

## **Why Cooperatives are often coaxed for Poor Performance?**

### **Introduction**

Cooperatives are often targets of unexpected coaxing in the hands of people, who perhaps in all fairness may not be aware of its role in the society. Very interesting comments are labeled against cooperatives, such as : “Cooperatives are useless organizations”, or “Cooperative are prone to failure”, “Cooperatives breed Corruption”, “Cooperatives are base for political entry”, and what not. No doubt, large number of cooperatives have failed and equal number of cooperatives are lying dormant. Similarly, others may not have pursued effective strategies for the long benefit of their members. In many cases, members have had unrealistic expectations concerning a cooperative’s ability to exert power or improve their economic conditions by getting favourable prices. Surprising, cooperatives received a shock treatment from members as well as the people at large, despite serving them in their period of distress like wars, floods, draught etc., through control of prices, timely supply of inputs and extending other services. Over the years we have observed that if people loose money in their dealings with private organizations, they quickly wipe the incident from their minds and go on with their lives. However, if the same people are actually being wronged by the cooperatives, they carry long memories and continue to raise the issue at whatever platform they get the opportunity to do so. In fact, some people pass their bad experience with cooperatives down from generation to generation. They would often coax cooperatives, for their ineffectiveness, inefficiency, and lot more. It has, therefore, become imperative to explain what could be the reasons of such happening and how to check such occurrence in future. The reasons can be divided into two general categories : misconceptions about cooperatives and reasons for poor performance.

### **Cooperatives - misconceptions**

Cooperatives are the most misunderstood organization in the world, despite creating a largest human network after U.N. and its agencies. Following are some of the misconceptions, we often hear people have about cooperatives.

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*Prof. Paramjit Sharma, Head, Centre for Information Technology, VAMNICOM (Pune)*

1. **Shift in Real Purpose**

Cooperative consumer stores have been created by the people to help themselves to have consumer items at reasonable prices and timely availability of goods. These institutions are – often charged to shift their original objective of helping members to people at large. Perhaps, people have not realized that ultimately the community in general is benefited. KF of Sweden, Coop Norge of Norway and FDB of Denmark joined hands to form a company called Coop Norden, not for any other purpose but to compete with large organizations who have swelled their business due to creation of European Union. Similarly Cooperative Wholesale Society, U.K. merged with many other retail cooperatives to form a Cooperative Group with the sole objective of safe guarding the interest of the Cooperatives. Does, it amount to abandonment of original purpose? The answer would certainly be no, if the people are further informed that this group remains tied to the concern of the community by continuing their original objectives but also kept the community aware about the environment, health, and other consumer issues.

2. **Dominance by Big Members**

There is no doubt about this that most of the cooperatives are headed by big farmers or big landowners. This may not always be true that they were interested in grabbing the position in a cooperative society. In many cases the small land owners could not muster enough courage to lead the society. Wherever, such dedication has been noticed the people have posed faith in their abilities. There have been considerable cases where smaller members have been able to capture control of the board and created policies to the benefit of small members and to the detriment of big members. In certain cases the big members have withdrawn from the cooperatives which consequently reduced the long run efficiencies of the organization. Moreover the principle of one man-one vote has checkmated the big members to dominate despite having large share holding.

**3. Cooperative Values, Practices and Principles**

There have been lot of misconceptions about cooperative values, principles and practices. Difference of opinion has been noticed in the philosophy of following these commandments, not getting clarity in the importance of values or principles. One school of thought, believes values are indicative of true nature of cooperatism, whereas others think the same way for principles. The mere fact implies the importance of real basis of cooperatism drawn from self help, mutual responsibility, equality and equity rather than on principles which are mere guidelines for applying these values. When the question comes, which follows the other than one need to be sure that principles follows the values and not vice versa. If we study the history of successful cooperatives, one can notice the presence of philosophy of principles following the values rather than the other way round.

**4. Cooperatives are for Poor**

It is a common misconception to believe that Cooperatives are instruments for helping the poor or persons belonging to vulnerable groups who have no economic potentials and no own resources to pool. Cooperatives are different form semi-public welfare institutions. The question is not how cooperatives can help the poor and disadvantaged but how the poor and disadvantaged can help themselves by forming or joining cooperatives. ICA in its report on cooperatives and the poor in 1977 have indicated that poor people can't benefit from cooperatives unless they understand them and are capable of participating fully in them. Therefore, cooperatives can't be blamed for failing to help poor or to reach ambitious and unrealistic targets set for them by development agencies, schemes and politicians.

**5. Cooperatives are social organizations**

Another misconception retarding the growth of cooperatives is the label it got of a social organisation and not of a business organization. The mere fact is that cooperatives are organized to raise the income of their members. One can't imagine to raise the income without earning profits. Cooperatives can't raise resources, and distribute dividend without earning profits. No one recommended profiteering but members definitely can't be benefited economically, if there were no profits. Cooperatives are certainly a business organization but with a difference which may be termed social objective.

**6. Member's Care**

Cooperatives are formed by members or for members. In this type of organization everything evolves around members. But the story changes many plots in cooperatives. Occasionally it is stated, 'The board and management don't care about members'. Anyone who has sat through a cooperative board meeting soon realizes that members are usually at the forefront of all proposals by Management and decisions by the board. As a result, decisions painful to members are often delayed to the extent possible and moderated to reduce the potential impact on members. The problem with the approach is that the strategies eventually adopted may not be as effective as they could, had the board acted quicker and with less concern for the immediate negative impact on members.

**7. Sarkari Organization**

Cooperatives are often termed as Sarkari Organisations not because of similarity in their spellings except of 'r' in place of 'h', but because of its dependence on state for law, finance, staff, policies, etc. Since cooperative has become a state subject, its dependence on the Government in the matters of priorities, agencies, distribution of essential commodities and inputs, has increased tremendously. For a long time state continued (still continuing) to support cooperatives

towards share capital, subsidies, concessions and guarantees for finance. But as a result of state sponsors, protection and as agent of state cooperatives remained protected from competition, continued to be fed by Government finance to support its capital. All these support not only made cooperatives complacent but also allowed the adversaries to the cooperatives to prefix the name of Sarkari before it. No doubt, there are cooperatives which have been benefited through state but still there are equal number of cooperatives which had the abilities to stand at their own and created benefits for its members. However, there are some areas where the government must show favouritism to cooperatives because of its unique features of community welfare. Such areas could be tax treatment, subsidies, access to cheaper borrowed capital. These favouritisms may enable the cooperatives to compete at fair level fields with the competitors and ultimately emerge winner because of its base formed with the confidence of people.

### **Why Cooperatives are coaxed for Poor Performance**

A.F. Laidlaw, in his paper on 'Cooperatives in the year 2000' has indicated that cooperatives faced crisis like credibility, managerial and of ideology in its stages of growth and change. Each crisis remained for a period before it was partially or fully overcome. But the impression formed by the stake holders or general public did not change despite lot of cooperatives, overcoming these crisis. Those who could not come out of these crisis continued to show poor performance. The poor performance of one cooperative can give a bad reputation to all cooperatives. We may examine various reasons for poor cooperative performance.

### **Ideological difference in Goals**

There are inherent goal conflicts in all types of cooperative organizations. It arises from the doubts about the true purpose of cooperatives and whether they are fulfilling a distinct roles as a different kind of enterprise. Similarly, often

conflicts arise between board and members. The board of directors have a fiduciary responsibility to act in the best interest of the cooperative even if its actions have a negative impact on members. Many a times board act to increase amount of share capital required from members, reduction of member services, increasing membership dues or requesting them deposit their savings etc. Such actions are often viewed as negative by members, though such actions may benefit the members in the long run. Often, in consumer cooperatives the management increases its stock items to cover the needs of the general consumers, who may or may not be the members of the store. In pursuing this goal the Management attempts to increase the turnover for earning higher profits which members may claim is not the objective of the society. But ultimately, higher profits mean more dividend and more discount to the members. In addition, there are times when growth and diversification are the appropriate strategies, but Management does not have the experience to effectively implement these strategies, thus losing the confidence of the members. Members of the different age groups or geographic areas may not agree on a set of common objectives.

### **Unprofessional Management**

While it has changed considerably in recent years but cooperatives are known for recruiting unprofessional people and their unwillingness to offer competitive package to attract the best or more appropriate management team. As a result, they would not attract Managers with sufficient business enterprise to manage large cooperatives. Associated weaknesses include Managers with insufficient vision and ability to implement action plans. Another common fault noticed in cooperatives is the board not giving management sufficient control of the operations, interfering with the implementation of cooperative strategies or just meddling in the operations of Management. Finally, as member owned organizations, cooperatives do not always provide the opportunity to act in a manner which could bring effectivity to the style of managing cooperatives.

### **Poor Governance**

The cooperatives are governed by many, but no one takes responsibility for its poor performance. Whether it is State, leaders, financial institutions or members. They all take credit if cooperatives succeed but not for its misfortune. Cooperative Governance represents a democratic system of Management when the exercise of authority is derived from its membership. The membership interest should be central in all forms of governance. Whatever design we may adopt, whosoever lead or manage the cooperative, but if all these measures does not succeed in fulfilling members economic, social and cultural needs, the basic objectives of the formulation of the cooperatives get vitiated and so would be the governance. One of the common reasons given for poorly performing board is that cooperative directors do not fully understand their fiduciary roles and responsibilities. The result is that the directors may provide too little or too much oversight of the cooperatives. The former happens when performance has been acceptable for several years. The latter often happens when performance has not lived upto expectations and the board tries to manage operations at each stage. There is a significant evidence to suggest that cooperative decision-making takes longer than that in other types of organizations.

### **Inadequate Capital Base**

One of the major reasons of poor performance of cooperatives is the inadequacy of its capital base and dependence on the government and other parastatal organizations. It has been invariably experienced from the success rate of certain cooperatives about their initiative to build internal capital base and reserves. It is also said that internal capital is of good quality and outside capital is of poor quality. We tend to spend carelessly if the capital has been acquired from outside sources or landed cheaply rather than created from our own initiatives. Being too dependent on debt is dangerous, especially with new operations or high risk operations. Sometimes cooperatives do not raise capital fearing opposition from the members or their poor contribution or poor earning capacity of the Society. Usually if the return is high enough, members would be

willing to invest. Therefore, to maintain adequate capitalization requires excellent cash flow management. Unfortunately, large number of cooperatives are unaware of this concept.

### **Lack of Member Participation**

Cooperatives are supposed to be formed by the members for their economic and other benefits. But owing to peculiarities noticed in the management of cooperatives the members stay away from the management of cooperatives, though cooperatives continued to be called democratic institutions. The members don't exert their rights which disable the democratic interest of the members in the institution. To properly carry out their democratic responsibilities members must keep themselves well informed about cooperatives affairs and performance. Also, members seem to demand a higher level of trust from cooperatives than from other types of organizations. If that trust is breached it takes a long time to regain it. The trust is usually built by a high degree of accurate communication between members and the organizations whether from directors, management or employees. In many cases, cooperatives lack in providing sufficient, timely information about the organization and operations. For example, many cooperatives provide very little information about their financial performance until long after the end of their fiscal years. Public corporations by contrast, publish quarterly financial information on a timely basis. It has also been observed that cooperatives tend to provide less financial information in bad times, probably when members need it most to exert their democratic rights. Also, some cooperatives allocate more coverage in publications to promote individuals than keeping members informed about financial performance and operations. It is important to generate interest of the members to encourage their participation in the affairs of the cooperatives rather than discouraging their participation. The latter is definitely not going to help cooperatives.

### **Oversensitivity to Members**

Many a times, cooperatives can be overly sensitive to member's concern. This tendency may impede them from adopting the best strategy for the cooperative and have a negative impact on long term financial performance. Examples may include : treating members equally rather than equitably, accepting poor quality member products, not matching member production to market demand, providing excess number of subsidized services, declaring high percentage of dividend, adopting a too defensive corporate culture, allowing members over dues etc. Studies have disclosed that successful cooperatives have remained tough with their members.

### **Inappropriate Strategies**

Cooperatives have been often charged to take up a strategy which they should not, and not implemented a plan which they should. Some cooperatives take over unprofitable operations because of some emotional attachments and suffer huge losses. Occasionally the board or management invest too much in a particular product or business or pay too much for an asset acquisition. Some times cooperatives are not willing or not able to invest in a profitable venture due to legislative restrictions or lack of knowledge in a particular trade. This may be the reason that a number of cooperatives market commodities rather than value added products and services. Wherever, these institutions tried to add value addition to the products, it has failed miserably. Even when the whole world has been changing due to structural adjustment and taking appropriate measures to compete and survive, cooperatives were found to be lobbying for Government support, knowing reasonably well that governments themselves are disinvesting to have more liquidity in their treasuries.

### **Too Many Legislative Controls**

The Cooperative Act, rules and bye-laws were created to protect the cooperatives from certain nefarious activities prevalent in the market and people with vested interest. But with the passage of time the law and regulating authorities became too strong that their functioning invariably impeded the growth of cooperatives. From registration to winding up the control and

development measures became so stringent that the space required for the working of cooperatives has become inadequate to perform and function. Many states in India changed their legislations to give more autonomy to these institutions but lots of criticism has come from cooperatives for such initiatives. Certain credit institutions have tried mainly to remove dual control of their functioning as it has been affecting their performance. The controls are definitely of use, it brings good results but are of no use if not allowing the institutions to perform effectively.

### **Conclusion**

We have no reason to believe that all cooperatives are less successful or will not be successful just because it is a cooperative. At this age of corporate scandals, one may have satisfaction to understand that most cooperatives practice a high degree of ethics and exhibit less greed than a lot of public corporations. However, this does not guarantee financial success for the cooperative and its members. We strongly feel that much of the coaxing cooperatives have got due to their bad performance, has been unjustified, if we look at the size and quantum of frauds, losses, irregularities reported or unreported at public or private corporations. Cooperatives are not definitely there to compete with these institutions but established by the users to serve a particular purpose. Therefore, Members' , Directors and Managers must take action to assume that their cooperatives achieve the maximum amount of success possible. Such ineffective performance can be converted into quality performance, if in all fairness members bring good quality board of directors, who in turn select professional Managers, together they develop a strong strategy and implement these strategies to have a sound financial structure and members should always remain vigilant in monitoring the performance of the cooperative, its board and management. Such acts may lead Cooperatives to give a befitting reply to its detractors who often accuse them of poor performance.