THE CO-OPERATIVE MODEL AS A MEANS OF STAKEHOLDER MANAGEMENT: AN EXPLORATORY QUALITATIVE ANALYSIS

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ABSTRACT

The South African economy remains characterised by high unemployment, income inequality, and a skills mismatch which has contributed to conflict between business, government and labour. The co-operative model of stakeholder management is examined as a possible mitigating organisational form in such high conflict environments. International experience indicates some success with co-operative models but they are not easy to implement effectively and face severe obstacles. Trust and knowledge sharing are critical for enabling a co-operative model of stakeholder management and this requires adherence to strict rules and strong governance. The model must balance the tension between optimisation of governance structures and responsiveness to members' needs. Furthermore, support from social and political institutions is necessary. We find barriers to scalability manifest in the lack of depth of business skills, negative perception of the co-operative model by external stakeholders, government ambivalence, and a lack of willingness of workers to co-operate for mutual benefit.

Keywords: Co-operatives; stakeholder management; social contracts

JEL codes: J54; J50; L23
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1. INTRODUCTION

The problem of poverty, unemployment and inequality in South Africa has resulted in an environment of rising tension and the lack of a social contract between business, government and labour has become increasingly apparent (see Luiz, 2014, 2016). The conflict in the labour market came most starkly to the fore during the tragic Marikana killings in 2012. As one widow from the community directly affected by the incident states ‘I blame the mine, the police, and the government because they are the ones who control this country’ (Alexander et al., 2013, p. 7). The collective bargaining process that was once useful appears to have become fragmented and may have outlived its purpose. Business is progressively being viewed as a major cause of social and economic problems and companies are perceived as prospering at the expense of the community (Porter & Kramer, 2011). The main contributor to the failure is an outdated approach to value creation that focuses on short-term financial performance and ignores wider stakeholders which affects long-term sustainability (Martin, 2009). There is thus an apparent need for a new model of stakeholder management in a highly conflictual environment.

A challenge in the South African labour market is how to empower a significant labour force which is largely unskilled and for which demand is waning. Some initiatives which corporates have tried to introduce have been unsuccessful, due in part to low levels of education and to structural shifts in the economy. Calls for higher wages do not address these causes and some would argue would be economically unsustainable and lead to higher unemployment. Interventions to improve skills and then to reward workers for their increased contribution may provide an alternative, sustainable solution in certain cases. This context forms the backdrop to our study and informs why there is a renewed focus on alternative organisational forms such as co-operatives. Whilst such co-operatives may not directly impact on this macro environment, they may be viable options under particular conditions.

The co-operative model is unique in that it is typically applied where the workforce relies on lower skillsets and in areas which are considered economically marginal. This type of model has been used successfully in countries like Spain and Italy but has been less successful in South Africa. This may require re-inventing the co-operative model which recognises South African realities - a hybrid model which combines traditional capitalist models with new shared values and co-operative principles. The purpose of this research is to evaluate the stakeholder literature with emphasis on the co-operative model within an environment of social and political conflict to identify whether the co-operative model is viable on a larger scale in South Africa. South African interest in co-operatives received a boost during 2015 as a result of a backlash against the
previous decade of outsourcing non-core activities in both the public and private spheres. For example, as a result of the #Feesmustfall movement, universities were put under pressure to once again insource activities which had been outsourced and many universities undertook to investigate various options for doing so, including that of worker co-operatives (see http://mg.co.za/article/2015-10-15-wits-mulls-co-ops-to-end-staff- woes). The research is exploratory in nature and relies on a qualitative approach through a study of four case studies. The paper is structured as follows: The next section presents a literature review on co-operative models and outlines factors that contribute to their success or failures. Thereafter we discuss the research methodology, followed by the presentation and discussion of our results, and finally we conclude with a conceptual framework.

2. LITERATURE REVIEW

Freeman (1984) defines stakeholders as any group or individual without whose support the organisation would not exist. An individual or group qualifies as a stakeholder if it affects or is affected by the organisation’s objectives (Freeman, 1984), and therefore has a legitimate interest in the activities of the organisation (Donaldson & Preston, 1995). Stakeholder theory contends that each stakeholder, whether individual or group, should be able to influence decision-makers in the business (Jones, 1995). Effective management requires attention be given to all relevant stakeholders and the failure to obtain buy-in from all key stakeholders may result in the failure of the organisation (Donaldson & Preston, 1995; Sautter & Leisen, 1999).

The traditional view is that managers have an obligation to increase the value of equity for shareholders in the firm. In contrast, the stakeholder view argues that there are other role players – such as government, unions, and social, trade and political groupings, whose interests need to be considered. The operation of firms in society is becoming more complex and it is apparent that a new framework is required to manage stakeholders’ needs (Turnbull, 1997). Although there have been numerous conceptual, theoretical and empirical studies relating to stakeholder theory, very little has been done to integrate the theory into practical process models which can be effectively implemented by the firms (Preble, 2005; Roloff, 2008).

Co-operatives have a more natural disposition towards managing stakeholders (Gijselinckx, 2009) as the ownership rights and control are usually assigned to a single stakeholder category. The concept of the co-operative recognises the need for a change in the structure of the traditionally capitalist economic model and possible political mobilisation (Lele, 1981). It attempts to find a balance between economic and socio-political power in order to benefit those who are often marginalized by traditional models.
2.1 Overview of the co-operative model

In 1844, The Rochdale Pioneers, consisting of 28 cotton weavers in England, got together and formed a co-operative society and formulated several principles on which to conduct business, which would form the basis for the worldwide co-operative movement (Birchall, 1997). The Rochdale Pioneers could not afford the high costs of food, and hence opened a store to sell goods such as sugar, flour and butter to members at more affordable prices. The co-operative was seen as a way to combat the impacts of industrial capitalism, or an embryo of socialism within a capitalist economy (Philip, 2003). Since then there has been a growth not only in the number of co-operatives but also in their models, structures and purpose. They come in various forms including non-monetary, retailers, social, consumers, workers, and business and employment co-operatives.

Mazzarol et al. (2011) developed a conceptual three-level framework, consisting of the system, co-operative and member, to help understand co-operative structures and the nature of the problems faced. This framework is shown in figure 1 demonstrating four key inputs and two outputs. On the input side: social co-operation is driven by the community being motivated, able to mobilise, and have skills, and money and resources. Government policy can have a significant impact on co-operative development through its policies relating to market regulation, corporate governance and tax legislation, and social and economic policies. Industry structure relates to Porter’s five force model, which includes level of competitiveness within the industry, power of buyers and sellers, and threats from new entrants and substitutes. Environmental impacts can be significantly affected by access to land and water, disease, climate change, and droughts or floods. The outputs of the model are economic capital, measured by the creation of wealth, jobs, and assets, and social capital, made up of trust, reciprocity and networks.

Insert figure 1 here

There is no general consensus on the factors that explain success and failure of the co-operative model. Simmons and Birchall (2008) indicate that the success factors vary significantly between types of co-operative, country and time period. However, the literature shows that success factors can be split between internal and external factors and these are evaluated in more detail below.

2.1.1 Internal success factors

Trust: A core value of the co-operative model lies in the lowering of transaction costs through self-governance and trust which has been found to be fundamental to co-operative development and its sustainability (Cook, 1995; Birchall, 1997; Sabatini et al., 2014). In the absence of trust, self-governance and co-operation often fail. In a highly conflictual environment there are high
levels of mistrust, and co-operatives may provide the means for reversing this mistrust, but attempting to introduce self-help initiatives without unity often fails (Parnell, 2003). Before a co-operative model can be introduced, the trust-building process needs to have commenced (Parnell, 2001). However, once the process has started, co-operatives can accelerate the building of trust because of the mutual benefit to all members and this necessitates a sense of community and willingness for members to engage (Mazzarol, 2012).

Knowledge sharing: The co-operative is a business which requires people who are skilled in business processes and knowledge of markets in order to function successfully. Self-regulation requires the support of a reliable and quick information network so as to ensure that all members have access to information in a transparent manner (Turnbull, 1997; Borgen, 2004). A well-defined stakeholder ownership and control structure improves performance significantly by providing more reliable information via multiple channels, and thereby transaction costs are reduced and operational efficiency increased (Turnbull, 1997). Birchall (2011) suggests that co-operative failure, due to disengaged members, occurs due to a lack of education rather than problem of motivation, and investing in education of members is crucial to co-operative success. Comparing co-operatives in more developed countries with less developed countries, the case of Mondragon in the former suggests that although the community was poor due to unemployment, they were educated and each member was therefore able to contribute towards the growth of the co-operative. In contrast, the communities in the latter are often uneducated, and the challenge is therefore in how to enable these communities to improve skills in order for the co-operative to be successful. As the co-operative becomes larger, the flow of information becomes slower. A lack of information and institutional failure may lead to risk and uncertainty within the co-operative (Borda-Rodriguez & Vicari, 2013). Greater information flow can be achieved through decentralisation and the creation of smaller business units, which then leads to additional channels of communication. This feeds into the networking strength of co-operatives.

Governance: Governance plays a pivotal role in motivating members to engage by managing tension between members’ interests within a well-defined framework (Philip, 2003; Cook, 1995; Mazzarol, 2012; Dyer & Singh, 1998). The choice of governance structure depends on the type of relationship and perceived risk for each member entering into the agreement. Ultimately, the structure chosen needs to minimise transaction costs and maximise efficiency (Dyer & Singh, 1998; Nilsson, 1999). Parties can either rely on third-parties to enforce agreements, or to self-enforce them. The co-operative achieves a self-regulating governance mechanism through a set

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1 Mondragon Corporation is the embodiment of the co-operative movement that began in 1956, the year that witnessed the creation of the first industrial cooperative in Mondragón in the province of Gipuzkoa, Spain. The Corporation’s Mission combines the core goals of a business organisation competing on international markets with the use of democratic methods in its business organisation, the creation of jobs, the human and professional development of its workers and a pledge to development with its social environment. In terms of organisation, it is divided into four areas: Finance, Industry, Distribution and Knowledge, and is today the foremost Basque business group and the tenth largest in Spain. See http://www.mondragon-corporation.com/eng/about-us/
of guiding principles which every member is required to adhere to. The management structure is based on participation, democracy and transparency.

Like a traditional organisation which has stockholders and is managed by a management team and board, at the core of the co-operative is the board or governing body. There is normally a chain of command and actions are carried out through delegation from top management to the shop floor (Lutz, 1997). The principles underlying the governance role of the co-operative governing board are to service the interests of co-operative members. Although many co-operatives start with a single board, sustainability is achieved through multiple or compound boards. With the introduction of a compound board, outside strategic stakeholders are able to get involved and provide impartial guidance in the interests of the co-operative. A compound board has the advantages of reducing corruption, increasing the number of individuals participating in control and minimising information distortion and overload placed on single-board members.

Incentive to invest: Motivation for members to engage is driven by the ability of the co-operative to satisfy the needs of the member as a consumer of the co-operative products, member of the community, owner and investor. Therefore, it is necessary to look at the factors which motivate and hinder members to co-operate and engage such as the horizon problem, where a worker’s permissible claim on the co-operative assets is shorter than the life of the asset, and hence there is little incentive to invest capital into the co-operative (Novkovic, 2008; Porter & Scully, 1987). This relates back to the governance structure already discussed and the importance of a well-defined framework. On retirement or exit from the co-operative the worker is only entitled to withdraw the capital in instalments. This effectively solves the problem where capital in the co-operative is indivisible and provides motivation for workers to invest in the co-operative. The instalment only policy on retirement means there is a large capital pool from which the co-operative can draw funds for growth.

2.1.2 External success factors

Networking: A real strength of the co-operative lies in the co-operation with external stakeholders, suppliers and customers (Birchall & Simmons, 2004). Co-operation is based on self-regulation, which can be achieved through sufficiently wide stakeholder participation which includes the broader community. From a network perspective, this provides the means to scale up operations by building more extensive networks through small co-operative clusters (Birchall & Simmons, 2004; Porter & Kramer, 2011). The principle around developing local clusters is based on the premise that the firm’s success is affected by the communities and infrastructure around it (Porter & Kramer, 2011). The ‘cluster’ refers to geographical proximity of businesses, suppliers and supporting infrastructure – which includes educational institutions, utilities,
governing laws, market transparency, and the community. Porter and Kramer (2011) point out that clusters are crucial in driving productivity, innovation and competitiveness. However, the potential for expanding participation in networks is affected by perception of other network partners (Parnell, 2001) and their willingness to transact. Inside a network the interaction moves away from pure economic drivers to those driven by social dynamics (Granovetter, 1992). The change towards more social dynamics suggests that building personal relationships through trust and good governance is critical for building strong networks.

Political and social institutions: Government policy is a very important factor influencing development of co-operatives. In developed countries, co-operatives have been free of government control and based on the Rochdale principles of self-governance, one-member-one-vote with distribution of surpluses to members (Simmons & Birchall, 2008). In contrast, the co-operatives in less developed countries were developed predominantly by governments as a means of transforming traditional economies, but they were controlled by politicians with their own interests rather than the interests of members. This top-down approach from government policy to co-operative development in developing countries has led to failure of co-operatives in these countries (Simmons & Birchall, 2008). Although forming a vital role in providing the framework and environment for the co-operative to develop, the government’s involvement should not hamper the autonomy of the co-operative to function as its own entity and make its own decisions. The state’s role should be to provide political, legal and administrative frameworks. The state also plays a critical role in providing access to resources and access to new markets (Awuah & Amal, 2009). Thus the relationship with the government and outside stakeholders is beneficial and critical as long as they do not interfere in the management of the co-operative.

3. RESEARCH METHODOLOGY

An inductive, qualitative method of analysis was used as the method of inquiry as this was deemed most appropriate for a study that focused on understanding social phenomena within the context of the participants’ perspectives and experiences (Merriam, 2002) and the methods were more responsive and flexible to contextual interpretation than quantitative research. The main data collection method was through interviews with respondents within government and selected co-operative organisations. A semi-structured questionnaire was used in the interviews and the researchers used field observations and data to provide additional insight and context to the results – the research instrument is provided in Appendix A. The interviews were recorded, with permission, for later transcription and evaluation.
In selecting which co-operatives to include in the research, an analysis of the South African co-operatives was performed. The age data of these co-operatives as of September 2013 according to the Department of Trade and Industry (DTI), is shown in Table 1.

**Insert table 1 here**

The data indicates a considerable increase in the number of new co-operatives registered in the preceding five years. However, the data also shows a relatively poor performance of co-operative organisations and their high failure rate, since only 260 co-operatives survived more than ten years. We therefore included a tiered selection of co-operatives: one organisation which had been in existence for one year, another for five years, and two for longer than twenty years. The reason for this was to identify possible characteristics which could contribute towards scalability and sustainability of the co-operative model. A total of 27 interviews were conducted across the four co-operative organisations. Case studies have three possible aims: to provide description, test theory, or generate theory (Eisenhardt & Graebner, 2007). Our aim is an explorative, descriptive study and thus an age-defined purposive sample was deemed appropriate. The 27 interviews included the managers of each co-operative (4), the Director of the National Development Agency (within the Department of Social Development and is tasked with contributing towards poverty eradication through engaging Civil Society Organisations and capacitating them to empower communities and has oversight over co-operatives), and 22 workers/members distributed across each of the co-operatives.

The researchers employed an auditing trail to ensure complete records were kept throughout all phases of the research. These records included field notes, research processes, recordings, interview questionnaires and transcripts, and data analysis files and methods. A thematic analysis was performed to analyse the data and provide a comparison between the literature and field research for insight into similarities and differences. Initially the focus was on reviewing the data and getting to know it and ensure its accuracy. Thereafter initial coding was undertaken based upon the key themes which arose. An iterative process of coding was employed until the rich themes emerged which allowed us to tell the exploratory story below.

A multimethod framework was used to gather data including the interviews, observations by the researchers at the actual sites, and the use of secondary documents including co-operative reports and official government documents. Furthermore, we ensured that we heard multiple voices including that of the managers and workers/members, and from government as part of our interviewed sample.
This research was conducted in accordance with the ethical requirements of the University the authors are attached to and was cleared by the Ethics Committee of the University. This required that the research would not have any significant ethical consequences in terms of physical, psychological, social, legal, economic, or other risks to participants. No participants were below the age of eighteen years. The research was conducted with full consent from all parties involved and participation was voluntary. The purpose of the study was clearly communicated to respondents, who were under no obligation to provide information and could withdraw at any time.

4. RESULTS AND DISCUSSION

4.1 Background of sampled co-operatives

4.1.1 Diepsloot Worker Co-operative

Diepsloot Worker Co-operative (DWC) is located in Diepsloot township, north of Johannesburg and was started in September 2012. The co-operative employs 32 members from the Diepsloot community, most of whom are women, and produces bags made from plastic shopping packets, PVC, and leather offcuts. Their value proposition is in producing high quality products. However, most of the items are very simple to manufacture.

The co-operative operates differently to the conventional co-operative model, in that members do not own and control all the means of production. Instead, the co-operative focuses on core skills of workers whilst functions such as legal, financial, marketing and general administration are outsourced. Members earn a monthly wage based on output and a share of the profits are paid out annually, in accordance with the co-operative legislation. The external support which the co-operative has received included a start-up loan, as well as the outsourced support although the co-operative pays market rates for these support services.

4.1.2 Pretorium Trust

Pretorium Trust (PT) was formed in 1938 by a group of government employees, in order to reduce the price of household goods through collective purchasing and commission was charged on purchases made from the co-operative. The commission was re-invested in the co-operative and the surplus paid out annually as dividends to members. The co-operative is based in Pretoria and has 23 employees servicing 23,000 members. The current General Manager has been in his role since 1966 and the majority of the 23 employees have been with the organisation in excess of 20 years. Employees have the choice to become members, but are not obliged to do so. The co-operative remains a buying association, with the primary income obtained through rebate agreements with selected retailers. The rebate typically ranges between two percent from larger
retailers up to five percent from smaller retailers. Additional revenue streams include short-term insurance, loans and vehicle finance. A fee of R10 is required for every new application, after which a compulsory monthly fee of R15 is charged, which is used to fund working capital. Each member is also required to deposit an amount of twice his/her monthly credit limit, which helps protect against member defaults.

### 4.1.3 Coastals Farmers’ Co-operative Limited

Coastal Farmers’ Co-operative (Coastals) was started in 1946 by a group of farmers in KwaZulu-Natal. Their goal was to reduce the price of fertilizer, diesel, fuel and other farming commodities for themselves and other members through economies of scale. The co-operative is currently the largest purchaser of farming commodities in the KwaZulu-Natal coastal belt and has increased its product range significantly since inception. The Head Office is based in Mount Edgecombe, north of Durban, and employs approximately 150 people. The current General Manager (GM) has been in the leadership role since 2005, before which the previous GM had been in the role for 39 years. Its membership consists of approximately 1400 predominantly sugar, banana, and citrus farmers. All employees of the co-operative are non-members, unless they are farmers, in which case they have the opportunity to become members. The board of directors are all farmers and members of the co-operative. According to the 2013 financial statements, the revenue was R240 million.

### 4.1.4 Ujimabakwena Shoemaking Co-operative

Ujimabakwena Shoemaking Co-operative was a merger of two shoe-making co-operatives, one of which had been formed by a group of retrenched workers from a shoe factory. The co-operative has 17 members and 23 non-members. Non-members are employed on a non-permanent basis according to seasonal demand requirements. The co-operative supplies its shoes through the Department of Social Services (DSS) in Gauteng, which subsidises 40,000 learners from disadvantaged communities. The DSS supports the initiative with the understanding that the levels of quality, price and service are not compromised. In addition, the co-operative supports other co-operatives with its skills, whilst also receiving support from these others co-operatives. Additional business skill and financial support are provided by government and certain private sector companies.

### 4.2 The drivers of the co-operative model in a high-conflict environment

The relationship between business, government and labour internationally has gone through periods in which models of stakeholder management have been questioned. In South Africa this relationship has been problematic, given its history of inequality and political instability, which has led to extremely volatile labour relations. The co-operative model is argued to be more
effective because it is able to strengthen relationships between stakeholders (Birchall & Simmons, 2004). Respondents were asked about what they thought the drivers of the co-operative model were and broadly these were related to building trust and knowledge sharing. Table 2 identifies the key emergent themes which arose relating to trust.

Insert Table 2 here

All respondents agreed with Cook (1995), Birchall (1997), and Sabatini et al. (2014) that trust was fundamental to the co-operatives’ success. But how do the co-operatives build this trust in an environment where there are high levels of mistrust? Two key themes emerged: open and honest communication, and a family environment. In order to create a family environment, the co-operatives were very cautious when selecting members and employees, which was indicative of the high levels of mistrust in the general community. This finding was more evident with the developing co-operatives because the more established co-operatives had already institutionalized the working environment. When conflict arose, it was dealt with decisively in all four co-operatives. This sentiment was confirmed by managers, workers, members and non-members alike, and this highlighted the importance of each co-operative seeking to maintain a stable, low-conflict environment. Within the co-operatives, conflict was dealt with by applying strict rules requiring members and employees to set their differences aside. If members did not accept these principles, then they were asked to leave. Pretorium Trust allowed members to join by following a standard credit approval process, whereas Coastals allowed only members who were farmers. However, if members defaulted or failed to meet their obligations, their memberships were cancelled.

Knowledge sharing was found to be another important contributor to the success of the co-operative - a number of sub-themes emerged within this which are summarised in Table 3. A strong theme confirmed by all four co-operatives was the need to operate as profitable businesses (Mazzarol, 2012). However, the depth of business skills was found to be lacking in the start-up co-operatives. For their co-operatives to function effectively, Ujimabakwena and Diepsloot Worker Co-operatives realised the need to focus on their core strengths in order to build the organisations into sustainable entities. Diepsloot Worker Co-operative adapted its business model by outsourcing functions such as marketing, bookkeeping and general administration where it was lacking. Ujimabakwena leveraged its links with government and outside agencies to provide training for the functions for which it had limited skills. All four co-operatives indicated the strong need for ongoing education and knowledge sharing between members and fellow workers.

Insert table 3 here
4.3 The role of governance in the co-operative

Sustainable governance of the co-operative must be achieved through a self-regulating information and control system (Dyer & Singh, 1998; Turnbull, 1997), but the governance structure needs to be balanced with the ability to meet members’ needs. Respondents were asked how the co-operative met their needs as members and what incentivised them to become members. The key themes which emerged included the family working environment, learning and development, financial remuneration, and strong governance – see Table 4.

Insert table 4 here

The role of governance was found to be instrumental in the co-operative’s development and ongoing success. The governance structures of all four co-operatives are shown in Figure 2. All four structures were found to follow a normal chain of command where actions are carried out through delegation from top management to the shop floor.

Insert figure 2 here

Diepsloot Workers’ Co-operative: The General Manager (GM) and two team leaders manage the co-operative. Together, they are able to adequately and quickly address the needs of the member workforce through communication of a single vision and strong leadership.

Ujimabakwena Shoemaking Co-operative: The co-operative has 17 members and 23 non-members and governance is shared between five members. The operation is based within a single facility and members and non-members are all treated equally. The five member board appoint two members as Operation Managers who oversee the daily operations. However, members and non-members are regularly updated and consulted on all matters, and the management also freely communicates with workers as and when the need arises.

Pretorium Trust: The co-operative has a Board of Directors and a GM. The organisation is located in a single building and has 23 working members servicing 23 000 member customers. More effective communication is achieved via the use of a well-structured IT system. However, the GM maintains a close relationship with all employees, which bears testament to the fact that most employees have been with the company in excess of 20 years. The GM has also been in his role since 1966 and maintains an open-door policy.

Coastals Farmers’ Co-operative: The co-operative is structured with a Board of Directors, each with his/her own ward or region. The allocation of directors to wards improves communication with members: ‘Directors are members of the co-operative and are farmers in their respective
areas. This allows for easier communication with members (customers) and directors are aware of the importance of communication with members.’ This structure has shown its effectiveness in meeting the needs of the members and demonstrated sustainability through its existence over the past 67 years.

The research indicates that as the co-operatives become larger, the governance structures need to adapt to include governing boards in order to service the interests of the members better. Although the larger co-operatives have a well-defined governance structure in place, there is a certain degree of informal management in order to engage with members.

Building relationships with suppliers, customers and other co-operatives is an essential component for successful co-operatives (Birchall & Simmons, 2004). Respondents were asked what they thought was required to build and maintain these relationships, and what impeded their progress. The dominant themes which emerged related to governance, relationship management and trust – see Table 5.

Insert table 5 here

The results show that the co-operatives view governance as a critical component in developing strong relationships with suppliers, customers and other co-operatives, and that integrity, honesty and delivering on a promise are the enablers of strengthening these relationships. However, a significant barrier to developing external relationships is the inherent mistrust of co-operatives (Parnell, 2001). This was powerfully illustrated in the following statements: ‘We do not deal with co-operatives. The co-operative members don’t trust each other’, and the co-operative is a ‘white man’s business’. A further contributor to the mistrust of the co-operative model relates to the high failure rate of co-operatives and businesses do not want to risk dealing with entities which have a high perceived likelihood of failing.

4.4 The role of social and political institutions in co-operative development

In socially conflicted environments, the co-operative model has shown success in tapping into local experience and knowledge (Parnell, 2001). We therefore examine the extent to which external support is required for the successful development of the co-operative and the results broadly indicate that support from both political and social institutions is important – see Table 6.

Insert table 6
There were two dominant themes which emerged from the research. The first was that in a less developed, socially conflicted environment the co-operative model requires support from political or social institutions in the early stages of development in order to succeed, but obtaining the required support is inhibited by mistrust of the co-operative model and therefore support institutions are reluctant to invest. The second, was that as the co-operative becomes larger and self-regulating the need for external support diminishes. In the case of Diepsloot Worker Co-operative, support was provided by private corporate institutions. This support was both financial and service related with the latter being based on the outsourcing of critical business functions which the co-operative was not able to perform due to lack of skills. Ujimabakwena received both financial and educational support from government. This support was provided without any conditions from government, which is significant as it allowed the co-operative to remain autonomous without external interference in the governance of the co-operative. In the case of Pretorium Trust and Coastals, the co-operatives do not presently require support from external agencies and are self-regulating and self-sustaining entities which shows the need for support reduces as the co-operative becomes larger.

5. CONCLUSION

The objective of the research was to describe the co-operative model as a means of stakeholder management in a high conflict environment such as South Africa where there has been increased tension between business, government, and labour. The challenge is in finding a model which empowers workers with low skills and which can mitigate highly conflictual environments.

International experience indicates some success with co-operative models but it is important to realise that they are not easy to implement effectively and face severe obstacles. Pretending that they are some sort of general panacea to the macro environment is problematic but this does not mean that they do not have a place under particular circumstances where traditional models of stakeholder management have become less effective.

On the basis of our research we argue the following as regards the conditions for successful co-operative models:

1. Trust and knowledge sharing are critical for enabling a co-operative model of stakeholder management and this requires adherence to strict rules and strong governance.

2. The co-operative model needs to balance the tension between optimisation of governance structures and responsiveness to members’ needs.

3. The ability of the co-operative to develop strong networks with external stakeholders is dependent upon strong governance and relationship management to build trust.
4. Support from social and political institutions is necessary to enable a co-operative model of stakeholder management in a less developed, high conflict environment.

Our results are summarized in our conceptual framework as shown in figure 3. The model is made up of internal and external factors. External factors include the political and social institutions such as government, NGOs, external education and support organisations. During the early phases of co-operative development, external support structures are extremely critical for enabling success. The complexities of organizing collectively that is required by a co-operative often requires initial external support especially in environments of high conflict and poor education. Such contexts may require facilitation externally to organize into a co-operative to overcome challenges associated with a lack of trust or understanding around the workings and rationale of co-operatives. Independent, impartial, external institutions can facilitate the process of building a co-operative but this requires that they are trusted by all parties and are seen as being objective without vested interests. Furthermore, in the early stages co-operatives may be especially in need of external support to develop the management acumen and market networks necessary for long term viability. These external factors contribute towards developing governance structures and motivating factors which influence members to co-operate, which in turn feed into the governance structure at the core of the co-operative. A strong governance structure, enabled through knowledge sharing and trust then enables the creation of strong networks with suppliers and customers. As the sustainability of the co-operative increases so the need for external support reduces.

*Insert figure 3*

There are, however, major barriers to the scalability of the co-operative model. Firstly, the depth of business skills within the co-operative which limits the ability of the co-operative to compete in the market. Secondly, the perception of co-operatives by external stakeholders, which may significantly hinder investment and growth opportunities for the co-operative. Thirdly, the lack of alignment of government communication and policy to the co-operative model, which is particularly important during early stages when the co-operative requires external support. A high conflict environment requires a more accommodative and inclusive model which necessitates even greater levels of open communication, knowledge sharing and governance in order to succeed. However, closely linked to the success of this inclusive model is the last barrier, which is the willingness of the workers or members to co-operate for mutual benefit. Where there are high levels of conflict, social unrest, unrealistic expectations for higher wages, or where there is a mindset of entitlement, the co-operative model may not be the appropriate solution. This becomes further complicated where there are high levels of ethno-linguistic fractionalization with this diversity making a family-like environment difficult (see Luiz, 2015). The traditional co-operative model may therefore require further adaptation to accommodate diversity in high conflict environments and this is an important area for future research.
A limitation of the research is that the sample of co-operatives was small and may not be representative of worker co-operatives in high conflict environments more generally. This limits our generalizability and our ability to understand the full diversity and heterogeneity of our population. Our research is exploratory in nature and like many qualitative studies its purpose is not to generalize but rather to provide a rich, contextualized understanding of these particular cases.

This leads directly to future research which could develop more representative samples so as to extend the generalizability of the results. Alternatively, a longitudinal study of a limited number of co-operative cases would allow us to examine how co-operatives evolve and develop over time. Furthermore, such studies would allow us to analyse how this model reacts to socio-political shocks at the macro level.

6. References


Appendix A: Research Instrument

1. What is working with current relationships between labour, government and business?
2. How can the relationships between labour, government and business be improved?
3. What methods or processes are being used currently to manage internal and external stakeholders?
4. What makes the co-operative model work effectively?
5. What is the value of trust within the co-operative?
6. How does the co-operative deal with education and transfer of knowledge?
7. What does not work well in the co-operative?
8. What do you value most working in the co-operative?
9. What could be done better?
10. What determines a good governance structure?
11. How does the co-operative deal with conflict between internal stakeholders?
12. What motivates co-operation?
13. How important is the network of relationships, both internally and with external co-operative and stakeholders?
14. How do you strengthen networks?
15. What effect does the economic climate have on the co-operative?
16. What is your perception of co-operatives in the community?
17. How does the co-operative deal with a lack of trust between members and external stakeholders?
18. How does the co-operative deal with external conflict?
19. Is there a history of political involvement or state control of co-ops?
20. What is the legal framework in existence for co-ops?
21. What role do external sources of knowledge and support play in development of the co-operative?
22. What effect does government policy have on the co-operative?
23. What is the value of the community to the co-operative?
24. What is the effect of culture on the co-operative?
### Table 1 - Co-operatives in South Africa

<table>
<thead>
<tr>
<th>Co-operative Age (Years)</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 5</td>
<td>73 000</td>
</tr>
<tr>
<td>5-10</td>
<td>3 300</td>
</tr>
<tr>
<td>10-20</td>
<td>160</td>
</tr>
<tr>
<td>20+</td>
<td>100</td>
</tr>
</tbody>
</table>

### Table 2 - Pertinent quotes and themes relating to trust

<table>
<thead>
<tr>
<th>Theme</th>
<th>Quote</th>
<th>Who</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust is essential for success of the co-operative</td>
<td>If trust lacked, it would not work…we are dealing with people's money.</td>
<td>Manager: Pretorium Trust</td>
</tr>
<tr>
<td>Transparency and communication fundamental to building trust</td>
<td>The co-op requires even more ethics than standard business.</td>
<td>Manager: Pretorium Trust</td>
</tr>
<tr>
<td></td>
<td>Trust goes with integrity. Your members must trust you. If they don't, it will be like a fire spreading, and pretty soon you will be out of business. You need to maintain the highest possible quality of business standards and ethics for those members. If there is no integrity, you will not trust.</td>
<td>Manager: Pretorium Trust</td>
</tr>
<tr>
<td></td>
<td>They do what they say they will do. They have earned their trust.</td>
<td>Member: Coastals</td>
</tr>
<tr>
<td></td>
<td>[Building trust] Open and honest and have high moral values in dealing with our customers and members</td>
<td>Manager: Coastals</td>
</tr>
<tr>
<td>Transparency and communication fundamental to building trust</td>
<td>Very important...trusting each other…but to be trusted by others, transparency should prevail…each and everything should be in black and white</td>
<td>Manager: Ujimabakwena</td>
</tr>
<tr>
<td></td>
<td>Communication and transparency are essential</td>
<td>Manager: Ujimabakwena</td>
</tr>
<tr>
<td></td>
<td>Our intention is fair. We have a transparent system here.</td>
<td>Manager: Diepsloot</td>
</tr>
<tr>
<td></td>
<td>As and when it [conflict] arises, we intervene immediately</td>
<td>Manager: Diepsloot</td>
</tr>
<tr>
<td></td>
<td>[Dealing with conflict]. Not always aligned with the same objective. Speak to that person to see if we can solve that problem.</td>
<td>Manager Pretorium Trust</td>
</tr>
<tr>
<td>Family environment and sense of community to build trust</td>
<td>Trust that the customer member is getting a fair deal. Trust is the key principle that is embedded in the DNA of the co-operative</td>
<td>Manager: Coastals</td>
</tr>
<tr>
<td>---</td>
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</tr>
<tr>
<td></td>
<td>One of the key things which makes the co-operative work, we don’t just instruct people…always we negotiate. As workers, they have the right to say no…always we give them options</td>
<td>Manager: Ujimabakwena</td>
</tr>
<tr>
<td></td>
<td>[Relationship between workers and members] There are rules. We sit down and everyone has something to say.</td>
<td>Worker: Ujimabakwena</td>
</tr>
<tr>
<td></td>
<td>Yes, we trust everyone. When we are doing something, we teach each other…we think we are going to gain more for what we are doing</td>
<td>Worker: Diepsloot</td>
</tr>
<tr>
<td></td>
<td>Because it is like a family. You are working like a family.</td>
<td>Manager: Diepsloot</td>
</tr>
<tr>
<td></td>
<td>Living that values system through the entire organisation from the Board to the lowest level staff members. Basic principles – such as honesty, integrity and responsibility</td>
<td>Manager: Coastals</td>
</tr>
<tr>
<td></td>
<td>Conflict between management and staff is not there</td>
<td>Manager: Pretorium Trust</td>
</tr>
<tr>
<td></td>
<td>We need to treat each other as a family</td>
<td>Manager: Ujimabakwena</td>
</tr>
<tr>
<td></td>
<td>One thing we are very strict about, we do not entertain individual conflicts. Draw a line that it mustn't affect the work.</td>
<td>Manager: Ujimabakwena</td>
</tr>
<tr>
<td></td>
<td>Need to foster collaboration…and sometimes even force it. Need to dialogue more. It is a function of leadership and the trust environment</td>
<td>Director: National Development Agency</td>
</tr>
<tr>
<td></td>
<td>Difficult to build trust. Culturally and demographically it is difficult to work together…but it comes back to strong leadership. When we are here, we are a family, we are a team.</td>
<td>Manager: Diepsloot</td>
</tr>
<tr>
<td>Theme</td>
<td>Quote</td>
<td>Who</td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>----------------------------</td>
</tr>
<tr>
<td><strong>Depth of business skills essential</strong></td>
<td>It is not the sector, it is the foundation of business development which is lacking</td>
<td>Director: National Development Agency</td>
</tr>
<tr>
<td></td>
<td>The co-operative really is business. Our product has to be world class</td>
<td>Manager: Diepsloot</td>
</tr>
<tr>
<td></td>
<td>Depth of skill is lacking in business development...Requires market access, funding, skills, inclination to run business on different level</td>
<td>Director: National Development Agency</td>
</tr>
<tr>
<td></td>
<td>Co-op is still a business enterprise. On the one hand we are capitalistic, we make profits. On the other hand we are socialistic, everything goes back to the members. That is the true platform of co-ops</td>
<td>Manager: Pretorium Trust</td>
</tr>
<tr>
<td><strong>Strong leadership</strong></td>
<td>It takes a key man on the ground to get things going…it needs the key management</td>
<td>Manager: Diepsloot</td>
</tr>
<tr>
<td></td>
<td>I am passionate about the business</td>
<td>Manager: Coastals</td>
</tr>
<tr>
<td><strong>Focus on core skills</strong></td>
<td>We must let co-ops do what they are good at</td>
<td>Director: NDA</td>
</tr>
<tr>
<td></td>
<td>We allow members to focus on their core strength and outsource other business functions</td>
<td>Manager: Diepsloot</td>
</tr>
<tr>
<td><strong>Ongoing learning fundamental to co-operative development</strong></td>
<td>If you have got nothing, no education, nothing is going to come from it</td>
<td>Manager: Diepsloot</td>
</tr>
<tr>
<td></td>
<td>We pay half of the studies for anyone who wants to attend a tertiary institution</td>
<td>Manager: Pretorium Trust</td>
</tr>
<tr>
<td></td>
<td>Whatever we have learnt from training, we take it to all the members</td>
<td>Manager: Ujimabakwena</td>
</tr>
<tr>
<td></td>
<td>We discuss all the problems once a month</td>
<td>Manager: Pretorium Trust</td>
</tr>
<tr>
<td></td>
<td>I teach this lady and she teach me as well</td>
<td>Worker: Ujimabakwena</td>
</tr>
<tr>
<td></td>
<td>We take education very seriously hence most of our staff are receiving both internal and external training through reputable organisations like UNISA and local Chamber of Commerce</td>
<td>Manager: Coastals</td>
</tr>
</tbody>
</table>
**Table 4 – Motives for joining co-operative**

<table>
<thead>
<tr>
<th>Theme</th>
<th>Quote</th>
<th>Who</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strong family environment</strong></td>
<td>[Why work here] Excellent work/personal life balance. Has a family culture where employees are not just a number We are working as a family. Management, they are like parents Here we are Simunye, we are 'In One' Maybe less employees allows more time to respect each other's work The people will make me stay. It doesn't matter if I don't get paid 'cos I like my job From an employee point of view the atmosphere is family oriented and therefore the desire to stay over long periods of time is evident. They treat us very well. They communicate with us.</td>
<td>Manager: Coastals Worker: Diepsloot Worker: Diepsloot Manager: Pretorium Trust Manager: Diepsloot Manager: Coastals Worker: Ujimabakwena</td>
</tr>
<tr>
<td><strong>Balance between learning and financial reward</strong></td>
<td>We do some different thing and we learn…and we work hard to get the money Providing a job and teaching us more things we didn't know [Willing to accept Lower salary] Definitely I get money when working so hard…I got more experiences I can learn here. [What motivates you to work here] The other members…and the bonus. 60 % environment, 40 % bonus</td>
<td>Worker: Diepsloot Worker: Diepsloot Manager: Pretorium Trust Worker: Diepsloot Manager: Pretorium Trust</td>
</tr>
<tr>
<td><strong>Knowledge sharing</strong></td>
<td>If have work, I know, I see I teach myself and I teach others. I like here…I learn more...if I am on the other side [other company] I didn't learn more. Now I'm just improve…my dreams start to open…I like my job…I am proud of my work.</td>
<td>Manager: Diepsloot Manager: Diepsloot</td>
</tr>
</tbody>
</table>
### Need to alleviate poverty

I choose this co-operative because it makes me great, it grows me, it's everything to me, so I am proud. I don't care about money.

It is not about the money, it is about the satisfaction about what you have done.

[What do you value most?]. To get more knowledge

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Co-op born out of need to alleviate poverty. Social enterprise trying to compete as a business. A hybrid model of social entrepreneurship

Surely I want to live a better life…being an owner makes me 100 percent responsible

I am able to put food on the table

---

We have 5 managers at the top…before taking decisions, we go back to members to discuss…We share the responsibilities as management

We have got one vision

As much as we are all equal, there is leadership in this co-operative…it is almost a process of holding hands

As we employ people we put in laws…causes discipline.

We cannot all lead, but we must choose the leaders who can lead us to the right direction

We used shared governance

[Balancing governance with workers' needs] It’s not easy...all the rules given to the employees makes it easier…we don't just tell them, we give them the reason

Good governance structures…are the simple rules and regulations that set with monitoring systems that is restorative and fair.
Table 5 – Themes for building external networks

<table>
<thead>
<tr>
<th>Theme</th>
<th>Quote</th>
<th>Who</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mistrust of co-operatives by external stakeholders</td>
<td>A large corporate said: ‘We do not deal with co-operatives. ‘The co-operative members don’t trust each other. Inherent mistrust with external stakeholders.’</td>
<td>Manager: Diepsloot Worker</td>
</tr>
<tr>
<td></td>
<td>Amongst our old established customers they view our organisation as high value to their operation…younger entrants feel that they could achieve much better deals on their own. Some perceive the co-operative as a ‘white man's business’</td>
<td>Manager: Coastals</td>
</tr>
<tr>
<td>Move towards social dynamics</td>
<td>Our members are our customers. Our members are in a long-term business. Managing relationships are crucial.</td>
<td>Manager: Coastals</td>
</tr>
<tr>
<td></td>
<td>Generally, co-operatives have a good perception. They are not seen as ‘capitalist’ and vehicles for exploiting customers or employees</td>
<td>Manager: Coastals</td>
</tr>
<tr>
<td></td>
<td>Communication. Building trust between parties. Aligning parties with similar/ common goals.</td>
<td>Manager: Coastals</td>
</tr>
<tr>
<td></td>
<td>We share our challenges with other co-operatives</td>
<td>Manager: Ujimabakwena</td>
</tr>
<tr>
<td></td>
<td>Although your neighbour is a fellow farmer, he is not viewed as a competitor (unlike how it works in other businesses). This allows for sharing of information, best practice, co-operation with security, purchasing etc.</td>
<td>Manager: Coastals</td>
</tr>
<tr>
<td>Governance crucial for building strong networks and relationships</td>
<td>Internal governance is extremely important to developing external relationships. The first order was sold on the quality and the promise of delivery. The second order was sold on the track record of delivery and the quality.</td>
<td>Manager: Diepsloot</td>
</tr>
<tr>
<td></td>
<td>[Good governance] Integrity, honesty and fairness as part of the culture of the co-op which is visible to members/ customers, staff and third parties e.g. suppliers</td>
<td>Manager: Coastals</td>
</tr>
<tr>
<td></td>
<td>Integrity is not negotiable in our dealings with members, suppliers and other stakeholders.</td>
<td>Manager: Coastals</td>
</tr>
<tr>
<td></td>
<td>Credibility and reputation comes with good governance</td>
<td>Member: Coastals</td>
</tr>
<tr>
<td></td>
<td>Building trust with customers…we get in front of them</td>
<td>Manager: Diepsloot</td>
</tr>
<tr>
<td>Building networks requires trust and dedication</td>
<td>I have gained trust from my suppliers... a promise is a promise</td>
<td>Manager: Ujimabakwena</td>
</tr>
<tr>
<td>------------------------------------------------</td>
<td>---------------------------------------------------------------</td>
<td>----------------------</td>
</tr>
<tr>
<td>Over the years families pass on their assets from one generation to another and the trust is measured by the value of our growth within our organisation and the newer generations that remain closely aligned with our organisation means there is high value of trust</td>
<td></td>
<td>Manager: Coastals</td>
</tr>
</tbody>
</table>
Table 6 – Themes for support from social and political institutions in co-operative development

<table>
<thead>
<tr>
<th>Theme</th>
<th>Quote</th>
<th>Who</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government, private enterprise and other co-operatives providing support to start-up co-operatives</td>
<td>Government invested R200m over 5 years</td>
<td>NDA</td>
</tr>
<tr>
<td></td>
<td>[a large company] put up starting capital of R500 000</td>
<td>Manager: Diepsloot</td>
</tr>
<tr>
<td></td>
<td>We didn't have a clue on how to run a business. We need to consult outside people who will tell us whether we are taking the right decisions</td>
<td>Manager: Ujimabakwena</td>
</tr>
<tr>
<td></td>
<td>We got skills [to manage company] through Business Skills South Africa, education from service providers through support from DTI.</td>
<td>Manager: Ujimabakwena</td>
</tr>
<tr>
<td></td>
<td>We are using other co-operatives to provide training for us</td>
<td>Manager: Ujimabakwena</td>
</tr>
<tr>
<td>Support for non-core activities</td>
<td>We have products, production management and sales and marketing to assist these other co-operatives. Let's help the co-operative with things which are not their core strength</td>
<td>Manager: Diepsloot</td>
</tr>
<tr>
<td>Mentors crucial to success</td>
<td>In particular, you can tell the difference between those co-ops which have had a mentor and those which have not.</td>
<td>NDA</td>
</tr>
<tr>
<td>External Support diminishes as size of co-operative increases</td>
<td>No government support. No support from outside agencies</td>
<td>Manager: Pretorium Trust</td>
</tr>
<tr>
<td></td>
<td>We don’t receive support from external agencies</td>
<td>Manager: Pretorium Trust</td>
</tr>
<tr>
<td></td>
<td>[Government involvement] Minimal direct involvement</td>
<td>Manager: Coastals</td>
</tr>
</tbody>
</table>
Figure 1 – Mazzarol et al. (2011) co-operative conceptual framework
Figure 2 – Organograms of co-operatives

DIEPSLOOT WORKER CO-OPERATIVE

GENERAL MANAGER

TEAM LEADER

TEAM LEADER

MEMBERS

UJIMA BAKWENA CO-OPERATIVE

MEMBER 1

MEMBER 2

MEMBER 3

MEMBER 4

MEMBER 5

2 MANAGING MEMBERS

PRETORIUM TRUST

BOARD DIRECTORS

GENERAL MANAGER

MANAGING MEMBER

MANAGING MEMBER

MANAGING MEMBER

MANAGING MEMBER

COASTALS FARMERS’ CO-OPERATIVE

BOARD DIRECTORS

GENERAL MANAGER

FINANCE MANAGER

TRADING MANAGER

INTERNAL AUDITOR

REGIONAL MANAGER

REGIONAL MANAGER

17 BRANCH MANAGERS
Figure 2 – Conceptual model for co-operative success