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Democratic governance in a selection of cooperatives in Tshwane Metropolitan area

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2019
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University of the Witwatersrand
Wits School of Governance

Master's degree in Public and Development Management

Democratic governance in a selection of cooperatives in Tshwane Metropolitan area

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Thesis submitted in fifty per cent completion of the degree of Master of Management in the field of Public and Development Management at the University of the Witwatersrand, Johannesburg.

February 2019

ABSTRACT

Cooperative principles and values are hailed as the guiding light that ensures that cooperatives serve their members and improve their economic conditions rather than maximise profit. This study explored the views of cooperative members on how they understand the meaning of the cooperative principle of democratic member control. The study also considered whether cooperatives adhere to cooperative principles and what the role of the state is within the cooperative businesses in the study. The cooperative identity as defined by the International Cooperative Alliance (ICA) was examined as well as the economic pressures and challenges that threaten the distinct cooperative character, especially the democratic member control principle. Purposive sampling was used to gather data from participants using semi-structured interviews.

The study revealed that members of cooperatives are unaware of the cooperative principles and values. While members of the cooperatives are aware that a cooperative should be run democratically and collectively by its members, the study revealed that a minimalist form of democracy was practiced in the day-to-day life of the cooperatives.

Keywords:

cooperative, cooperative principles, democracy, cooperative values.

DECLARATION

I declare that this study is my own unaided work. I also declare that I have not previously submitted it in its entirety or in part for any other degree or examination in any other university.

_____

Pogisho Godfrey Kgosinyane

_____

Date

DEDICATION

In memory of my mother who passed away during this research project.

ACKNOWLEDGEMENTS

I am grateful to my supervisors, Ms Odile Mackett and Dr Caryn Abrahams, for their guidance throughout the research process. Without their supervision, this research would not have been possible.

I would also like to thank Mr Murray Cairns for organising the writing workshops at the Writing Centre which assisted in laying the foundation for this study.

ACRONYMS

CIS	Cooperative Incentive Scheme
DSBD	Department of Small Business Development
DTI	Department of Trade and Industry
GDP	Gross Domestic Product
ICA	International Cooperative Alliance
IOF	Investor Owned Firm
MOB	Member Owned Business

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CHAPTER 1
INTRODUCTION AND BACKGROUND

This chapter will present the context, purpose and justification of the study. The chapter also defines the key concepts that guide this study. An outline of the chapters is provided at the end of this chapter.

1.1 INTRODUCTION

The concept of the cooperative movement dates back to the 1840s in Rochdale, England. The Rochdale Equitable Pioneers, a group of weavers and artisans, united in 1844 to form a small shop in Rochdale to supply themselves with basic supplies, such as flour and sugar, at a discounted price (Boyana & Tshuma, 2013, Satgar, 2007a). The Rochdale Pioneers adopted a set of principles that were later developed and refined by the International Cooperative Alliance (ICA). Satgar (2007a) explains that these principles became the foundation for the development of cooperatives.

The ICA is an apex body representing some 308 cooperative federations from three million cooperatives and more than one billion cooperative members worldwide (ICA, 1995, Hoyt, 1996). The ICA, which was founded in 1895, made adjustments to the cooperative principles in 1937, 1966 and again in 1995. In 1995 the ICA released a Statement of the Cooperative Identity that lists the six values and seven principles that set out the cooperative identity (Hoyt, 1996). According to Oczkowski, Krivokapic-Skoko and Plummer (2013), adoption of these principles by cooperatives will ensure they serve members rather than maximising profit and will also help to build the cooperative movement that can serve as an alternative to capitalist domination (Krishna, 2013). In addition, Natalasha (2016) indicates that cooperative success is dependent on compliance with the ICA principles.

However, Somerville (2007) is critical of the ICA principles and values. According to Somerville, the cooperative values are not different to those of investor owned companies. In cooperatives, owner-members work together for the mutual benefit of the organisation. Similarly, shareholders, just like cooperative members, take decisions democratically at annual general meetings. Somerville (2007) argues that if cooperatives want to maintain a distinct identity from investor-owned firms then their values must be stated more clearly than they presently are.

A study by Kasmir (2016) comparing one of the largest cooperatives in the world, the Mondragon cooperative in Spain, confirms Somerville's views. Kasmir's ethnographic study reveals that the same hierarchical decision-making process present at an investor owned factory where the rank and file members are excluded from decision-making was also present at the Mondragon cooperative. According to Kasmir (2016), the democratic principle of collective decision-making was absent and the decision-making process was concentrated in the top management structures of the cooperative.

However, Szabo (2006) indicates that the difficult conditions under which cooperatives operate have forced them to adopt different forms and marketing strategies that have led to the creation of the so-called new generation cooperative structures or models. Skurnik (2002) indicates that in order for cooperatives to survive the challenges of the new economy[1] they are forced to adopt elements that are alien to the original cooperative model and create a hybrid model which contains elements of investor owned businesses. This shift away from the original concept of cooperatives is in contrast to the cooperative identity as adopted by the ICA. According to Ortmann and King (2007), several large cooperatives in South Africa and

[1] The new economy expresses the impact of the technological revolution developed around information and communications, first in the industry that produces ICT goods and services; second, in the industries that use these goods as production capital; and third, in the other industries and in the economy as a whole (Argandoña, 2003).

internationally have converted to investor owned firms (IOFs) in recent years and there is still significant controversy in the agricultural community over the merits of cooperatives versus IOFs.

1.2 COOPERATIVE PRINCIPLES AND IDENTITY

It is often difficult to define cooperatives due to the many definitions that vary, sometimes significantly so (Szabo, 2006). Satgar (2007b) indicates that cooperatives exist in most parts of the world but are often not identifiable due to the wide range of terms used to describe them. For example, self-help association, mutual society and building society are some of the terms used to describe a cooperative entity.

The International Cooperative Alliance (ICA) (2005) defines a cooperative as a self-sufficient association of people united willingly to meet their shared economic, social and cultural needs and objectives through a mutually owned and democratically controlled enterprise. The ICA definition has been widely accepted because it synthesises the various definitions of cooperatives. Furthermore, the definition not only focuses on the economic aspect of cooperatives but also on the cultural and social principles of cooperation (Okem & Lawrence, 2013). This study will be based on the ICA's definition.

Szabo (2006), however, is critical of the ICA definition as it does not sufficiently grasp the economic aspect of cooperatives, especially agricultural cooperatives. Szabo states that the ICA cooperative identity includes a definition of cooperatives, a list of values and a set of principles but is silent on the economic environment. Szabo (2006) further states that the cooperative principles are a major part of the cooperative identity and represent an ideology which emphasises the social aims and character of cooperatives.

Szabo proposes a new concept of cooperative identity that takes into consideration the economic aspect of cooperatives and their changing roles. The new cooperative identity proposed by Szabo (2006) consists of additional elements to the cooperative identity, besides the definition and the principles which are the purposes or aims and functions or roles. Szabo states that these additional elements of the cooperative identity are more relevant to the economic reality of cooperatives. Szabo (2006) further indicates that the purposes or aims of cooperatives remain largely fixed while the functions or roles change over time. The changes in the roles of cooperatives, according to Szabo, are caused by changes in the economy and also the policy environment. While cooperative members can define other aims for cooperatives, for example, cultural or religious ones, the basic purpose or role of cooperatives should always be economic activity.

In addition to the ICA cooperative definition, cooperatives are democratic, member-owned businesses (MOBs) where members have full control of their business (Birchall, 2013). As part of their identity, cooperatives are run on specific principles and values that distinguish them from investor owned enterprises (Hoyt, 1996, Kaswan, 2014). Boyana and Tshuma (2013) indicates that members form cooperatives in order to exploit economic opportunities and satisfy their needs and also to improve their social conditions caused by a lack of capital.

According to Valentinov (2004), as well as Hoyt (1996) and Kaswan (2014), cooperatives are distinguishable from other business forms by their democratic and non-hierarchical governance structures and also by their internationally accepted cooperative principles and values. Valentinov (2004) further states that cooperatives are opposed to two major types of governance: markets, where shareholders are the decision-makers, and hierarchies. The democratic member control principle is an anti-hierarchy principle and is at the core of cooperative governance. Kaswan (2014) states that hierarchies and democracy are incompatible because in a

hierarchy power is concentrated at the top, while in a democracy power is distributed among the people. The comparison of both capitalist and cooperative governance in the literature shows both the advantages and limitations of the cooperative form. One of the limitations, according to Valentinov (2004), is the problem of democratic decision-making.

Table 1 below lists the six cooperative values and seven cooperative principles with an explanation of each principle as defined by the ICA.

Table 1: Cooperative values and principles

Cooperative values	Cooperative principles
• Self-help • Self-responsibility • democracy • equality • Equity • Solidarity	1. Voluntary and open membership 2. Democratic member control 3. Member economic participation 4. Autonomy and Independence 5. Education, training, information 6. Cooperation among cooperatives 7. Concern for community

Source: Adapted from Cooperative Identity, Values and Principles (ICA, 1995)

The first cooperative principle is voluntary and open membership. Cooperatives are voluntary organisations, 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.

The second principle, democratic member control, means that cooperatives are democratic organisations 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 organised in a democratic manner.

The third principle of member economic participation requires that members contribute equitably to and democratically control the capital of their cooperative. Members usually receive limited compensation, if any, on capital contributed as a condition of membership. Members allocate surpluses for the purpose of developing their cooperative, by setting up reserves, part of which would be indivisible, benefitting members in proportion to their transactions with the cooperative and supporting other activities approved by the membership.

The fourth principle is autonomy and independence. Cooperatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, 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.

The fifth principle is 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 cooperative.

The sixth principle, cooperation among cooperatives, means cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

The seventh principle is concern for community. Cooperatives work for the sustainable development of their communities through policies approved by their members.

Internationally, cooperative principles are regarded as a guiding framework that ensures cooperatives serve their members rather than maximise profits. According to Bancel (2015), the seven cooperative principles are the internationally agreed foundational principles that, when applied to the day-to-day governance and management of cooperative enterprises, empowers them to achieve the objective of meeting their members' needs and aspirations. Bancel (2015) further indicates that cooperative identity is two dimensional. Firstly, a cooperative is an association of people united voluntarily to meet their common economic, social and cultural needs and aspirations. Secondly, these needs and aspirations are met through a jointly owned and democratically controlled enterprise. In their Guidance Notes to the Cooperative Principles, the ICA (2015, p.11) states that "cooperatives are democratic organisations 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".

1.3 DEVELOPMENT OF THE SOUTH AFRICAN COOPERATIVE SECTOR

This section will explain the main developments in the South African cooperative sector from its beginnings in the late 1800s.

According to Wanyama, Develtere and Pollet (2009), cooperative development in Africa did not begin as a benefit to people, but instead can be traced back to the colonial era. Wanyama *et al* (2009) further state that these cooperatives were formed at the direction of colonial masters to serve the interest of their own white settler farmers and not that of the people who started them. Kanyane and Ilorah (2015) indicates that the same situation applied in South Africa where, as in other African countries, cooperatives were not indigenously grown organisations, but were rather formed by colonial powers when administering these countries.

Birchall (2011), however, contradicts the above authors, and explains that before colonialism, there were pre-existing forms of cooperation that indigenous people were already practising. Two types of cooperation existed, work groups and rotating savings and credit associations. In work groups members work on each other's farms in rotation while in savings and credit associations members made contributions to a rotating fund which would assist during family events like funerals and weddings.

The DTI (2012) states that the cooperative movement in South Africa started as far back as the late 19th century with the Afrikaner nationalist movement, which organised agricultural and consumer cooperatives. According to the Eastern Cape Department of Economic Development and Environmental Affairs (2009) cooperative development in South Africa is historically linked to and shaped by the history of colonial and apartheid planning and organisation in both the society and the economy. In agreement with this view, Williams (2013) states that during apartheid, as in the rest of South Africa, cooperatives were divided along racial lines. According to Boyana and Tshuma (2013), the first cooperative in South Africa, the Pietermaritzburg Consumer Cooperative, was registered in 1892 under the then Companies Act. Although there were other types of cooperatives, agricultural cooperatives which were mostly white owned were the dominant type and received support from the then Department of Agriculture.

The DTI (2012) further indicates that these cooperatives succeeded only through substantial government support provided by the establishment of the Land Bank in 1912 which made funding available. Other forms of support were in the form of legislation which includes the 1912 Land Settlement Act, 1913 and 1936 Land Acts, Cooperative Societies Acts of 1922 and 1939 and the Natives Administration Act of 1936. Marketing Boards were established through the promulgation of the 1937 Agricultural

Marketing Act and were mainly responsible for fixing prices of agricultural products and marketing of these commodities locally and internationally. The state also provided subsidies and tax exemptions to these agricultural cooperatives. The DTI (2012) further indicates that these cooperatives hardly complied with cooperative principles and looked towards the state for their creation and development, thereby embracing a top-down approach in contradiction of the cooperative principle of democratic member control.

Nieman and Fouché (2016) explains that after 1994 new regulatory frameworks were developed for cooperatives in South Africa in the form of the South African Cooperatives Act No. 14 of 2005 and the Cooperative Amendment Bill in 2010. The objectives of these amendments were, among others, to align the Cooperative Act with the International Labour Organisation's (ILO) Recommendation 193 of 2002. According to the ILO (2002) the promotion of cooperatives should be guided by the ICA values and principles and be regarded as pillars of national and international economic and social development. In this context governments should design policies and legislation consistent with the nature and functions of cooperatives and be directed by cooperative values and principles.

Additionally, Ortmann and King (2007) indicates that the new democratic government did not consider the previous Cooperative Act of 1981 as an appropriate vehicle for the development of cooperatives in the current era for various reasons. For example, the definition of a cooperative was not adequate and registered cooperatives were not explicitly required to comply with cooperative principles. Furthermore, a belief prevailed that the state played an interventionist or paternalistic role in cooperative members' rights, particularly in regard to the election of the board of directors, and therefore members' rights were not sufficiently protected. As a result, a new process to develop a new Cooperative Act commenced based on the ICA principles and culminated in the Cooperatives Act of 2005 (Ortmann & King, 2007).

According to Satgar (2007a), the new Cooperative Act of 2005 recognises the cooperative values that can contribute towards the social and economic development of South Africa. The Act also aims to ensure that the international cooperative principles are recognised and implemented in the Republic of South Africa. There is no evidence, however, that these principles are being observed by cooperatives in South Africa. This is in contravention of both the Cooperative Act of 2005 and the ICA guidelines.

Much of the research on cooperatives tends to focus on the challenges faced by cooperatives and their developmental benefits. This study explores the understanding and adherence to the cooperative principles as it will assist cooperatives to not only publicise their values but also put these values into practice. According to Nelson *et al* (2016), conflict is reduced when cooperative principles are adhered to and internal democracy is thereby strengthened

1.4 PROBLEM STATEMENT

In order to ensure strong and sustainable cooperatives, the governance challenges among cooperatives need to be attended to. In addition, it is not only the governance challenges that need attention, but also the adherence to the cooperative principles. At the present time, governance issues have led to conflict among cooperative members. These conflicts have led to the collapse of many cooperatives. If these challenges are not addressed in a sustainable manner, it is unlikely that the developmental role of cooperatives will be realised. Furthermore, state resources that are being used to sustain these cooperatives will be wasted.

According to studies by the DTI (2012), Khumalo (2014, Nieman and Fouché (2016) and Wessels and Nel (2016), conflict among cooperative

members due to lack of collective decision-making and internal democracy has collapsed many cooperatives.

The ICA (2015, pp.15-16) in referring to the democratic member control principle, indicates that cooperatives are “democratic organisations controlled by their members, who actively participate in setting their policies and making decisions”. The ICA states that one of the biggest challenges facing cooperatives in implementing the principle of democratic member control is creating a culture that welcomes and encourages debate rather than stifles it.

However, internal and external forces influence how strongly cooperatives adhere to the ICA principles (Oczkowski, Krivokapic-Skoko & Plummer, 2013). According to Chaddad and Iliopoulos (2013), internal forces include, but are not limited to, organisational complexity which might compel members to switch to investor-owned forms. External forces could be government legislation, economic pressures and competition from capitalist firms. A study by Fici (2012) found that the ICA principles are not strictly followed by cooperatives in Europe and in Australia confirmed a varying degree of compliance with ICA principles. A study by Oczkowski *et al* (2013) revealed strong support for some of the principles, especially the first three, which are voluntary and open membership, democratic member control and member economic participation, while there was lowest support for the other principles. According to the ICA (1995) and Hoyt (1996), effective and sustainable cooperatives are guided mainly by the seven basic ICA cooperative principles.

According to Henry (2002), Fici (2012) and Somerville (2007), in the cooperative environment it is accepted that the ICA principles play an important part in cooperative enterprises and have been included in laws and regulations of many countries. Krishna (2013) indicates that if cooperatives carry out the cooperative principles, they contribute to building

a cooperative movement that can challenge the dominant role played by the capitalist firms.

Jones (1980) indicates that an analysis of cooperatives in the United States of America concluded that democratically controlled cooperatives perform best. The potential for conflict is greater when the principles of membership, ownership and control are not exercised or when the implementation of internal democracy is weakened (Nelson *et al*., 2016). The ICA principles are therefore what identifies and distinguishes cooperatives from other business forms (Hoyt, 1996, Kaswan, 2014).

The DTI (2012) baseline study reveals low levels of democratic decision-making and a lack of training for members on the cooperative principles. The DTI study also revealed that 58% of cooperative members have never received any training on cooperative principles. According to Nelson *et al* (2016), adherence to the ICA principles by cooperatives could potentially benefit cooperatives by ensuring democratic member control and thereby reduce conflict among members. Choi, Choi, Jang and Parks (2014) conducted a study on cooperatives in South Korea and found that members' democratic participation has a positive impact on the financial performance of their cooperatives. Thaba and Mbohwa (2015) indicates that cooperative values and principles empower members to have control over invested resources and also assist them to take good decisions.

Much of the research on cooperatives tends to focus on the challenges faced by cooperatives and their developmental benefits. Little has been done to examine the attitudes of cooperative members towards the cooperative principles, especially the democratic member control principle.

1.4.1 Context of the study

The cooperatives under study in this research are all textile cooperatives situated in an urban area in the Tshwane Municipal area. Tshwane is one of the three Metros in the Province of Gauteng. According to the Statistics South Africa (Stats SA) 2011 census, the City of Tshwane has an estimated population of 2,921,488 with an unemployment rate of 24.2% and a youth unemployment rate of 32.6% (Stats SA, 2011). The city has a diverse economy and contributes about 26,8% of the Gauteng Province's gross domestic product (GDP) and 9,4% of the national GDP.

1.4.2 Justification for the study

A new approach to cooperative development is needed that will ensure cooperatives are self-sustainable and are democratically run organisations as envisaged by the cooperative principles. A strong cooperative entity will save the state money, reduce unemployment and contribute to the developmental goals of the country. Szabo (2006) states that a cooperative that is financially sound will be independent from the state. This will be achieved when cooperatives are financially strong and not dependent on the government for financial assistance.

Studies on cooperatives in South Africa tend to focus on the challenges and failures of cooperative businesses (DTI, 2012, Thaba & Mbohwa, 2015, Wessels & Nel, 2016, Khumalo, 2014). Given the lack of literature which focuses explicitly on cooperative principles in the South African context, this study sought to explore how members of cooperatives understand the ICA principle of democratic member control and whether cooperatives comply with this principle. In addition, the study also probed the role that government played in cooperatives. The study sought to explore whether the government has any influence or control on the decision-making processes in the cooperatives. The role of the state has an impact on

whether the principle of democratic member control is exercised by cooperatives or not.

The democratic member control principle was chosen because of evidence of non-compliance with this principle. Studies by the DTI (2012) revealed low democratic decision-making in cooperatives, and state interference (Thaba & Mbohwa, 2015, Wessels & Nel, 2016). These two reasons have been cited as some of the causes of the failure of cooperatives in South Africa.

1.5 PURPOSE STATEMENT

The purpose of this study was to explore how cooperative members understand the ICA principle of democratic member control and whether cooperatives complied with this principle. The other purpose of the study was to probe the role of government in cooperatives.

1.6 RESEARCH QUESTION

The primary research question posed was: “What is the understanding of cooperative members regarding the ICA principle of democratic member control?”

The secondary research questions are: “Do cooperatives comply with the ICA principle of democratic member control?” “What is the role of the government in cooperatives?”

1.7 LIMITATIONS OF THE STUDY

The study was conducted in three textile cooperatives in the Tshwane municipal area and will have limitations regarding generalisability. The findings are based on three textile cooperatives based in one municipal area and exclude other type of cooperatives in other regions. Furthermore, the

study was mainly about democratic governance within a selection of textile cooperatives rather than cooperatives themselves. As a result, the study was not focused on the challenges faced by cooperatives or cooperative development, but rather, cooperatives were used as units of analysis.

1.8 OUTLINE OF THE CHAPTERS

The research report is structured as follows: Chapter 2 reviews the literature on democracy and the problem of agency as it relates to cooperatives. A definition of what constitutes a cooperative is provided. Different schools of thought on cooperative principles as they relate to their survival are presented.

Chapter 3 focuses on the justification for the choice of research methodology. This chapter also explains the research design, and data collection methods including sampling.

Chapter 4 presents data analysis and research results and Chapter 5 discusses the main findings and comparison with previous findings from literature. Chapter 6 provides the conclusions and recommendations of the study.

CHAPTER 2
LITERATURE REVIEW

2.1 INTRODUCTION

Chapter 1 provided a background to the study and the origin of the cooperative principles and identity. The chapter also explained the development of cooperatives in South Africa starting from the 1800s.

This chapter will review the existing body of knowledge on cooperative business forms with an emphasis on the ICA cooperative principles. A discussion on the importance of cooperatives, cooperative principles and cooperative reforms in South Africa is discussed in the following section. There are different schools of thought on whether cooperative principles offer any benefits to cooperatives or whether they are an impediment to cooperative growth. For example, some researchers (Chaddad & Iliopoulos, 2012, Benos, Kalogeras, Verhees & Pennings, 2015) argue that cooperative principles, especially the democratic member control principle, result in high costs for cooperatives because of slow decision-making processes, caused by cooperative members' increasingly heterogeneous interests.

2.2 THE DUAL NATURE OF COOPERATIVES

While there are many community wealth-building strategies around, cooperatives can be regarded as the best example of a community wealth-building strategy. Cooperatives not only develop and preserve wealth but also empower communities (Roseland, 2012). According to Gotz (2017) a 2017 research report by the World Cooperative Monitor collected data from 2,379 cooperative organisations from 61 countries, distributed across eight sectors of activity. Of these, 1,436 cooperatives reported a turnover of more

than 100 million US Dollars. In addition, Kaswan (2014) indicates that cooperatives succeed in building wealth for communities because they are inherently democratic in a way that is absent from other community wealth-building strategies. The democratic nature of cooperatives manifests in its structure which guarantees equal voice to its members and its relationship with the community.

The dual nature of cooperatives is well documented in literature. Valentinov (2004) explains that cooperatives have been regarded as a distinctly special type of economic organisation, designed to serve the needs of its members rather than generate profits for investors. Valentinov (2004, p.5) further indicates that the primary reason for this distinctive identity can be found in the concept of the so-called “double nature” of cooperatives or what Szabo (2006) calls the ‘double character’ of cooperatives. According to this concept, every cooperative represents simultaneously an association of people in the sense of sociology and social psychology, that is, a social group, and a joint entity, owned and run by the same members of the group.

The existence of the social foundation of cooperation giving rise to its unambiguously democratic and people centred character is the basis for the distinction between cooperatives and capitalist firms. Valentinov (2004) further indicates that the sociological aspect of a cooperative shows a high degree of symmetric interdependence among members, resulting in equal participation of all partners in the decision-making process. In other words, the relationship amongst cooperative members is one where members depend equally on each other without domination by some on others. In contrast, capitalist enterprises display an asymmetric interdependence where full participation by actors is limited only to the realisation of transactions and not managerial decision-making.

Supporting Valentinov, Oczkowski *et al* (2013) states that cooperatives not only exist as a social group but also as business enterprises jointly owned

and managed by members. This ‘conflicting’ nature of cooperatives is displayed in its economic feature as a business entity that operates within a capitalist system versus its social feature as an institution that pursues economic benefits for the community (Zamagni & Zamagni, 2010). Krishna (2013) complements the above statements, suggesting that the dual identity of cooperatives is expressed as a business acting on the financial markets and also as an association of cooperative members pursuing value-oriented objectives. In other words, a cooperative, according to Puusa and Varis (2016), is a practical organisation that provides its members with financial benefits but is also ideologically driven in its role as a community organisation.

According to Fici (2012), however, the dual nature of cooperatives poses challenges because cooperatives face the same business pressures that investor-owned businesses face, such as, for example, a shortage of capital. Sacchetti and Tortia (2016) states that cooperatives do not work in isolation but are businesses that operate in the market which is dominated by investor-owned firms which are by nature profit-driven. According to Fici (2012), to counter these business pressures a solution might be to invite external investors into the cooperatives which will go against the fourth ICA principle of autonomy and independence. The autonomy and independence principle of cooperatives directs cooperatives to be economically independent and not rely on state grants and private sector investments. The ICA (1995) states that any agreements between cooperatives and other organisations, including governments, or raising capital from external sources, should be done in a way that will ensure democratic control and autonomy by members is maintained.

2.2.1 The importance of the cooperative principles

In a Statement on the Cooperative Identity the ICA stated the following:

> Cooperative principles are guidelines by which cooperatives put their values into practice. The seven cooperative principles are the internationally agreed foundational principles that, when applied to the day-to-day governance and management of cooperative enterprises, enables them to achieve the objective of meeting their members' needs and aspirations. The principles are the sound ethical principles to be applied with vision and proportionately according to the national economic, cultural, social, legal and regulatory context and particularities within which each cooperative enterprise operates. A cooperative is the only form of entrepreneurship organisation with such an internationally agreed and recognised definition, values and principles. The principles make a valuable difference (ICA, 2015: p.11).

Satgar (2007b) indicates that in countries where cooperatives were an entity of the state or in capitalist economies in which their identity was subsumed as a result of adopting the characteristics of a profit-maximising business, this statement helps reclaim the autonomy and identity of cooperatives. In this regard, it will ensure the development of genuine cooperative enterprises. Supporting this view, Szabo (2006) indicates that cooperative principles are the cornerstone by which cooperatives are evaluated and which can prove whether a cooperative is authentic or not.

Krishna (2013) indicates that the business objectives of cooperatives, which are pursuing economic value for their members, are at odds with the ICA cooperative principles which discourage profit maximisation. Investor-owned businesses aim for quantitative profit maximisation while associational entities like cooperatives and mutual societies pursue qualitative value-driven goals with limited economic aims (Krishna, 2013).

However, according to Chaddad and Iliopoulos, (2012), Skurnik (2002) and Kaswan (2014), various factors like changes in their competitive and institutional operating environment and inherent weaknesses which challenge their democratic potential have compelled cooperatives to adopt other business forms which contradict the cooperative principles. To increase efficiency and ensure survival, some cooperatives have delegated authority to non-members in contradiction of the principle of democratic member control (Chaddad & Iliopolulos, 2012). The ICA principles are therefore being challenged not as a matter of choice by cooperatives but as a necessity to ensure survival.

A study by Heras-Saizarbitoria (2014.p. 652) on the Spanish cooperative Mondragon revealed a lack of interest in cooperative principles among the members. Participants in the study regarded the principles as “a set of rather abstract values that is not very clearly defined”. Participants regarded the principles as formal corporate statements, “stuff that comes from above” which are forgotten in the day-to-day business activities of the cooperative as they are not practiced. The study also revealed that cooperative members were unable to list the principles.

Kasmir’s (2016) study on the same cooperative, Mondragon, which is one of the world’s biggest cooperatives, supports Heras-Saizarbitoria’s findings which revealed that members had little interest in participation and decision-making in their cooperative. Their main priority was job security and compliance with management instructions. The members of this cooperative cite the pressures of global competition as the reason for the degeneration of democratic principles in their cooperative. According to Kasmir (2016), members of the Mondragon cooperative indicated that if their cooperative is to survive, then non-compliance with the democratic principle is acceptable.

The study not only revealed the de-coupling of cooperative principles from the daily operation of the cooperative but also the overriding concern for job security. As a result, members of the Mondragon cooperative delegated the complexities of running their cooperative to management who, they believe, are better suited to deal with the pressures of global competition. However, Kaswan (2014) argues that this action can lead to the problem of managerialism which can result in the development of powerful officials whose interests may be different from those of cooperative members. Somerville (2007) warns against employing people based on their understanding and knowledge of market-based economy at the expense of putting personal interests over organisational values. In other words, the problem of principal-agent may creep in where managers no longer serve the interests of the members but instead serve their own interests. This action, according to Somerville (2007), will lead to the degeneration of cooperatives.

Kasmir's study supports the views of Szabo (2006) and Chaddad and Iliopoulos (2012) who state that the democratic nature of cooperatives leads to inefficiencies and that it is not sufficient to deal with the economic realities of cooperatives. Chaddad and Iliopoulos (2012) further states that collective decision-making employed in traditional cooperatives is costly as it leads to slow decision-making.

Cote (2000) cited in Oczkowski (2013) indicates that moving away from the cooperative principles puts a spotlight on the meaning and legitimacy of cooperatives resulting in the diminishing character of cooperatives. Somerville (2007, p.10) refers to the diminishing character of cooperatives as a result of market pressures as "the degeneration thesis". According to Somerville (2007), two main sources of the degeneration of cooperatives include weak internal democracies where members do not hold the leadership of a cooperative accountable and therefore have little influence on decision-making. The other source, according to Somerville, is

abandoning the principle of member ownership and control by permitting external investors to participate in their cooperative. In other words, according to Somerville (2007), cooperatives are at a high risk of degenerating when they discard their values and principles.

On the other hand, according to De Drimer (2001) legal and other statutory reforms introduced and adopted by cooperatives in different countries have led to the introduction of elements that are in conflict and contradictory to the cooperative values and principles and include, amongst others, a decrease in the number of minimum members of cooperatives, which is in conflict with the principle of open membership and concern for the community, capital funding and the admission of non-member investors which contradicts the principle of a member-owned and controlled entity.

In agreement with De Drimer (2001), Fici (2012) indicates that some laws regulating cooperatives render them almost non-existent because such laws are not compliant with the cooperative principles. In South Africa, according to Lyne and Collins (2008) and Satgar (2007a), amongst others, the new Cooperative Act of 2005 is based on the Broad-Based Black Economic Empowerment Act (B-BBEE) Act of 2003 contradicting the cooperative principle of voluntary and open membership. The ICA (1995) principle of voluntary and open membership emphasises that cooperatives are voluntary organisations open to all persons irrespective of gender, social status, political affiliation or race. The B-BBEE Act on the other hand is based on race. As a result, it becomes difficult to distinguish cooperatives from investor-owned companies. Fici (2012) concludes by emphasising that the effectiveness of the ICA principles should be prioritised and the capacity of the ICA to impose its standards strengthened.

In addition, De Drimer (2001) further questions whether these changes to cooperative values and principles will preserve the interests of members of cooperatives. For example, raising capital from non-member external

investors is in conflict with the principles of autonomy and independence and democratic member control. De Drimer (2001) concludes, based on the preceding arguments, that structural changes that are in conflict with ICA cooperative principles may undermine the cooperative nature of these entities by giving in to external influences at the expense of members.

According to Chaddad and Cook (2004) and Chaddad (2012), as a measure of efficiency and for survival reasons various types of cooperative models and hybrids have emerged in developed countries like the United States, Canada and New Zealand which resulted in varying applications of the ICA principles. The adaptation to new forms of cooperatives as a means of survival and the non-adherence with most, if not all, of the cooperative principles, raises the question of whether the cooperative form is still relevant in the modern economy.

However, Satgar (2007) calls this 'hybridization' of cooperatives a neoliberal attack on cooperatives. This neoliberal offensive challenge not only the authenticity of the cooperative identity as member-based, collectively owned businesses but also their democratic character. According to Satgar, this neoliberal agenda happened in three ways, through hybridising cooperatives by bringing external investors to buy shares in cooperatives which dilute ownership by members. Secondly, there is an attempt to convert cooperatives into investor-owned companies. For example, the new South African Cooperative Act of 2005 provides for such a conversion of cooperatives into companies. The third attempt is by bringing in a new kind of manager into cooperatives supposedly to make cooperatives globally competitive that will eventually obtain control of cooperatives from members.

In 1987 the United States Department of Agriculture adopted the first three principles, which are voluntary and open membership, democratic member control, and member economic participation, following arguments that

cooperatives operating in global markets, particularly agricultural marketing and supply cooperatives, cannot afford to adopt the ICA values and principles but must rather focus on fewer, more self-centred principles merely to survive (Ortmann & King, 2007). Skurnik (2002) indicates that in practice cooperative principles provide a general starting point for cooperative businesses. However, different cooperative models have emerged which resulted in varying emphases on how the ICA principles are applied.

2.3 POST-APARTHEID COOPERATIVE REFORM IN SOUTH AFRICA

Satgar (2007a) states that in South Africa the legal reform for cooperatives of the 1981 Cooperatives Act began through a review process which commenced in 2000. These reforms attempted to incorporate the lessons of cooperative development during the apartheid years and were informed by international standards and universal principles defining cooperatives. As a result, the new Cooperatives Act moved away from the bias of the 1981 Act, which mainly supported the development of agricultural cooperatives, and at the same time affirmed the international principles and values of cooperatives as defined in the International Cooperative Alliance Statement of Identity and the ILO Recommendation 193.6 (Satgar, 2007a).

Satgar (2007a) lists three main assumptions which underpin the policy and legal framework for cooperative development in South Africa. The first assumption relates to the role of the state as an enabler. This assumption attempts to outline a role for the state such that the state is influential in creating the conditions for cooperatives to develop and be autonomous and self-sustaining enterprises. The second assumption underpinning the Cooperatives Development Policy and Act recognises the unique institutional identity of cooperatives. The ICA has been at the forefront of entrenching the cooperative identity through the release of the “Statement of the Cooperative Identity” in 1995. The third assumption based on the

policy and regulatory framework for cooperatives recognises that while it is necessary to bring in enabling state support, it is not an adequate condition to ensure that genuine independent and self-sustaining cooperatives emerge. In other words, cooperative development in post-apartheid South Africa is rooted in the assumption of building a vibrant cooperative movement.

Lyne and Collins (2008) are, however, critical of the new Cooperative Act No. 14 of 2005 (RSA, 2005). These authors question the public support given to cooperatives when the interests of cooperative members can better be served by other business forms. Lyne and Collins (2008) further indicates that the Cooperative Act of 2005 can be amended to admit external investors as members and also allow strategic partners to contribute equity capital to cooperatives. The institutional arrangements of cooperatives which excludes non-patrons and only allows member-patrons to own shares in cooperatives acts as an obstacle to access funding. Lyne and Collins (2008) suggests that it would be preferable that the support offered to cooperatives should also be extended to the development of investor-owned firms.

Another criticism of the Cooperative Act is that the underlying basis for the development of post-apartheid cooperatives is grounded in the Broad-Based Black Economic Empowerment (B-BBEE) Act of 2003 (Lyne & Collins, 2008; Satgar, 2007a). Satgar (2007a) argues that the de-racialisation of companies in South Africa in terms of government procurement policies has not benefitted cooperatives but has merely been about class formation benefitting only a few elites. More importantly, the racially exclusive nature of the B-BBEE policy is in stark contrast to the first ICA principle of ‘voluntary and open membership’ which emphasises that membership cannot be restricted based on gender, racial, social, religious or political grounds.

The above criticism is justified as the Act supports and at the same time contradicts the cooperative principles. This contradiction again manifests itself in the Department of Small Business Development (DSBD) policies, under which cooperatives fall. According to the DSBD (2015), to qualify for the Cooperative Incentive Scheme (CIS), cooperatives have to be incorporated and registered in South Africa in terms of the Cooperatives Act of 2005, be emerging cooperatives and majority black-owned and, ironically, adhere to cooperative principles. Therefore, according to Satgar (2007a) and Lyne and Collins (2008), a new approach to the B-BBEE policy needs to be considered that will uncouple cooperative development from the B-BBEE approach to ensure it does not undermine cooperatives.

According to Nieman and Fouché (2016), as part of the development of a regulatory framework for financial management performance and social reporting, cooperatives are obliged by the new Cooperative Act to report on the seven ICA cooperative principles. They are also expected, as part of the management performance framework, to ensure that the board members of cooperatives are democratically elected. However, a study by the DTI (2012) revealed that democracy within the cooperative movement in South Africa remains low.

2.4 THE ROLE OF THE STATE IN COOPERATIVES

Theorists in economic fields have differing views regarding how far governments should intervene in the economy. According to Black, Calitz and Steenkamp (2015), classical liberal economists of the 19th century believed that market economies are inherently stable, and any negative factors are caused by external factors, for example, government interference. On the other hand, social liberals such as John Maynard Keynes, regarded as the patriarch of what became known as Keynesian economics, was a strong advocate for state intervention in the economy especially during periods of market failure as Mohr (2015, p.412) explains:

“Keynesian economists believe that government has a duty to intervene in the economy by applying monetary and fiscal policies in order to stabilize the markets.”

Satgar (2007a) states that post-World War 2 cooperatives were used by states as part of their development programme especially in the former Soviet bloc, where in many cases these cooperatives were nothing but extensions of the state and were subjected to bureaucratic control and planning. Excessive state control eventually led to the collapse of these cooperatives.

The question of how much government intervention is enough is a relevant question especially in the development of cooperatives. There is a prevailing view amongst some researchers that while support from the state is crucial for the development of cooperatives, excessive state intervention suppresses the growth of cooperatives (Kanyane & Ilora, 2015; Muthuma, 2012; Wanyama *et al*, 2009; Jonathan & Kumburu, 2016; Cox & Le, 2014). Kanyane and Ilora (2015) further states that cooperatives have become politicised state agents, state owned enterprises which are not capable of acting independently and maturely. A general consensus amongst researchers in the cooperative sector is that governments should provide enabling policies and a conducive legal environment for the development of cooperatives (Jonathan & Kumburu, 2016).

According to Khumalo (2014), cooperative success indicates how critical the environment in which they operate is. Khumalo further states that such an environment requires relevant policies and support of government. However, this view is contradicted by Van Bekkum’s research findings (as cited by Cox & Le, 2014) that indicate that government policy has less impact on the development of cooperatives. On the other hand, Muthuma (2012) states that too much government intervention through policy and oversight tends to impede the development of cooperatives Muthuma

(2012) further indicates that the overprotective approach of the government towards cooperatives compromises their autonomy, as happened in Kenya where it resulted in cooperatives having limited control over their own business operations. Direct influence by government therefore weakened the cooperatives and impacted negatively on their self-reliance as members relied on the state to protect their interests. This view was supported by Wanyama *et al* (2009) who argues that state control was impeding the achievements of cooperatives and their potential impact on development and Wanyama calls for the disentanglement of cooperatives from state control to enable them to be run along market principles.

Williams (2013) explores two dominant positions within the Fair Trade[2] movement with a focus on cooperatives in Ethiopia, South Africa and Tanzania. The first position favours better trading conditions while the other position favours state intervention in regulating markets. However, Williams (2013) discovered that the governments of two countries (Ethiopia and Tanzania), rather than attempting to regulate or intervene in the markets, confined themselves to monitoring cooperatives themselves instead of regulating the market conditions in which they operated. According to Williams (2013), in South Africa the state's intervention in cooperatives differs from that in Ethiopia and Tanzania. During the apartheid years the state supported cooperatives to access markets. The state also regulated markets and even offered financial assistance to cooperatives. Contrary to the apartheid state, the post-apartheid state did not involve itself in regulating the markets or offer assistance to cooperatives but instead the post-apartheid government shifted its focus on cooperatives as incubators for emerging small businesses to cooperatives being used as tools for addressing poverty in less resourced townships.

[2] Fair Trade refers to the labelling initiative aimed at improving the lives of the poor in developing countries by offering better terms to producers and helping them to organise (Dragusanu, Giovannucci, & Nunn, 2014).

Williams (2013) argues that at both national and provincial levels cooperatives are promoted through a top-down approach through financial incentives. As a result, there is no genuine empowerment based on cooperative values and principles. This conclusion is supported by findings from Thaba and Mbohwa (2015) and Wessels (2016) who cite a lack of cooperative principles in their studies and financial motivation as the main reason for forming cooperatives.

The following section presents theories drawn from literature that attempts to explain the democratic nature of cooperatives and collective decision-making. The relevance of the theory of democracy comes from the fact that democratic member control is a core principle of a cooperative and also because it forms part of the questions the study seeks to address.

2.5 THEORY OF DEMOCRACY

There is some ambiguity surrounding the concept of democracy. Politicians from different backgrounds, beliefs and practices have used the word democracy and given it meaning according to their own actions and views. Because of its ambiguity scholars have added adjectives to qualify their meaning or usage whenever they use the word ‘democracy’ (Schmitter & Karl, 1991).

Gedeon (2018, p.188) defines democracy as a “specific form of coordination of political activities. It is the specific feature of the political sphere that those who possess political power make binding decisions on the members of the political economy on the basis of the monopoly of the means of violence”.

Munck (2014) states that while the statement ‘democracy is more than just elections’ is common wisdom, there are few proposals on how to overcome the limitations of a minimal definition of the electoral definition of democracy. Munck further indicates that while new concepts such as governance, the

quality of government and open government have been put forward to overcome these limitations, they fail to clarify how these concepts are related to democracy and rarely define how democracy can be reconceptualised. Munck (2014) argues that indeed the concept of governance and quality of government are distinguishable from the concept of democracy. Additionally, democracy is not only about elections but also about how leaders who are elected make decisions, in other words how governments make decisions.

If one can transpose the above statements to cooperatives, one can say the democratic member control principle is not only about electing new leaders or voting on those decisions but how those leaders arrive at those decisions. This statement is in agreement with Apostolakis and Van Dijk (2018) who indicates that democracy is legitimised by the processes that lead to decision-making.

However, according to Fung (2007) all the different concepts of democracy consist of central values such as self-rule, accountability and governance institutions such as elections, deliberations and direct participation. Participatory democracy is just one of the four conceptions of democracy, the other three being minimal, aggregate and deliberative democracy.

In minimal democracy conception, demanding norms of decision-making like reasoned rule,[3] self-government and the pursuit of the common good

[3] The reasoned rule model was introduced by Daniel Kahneman as a solution to overcome the high cost of inconsistent decision-making that falls into common patterns or cases that are managed by multiple people in an organisation. Kahneman (2016) indicates that human beings are unreliable decision makers and their judgments are strongly influenced by factors that are not relevant to the cases before them. These factors can include their current mood, the time since their last meal, the weather and bias. As a result, different people arrive at different decisions on the same matters even though they follow the same guidelines and are expected to arrive at the same outcomes. Reasoned rule model is a tool created to replace human judgment with formal rules to help organisations manage their decision-making. The rule is based on an algorithm that uses data about a case to produce a prediction or a decision (Kahneman, 2016; Rosenfield, Gandhi & Blaser, 2016).

are rejected. According to Rusin (2014), self-government is an activity people undertake independently to solve their issues themselves or through bodies elected by themselves. The accepted view in minimal democracy is that most citizens are uninformed about public affairs and have no coherent views or political capacity on issues that affect them. The notion that individual preferences can be combined into a single aggregated choice is rejected and so are values like self-government, reasoned rule and pursuit of the common good. The minimal democracy conception therefore contradicts the cooperative identity and principles as a self-help democratic enterprise united to meet the common economic, social and cultural needs of its members.

Aggregate democrats hold the view that citizens hold rational political individual preferences and views and that these can be combined into a single aggregate choice. In this conception the opinions and judgements of citizens influence the laws, policies and public actions. In other words, laws and policies should flow from the views of citizens. Aggregate democracy conception values self-government but places less emphasis on the other values of reasoned rule, private liberty and the common good. As a result, aggregate democracy, like minimal democracy, falls short of meeting the cooperative principles and values (Fung, 2007).

Deliberative democrats are of the view that laws and policies should not only flow from the views of citizens in aggregate but should also be in harmony with the wishes of individual citizens. Laws and policies should be based on reasons that are acceptable to all citizens. As result, deliberative democrats favour institutions that subject decision-making to reason. Reasoned rule is a rigorous application of self-government that entails non-tyranny and accountability (Fung, 2007). Apostolakis and Van Dijk (2018) states that in a deliberative democracy, genuine deliberation assumes elements of consensus decision-making and is the crucial source of legitimacy for the law.

In agreement with Apostolakis and Van Dijk (2018), Pernaa (2017) states that in deliberative democracy legitimacy is obtained through the processes that lead to decision-making. These processes are inclusiveness, equality of the participants and the quality of the arguments. In other words, the processes that lead to decision-making should allow for diverse voices where different viewpoints are entertained and valued without being disparaged. In deliberative democracy theory, “instead of exercising the deliberation for the people the deliberative democracy encourages deliberation by the people” (Pernaa, 2017).

Fung (2007) further indicates that in a participatory concept of democracy, citizens engage directly with one another to make laws and policies in order to address the problems they face as a collective. In addition, Kaswan (2014) indicates that in a participatory democracy, members of an association take an active role in its activities and set a high standard for their participation. Cheney, Santa Cruz, Peredo and Nazareno (2014), however, question how far any system of workplace participation goes towards the democratisation of work. These authors suggest three considerations that will lead to a well-functioning workers’ cooperative: the degree or extent of control that can be exercised by employees, the range of issues over which they have influence, and the levels of the organisation at which employees are able to have an impact. These features will contribute to strengthening the ownership culture.

Rothschild (2016, p.9) introduces another conception of democracy which is called Democracy 2.0 because it rejects the “procedural and legalistic version of democracy that preceded it in favour of an image of an organisation that is at its core, insistent on individual voice and human cooperation”. Rothschild also calls this form of democracy cooperative or collectivist democracy because it entails a social bond that is cooperative in

nature between members. In this type of democracy, any assets must be socially and collectively owned by members of an organisation.

Contrasting the representative form of democracy with the cooperative or collectivist democracy, Rothschild (2016) indicates that formal democracy is fixated on procedure. In other words, as long as procedure is followed in reaching a decision, then that decision is accepted as being legitimate whether or not it is fair or just. A decision is considered right and legitimate if it is applied equally to everyone who falls under its jurisdiction. On the other hand, cooperative or collectivist democracy rejects formal democracy on the grounds that it is not sufficiently democratic. The logic behind cooperative or collectivist democracy is that a decision is first and foremost legitimate only if every member who would be affected by such a decision has been invited to be part of that decision. Additionally, because circumstances and people change, all decisions taken are considered provisional and therefore can be modified in a collectivist cooperative system.

Importantly, according to Rothschild (2016) in a cooperative or collectivist democracy, to avoid unequal decisions and skewed decisions which would favour one person over another, all hierarchies and authority are rejected. The cooperative or collectivist democrat seeks a process that gives everyone a voice in the decision-making that results in a just outcome. In conclusion, Rothschild indicates that in cooperative or collectivist democracy, members cannot be marginalised or be regarded as inferior in decision-making. This form of democracy offers an alternative to the bureaucratic form and is prevalent within organisations such as workers' cooperatives, non-governmental organisations, self-help communities and other social groups.

The ICA states that as one of their principles, cooperatives should be run democratically on the basis of one-person-one-vote. However, Kaswan

(2014) argues that this is a very weak standard and questions how democratic cooperatives really are. Members' participation in the democratic processes of their cooperatives cannot be limited to voting only. Secondly, Kaswan questions the autonomy of cooperatives because as organisations, each cooperative is organised differently and operates under different conditions which makes any evaluation of the autonomy of cooperatives problematic (Kaswan, 2014). Finally, Kaswan in respect to the democratic character of cooperatives, questions the degree to which cooperatives establish conditions for the radical experience of democratic practices.

In practice, running a cooperative democratically appears to be idealistic and may even contribute to cooperatives being less efficient. According to Valentinov (2004), democratic decision-making is generally associated with higher transaction costs than a hierarchical governance structure. Valentinov attributes this to large numbers and heterogeneity of members which make reaching consensual decisions complicated. Supporting Valentinov, Chaddad and Iliopoulos (2012) states that the collective democratic nature of cooperatives leads to slow, costly decision-making processes caused by too many members with heterogeneous interests. In agreement with these views, Münkner (2004) indicates that multi-stakeholder organisations like cooperatives suffer from slow decision-making and, in addition, may also have among them one group of dominant stakeholders. Despite these assumptions, Leviten-Reid and Fairbairn (2011) indicates that available empirical evidence suggests that cooperatives with multi-stakeholders are able to govern themselves successfully and pursue their common goals.

The ICA (2015) itself indicates that in most cooperatives, membership has traditionally been composed of a single type of stakeholder. Historically, this homogenous nature of members was a significant influence when the cooperative principles were first formulated. New types of cooperatives with

multiple stakeholders face a particular challenge and responsibility to make membership meaningful to all their members. An ongoing debate questions whether organisational democracy and flatter organisational structures can survive (Cheney et al., 2014).

While on the one hand a lack of internal democracy within cooperatives leads to conflict among members, the presence of democratic practices on the other hand leads to inefficiencies and failures. The solution to this conundrum, according to Chaddad and Iliopoulos (2012), is for cooperatives to convert to new generation cooperatives (NGCs) or other hybrid types which adopt both elements of investor-owned firms and member-owned businesses (MOBs) like cooperatives. Valentinov (2004) states that the difficulties of collective decision-making give grounds to conclude that cooperative governance is relatively expensive in terms of transaction costs as compared to the capitalistic governance structure.

As discussed above, defining democracy is difficult as a result of the different conceptions of democracy. However, democracy can be broadly defined as a system of governance in which rulers are held accountable for their actions in the public realm by citizens acting indirectly through the competition and cooperation of their elected representative. Within cooperatives, this means that cooperatives are owned by their members and elected officials are accountable to the membership. Cooperation has always been a central feature of democracy where actors should be capable of taking collective decisions which will be binding on the whole organisation (Schmitter & Karl, 1991). In cooperatives this democratic feature of member control is exercised through the one-member-one-vote principle.

Van Dijk and Klep as cited in Apostolakis and Van Dijk (2018) indicates that members of cooperatives have both rights and responsibilities to play an active role in their cooperatives, such as control, suggest, and contribute meaningfully. The interests of the members should take precedence over

those of cooperatives as enterprises, just as in a democratic state where the interests of the citizens are considered above those of the country.

However, the democratic principle of one-member-one-vote in the context of cooperatives is not sufficient to deal with the practical economic reality of cooperatives (Szabo, 2006). This is because cooperatives are foremost economic enterprises that must be economically successful in order to impact on members and the community. This is a typical tension that exists within cooperative forms as a result of the concept of "double nature"[4] of cooperatives. The financial problems faced by many cooperatives have led to researchers in the cooperative literature calling for external investors' capital which may affect their autonomy and independence. As a result, cooperatives may be open to external investors who are non-members and this may reduce members' control (Kaswan, 2014). The ICA principles, especially the one-member-one-vote is therefore uncompetitive and irrelevant to the economic reality of cooperatives. These cooperative principles and democratic decision-making processes are sometimes obstacles especially when attempting to acquire capital for cooperative activities (Szabo, 2006).

For the purpose of this study, the participatory democracy concept will be adopted because cooperatives are democratic institutions where members actively participate in decision-making collectively. According to Fung (2007), in participatory democracy laws and policies are democratically valuable and produce better outcomes because agreements are secured from all parties concerned. In considering alternatives at their disposal and their own values, individuals in a participatory democratic environment appreciate the needs and values of other individuals.

[4] According to this concept, every cooperative represents simultaneously an association of persons in the sense of sociology and social psychology, i.e. social group, and a joint enterprise, owned and operated by the same members of the group (Valentinov, 2004).

2.5.1 Agency theory as applied to the cooperative form

Valentinov (2004) and Arcas-Lario, Martín-Ugedo and Mínguez-Vera (2014) state that the democratic governance principle is generally considered to be one of the most important characteristics of cooperatives. Elected representatives, including the Board of Directors, manage the cooperatives and are accountable to the members.

Agency theory is relevant in this study because it is not only managers or a Board of Directors that manage cooperatives on behalf of members. Chairpersons and even secretaries manage cooperatives on behalf of managers, and this arrangement can also lead to agency problems. As Ortmann and King (2007) indicates, agency relationships exist whenever an individual (the agent) acts on behalf of another individual or organisation (the principal). Ortmann and King (2007) further states that agency theory is relevant to the governance structure of cooperatives because cooperative managers as agents, or in the case of this study, chairpersons, may not always act in the best interests of owner-members who are the principals. Although the cooperatives in this study do not employ professional managers, the chairperson still performs managerial and leadership duties. A study by Richard, Klein and Walburger (1998) reveals that in fact principal-agent problems are more prevalent in cooperatives than IOFs.

The complexity of running a cooperative, and internal and external business pressures, has led to hiring of professional managers to run them (Kaswan, 2014; Oczkowski et al. (2013). Davis (2017) indicates that managers of cooperatives face the same kind of challenges as managers elsewhere, where managers in general encounter social fragmentation,[5] economic polarisation and are culturally stratified. Additionally, managers in the cooperative sector are culturally isolated and undeveloped. The cultural

[5] Social fragmentation refers to low levels of community integration or divisions within society (Van Kempen, Schutjens & Van Weesep, 2000).

isolation stems from the fact that the mission of cooperatives is different from that of other organisations, for example, investor-owned firms. Secondly, according to Davis (2017), cooperative members, unlike shareholders in investor-owned firms, show little interest or understanding of the cooperative mission of belonging to and building the cooperative movement. Davis states that understanding the cooperative mission and vision is essential to how the role of managers in a cooperative is formulated.

However, according Arcas-Lario *et al* (2014), studies in recent times have highlighted a decline in the democratic character of cooperatives. Davis (2017) indicates that there is widespread failure within cooperative leadership and management. Furthermore, the failure by cooperative managers to involve members in decision-making has led to the failure of one of the distinct characteristics of a cooperative, which is democratic governance. Jensen and Meckling cited in Arcas-Lario *et al* (2014:130) describes an agency relationship as, “a contract under which one or more persons (the principal/s) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent”. In other words, the principal (cooperative members) will engage agents (managers and members of the board) to perform certain duties on their behalf. Kaswan (2014) argues that the introduction of professional managers in cooperatives, while it may have positive aspects in terms of viability, may lead to powerful officials whose interests may be different from those of ordinary members. Additionally, Heras-Saizarbitoria (2014) states that a rise in self-interest and the increasing role of managerial discourse intersects with the separation of cooperative principles and practices and results in the abandonment of the cooperative spirit of a democratic organisation.

Arcas-Lario *et al* (2014) further suggests that when both parties in the agency relationship maximise value, act rationally and form unbiased

expectations of the agency relationship, agents will try to reach their objectives, which may or may not coincide with those of their principals who are the owners and members of cooperatives. Arcas-Lario *et al* (2014) further states that a divergence of objectives will give rise to agency conflicts and agency costs. In addition, another source of conflict between principals and agents is what Arcas-Lario *et al* (2014) calls information asymmetry, which refers to a situation where agents have more information about the environment in which decisions are being made than the principals, and where this situation will allow the agent to have discretion to adopt opportunistic behaviour that does not always benefit the principal. Additionally, Kaswan (2014) indicates that informal hierarchies are likely to develop over time as a result of some members becoming powerful because of their long tenure within the cooperatives.

This opportunistic behaviour, or what Chaddad and Iliopoulos (2013) calls managerial opportunism, will lead to agency costs which are essentially monitoring costs. Agency costs arise as a result of principals monitoring agents to ensure they serve the interests of cooperative members rather than their own interests. This is achieved by limiting the autonomy of agents through internal controls and putting clauses in their contracts which restricts their discretion (Chaddad & Iliopoulos, 2013; Arcas-Lario *et al.,* 2014).

According to Valentinov (2004), Chaddad and Iliopoulos (2013), the collective decision-making by members of cooperatives themselves are costly. This is caused by the heterogeneous interests of members and leads to slow decision-making. As a result, one can conclude that cooperatives are faced with two problems: the cost of collective decision-making and on the other hand agency costs as a result of hiring external managers to run cooperatives on their behalf.

In conclusion, agency theory assumes that the owners of an enterprise (principals) and the managers (agents) will always pursue different interests. The owners or shareholders of an enterprise are of the view that professional managers will act in their own interest rather than the interest of owners or shareholders. Birchall (2013) argues that lack of control by members will lead to cooperatives being captured by managers for their own selfish ends. It is for this reason that the Board of Directors should be independent of managers and should therefore monitor managers to ensure that they act in the interest of shareholders (Cornforth, 2004).

CHAPTER 3
METHODOLOGY

3.1 INTRODUCTION

This chapter will discuss the methodological framework which guided this study, followed by the research design and how data was collected.

3.2 RESEARCH PARADIGM

The first step in designing research is to choose a research paradigm that will be the most appropriate for the study in question (Wong, 2014). A paradigm is an understanding of the world and is used to determine which problems are worthy of exploration and what methods are available to contend with these research problems.

This study is based on a constructivist paradigm as it seeks to collaborate with participants in order to uncover underlying issues. Crabtree and Miller (as cited in Baxter & Jack, 2008) indicates that through their stories participants are able to define their views of reality and this assists the researcher to better understand the actions of participants. Wong (2014) indicates in a constructivist paradigm that truth is based on an individual's perception of reality, for perception is the most important reality.

3.3 RESEARCH DESIGN

According to Wong (2014) research design is concerned with organising research activities, which also includes data collection. This study adopted a case study approach because of its exploratory nature. Baxter and Jack (2008) indicates that a qualitative case study is a method of research that assists with the investigation of a phenomenon within its own setting. The

design of this research centres on members and their cooperatives in their daily lives with the aim of obtaining a comprehensive picture and contextual data that will answer the research questions.

This study adopted a qualitative research approach in order to respond to the research question and explored how members of cooperatives understand the meaning of and apply the democratic member control principle as defined by the ICA. Based on the exploratory nature of the study, the qualitative methodology is the most appropriate.

A qualitative case study can be described as “an empirical enquiry that investigates a contemporary phenomenon within its real life context, especially when the boundaries between phenomenon and contexts are not clearly evident” (Yin, 1994: p.13). Bryman and Bell (2014) indicates that what differentiates a case study from other designs is the emphasis on understanding a confined situation or system.

In order to meet the criteria of a case study, this study focused on three textile cooperatives in the Tshwane Municipal area. To ensure heterogeneity cooperative members in management positions (chairpersons and secretaries) were selected, as well as three ordinary members.

3.4 DATA COLLECTION

This study was carried out in the Tshwane Municipal area in the Province of Gauteng. Tshwane Metro Municipality, according to the 2011 census by Statistics South Africa, has a population of 2,921,488. The unemployment rate in this area is estimated to be 24.2%. All the cooperatives under study are textile cooperatives and are all based in an urban area.

Three textile cooperatives were chosen for the study, coded as Coop A, Coop B and Coop C. The researcher first contacted the chairpersons of the cooperatives to seek permission to visit their business sites and who in turn organised other members for the interviews. The case study cooperatives were chosen because they were accessible to the researcher and also because they were in close proximity to one another. The primary source of research data was semi-structured interviews which were conducted within the cooperative premises. In addition, direct observation and field notes were also employed as a means of further data collection. Observation means that the researcher is present at the study site and observes what takes place. In this way the researcher acquires first-hand data and can therefore report on what he or she has actually seen and recorded rather than what people have said to him or her (Bertram & Christiansen, 2014).

The members interviewed consisted of the chairpersons, secretaries and three ordinary members from each cooperative. At one cooperative two people were interviewed, the chairperson and the secretary, as the rest of the members were not available. It was necessary to conduct interviews at two levels in order to cross-check the information as well as to explore whether collective decision-making stated by the chairpersons was indeed practiced in the cooperative. A total of 13 participants, including one government official, participated in the semi-structured interviews (see Table 2). An official from a government department was included as that particular department plays a role in linking cooperatives to economic opportunities. The other reason for the inclusion of a government official was because one of the interview questions concerns the role of government in cooperatives. This question is important as it attempts to explore how democratically controlled and independent cooperatives really are from government.

Some of the participants were interviewed twice in order to obtain more clarification on an earlier response. At all the cooperatives, the chairpersons

insisted that interviews were conducted in the presence of all those involved and in the same room. The researcher was obliged to refuse this request and explained that in order to ensure confidentiality it was necessary to interview everyone individually as had been stipulated in the consent letters that they signed.

The interviews were all audio recorded and transcribed. Each transcript was allocated a unique identifier and no real names can be linked to these unique identifiers. All the interviews were conducted in the local languages of Setswana and Sepedi interspersed with English and were translated into English by the researcher. The researcher confirmed his fluency in both languages and therefore did not experience any difficulties in translating the interviews into English.

Table 2: Research participants who were interviewed

Research participants	**Number of participants**	**Number of cooperatives**
Board members/Chairpersons	3	3
Ordinary members	9	
Government official (from the Department of Social Development)	1	
TOTAL NUMBER INTERVIEWED: 13		

3.4.1 Ethical considerations

During data collection, ethical concerns were guided by the University of the Witwatersrand Code of Ethics which sets out guidelines for conducting research where human beings are concerned. Prior to the interviews, voluntary participation in the study was obtained where participants were given consent forms to read and sign (see Appendix B). All participants were assured that their identities and that of their cooperatives will be protected,

including their responses. Furthermore, permission was also requested to audio record the interviews. The chairpersons of the cooperatives under study requested that the names of their cooperatives should not be revealed, for fear of not getting government contracts. As a result, all the cooperatives and participants under study have been code named.

3.5 SAMPLING

Qualitative research usually employs purposive sampling that allows the researcher to select cases that will provide rich information that relates to the issues at the centre of an inquiry (Wagner *et al*, 2012). This study adopted purposive sampling to focus on sources that would provide the most relevant views on democratic governance and collective decision-making.

In the original proposal the researched aimed to conduct the study on five cooperatives but in reality, this had to be reduced in number to three due to non-availability of cooperative members. Most cooperative members only come to work when they have a job to do. As one of the cooperative members enquired in a rhetorical question, “Why do we come to work when there is no work to do?”

In the proposal the expectation had been that cooperatives would have a full Board of Directors but in reality, they all consisted of a chairperson and secretary in management positions. Most cooperatives in the study consisted of five members, a chairperson, secretary and three ordinary members. The researcher discovered that the reason why all the cooperatives have five members was because it is the minimum number required by the Cooperatives Act of 2005 to start a cooperative.

The different levels in the sample will assist the researcher to explore whether there is a common understanding of what democratic member

control of a cooperative means between the senior members and ordinary members.

3.5.1 Profile of the cases

Coop A

Coop A was formed in 2008 and consists of six members, a chairperson, secretary, treasurer and three ordinary members. It is a textile cooperative and is the oldest of the three and is situated in the Pretoria Central Business District in a building owned by the municipality.



Figure 1: Inside of Coop A

Coop B

Coop B was formed in 2017 and has five members, a chairperson, secretary and three ordinary members. It is a textile cooperative which also operates from the Pretoria Central Business District.

Figure 2: Inside Coop B. Members complain about lack of space



Coop C

Coop C was formed in 2010. It has five members, a chairperson, secretary and three ordinary members.



Figure 3: Coop C complain about cramped space

CHAPTER 4
DATA ANALYSIS

4.1 INTRODUCTION

During semi-structured interviews a large amount of text is generated in order to obtain data that is useful. Bertram and Christiansen (2014) indicates that the next step after data collection is data analysis. Yin (2004) states that there are five techniques that can be used to analyse data. Among these is the technique of pattern-matching.

The data analysis process for this study began with transcribing interviews that were audio recorded. The next step was to code the data in order to identify themes and patterns. This process was repeated for all interviews to compare similar patterns and themes for each interview. Coding involves putting tags, names, or labels against sections of the data to facilitate the search for themes and/or patterns (Patton, 1990).

4.2 PRESENTATION OF THE STUDY RESULTS

This chapter presents the data that was collected during the course of this study. Responses were collected from 13 members of cooperatives using semi-structured interviews. The study consists of a total of 13 participants who were clustered into three groups to reflect their respective cooperatives. The cooperatives were code-named Coop A, Coop B and Coop C. Each participant was assigned a code which starts with one letter followed by a number. The letter represents the cooperative to which the participant belongs and the number represents a particular participant. For example, A1 means participant number 1 from Coop A.

Participants were asked eight questions. In question one the researcher wanted to understand if there are any obstacles that impact negatively on the democratic nature of the participants' cooperatives. Question two explored the role of government in cooperatives. The aim of this question was to find out how autonomous cooperatives really are. The importance of autonomy of cooperatives will be discussed in the next chapter on analysis of the results. Questions three to six were similar as they sought to explore whether the decision-making process within the cooperatives under study followed a democratic process. The researcher deliberately designed the questions this way in order to see whether there were any conflicts in how participants responded, in other words to test their responses against each other.

The participants were asked the following question: What challenges do you face in ensuring members have an equal voice in this cooperative?"

The participants gave different answers to this question. Participant A1, who was the chairperson of the cooperative, said "others do not want to participate in the cooperative". A follow-up question was posed to participant A1 on how they deal with those members who do not want to participate. The response was "that is why they have left, it is only the five of us who are left".

Participant B1 stated that "you cannot say there are no challenges. Sometimes you can agree with one thing together, or we agreed, at the end of the day you find we cannot come to an agreement". On a follow-up question of whether they have difficulties reaching an agreement, the participant responded that "yes, but it does not come quite clearly that we have difficulties reaching an agreement". The participant then explained that it does not mean they have a serious problem. This is evident in the fact that "we try to find ways of solving our differences, but at the end of the day we try to solve our differences and come to a conclusion".

Participant B3 stated that whenever there are challenges in decision-making they come together as members of cooperatives and discuss the issues at hand. “When we do not agree and understand each other we vote to see who the majority are”. In this study the voting system is used by all cooperatives to settle all disagreements. The voting system as used by the cooperatives answers questions 4 and 6 on the questionnaire which explores how the cooperatives ensure democracy in decision-making. Question 6 sought to establish how cooperative members solve conflicts during decision-making.

On the other hand, one can question whether decisions are collectively and democratically taken judging from the response of participant B2. Responding to the question on how they, as cooperative members, ensure that their voices are heard, participant B2 stated that there are challenges and “we the cooperatives will come with one voice, or you tell yourself that you know too much, you want to ‘jump’ over the chairperson, telling yourself that the chairperson does not know anything”. “Sometimes you find that… you get angry and she [the chairperson] does not even realise that you are angry, but deep inside you are angry, you even feel like leaving the cooperative, you see as if the chair[person] wants to do as she wishes”. In this statement the participant feels that if she raises issues it seems as if she knows too much and that it comes across as if she wants to ‘jump’ the chairperson. The word ‘jump’ in this context means knowing too much or knowing more than the chairperson. It is not clear from the statement whether it is the chairperson who makes the participant feel this way or whether it is simply a case of self-censorship on the part of the participant.

The chairperson of one cooperative when asked how she ensures democratic decision-making in their cooperative, responded that “so we are the same, we need to call each other first, the way I view things, I believe if I was bossy we would not be together anymore”. However, in the next sentence she stated that “I go, when I come back, I say guys let us sit down.

I can take decisions elsewhere and then come to them and say there is 1, 2, 3. I tell them today nobody should come to work because we are not that busy. They listen to me because they see value in me". From this statement one can deduce that the chairperson can take decisions elsewhere and simply call other members of the cooperative and inform them of her decisions. Another point made was that she tells them not to come to work because the cooperative is not that busy without asking for their opinion. She just tells them that "today nobody should come to work".

The second question was about the role of government in the cooperatives. There is an almost complete reliance on the government for sustainability by all the cooperatives. Participants were asked whether the role of the state affects cooperatives' decision-making. The reasons behind the question were to explore how autonomous and independent cooperatives' decision-making was. Without autonomy and independence, one cannot speak of member control and democratic practices inside cooperatives.

Participant B1 responded that "our government is failing us". "It fails us (government), like now we have a challenge with school uniform, we get into an agreement, the way I see it they do not take cooperatives serious".

A follow-up question was on whether the role of government affects how her cooperative takes decisions. Participant B1's answer was that "it seems as if… yes because when we are with them (government) we understand each other, but once we are not there, and they come to give us the answer, it is not how they told us or we agreed, so it seems as if we are being undermined". Participant B2 agrees that "the way I see it, in my opinion, they (government) interfere too much, because they now act as if they own our job. So now we do not work the way we used to".

The question of who controls the cooperatives came under the spotlight. Participants complained that whenever they are given a job by government

departments, they are not allowed to do any other jobs for other clients. Participant C4 stated that “the problem is that if they give you a project from (name of government department withheld) for six months, they come to assess and if they find you are doing another job that is not theirs, they will take that job away and give it to someone else”. Participant C3 supports the statement: “they check us, they look for us, they do not ask us, they just come. So you must always be alert, they come in and they find you holding something pink (garment), alteration for a client, they will take their job”.

Continuing on the same theme of government interference, participant B3, when asked whether she feels government affects cooperatives’ decision-making processes responded “yes, they instruct us, they do not ask us, or they do not want to listen to our opinions, or to listen to anything we say. And then (inaudible) they take decisions on what we want, that is it, you agree with them or you do not agree with them, they do not want to hear”. As a result of their reliance on government they have to comply with whatever the government tells them: “yes, we depend on them, yes, yes, yes we just see a lot of nonsense because now it is all about tenders and all”.

However, not all participants are of the view that government interferes in their cooperative. At least two participants offered a contrary view; participant C1 responded that “no, government does not take any decisions”. In agreement with participant C1, participant C2 responded that “no, we have not come to that point because we do not have a government that helps us”.

There is strong feeling that the role of government is to ensure survival of the cooperatives. Participant B1 continues that, “so the thing we pray for is that government assists us with a building because this office you can see how many machines we have, they do not fit in this small office. We asked

government to hire an office for us... there are a lot of buildings that are owned by our government".

Complaining about a lack of space and again showing reliance on government, participant B1 calls on government to assist them: "see, we do not even have space for a table now. We need to have a table where we can cut material. We ask government to have mercy on us". The question of whether members control their cooperatives democratically, and also the autonomy of cooperatives, was brought to the fore by participant B2 who asked government to bring a team "from government to control the whole process, you understand"?

The reliance on the state continues with participant B1 asking government to buy them embroidery machines. This again raises the question of who controls the cooperative: "though we are short of... if we can get an embroidery machine". This is after the government has already bought sewing machines for the cooperative and allocated R350 000 from the Cooperative Incentive Scheme (CIS). The level of reliance on government is again shown in the fact that the cooperative spent about R20 000 on outsourcing the embroidery jobs, money they could have used to buy an embroidery machine: "we have already paid 20 something thousand Rands for one project, and if we get another project you are still going to pay those thousands, you see it's a lot of money that we can save for the cooperative and help us to grow".

Cooperatives seem to be used by the state to further its programmes. Participant C5 on being asked whether they ever received any training on cooperative principles, responded that "they just give us a lot of documents, and we do not have time to read, we just know how to make money, we do not have that time". Participant C5 continues, "they force us to hire the youth here, the youth do not have time to play (or do not have the patience) like me, and month end when they do not get paid, they leave". The follow-up

question whether the government forced them to bring the youth into the cooperatives revealed that not only the youth but also people with disabilities: “yes, youth and the disabled (people). Just think, you take a disabled person from Soshanguve, put them in a Putco bus. You have to pay for that wheelchair in the bus and we do not have facilities for people with wheelchairs, our lifts do not work”.

The aim of questions 3 to 6 was to explore how democratic the decision-making process inside the cooperatives was. Question 6 explored how members resolved conflicts during decision-making. All participants stated that they do face challenges and conflicts in their cooperatives when it comes to decision-making which, like other cooperatives, they resolve through voting. After discussions, if there is still no agreement then whatever issues are on the table are put to a vote. As one participant said, “because if we do not vote, at the end of the day the cooperative will break up”. The majority rules system of voting is used as a deadlock-breaking mechanism in all the cooperatives in this study. Asked what other options are used to come to an agreement another participant, after explaining the process that seeks to find common ground among cooperative members, came back to voting to reach an agreement.

On the question of how cooperative members ensure that some members do not have more influence on decision-making than others, C3 stated that “there is no one who oppresses another, we are all equal”. One chairperson responded that “it does not matter that I am the chairperson, I do not command, we agree with each other, we work together, yes, she [the member] must feel that she is also part of this”.

Participant A2 responded to the same question: “things have changed now. Last year when we started it was not like this, we could not agree with each other, our opinions did not matter just because there is a chairperson. And

the chairperson elected herself, she just informed us that she is the chairperson, it was not something we agreed about".

The last question was whether participants know the ICA cooperatives principles and whether their cooperatives comply with these principles. All the participants responded that they had never heard of the cooperative principles. This raises the question of whether cooperatives adhere to the principles.

This chapter presented findings which addressed the two research questions. The results that emerged from the analysis data revealed that the principle of democratic member control was not well understood by the participants. In all the questions asked participants mainly complained about the government and how it does not assist the cooperatives. Contradictory statements were made by participants; on the one hand they complain about the lack of assistance from the government and on the other hand they revealed that government bought them new equipment. They also received a grant as well as government contracts.

CHAPTER 5
DISCUSSIONS AND FINDINGS

5.1 INTRODUCTION

Chapter 4 presented the research findings based on the data collected through semi-structured interviews and direct observation. This chapter will focus on discussing the results of the study by comparing the findings of this study with previous research and existing theory on cooperatives. In the discussions the two research questions of this study sought to explore how cooperative members understand the cooperative principle of democratic member control. The analysis of the data was based on the following research questions: “What is the understanding of cooperative members regarding the ICA principle of democratic member control?” and “Do cooperatives comply with the principle of democratic member control?” The last focus of this study was on the role of government in cooperatives. It is worth mentioning that no matter what question was asked of the participants, somehow complaints against the government always came into the participants’ responses.

5.2 UNDERSTANDING OF COOPERATIVE PRINCIPLES BY MEMBERS

One of the questions asked during the interviews was to test participants’ knowledge of ICA cooperative principles, in particular the democratic member control principle, and whether they think their cooperative practices these principles in their daily operations. All participants responded that they have never heard of the International Cooperative Alliance or the seven cooperative principles.

Logic will dictate that awareness of the cooperative principles will imply that cooperatives will adhere to them or at least some of them. Conversely, if

members of cooperatives are not aware of the existence of these principles, which sets cooperatives apart from other business forms, then they cannot be expected to adhere to them. However, although members of the cooperatives in the study were not aware of the cooperative principles, they were aware that a cooperative is owned by its members who control it democratically. Participants were also aware that the aim and objective of forming a cooperative was to improve the economic conditions of members.

The main research question focused on how members understood the cooperative principle of democratic member control. The concept of democracy, according to the ICA (2015), simply refers to governance or control of an organisation by its members through majority decision-making. The ICA further indicates that in cooperatives, democracy includes consideration of the rights and the responsibilities which give rise to such rights. According to the ICA (2015), the democratic member control principle has been a key characteristic since the early days of the cooperative movement and is the heart and soul of cooperatives.

The ICA concludes that on the democratic system spectrum, cooperatives tend to be on the participatory and deliberative side of the spectrum. The different concepts of democracy have been discussed in the literature review. Under minimal democracy, standards like collective decisions and pursuit of common good are rejected. The view is that citizens, in this case cooperative members, are uninformed and lack capacity to make their own decisions. On the other hand, deliberative democracy focuses more on processes of collective decision-making. According to Pernaa (2017) and Apostolakis and Van Dijk (2018), an essential feature of deliberative democracy is its requirement for collective and argumentation before a decision is taken.

The cooperatives in this study are led by chairpersons who, according to responses and direct observation, wield more power than other members.

In some instances, the chairperson takes a decision somewhere and simply put it through a vote without following the deliberative democracy requirement of collective and argumentation before decisions are taken. This is evident in the fact that all the chairpersons of cooperatives in this study have held their positions since the cooperatives started. The oldest cooperative was registered in 2008 and only one person has held the position since then. When other members were asked why they do not elect another chairperson or they themselves stand for election, the answer was that they are happy with the current chairperson or they simply keep quiet. This finding supports Kaswan's (2014) observation that over time informal hierarchies are likely to develop as some of the cooperative members gain higher status because of their long tenure in the cooperative. This can also be as a result of their experience and the skills they have acquired which resulted in them obtaining higher positions than other members.

In one cooperative one participant noted that the chairperson elected herself and has been in the position since the year 2010 when the cooperative was first registered. When asked how they handled the matter of the chairperson they never elected, their response was that they registered their unhappiness with the chairperson. The chairperson's response was not to call for elections but rather to apologise and nonetheless continue in the position indefinitely.

However, contrary to the ICA conclusions, this study revealed that rather than the participatory and deliberative type of democracy, cooperatives under study practice a minimal concept of democracy. This finding confirms Somerville's (2007) views that weak internal democracy is a common problem among cooperatives. This, according to Somerville (2007, p.10), is caused by "strengthening the hand of management relative to the membership". Somerville also indicates that most members of cooperatives do not fully participate in their cooperatives, an observation confirmed by Heras-Saizarbitoria (2014) and Kasmir (2016) in a study on the Spanish

cooperative, Mondragon. This study revealed that cooperative members have no interest in participating in their cooperatives but rather leave the running of the cooperative to the managers. The findings of this study found the same tendencies in the cooperatives. The chairperson of one of the cooperatives, when asked what challenges the cooperative faces in ensuring members have an equal voice, responded, “others do not want to participate”. Asked how the cooperative dealt with those members who do not want to participate, the chairperson responded, “that is why they left”.

Although not part of the principle under study, it is worth briefly discussing the fourth cooperative principle of autonomy and independence as explained by the ICA. According to the ICA (2015:45), “cooperatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, 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”.

The ICA (2015) further indicates that the autonomy and independence principle primarily focused on the relationship between cooperatives and governments. This is interpreted by the ICA to mean that cooperatives should not be instruments of the state, should not depend on the state for survival, should not be used to further the programmes of the state or act as agents for the poor, forums for political indoctrination of the people, or as a means to formalise the informal economy. The phrase ‘controlled by their members’ refers back to the second principle under this study, which is ‘democratic member control’. A common theme that runs through the two principles is the concept of member control or control by the members. The autonomy and independence principle cautions members not to enter into agreements that will compromise their autonomy and democratic decision-making with governments and other external organisations.

Based on the findings above, it is clear that cooperative members in this study have a different understanding of democratic member control to that envisaged by the International Cooperative Alliance. The cooperatives in this study are not self-sufficient and do not show any democratic practices, or as a minimum exhibit a minimalist type of democratic member control. They are also not aware of the ICA which is a prominent organisation that supports and is an important advocate of the cooperative identity worldwide. As a result, the members of cooperatives in this study have no knowledge of the cooperative principles.

5.2.1 What is the role of government in cooperatives?

The cooperatives in the study are completely reliant on government for survival and are in no way self-sufficient. This reliance on the government also raises the question of who controls them. The ICA (2015) in their Guiding Notes indicates that cooperative policies should move them away from government dependency. Findings from this research confirm studies by Thaba and Mbohwa (2015) and Wessels (2016) that there is government interference in cooperatives in South Africa. Thaba and Mbohwa (2015) and Wessels (2016) further indicate in their studies that members, both new and old, have no knowledge of what a cooperative is. Furthermore, because of the Cooperative Incentive Scheme (CIS) grant that cooperatives receive from government many members tend to think that they work for the government. This statement is in line with the findings of this study where cooperatives make constant demands on government. Some of those demands are for accommodation, sewing machines and embroidery machines over and above the CIS grant.

The findings of this study confirm other studies which revealed that cooperatives are used by the state to promote its programmes. Thaba and Mbohwa (2015), Wessels (2016) and Birchall (2011) indicate that cooperatives are formed to fulfil government policies. Jonathan and

Kumburu (2016) conducted similar studies in Tanzania which showed that cooperatives were nothing but instruments of the state rather than serving the needs of their members. Jonathan and Kumburu further state that government grants special favours to cooperatives in order to control them.

The findings of this study confirm the above studies. Participants in this study have stated that they were forced by government departments to employ youth and people with disabilities in their cooperatives. Additionally, participants complained that they were not allowed to take any other jobs when they were given projects by some government departments with threats of government giving those jobs to other cooperatives if they do not comply. The following statement from an interview challenges the notion that cooperatives are member-owned and democratically controlled enterprises. Participant C3 explained that, “they check us, they look for us, they do not ask us, they just come. So, you must always be alert, they come in and they find you holding something pink [garment], alteration for a client, they will take their job”.

The voting system practiced by all cooperatives in the study gives an illusion of democracy where the majority rules whenever there are disagreements. The voting system is used during decision-making or to resolve conflicts among members. Cooperative members in this study confuse the process of reaching agreement on contentious issues with democracy. In other words, reaching an agreement after voting on a decision is equal to democratic decision-making while other elements of democratic member control like active participation in the cooperative are neglected. On how they ensure decisions taken are democratic, one chairperson responded that “I regard everybody as equal, we are the same”. Because she regards everybody as equal to her, it means the cooperative is democratically run.

Participant B1 when asked how democratic decisions in her cooperative are taken, responded that “if we have something to say we put it on the table

and the chairperson will be the one to decide whether it is important". This is another indication that decision-making lies with the chairperson and not members.

Another finding is that members only come to work when there is a job to be done at the cooperative. As one participant stated, "you cannot come to work every day when you are not busy". The relevance of this finding is that it puts a spotlight on the governance of these cooperatives and also shows a disconnection between members and their cooperatives. The members of these cooperative do not fully participate in the activities of their cooperatives. The idea of democracy among participants in the study is limited to voting for the same candidates at every election.

The participants' understanding of democratic member control contradicts the ICA interpretation which particularly encourages members to become active members of their cooperative and to put themselves forward as candidates during elections. Kaswan (2014) indicates that when members limit their democratic participation in their cooperative to only voting, then the significance of democracy is greatly reduced. Members in a cooperative have both rights and obligations. As Apostolakis and Van Dijk (2018) indicate, cooperative membership comes with responsibility. As members benefit from a cooperative, they should therefore also provide a service, take responsibility, invest time and, above all, share information.

A further finding of the study is that there is no apex body that cooperatives affiliate to. One of the requirements of the Cooperative Act of 2005 is the establishment of an apex body that represents all cooperatives. The South African National Apex Cooperative (SANACO) is a national body that was established to represent all cooperatives in South Africa. According to Twalo (2012) it is an initiative of the Department of Trade & Industry whose purpose is, *inter alia*, to represent cooperatives and offer education and training for members. However, none of the cooperative members have

ever heard of SANACO. Some members of cooperatives in this study claimed to have been approached by certain individuals claiming to represent cooperatives only to disappear with their monies. As one participant explained, “we heard about the one from Vista [an area in Tshwane] where you are supposed to affiliate and pay R1000, now they have disappeared with people’s money”. The researcher also attempted to telephone SANACO on the number that appears on their website, but it was not possible to contact them.

It may thus be concluded that cooperatives in this study have lost their identity. Cooperatives that have lost their distinct cooperative identity ‘suffer’ from what Somerville (2007) calls the ‘degeneration thesis’. Somerville calls them community organisations or community groups rather than cooperatives because they exhibit cooperative identity while not adhering to cooperative principles and values. The government official interviewed for this study stated that these cooperatives are more like ‘societies’ or *stokvels.* He further indicated that cooperatives have limited business knowledge, have no proper governance structure and too much power is concentrated in the chairperson.

5.2.2 Do cooperatives comply with the cooperative principles?

Recent studies by Fici (2012) and Oczkowski *et al* (2013) revealed that cooperative principles are not being strictly adhered to or are being applied in varying degrees. Birchall (2005) notes that there were differences across cooperative sectors on adherence to cooperative principles. Oczkowski *et al* (2013) observes that participants regarded the second principle of democratic member control as a core principle that is central to the existence of a cooperative.

Ortman and King (2007) states that when the Cooperative Act of 2005 was developed, one of its objectives was to ensure that it is aligned with the

International Cooperative Alliance (ICA) principles. The findings of this study are in agreement with a study conducted by Thaba and Mbohwa (2015) which found that cooperatives in South Africa lack basic knowledge of cooperative principles. The study further concluded that most people who form cooperatives do not know what a cooperative enterprise is. As studies by Thaba and Mbohwa (2015) and Wessels (2016) confirm, the motivation behind forming cooperatives is to access the Cooperative Incentive Scheme grant which has increased from a minimum R350 000 in the year 2010 to R1 500 000 in the year 2017. Over and above the incentive scheme cooperative, members are paid a stipend during the first two years of their inception.

In conclusion, the study revealed that the cooperatives in this study do not adhere to the cooperative principles. The focus of this study was on the democratic member control principle in particular. While members of the cooperatives in this study vote democratically on issues that affect their cooperatives, it is not enough to conclude that they understand the meaning of democratic control. Democratic member control comprises much more than voting. It entails members actively participating in the daily activities of their cooperatives. In these cooperatives extensive power is concentrated in the chairpersons and not with the members. In their interpretation of the democratic principle, the ICA (2015) states that the defining characteristic of an organisation like a cooperative is that members are the ultimate authority.

This chapter presented the findings of this study which indicate that members of cooperatives hold a different understanding to the study of what democratic member control of a cooperative is. The ICA and other literature clearly state that members must take collective decisions and most importantly participate in the daily operations of their cooperative. The study found that members of cooperatives reduced their democratic right to only voting and that control is on the whole left to the chairpersons. As one

participant responded in a study by Heras-Saizarbitoria (2014, p.653) on the Mondragon cooperative, the democratic member control principle is a “mere formalism” in day-to-day activity, a fictitious democracy that is conspicuous by its absence”. The question arises as to whether these cooperatives can still be classified as cooperatives. According to a government official who was interviewed, the behaviour of cooperatives not being run along cooperative principles originates from the informal social clubs that most people in the townships and villages have been socialised in. The informal social clubs are not run on the basis of business principles and are essentially informal clubs where the chairpersons hold extensive power. The same official also stated that in his opinion cooperatives in South Africa are nothing more than social clubs or village societies because they are not run along business principles.

CHAPTER 6
CONCLUSIONS AND RECOMMENDATIONS

6.1 INTRODUCTION

The cooperative sector in South Africa is facing serious challenges as various studies have indicated (Khumalo, 2014; Thaba & Mbohwa, 2015; DTI, 2012; Kanyane & Ilorah, 2015). The findings revealed serious flaws in the governance structures in all the cooperatives in this study. The cooperatives lack a business structure and are run by a chairperson and secretary who have no financial or management skills. The cooperatives do not have a Board of Directors, but rather a chairperson and secretary only, who themselves lack basic business skills.

As Munck (2014) stated, democracy is more than just elections but also about how decisions are made. In a participatory democracy citizens engage with each other to make laws and policies to solve problems they face as a collective. There is a lack of participatory democracy in all the cooperatives under study. For members of these cooperatives, holding elections every five years equals democracy, even though the same leaders are elected repeatedly. Another observation is that members have abdicated their responsibilities and left the decision making to the chairpersons. One member stated that she is afraid of making suggestions as it will appear as if she knows too much. The ICA (2015) encourages a culture of debates among cooperative members. Other members, as one chairperson stated, simply do not want to participate.

The absence of democratic principles in the cooperatives under study has given rise to powerful managers who have wrestled control of the cooperatives from members. Heras-Saizarbitoria (2014) states that there is

a correlation between the abandonment of the democratic spirit and a rise in self-interest by managers. This is demonstrated in a remark by one member that she feels the chairperson does as she pleases. One chairperson indicated that she can take decisions and simply impose them on members. All the chairpersons have been leading these cooperatives since inception with one even electing herself. This is clearly a case of agent-principal problem where powerful managers take decisions that serve their own interests above that of members.

The main focus of this study was to explore how cooperative members understand cooperative principles, and in particular, the democratic member control principle. A further focus of the study was to explore whether cooperatives comply with the principle of democratic control as well as on the role of the government in cooperatives.

6.2 IMPLICATIONS OF THE STUDY ON COOPERATIVES

Notwithstanding a conducive policy framework that supports cooperatives the interviews revealed non-adherence to the cooperative principles and values. This is demonstrated in the fact that the cooperatives in the study were not formed as grassroots organisations with the collective objective of achieving economic benefits for members. On the contrary, the main motivation for forming the cooperatives was either to access the Cooperative Incentive Scheme (CIS) or to fulfil government programmes of poverty alleviation, as well as other reasons such as the employment of youth and persons with disability. As a result, cooperative members lack commitment, the spirit of collectivism is absent and, most importantly, there is non-adherence to the democratic principle of member control.

Furthermore, the participants expressed difficulty in defining what cooperative principles and values are. Another finding of the study was that

the cooperatives have no formal governance structures. All the cooperatives have a chairperson and a secretary in management positions. This informal form of governance within the cooperatives is a result of cooperative members not understanding how and what a cooperative is. The cooperatives have been formed at the direction of government officials who advised the members that in order to access the CIS they have to organise themselves and form a cooperative.

The implication of this study on cooperatives is that cooperative members should first ask themselves whether a cooperative is an ideal business form they would like to pursue. This will greatly reduce conflict among cooperative members by eliminating undemocratic practices. Cooperatives should have a formal governance structure which will include a fully functioning and democratically elected Board of Directors. The role of the Board should be clearly defined to give strategic direction to the cooperative. It is necessary for cooperatives to adhere to the cooperative principles and values which clearly define a cooperative as a member-driven organisation where the economic objectives of members are realised. The democratic member control principle has been replaced with a top-down approach in the form of dominant chairpersons and government officials who have taken control of cooperatives from the members.

The role of government in the cooperatives raises serious concerns. From the responses of the participants it appears that there is an expectation that government is obliged to assist cooperatives financially and with other resources. More concerning, however, is the fact that participants showed no desire to be independent of government. For example, when asked what they expect the role of government to be, all participants expect government to provide funding, accommodation, contracts and tenders. No participant showed any interest in government offering them training in running a business and learning the true meaning of what a cooperative form is. The role of government is paternalistic in nature and is merely designed to use

cooperatives to implement their social policies. As a result of the paternalistic role of government, the inclusiveness, democratic principles and collective ownership of cooperatives has been removed. This had a negative effect on the developmental objectives of cooperatives and led to members not participating in their cooperative as they do not have a sense of ownership.

In conclusion, the role of government should be to create a policy framework that will enable cooperatives to thrive. The government can achieve this through complying with the cooperative principles themselves. This means the government should amend parts of the Cooperative Act that is contrary to the cooperative principles, for example, delinking the Act from the B-BBEE Act which is race-based. The government should allow members to run their cooperatives democratically and collectively without interference.

The conclusions drawn from this study are that cooperatives practice a minimal form of democracy wherein the most basic form of democracy, which is voting, is practiced. As a result, one of the critical cooperative principles, which is democratic member control, has been eroded. The voting system is nothing more than an instrument to reach consensus on disagreements and resolve conflicts. The democratic member control principle means much more than just voting. Dissecting the democratic member control principle, Bancel (2015, p.16) states that “cooperatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions”. Bancel further indicates that the defining characteristic of a democratic organisation is that its members are the final authority. Elected officials are accountable to the members of cooperatives.

Further findings from this study revealed that members were found not to be actively participating in the activities of their cooperatives. This is revealed in the fact that they are often absent from work. It was difficult to

find participants as they were often not on duty in their respective cooperatives. The general view was that it is of no use to come to work when there is nothing to do. It is then left to the chairpersons to get business for the cooperatives. There is no joint effort from members of the cooperatives to actively participate in the cooperative by looking for new business. Members tended to wait for work from the government. Despite the fact that the chairpersons and members indicated that their cooperatives were democratically run, findings reveal the contrary.

Consistent with studies from Thaba and Mbohwa (2015) and Wessels (2016), cooperatives were started by people who would have been sole entrepreneurs but were rather encouraged by government to start cooperatives. This gave rise to one powerful individual who is the chairperson, to exercise power and make decisions which are then voted on by the rest of the members. In one of the interviews the chairperson observed that, “I can take decisions elsewhere, but come here (to the cooperative) and call them (other members) and say to them there is 1, 2, 3… because they see value in me”. The members will either agree with the chairperson or vote if there are disagreements. The processes followed in order to reach agreement reflects a minimalist concept of democracy where election of leaders is sufficient. Apostolakis and Van Dijk (2018) states that the process followed to reach decisions is what legitimises democracy. In one of the cooperatives the chairperson elected herself. This shows a lack of accountability by elected officials and in this case unelected representatives to the cooperative members.

Potential entrepreneurs who seek assistance from government to start their own businesses were advised to get at least five members and form a cooperative. Hence all the cooperatives in the study consist of five members in accordance with the requirements of the Cooperative Act of 2005 which requires a minimum of five people to start a cooperative (Lyne & Collins, 2008). This again brings to the fore the autonomy and independence of

cooperatives. Thaba and Mbohwa (2015) questions how there can be democracy within cooperatives if they were formed at the behest of government.

Another finding which answers the secondary research question is that participants are unaware of the cooperative principles. None of the participants in the study have heard of cooperative principles, and also had no knowleddge of the International Cooperative Alliance, the umbrella body. The cooperatives in the study were found to be non-compliant with the cooperative principle of democratic member control, rather practising a minimalist form of democracy which reduces members to merely voting. It is not only cooperatives that fail to adhere to cooperative principles but also government which interferes in the running of cooperatives and reduces their autonomy and control. The assistance and the Cooperative Incentive Scheme are used as a means of coercing cooperative members to act as agents of government programmes, for example, in the hiring of youths and people with disabilities. As a result, cooperatives are not run along cooperative principles, but rather as instruments to further government programmes. The fact that government based the Cooperative Act on the B-BBEE Act, as stated by Satgar (2007a), is in itself a violation of the cooperative principles of open and voluntary membership.

There is also evidence of degeneration among cooperatives in the study. This degeneration is a result of a lack of basic cooperative principles, in particular, the democratic member control principle. Cooperative members have left the running of their cooperative in the hands of their chairpersons without actively participating in their own cooperative.

6.3 RECOMMENDATIONS

The main implications of the findings in this study are consistent with previous studies which have suggested that there are long-standing

problems with cooperatives in South Africa. As previous studies conducted by the DTI (2012), Thaba and Mbohwa (2015) and Wessels (2016) have indicated, cooperatives are weak and rely heavily on the government for survival. Their almost total reliance on government perpetuates their problems and they cannot by even the broadest definition be termed business enterprises. Cooperative members are unaware of the basic principles that guide how cooperatives should be run. This was made clear during the interviews when a large part of their responses consisted of complaints about the government. Rather than running their own cooperative democratically themselves, they rely on government and the chairpersons to do so. One participant called for a team from government to coordinate the tenders and contracts from government departments. Without government support they will collapse as the failure rate quoted by the DTI (2012) in their 2012 baseline study was 88%. They lack a competitive edge and cannot compete fairly in the market. The participants also complained about competition from other business people.

A key finding of this study is that it is clear that members of the cooperatives have no knowledge of cooperative principles and values. These principles and values are what distinguishes cooperatives from other business forms. The cooperative identity which includes the values and principles is at the core of what a cooperative is.

Following the findings of this study, the recommendations below identify the areas that require immediate attention to improve the conditions of cooperatives.

People should not be forced to form a cooperative if all that they want is to start their own sole business. The state should assist people to establish their own businesses rather than form cooperatives as recommended by Lyne and Collins (2008). This will solve the problem of internal conflict

where an individual act as a manager. This is also one of the cooperative principles of open and voluntary membership.

Furthermore, extensive training is needed to teach members what a cooperative really is. The cooperative values and principles should be at the centre of the training. An apex body representing all cooperatives in the country should be established independent of government. The cooperatives in the study are not members of any apex body as there are currently none. Participants complain of organisations proliferating and claiming to represent cooperatives and fraudulently obtaining funds from them which they then leave with. Such an apex body should affiliate to the International Cooperative Alliance, which has been in existence for over 150 years and is a well-respected custodian of cooperative identity. The ICA will be able to assist with training for cooperatives by instilling the values and cooperative principles within members.

Training should not only be offered to cooperative members, but also to government officials. While the Cooperative Act emphasises that cooperatives should adhere to cooperative principles, the Act itself contradicts those same principles. A single department should be responsible for cooperative development. At present, there are four different national departments involved, and to add to the existing confusion, provincial departments and other state entities are also involved.

This study has generated new areas for further research. Can cooperatives still be regarded as vehicles that address economic development, poverty alleviation and unemployment? Should the state, as Lyne & Collins advises (2008), rather extend the same support they extended to cooperatives to other small businesses? What should the role of government be?

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APPENDICES

APPENDIX A

Participants: leaders and ordinary members of cooperatives.

Interview questions

1 What challenges do you face in ensuring members have an equal voice in this cooperative?

2 What is your view regarding the role of the government in the running of this cooperative? Does it affect your decision making process?

3 How would you describe the decision-making process in your cooperative?

4 How do you ensure democracy in decision-making in this cooperative?

5 Do you think all members have equal voice in the decision-making process?

6 In any group setting there is conflict. How do you resolve conflict during decision-making process?

7 How do you ensure some members do not have more influence on decision making than others?

8 What do you know about ICA cooperative principles? Do you think you cooperative comply with these principles?

APPENDIX B

RESEARCH PARTICIPANT CONSENT FORM

I _____ hereby agree to participate in the 'Democratic governance in a selection of cooperatives in Tshwane Metropolitan area' research project.

I understand that my participation will include being interviewed and audio recorded. I hereby consent to partake in this research and for my responses to be used in this project.

I understand that my responses will be treated confidentially and that I will not be identified in any of the published results of the study. I understand that the data collected will be stored by the researcher either electronically protected by passwords or physically in a locked location.

I further understand that I may withdraw from the project at any time by informing the researcher. My participation is voluntary and I have not been pressured into signing this consent form.

Signature: _____ Date: _____