eighteen percent represents position of treasurer and Secretariat occupied respectively, who form part of the management team. The significance of measuring the positions occupied by the respondents was to find out how roles and positions are spread to members and how many influence decisions since decisions in cooperatives are expected to be taken through a democratic process by means of a vote.

###### Number of years on membership

Table .4.1. show that of the 28 respondents, 29% have less than 2 years membership of a cooperative which suggest that they do not necessarily have enough experience, whereas 25% have been members from between 2 and 5 years

while, on the other hand, a significant number (29%) have been members for almost 10 years suggesting that they understand the cooperative concept and operations very well. Fourteen percent have membership of between 10 and 15 years, while only 3 % have been members for more than 15 years. According to the companies and Intellectual Property Commission (CIPC) register, 19 550 new co-operatives were registered from 2005 to 2009 in various sectors, representing a growth rate of 86%.

#### Number of cooperatives guided by the constitution

In terms of the Co-operative Act no 14 of 2005, a co-operative registered in terms of this Act must adopt a constitution that complies with section 14. A co-operative where the members are required to hold shares must adopt a Constitution that complies with sections 14 and 15 of the Act. Figure 4.2. shows that of the 28 respondents, the majority of these cooperative members are knowledgeable and have a constitution as required by the Cooperative Act no. 6 Of 2013, hence 19 (68%) said that they comply, whereas the lowest proportion of 9 (32%) do not comply with the Act as they do not have a constitution.

#### Educational/Literacy level of respondents

Figure 4.3. Shows that of the 28 cooperative members (respondents) who participated in the study, only 2 (7%) have degrees, whereas 15 (43%) passed Matric, only 7 (20%) possess attendance certificates and 1(3%) has a diploma. It also indicates that 1(3%) of its members has a one year diploma, while 7 (24%) did not pass Matric at all, having dropped out between standard 7 and 9 respectively. Nyambe (2010) found out that the education levels of cooperatives members were low. These findings are in line with those of the study as stated above.

#### Job roles

Table 4.2. Shows that of the 28 cooperative members (respondents) who participated in the study 6 (21.4%) occupy leadership/management roles, whereas a greater number of 10 (36%) are in sales and marketing, with 6 (21.4%) members responsible for Production/manufacturing. It also shows that 4 (14%) of the members are responsible for finance and only 2 (7%) arrange meetings for members. Royer

(1999) has identified that primary cooperatives can work but they are complex forms of enterprise; and as such, they require high levels of managerial skill internally, or sustained technical support externally to succeed.

### **5.2.2. Objective 1: To examine the potential growth factors and opportunities for primary cooperatives**

#### Availability of opportunities for cooperatives to grow

Figure. 4.4. indicates that of the 28 respondents who participated in the study, 54% agree that opportunities do exist for cooperatives. These opportunities are attributed to their cooperatives being known; hence they enjoy increased market penetration, government support and other sponsorships they receive. A low proportion of 46% are saying that there are no opportunities for cooperatives to grow at all. South Africans are discovering the potential of the primary co-operative, a collective entrepreneur model that provides decent and sustainable employment opportunities and a democratic workplace. However, it is far from the current realities (NCASA, 2001). The provision of sometimes over allocation of resources is a problem because it reduces the motivation of members to operate with their own capital and resources as it creates an overreliance and becomes difficult for them to survive on their own when such resources are no longer forthcoming.

#### Any prospects for cooperatives growth in the last 5 years

In figure 4.5. at least 43% of the respondents from the 28 members who participated in the study said that there has been growth in their enterprise, while a larger proportion of 57% disagree. This is worrisome given that 54% indicated that there are opportunities available for exploitation and reflecting contradictions to a certain extent. Table .1 shows that there is significant progress in the establishment of cooperatives as a business model, however sustainability and growth remain a big challenge for the majority of the cooperatives. The Department of Trade and Industry (DTI) baseline study for the period 2009 to 2011 shows that 22,619 cooperatives were registered with 20,221 died and while only 2,398 cooperatives survived and 19,975 defunct, giving a 12 percent survival rate.

### Growth or Failures of cooperatives

Figure .4.6. shows that of the 28 respondents who participated in the study, only 10 (36%) respondents say that their cooperatives have realized growth because of a myriad of factors including working hard and commitment by their members themselves, excellent customer service, access to markets, access to training and other forms of support from government, while on the other hand 16 (57%) respondents have indicated that they have not grown in the last five years because of lack of material resources, finance, infighting and looting by members, lack of access to markets and insufficient government support. Lack of education and training, information, and practical know-how on the principles, nature, and operations of the cooperative organization led to incompetent management (Sam, 2010). The lowest proportion of 2 (7%) other respondents did not respond to the question. Despite the economic and social contributions of cooperatives, evidence shows that many of them have been short-lived and others are still vulnerable (Levin, 2002).

### **5.2.3. Objective 2: To examine the effectiveness of primary cooperatives as drivers of economic growth**

#### Impact of cooperatives on the local economy

According to Khumalo (2009), the community identifies its economic, social, political, and external resources. Cooperatives must train and educate members in needed skills, promote group efforts, focus on community needs, create job opportunities, invest in community capital projects, and return net earnings to member owners, pro rata to involvement. The quality of cooperatives in community development is associated with their ability to create interdependent economic, human, and social capital (Gittell and Thompson, 2001).

Table .4.3. shows that of the 28 respondents who participated in the study, 13 (46.4%) respondents indicated that their cooperatives contribute to the local economy through employment creation and 2 (7%) support orphanage with food parcels, whereas 6 (21%) indicated that they contribute nothing at all and with 7

(25%) saying they are still at the introductory stage and have not yet contributed to local economy respectively as they work towards ensuring growth and sustainability of their cooperative.

#### Availability of resources and capacity to operate effectively

Figure .4.7. indicates that 39% of the respondents indicated that they have resources and capacity to operate effectively, whereas 61% indicated that they do not have resources and capacity ranging from lack of adequate machinery and equipment, access to finance, raw materials, marketing materials, training, lack of access to markets and proper location as some of their problems. According to Muthuma (2012), one other challenge is that the provision of “cheap” capital or material resources reduces the motivation of members to contribute their own resources. Instead of an organic growth that is gradual through members gaining experience by growing their business, a dependency syndrome sets in that leads to demotivation when no further external assistance is received. This measure was significant to the study to highlight that which could be barriers to growth and success of these cooperatives.

#### Challenges facing cooperatives

Table .4.4. shows that of the 28 respondents who participated in the study, the majority (21%) of the respondents said there is lack of finance to cooperatives, while 18% said they do not have adequate equipment and machinery. There is a lot of infighting among the cooperative members a factor which also affects production. While 14% have raised issues of lacking a market, 7% indicated that government is not doing enough to give them support of any kind to thrive and the lack of business management skills is a challenge to them. Eleven percent of the respondents have said members are looting resources once the infighting becomes intense in most cases, while 4% indicate that there is often interference from politicians who are also government officials. Government officials have been accused of forming cooperatives and thereby compromising the principle of autonomy and independence (Muthuma, 2012).

### **5.2.4. Objective 3: To make recommendations on how to increase primary co-operatives contribution to the economic growth at Elim in Limpopo.**

#### Any kind of support received

In figure .4.8., the findings point out that 36% of the respondents receive support from government in the form of funding, training, equipment and sponsorship from other companies, whereas 64% indicated that they have not received any kind of support at all. Government should provide a supportive policy and legal framework consistent with the nature and function of cooperatives and guided by the cooperative values and principles (Maduegbuna, 2010).

#### Is the support sufficient and effective enough?

Figure .4.9. indicates that only 4% of the respondents said the support which they have received was sufficient and effective to continue with normal business operations. They have indicated that the support received is training, equipment, funding and mentorship offered by Small Enterprise Development Agency (SEDA), while 96% have indicated that such support is not enough and does not help them much. They require skills intervention such as business planning, pricing and financial management skills.

#### Support or Intervention required

Table .4.5. shows that of the 28 respondents, 53% require assistance with access to finance mainly as bridging finance in order to continue operations, whereas 25% need assistance with access to markets through priority government procurement plans for their products in some instances Eleven percent need the provision of adequate equipment and machinery to increase their production levels in order to service bulk orders and meeting the demand in general. Lastly, 11% of the respondents show they need assistance with technical and business management training including financial management. It is the contention of many, that most of the challenges facing the cooperative could be tackled through a holistic reform of the cooperative legal and regulatory environment (Vanhuynegem, 2008).

## Views around the Cooperative Act no 6 of 2013 and Government attitude towards cooperatives in general

Figure .4.10. indicates that 14% of the respondents chose not to respond to the question, whereas 25% of the respondents said that government offers cooperatives support including assistance with registration processes, while the majority (50%) indicated that government does nothing to assist these cooperatives and with 11% of respondents saying they are just aware that a cooperatives Act exists but they have not really familiarized themselves with it.

### **5.3. Conclusions**

#### **5.3.1. Demographic data**

Firstly, there is a relatively fair representation in terms of management structure as dictated by their cooperative constitution. All members who form part of management participated in the study as well as those who are ordinary or additional members. It can be concluded the roles and positions were spread evenly and that those in management have little influence on decisions since they constitute a low proportion, whereas ordinary or additional members constitute a large proportion and have majority voting right towards decision making processes.

Secondly, the results shows that 54% of the respondents have been members of these cooperatives from a period of between 1 and 5 years which may suggest that they have not acquired adequate skills and are still on the learning curve. This assumption is from a premise that individuals from disadvantaged background have been mostly encouraged by the government to register and form cooperatives irrespective of whether they possess the necessary skills or not. Van der Walt (2013) indicates that 80 percent of cooperatives members in Limpopo Province do not have the necessary knowledge about cooperatives. This group is characterized by limited skills and as a result management and business technicalities remain a challenge. Mayende (2011) states that Cooperative development strategies tend to be targeted mainly at unskilled, unemployed people, on the margins of the economy. The remaining 46% have been members of these cooperatives from 5 to more than 15 years, suggesting that they may understand the cooperative concept very well by

now and are industry players. It can be concluded that these are groups with the necessary skills and experience given the years that they have been in the industry.

Thirdly, the results indicate that a large proportion (68%) complies with the requirements of the Cooperative Act no. 6 of 2013. This shows that these groups are knowledgeable and familiar with the Act, whereas 32% are not compliant with the regulation since they do not have a constitution, while principles of cooperatives in terms of the act must be implemented through such a constitution. This non-compliance may be as a result of literacy problems wherein members are unable to interpret the act which is a basis for the formation and registration of a cooperative. It is the contention of many, that most of the challenges facing the cooperative could be tackled through a holistic reform of the cooperative legal and regulatory environment (Vanhuynegem, 2008).

Fourthly, the results of the study also reveal that the question of literacy is essentially a challenge as 20% of the respondents have dropped out of school and do not have any qualifications, while 28% have only certificate ranging from attendance certificate to a 1 year certificate and with at least 43% having matriculated. This is an indication that indeed individuals were not grouped according to entrepreneurial skills and experience; the criterion is based on whether such a person is dis-advantaged or not. Lack of education, training, information, and practical know-how on the principles, nature, and operations of the cooperative organization led to incompetent management (Turingan, 1995). Entrepreneurial skills are essential to any business for survival and growth therefore the lack of such skills will be to the detriment of the enterprise.

Lastly, the results show that the respondents do everything from sales and marketing, production, finance, secretariat and management. Due to unemployment and poverty, members voluntarily join without specific skills and the technical know-how to discharge certain responsibilities. Members are not allocated portfolios based on their knowledge and expertise (competence), however they are assigned based on perception about the incumbent and involvement towards the formation of the cooperative. Essentially members with diverse interest are required to be all-rounder in the operations of the cooperative which creates problems and often results in conflict. This then suggests an overlapping of roles indicating that roles are not

clearly defined and assigned to members. This maybe a result of lack of constitution in some instances which embodies duties associated with certain portfolios and eligibility for discharging those duties.

### **5.3.2. Objective 1: To examine the potential growth factors and opportunities for primary cooperatives**

The results from the study show that to some extent opportunities and an environment where these cooperatives can flourish exist; however, there is much more that needs to be done such as creating access to markets and building internal capacities for these cooperatives to operate effectively and grow. This is particularly necessary given that members responded by highlighting the following as some of the barriers which hamper their operations and growth:

- Lack of access to markets
- Inadequate equipment and machinery
- Lack of marketing tools and materials
- Insufficient raw materials for production
- lack of funding (bridging finance or capital)

Subsequently the results show that 43 % of the respondents say they have realised growth in the last five years of operation, which is unsatisfactory as compared to the 57% who indicated that they have not realized any form of growth in the same period of time. This is as a result of some of the issues or challenges highlighted above. Lack of opportunities, especially access to markets can impede entrepreneurship including cooperatives growth and sustainability.

### **5.3.3. Objective 2: To examine the effectiveness of primary cooperatives as drivers of economic growth**

- Impact of cooperatives on the local economy

The results from the study show that about 46% of these cooperatives contribute to the local economy through job creation and about 7% through other amenities such

as donating some of their produce to orphanages for those in small scale agricultural farming. This is an indication that these cooperatives are struggling and are not effective enough to the extent where they are generating enough income or profit to sustain them and positively contribute to the economy. Secondly, it is evident that they are not growing hence few of them can only contribute with few employment opportunities. Many of those in the employ of these cooperatives still live below the bread line, but continue to render their services with the hope that the situation will change for the better in the near future. Research conducted by the National Co-op Association of South Africa (NCASA) (2001) concurs with the results of this study by stating that faced with massive economic restructuring and unemployment, South Africans are discovering the potential of the primary co-operative, a collective entrepreneur model that provides decent and sustainable employment and a democratic workplace; however, it is far from the current realities. In the same study, 40% of co-op respondents reported that they generate no income for members at all. Only 36% of the total co-ops surveyed were willing or able to give monthly income figures.

- Availability of resources ( finance, equipment and machinery) and capacity to operate effectively

The results of the study has also shown that availability and adequacy of resources, especially equipment and machinery, as well as finance in the form of capital or bridging finance is a problem which affects production and continued operations in general. There is red tape from financing institutions which makes it impossible for cooperatives to access funds to procure raw materials and other equipment needed for them to produce. These institutions will normally require audited financial statements and collateral in certain instances when they apply for loans and are unable to provide. In other words, they do not have capacity internally to produce and meet the demands due to some of the challenges highlighted above.

- Challenges facing these cooperatives are:
  - Lack of market

The findings of the study reveal that primary cooperatives are faced with lack of access to market opportunities with 14% of the respondents citing insufficient budget

and competition with established businesses as a problem. The following were key suggestions made by respondents to the study in dealing with this problem:

- ✓ Increase and priority procurement opportunities by government for primary cooperative
- ✓ Established businesses should partner with emerging primary cooperative to boost publicity
- ✓ Exhibitions shows where they can showcase their products
- ✓ Networking sessions where they can exchange ideas and information with captains of the industries

○ Lack of business management and technical skills

Business management skill training is one of the pillars to successful entrepreneurship. The training encompasses important skills such as marketing, finance, human resources, production and operations management which are important to have in order to run a successful business. The study has revealed that 7% of the respondents do not possess business management skills prior to being members of the cooperative. This is a serious challenge because the lack of these skills must have contributed to the inefficiencies experienced in these cooperatives.

○ Inadequate support from government

Government initiatives that are aimed at promoting and prioritizing primary cooperatives have not been sufficient and beneficial to their intended purposes. This has been alluded to by 7% of the respondents who participated in the study. The general feeling from the respondents is that government has encouraged them to register a cooperative and also promised that it will be supportive until they are fully functional; however, it has not lived up to the promise. This is another indication of how a dependency syndrome manifests itself since members did not voluntarily take the initiative to establish this social enterprise based on common objective. The research conducted by Muthuma (2012) concurs with the findings of the study that one other challenge is that the provision of “cheap” capital or material resources reduce the motivation of members to contribute their own resources. Instead of an organic growth that is gradual through members gaining experience by growing their

business, a dependency syndrome sets in that leads to demotivation when no further external assistance is received.

- Infighting and looting of resources by members

The results of the study show that conflicts are eminent in these enterprises because of lack of skills, management incompetence and divergent interests of members since it is a democratically controlled enterprise. Managing an enterprise involves a complex range of skills. As soon as an enterprise involves the collective management of resources, the complexity of management escalates exponentially (Philip, 2003). It is then clear that an environment where there are large numbers of people, lack of skills and requires a collective to make decisions about resources becomes a source of conflict. Eleven percent of the respondents have indicated that as soon as there are divisions and factions in the cooperative, members help themselves to the resources of the cooperatives starting from looting of finance, stock and equipment to a total shut down. The government will then intervene in conflict resolution and they would start afresh requiring new finance and equipment.

- Political interference

The findings of the study show that there is some degree of interference by officials such as councillors who stand to benefit by directing what and where the grants and other resources from government institutions and sponsors are allocated. These results concur with the study conducted by Muthuma (2012) stating that government officials have been accused of forming cooperatives and thereby compromising the principle of autonomy and independence and often result in conflict. Instead of an organic growth that is gradual through members gaining experience by growing their business, a dependency syndrome sets in that leads to demotivation when no further external assistance is received.

#### **5.3.4. Objective 3: To make recommendations on how to increase primary co-operatives contribution to the economic growth at Elim in Limpopo.**

It is clear from the findings of the study that government is not doing enough to support these cooperatives as only 36% of the respondents said they receive some

kind of support ranging from training, finance to equipment's. A large proportion (64%) of the respondents is either saying there is no support or that the support is insufficient. These is due to interference by officials in certain instances who have interest and are directing such support where they stand to benefit the most. This phenomenon defeats the principle of autonomy and independence upon which the concept of cooperative is built.

Secondly, it has also been found from the study that where support is provided, in certain instances it is not effective in that the opposite of what is really required is being provided. For example, some of the respondents have indicated that they have been trained on human resources and exports, whereas their real need lies in business planning, pricing and financial management skills training. The results show that 53% require assistance with access to finance mainly as bridging finance in order to continue operations, whereas 25% need assistance with access to markets through priority government procurement plans for their products in some instances. Eleven percent of the participants need the provision of adequate equipment and machinery to increase their production levels in order to service bulk orders and meeting the demand in general. Lastly, another 11% of the respondents show they need assistance with technical and business management training including financial management.

The results show that there is little awareness and knowledge of Cooperatives Act no 6 of 2013. This further explains why these enterprises are confronted with various governance challenges they find themselves in because the Act is supposed to be a guideline upon which the cooperatives are established and managed. It can also be concluded that some acknowledge the existence of the Act, however, they have not familiarized themselves with the content because of illiteracy and naturally they find it impossible for them to interpret it. It is also clear that some are not aware of the Act since they responded by mentioning not applicable. The majority (50%) of the respondents view the government's attitude towards their enterprises in a very bad light, arising from their concerns that they do not receive sufficient support if not any at all from the government.

## **5.4. Recommendations**

### **5.4.1. Demographic data**

The findings were that positions in these cooperatives were spread satisfactorily among those are guided by the constitution and that those elected to management are unable to take unilateral decisions since ordinary members form a large proportion in terms of representation. It is therefore recommended that members who have been in the cooperative sector for more than 15 years should take it upon themselves to mentor and train those with less experience in order for them to adjust quickly. Those cooperatives which are not adhering to the Act must immediately establish the constitution as required by the Act since such a constitution is a governance tool. Members of cooperatives should be taken for short courses, workshops and classes in various aspects of business management and attend technical training where possible to enhance their skills and be able to produce quality products whilst managing the cooperative in a responsible and effective way. This is because their level of education or literacy is very low and requires serious attention since running a complex business such as cooperatives requires certain skills.

### **5.4.2. Objective 1: To examine the potential growth factors and opportunities for primary cooperatives**

The findings of the study show that there is growth in some of these cooperatives and community members have managed to exploit opportunities which were presented to them very well. There is clear indication that there are factors which hinder growth prospects in some areas since 46% of the respondents indicated that they had not experienced growth at all. It is therefore recommended that they be assisted with access to markets, access to finance, equipment and machinery, marketing tools and materials and training and mentorship for them to operate optimally, and that they should be managed in such a way that they grow and become sustainable and self-sufficient. Red tape from financial institutions in particular banks should be done away with and make funding easily available to these cooperatives.

### **5.4.3. Objective 2: To examine the effectiveness of primary cooperatives as drivers of economic growth**

- **Recommendation 1:** Impact of cooperatives on local economy

The results of the study have shown that these cooperatives do not adequately drive and impact the economy. This is because only 46% say they have created job opportunities although the material conditions of those workers have not positively changed. These findings concur with the study conducted by the National Co-op Association of South Africa (2001). Employment opportunities alone cannot be a determinant factor, we need cooperatives that will entirely contribute to the welfare of the society by being involved in infrastructure development, educational projects and actively participate and influence the local economies. It is clear that non-contributory factors to the economy stem from deep-rooted problems of education/literacy by members of the cooperatives. It is therefore recommended that these cooperatives be undertaken through basic business management training in areas such as finance, operations, marketing, costing and pricing, as well as business planning. Regular workshops and classes will assist to turnaround the current precarious situation.

- **Recommendation 2:** Availability of resources (finance, equipment and machinery) and capacity to operate effectively

The result from the study has shown that access to finance in particular bridging finance to procure raw materials and equipment is the main challenge to primary cooperative. These cooperatives in the majority of cases do not meet the requirements for accessing business loans either from banks or government or established financial institutions because of poor systems and controls, as well as a lack of sound accounting and financial records. Access to finance by these cooperatives can mean the ability to sustain and continue with business operations.

Since government promotes this type of enterprises, it has to cut the red tape by simplifying the criteria for obtaining loans from its own financial institutions. This can be achieved by developing state owned banks for cooperatives and other small

medium micro enterprises (SMMEs) or through a review of its current lending policies, replacing them with less stringent requirements to enable equal opportunities for cooperatives. It can do so by allowing access to finance without having to require collateral, audited financial statements, providing less interest rates and appointing a financial mentor/coach who will guide and ensure that the money is spent on growing the cooperative. In turn, this will be skills transfer to these cooperatives given the literacy problems faced by these enterprises.

- **Recommendation 3:** Challenges facing these cooperatives
  - Lack of market

The results have shown that access to markets hinders growth of these cooperatives as a result of insufficient budget for marketing purposes and fierce competition from well established businesses. The government should play a critical role in ensuring that these cooperatives enjoy market penetration by amongst others taking them to trade shows locally and abroad. This will expose their business, especially those who produce unique products as there is potential for a niche market in that case. The private sector or big industry players should also partner with these cooperatives in certain initiatives as part of the social responsibilities as these cooperatives are called or classified as social enterprises which will then boost their publicity.

- Lack of business management and technical skills

The study shows that 7% of the respondents do not possess any business management related skills or experience and therefore pose as a threat to the general management and operations of the cooperative. It is therefore recommended that the staff of these cooperatives be given training of which in areas of finance, operations, marketing, costing and pricing, as well as business planning as these are critical functions which need to be understood very well by anybody starting a business in order to effectively run and manage their enterprises.

The other alternative would be to appoint a mentor or coach for them on an ad-hoc basis to transfer the needed skills and be withdrawn when there is enough confidence to those who have been tasked with the management side of the cooperative to can continue on their own. Technical training must also be organised for those cooperatives which deal in specific trade. One of the ways to accomplish

that is to register them at relevant incubation centres where they will learn more about their trade as well as the industry within which they operate; they are likely to benefit from marketing which these centres assist their clients with.

- Inadequate support from government

The government has introduced the Cooperatives Act no.6 of 2006 which serves as a blueprint towards the formation, registration and governance of cooperatives. In its initiative to fast-track SMMEs and develop and build a culture of entrepreneurship in the country it has, to a great extent, encouraged the establishment of cooperatives, particularly by groups from disadvantaged background and in poverty stricken communities. This call by government has created great expectations to those groups and communities in terms of support in the form of finance, equipment and machinery, land and other resources. Politicians during the electioneering season also pronounce what they are going to offer to these cooperatives once voted in office, which further perpetuates the dependency syndrome and indeed creates expectations.

It is recommended that the government should review its current strategy and policy towards cooperatives as it creates a dependency mentality or attitude to cooperatives. Cooperatives should be changed from being social enterprises to profit oriented enterprises in order to have a positive impact on the economy. The government should also make business loans as capital accessible and not grants funding to those who start these enterprises and continue to offer training and mentoring to cooperatives. Grant funding leads to looting and derail the entrepreneurial agenda as those who have access to it have nothing to lose and therefore are not driven by passion and the will to succeed.

- Infighting and looting of resources by members

Groups and communities have been encouraged to form cooperatives and not really volunteers with a passion for business. These groups have divergent interests which makes it difficult to manage the cooperatives effectively since they are normally large in number and decisions are taken by means of a vote. This in most cases leads to conflict when there is a difference of opinions in particular where decisions about the grant funds are involved. It is recommended that government and sponsors should

procure the specifics as requested by the cooperative and also after having conducted a need assessment to ensure that the right things have been procured. This should be the case when government is still looking into policy of how best it can disburse business loans to cooperatives.

- Political interference

Politicians have been accused of forming cooperatives and thereby compromising the principle of autonomy and independence. They also often mislead the poor masses when they are campaigning to be voted into office. It is recommended that politicians be barred from administering cooperatives at all costs since they dilute the course for which these enterprises were formed and direct them to where they stand to benefit individually.

#### **5.4.4. Objective 3: To make recommendations on how to increase primary cooperatives contribution to the economic growth at Elim in Limpopo.**

In order to increase prospects for economic contribution by primary cooperatives, the following must be paid attention to:

- Increasing the internal capacity in primary cooperatives;
- Providing relevant training according to the different needs;
- Provision of adequate equipment and machinery;
- Access to bridging finance to procure raw materials;
- Providing mentorship and /or coaching periodically;
- Access to markets and networking, and
- Agitate for twinning contracts or exchange programmes with successful primary cooperative locally and abroad. This will help adopt the best possible model.

#### **5.5. Limitations of the study**

The following were the limitations of the study:

The study did not focus on secondary or tertiary cooperatives. The focus was merely on primary cooperatives and therefore the results cannot be generalized to the other two forms of cooperatives.

## **5.6. Implications for further research**

The following areas are proposed for further studies:

- The impact of government on non-financial and financial support institutions on cooperatives.
- An evaluation of the impact of education on cooperatives by members.
- A review of government policy shift on grant funding versus disbursement of business loans.
- An evaluation of cooperatives' best practice models in Africa.

## **5.7. Conclusion**

The study was conducted to explore the role of primary cooperatives in economic growth. The cooperative concept has been strongly identified as a model within which jobs can be created and contribute to the growth of the economy. The research results showed that primary cooperatives are confronted with numerous challenges which hinder growth and impact negatively on the economy. The literature review concurred with the results of the study on numerous discussions related to economic growth.

Data were collected through 28 questionnaires and 7 interviews from 35 members of primary cooperatives at Elim in Limpopo Province. The study revealed that primary cooperatives require serious attention in particular on governance issues, access to markets and resources for them to be effective. It also suggests numerous ways that cooperatives can make meaningful impact on the economy, thus transforming their lives and the economic life of the country as a whole.

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## QUESTIONNAIRE

Dear Respondent,

### A Questionnaire on The role of primary co-operatives in economic growth at Elim in Limpopo province

My name is Brian Tlakula; I am pursuing my studies in Masters of Business Administration (MBA) at Turfloop Graduate School of Leadership (University of Limpopo). As part of my studies I am conducting research titled "The role of primary co-operatives in economic growth at Elim in the Limpopo province". Please assist me by answering all questions which will take approximately 30 minutes of your time.

All the information obtained through this questionnaire will be confidential and used solely for the purpose of this research. Please note that you have the right to voluntarily consent or decline to participate, and to withdraw participation at any time without penalty. Your name shall not be mentioned both does your participation have any costs involved and you have every right to withhold your identities.

In responding to the questionnaire your most appropriate response to the question should be indicated by a tick✓ where indicated and specify where required.

### SECTION A

#### Demographic Information

This section is concerned with the composition of management structure, skills level and training.

1. Which position do you occupy?

Mark ✓

Chairperson		Deputy Chairperson		Secretariat		Treasury		Member	
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2. How long have you been a member of this cooperative?

Mark ✓

1		2		3		4		5	
<2 years		2-5 years		5-10 years		10-15 years		>15 years	

3. Are you guided by a constitution in your cooperative?

Mark ✓

Yes		No	
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4. What is your level of literacy?

Mark ✓

Matric	
Certificate of attendance	
Six month certificate	
One year certificate	
Diploma	
Degree	
Post Graduate Degree	
Doctorate	
If other, <u>please specify</u>	

5. What does your daily Job entails?

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### SECTION B

**Objective 1:** To examine the potential growth factors and opportunities for primary co-operatives.

6. Are there opportunities for your cooperative to grow?

Mark ✓

Yes		No	
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If yes, please specify?

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7. Has your cooperative shown growth prospects in the last 5 years?

Mark ✓

Yes		No	
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8. What would you say contributed to the Growth or Failure in your cooperative?

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**Objective 2:** To examine the effectiveness of primary co-operatives as drivers of economic growth

9. What impact does your cooperative have on the local economy where you operate?

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-----  
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11. Does your cooperative have the resources and capacity to operate effectively?

Mark ✓

Yes		No	
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If no, please specify:-----  
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12. What are the main challenges in your cooperative in general if any exist?

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**Objective 3:** To make recommendations on how to increase primary cooperatives' contribution to the economic growth at Elim in Limpopo.

13. Do you receive any kind of support?

Mark ✓

Yes		No	
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If Yes, specify:-----  
 -----  
 -----

14. Do you feel that such support is sufficient and effective enough? Mark ✓

Yes		No	
-----	--	----	--

15. What kind of support or intervention do you require as a cooperative in general?

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 -----

16. What is your view of the Cooperatives Act no6, 2013 and Government attitude towards cooperatives in general?

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 -----  
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**Thank You for Your Participation.**



**University of Limpopo**

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**MASTER OF BUSINESS ADMINISTRATION**

**To : To Whom It May Concern**

**From : Ms MP Lebese  
AO (Administrative Officer)**

**Date : 01 October 2015**

**Subject : PERMISSION TO COLLECT DATA FOR RESEARCH PURPOSE**

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Dear Sir/Madam

This serves to confirm that **Mr MB Tlakula (Student No. 200309363)** is a registered student at **Turfloop Graduate School of Leadership (TGSL), in Master of Business Administration Programme (MBA).**

He is currently conducting research for his research report, as part of the requirements to complete his report, he need to collect data in line with his research topic.

The title of his research is: **"The Role of Primary Co-operatives in Economic Growth at Elim in Limpopo Province, South Africa"**.

Any assistance you can offer to the student will be highly appreciated.

Thank you.

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**Ms MP Lebese  
Administrative Officer**