COURSE GUIDE

CRD 120
SOCIOLOGY OF COOPERATION

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Contents

Introduction:

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

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

Course Aims and Objectives.

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

About this Course Material

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

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

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

Outline of the Course Materials

Module 1:

Unit 1**:** Defining the co-operative and the double/dual nature of cooperatives

Unit 2: The Rochdale Principle: Principles or practices

Unit 3: The concept of the sociological group and the co-operative business enterprise.

Module 2:

Unit 1: Classification of co-operatives: Types and criteria

Unit 2: Motives for forming/joining a cooperative economic.

Unit 3: Factors that influence the establishment of cooperatives.

Module 3

Unit 1: Multi dimensions of a cooperative.

Unit 2: Cooperatives, sustainability and food security

Unit 3: Cooperative as a hybrid organization

Module 4

Unit 1: The financing of the co-operative enterprise.

Unit 2: Internal financing

Unit 3: Multi-stakeholders cooperatives

Module 5

Unit 1: Internal working of group

Unit 2: Managing cooperatives for success.

Unit 3: Cooperative manager

Module 6

Unit 1: Market pooling

Unit 2: Financing cooperative activities

Unit3: The gearing ratio

Conclusion:

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

Final Examination and Grading

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

The evaluation rating is as follows:

Assignments- 30%

Examination-70%

Total- 100%

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

Recommended texts:

1. Fekete, F.; Heady, E.O. and Holdren B. R.: Economics of Cooperative farming. Springer Science and Business media, 1976
2. Bryan G. and Edwards J.: An introduction to Sociology. Pergamon Press 1969.
3. Lebow, R.N.: Coercion, cooperation and Ethics in international relations. Routledge Taylor and Francis group, London 2007
4. Carballo, D. M. : Cooperatives and Collective action: Archeological perspective. University Press of Colorado, 2013
5. Emelianoff, I V. : Economic theory of cooperation. Edwards Brothers, Inc. Washington, D. C., 1942.
6. Robert K.: Social Theory and Social Structure, Free Press, 1957
7. Hillyard, S.: The Sociology of Rural Life. Berg Press, New York, 2007
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10. Crow, G. and Allan, G : Community Life: An Introduction to Local Social Relations. London, Harvester Wheatsheaf 1994.
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Module 1

Unit 1: Defining the co-operative

1.0: Introduction:

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

1.1: WHAT IS A COOPERATIVE?

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

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

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

1.2: Agricultural and rural Cooperatives

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

The importance of agricultural cooperatives in improving the lives of millions of smallholder farmers and their families cannot be overstated. Empowered by being a part of a larger group, smallholder farmers can negotiate better terms in contract farming and lower prices for agricultural inputs like seeds, fertilizer and equipment. In addition, cooperatives offer prospects that smallholder farmers would not be able to achieve individually such as helping them to secure loans, land rights and better market opportunities. Producer cooperatives offer men and women smallholders market opportunities, and provide them with services such as better training in natural resource management, and better access to information, technologies, innovations and extension services.

The purpose of agricultural cooperatives is to help farmers increase their yields and incomes by pooling their resources to support collective service provisions and economic empowerment. Given their primary remit to contribute to smallholder farmer production, agricultural cooperatives are seen as critical in achieving the government's development targets in the Growth and Transformation Plan, and focusing on other types of cooperatives requires an alternative framework for analysis. The main categories of agricultural co-operatives fall into mainstream activities of agricultural undertaking including supply of agricultural inputs, joint production and agricultural marketing. Input supply includes the distribution of seeds and fertilizers to farmers. Cooperatives in joint agricultural production assume that members operate the cooperative on jointly owned agricultural plots. The third category consists of joint agricultural marketing of producer crops, where farmers pool resources for the transformation, packaging, distribution and marketing of an identified agricultural commodity.

1.2.1: Roles of Cooperatives in agriculture

Agricultural cooperatives facilitate small producers' access to:

1. Natural resources such as land and water
2. Information, knowledge and extension services
3. Markets, food, and productive assets such as seeds and tools
4. Policy and decision making

Cooperative development in many countries has shown that farmers who are effectively organized can benefit from aggregated links to markets and services, from accessing centralized services that can help them achieve higher yields and higher incomes, and from speaking with a collective voice to advocate for their needs. At a global level, countries with the highest share of cooperatives in marketed outputs (e.g., Taiwan, Korea, Isreal, the Netherlands, France, etc) also have high average and quality yields for staple produce like, milk, meat, rice and wheat, as well as substantial cash crop exports. In Ethiopia, it was found that farmers who are members of cooperatives tend to achieve higher yields, and staple crops that are marketed through cooperatives attain a price premium.

Agricultural cooperatives help farmers solve a collective action problem, i.e. how to procure inputs most efficiently and market their outputs on more favorable terms than they could achieve by themselves. Therefore, agricultural cooperatives help in increasing the productivity and household income of smallholder farmers. Cooperatives are used by the government and NGOs to extend training and other capacity building initiatives. Many stakeholders use cooperative structures to build capacity in post-harvest handling techniques as well as commodity quality management.

Some cooperatives offer services to members as a way of building their capacity. Farmers can receive training on production techniques and post-harvest, as well as literacy training, or business and marketing building workshops. With access to market being one of the most difficult challenges, the role of cooperatives in helping smallholder farmers to exercise economies of scale is increasingly important. Through cooperatives, farmers can attract traders and institutional buyers, and increase their negotiating power. Cooperatives have also started apart from agriculture to emerge in other sectors such as transport or commodity transformation, with the group buying trucks and milling machines and starting their own enterprises. These new activities benefit the communities through employment creation as well as service provision. This creates more income within the community and enhances food security.

1.2.2: Problems of agricultural cooperatives

Some of the common problems faced by agricultural cooperatives in developing countries include:

1. poor management
2. lack of capital resources
3. inadequate training extension and education programmes
4. lack of communication and participation among members
5. feudalistic Characteristics of society
6. unclear and inadequate government policies on the development of agricultural cooperatives
7. high fragmentation of land holdings, and
8. weak linkages among the activities of the cooperatives

1.3: The Double/Dual Nature of Cooperatives

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

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

1.3.1: The cooperative as a social group

Cooperative ownership as a form of socialist ownership is obviously a narrower form of ownership in comparison with state ownership since the property of state-owned factories and farms is conceived of as the property of the whole nation. At the same time, cooperative farms represent Agricultural economists had to recognize that it was not possible to understand the complex nature of cooperative farming, and even much less possible to solve its important problems if the farmers' cooperative is not conceived of as a defined organization. Keeping to such basically non-economic concepts as "farmers' association", "farmers' union", "social mass organization", or "cooperative membership", neither the objectives nor the material interests associated with cooperative farming, with its individual members and managers can be clearly shown. Not even a comprehensive unified model of farmers' cooperative can be unambiguously formulated. The conclusion is drawn that the farmers' cooperative must be conceived of as an economic organization embodied in the cooperative farm. The cooperative farm consists of two constituent parts: the large-scale cooperative farm and the small-scale home plot farms of cooperative members. The large-scale cooperative farm is considered as a business organization and, because of collective-cooperative ownership, as a special type of business firm characterized by collective management and decision-making at the top level; and by its members as being both partners (co-owners) and laborers (employees). The members' home plot farms must also be conceived of as an economic, partially business-type organization.

1.3.2: The cooperatives as a corporation

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

1.3.2.1: Investor Oriented Corporation

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

1.3.2.2: The Cooperative Corporation

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

In developing countries the experience has been more mixed. One reason for failure has been the misuse of the cooperative concept for ideological or political purposes. This resulted in many poorly developed or unsustainable cooperatives being created. Some developing countries are still left with the remnants of these state-controlled "pseudo-cooperatives". However, under the influence of current trends in market oriented reform, privatization, decentralization and participation, cooperatives are being rediscovered as a suitable organizational structure for farmers to improve their livelihoods. Agricultural cooperatives in which the members both participate and contribute can become powerful instruments for the development of the rural economy.

Conclusion:

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

References:

1. Fekete, F.; Heady, E.O. and Holdren B. R.: Economics of Cooperative farming. Springer Science and Business media, 1976
2. Bryan G. and Edwards J.: An introduction to Sociology. Pergamon Press 1969.
3. Lebow, R.N.: Coercion, cooperation and Ethics in international relations. Routledge Taylor and Francis group, London 2007

TMA

1. Identify and discuss four access rural farmers can have by joining a cooperative

2. List and explain four differences between a cooperative corporation and investors- oriented corporations

Unit 2:

2.0: Introduction:

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

2.1: The Rochdale Principles

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

i. Open membership to everyone.
ii. One person-one vote- the person rather than the number of shares owned should be the basis for voting.
iii. Cash trading.
iv. Membership education.
v. Political and religious neutrality.
vi. No unusual risk assumption.

vii. Limited return on stock.

viii. Goods sold at regular retail prices.

ix. Limitation on the number of shares of stock owned.

x. Net margins (savings) distributed according to patronage.

2.2: Bona fide principles or practices as applicable today?

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

2.2.1: Open Membership

The first so-called principle-open membership-is obviously open to question today. There is no state cooperative law requiring cooperatives to accept any and all membership applications submitted to them. A cooperative should have intelligent, informed, interested, and knowledgeably involved membership who recognize the need for a cooperative and who will contribute to its effective functioning. Applications

should be received only during specified periods from producers of the relevant commodity -profession or trade group, and they should not be automatically accepted but rather they should be carefully processed before admitting would be members. A very good example is the Yu-heng watermelon cooperative in China. In 1995, it had 129 members. Membership is closed in this cooperative. Although the charter stipulates the membership policy as 'free entry and free exit', the practice of membership is different. On the one hand, to become a member, farmer growers have to reach a certain scale of growing watermelons and have to meet a certain technical requirement. The cooperative is very cautious to accept new members. For example, the cooperative will monitor the performance of a potential member for one year before making a final decision. On the other hand, to leave the cooperative, current members are required to submit a written application to the cooperative. The member can get their equity investment back when the application to leave is accepted by the board of directors. However, current members are not allowed to leave when the cooperative is experiencing losses.

2.2.2: One Person-One Vote

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

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

2.2.3: Cash Trading

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

2.2.4: Membership Education

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

2.2.5: Political and Religious Neutrality

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

2.2.6: No Unusual Risk Assumption

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

2.2.7: Limited Returns on *Stock*

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

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

2.2.8: Goods Sold at Regular Retail Prices

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

2.2.9: Number of Shares of Stock Owned Is Limited

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

2.2.10: Net Margins Distributed According to Patronage

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

2.3: Principles Or Practices?

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

i. cash trading
ii. member education
iii. political and religious neutrality
iv. no undue risk assumption, and
v. goods sold at regular retail prices.

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

i. open membership
ii. one person-one vote
iii. limited interest on stock, and
iv. limitation on number of shares of stock owned.

The following is a principle without reservation or qualification:

Net margins (savings) distributed according to patronage.

Conclusion:

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

References:

1. Robert K.: Social Theory and Social Structure, Free Press, 1957
2. Hillyard, S.: The Sociology of Rural Life. Berg Press, New York, 2007
3. Winter, M. 'The rural economy', in White-Spundner, B. (ed.) Our Countryside. Cambridge, Pearson, 1998.
4. Harper, D. : Changing Works: Visions of a Lost Agriculture. Chicago, Chicago University Press. 2001
5. Crow, G. and Allan, G : Community Life: An Introduction to Local Social Relations. London, Harvester Wheatsheaf 1994.
6. Bell, C. and Newby, H : Community Studies: an Introduction to the Sociology of the Local Community. London, Allen and Unwin, 1971.

TMA

1. List eight of the Rochdale' principles you know and explain why they are not strictly considered as principles?

2. Does the open membership principle of cooperatives exclude screening of potential members?

Unit 3:

3.0: Introduction:

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

3.1: The concept of the sociological group and the cooperative business

In several ways, cooperative corporations are similar to other forms of business. They are organized and operate in a similar manner, incorporate under the corporate laws of the state in which their main office is located, and have by-laws and Articles of Incorporation prepared in accordance with the legal requirements of the state and the federal enabling legislation. Members of the cooperative elect a board of directors. The board hires a manager and sets policy. The manager designs programs or plans of action to carry out the policy established by the board of directors. In three important ways, however, cooperatives are different from other forms of business. These are as follows:

1. The purpose of the cooperative is to serve its member-owners, to provide a service or services they could not otherwise have as individuals or could not have as effectively or as efficiently. It is not for the purpose of

providing goods and services to others at a profit or to provide dividends or interest on invested funds.

2. The cooperative provides services at cost to its member-owners. Any net margins which are generated are distributed to the member-owners in direct proportion to their use of their cooperative-not in proportion to their investment. Dividends, if any, on capital invested in the cooperative are limited.

3. A cooperative is democratically controlled by the members. Voting is based upon membership, not on the number of shares of stock held. Usually each member has only one vote.

Conclusion:

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

References:

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

1. Highlight the peculiarities of Cooperatives as a democratic unit?
2. Does the open membership principle of cooperatives exclude screening of potential members?

Module 2

Unit 1: Classification of Cooperatives: Types and criteria

1.0: Introduction:

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

1.1: Types of Cooperatives and the criteria

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

1. **Multipurpose or hybrid Co-operative Societies** –The multipurpose nature opens this type of cooperative to different portfolios of investments and activities. Most hybrid cooperatives takes on additional activities and investments with time to satisfy present members and to attract potential members. The sequence

is generally for firms to begin as single product and subsequently become multi-product, rather than the other way around. Firms maintain a constant level of coherence between neighboring activities; firms not only add businesses, they also commonly divest. They are very flexible in investment niche and can furnish members with a wide array of economic options from rentals to credit and thrift.

2. **Consumer Co-operative Societies** - provide a wide range of retail to both rural and urban communities. As a consumer cooperative the focus is to furnish members with quality consumer products at affordable prices. The cooperative is able to negotiate price and purchase at wholesale prices usually from producers or their agents. The members benefit from reduced retail prices as a result of quantity-price discounts
3. **Producer Co-operative Societies** - make products or offer a service to sell for profit where the workers are members or worker-owners; they work in the business, govern it and manage it. Some producers' cooperatives can also buy production inputs at low prices- quantity discount and better bargaining power of the group purchase.
4. **Marketing Co-operative Society** - find better markets for members' produce and provide credit and other inputs to increase members' production levels.
5. **Savings and Credit Co-operative Societies (SACCOS)** - members pool their savings together with the aim of obtaining loans from

their pooled resources for provident (carefully planned future needs) and productive purposes. Interest is usually charged as administrative charges and to offset bank charges

1.2: What is cooperative marketing?

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

Objectives of Cooperative Marketing

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

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

Cooperative or Competitive?

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

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

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

Conclusion:

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

References:

1. Hillyard, S.: The Sociology of Rural Life. Berg Press, New York, 2007
2. Harper, D: Changing Works: Visions of a Lost Agriculture. Chicago, Chicago University Press. 2001
3. Bell, C. and Newby, H : Community Studies: an Introduction to the Sociology of the Local Community. London, Allen and Unwin, 1971.

TMA

1. Discuss the classification criteria and list the five types of cooperatives your know?

2. How are multipurpose cooperatives different from multi-stakeholder cooperatives?

3. What is cooperative marketing? Highlights 5 advantages of cooperative marketing

Unit 2: Forming a cooperative

2.0: Introduction:

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

2.1: Starting a cooperative and registration rules

A cooperative has been defined as a group of persons who have united voluntarily to meet common economic and social needs through a jointly owned and democratically-controlled enterprise. The international labour office, define co-operative as an association of persons, usually of limited means, who have voluntarily joined together to achieve a common economic end through the formation of a democratically controlled business organization, making equitable contributions to the capital required and accepting a fair share of the risks and benefits of the undertaking in which members actively participate.

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

Step 1: Contact the nearest Co-operative Development Office:
Co-operative Development Offices are located strategically across the country in every state. The ministry of trade and industries or trade and commerce and agriculture should be the starting point. .

Step 2: Be part of, or form a group

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

Step 3: Establish the purpose of your Co-operative Society

Different types of Co-operative Societies serve different purposes. Ask yourselves: What common needs do you intend to satisfy?

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

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

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

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

Step 6: Registration

Conclusion:

The Unit discussed cooperative as voluntary groups with unrestricted access for joining and exiting. However, there are various motives for individuals joining social networks of thrust; the band wagon effect is discussed and the negative effect of free-riding in promoting cooperation efficiency are also highlighted.

References:

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

1. Highlight the procedures and documentations required to register a group as a cooperative?

2. State the six steps involved in Cooperative formation and discuss any two of them?
3. Why is a feasibility statement of proposed cooperative investment needed for registration?

Unit 3:

3.0: Introduction:

The unit highlights the structural and administrative requirement for cooperative formation. As a social group cooperative are voluntary groups with unrestricted access for joining and exiting. The unit highlights key activities in facilitating the establishment of cooperatives and the various responsibilities of the individuals involved. The unit familiarizes readers with cooperative management tools and methods. The role of Cooperatives as a watchdog to monitor individual conduct is discussed. The watch dog role is particular useful in ensuring compliance and reducing default tendencies in public loans repayments.

3.1: Motives for forming or joining a cooperative

The need for a cooperative would be based upon the facilitating Committee's estimate of the extent to which the cooperative would provide the needed services and their costs in relation to their present cost or in relation to their costs if provided in some other manner. If it is a new service not now being provided in the area, a cost-benefit analysis should be carefully prepared. It should be kept in mind that a cooperative is not needed unless its members will receive benefits from it which they would not otherwise receive. If it becomes clear that there is no economic need for the cooperative, the Committee should not hesitate to say so and would then go no further. To insist upon starting a cooperative when there is no economic need would do more harm than good. In most developing economies people are encourage and even facilitated by government agents or some local philanthropist to form an economic group (cooperative) for the purpose of benefitting from external assistance. A very good example is the Fadama Users' Group (FUGs) and some commodity-related producers groups eg Rice Farmers Association of Nigeria (RFAN) and Cotton growers Association in Nigeria. These groups were formed based on emergence policies of government to support the production and processing for the specific commodities. Also, public credit and loans institution requires membership of a cooperative group before individuals are considered for credit allocation. The cooperative therefore serve as:

a. a watchdog and
b. a central administration and control organ to monitor use (through group loyalty). The importance of this to the credit agency are that:
    a. prevent repayment defaults and
    b. ease of loans administration.

People have different reasons for joining a group. People have multiple, specific interests, a circumstance that has important ramifications for cooperation as a practice. First, humans cooperate in pursuit of those interests that can only be, or are most efficiently, advanced through collective action. Many of their other interests, however, may bring them into conflict, which threatens their cooperation, and they must find some way of managing the former if they are to procure the benefits of the latter. Second, interests have "lifetimes." Some are situational, others more enduring, and the difference is vital to understanding the formation of groups and the reproduction of social structure. Many interests can be advanced through collective action, but if these interests are ephemeral, the result will be a temporary coalition (or "task group") rather than what commonly has been thought of as a group. A pressure group to lobby for a town bypass for instance, the coalition usually dissolves once a decision on the bypass has been reached. Other interests, however, are obvious examples—and to the extent that an enduring interest can be advanced through collective action, it will give rise to a more stable social entity, which is sociologically viewed as a *social group*. A collectivity in which members cooperate in an effort to realize a common, enduring interest, organizing themselves according to tacit or explicit codes and sanctions that regulate aspects of their conduct that they perceive as important to advancing the common interest at stake.

Cooperative as a voluntary group attracts membership from people in the proximate location who are interested in improving their social status by their participation in the group activities. Members are attracted to join the groups based on their personal assessment of the better socio-economic benefits they stand to gain by associating.

The motivation to join and participate in cooperatives activities include, but not limited to the following:

a. Social benefits and relevance aspirations from association
b. Economic gains from the shared brotherhood economics from sale of produce or purchase of inputs and other household items from better bargaining power of the group and quantity discount received.

c. Band wagon effect- fear of being left out or from fear of being viewed and termed as a non-associative individual or hermit
d. Desire to free-ride. Associative benefit from the activities of others by non-contributing members

3.2: Facilitating the establishment of the cooperative

Once the need for a cooperative has been established, the next step is making a fairly close estimate of the number of potential members and the volume of business each member would do with the cooperative. It is essential that at least the minimum volume of business needed for efficient operation be fairly certain. Operating expenses and overhead costs must be provided for from the very beginning. In addition, a cash flow position which is satisfactory and some savings buildup are necessary. The Committee may need to visit a sample of the potential members to determine the volume of business that would be done with the cooperative. In expanding the sample to cover all potential members and their volume of business, it is best to be conservative. Not all persons interested will join and not all who join will do so at the outset. Many prefer to wait and see how it works out before joining. Also, not all members will make fullest use of the cooperative's services.

3.3: Managing the group

In most cases, a cooperative will need a full-time manager who has the necessary skills to run an efficient business. The Committee, of course, will not employ a manager, but it should make sure that if a cooperative is formed, a manager with the requisite skills would be available. They should understand and appreciate the important role of the manager in causing the cooperative to be able to perform in the way that it must if it is to meet its objectives. A very important question facing the Committee has to do with the facilities needed to make it possible for the cooperative to function properly. What land, buildings, and equipment will be needed and how much will they cost? The type of service(s) being provided and the expected volume of business that will be done by the charter members are basic elements in making estimates as to facilities needed and their costs. Allowance for future expansion should be made. These estimates, again, should be conservative because excess capacity can prove to be very expensive. Alternatives such as leasing an existing plant, buying used equipment, as well as building a new plant should be explored. In many cases, the advice of skilled engineers or technicians will be needed. Estimating operating costs of the cooperative is one of the most important jobs of the Committee. It is essential that the income-expense relationship be such that it compares favorably with the existing situation. Potential members should not be led to expect greater savings than the cooperative can realistically be expected to achieve. All appropriate operating costs should be included in making the estimates. If per unit operating costs as estimated show little or no saving over present costs, the Committee may want to estimate the volume of business necessary to make the business worthwhile. Per unit costs tend to decrease in most businesses as volume increases.

Conclusion:

The unit highlighted key activities in facilitating the establishment of cooperatives and the various responsibilities of the individuals involved. The readers were familiarized with cooperative management tools and methods. The role of Cooperatives as a watchdog to monitor individual conduct was discussed. The watch dog role is particular useful in ensuring compliance and reducing default tendencies in public loans repayments.

References:

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TMA

1. Outline four motives and motivations for forming and joining a cooperative?
2. What are the advantages of leasing capital assets for a new cooperative?
3. Outline how Cooperative instrument can be effectively use as a watchdog tool in ensuring compliance of members?

Module 3

Unit 1

1.0: Introduction:

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

1.1: The Multi-dimensions of Cooperatives

The International Cooperative Alliance, ICA, defines a cooperative as an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise. This definition emphasizes the hybrid nature of cooperatives. Most cooperatives combine several different types of goals, economic, political and social. In fact, some might argue that their very *raison d'être*is to pursue both economic and social goals, not just a single goal. It is, therefore, natural that cooperatives attract the attention of various academic disciplines. Thus, the sociology or political science interest in cooperatives is not so much a question of the economic rationale for why they exist, but rather what and how they can contribute to society and how they can facilitate the functioning of democracy. The unique capacity of cooperatives to combine social and economic goals is seen as a strong advantage by many observers. They can combine sound economic practices, democratic control by members, the promotion of their members' interest and good employment conditions, thus they can provide a clear alternative to private firms competing on the market. The social and political dimensions of cooperatives clearly help to set them apart and make them different from their competitors.

The active promotion of social values can provide them with a clear profile that helps to distinguish them from their competitors and can give them a competitive advantage, if properly understood and promoted. By contrast, the failure to promote their social values could erode their natural profile, making it harder for their members and ordinary consumers to distinguish between them and their competitors and thereby deny them a natural competitive advantage. Thus, the basic dilemma facing cooperative movements and other hybrid organizations is how to best combine their social and political goals with the demands of the market.

1.2: Development and future of cooperatives.

There are two main schools of thought concerning the development and future of cooperatives and they reflect the dilemma of cooperatives as hybrid organizations.

1. The associational or democratic school here cooperatives are primarily seen as associations that pursue social goals by economic means.

2. The business school here cooperatives are mainly business firms that have some unique social and associational features.

The associational school focuses on the role of cooperatives as membership associations in a rapidly changing world, their members' vastly changing needs and demands, as well as the need to strategically balance various stakeholders and goals. However, the business school considers cooperatives as a 'member-owned business' that need to modernize and professionalize in order to meet the growing competition from private firms.

Conclusion:

The unit highlighted key activities in facilitating the establishment of cooperatives and the various responsibilities of the individuals involved. The unit discuss the multi-dimensional focus of Cooperatives. It addresses the development challenges of modern cooperative as a social group against the backdrop of rapidly changing social effects. At the end of the Unit readers will be familiar with the different school of thoughts concerning the development of future cooperative action

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5. Lebow, R.N.: Coercion, cooperation and Ethics in international relations. Routledge Taylor and Francis group, London 2007

TMA

1. Most times the economic interests of cooperatives are at variance with the social interests, Outline 3 ways such can be resolved in a marketing cooperative?

2. Differentiate between the associational and business schools of thought in cooperative development

Unit 2:

2.0: Introduction:

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

Cooperatives, sustainability and food security

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

2.1. Finance:

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

2.2: Social:

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

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

2.3: Environmental:

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

Conclusion:

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

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

TMA

1. Outline four ways through which rural cooperatives can help to bridge the food insecurity gap in Nigeria?

2. Highlight the tripodal consideration for a sustainable system and how does rural cooperatives fills this roles?

Unit 3

3.0: Introduction:

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

3.1: Cooperatives as hybrid organizations with multiple goals and stakeholders

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

3.1.1: Co-Production and cooperative welfare services

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

Co-production is the mix of activities that both public service agents and citizens contribute to the provision of public financed services. The former are involved as professionals or "regular producers", while "citizen production" is based on voluntary efforts by individuals or groups to enhance the quality and/or quantity of services they use. In complex societies there is a division of labor and most persons are engaged in full-time production of goods and services as regular producers. However, individual consumers or groups of consumers may also contribute to the production of goods and services, as consumer-producers. The participation of citizens in the provision of welfare services through cooperatives can make a unique contribution to democratic governance not found either in public services or private for-profit firms. This also gives co-production the potential of a social innovation that can change the relationship between the professional providers of public financed services and their clients or citizens that use them.

3.1.2: Internal decision-making in multi-stakeholder cooperatives

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

3.2: Problems of modern cooperatives

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

1) Tensions between the associative and business parts of the co-ops or the logic of cooperation and the logic of bureaucratic organizations. When they come into conflict the latter often

squeezes out the former. This leads to a loss of cooperative identity, declining member participation, less solidarity with the co-op movement, and eventually a loss of business.

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

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

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

Conclusion:

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

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TMA

1. List seven problems of modern cooperatives and discuss any three?

2. List four ways cooperatives can promote citizenship development?

Module 4

Unit 1

1.0: Introduction:

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

1.1: Financing the cooperative

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

Generally, the types of funding options available are:

1.2: Initial Capital of the Cooperative

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

i. the members,
ii. the investing public who may invest capital to earn dividends, and
iii. from lending agencies such as a bank for cooperatives, NGOs or a commercial bank.

Providing initial capital is a basic member responsibility. This is evidence of belief/trust in or of good faith on the part of the members that the cooperative is needed and will be a growing concern. Without this evidence of good faith, the cooperative will be hard pressed to secure borrowed capital, since a basic question of potential lenders relates to the extent to which the members have provided initial capital. No fixed percentage of the initial capital needed that must be provided by the members can be established since circumstances can vary. In recent times, development partners have emphasized counterpart funding as a way of domesticating development projects for groups' benefit.

Counterpart funding also help to enforce members' commitments especially for public projects or infrastructure. An often-used thumb rule, however, is that at least 50% of the initial needs for fixed and operating capital should be provided by the members. Each member's share of the initial capital should be based upon the use the member expects to make of the cooperative. In some cases, members may be willing and able to provide more than their share of the initial capital. This should be encouraged, but it will not entitle such members to any special privileges.

1.2.1: Member Investment-Capital Plan

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

i. whether the cooperative will be stock or non-stock
ii. an estimate of the amount of initial capital that will be needed. Possible sources and amounts or percentages from each source should be indicated
iii. a suggested plan for revolving funds for capital financing; and
iv. a plan for capital reserve accumulation.

No set rule can be established for determining whether a cooperative should be organized with or without capital stock. Nigeria permit either form If the decision is to organize as a capital stock cooperative, members subscribe capital and are issued stock certificates as evidence. In most cases, one share of stock is issued to each member as evidence of membership. This is usually the voting stock. Additional shares of preferred (non-voting) stock are issued as evidence of additional capital contribution to the cooperative. If the cooperative is to be organized as a nonstock organization, a revolving fund certificate may be issued in the amount of each member's contribution. A membership fee is often used to raise a large part of the original capital needs.

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

1.3: Debt Capital

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

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

Conclusion:

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

References:

1. Robert K.: Social Theory and Social Structure, Free Press, 1957
2. Hillyard, S.: The Sociology of Rural Life. Berg Press, New York, 2007
3. Winter, M. 'The rural economy', in White-Spundner, B. (ed.) Our Countryside. Cambridge, Pearson, 1998.
4. Bell, C. and Newby, H : Community Studies: an Introduction to the Sociology of the Local Community. London, Allen and Unwin, 1971.
5. Bryan G. and Edwards J.: An introduction to Sociology. Pergamon Press 1969.

TMA

1. List three differences between debt financing and members financing?

2. Differentiate between voting and non-voting stock?

Unit 2

2.0: Introduction:

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

2.1: Internal Financing

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

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

2.2: Reserve Funds

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

Conclusion:

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

References:

1. Robert K.: Social Theory and Social Structure, Free Press, 1957
2. Hillyard, S.: The Sociology of Rural Life. Berg Press, New York, 2007
3. Fekete, F.; Heady, E.O. and Holdren B. R.: Economics of Cooperative farming. Springer Science and Business media, 1976
4. Bryan G. and Edwards J.: An introduction to Sociology. Pergamon Press 1969.

TMA

1. Highlight four differences between reserve funds and reserves for bad debt?s

2. What is internal financing, highlight four advantages of internal financing?

Unit 3:

3.0: Introduction:

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

Multi-stakeholder Cooperatives

As hybrid organizations cooperatives normally combine two different functions or roles. The owners not only finance the cooperative, they also supply the raw materials, provide the necessary labor or purchase its products. Thus, a single group of stakeholders "own" the cooperative, they make all the decisions and thereby control it. Other stakeholders may contribute to the goods or services produced, but they do not own the cooperative, nor do they have a voice in running it. So, they lack influence in its decision-making and have no claim to the eventual surplus produced. Therefore, some important stakeholders commonly find themselves excluded from influence in the management of the cooperative and they have no share in its surplus or profit. This clearly influences the incentive structures available to major groups that contribute to creating the surplus, especially those who have no influence or ownership claim.

A multi-stakeholder organization is a firm or cooperative that legally recognizes more than one type of stakeholder, gives more than one of them representation in its decision-making structures and provides them with a share in the organization's surplus or profit. Multi-stakeholder cooperatives, therefore, make several stakeholders its owners, create governance structures that include various groups in the cooperatives' internal decision-making and provide them with a share in the surplus or profit. In addition, by virtue of doing so, they also contribute to the growth and spread of democratic attitudes and habits among the various owners, something uncommon in today's cooperatives. Thus, multi-stakeholder organizations could conceivably play an important indirect role in inculcating and spreading democratic attitudes and habits among staff, since it would expose them to a different reality. Multi-stakeholder cooperatives that provide public financed services can provide an additional vehicle for inculcating and spreading democratic attitudes and habits among the general public. They too have the potential of making democracy a non-trivial aspect of the daily life of some citizens, in particular those who choose cooperative solutions for obtaining enduring social services, like childcare, basic education, handicap care, elder care, etc.. Thus, multi-stakeholder cooperatives could include citizens in their daily lives, perhaps in several roles, as financiers, suppliers, workers and consumers. This could contribute to making democracy a non-trivial aspect of the daily life of some ordinary citizens.

A good example is the consumer cooperative health care in Japan provides an example of full-fledged multi-stakeholder cooperatives. The membership is comprised both of lay and professional members. Statistics show that only one per cent (1%) of them are health care professionals, like doctors, nurses, technicians, administrators, etc., while the other 99 per cent are ordinary healthy persons. Thus, medical cooperatives in Japan seek to create a synergistic effect by involving different stakeholders working together in the same organization to attain common goals, i.e., the promotion, maintenance, recovery and/or restoration of each member's health.

Conclusion:

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

References:

1. Robert K.: Social Theory and Social Structure, Free Press, 1957
2. Hillyard, S.: The Sociology of Rural Life. Berg Press, New York, 2007
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4. Winter, M. 'The rural economy', in White-Spundner, B. (ed.) Our Countryside. Cambridge, Pearson, 1998.

TMA

1. What are the benefits of a multi-stakeholder cooperative?

2. Highlight three difficulties in organizing a multi-stakeholder cooperative in Nigeria

Module 5

1.0: Introduction:

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

Unit 1

1.1: Internal working of the group

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

1.2: Management roles of the members

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

The success or failure of a cooperative is tied so closely to the acceptance of this responsibility and obligation and positive performance in this unique role that it deserves special attention. Membership is one of the great strengths of a cooperative if its legitimate role is effectively exercised. Positive results from this potential strength will not be realized if it is not effectively exercised. Specific rights that come with membership in a cooperative and that reflect members' roles in management of their cooperative include the following:

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

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

Conclusion:

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

References:

1. Emelianoff, I V. : Economic theory of cooperation. Edwards Brothers, Inc. Washington, D. C., 1942.
2. Winter, M. 'The rural economy', in White-Spundner, B. (ed.) Our Countryside. Cambridge, Pearson, 1998.
3. Crow, G. and Allan, G : Community Life: An Introduction to Local Social Relations. London, Harvester Wheatsheaf 1994.

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TMA

1. List and Discuss four cooperative members' management roles

2. Outline five roles of the survey committees

Unit 2:

2.0: Introduction:

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

2.1: Managing the cooperative for success

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

2.2: Roles of Members

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

1. Selecting members to serve on the board of directors who are most qualified. Once elected to the board, their performance will be constantly checked.
2. Nominating and electing members to serve on the board of directors will be a procedure far removed from the "good ole boy" syndrome, but will be based on a complete understanding of the cooperative, its particular needs at the time, and whether potential nominees have the ability, knowledge, and experience to meet those needs and are willing to serve the cooperative in accordance with the nominee's qualifications and the cooperative's needs.
3. Knowing and understanding the cooperative, its reason for being, its business methods and results, and developing reasonable

expectations in regard to its performance based upon knowledge and understanding.

4. Using proper channels in seeking information about the cooperative and being armed with factual information regarding it at all times.
5. Never approaching employees directly about their work or duties in carrying out administration. Any questions or suggestions should be handled through proper officials, usually the board member representing the district or area in which the member lives.
6. Being completely loyal to the cooperative and supporting it on the basis of facts and adequate information.
7. Keeping the board of directors informed in a very constructive manner on matters relating to relevant policy matters by making the views of the members known.
8. Establishing a reasonable and soundly based position in regard to length of term for directors and the number of terms which they should serve.
9. Attending meetings regularly and discussing business matters in a knowledgeable manner. Discouraging policy of allowing proxy voting.
10. Through the board of directors, allowing the manager to manage. Allowing latitude for the manager to exercise judgment in performance of duties.

11. Accepting the position that unless members are actively and intelligently involved in their proper management role, they have no basis for complaint if the performance of the cooperative is not satisfactory.
12. Recognizing the right of the general public to ask questions about this particular cooperative and about agricultural cooperatives in general. Being prepared with factual information to explain the rationale for the existence of cooperatives, how they operate, and why they operate as they do.

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

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

2.3: The Role of the Cooperative Board of Directors

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

2.3.1: Selection and Election of Board Members

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

1. selecting and hiring the manager;
2. establishing policies for the cooperative
3. delegating authority to the manager to develop programs designed to carry out policy which it establishes
4. evaluating the effectiveness of the programs developed by the manager to carry out the policies; and
5. evaluating the performance of the cooperative and reporting to the members.

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

Let's examine each of these responsibilities in more detail.

2.3.1.1: Selecting and Hiring* a *Manager

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

2.3.1.2: Policies and Programs

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

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

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

2.3.1.3: Evaluation of Performance

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

2.3.1.4: Selecting Qualified Directors

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

So who is qualified to serve in this critical role?

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

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

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

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

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

2.3.1.5: Directors Act as Agents of Members

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

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

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

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

2.3.1.6: Number of Directors and Their Terms

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

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

2.3.1.6: Committees

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

2.3.1.7: Length of Term for Directors

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

a. inject new ideas,
b. engender enthusiasms,
c. provide greater opportunity for more members to serve the cooperative, and generally be helpful to the cooperative.

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

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

a. Unwanted or incompetent directors would be weeded out, of course, but there should be no mechanism that would automatically force a good person out of office. Automatic rotation would do this, since the criterion for tenure becomes length of time rather than quality of service.
b. New blood brings new ideas and prevents staleness,
c. old problems may be seen in a different light by new members, and solutions may be more readily found.
d. Membership on a board is both a privilege and a burden at times, so all members should share the positive aspects of the privilege and the long hours required of conscientious board members.
e. Service as a member of the board helps to develop leadership among cooperative members, and the knowledge that a

position on the board is possible will motivate young potential leaders.

f. Membership on a board of directors is one of the best teaching devices to bring about well-informed members, so more frequent openings on the board will bring about a more informed membership.

g. A definitely established policy of rotation, whether it is written into the by-laws or not, serves as a means to avoid embarrassment that may arise in unseating a director who has been in office for a long time and, for a number of reasons, may not be suited to continue.

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

a. An experienced, able director is more valuable than an inexperienced one with equal innate ability.

b. Competency of board members is restricted by automatic rotation just as much as incompetency.

c. Automatic limitation is a restriction on the democratic right of anyone to be elected to office, including reelection of the incumbent.

d. There may not be enough qualified members to serve on the board to permit the practice of rotating directors.

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

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

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

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

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

Conclusion:

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

References:

1. Robert K.: Social Theory and Social Structure, Free Press, 1957
2. Hillyard, S.: The Sociology of Rural Life. Berg Press, New York, 2007
3. Winter, M. 'The rural economy', in White-Spundner, B. (ed.) Our Countryside. Cambridge, Pearson, 1998.
4. Harper, D. : Changing Works: Visions of a Lost Agriculture. Chicago, Chicago University Press. 2001
5. Crow, G. and Allan, G : Community Life: An Introduction to Local Social Relations. London, Harvester Wheatsheaf 1994.

TMA

1. Highlight seven roles of the board of directors to ensure cooperative success

2. List and discuss three reasons in favour and against rotational board membership director

Unit 3

3.0: Introduction:

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

3.1: THE COOPERATIVE MANAGER

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

3.1.1: The Manager's Strategic Position

As is being stressed, the management triangle involves more than the hired manager, and weaknesses may be found in one or more of the other areas. The hired manager, however, occupies a strategic position in the triumvirate. In addition to being responsible for planning a program that will carry out the policies and objectives determined by the board of directors, the manager is responsible for hiring and directing employees to do the work. It is in the capacity of planning, organizing, directing, and controlling the affairs of the cooperative that the manager is perhaps most visible and is most often judged. It may be, however, that the more intangible capacity to reflect cooperatives' ideals and bring about a proper relationship between the three parts of the management triangle is a more fundamental test of the quality of hired management. Ability to be properly concerned with details while seeing the big picture and generally setting the cooperative's tone in a business-like setting are skills and attributes of hired management which are so important in business management. The added attitudinal attribute is a prerequisite for managing a cooperative.

3.1.2: Manager's Duties and Responsibilities

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

3.1.3: The Functions

3.1.3.1: Planning

Planning is the thinking, judging, and deciding phase of management. It is a basic part of the process because it must precede any course of action. In most cases, there are alternative courses of action which can be taken, and an essential part of the first step in planning is the analysis of relevant data and information in deciding which alternative is most feasible. Prior to this, of course, is a thorough understanding of the policy or policies that have been formulated by the board of directors and that reflect the input of members' suggestions. The full use of the manager's experience, knowledge, and counsel would have been made by the board in formulating the policy, so the manager would not have been unaware of the policy and the underlying thinking. The close involvement of the manager and the board of directors is essential in the process of formulating policy, but once this has been done, the board should step aside and let the manager manage. The planning function is the preparation for work and not the actual performance of the work. There is no substitute for this critical step, and it stands to reason that the better the planning, the better the following action is likely to be.

3.1.3.2: Organizing for Action

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

3.1.3.3: Directing Resources

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

3.1.3.4: Controlling and Evaluating

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

Conclusion:

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

References:

1. Carballo, D. M.: Cooperatives and Collective action: Archeological perspective. University Press of Colorado, 2013
2. Emelianoff, I V. : Economic theory of cooperation. Edwards Brothers, Inc. Washington, D. C., 1942.

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

TMA

1. List four attitudinal attributes of a manager and explain how they can impact the success or otherwise of the cooperative

2. Highlight five functions of a cooperative manager and discuss two that you think are core success criteria

Module 6

Unit 1

1.0: Introduction:

The unit discuss the issues of market pooling as an important feature of marketing cooperatives. The methods of pooling are discussed and the pros and cons of each method is highlighted. At the end of the Unit readers would be familiar with the provisions for managing modern cooperative for success.

1.1: Market Pooling

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

1.2: How Pooling Differs from other Marketing Methods

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

1.3: Kinds of Pools

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

1. Seasonal pool and
2. Contract pool.

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

The contract pool is of two general types:

a. the call pool and
b. the purchase pool

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

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

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

1.4: Advantages in pooling

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

1. Possibly higher prices and/or better terms of trade for the members' products
2. Spreading and reducing price risks
3. Specialized efforts by marketing specialists
4. Greater orderliness and stability in the marketing of the product
5. More complete control of quality
6. Complementary with movement to specification buying
7. May reduce transaction costs
8. Serves as an educational marketing tool
9. Promotes cooperative ideal of unity

Conclusion:

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

References:

1. Emelianoff, I V. : Economic theory of cooperation. Edwards Brothers, Inc. Washington, D. C., 1942.
2. Robert K.: Social Theory and Social Structure, Free Press, 1957
3. Hillyard, S.: The Sociology of Rural Life. Berg Press, New York, 2007
4. Winter, M. 'The rural economy', in White-Spundner, B. (ed.) Our Countryside. Cambridge, Pearson, 1998.
5. Harper, D. : Changing Works: Visions of a Lost Agriculture. Chicago, Chicago University Press. 2001
6. Crow, G. and Allan, G : Community Life: An Introduction to Local Social Relations. London, Harvester Wheatsheaf 1994.

TMA

1. What is pooling in a marketing cooperative, discuss 4 advantages and disadvantages of pooling?

2. Differentiate between contract and seasonal pool. Which will you recommend for cotton growers in Nigeria and why?

Unit 2

2.0: Introduction

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

2.1: Financing Cooperative Activities:

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

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

1. directly from members themselves
2. from retained surpluses generated by the cooperative business
3. from outsiders.

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

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

Member share capital represents individual member commitment to the cooperative form of business. It also identifies the individual member's financial stake. It is withdrawn only when the member leaves the cooperative. Some other forms of member contributions, usually related to patronage, are more variable but once given cannot be withdrawn and hence are a particularly useful form of cooperative capital.

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

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

a. as a grant
b. as a short-term loan
c. as a long-term loan
d. as trade credit offered by a supplier.

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

2. 2: Cooperation and Free-Riding

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

1. when resource package size is larger than can be used by an individual in a short amount of time, there is little benefit to hoarding.
2. when the costs of defending a resource outweigh the benefits of consuming it in the near (or distant) future, people will tolerate some theft (also known as *tolerated scrounging)*.

3. Likewise, free-riding may also be tolerated if the supplier is paid in an alternative currency, such as prestige (benefactor status recognition) or other opportunities.

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

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

1. The strategy is to somehow transform non-excludable resources into excludable ones. A common means to achieve this end is to restrict access to the resources subject to free-riding. For example, governments typically issue permits, at a small cost, to certain individuals to graze land or mine minerals. With competitors, there are incentives for free-riders to overgraze, since all users pay the environmental costs while one person gains the benefits. Likewise, with mining, there is little incentive on the part of individuals to build and maintain significant infrastructure, such as

access roads or electricity lines, if all users gain the benefits. By limiting the number of competitors the number of free-riders is minimized, and there is less incentive on the part of individuals to overgraze; or, in the case of mines, there is more incentive to build and maintain the infrastructure necessary to exploit resources. Transferring ownership over resources to individuals eliminates free-riding, in which case free-riding becomes outright theft from another. At the same time, privatization also restricts the scale of non-kin cooperation. As a result, the construction of pyramids, freeway systems, and other large-scale ventures that require the coordination and cooperation of hundreds to tens of thousands of individuals are difficult to realize under this solution.

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

3. Another solution involves increasing the costs to those who free-ride. It has been shown that some type of physical or social punishment, or often just the threat of punishment, is usually enough to deter potential free-riders. Thus, governments can use the threat of fines, jail, or even death to enforce conformance to cooperative rules (e.g., paying taxes to construct bridges and other public infrastructure). Likewise, small-scale groups can use gossip, public humiliation, ostracization, or physical

violence to punish cheaters. Punishment can even involve the threat of supernatural punishment, which may explain the important role of religion and morality in fostering cooperative behaviors. The deliverance of punishment, or threat thereof, generally requires some degree of organization or coordination among cooperators. Such organization usually necessitates the presence of one or more recognized leaders with the authority and/or power to mete out punishment. A potential threat to the benefits of cooperation, of course, are leaders who abuse such powers and cheat the system themselves (e.g., by taking a greater percentage of the product) or abuse their ability to punish.

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

2.3: Mechanisms Promoting Cooperation: The Four Rs

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

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

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

Retribution may be better known under the more frequently used terms *punishment* or *sanctioning*. In either case, it is a central feature of many proposed frameworks for the evolution of cooperation. Retribution against defectors and free-riders—along with retribution of individuals who do not punish such transgressions (i.e.,second-order free-rider problems or third-party sanctions)—can effectively stabilize norms of cooperation within a population. It should be noted that the formalization of retribution suggest that it can serve to stabilize virtually any norm within a population

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

Conclusion:

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

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

1. What is free-riding in cooperatives, highlight four ways it can be discouraged?

2. Highlight the 4Rs of promoting cooperative and discuss just two of them?

Unit 3

3.0: Introduction

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

3.1: The gearing ratio

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

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

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

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

3.2: Funding the cooperative for success

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

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

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

3.3: Legal framework for successful Cooperative activities

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

1. a specified percentage of the sales revenue of the cooperative may have to be returned to members within a specified short period of time, regardless of the financial condition of the cooperative.
2. payouts of patronage refunds may have to equal a specified minimum percentage of the surplus, regardless of the wishes of members.
3. a certain portion of the surplus may have to be placed in reserve with a government authority or an apex cooperative organization, or dedicated to community improvement such as maintenance of parks or roads, regardless of alternatives that would otherwise be available and possibly of greater use to members.
4. some cooperatives may be required to deliver their produce to government agencies at prices that are not attractive, or to sell

government-rationed goods at mark-ups that are not remunerative.

Financial support and privileges for cooperatives are decreasing and cooperatives are obliged to operate in competition with conventional businesses. Without the former associated privileges, many of the above regulations put cooperatives at a competitive disadvantage in the market place. Many current business laws and regulations are however also appropriate and benefit cooperatives, such as those:

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

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

3.4: Privileges, responsibilities and dependence

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

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

3.5: Declining external support for Cooperatives

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

a. The decreasing flow of development assistance: Most donor agencies are now faced with budgetary problems and changing priorities of their own which have led to a decline in aid to the agricultural sector and to agricultural cooperatives,
b. The globalization of trade and deregulation of domestic markets: Countries are removing barriers, promoting freer trade domestically and internationally. As a consequence,

consumers are increasingly able to obtain cheaper goods and services from alternative and more efficient providers. Under these conditions, it is more and more difficult to reserve special privileges or offer special price benefits to cooperatives

c. Privatization of state agencies and businesses: The new owners of privatized state agencies such as marketing boards and banks are interested in dealing with cooperatives as business enterprises. The cooperatives' roles as government-led sources of supply of agricultural commodities or vehicles of social change are not their concern. To work with these boards and agencies, cooperatives need to be efficient and well run competitors in the open market.

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

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

3.6: Maintaining Market share of Cooperatives.

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

1. **Serving members need to build loyalty**. This is essential for maintaining a strong and successful operation - the basis for a sound cooperative business. Promoting increased member patronage should be a key element in the cooperative's new strategy. Cooperatives that pay little attention to serving their members are unlikely to survive against the competition. In order to improve services, the cooperative must first be sure what the members want - what are their needs and priorities? Perhaps the cooperative no longer provides a service that members want, or perhaps the same service is provided better or more cheaply elsewhere. Members are more likely to make use of a cooperative if it provides responsive services at competitive prices. To be successful, a cooperative needs at least to maintain its volume of member transactions. With increased competition, it can do this only through continual improvements in services while maintaining competitive prices. Improved service may mean expanding the range of services offered to members or improving the delivery of existing

services. Among the issues to consider in maintaining member loyalty is prompt payment to members for produce delivered. Cooperatives may also consider offering credit, both to keep existing members and to attract new ones. For example, a marketing or food processing cooperative may provide advance payments to its members during the growing season to be repaid after the sale of the crop delivered to the cooperative. Input supply cooperatives may provide goods on credit, to be repaid after harvest. Prompt payment and provision of credit are of course possible only when the cooperative has funds to advance to members. In a competitive market, members will increasingly seek providers who serve them best. As member service-oriented businesses, cooperatives should lead the way in providing the services they need, when they need them.

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

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

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

Conclusion:

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

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TMA

1. What is gearing ratio, highlight three advantages of its use

2. What is the difference between market share and market concentration?

3. Discuss three ways a marketing cooperative can improve and sustain market share in Nigeria