

Agri Business Cooperatives

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DEPT. OF AGRICULTURAL ECONOMICS &
AGRIBUSINESS MANAGEMENT

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 - ❑ **What are cooperatives & what distinguishes them from other forms of business**
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What is a cooperative?

- ▶ **Cooperatives are based on values of self-help, self-responsibility, democracy, equality, equity and solidarity. While cooperatives are also businesses, the main objectives for people to set up or join a cooperative is to improve their economic and social conditions through joint action for the good of all members rather than through individual concerns only**
- ▶ **Cooperatives have a number of common characteristics such as that:**
 - **members are united through at least one common interest**
 - **members pursue the goal of improving their economic and social situation through joint actions**
 - **members use a jointly owned and operated unit which provides them with goods and/or services. Regardless of its physical size and activities, the unit's purpose is to use the joint resources of the members to produce or obtain goods or services for the members**

Seven principles of cooperatives

❑ 1st principle: **voluntary and open membership**

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

❑ 2nd principle: **democratic member control**

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

❑ 3rd principle: **member economic participation**

- Members contribute equitably to, and democratically control, the capital of their cooperative. They usually receive limited compensation, if any, on capital subscribed as a condition of membership. **Members allocate surpluses for any of the following purposes:** developing their cooperative enterprise, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative and supporting other activities approved by the membership

- **4th principle: autonomy and independence**
 - **Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy**

- **5th principle: education, training and information**
 - **Cooperatives provide education and training for their members, elected representatives, managers, and employees so that they can contribute effectively to the development of their cooperatives. They inform the general public - particularly young people and opinion leaders-about the nature and benefits of co-operation**

- ❑ **6th principle: co-operation among cooperatives**
 - Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional. and international structures

- ❑ **7th principle: concern for community**
 - Cooperatives work for the sustainable development of their communities through policies approved by their members

Conditions needed to create a cooperative

- ❖ **Cooperative organizations are based on several fundamental conditions:**
 - ▶ **existing problems and constraints cannot be solved individually.** A group of motivated persons who share common problems is needed
 - ▶ **there is no alternative to cooperative self-help - e.g. help cannot easily be provided from family, a social institution, or the state**
 - ▶ **the advantages of membership (access to goods, inputs, loans, services, markets, etc.) outweigh the duties of membership (e.g. contribution of resources such as money, time, land, equipment etc.)**
 - ▶ **at least one person amongst the group has leadership ability and takes the initiative to represent the group.** It is essential for successful work that s/he be reliable and have charisma
 - ▶ **there are no legal or political restrictions on groups being able to elect their own leaders; market their own goods; earn profits and to make their own decisions about distributing surplus, etc.**

Essential conditions for continued success of cooperative organizations

- **There are a number of conditions which are essential if a cooperative is to continue to be successful after the initial enthusiasm of starting up:**
 - ❖ **the cooperative needs to produce visible and tangible (economic and social) benefits for members, outweighing the costs involved in cooperation. Cooperatives can only develop as autonomous self-help organizations when they are able and allowed to operate as business institutions geared to succeed in market competition**
 - ❖ **the cooperative has motivated, experienced and dynamic managers who are able to plan and implement business policies. They must be able to provide the services and goods required by the members, taking into account both the interests and needs of members as well as the entrepreneurial goals of the cooperative enterprise**

❖ **the structure and management of the organization correspond to the capabilities of its members.** If members' competence and motivation is low, the promotion of complicated and complex cooperative organizations does not make sense

❖ **members participate as both users and owners.**

Cooperatives are participative self-help organizations in that the members are also co-owners and have both the rights and obligations of participating in goal-setting, decision making and control or evaluation processes of their cooperative

Members decide upon the services to be provided and benefit from what is produced or obtained by the cooperative

There should be incentives for them to contribute their own resources (capital, labour, produce) to the development of the cooperative

A major reason for the failure of cooperatives is the lack of participation of members

- ❑ **It is extremely important that members act as both users and owners in the development of cooperative organizations through participation at three levels:**
- ✓ **participation in provision (planning) of resources (input participation) e.g. contribution of capital, labour, delivery of produce,**
- ✓ **participation in the decision-making processes of the cooperative organization as a member in the general assembly, section meetings, work groups, committees or as an elected leader on the board, and**
- ✓ **participation in the produced benefits (output participation), by sharing the surplus earned during the year by the cooperative enterprise, in the form of a patronage refund, interest on share capital, or the use of joint facilities and services**

- **Cooperatives, as with any business organization, also need to be flexible and able to change with the circumstances**
- **At present, cooperative organizations all over the world are facing the task of transforming and adjusting themselves to a new economic and political environment, market oriented conditions and increasing member demands**
- **This means a need to learn new production methods, new methods of organization and management, and in particular, ways to help maintain or increase, member loyalty and commitment**
- **This can be achieved through increased participation, communication and information provided the organization's core activities are efficient in meeting members needs**

Potential advantages of cooperative organizations

- ❑ **Farmers and rural household can either produce inputs themselves or buy them.** Cooperatives are one way individuals buy inputs and services. To be attractive, therefore they must offer advantages over the alternatives

- ❑ **Cooperative organizations will have advantages over their competitors** when they can either provide the same services/activities at lower costs **through:**
 - ▶ economies of scale (e.g. bulk purchase)
 - ▶ reducing transaction costs e.g. for information, implementation, control and exchange of services and goods,
 - ▶ reducing uncertainty concerning e.g. prices and availability of inputs
 - ▶ avoiding linked markets, i.e. where for example the purchasing of inputs or the marketing of produce are linked to the provision of loan facilities. or,
 - ▶ they can offer new services / access to external resources / services not otherwise available

- ❖ **Since members are not only clients, but also owners of the cooperative organizations they also participate in forming and steering their own organization which means they can help ensure it meets their needs and share its profits or distributed earnings**

- ❖ **Non-members do not have this advantage. Some cooperative organizations consider it legitimate to allow non-members to make use of cooperative services where for example this allows for greater economies of scale or helps to attract new members. Non-members, however, do not have a say in the running of the cooperative**

The role of government and external assistance in promoting cooperative organizations

- ❑ In many cases, **governments have provided too many regulations and controls on the activities of cooperatives** for them to be able to function effectively. Ideally, they should act only to create the general framework conditions needed so that cooperative autonomy, self-financing and self-reliance is strengthened and not undermined
- ❑ This means ensuring that legally, **groups are allowed to elect their own leaders; to market their own goods; to earn profits and to make their own decisions about distributing surplus** and to carry out numerous other business activities in the members' interests

- ❑ **Government's should not otherwise intervene in the internal organization or operations of a cooperative**, and should leave all attempts to improve efficiency and to comply with cooperative principles and values to the members themselves
- ❑ It should be clearly understood that **cooperative organizations should not act in any sense as agencies of government, and should not play a role as a governmental agency, or as an entity charged with special responsibilities by a government**
- ❑ The potential which cooperatives have for **achieving desirable economic and social conditions must be understood** as the potential they have for reaching the objectives of and for satisfying the needs and interests of their own members rather than directly influencing society in general

Development of cooperatives from other self help organizations

- ❑ There have been many **attempts by government to promote the development of indigenous self help organizations into formal cooperatives**. Such a process however, seems most effective when it results from efforts of members themselves
- ❑ They can at best be assisted, **either informally, by members of established cooperative organizations, or, more formally, by facilitators or cooperative promoters from representative organizations of cooperatives, or NGOs**
- ❑ **Government intervention to precipitate (bring out) or control such a process in most cases has proven counter-productive**

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Forming a Marketing Cooperative

- ▶ **Forming and organizing a marketing cooperative**
- **In considering whether or not to form a cooperative, a number of issues need to be discussed. Before going into detailed plans, members need to be clear what they expect to achieve through the cooperative. i.e. what is the purpose and is this the best way to achieve such a goal?**
- ▶ **An objective of a marketing cooperative for example might be to assist the interested farm households in marketing their produce on a sustainable basis, thus providing increased income and improved living conditions**

Forming a Marketing Cooperative

- ❑ **The cooperative would then need to design, plan organize and implement all activities related to this objective**

- ❑ **For example:**
 - ▶ **market surveys and studies to explore what kind, quality and quantity of produce customers want;**

 - ▶ **arranging contracts with the customers;**

 - ▶ **providing training to members to improve and maintain the quality of their produce;**

- ▶ **assisting farmers in improving and increasing their agricultural production;**
- ▶ **collect the goods at the farm gate, or being ready to receive the products delivered by the farmers themselves;**
- ▶ **controlling products with regard to quantity and quality**
- ▶ **preparing the produce for delivery to the customers. i.e. processing, packing, storage and delivery**

Main steps and activities in forming a cooperative

❖ Step 1: Hold an initial discussion meeting

An informal meeting of those interested in forming a cooperative first needs to be held to discuss the following (non-exhaustive) list of points:

- **Interests of members and prospective members**
 - ❑ what is the purpose of the cooperative business? what will be its scope?
 - ❑ what are the common interests of members in forming a cooperative?
 - ❑ what are the needs and interests of members for supply, processing and marketing?
 - ❑ what will be the activities of the cooperative?
 - ❑ what will be the advantages of becoming a member?

○ Regulations

- ❑ **what permission is needed to set up and run a cooperative business?**
- ❑ **what will any permits cost?**
- ❑ **are there favourable conditions which will favour the cooperative development process, e.g. government assistance programs, favourable credit conditions etc.?**
- ❑ **what internal regulations ('statutes' or 'by-laws') need to be agreed by the founding members in order to get a clear understanding of the cooperative group and its activities?**

○ Finance

- ❑ are members able to contribute their own resources to the cooperative (cooperative shares)?
- ❑ how many members will join, and with how many shares (paid up)?
- ❑ how much working capital is needed? how much will be available? (cash money, liabilities)?
- ❑ are the member households able to, and interested in, providing their produce in the needed quantity and quality on a sustained basis?
- ❑ A plan needs be prepared stating the finances required and where it will come from to finance the planned activities

- **Facilities**

- **which facilities are needed: offices, storage rooms? Will they be rented or constructed with own means?**
- **what equipment is needed: transport facilities, office equipment, storage facilities, packaging and handling equipment?**
- **what staff are needed (office clerks, accountants, technical training staff, laborers to receive the products, pack and deliver them etc.)?**

○ Marketing

- ❑ how can customers needs be identified?
- ❑ what are the possible outlets for sale of members produce?
- ❑ can long term contracts be made with such suppliers and customers?
- ❑ who are the competitors in the region?

- **Management**

- ❑ **who will run the activities of the marketing cooperative?**
- ❑ **how will they be chosen?**
- ❑ **are the persons elected trustworthy and honest?**
- ❑ **do they have conflicting interests while performing other activities of their own?**
- ❑ **do they have the knowledge, skills and experience needed?**

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Main steps and activities in forming a cooperative

❖ Step 2: Prepare the cooperative statutes / by-laws

- ❑ The results of the discussions on the above points **need to be written into cooperative statutes or by laws** which are the interpretation of the cooperative law for that particular cooperative
- ❑ **Statutes regulate not only the existence of a cooperative**, but also the direct relationship between the cooperative society and its members
- ❑ They are the **internal legislation of the cooperative**. When a cooperative is in its formative stages, the founder members have the task of fulfilling all the conditions which are necessary if the cooperative is to have a sound foundation

- ❑ Cooperative movements, governments or other institutions often make **Available a set of model statutes as a guide to help the founder members to formulate statutes for their specific cooperative**
- ❑ However **model statutes are intended as guidelines only**, the fact that they exist, does not mean that they should be imposed on the founder members
- ❑ **New cooperatives often accept model statutes without discussing their contents section by section** which means that members do not understand the meaning of the statutes or whether they are needed for their particular cooperative
- ❑ If statutes are not properly discussed, it may happen that **a few members create and impose their own rules and run the cooperatives according to their own style and for their own benefit**

- ❑ **This is likely to result in members being unhappy with the results and apathetic (lack of interest) about their involvement in the cooperative**
- ❑ **The founder members will need to formulate the statutes of the cooperative themselves**
- ❑ **Outside resource persons may be needed at this stage particularly someone familiar with the process and the legal requirements**
- ❑ **It may be more practical for a sub group to be formed to gather the information needed & draft the statutes, for discussion by all the founder members**

- **Contents of the cooperative statutes/by-laws**
- **The statutes are most important basis for the legal relations between the member and the cooperative and consequently should be as detailed as possible**
- **Cooperatives are free, within the limits of the cooperative law, to make statutes regarding all matters necessary for the functioning of the cooperative organization and for achieving its objectives**
- **Some cooperatives include the relevant aspects of cooperative law within the statutes even though these are already prescribed by the cooperative law**
- **Since cooperative members often have easier access to the statutes than to the law, in this way they are able to obtain all necessary legal information from one document**

- **The statutes should be divided into following main headings**
- ✓ *Firm (name) & Location of business (residence)*
 - A cooperative must be recognizable by its name
 - The economic function should also be evident in the name, e.g. marketing, purchasing, production, multi-purpose, integrated agricultural cooperative etc.
 - It's location should also be part of the name. e.g. 'Arango district agricultural marketing cooperative'

- ❑ Apart from the legal requirements in relation to the name **it is advisable to choose a reasonably short name which is easy to remember, to pronounce and also to identify the cooperative with**
- ❑ **A name should also be able to survive changes** which may take place as the cooperative develops, e.g. an expansion of activities and business

○ *The Objective*

- **A cooperative unites people who have at least one common interest which is usually articulated as a problem which the members would like to solve**
- **In defining the objective, it is important that the members consider what the root problems are first before deciding how to solve them. (e.g. low incomes rather than lack of markets for a particular crop)**
- **The cooperative can only carry out activities which work towards the objectives for which it was formed**
- **The cooperative therefore needs to look at all its intended activities when defining its objectives**

- ❑ **These activities or functions of the cooperative can be identified once the nature of all the problems of its members have been defined and the necessary measures for solving these agreed**
- ❑ **For example, a marketing cooperative should not only market the products of its members, but also show the members new or better methods of improving the quality of their products**
- ❑ **The objectives of the cooperative should include a general statement as to the purpose of the cooperative, e.g. “to market the farm produce of its members”**
- ❑ **A specific statement would then detail the goals of the society, through which the cooperative can fulfil its purpose**

□ **For example**

- **investigating the markets to determine what products of what quality and quantity customers want**
- **building and maintaining storage facilities**
- **maintaining a system for collecting the produce from the farms**
- **processing and packaging the produce before sale as needed**
- **marketing the produce to gain the best price possible, and**
- **advising the members on how to improve their produce and grow different products to suit the market**

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- **The statutes should be divided into following main headings**

- ✓ ***Membership***

- **Cooperatives are only as strong as their members make them. Members need to be aware of their dual role, as both owners and customers of the cooperative**
- **Members need to understand the rules governing operations of a cooperative if they are to play these two roles successfully**
- **Matters related to membership must, therefore, be regulated with utmost care**
- **Membership should be linked to pre-requisites and if these become no longer valid at some point, there needs to be provision for membership to be cancelled**

- ❑ For example, members must be farmers and exercise their profession and business. This provision is of importance as cancellation of membership by the cooperative is not otherwise possible (though members themselves may cancel their membership)
- ❑ A period of notice should be foreseen (e.g. three months to one year) for membership to be cancelled. Membership can be inherited, if the heir fulfils the requirements laid down in the statutes
- ❑ While a member in principle has the right to use the services of the cooperative, the cooperative itself cannot force the member to use the services if no provision is made for this in the statutes

- ❑ **To qualify for registration**, a cooperative needs to have a certain number of members which has to be set out in the statutes
- ❑ In many countries, **the number is ten though this varies from country to country**. The cooperative should not feel, however, that just because it has the minimum required membership, it should begin operations
- ❑ In many cases, **the minimum number may be too few to function effectively as a business**

❑ **The main points that should be included in the statutes concerning membership are:**

- ❖ **Acquisition of membership - who can become a member**
- ❖ **Termination of membership - when can a membership be ended**
 - ✓ **transfer of member's share capital**
 - ✓ **death of a member**
 - ✓ **exclusion of a member**
- ❖ **Arrangements between member and cooperative**
 - ✓ **rights of the members**
 - ✓ **obligations of the members**

- **In some cases, it may be decided that non-members will also be allowed to make use of some or all of the services of the cooperative.** If so, this should also be written into the statutes but as an additional character only as opposed to the main purpose of the cooperative

- ✓ ***Organs of the Cooperative***
 - I. **The General Meeting of members**
 - II. **The Management Board**
 - III. **The Control Board**

✓ *Organs of the Cooperative*

I. **The General Meeting of members**

- **The general meeting of members is the supreme organ of the cooperative. This means that the general meeting makes all basic decisions regarding the structure and operation of the cooperative and any decisions made at a general meeting override (reverse) decisions made in any other forum**

- **However, in the early stages of cooperative activities, especially, members may not be in a position to participate effectively in the decision-making process for example, because:**

- **members may not be able to understand the complexity of the issues which call for a decision;**
- **the organization of the meeting may make effective decision making difficult (e.g. too many people);**
- **one group may dominate the meeting preventing effective discussions;**
- **the cooperative has grown so big that the management keeps all the information to itself, reducing the importance of the role of the members in decision-making**

- ❑ In order to ensure that members participate actively in meetings and are able to make effective and informed contributions, it is suggested that **the cooperative organizes discussion seminars prior to the general meeting**
- ❑ At these seminars members could be informed in detail and discuss the issues on which decisions need to be made at the general meeting. **Such “seminars” should be an integral part of the statutes**
- ❑ **The cooperative should assess which issues need prior discussions in this way.** In such a seminar it would also be possible to invite **“resource persons” such as bank officials and local decision-makers,** who are in a position to analyze issues from all sides

- ❑ Thus, members can be informed extensively but left to form their own opinion
- ❑ These seminars could be held together with the meeting. However, **the seminar must have an official end and the meeting a formal beginning**

❑ **The statute may contain the following provisions for the general meeting:**

- **pursuance of membership rights**
- **period of time and location of the meeting**
- **convocation and agenda**
- **chairmanship of the meeting**
- **subjects for decision-making**
- **majority requirements**
- **discharge of committee members**
- **voting and elections**
- **right to demand information**
- **records, minutes**

- In smaller cooperative organizations, it is usual for all members to have equal voting rights “one member - one vote”, at the general meeting (despite the possibility that some members may own more shares than others)
- It may be useful to allow members to transfer their voting rights to another member, relative etc. if they are unable to vote personally

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✓ *Organs of the Cooperative*

- I. **The General Meeting of members**
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✓ *Organs of the Cooperative*

II. **The Management Board**

- ❑ **The management board (management committee or board of directors) is responsible for running the cooperative**
- ❑ **It should consist of at least two members who can be asked to act on behalf of the cooperative either jointly or individually**

- **It is advisable to act jointly to guarantee the control of the management**
- **The statutes should spell out whether the board can act and take decisions only on the explicit authority and approval of and by the members, or whether the board can act more independently, thus acting on behalf of the members without having to consult them on every issue**
- **The management board may carry out its activities as their main work, as a part time job, or as an honorary occupation depending on the size of the cooperative and amount of work involved**

- ❑ **In many cooperatives the functions can be carried out on a part-time basis with perhaps one or two paid clerks to assist the board**
- ❑ **As the business and needs of the members expand, however, more and more time will be needed and it may become necessary to employ a full time manager**
- ❑ **It must also be decided for which period the board is elected (usually between two years and five years)**

- ❑ **The following aspects of the management committee of the cooperative organization may be defined in the by-laws:**
- **who is responsible for the management of the cooperative organization**
- **who represents the cooperative organization**
- **what are the tasks and obligations of the management committee**
- **who reports to the control board**
- **what is the composition, duties, obligations and service regulations of the management committee?**
- **which decisions need the approval of the control board?**
- **when should the management committee participate in meetings of the control board?**

iii. The Control Board

- While the management board (also called Supervisory Board) is responsible for running the cooperative, the purpose of the control board is to exercise the members' control over the decisions made by the Management Board
- The functions of the control board also, should be laid down in the statutes
- The control board should consist of at least three members elected by the general meeting

- ❑ **Some restrictions on who is eligible may be written in to the statutes.** e.g. minimum or maximum age, a certain level of education or professional experience etc.

- ❑ **The following provisions may be included in the by-laws/statutes:**
 - **duties and obligations of the control board**
 - **joint meetings of the management committee and the control board, matters which need the approval of the control board**
 - **composition and election procedures**
 - **constitution and decision-making**

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Participation in Cooperatives

- **Key learning points**

- **The meaning of participation**

- **Levels of participation in cooperative organizations**

- **Constraints of participation**

- **How to assess the level of participation in a cooperative**

❖ What does participation mean?

- ❑ The term participation has different meanings for different people. There are several ways the term has been interpreted and used with regard to cooperatives, ranging from
 - passive participation, where people are involved merely by being told what is to happen, to
 - self-mobilization, where people take initiatives independently of official cooperative policy or external institutions

□ A Typology of Participation

Type of participation	Characteristics
1) Passive participation	<ul style="list-style-type: none">- People participate only in being informed of what is going to happen or what has already happened- It is a unilateral (one-sided) announcement by an administration or cooperative management without listening to people's responses
2) Participation for material incentives	<ul style="list-style-type: none">- People participate in providing resources, for example labour, in return for food, cash, or other material incentives- It has been very common to call this participation, yet people have no stake (interest) in prolonging (sustaining) activities when the incentives end

Type of participation	Characteristics
3) Participation in information giving and by consultation	<ul style="list-style-type: none">- People participate by answering questions posed by researchers using questionnaire surveys or similar Approaches- People do not have the opportunity to influence the proceedings, as the findings of the research are neither shared nor checked accurately- Managers, promoters or cooperative research working groups may also listen to members' views and needs- They are, however, considered somewhat as "externals" by the members since they still define both the problems and solutions, although they may modify these in the light of people's responses

1, 2, & 3 have been and still are very common in the cooperative context

Type of participation	Characteristics
4) Interactive participation	<ul style="list-style-type: none">- People participate in joint analysis, which leads to action plans and the formation of new local cooperatives and the strengthening of existing ones- These groups take control over local decisions, and so people have a stake in maintaining structures or Practices
5) Self-mobilization or active participation (4 & 5 live up to the ideal of a true cooperative)	<ul style="list-style-type: none">- Members participate by taking initiatives independent of external institutions or management to improve their Cooperatives- Their management may develop contacts with external institutions for resources and technical advice they need, but members retain control over how resources are used- Members have control over cooperative planning and decision-making. Such self initiated mobilization and collective action may or may not challenge existing inequitable distributions of wealth and power

However, members' long-term interests are not seriously taken into account in these types. When a cooperative is dominated by top down management, members tend to become discontented and eventually withdraw from the cooperative

❑ Constraints of participation

- ❖ **Sometimes the political conditions/power structures of the country, region or village(s) where the cooperative works inhibit true member participation**
- ❖ **Urban and rural elites often influence the leading bodies of cooperative organizations and if they are members themselves, may try to manipulate the cooperative process to their own advantage**

- ❖ Often there is a dilemma for the members of cooperative leadership, as they both need and fear people's participation. They need their members' agreement and support, but they fear that wider involvement is likely to slow down decision making and planning processes
- ❖ A balance needs to be found between providing for genuine participation of members in decision making and planning and making timely decisions
- ❖ In general, details of operations can be left to a management group, while major decisions and plans which affect all members need to be discussed and agreed by all members

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Organizational Development

COOPERATIVE

○ Introduction

- ❑ Many cooperative organizations were started by highly motivated and enthusiastic leaders while others began as country sponsored organizations
- ❑ Regardless of the specific reasons which led to their formation, **all cooperatives, at some stage of their development, face a change in markets, leadership, outside support, or members' needs and priorities**

- ❑ At times the survival of the organization can **depend on its ability to adjust to the new situation and to adapt its structure**
- ❑ Such changes are easier to implement **if the cooperative has previously set in place an organizational development framework** and established an on-going process of adjusting and refining structures and objectives
- ❑ This very rarely happens in practice however, and it is only **when faced with serious changes that cooperatives begin to see the need to adjust and develop**

□ Defining organizational development

- ❖ **In the case of cooperatives, organizational development represents an ongoing learning process through which the organization readjust its goals and structures in order to maintain competitiveness, ensure survival as well as increase and improve delivery of benefits to members**
- ❖ **Above all it represents a conscious approach to the organization's future, establishing a system which allows the organization to respond to environmental changes in an innovative, flexible and efficient way**

- ❖ All cooperative organizations need to **reassess their primary goals** from time to time, **evaluating achievements** and, when necessary, **re-adjusting the strategic goals**

✓ The aim of cooperative organizational development

○ Cooperative organizational development must be based on two principles:

- 1) **putting members first**, i.e. all the development achieved ultimately benefits members
- 2) **maintaining an entrepreneurial behaviour**, i.e. identifying and pursuing new business

Ensuring a balance between operational success and member satisfaction

Why is it essential to put members first?

- ▶ **If members are forced to contribute to goals unilaterally set by their elected leaders or by paid managers**, they are likely to do only what is essential (passive participation)
- ▶ They might still attend the annual general meeting and trade with the cooperative where they have no alternative, but **they will not be prepared to forego (give up) short-term gains for the sake of long-term organizational success**
- ▶ In the long run **this will reduce trust capital and voluntary member loyalty** (comparative advantages of the cooperative form of organization)

Reasons for lack of entrepreneurship in cooperatives

- ▶ In small commercial companies **the founder entrepreneur tends to provide** the capital, manages the business, makes all decisions, takes all the risks and automatically becomes the main beneficiary of all growth
- ▶ Within cooperatives **these roles tend to be split between different people**. At times some of these inputs come from outsiders, e.g. new ideas may come from external advisors, capital might come from lending institutions, managers might not be cooperatives members. **All these parties are also likely to have different expectations**

- ▶ Working in a cooperative also implies being aware that, even when contributing more than others to the success of the operations (e.g. by introducing a new idea, working harder or providing extra capital) **rewards are going to be shared equally**
- ▶ **This may prove a disincentive to share additional resources, skills and ideas, in the long run hampering (hindering) the cooperative competitiveness**

Reasons Bringing together member satisfaction and entrepreneurial spirit

To attract entrepreneurial abilities cooperatives should ensure that:

- ▶ Norms and structures do not discourage entrepreneurial activity and creativity, i.e governance is appropriate
- ▶ Incentives reward entrepreneurial activity
- ▶ There are people with the relevant entrepreneurial capabilities

- ❖ From the members' point of view, **the development of the organization is positive if it continues to create benefits for them**
- ❖ Cooperatives need to **offer the best cost-benefit package** to the member when compared with alternatives
- ❖ **Members expect goods and services from the cooperative which are relevant to their own enterprise** and expect to obtain them at comparable prices
- ❖ They might also wish to continue to participate in and stay in control of the organization's goals. Because of this aspect, dividends (incentives) tend to matter less than in a commercial company

- ❖ **Looking at organizational development and to the fulfilment of these goals over time, key issues to consider are:**
 - **How can the cooperative grow, innovate and change in such a way as to follow the changing member needs?**
 - **How will it know what members expect?**
 - **How can it combine its goals of meeting needs and operational efficiency?**
- ❖ **Answers to these questions are not only specific to each cooperative, but can only ever be satisfactory for a period**

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Organizational Development

COOPERATIVE

- **Approaches to organizational development**
- **Any externally planned organizational change will encounter more resistance from within than an internally planned one**
- **While day to day management of the enterprise is perhaps best left to managers** (regardless of whether these are elected representatives or professional managers)
- **The medium to long-term development direction needs to be set by the general membership**

- ❑ **Managers might need to provide professional input**, ensuring that the decisions taken within the cooperative are relevant, economically sound and well informed
- ❑ **Members, however, should remain the ultimate judges of the organization**
- ❑ Once members have the main say in determining the overall direction for the cooperative, **their leaders and managers can look after the economic operations which would suit the framework decided upon**

□ **Obstacles to member-driven organizational development**

1. Lack of knowledge and skills:

- **If members are not in a position to understand the economic realities the cooperative faces, leaders and managers will either become frustrated and demotivated, or they will dominate the decision making process which will lead to members losing interest**

2. Attitudinal problems:

- **In any organization there is a certain resistance to change, often related to individual attitudes, values and perceptions of the cooperative**
- **These will affect behaviour and determine opinions and decisions. If members, for instance, are convinced that their leaders are always right, they will tend to keep believing that they have nothing to contribute**

3. Implicit norms:

(not directly expressed)

- **Members' needs should be the top priority of a cooperative and they should become obvious through good communication within the organization**
- **In most organizations, however, some voices remain unheard. Examples include women and the smallest scale farmers**

4. Structural problems:

- **Many obstacles to effective member participation are of a structural nature**
- **General meetings, for instance, are often held only once a year and there is so much on the agenda that questions of organizational development can hardly be attended to**

□ Participatory cooperative organizational development

- ❖ **Planned organizational change** means redefining objectives, changing attitudes, norms, structures and incentives
- ❖ **Such processes go beyond management and policy setting tasks and apply to informal cooperatives just as much as to formal ones**

□ To overcome problems in steering their organization, members should ensure that:

- **regular meetings** are held to discuss current objectives, and that the majority of members continue to agree on these;
- **there are basic rules which only they can change, e.g., the by-laws, standing rules;**
- **basic behavioural norms are transparent and accepted, e.g., by developing a code of ethics, setting benchmarks for the preferred management style;**

- **the basic rights, responsibilities and duties of managers and leaders are known and agreed, e.g., through the development of role descriptions;**
- **incentive and contribution systems are approved by members and**
 - **learning opportunities become part of the process**

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○ Initiating participatory organizational development

□ Generally the first issues arising in terms of organizational development are:

- who should be allowed to assess the current situation
- who is able to do so
- whose assumptions about member/customer needs, markets and competitors should be accepted
- how can apparently conflicting indications be reconciled (made compatible)
- who should say what resources members should employ in the cooperative and what the trade conditions between members and co-op should be like

- ❑ There should then be **a certain preparedness for compromise to achieve a common perspective on what the cooperative can do for its members**
- ❑ **If such compromises** (a middle way between two extremes) **cannot be achieved, an alternative is to split up into smaller units, where agreement can be achieved more easily**

□ The cooperative vision

An example of the hierarchy of objectives in a cooperative

(Source: Parnell 1995: 44)



The cooperative vision

Combining both short-term economic success and long-term survival can best be achieved if the cooperative has a well defined vision of its future, based upon a hierarchy of one main and several supporting objectives

❖ What is a vision?

- ❑ A vision is a mental picture of the organization's ideal future, shared by the majority of people within it
- ❑ This shared vision will determine decisions, choices, and activities within the organization
- ❑ It does not usually entail operational plans but it must combine ideas on the development of structures, behaviours and attitudes with a realistic economic focus
- ❑ It should be drawn up as a mission statement with a set of aims and objectives attached to it

❖ Why build a vision?

- ❑ Developing a vision means all involved need to communicate their main aims clearly and unambiguously
- ❑ Shared objectives can then emerge, be discussed and agreed upon and ranked in terms of priority
- ❑ Such a vision should lay the foundations for strategic planning of operations and for the development of structures and behaviour which allow the best level of member participation, leadership and management

❖ **Developing the vision**

- ❑ **There are two ways in which cooperative members can build their own vision**
 - **One is to focus on the current situation and try to find new creative solutions to problems experienced**
 - **The other is to develop scenarios which are based on the hopes and aspirations of the members - putting aside for the moment the current problems**
- ❑ **The second approach is also a useful path for formal or informal cooperatives in the start-up phase**

❖ **How visions and objectives fit into organizational development**

- ❑ **The objectives derived from developing the vision form the basis on which to plan for strategic management**
- ❑ **A first step would be to translate the objectives into a strategy statement which identifies the cooperative's primary customers, its product strategy and its unique strengths and opportunities**
- ❑ **The planning process is usually continued with a part of the membership (a work group), the elected representatives and managers**

- **Member representatives will contribute local knowledge and managers will hopefully be able to explain market trends and financial considerations**

- **Eventually the final strategy statement should formally be accepted by the Board, made available to all staff and interested members and can then be referred to as a focus to set clear directives for managers and leaders**

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○ Norms and Cooperative Development

Organizational norms influence the behaviour patterns inside co-ops almost as much as structures or material incentives

Organizational norms are so much a part of the organizational culture, that they are often only noticed or questioned when problems arise or contrasts are made with other organizations

□ What are organizational norms?

All institutions operate according to certain rules or norms. These internal behavioural codes fall into two categories:

- **Explicit norms:** these have been consciously established to encourage a certain behaviour within the organization (e.g., codes of ethics, the by-laws etc.). Everyone can get to know them
- **Implicit norms:** these are largely due to unconscious, traditional or individual behaviour patterns. They seem self-evident to some, but are difficult to detect or understand for outsiders and newcomers. Being difficult to grasp, they are difficult to change

- ❑ The set of explicit and (particularly) implicit norms is **very specific to** ⁵ **an organization and is an integral part of its organizational culture**
- ❑ It **determines the “do’s” and the “don’ts”**, regardless of whether they are written and formally recognized or not

❖ The development of appropriate organizational structures

- ❑ **The organizational structures of cooperatives are partly determined by law** (e.g., cooperative acts, tax laws, land law, banking law, company acts and other relevant legislation) and **partly by the cooperative itself**, according to a range of factors distinctive to its specific situation (e.g. **its objectives, type of activities, member's requirements, etc.**)
- ❑ **There cannot be a single blueprint (design, pattern) for all cooperatives**
- ❑ **Each cooperative has to develop its own structures to suit its objectives.** During this process, a range of elements need to be considered to ensure relevance and efficiency

❖ Special needs in large cooperatives

- ❑ **Large-scale cooperatives need more complex organizational systems** to ensure that all member interests are represented
- ❑ This is particularly important **when issues concern the future of the cooperative rather than day to day decisions** such as how surpluses should be distributed
- ❑ **Cooperative managers and leaders need to be constantly aware of members' needs and wishes**

- ❑ Yet the larger the organization, **the more difficult it is for members to feel that they “own” both process and results**
- ❑ Opportunities for discussion between members and leaders, and mechanisms for leaders and managers to report back to members on progress **need to be set up more formally than in smaller organizations**

- ▶ **Today (to schedule a date for the Mid-term exam)**

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Organizational Development

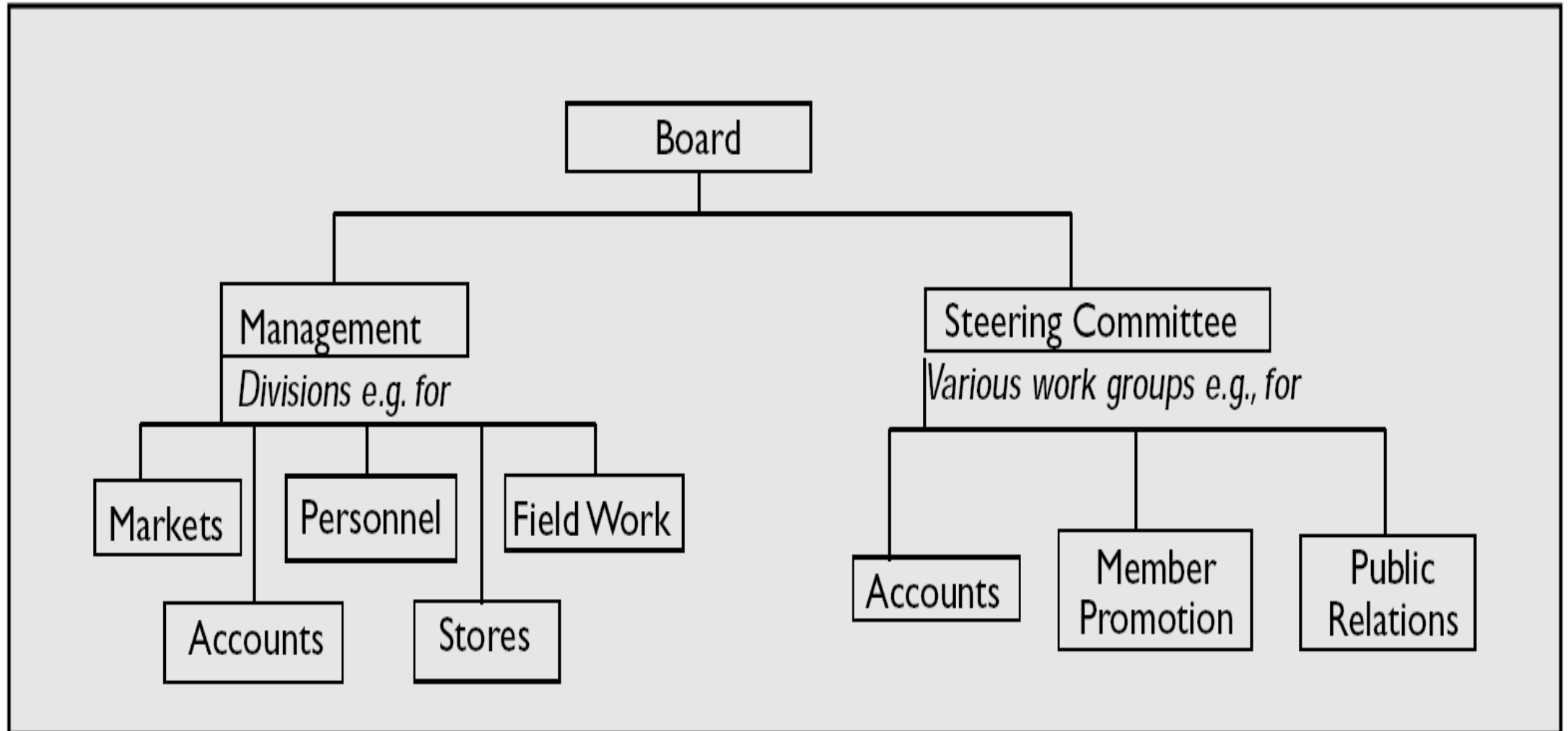
COOPERATIVE

○ Effective Control Structures

- One way of doing this without overburdening managers, **is to establish a number of work groups**
- Each group will concentrate upon **specific aspects of the development process and, within a given set of guidelines, will deal with details of the changes that needed**
- Their task is to **push forward the development process agreed to by members, find ways of detailing objectives and make sure that operational plans for implementation are in line with member promotion and can be monitored**

- They will be guided **by the vision statement and strategic plan**, and should be able to call on managers when they require additional information
- **Groups may be of different sizes** and not necessarily of a fixed composition, with some individuals joining in only when required (e.g. specialists, outside facilitators)
- **The steering group members should be elected or appointed by a members' meeting.** Work groups can be assembled voluntarily, by appointment from the steering group or by election from members.

- The organigram of a cooperative with control by work-groups could look something like this



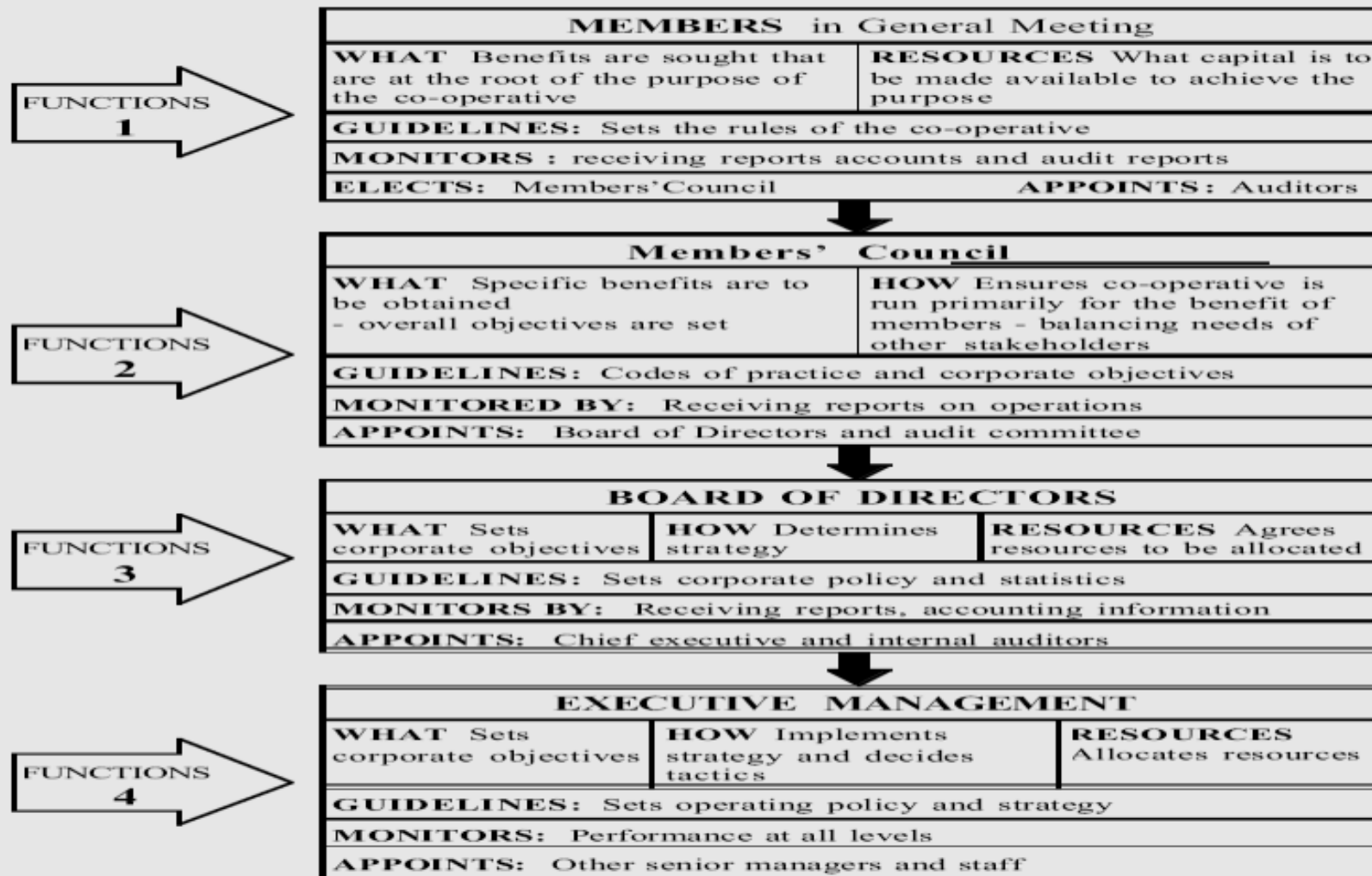
○ **Members representation in organizational development**

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- **Work groups can be formed according to other criteria such as those given below. These groups can then monitor the development of various interest areas and advise the Board. Monitoring groups could for example be formed to consider:**
 - **The main business activities of the cooperative**
 - **Member control and how it is exercised**, including issues relating to the structure of control, the functions of the board, management structures and governance
 - **Financing, capital generation and asset re-deployment**

- **Membership benefits and member loyalty**
- **Human resource development**
- **Pilot projects for new approaches**
- **New markets and external stakeholder related possibilities of repositioning the cooperative**

○ Leadership Structure / A System of member control for a cooperative



(Source: Parnell 1995: 103)

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Organizational Development

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- **Cooperative group development**

- **Organizational development comprises both technical and human processes**

- **In this context the need to implement appropriate structures for the development of leadership and participation**

❖ Maintaining motivation within the cooperative group

- **A cooperative needs transparency and a focus on objectives, the mechanisms and structures** which enable members to retain control
- **It also needs effective channels of two-way communication**
- **There could be a Board member, or a work group** dealing exclusively with membership development who would attend local meetings, visit selected groups of members, and regularly talk to people

❖ The main tasks of such a board member or work group would be:

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- **to develop trust and maintain good relationships** between members and between members and the cooperative;
- **to convince the Boards and managers of the need for, and importance of being fair in their dealings** within the cooperative;
- **to make sure that transparency, accountability and truthfulness** are a dominant pattern in all activities and communications;

- to remind members constantly of **the common vision and objectives**;
- to make sure that **decision making remains open to suggestions** by members
- **to deal promptly with negative feelings** that members may have about the cooperative's activities
- to be prepared **to recommend or use sanctions** against those who pursue their own interests at the expense of the group

- to make sure that those **who play by the rules are seen to benefit from the cooperative's activities**
- to make sure that **it does not become easy to become a “free rider”**
- to make sure that **new members can join freely** (so as to avoid the cooperative discriminating against other members of the community), provided they fulfil the profile agreed upon by all members in the statutes
- to make sure that **members can leave freely**, provided they do not leave any burden behind on the rest of the group

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Agricultural Cooperative Management

□ Financial management

○ Sources of cooperative capital

The finance needed to grow and satisfy member objectives can come from three sources:

- members themselves
- net surpluses generated by the cooperative
- external finance

- **Member finance should be the most important source of finance for the cooperative**
- **Share capital derives from membership shares and could include regular or one-off additional members contributions**
- **Additional funds could come from split payments which a member may agree to accept e.g. accepting payment for their harvest as a part-payment at delivery and another part to be made at a later stage**

- The capital created through the retention of surplus earned represents **a commitment by members who otherwise would have had that portion of surplus allocated to them.** It is called the **institutional capital**, and does not cost the cooperative any interest

- External finance can come from **commercial banks; cooperative support organizations, suppliers or buyers**
- In the majority of cases, **external capital providers are motivated by profit** and expect security by collateral or pledged assets, as well as a commercial interest rate
- **Non-commercial provision is increasingly limited**

- Although cooperative members are frequently referred to as ⁷shareholders, their liability is either linked to the share capital they contributed, or has been limited even further to the value of just one or two shares
- The surplus earned by the enterprise, rather than being divided between investments and dividends as it would happen in a commercial company, is usually distributed in three ways:

- **some goes to the members** according to the capital they have invested in the cooperative;

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- **some serves to reimburse them** according to their trade volumes with the cooperative (patronage refunds, reimbursements or discounts)

- **some is retained (institutional capital)** in order to finance the growth and development of the organization

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❖ Cooperative Legislation

- ❑ **Within a country, it can vary from cooperative to cooperative according to the aims and objectives of co-operators and policy and law makers**
- ❑ **This has a crucial influence on the cooperatives' ability to attract share-holding from members**
- ❑ **Some cooperatives do not allow members leaving the organization to receive a share of the growth a cooperative has achieved since they became members**

❑ **This cooperative model is referred to as the Club Model of cooperatives**

❑ **Others cooperatives on the other hand do allow members to receive this share - referred to as the Ownership Model cooperatives**

❑ **The Club model is the one preferred by most cooperative legislation, making the reserves of the cooperative indivisible (impossible of undergoing division), and decreeing (ruling) that any funds left on dissolution of a cooperative and after repayment of external liabilities and members' shares, is to go to other cooperatives, cooperative federations or to charity**

- **Where Club Model legislation does not exist there is always a danger that one generation of members will dissolve (break up or dismiss) the cooperative, liquidate the assets and distribute them to the current members, when in fact the assets have been accumulated by previous generations, and are really only held in trust by current members**
- **Alternatively current members do not admit new members, instead preferring to attract non-member business. Appropriate rules in the statutes/by laws should regulate this aspect or prevent this situation from occurring**

□ Attracting more member-finance

- To attract more finance from members, **the cooperative needs to provide transparent information to both members and potential members** on which they can make a sound judgement on whether or not to invest in the cooperative
- **Members will only invest if they are aware of the level of risks of the investment** and hence the likely benefits
- **They should be the final judges** of whether any investment will take the cooperative closer to the commonly agreed objectives

- **Improving services offered and overall efficiency of the cooperative will also affect funding**, attracting more members and more business, and raising member loyalty
- **Funding and efficiency are linked in a cause-effect relationship through two processes:**
 - Cooperatives with sufficient funds are **able to invest in appropriate technology** that reduces costs, improves quality, or both
 - As a consequence of the technology they are generally more likely to earn a surplus which contributes to improving the financial status of the cooperative

- **On the other hand, a cooperative using poor or out-dated technology and with insufficient funds has greater difficulty in improving its level of efficiency**
- **Possible ways of breaking this vicious circle include looking for ways to use labour more efficiently, ensuring that paid staff numbers are not excessive, and that they are committed to the work**
- **Another approach includes retaining part of the surplus whenever possible, as for example in normal agricultural years**

- **Member loyalty or their volume of turn-over with the co-op can be maintained or raised through competitive pricing policies and favourable payments**
- **Extending credit facilities and prompt payment of deliveries places demands on the working capital**
- **Short term cooperative loans or good value commercial loan finance could help achieving a level of turn-over which could trigger off the process**

- In certain processing and marketing cooperatives in North America, the founder members **purchase delivery rights which guarantee that the cooperative will purchase a given amount of produce each year and that members will deliver a certain amount of produce**
- **These rights are freely transferable among members, which gives them a market value**

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Agricultural Cooperative Management

❖ **Management of Services to Support Members' Production**

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- ❑ **Agricultural cooperatives provide a large number of services to support producers such as input supply and marketing**
- ❑ **While the services offered and the level of support which the cooperative provides will vary widely, many of the issues regarding the management of these services are common to most or all cooperatives**

❖ Agricultural service cooperatives

- ❑ **Most agricultural service cooperatives found today are based on farmer members (entrepreneurial members) interested in improving their market relations, their production capacities and their productivity**

- ❑ **In general, their needs for support services increase with:**
 - **greater diversification of their production,**
 - **the higher the level of technology used and**
 - **a more commercial orientation**

❖ Provision of services to members **Entrepreneurial tasks** for promoting and managing producer's service cooperatives **include a series of progressive steps:** 5

- identification of the operational needs of the members
- assessment of whether these needs are best addressed through cooperative organization
- comparative analysis of alternative ways of organizing cooperative activities in view of benefits achievable by members
- identification and evaluation of additional functions, services or products to help the cooperative enterprise promote its members

❖ **Most agricultural cooperatives aim to supply their members with below market price inputs**

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❖ **At the same time they try to market their produce at prices which are higher than the individual could get, which is achievable due to the higher quantities marketed**

❖ **Some rural cooperatives only purchase or provide services. The majority, however, are multi-purpose, selling to and marketing for members, purchasing inputs, even offering loans and insurance facilities**

❖ **These are complex organizations and require relatively high levels of skills for management and control**

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❖ Management tasks in rural cooperatives

- ❑ To achieve higher produce prices cooperatives **need to be flexible in terms of when, where and how to sell**
- ❑ With this in view, **they often maintain storage or even processing facilities**
- ❑ By processing on a cooperative basis **they can achieve economies of scale** which would be impossible for individual producers, and help in this way to increase their profit margin

- ❑ They can also generally **negotiate lower prices for inputs by buying in bulk**
- ❑ Both for selling members' produce and to purchase inputs, **specific management skills are needed to find the optimal size of turnover and calculate prices in such a way that they stay competitive while covering all costs involved**

□ **Economies of scale, can be achieved either by**

- **attracting larger quantities/better quality produce from members;**
- **being able to supply more inputs and services to members;**
- **attracting more members or**
- **including services to non-members in the business activities of the organization**

- ❑ Another typical management task is to increase the operational efficiency of the cooperative, reducing costs while maintaining the same level of quality
- ❑ This can be achieved through better management of resources and people, investments into new technologies, higher stock levels held for processing or later sales and credit facilities for members
- ❑ Particularly important for multi-purpose cooperatives is the identification and use of complementary activities

- ❑ **This can lead to increased production and marketing activities of the cooperative and can help make use of cooperative facilities more evenly throughout the year**

❖ Marketing

- ❑ Agricultural marketing includes all those activities, arrangements and preparations which assist the farmer in selling his marketable produce

- ❑ Generally the cooperative can help this process by:
 - **providing an efficient marketing system** in areas in which suitable facilities do not exist or are inadequate
 - **improving the members' (farmer's) incomes** by ensuring a better return for their produce through combined bargaining power, price stabilization, lower trade margins, and the identification of better markets

- **There are two different levels of co-operation in marketing:**⁹
- One is **typical of bargaining associations**, which negotiate prices and conditions of sale of their members' produce, just as a broker would, but do not assume any functions directly concerned with the handling or storing of produce
- **The produce goes directly from the member (farmer) to the buyer** (examples of this approach are found in some countries in the marketing of milk between dairy industry and farmers)

- ❑ **Another refers to true marketing cooperatives.** They can maintain an extension service, receive produce, prepare it for further handling and storage, store it, pack it, process it and finally sell and ship or transport it
- ❑ **Activities could also include credit facilities or an involvement in planning and operational management**

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Agricultural Cooperative Management

❖ Functions of Cooperatives Marketing Societies

- ❑ **Marketing aims to fill the gap between the needs of customers and producers in such a way that both attain maximum satisfaction**
- ❑ **Marketing cooperatives should therefore try to add the features needed by consumers at minimum cost, and in such a way that the highest share of the final price can be given to the producer**
- ❑ **Providing these features to consumer at minimum cost does not mean minimizing the service provided**

❖ The Cost of Marketing

□ A marketing society incurs various costs in the course of its operations:

1. Overhead expenses or Fixed Costs which are incurred in the general administration of the society and the maintenance and renewal of facilities - such as **staff salaries, travelling expenses, costs of stationary, telephone, postage, advertising, depreciation, repairs, bank charges (with the exception of crop finance), costs of committee and general meetings, etc.**

2. The Variable Costs which are incurred directly by the marketing process and vary according to the volume of produce handled. This group includes:

- **transport costs (if the society is responsible for it)**
- **handling charges, casual labour etc.**
- **leakage in storage and transit caused by drying, spilling, spoiling or pilferage**
- **packing materials**
- **bank charges for crop finance**
- **insurance fees for produce storage and movement**

- ❑ To cover these expenses, and also to create funds for future expansion, **the society needs to set aside a proportion of the revenue resulting from the sales proceeds of the members' produce**

- ❑ Depending on the mode of operation the society can use one of the following methods of cost covering, by charging:
 - **a Commission, which is a fixed percentage of the sale's price deducted from the total sales proceeds. The revenue which the society can obtain from this commission is related to the current market price and the volume of produce handled; or**

- a Levy (charge a fee or tax), which is a fixed charge imposed on each unit of weight or volume sold through the society, either as a flat rate on all produce, or differentiated according to grades

- ✓ Thus the revenue of the society under the levy system is not dependent on the market price which the product brings, but only on the quantity sold
- ✓ The commission and the levy are usually fixed in advance of each season

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Agricultural Cooperative Management

❖ Supply Management

- ❑ Private traders have frequently been **unable to provide small producers with an efficient and effective supply of necessary inputs**
- ❑ **Apart from charging high margins, they often do not have the technical knowledge or time for extension work which should accompany the sales**

❖ Supply Management

□ The objective of cooperative supply services should be:

1) to keep the prices at a reasonable level by:

- using its bargaining power based on bulk buying;
- shortening the supply lines through direct purchases from factories or importers and through production on the secondary level in the cooperative network;
- efficient handling to avoid losses and waste

2) to supply goods and services of a type and quality which are to the best advantage of the producer

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This, of course, requires the staff to have a sound technical knowledge of the supplies offered, and the cooperative to educate and train the farmer/small producer in the use of these supplies

3) common purchasing of supplies usually develops either:

- as a secondary function in marketing cooperatives**
- from a simple purchaser group when members decide that, in addition to the pooled bargaining power, they would like to keep stocks of assorted supplies locally and to minimize the risk involved may form a cooperative**

While this approach can adequately reflect **seasonal variations in purchases by members**, it also results in changes in **production patterns** remaining undetected until members begin to complain

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Other factors changing the demand for inputs are:

- sudden access to production loans
- competitors' offers
- changes in relative qualities and prices of inputs
- availability of new products

Functions of a supply cooperative

The task of purchasing supplies involves deciding what to buy, where, when and how much

In general, the rules explained in the module on marketing about the right product at the right time in the right place also apply to supplying members in their role as customers

Great care should be exercised to regularly ascertain members' satisfaction as to the services offered

□ These are changes which the cooperative management **should constantly monitor and keep the members informed about**

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□ **Information can come from a wide variety of sources, such as:**

- **Members' General meeting**
- **committees on certain production lines**
- **surveys of members' requirements and production patterns**
- **Ministry of Agriculture (or Trade or Industries)**
- **neighbouring societies**
- **surveys of private traders or manufacturers**

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Diversification, Growth & Collaboration

❖ Introduction

- ❑ Cooperatives do not work in isolation. They buy inputs from commercial organizations, they sell to commercial organizations and sometimes to the general public and they work with other cooperatives in areas of common interest
- ❑ They often achieve the best results by working in partnership with them. At times it may make sense for cooperatives to merge together to form a larger organization
- ❑ In many cases, there are also good reasons for a number of cooperative organizations to belong to a federation which can promote their interests at higher levels through their strength of representation

❖ Diversification

- ❖ **is the introduction of new products or activities to the cooperative. This can lead to the development of new markets, but only where there is a need for the new product or service**
- ❖ **Diversification needs careful planning and market research before being embarked on**
- ❖ **Rather than offering completely new products or services, it may be more practical to broaden the spectrum of what is offered through for example, processing of further products of members**

❖ **Diversification of the activities of the cooperative may mean that a change in the statutes becomes necessary**

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❖ **Reasons for diversification**

There is generally a combination of reasons for making diversification necessary:

- **securing expansion and profitability for new growth;**
- **reducing dependence on markets, products and buyers;**
- **competition;**
- **new needs;**
- **improvement of economic viability;**
- **increased profitability through investment and**
- **increasing internal costs (due to insufficient returns on completed business)**

❖ **Diversification requires systematic preparation:**

Analysis of the situation (finances, staff, resources and organizational capabilities) and the possibilities for diversification within the markets

❖ **Details of economic viability should always be considered in relation to the promotional tasks of members**

Setting objectives and operational goals

- ▶ **When starting a cooperative or when situational changes force a fundamental re-thinking, cooperative members need to find a shared common purpose or main objective, as well as a hierarchy of sub-objectives**
- ▶ **Together with managers they should then try to agree on specific targets and, eventually, to plan the relevant activities accordingly**
- ▶ **The decision as to whether vegetable retailing or provision of transport should be the cooperative's main occupation must be decided before any other plans can be made**

Setting objectives and operational goals

- ▶ **Two analytical tools can prove useful at this stage:**
 - **the “Logical Framework Analysis” (Log-Frame)**, which is normally used for project development, can help in turning problems into objectives, and
 - **“SWOT” analysis** which helps analyse strengths and weaknesses within an organization and identify opportunities and threats. This can therefore help translate a vision into a feasible operational plan

Feasibility study

- ▶ Having chosen an operational plan, e.g, a particular production process, the next step would be **to complete a feasibility study**

- ▶ This helps to decide whether the plan is practical. This could mean deciding the quantity of crops to grow and what further processing would be done, whether to employ permanent or temporary staff etc.

Feasibility study

- ▶ **Such a feasibility study would assess aspects such as:**
 - the availability of resources, both human and material;
 - whether they are sufficient in quality and quantity;
 - whether the financial resources of the cooperative enterprise and members are sufficient for the planned production;
 - possibilities of substituting finance with labor or material resources;
 - whether the collective knowledge of the group is adequate for the endeavour;
 - whether there is sufficient demand in the expected markets (including competition);
 - calculations of the cost of operations and the expected revenues and profits to be obtained;
 - analysis of risks

Planning Tools for Strategic Management

- ▶ In addition to **the Logical Framework Analysis and the SWOT analysis** which are appropriate in complex planning situations, there are various other tools which can be used to acquire information, decide upon alternatives and/or prepare implementation
- ▶ The choice of tool to be used depends on the issue being dealt with and frequently also with the stage of planning being considered. **While some tools are only suitable for planning financial matters, others can be used specifically to plan responsibilities and allocation of physical inputs**
- ▶ **Budgets, balance sheets, stock records, sales forecasts, and work process plans are examples of organizational tools which can be used in financial as well as in physical planning procedures**

Planning Tools for Strategic Management

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- ▶ **They are the basic instruments to plan inputs (= resource utilization) with and will often also entail expectations of physical outputs**

- ▶ **Economic and financial planning and reporting tools would include:**
 - profit and loss statements;
 - investment analysis;
 - source and application of funds statements;
 - cash flows;
 - (year end) balance sheets,
 - cost calculations
 - calculation of break-even points

These tools help prepare decisions, plan physical activities and processes.