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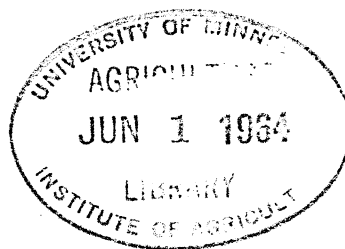
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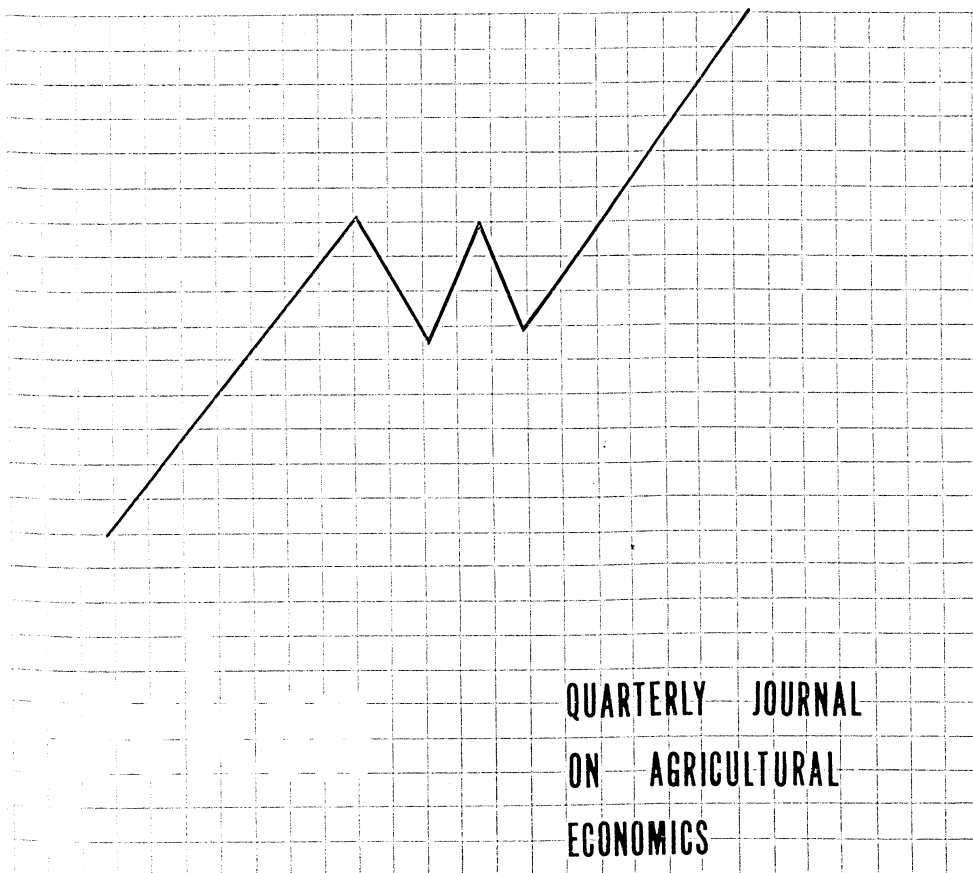
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Characteristics of Co-operation *

By H.C. van Rensburg, Registrar of Co-operative Societies, Department of
Agricultural Economics and Marketing.

Introduction

Since earliest living memory the practice of bartering commodities has existed between individuals. From this arose with the passage of time the business undertaking, which specialised in making transactions possible on an easy and acceptable basis. Obviously, different bases for such transactions would in time come about. Thus, for example, the commercial system originated, by which promoters provided the means for acquiring commodities from those with surpluses and, after disposing of them, to appropriate any profit for themselves. In course of time these persons became known as "middlemen". As a result of clashes between the parties concerned, humanists tried to introduce certain principles into business, in order to provide greater benefits for the "customers".

Permanent success was only achieved by the dissidents in 1844; and this success would in time spread all over the world as the co-operative movement, according to every country's particular requirements. While the commercial system aims primarily at the highest return on capital invested, the aim of the co-operative is to secure for the member the best realisation for his product or to supply the article which he needs on the most favourable terms. Whereas the commercial system then is called the profit system or profit-seeking system, the co-operative prides itself on having a "service" system. These terms have already invited a good deal of attention and argument. Some co-operatives even take a pride in showing losses, as they are not seeking profits, while commercial firms claim that they are actually the service undertakings, since they provide their customers with better service than co-operatives do to their members. The antagonists of successful co-operatives usually also contend that if such co-operatives have not already become complete monopolies, they are nevertheless moving in that direction.

Profit enterprises

Regardless of whether such an undertaking supplies a service or not, it remains one that can exist only if it functions profitably. The greater the capital return which it provides in the form of dividends, the more certain is the undertaking that it is popular and fulfils its purpose. Indeed, this is the chief motive of the promoters when establishing such an enterprise, and its success is measured

* In a following article the co-operative as business undertaking will be dealt with statistically.

thereby. It may be and probably is true that, in order to attain such commercial success, it is necessary to have a satisfied clientele, and this, in turn, is possible only if clients are satisfied with the treatment they receive from the business undertaking. It is clear, therefore, that an ordinary commercial undertaking can in fact aim at providing service, but its main objective is and will always remain the dividend that will be declared.

The chief feature of this type of business is that the partners or shareholders who share the concern are carefully selected, and that each one's say is determined by capital investment. Although it may also display other features or characteristics, this remains basic and therefore determines the nature of the business.

Co-operative undertakings

The co-operative, on the other hand, specialises in serving its members, for which it takes only a nominal remuneration, which should really only be sufficient for essential operating costs. The balance is due to the member in the form of payments and/or bonuses in proportion to his participation in the activity; provision is made for essential contingencies only. As a result of the relationship created between the organisation and the member, one can hardly speak of business transactions, and no profit or loss is really shown in the end - but rather that too much or too little was retained for operating costs.

There is hardly any return on capital, as only a nominal interest rate is allowed according to basic co-operative provisions. This then is one of the reasons why the provision of capital is one of the greatest problems of co-operation. In the case of a marketing co-operative, capital can be found by compelling members to contribute capital in proportion to the quantities marketed; but such a basis is impracticable in the case of a supply co-operative, and a nominal shareholding is the general rule. In the former case, members are prepared to agree to the relative amounts being deducted from the proceeds of the produce, whereas in the latter case the amounts must be contributed specially, and this usually causes problems. Again, with a large shareholding, there is always the problem, firstly, that the shares are not freely transferable and, secondly, that they are not an attractive asset for anyone who does not make use of the undertaking to the full extent of his shareholding.

As the financing of a co-operative presents problems and difficulties, it is not always an attractive type of undertaking. The demand for it arises only when commercial channels do not satisfactorily meet the needs of interested persons - resulting in estrangement between supplier and customer. This occurs all over the world and at any time. This is why every country in the world has its own co-operative movement, and also why it is possible for a second co-operative to be established, even after the first one, for one reason or another, proved to be a failure and disappeared from the scene.

Basic co-operative requirements

In order to discharge the service motive of the co-operative system, certain basic requirements must be met to ensure that the main accent falls on service and

not profit. For this purpose a number of features have been formulated internationally, which are essential to the co-operative in their original or revised form; the development or revision differs from country to country, depending on conditions in the country concerned:-

1. Membership is open.
2. Say in the undertaking is democratic.
3. Only nominal interest on capital allowed.
4. Distribution of surplus according to members' turnover.
5. Sales for cash and at current prices.
6. Unadulterated goods are offered.
7. Religious and political neutrality is maintained.
8. Educational work among members.
9. Members are compelled to deliver their produce.
10. Directorate constituted from ordinary members.

Certain requirements are sometimes added to the basic co-operative features, but usually they can be grouped under one or other of those referred to above.

Membership

Basically co-operation is not restricted to certain persons but in its development in South Africa it has deviated from this in that membership of the ordinary agricultural co-operative is limited to bona fide farmers, and in the case of a consumers' co-operative to individuals and specified organisations. If a person qualifies for membership, the board of directors must be able to advance good and sufficient reasons for turning down an application if the usual protection (of not permitting the establishment of a second similar co-operative in the same region) is to be maintained. Generally, however, the directorate is only too willing to canvass outsiders as members, in view of the recognised aim to afford co-operative benefits to all.

Instances which present difficulties are co-operative fresh milk dairies, wineries, bakeries, sugar mills and similar undertakings where capacity is very important and only a certain quantity of the product can be handled with the available facilities. It is this difficulty which sometimes causes overlapping having to be permitted in a certain area, as more producers go in for the particular product and they cannot be accommodated under existing facilities. In some cases this happens to such an extent that a quota is attached to a particular farm, and if the producer acquires an additional farm, which has no quota, he has to have recourse to another or new co-operative. Such instances, however, are exceptions and one can normally state that membership is, in fact, open to all who qualify.

Voting power of members

Basically the position is that every member has one vote and that all votes carry the same value. Although voting rights may be accorded to the extent that the undertaking is made use of (with the accompanying provision that the financing is arranged accordingly), the principle of one member one vote is still carried out strictly

by many co-operatives. This departure which is sometimes found in producers' co-operatives is that, on a poll, voting rights are allowed according to the deliveries or turnover of the member. The additional votes are, however, limited to four, and, where proxies are allowed, it is provided that no proxy holder may vote on behalf of more than five members. In the ordinary method of voting the position naturally remains unchanged and each member present has only one vote.

Interest on capital

Since the capital of a co-operative must be viewed only as a means of providing a certain service, it follows that the return thereon must be nominal and in any case limited to the interest rates at which loan funds can be obtained. In fact the Co-operative Act limits the interest which may be paid from annual surpluses to 8 per cent.

From this it is immediately apparent that the share capital of a co-operative undertaking is unattractive from an investment point of view. It discourages the formation of capital in that form, and we find that co-operatives usually resort to the building up of reserves out of surpluses, the introduction of levy funds and the payment of deferred bonuses, in accordance with the obligations imposed on a member in terms of the regulations. These obligations are tolerated only as a result of the fact that it pays to maintain such a marketing organisation.

It is clear that if any concession be made in respect of interest, the service motive would immediately be affected - due to the creation of another incentive which could in itself become an objective. The importance of the member as such would therefore diminish, while that of greater and greater profit would increase. If, on the other hand, the importance of capital is secondary (and therefore only a means to an end), that danger disappears immediately.

Distribution of surplus

There is only one basis of distribution of profits in the commercial concern and that is (after provision for reserves) in the form of dividend on the capital investment. In the case of co-operatives, on the other hand, the limited dividend is allowed (after provision for reserves) in addition to a bonus - according to the member's turnover or to the extent he makes use of the co-operative. This ensures that the member obtains his fair share of the amount collected in excess of providing for operating costs. Where the co-operative handles only one product, the distribution of the surplus will be according to the deliveries of each member. The greatest possible benefit derived from the product is therefore returned to the member.

A problem naturally arises where the co-operative handles more than one product and care is not taken that each product contributes to the surplus on the same basis according to quantity. Thus sufficient may be withheld from one product to leave a surplus, but so small an amount from the other product that it just covers, or is not enough to cover, operating costs. This results in one product or service subsidising another and, should a distribution of a surplus be made later, the subsi-

dised product shares equally with the other product. This type of arrangement is highly unco-operative, and pleas are continually being made to co-operators not to submit to this type of exploitation. The true co-operative basis is that each activity must contribute proportionately to operating costs and any surplus.

An agitation has arisen recently that commercial undertaking should also be permitted to distribute profits in the form of bonuses to customers, apart from the payment of dividends on share capital. One should bear in mind that the customer, who participates in the bonus distribution of a co-operative, is a member of the co-operative and has therefore in fact a claim to the surplus or profit. In the case of the commercial undertaking the client is nothing more than a client and one might well ask whether the proposal would not create an unrealistic and undesirable relationship, especially if it is borne in mind that a co-operative may not distribute surpluses among non-members. It could so easily lead to malpractice and exploitation whereby the profits on certain activities could be applied in pushing one particular activity in order to make members of a co-operative disloyal - until such time as the co-operative is ruined and bonuses will be something of the past.

The bonus of a co-operative must therefore be seen as the surplus or profit distribution; it represents the benefit accruing to the member as a result of his membership of the co-operative. Any one who seeks anything else in the bonus, or tries to evolve a different basis for it, is acting unco-operatively and may thereby even ruin his co-operative.

Cash sales at ruling prices

The idea the earliest co-operators had in this connection was to have the means available in order to buy to the best advantage; to avoid bad debts and at the same time had member relationship; and not to cause unnecessary ill-feeling with commerce by cutting prices and thereby causing price wars. Basically these ideas are correct and co-operative, since they are justified in all respects.

Commercial practices resulted, however, eventually in certain concessions having to be made. In the case of the consumers' co-operative it soon became apparent that cash resources were not always available, especially to the salaried person, and as a result provision has had to be made for one or two months' credit. To ensure, however, that the co-operatives are not left in the lurch, the proviso is usually made that only purchases paid for by a specified date are taken into account for bonus purposes and, furthermore, that interest on such outstanding amounts would be brought to account.

In the case of producers' co-operatives, where members have to be granted production credit, the position is even worse, since the outstanding amounts are recovered only on delivery of the product - sometimes as long as 12 months after the production credit was granted. In order to protect the co-operative, the Act provides for an automatic lien in favour of the co-operative over the produce to be produced to the extent of such credit. The granting of production credit has become such an integral part of the functions of co-operatives that, in order to provide the necessary

funds and security, levy funds are used fairly generally. It is hardly possible to-day to think of production without making the necessary provision for credit.

In order to encourage members to buy for cash, rebates are sometimes granted which are popular with those members who can afford to pay cash. An immediate benefit is thereby given to the member and a good principle encouraged at the same time.

The practice of selling at current prices is also relative, as it is difficult to determine what current prices are under highly competitive conditions. If all business concerns were to buy from the same source at identical prices, current selling prices could have been determined arithmetically, but under existing conditions it is not easy. A reasonable margin is therefore taken.

It is accepted practice for producers' co-operatives (in order to keep production costs as low as possible) to collect only a reasonable surcharge on cost price to cover operating costs and make a contribution to the surplus. This has resulted in an appreciable reduction of the gross profit margin on farming requisites from an average of 15 per cent to about $7\frac{1}{2}$ per cent. Some commercial concerns regard the reduction as a violation of the co-operative principle of selling at current selling prices.

Unadulterated goods

In view of the fact that the co-operative has been established by its members in order to render a definite service or services, no justification exists for supplying inferior goods, or goods differing from those required by members. The same applies to marketing the member's product. In view of the fact that the best realisation is aimed at, members' products are offered according to quality and grade. This also inspires confidence with buyers.

Religious and political neutrality

As pointed out above, some important common interest usually draws members of a co-operative together. Such people, therefore, can and will co-operate regardless of differences that may exist between them as individuals. For example, the chances are remote that complete religious and political agreement will exist in any given area or community in a country like S.A. These matters, however, have no connection with the marketing of members' products or the supply of their requirements; and are, therefore, wisely ignored when economic co-operation is under consideration.

Educational work

In order that the organisation may function smoothly, and at the same time obtain the best results, it is very desirable that members be properly informed about all aspects that are important in this respect. Firstly they should know how the organisation functions and what the underlying principles are which must be continually

borne in mind. Secondly, members must know in what conditions their product must be delivered in order to obtain the best realisation. In this way the co-operative movement has introduced the grading of produce which is regarded to-day as one of the foundations stones of orderly marketing. Finally members must know their obligations to their co-operative. If they do not know this, there is a great danger that they may regard their co-operative as just another business - whereas the necessary knowledge will create an intimate tie with the co-operative.

This knowledge and the progress made in expanding the co-operative, as well as the problems encountered in the process or already overcome, are regarded as important in ensuring a mutual respect of loyalty between the co-operative and its members.

Compulsory delivery

The main objective of a producers' co-operative is to market the product, for which it was established, to the best advantage of the member. To be able to do that, the co-operative must dispose of sufficient quantities of the product; the sellers should be as few as possible and the buyers as many as possible. Bargaining power is thereby placed in the hands of the co-operative and it eventually results in mutual general benefit.

It is a well-known fact that, if a co-operative regulates sales on behalf of the majority of producers and established an even price, a person selling on his own behalf can improve on the co-operative's achievements. This is possible as the co-operative must retain a certain commission to cover operating costs. In the case of direct sales, this can be shared between the seller and buyer to their mutual benefit. If all producers were to follow this procedure, it would result in the co-operative not handling anything, and its eventual disappearance; while the many sellers would compete among themselves and so depress the price. The net realisation would eventually be less than if all market co-operatively. Accordingly, it is a cardinal co-operative principle that, on admission, every member must undertake to sell all of the product concerned through the co-operative, except what he requires for his own use, and that, should he fail to do so, he would be liable to a fine as provided for in the regulations of the co-operative. It is important to note that, if the board of directors propose to impose such a fine, the onus rests on the member to prove that the allegation, namely that he failed to deliver, is incorrect.

Constitution of board of directors

Many controlling bodies stipulate various types of limitations; for instance that a director must hold at least so many shares of a certain type. There is no such limitation in a co-operative undertaking, where every member is regarded as qualified for appointment to the board. The democratic way is followed here, namely that the member concerned must be acceptable to a majority of the members of the co-operative. Although regional representation is permissible, a director, after his election, remains representative of all the members of the co-operative, and he must look after the general interests and not only those of his region. Regional re-

presentation must therefore be regarded as a means whereby the board keeps in touch with the entire area, rather than a particular region being represented.

Conclusion

From the foregoing it is clear that a co-operative is a special type of business undertaking, which exists essentially to serve its members; any concession to non-members must be regarded as a special dispensation. The entire co-operative set-up is really limited to serving its members, and co-operatives normally are not prepared to serve non-members regardless. This immediately presents a problem, as persons who for one reason or another are not members nevertheless try to obtain service from the co-operative. This is permissible under certain circumstances, but must be regarded as highly exceptional. If this were not so, the co-operative would actually be reduced to an ordinary business concern, in which the benefits derived from business with others would be distributed to members. This would naturally clash with the principal that the surplus, divided among members, represents the excess amount retained or collected from members. In its natural form a co-operative is an undertaking which is established by its members to provide in their needs to best advantage, or to dispose of their produce at the most favourable terms; and where equal treatment is given to all members on a broad basis.