

## **Chapter 1: Introduction- Introducing the Topic and Providing a Rationale for the Research**

### **1.1. Introduction**

This research report assesses the relationship between two state-sponsored worker co-operatives, local markets and the Ekurhuleni Metropolitan Municipality (EMM). Worker co-operatives (“co-ops”) are ideally defined as democratic and voluntary organisations which are designated toward making profits. The distinguishing characteristic of worker co-ops is that they are simultaneously owned and managed by the members (“co-operators”). To answer the research question, the research asks which factors are important in determining the internal democratic or authoritarian form of the co-ops under study. Two state-sponsored worker co-ops are taken as case studies. The first co-op is characterised by authoritarian decision-making, while the other is characterised by democratic decision-making.

The report is generally supportive of the work of Philip (2006), who argues that capitalist markets erode co-op democracy. However, this research stresses that while market factors are important in determining the internal form of a co-op, non-market factors are also important in such erosion: of particular importance is the co-operators’ own political and work cultures, and specifically, their commitment to democratic approaches. Against Satgar (2007a), who suggests that state sponsorship can promote co-op democracy by protecting co-ops from capitalist markets, this research found that the role of the state in supporting co-ops undermines co-op democracy: first, since it comes at the price of ongoing state interference in the co-ops; and second, because relations of dependency develop between co-ops and the state.

The research concludes by arguing that the relationship between state-sponsored worker co-ops and the local markets in which they are situated is characterised by a manifest inability of the co-ops to post net profits, leading to massive member attrition in these co-ops. In the relationship between state-sponsored worker co-ops

and the EMM it is shown that co-ops are dependent on the state for their existence and continued survival. This reinforces the subordination of the co-ops to the state, while underlining their inability to pose any serious challenge to the current order.

This introductory chapter has three objectives. The first objective of this chapter is to elucidate the research question as well as to define the terms and concepts used in the research which will equip me with the essential analytical tools needed answer the research question. The second objective is to provide a rationale for the research question and to provide an overview of the core claims made by this research. The third and final objective of this chapter is to provide a map of the entire research project on a chapter by chapter basis, to understand how each chapter fits together, and contributes to answering the research question.

The research question is the following: 'What is the relationship between state-sponsored worker co-operatives ('co-ops' for short), local markets and the Ekurhuleni Metropolitan Municipality (EMM)?' This study examines a very particular set of co-ops. These co-ops, in the EMM jurisdiction (located just east of Johannesburg, and covering most of the East Rand) are based within very poor black working class communities and operate in the context of relative deindustrialisation in a liberalising economy. The post-apartheid local EMM state has played a decisive role in their formulation and maintenance, and a pivotal role in their viability and form.

It is in this context that this research has been performed, and it has two aims. Firstly I assess the relationship between internal democracy and member control within two state-sponsored worker co-ops in the Ekurhuleni municipal jurisdiction and the local markets that these co-ops are located. Secondly, the research explores the relationship between two state-sponsored worker co-ops within the EMM's jurisdiction, and the EMM. I use a sociological perspective, which frames the relationship in terms of an analysis of power, how power is distributed, and how this affects the extent of co-op autonomy and the functioning of co-op democracy.

I have structured my work around testing four hypotheses, developed from an assessment of the literature (see chapter two):

**Hypothesis 1:** A hierarchical structure does not guarantee co-op success in open market competition.

**Hypothesis 2:** Worker co-ops struggle to survive, as they operate in marginal markets and face entrenched, powerful competitors.

**Hypothesis 3:** The internal structure of co-ops is shaped by a range of factors, besides the imperatives of open market competition.

**Hypothesis 4:** Sponsorship by the state will demonstrably undermine co-op democracy, rather than promote it.

The research confirms all four hypotheses. It suggests that the state-sponsored co-ops in Ekurhuleni have failed to achieve their basic aims—democracy, sustainability, and economic development—as a result of their relationship to local markets *and* to the state. The findings on the interaction of internal co-op dynamics with the state and open market pressures suggest that *democratic worker co-ops are basically fundamentally incompatible with both markets and states.*

Competition in the former promotes hierarchical management forms over democratic decision-making, although such hierarchy does not guarantee open market success, nor does it necessarily arise solely from market conditions. Support by the latter promotes a relationship of dependency and subordination to the state machinery that, rather than defend co-op democracy against markets, simply removes co-op democracy in another way.

This research would seem, then, to affirm the anarchist Mikhail Bakunin's arguments that worker co-ops, if 'incontestably one of the most equitable and rational ways of organising the future system of production', will be 'overwhelmed' by markets, and that co-operative labour organisation will, if allied to the state, be deformed by

internal hierarchy and external 'confidence in the Tsar' (Bakunin 1873: 15). This has significant implications for the contemporary notion, common to significant sections of the local and international left (Katsiafikas, 1987: 200-205) that co-ops can provide a means of gradually superseding capitalism and the capitalist state (an idea with antecedents in Proudhon, 1923).

While it would be mistaken to over-generalise, the research strongly suggests that worker co-ops will simply be unable to challenge either structure. This would also imply that the notion that democratic worker co-ops can solve the problems of unemployment and poverty in South Africa is mistaken.

## **1.2. Defining Co-operatives ('co-ops')**

Before we can begin to assess the research question, we need to define co-ops. It is not easy to pin down a definition of co-ops, as there are a wide range of forms in practice. However, a widely accepted approach to the characteristic features of co-ops is provided by the International Co-operative Alliance (ICA)<sup>1</sup>:

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise (ICA, 2006).

A co-op, thus understood, could exist in the context of both market and non-market economies, and in capitalist and non-capitalist contexts, and its members (co-operators) could be either bourgeois or proletarian in social composition. A similar definition is provided by Satgar, who suggests that:

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<sup>1</sup> The International Co-operative Alliance (ICA) is an international body set up in conjunction with the International Labour Organisation (ILO) in 1997 to provide a knowledge sharing network for all kinds of co-ops internationally, as well as set an international benchmarking system to facilitate internal democracy and productivity within co-ops globally.

Co-operatives are member-owned and democratically controlled institutions. They are not-for-profit in the sense that voting in a co-operative is not based on the number of shares owned but on the universal principle of one member one vote. While co-operatives make a profit this is subjected to the logic of member needs—the essence of the co-operative (2007b: 3).

A further distinction needs to be made between *consumer* co-ops and *producer* co-ops. Consumer co-ops, sometimes called ‘service co-ops’, include a range of different types of co-ops that exist with intention of servicing the needs of their members as *buyers*, usually by developing economies of scale in consumption or by boosting the collective buying power of the co-op members (Ibid).

Producer co-ops are, on the other hand, those that focus on the production of goods and services through cooperative and democratic means, whereby each member has an equal vote in electing a board which makes production decisions on behalf of the members. Profits are directed toward member needs and recapitalisation of the co-op, rather than making a profit for profit’s sake, according to the International Labour Organisation (or ILO) (1988: 14).

A *worker* co-op is a type of producer co-op ‘owned’ by those who undertake the actual work in the production process, as well as own the capital, as opposed to those who own capital but employ *others* to undertake the labour. To illustrate: it is possible to have a co-op of large dairy farmers, who employ wage labourers for the purposes of their co-op, but exclude them (as non-owners) from the co-op. A worker co-op in the dairy sector, by contrast, would have the co-op members as both the *owners and workers* of the dairy farms.

What is interesting about worker co-ops is that they are producer co-ops that seem to provide an alternative to the highly bureaucratic and authoritarian nature of traditional capitalist firms and state enterprises. Often but by no means always, they operate on a smaller scale, relatively speaking, to traditional capitalist firms. As a

result, the fusion of owner and worker might be argued to obliterate traditional class distinctions.

A key difference between worker co-ops and consumer co-ops is that, at least theoretically, worker co-ops can provide for the simultaneous attainment of democratic decision-making in production, economic success in terms of paying the co-operators (the worker-owners) a wage, and an opportunity for worker-owners to master the production processes in a democratic fashion. While consumer co-ops might provide a democratic space in which decisions around how goods and services are to be consumed, or are to be marketed to prospective buyers, they deal with *already-produced* goods and services. It is only worker co-ops that provide the potential for the attainment of a *democratic* labour process *coupled with* market success.

In the South African context, the post-apartheid state has in some instances supported worker co-ops (see below), by invoking such aspirations. For officials, success for co-ops is viewed in terms of their ability to pull their members out of poverty, their ability to subjecting the profit-making incentive of the co-op to the needs of the members, and their potential to have a positive impact on the communities in which they are located (DTI, 2009).

The post-Soviet era has seen a growing interest in co-ops as an alternative means of organising economy activity. My initial interest in co-ops was piqued by the apparent successes of co-ops abroad, particularly in Spain and Italy. In the South African context, co-ops have some currency amongst sections of both the state bureaucracy, and some on the left, as means of providing the poor and working class with a decent life as well as democratic workplace (COSATU, 2009; Democratic Left Front [DLF, for short], 2011).

There is quite a substantial co-op sector in South Africa, and the state has played a key role in its development. Not only has the legislation governing co-ops changed in the transition from apartheid, to provide greater space for worker co-ops (see below), but the South African state has retained formal commitments to supporting

co-ops. This has remained the case even after the new government adopted neo-liberal economic policies – a process that can be dated to mid-1994.

Co-op support was on the ANC's agenda for the post-apartheid South Africa in the 1980s and early 1990s (Jaffee, 1990: 191), and there have been, in the post-apartheid era, national, provincial and local government co-op development initiatives and commitments. These include Co-operatives Act of 2005, the National Co-operatives Policy of 2004, and the Gauteng Provincial Government Co-operatives Policy of 2005. Generally, the thrust of co-op development legislation and policies has been toward creating an 'enabling' environment in which co-ops can develop as autonomous, non-racial and democratic enterprises that can contribute to local economic development, create employment and alleviate poverty.

Since co-ops often struggle to survive, given a lack of access to financing and markets, the state's position would seem to auger well for a strong worker co-op sector in South Africa. Indeed, research in the mid-2000s showed that 54.2 percent of co-ops in Gauteng province were government-initiated (Centre for Co-operative and Policy Alternatives, hereafter 'COPAC', 2005: 14). This large state role, viewed by some on the left as a major opportunity (Democratic Left Front, 2011), also raises interesting analytical issues. A substantial literature suggests that co-op democracy is undermined by market pressures i.e. to survive in markets; co-ops tend to adopt hierarchical forms of decision-making in order to increase output by imposing stricter discipline and removing unproductive meeting time (see for example Philip 2006). Since state-sponsorship to a degree removes direct market pressures, does it enable greater co-op democracy?

In short, given that the state is a key stakeholder in co-op development in post-apartheid South Africa, I wanted to better understand the relationship between the state and co-ops—and to understand how state-sponsorship impacted on co-op functioning. State-sponsored worker co-ops, such as those located in Ekurhuleni, therefore provided an excellent platform to investigate this issue, by examining the relationship between the co-operators and the state.

### **1.3. Why Study Co-ops in Ekurhuleni and in South Africa?**

In the South African post-apartheid dispensation, the state, rather than just individuals or organisations, is positioned as one of the principle means of supporting co-ops at two levels: firstly, through policy instruments and institutional means, which ought to promote a conducive environment for developing co-ops; and, secondly, through funding and training initiatives, which should provide nascent co-ops with capital as well as 'hard' (on-the-job) and 'soft' (managerial and administrative) skills.

In the cases of the Spanish Mondragon Co-operative Complex (MCC), and the *La Lega* co-op movement in Italy –considered as two of the largest and most successful co-op movements in the world–the state has played significant role by developing progressive legislative and policy instruments as well as subsidies and tax breaks for setting up new worker and service co-ops and maintaining pre-existing ones. However, rather than the state actually setting up co-ops itself, it has been individual workers and artisans, as well as trade unions and social movements that have spearheaded the development of co-ops in Spain and Italy.

The post-apartheid South African state has sought to play a direct role in setting up co-ops, and in developing and nurturing co-ops. Co-ops have been seen by a section of the state bureaucracy, in the context of massive unemployment rates and high levels of poverty, further exacerbated by the ravages of neo-liberal capitalism in the post-apartheid period, as a means to pull people out of poverty.

For some on the political left, co-ops in general, and producer co-ops in particular, are also seen as a challenge to neo-liberal capitalism. From this position, co-ops should basically be built from the bottom-up as part of a broader, grassroots co-op movement. However, the state is also viewed, here, as a very important source of institutional support for co-ops, providing essential funding and training–vital given a lack of resources to build a co-op movement in the context of mass unemployment and poverty.

Ideally, under neo-liberalism, the state should provide public infrastructure funded through taxation, and uphold the 'rules of the game' such as enforcing contracts, to promote the growth and maintenance of a competitive market. However, the state should not interfere with the pricing, distributive and allocative functions of the market. More simply put, state intervention in the market, whether through state institutions or policy means, is believed to lead to distortions in market pricing, distribution and allocation. Neo-liberals seek to maximise the role of the private sector in determining the political and economic outcomes of the country. That markets should be left to their own devices, according to this logic, means that competition will promote economic development by providing more employment, greater investment and lower prices for consumers (Friedman, 1962).

Neo-liberal transformation, notably in Ekurhuleni, has seen the opposite. It has been associated with a steep decline in employment and investment, exacerbating the already high levels of unemployment present in the region. For example, while in 1989 271 large manufacturing firms (those who employ more than 200 people) operated, by 1999 this had fallen to 224 (Rogerson, 2001: 117). This was because many firms involved in heavy manufacturing had closed due to their inability to compete in liberalised global markets, while other firms merged with others to develop competitive economies of scale. While employment in large firms sat at 215 969 in 1989, by 1999, the employment levels in these firms had fallen to 11 5700 (Ibid).

The post-apartheid state has played a leading role to play in bringing about neo-liberalism in South Africa, by imposing neo-liberal transformation on the market from above.

Yet, remarkably, the neo-liberal EMM has also sought to develop co-ops by providing funding and training to the co-ops that they had set up. Is this a move away from neo-liberalism, or compatible with the neo-liberal logic? The EMM co-ops were (see below) set up with the explicit intention that they should compete in local open markets, and not rely on the local state for their continued survival.

In the South African context co-ops tend to face significant challenges. If the state can make co-ops possible as the provider of financial and skill resources to co-ops, it could also be suggested that co-ops can become dependent on—and subject to—the state for their continued survival. Yet to achieve a more truly ‘autonomous’ status, they would need to be ‘successful’ in the market. However there is a deficit in the resources that can be provided to co-ops by co-operators, given a context of massive poverty and lack of skills, and this makes it very difficult to be competitive. Unless worker co-ops find a niche market for their goods or services, which might promise survival, it is difficult to achieve any long-term market success and profitability.

Both state patronage, and the imperatives of market competitiveness, then, can prove to be significant challenges to internal democracy and participation in decision-making for co-operators, firstly because the co-op can become primarily accountable to state officials, rather than members, and secondly because market competition renders democratic procedures expensive and cumbersome.

#### **1.4. The Case Studies**



Mapungubwe Sewing Co-op, exterior view. (Oliver Nathan, 2011).

In 2002, the EMM's Local Economic Development (LED) department spearheaded the development of 25 worker co-ops, as part of what it called the Industrial Hives Programme (IHP). The IHP was, in turn, part of an Integrated Development Plan (IDP), coordinating various EMM economic initiatives. Worker co-ops were set up to provide a democratic form of production in which poor and unemployed working class citizens could pull themselves out of the endemic poverty and joblessness of Ekurhuleni's townships, through developing co-ops in conjunction with the LED department.

It was the local state (the EMM) which envisioned the co-op development project from the outset, and played a key role in determining the final form of the co-ops in terms of internal democracy, member participation and possible market success, not to mention the degree of autonomy and degree of independence from state control. While other co-op development projects in the past have been spearheaded by actors like unions, NGOs and communities, in this case the local state sought to insert itself into working class communities via co-ops.

A key impetus to develop co-ops was the LED department's promise in 1999 to promote a 'people-first approach' to governance and to 'promote local production for local need' (EMM LED Policy 1999: 4). If some hoped that these co-ops could service the well-developed manufacturing sector in Ekurhuleni, most officials tended to see their role primarily as service to local black working class communities. So, 'producing locally, for local needs', came to mean that co-ops would compete in township markets, with the aim of becoming profitable—but only after initial state support. Profitability, the LED department claimed, would then be used for the needs of co-operators, enabling them to escape poverty, contribute to community upliftment, and to self-finance through reinvesting surpluses into the co-ops (EMM LED Policy 1999: 7).

The thrust of EMM's co-op development project was to 'reach out to areas and council wards where unemployment was high by providing opportunities for job creation and sustainable development, facilitating an economic environment that realises the job creation objectives of the IDP' (IERI, 2007: 17). The co-ops were to be

located within the 'industrial hives'. What this meant was that three to four worker co-ops in an 'Industrial Hive' could effectively pool resources toward the production of goods, which could ideally service the well-developed manufacturing sector in Ekurhuleni, or at least service local working class consumer markets (IERI, 2007: 18).

Here, as elsewhere, the state envisaged economic development in terms of profitability and competitiveness (Bond 2000, Marais 2002).

The LED department provided start-up funding of R100 000 per co-op, to be used as seed capital to purchase machinery and raw materials to begin production, and it hired-in training for the prospective co-operators on co-op principles, management and administrative skills, from various service providers. Many obstacles were faced by the LED department in getting the co-ops up and running, and despite the process starting at the turn of the century, most LED-backed co-ops only commenced production from 2006 to 2008.

The two co-ops that I use as case studies—the Mapungubwe Sewing Co-op and the Buthina Borona Household Co-op—were launched in 2005 and 2003 respectively as part of the EMM LED department's IHP. Mapungubwe literally means 'the place of jackals' in the *Shangaan* language. The name, however, refers to the remnants of an Iron Age civilisation (1075-1220 CE) in which many gold and iron ornaments were discovered in the early 1930s, located in present-day Limpopo province, South Africa. The co-op's name is an allusion to the prospect of finding gold (i.e. market success) through collective efforts. Buthina Borona means 'we'. It is a combination of Sesotho and Zulu words for this term, referring to the collective nature of the co-op.

The Mapungubwe Sewing Co-op was initially set up as a poultry co-op in an old clinic complex in the township of Actonville, Ekurhuleni. However, the co-op could not commence with poultry production because of the hygiene rules associated with poultry farming in an urban area. The co-op then reconstituted itself as a sewing co-op and moved to Princess Avenue, Benoni, Ekurhuleni. The clothing that Mapungubwe produces is beautiful. Evening gowns and dresses, resplendent with

sequins; an array of tailored men's and women's suits; a range of waist coats and dress shirts are produced.

The current target market for their products is the 'middle class', the upwardly mobile, employed people of Benoni. In the beginning, local schools had been identified as major target market by the co-op. At the outset, it was never intended that the majority of sales would come from people walking off the street, the passing trade. But because the co-op was unable to access the school uniforms market for reasons explained in chapter six, the evening wear market was targeted instead.

The 12 original members for this co-op were identified by the LED department through a careful process (discussed at length in chapter 4). This process involved selecting possible co-operators based on a skills audit performed by the LED department between 2002 and 2003, also paying attention to the employment status of potential co-operators, and the wards in which they were located.

The Buthina Borona Household Co-op is located in the township of Vosloorus, Ekurhuleni. It produces household sanitation products such as dishwashing detergents, washing powder, bleach, floor polish, baby nappies and general household disinfectants. The venue selected by the LED department is an unused office of the provincial Department of Social Development (DSD), in an old clinic complex, located just off the main drag in Vosloorus township. The co-op was inaugurated in 2004 as part of the LED department's IHP, although production only began in earnest in 2008.

The membership of Buthina Borona Household Co-op was initially made up of 50 members, sourced through the department's selection process, the LED department again selected co-operators on the basis of their being (at the time) unemployed, their living in the ward cluster chosen by the department (in which the co-op was to be set up), and their having the basic skills that would allow them to begin production.

The Mapungubwe Sewing Co-op co-op has never been able to provide its members with a regular and liveable wage, facing fierce competition from local producers in

the immediate vicinity. In addition, the co-op has never enjoyed internal democratic decision-making, the hallmark of the ideal worker co-op.

Buthina Borona Household Co-op enjoyed a short period of profitability from when it began production at the beginning of 2008, for a period of nine months or so. Since then, the co-op has failed to provide its members with a regular, liveable wage. However, Buthina Borona unlike Mapungubwe, enjoys a high degree of democratic and participatory decision-making when it comes to administrative and production decisions that must be made.

Both co-ops (and indeed all of the co-ops set up by the EMM LED department) have generally failed to produce a net profit, or any profit at all, and struggle to pay their members even meagre wages, even though all of these co-ops, at some time have been competing in local open markets.

The LED department's role in the IHP should be understood as both enabling the development of co-ops, and as creating a relationship of dependency between co-ops and itself. The dependency relationship, evident from the start, was entrenched when co-ops failed to become profitable in the local market. Failure led co-ops to seek more state aid, and to seek attain production contracts from the local state for goods and services from its co-ops.

### **1.5. Core Arguments: The Cases and the Literature**



The findings of my research challenge two views. First, it challenges the view of Phillip (2006) that excessive democracy is the basic reason why co-ops fail to succeed in the market. And second, it challenges Satgar's (2007a) argument that a co-op's success depends very much on how a co-op is set up in the first place and assisted by the state through enabling policy, legislation, training and the provision of capital.

Philip (2006) suggests that when a worker co-op is competing in the market, there is a necessary degeneration away from the internal system of democracy and member control: faced with the pressures of competition and the necessity of making a profit in order to survive, a co-op must 'degenerate toward success' (Philip, 2006: 121).

That is, Philip is suggesting that co-ops tend to become more undemocratic, more characterised by hierarchical decision-making and managerial prerogative, when faced with stiff competition. If co-ops try to hold on to their original democratic form, they predispose themselves to failure in open markets: for example, members will use democratic control to defend non-market-rational behaviours, like low productivity, limited reinvestment and poor discipline.

Philip (1988/2006) does suggest that there is one possible escape from 'degenerating toward success': it is possible to balance the internal democratic and external market imperatives through access to a 'tied market' which provides a buffer from market pressures. This allows the co-op to maintain the internal incentives of the co-op form by being relatively protected from the vicissitudes of competing on the open market. A tied market could be an NGO, a trade union, a community, or even the state, which can provide the co-op with an exclusive or protected market, in which open competition does not occur, and in which inflated non-market prices effectively subsidise co-op democracy. However, Philip (2006) goes on to show, against her 1988 argument, that because tied markets are often small, they are often saturated very quickly, meaning co-ops must compete within open markets once tied markets are saturated.

In my cases, it is evident that issues are more complicated. Contrary to Philip's blunt choice between market failure and co-op democracy, this research illustrates that the presence or absence of hierarchy does not provide an adequate explanation for market success or failure. To put it another way, it is not necessarily possible to isolate internal co-op structure as the key variable explaining market outcomes. I agree that hierarchy is necessary to successful market operations, and that co-ops cannot operate in an open, capitalist, market while remaining democratic, but I stress that hierarchy does not arise solely or necessarily from market operations, and the rise of hierarchy does not guarantee market success. Last, while the erosion of democracy in a co-op may be multi-causal, this does not mean that market pressure will not cause hierarchies to develop in worker co-ops: this is a key cause, but not the *only* cause.

Since there was a period of open market activity for both co-ops under study, it is possible to illustrate this claim. What was found was that, since one co-op that failed (Buthina Borona Household Co-op) was *democratic* and *member-controlled*, and since the other (Mapungubwe Sewing Co-op) that failed was *hierarchical* and *authoritarian*, it is not possible to reduce success or failure to internal structure alone. Failure arose largely from a range of other factors, such as brand sensitivity, price sensitivity, improper marketing strategies and the role of the *state itself* that prevent co-ops from becoming successful. Moreover, it can be argued that the organisational form of the co-ops *themselves* were less the product of market forces than of variables such as member actions and power relations between members and *between members and the state*.

Satgar (2007a) a critic of Philip, argues that co-op democracy is feasible if the state assists worker co-ops. He suggests that if these co-ops are part of a grassroots co-op 'movement', are assisted by the state in terms of enabling legislation and policy and access to capital, and ideally operate within the context of a 'solidarity market' that can protect them from the vicissitudes of competition on open markets, and if they can maintain an identity distinct from small capitalist enterprises, then they can become successful vehicles for poverty alleviation and job creation.

Satgar (2007a) then suggests that in fact, there are opportunities for the development of worker co-ops: it is not a question of flaws in the worker co-op form itself but of suitable support and resources, and this means in practice *state* support. The key is good state policy. Co-ops in the South African context ought to be treated as distinct social institutions and need to be supported in the policy environment not as Small, Medium and Micro Enterprises (SMMEs) or as part of Black Economic Empowerment (BEE), but rather should be treated as an autonomous third sector in the economy (Satgar, 2006: 53).

Satgar (2007a) tries to address this issue by stating that it is a question of how a co-op was set up in the first place, such as how 'institutionalised' self management might be, the extent of training of management principles for members, and questions of outside interference from Unions (in the case of Philip's (2006) study of the NUM co-ops project) or the state- in brief the institutional, political and economic context in which co-ops are developing is of utmost importance to understand clearly. Further, Satgar (2007a) cites important counter arguments against Philip's rebuttals. He cites the successful role of co-ops within land reform struggles lead by the Landless Worker's Movement (MST) in Brazil, the massive role played by worker co-ops in the Italian economy and Chinese village enterprises and co-ops which are the backbone of agriculture and food production in china. He suggests that the state had a massive role to play in these co-op's success by setting up complimentary support institutions to assist co-ops.

In line with this thinking, Satgar views the hypothetical support of a progressive state – including progressive sections of the current South African state leadership – is an essential part of the institutional support required by successful, democratic, co-ops that can provide a real alternative to capitalism. Thus, state support here entails more than simply the provision of tied markets, but also an active and ongoing role in co-op assistance and support (Satgar 2006: 54).

It should be noted here that no 'tied market' (or, was as Satgar would have it, 'solidarity market') was secured in the EMM co-op cases being examined, since the local state never provided the co-ops under study with a market. However, since the

state played a central role in the emergence, form and outcomes of these co-ops, it is possible to draw at least some tentative conclusions that have implications for Satgar's case.

I challenge Satgar's view that the state can provide an enabling environment in which democratic co-ops can operate through support and resources. The EMM had committed itself to the development of worker co-ops through policy means and funding, but in reality the co-ops under study were dependent on the state for their existence from the outset. Without success in local markets, the EMM co-ops I studied have not managed to 'degenerate toward success' (Philip, 2006: 121), and instead, remained dependent on the state for their continued existence.

A 'tied' or 'solidarity' market, with the state, would not have provided an alternative to this situation. It would have simply entrenched the already existing relationship of dependency between co-ops and the local state, leading to a loss of autonomy for co-ops – or, more specifically, the ability of the co-operators to make real decisions. The notion that the state can simply act, with the correct policy in place, to sponsor democratic co-ops, is flawed, since if market pressure undermines democracy, so too does state 'support'. I am therefore challenging the view in Satgar's (2007a) work that state can be a neutral or positive supporter of a democratic co-op sector.

After the initial provision of capital and training, the co-ops sponsored by the EMM were left to survive in the open market, and failed. They then applied to the state for further funding and contracts: although neither was forthcoming, this shows the co-ops under study, having started as dependent on the local state (and, in particular, on the Municipality's LED department) for their existence, remained dependant on the state for their continued survival.

The post-apartheid local state sought to insert itself into the townships in a range of ways, including via the IHP and its co-ops. The local state imposed what it thought ought to be the ideal form for a co-op: they should be both democratic *and* compete successfully in local township markets. The IHP effectively tied the Ekurhuleni co-ops to the state by providing funding and training to co-ops so that they could compete

in local open markets. In practice, while one co-op sustained a degree of democracy, the other failed to do so, and both shared the fate of failure in the local markets. The local state did not intend to continue to act as the co-ops' patron and guiding hand. However, it started in those roles, and the failed market penetration of the co-ops perpetuated that role.

Above, I suggested that the disintegration of co-op democracy need not be basically a result of market dictates. This is a case in point: *the state itself, rather than defender of co-op democracy, was itself destructive to that democracy*. While *formally* the local state was committed to allowing the co-ops autonomy in day-to-day decisions, in practice it imposed from the start conditionalities on the co-ops (on how to spend the start-up capital that the state had provided), enforced a particular organisational model (through training and through set stipulations on co-op structures) and undertook ongoing monitoring in a form that further made the co-ops subject to the external state machinery (through monthly reporting and interference).

Thus *in practice*, the EMM LED department's IHP co-ops' 'autonomy' had from the start the character of a type of *false* autonomy: the mere suggestion of intervention on the part of the LED department was enough for co-ops to discipline themselves into sticking to the rules designated by the state. The phenomena of dependency and false autonomy can be usefully understood through Lukes' (2005) 'three dimensional' model of power in which *A* (in this case the EMM LED department) not only determines what *B* (the co-ops under study) does, but also determines what *B* wants. I go on to argue, echoing Bakunin's (1873) work, that the state, as a potential 'tied market' (Philip, 2006) or as an ally of a co-op 'movement' (Satgar, 2007a) will in fact *undermine, not enable*, worker co-op democracy since it entails state control and patronage – this is borne out in relationship between the IHP co-ops and the local state.

The aims of the research should not be taken to be separate endeavours; rather this research seeks to integrate each aim with the view of developing a theoretically coherent framework to explain why state-sponsored co-ops in Ekurhuleni have failed

to achieve their basic aims—democracy, sustainability, and economic development—as a result of their relationship to local markets and the state. The theoretical framework developed in this research should have general applicability and explanatory power when applied to similar situations and contexts where state-sponsored co-ops are concerned.

### **1.6. A Note on Methodology**

Methodologically, purposive sampling was used to select two state-sponsored worker co-ops as cases that were analogous in terms of them being set up by the EMM LED department, both co-ops being involved in light manufacturing (household cleaning products and sewing, respectively) and both had failed to become profitable in local markets in the long-run. The cases were not just chosen on the basis of similarity, but also of difference. While both co-ops were similar in that they had failed to penetrate local markets effectively, one co-op was managed in a highly democratic and participatory manner, while the other was characterised by authoritarianism, hierarchy in decision-making and a lack of participation by members in the decision-making processes.

Data collection methods for this research included exhaustive in-depth interviews, non-participant observation, focus groups and documentary analysis. The evidence gathered in the field was then used to test the theoretical postulation developed by Philip (1988/2006) and Satgar (2007a) and to reconstruct theory by understanding the role of the state as a guarantor of existence and guarantor of success for co-ops using the work of Lukes (2005) and Bakunin (1870 & 1873). The end goal of the research, although it is primarily exploratory is to make a meaningful contribution to the South African literature on worker co-ops, a body of literature that has little in-depth sociological analysis of why co-ops fail or succeed in the South African context.

### **1.7. The Structure of the Research Report**

This research report is structured in the following way. The first chapter provides an introduction to the topic and justifies the relevance and importance of the project. The second chapter focuses on the literature review and theoretical framework that forms the basis for the theoretical and contextual analysis of data collected in the field. The third chapter deals with methods and methodology, the 'nuts and bolts' of the project- how data was collected and collated so that sufficient answers could be provided to the research question. The fourth chapter offers important economic, social and political context in which the East Rand of Gauteng (now known as Ekurhuleni) developed as the industrial hub of South Africa and how this is implicated in the development of LED and of the IHP. In addition, this chapter discusses the origins of the IHP and how this dovetails with logic of LED. Furthermore, the chapter provides an exposition of the role of the state in setting up the IHP and introduces the cases. Chapters five and six contain detailed case studies of each co-op chosen as the sample, while Chapter seven compares and contrasts the cases in order to test and refute theory. In conclusion, chapter eight offers an overview of the entire project, highlighting the findings of the research and spelling out the implications thereof.

## Chapter 2: Literature Review

### 2.1. Introduction

In this literature review, there is an exposition of literature around co-op development experiences in South Africa and abroad, in order to locate this research project in the literature and in the debates in that literature, to assess the literature, and to frame the discussion with background and concepts. The aim of this project is to make a meaningful contribution to the literature on co-ops, and to avoid duplicating prior work. The international and local experiences of co-op development and co-op successes and failures bring to light the complexities of the relationships between internal democracy and member control, market success and state-co-op relations.

The literature review is structured in the following way. Firstly, a discussion of the Mondragon Co-operative Complex (MCC) in Spain and the experience of worker self-management in the former Yugoslavia's 'market socialism'<sup>2</sup> will be performed. The former is undertaken with the intention of developing a more solid understanding of an archetypal 'successful' co-op that competes successfully in the market, and how this affects the internal structure of co-ops. The latter is also undertaken in order to examine how state-led development of worker co-ops, affects the decision-making process in the co-ops.

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<sup>2</sup> According to Harman (1989), the idea of 'market socialism' is a myth. For him, the market is fundamentally incompatible with socialism. Harman's intellectual opponent, Alec Nove argued that any alternative to the market, such as state or participatory planning is necessarily unfeasible and authoritarian because it prevents the democratic allocation and distribution of goods and services in society enabled by market choices. Harman on the other hand, argues that market socialism is contradictory because even with the existence of a 'socialised' and 'democratic' co-ops sector that competes in the market, competition will quickly erode any democratic gains and egalitarian distributional outcomes, as is shown in the Yugoslavian case.

Both cases raise key issues about the impacts of markets and states, respectively, on co-ops. The MCC co-ops are touted as an example of a successful co-op movement that has enjoyed market success, by the ICA, ILO and co-op movements the world over, but questions must be raised about the effects of this on democratic control and member participation simultaneously. While the Yugoslavian co-ops are understood by many on the left who envisage co-ops as an alternative to capitalism, as exemplifying an almost 'ideal' relationship between co-ops and the state, with state financial support provided alongside real autonomy in decision-making within the co-ops, again, the situation is rather more complicated. Secondly, these cases can be considered as archetypal co-op 'success stories', but reflecting different roots and outcomes, both of relevance to the question I have posed regarding the relationship between co-ops, states and markets: the MCC exemplifies co-ops in an open market; the Yugoslav case exemplifies co-ops under state sponsorship. In both cases, some propositions with broad applicability as well as testability can be derived, which will be of relevance to this study.

The subsequent section of the literature review is an exposition of the literature on South African co-ops in the pre-apartheid, apartheid and post-apartheid eras. An examination of this material is helpful in defining the gaps in the literature, and provides a basis to justify the originality of this research project, as a contribution to our understanding of co-op development projects in South Africa. Again, testable and relevant propositions will be identified.

The stress on identifying not just the details, but the general implications of analyses from the MCC, from the Yugoslav case, and from the South African context arises from the imperatives of the social research process. The key to producing consistent internal and external validity in one's findings in social research is to develop empirically *testable* hypotheses to understand and interpret social relations, institutional relationships and power relations between social actors. In the case of this literature review, four distinct yet interrelated hypotheses about the relationship between *the state-sponsored co-ops form*, the *state* and the *market* will be developed. This framework will provide a means through which to interpret the

results of the fieldwork; to further our understanding inner workings and dynamics of state-sponsored co-ops, the relationship between the state-sponsored co-ops and the market, and between state-sponsored co-ops and the EMM; and to develop some generalisations of relevance to other contexts and other studies.

## **2.2. The Mondragon Co-operative Complex (MCC)**

The MCC provides a fine example of how worker co-ops can become successful in the market, but also shows that this has costs for democratic member participation in decision-making, as it has had to 'degenerate toward success' (Philip, 2006: 121). Decisions made at the highest levels of the co-op movement are no longer as participatory as they once were; the MCC has felt the pressures of market competition, leading to an erosion of shop floor democracy and member participation and the growing use of non-co-operator labour.

The MCC system started in 1943, with the involvement of one Don Jose Maria Arizmendiarieta, a socially-conscious Catholic priest in the industrial town of Mondragon in Basque Spain. The initial move toward the creation of worker and credit co-ops was the start up of a technical training school, as a means of providing the local working class population with a means to skill themselves: the alternative for many was unemployment under the Franco dictatorship (Thomas and Logan, 1982: 17-18). In the training college, workers became highly motivated by a desire to democratise the workplace, and to change the attitude of managers to employees, which were characterised by high levels of adversarialism.

The first co-op workshop was registered in accordance with the co-op laws of the time, set up in 1956, and named after the five founders, Usatorre, Larrañaga, Gorroñoigoitia, Ormaechea and Ortubay—thus, the co-op was called ULGOR for short. ULGOR produced paraffin-fired cooking stoves. The co-op was set up, according to Thomas and Logan (1982: 20), to fulfil a desire of members to find a means through which to express their aspirations. This co-op has been running for over fifty years.

By 1989, it was only one part of a vast MCC, consisting of 198 worker-owned and -managed co-ops linked through common institutions, like a co-op bank (the *Caja Laboral Popular*), a social security system, a vocational training system and a research facility. 94 of the MCC firms were industrial co-ops, while nine were agrarian service co-ops (Taylor, 1994: 461). The MCC was also divided into sectoral groups, according to the services or goods provided, and a congress of co-ops representing the interests of the co-ops as a whole, and upholding the principles of cooperativism for the complex as a whole, held regularly.

In principle, the worker co-ops of Mondragon should be understood to be worker-controlled with the worker members exercising the ultimate authority of control within each co-operative through the principle of one-member-one-vote, putting in place a board that is elected from the membership and that runs the co-op on behalf of the members (Whyte & Whyte, 1991: 296). The board is thus accountable to the membership.

However, as the Mondragon co-ops have become inserted into markets, competing against hierarchically-run state and private corporations, they have increasingly employed workers who are non-members. This is on a contract basis, in times where levels of demand are high. The total percentage of contract workers can be high as 40 percent in these instances. The introduction of such employees as non-members, rather as new members, has implications for the democratic and participatory nature of the worker co-ops. Non-member employees do not enjoy voting and shareholding rights, nor the income guarantee that comes with membership of a Mondragon co-op.

Other drifts from the original aims have taken place. With the MCC co-ops being subject to fierce international competition by the mid-1980s, differing conceptions of co-op efficiency have emerged in the complex (Taylor, 1994: 466). These different conceptions of efficiency, according to Taylor (1994), began to be reflected in a tension between 'social' (read: democracy, participation and accountability of management) and 'economic' (read: technical efficiency, productivity, profitability) approaches to MCC management (p 472). Even in a socialist society, technical

efficiency and productivity would be desirable, so that as little wastage as possible is produced and so that people's needs are met. However, under capitalism, technical efficiency and productivity is directly linked to *profitability*, which means that, in the MCC case, this 'economic' conception of management takes priority as the very basis of co-op survival and reinvestment, and this undermines 'social' goals like member participation, job security, and shop floor democracy (Cheney, 2002: 14).

In the MCC, 'social' goals began to disintegrate, as 'economic' imperatives generated hierarchy and managerialism in order for the co-ops to become more competitive and profitable in the open market. By the late 1980s, internal restructuring had sharply affected the lower ranks of both blue collar and white collar workers: wages were frozen, and skilled managers were brought in on a consultancy basis. Since both co-op boards and the MCC council felt that they had to retain skilled managers, a permanent specialist management layer emerged. In order to prevent a brain drain of these managers to the private sector, wage differentials between worker-members and hired managers escalated rapidly, from a ratio of 1:3, to 1:4.5, and by 1988, even 1:6 (Taylor, 1994: 477).

Some groups of worker-owners protested the wage increases of managers alongside the wage freezes for many workers as a great inequality that damaged the social imperatives of solidarity, participation, and accountability in the co-ops. This was met by the *Caja Laboral Popular* and by MCC council with a businesslike rhetoric stressing 'coherence', 'basic laws' and being 'rigorously efficient' in order for the co-ops to thrive in the challenging international market (Taylor, 1994: 482).

The implications of this shift to businesslike rhetoric and praxis manifested themselves in three main ways. Firstly, there was growing emphasis on the employment of external wage labourers, rather than on creating more worker-owners. Secondly, with policy-making occurring far away from the shop floor, relocated into specialised bodies (this was not the case in the pre-1970s period), worker-owners were often left with only a limited choice between pre-designed business-like policy 'alternatives', rather than substantive control over planning. Thirdly, there was an increase in joint ventures with private firms, in buyouts by the

private sector and in international investment by some MCC co-ops in non-co-op firms (Taylor 1994: 483-484).

Elements of democracy remain, and are doubtless far more substantive than in many traditional capitalist or state enterprises. However, although worker-owners have the final authority within the co-ops themselves, decision-making at the highest levels is simply not as democratic as it once was. Market pressures have engendered a situation in which direct democracy has been sacrificed to market efficiency, and in which the range of possible policy alternatives has been limited by the highest levels of the MCC, effectively excluding any 'social' prescriptions that are not in line with the profitability and efficiency imperatives of the marketised MCC as a whole.

The relevance of the Mondragon case to this research is that these co-ops show that long-term market success *is* possible for co-ops and that co-ops *can* pull people out of poverty, but also that co-ops are not exempt from the pressures of competition, and that *an erosion of democratic member control may be expected as a means of coping with the pressures of competing in the open market*. It may be proposed, from the MCC case, that there is indeed a definite link between market success and the decline of internal democracy; the MCC is an 'archetypal' example. Philip's (2006) argument that democracy tends to decline when a co-op faces market pressures holds true in the MCC case.

However, like Philip (2006), the weakness of the argument developed by Taylor (1994) and Cheney (2002) is that the development of hierarchical forms of management and decision-making in the MCC tends to be *reduced* to market factors alone. While both Taylor and Cheney cite good evidence to back up the argument that there is a link between market success and the erosion of democracy, both do not really consider the impact of factors such as consumer price sensitivity, consumer brand loyalty, internal power dynamics within a worker co-op, and the regulations of the state in contributing to the erosion of co-op democracy. Therefore, although market factors explaining the development of hierarchy in a co-op are important for this research, other factors are equally important.

### **2.3. State Co-ops in Tito's Yugoslavia**

Yugoslavia, although largely identical in political form to other East bloc countries, with a one-party state based on Marxism-Leninism, took in the 1950s a notably different route to economic development to its counterparts in at least one respect. Whereas the Soviet Union stressed central planning and allocation, the Tito regime began to introduce state-sponsored co-ops and elements of a relatively open market. Marshal Tito, the leader of the Yugoslavian Communist Party, broke with the Cominform in 1949, and stated he was in favour of a degree of decentralisation of economic and political power (Webster, 1990: 63).

Economically, this decentralisation meant a retreat from strict central planning. While central planning directed the *overall* production targets and production imperatives i.e. what goods and services were needed, the co-ops were 'autonomous' from state control in the day-to-day decision-making processes, and this included a degree of worker participation in decision-making. In terms of ownership, all firms were 'owned' under the ideal of *de jure* 'community ownership', though *de facto*, ownership in fact occurred through the state, which was far from accountable to or subject to any working class 'community' constituency.

Worker self-management was to be achieved through 'indicative' rather than top-down 'directive' planning of the Bolsheviks in the Soviet Union. Indicative planning consisted of drawing up national economic plans from reports by local self-governed firms, ideally generated with the consensus their 'workers councils' (Webster, 1990: 60). The state also supported the firms through funding (Whyte and Blasi, 1982: 158).

Nominally, the system included allowed producers genuine control over the means of production and over the surplus generated. In each enterprise, there was a 'workers council' and a management board. The key instrument of worker's control was that the council could veto decisions made by the management board (Pateman, 1970: 89-90). The council also appointed managers, sets salary scales and carried out long-term planning. An executive director was elected by the council, to

ensure that plans approved by the management board were carried out; she or he would also act as the representative of the firm to the state is carried out (Tanic, 1967: 20).

In reality, Webster (1990: 67-68) notes, these elected directors often had a great deal of power over the councils because of their expertise, and workers were often unable to control the director. This meant that directors were often not accountable for their actions and decisions. Many workers did not all have any desire to participate in the time-consuming decision-making processes of the councils—a reluctance reinforced by the councils' limited real power.

Besides power inequalities, there were also problems in terms of Income distribution. Boguslaw (1982) suggests that because income distribution occurred on the principle of 'each according to his output', the more skilled and productive workers could earn up to five times higher than the lowest paid factory worker (p 71). As wage differentials between the management boards and workers were arbitrarily determined by the state, the very real distinction set up between managers and workers hamstrung democracy in decision-making, perhaps explaining Webster's (1990) finding of some workers 'distaste' for participation.

The firms were dubbed co-ops, but this label is also somewhat misleading: workers only owned the firm in the abstract sense that 'their' state owned the firms; they were not actually shareholders, and did not have the sort of long-term interest in the survival of the firm that an independent co-op would foster. It should also be borne in mind here that what firms produced, and were funded to produce, was in the final analysis set by the state.

If the councils had limited power in production, they did have a significant degree of control over how to distribute the firms' profits, and often did so by increasing wages. In the one real area where they did have power, this generated perverse incentives; it led to overall inflation as money was consequently borrowed by the firms, rather than raised by surplus being reinvested into the firm. This behaviour was, in any case, made possible by the state's role as co-op funder, either from its

own resources or from money raised abroad. There were also very high levels of unemployment (30% in the 1960s), at least in part since the firm and its members had no real incentive to distribute the fixed amount of profit to *other* workers through increased employment, even as an investment, meaning that an incentive to absorb as much labour as possible was nonexistent (Webster, 1990: 68-69).

Neither efficiency nor democracy was genuinely achieved, and by the 1970s, the country had mass unemployment, massive international debt, declining real wages, and triple digit inflation, helping generate ethnic conflict (Webster, 1990: 63). The 1980s period of *glasnost* saw the Yugoslavian economy increasingly integrated into the global economy, but unable to compete internationally, generating pressures for far more radical neo-liberal restructuring *from above*; its ethnic tensions now developed in increasingly violent directions.

If the MCC case exemplifies market-centred co-ops, the Yugoslav case was one in which the project was state-led, where it was the state that spearheaded the development of co-ops, that had a *de facto* ownership of the co-op, and that determined the incentives and structures of the co-op form. As these imperatives came from *without*, worker-owners within co-ops never truly bought into the co-ops as worker-owners of units of production *de jure* independent of state control.

The Yugoslavian co-ops did have access to support and resources, developed within the context of 'indicative planning'- the state's substitute for a co-op movement- and even a sheltered market through the state, which explains their successful development. However, the co-ops were also dependent on the state for their continued existence. The implications of the Yugoslavian co-ops having to rely on the state for continued survival was that the state could determine the internal form of the co-ops (procedures for democracy, how surpluses could be used) and dictate levels of production through indicative planning. Because the state played the formative role in creating the production incentives and funds for the co-ops, the co-ops became dependent on the state for their continued survival. Thus, contrary to Satgar's (2007a) claim that state support provides a necessary basis for thriving

democratic worker co-ops, the Yugoslav case suggests that state support is incompatible with these goals.

The Yugoslavian case is important for this research because of the very similar ways in which co-ops in Yugoslavia and co-ops in Ekurhuleni became dependent on the state as a condition of the state's provision of resources and support. The procedures from internal democracy, how surpluses ought to be used and indeed what co-ops even are were defined by the state, and forced upon both sets of co-ops. Against Satgar (2007a), the 'correct' support and resources provided to the Yugoslav co-ops (like that for the IHP co-ops) made the co-ops dependent on the state for their existence and continued survival, and their internal democracy always subject to external controls.

#### **2.4. Co-ops in the Pre-Apartheid and Apartheid Dispensations**

Worker co-ops are not a new phenomenon in South Africa. One of first recorded worker co-ops in what became South Africa were founded by leftwing Jewish immigrants and by local white and coloured workers: these groups set up bakers' and cigarette makers' co-ops in the Western Cape in 1903 and 1906 respectively (Mantzaris, 1987). These co-ops had important links with local trade unions in the Cape Colony, and offered workers a new way to challenge meagre wages, appalling work conditions and overwork.

A key role was played by the local, multiracial, General Workers' Union (GWU), which was founded by the anarchist-led Social Democratic Federation (SDF). The GWU fought for better wages and working conditions, organising workers who were not catered for by the local craft unions (Ibid; also see van der Walt, 2011). Following two strikes against the most important local cigarette manufacturers over low wages, striking workers decided in 1906 to set up a cigarette making co-op. While the co-op faced initial problems with getting capital, Russian Jews arrived in Cape Town with considerable amounts of tobacco, enabling them to start production. The

GWU, SDF and various other trade unions helped with technical assistance and rooms.

By late 1906, the co-op had over 300 worker members and could not keep up with the demand for the co-op's 'lock out' and 'knock out' cigarette brand (Harrison, date unknown). The main market for the cigarettes was politicised workers in the Cape and on the Witwatersrand: this shows that co-ops can be viable in certain contexts when economies of scale can be reached, or where (in this case) 'solidarity' or 'tied' market can be secured. In late 1907, a shortage of supplies caused by large manufacturers' manipulation of tobacco farmers meant that the co-op could no longer produce, and it was liquidated on the 11<sup>th</sup> of July 1907 (Mantzaris, 1987).

Afrikaner empowerment struggles, on the other hand, were enabled in many ways by co-ops, that met the logic of human needs through cooperative forms of organising production and consumption, albeit often tied to the promotion of white economic supremacy (Satgar, 2007b: 2). The agricultural co-ops that assisted in Afrikaner empowerment were service co-ops, and played an important role in assisting white farmers to service their needs, namely getting the best price possible for their produce on the open market. For the pre-apartheid and apartheid white agricultural co-ops, the state provided support in the form of legislation (the Co-operative Societies act of 1922, the Co-operatives Act of 1939 and the revised Co-operatives Act of 1981) and a range of policy instruments, such as the Land and Agricultural Bank (formed in 1912) and various state 'marketing boards' (established in the 1930s).

Besides securing the best prices for their produce on the market, these co-ops facilitated economies of scale in production through collectively utilised agricultural machinery. The agricultural service co-ops, too, had something of a 'tied market', in the form of the large Afrikaner nationalist movement, and, as that movement secured more state power, more state sponsorship followed; the marketing boards, which enabled subsidised prices and guaranteed sales, were crucial. Thus, white farmers were able to form agricultural 'co-ops', which were officially supported and

recognised by the state. State support in the form of enabling legislation, allowed significant gains in terms of market access (van Niekerk, 1988).

With the development of apartheid-era service 'co-ops', white farmers did play a functional role in securing white economic supremacy through collective forms of capitalist accumulation. The agricultural service co-ops were, however, still subject to the pressures of market competition. While run by boards elected from the membership, member control was increasingly reduced to electing the boards and some discussion over prices. Close ties to the state, and the growing reliance on official support, further entrenched this trend. Eventually, most of these co-ops have either been closed or transformed into limited liability companies, a response to neo-liberal measures exposing South African agriculture to cheap imports while removing state aid. Again, the pattern of "degeneration towards success" (Philip, 2006: 121) is evident.

### **2.5. Co-ops in the Townships and Homelands: 1939- Present**

Another South African co-op tradition developed in African townships and so-called 'homelands'. Grassroots development of co-ops by communities in the 'homelands' from 1939 onward (van Niekerk, 1988) but then also in the townships in the 1970s and 1980s (Rogerson, 1990; Phillip, 1988). These were not supported by the apartheid government. Rather these were set up by black communities as defensive strategies against unemployment, or to provide goods and services otherwise lacking. Jaffee (1990) argues that besides creating livelihoods, recovering dignity was sometimes also a prime motivator behind co-op development impulses.

According to Rogerson (1990), worker co-ops were developed in the 1970s and 1980s by ex-political prisoners, trade unions, NGOs and, at times, corporations such as Shell and Mobil, as part of their 'social responsibility programmes' (p 287). As with the early experiences in the Cape, union support for these initiatives from the 1980s played an important role. A notable case was the BRT Sarmcol co-ops set up by

unemployed workers and the National Union of Metalworkers of South Africa (NUMSA) union officials in 1985 (see Phillip, 1988).

Much research has been done on the nature of internal democracy and decision-making within these co-ops (Institute for Economic Research and Innovation [IERI], 2007; Satgar, 2007a; Satgar, 2007b; Philip, 1988; Philip, 2006; COPAC, 2005a/2005b/2006; Erasmus, 1994; Jaffee, 1990; Van Niekerk, 1988). Research on worker co-ops has focused on the internal dynamics and the impact of markets (Erasmus, 1994; Phillip, 2006). There was also been a concern with the effectiveness of these co-ops as a means for poverty alleviation and economic development (COPAC, 2005a /2005b; Rogerson, 1990; Phillip, 2006; Gelb 1984; Satgar and Williams, 2008).

Jaffee (1990) suggests that co-op development impulses were highly contested, with debates over issues like worker participation, the nature of apartheid, capitalism and socialism (p 191). There were further debates within the labour movement about whether co-ops could provide the basis for a future socialist society, or whether co-ops should be set up in a defensive way, to recover dignity and livelihoods. These debates usually showed differences between workers and trade union leaders as well, with workers stressing the material importance of setting up co-ops as a defensive (or 'survivalist') measures, and union leaders stressing the issues of co-ops as on offensive, explicitly anti-capitalist, and socialist strategy.

Rothschild and Whitt (1986) suggest that the development of co-ops appear in historical patterns, usually appearing and swelling in number immediately following movements for social change (p 10). In the context of a growing crisis of global accumulation in 1970s South Africa, co-ops were started in the townships and homelands as a means to dealing with the internal factors of growing retrenchment of workers facing massive economic upheavals caused by faltering policies of ISI and the international embargo on South African investments globally, as well as corporate divestiture in the country. These economic upheavals were mirrored in the social upheavals in the townships and homelands.

Co-op support was on the ANC's agenda for the post-apartheid South Africa (Jaffee, 1990: 191), and socialist co-op consciousness did exist to some extent in the working class (more often than not, emanating from the Congress of South African Trade Unions, or COSATU, the South African Communist Party, or SACP, and especially the NUMSA leadership in COSATU). In the militant environment of the labour movement of the mid- to late 1980s, the radical portion of the broader trade union movement took the co-op 'socialist' alternative to apartheid capitalism very seriously.

The leaders of these unions believed co-ops to be a serious challenge to capitalism, and could, lay the basis for a future socialist society. Most co-ops, however, were developed by rank and file union members, as well as communities with the help of trade unions and NGOs. While the unions might have understood and participated in setting up co-ops for ideological reasons, it was primarily material needs of co-operators that were the driving force behind the setting up and maintenance of new worker co-ops. Thus, Erasmus (1994) finds in her research on worker co-ops in the late 1980s and early 90s that in most co-op development experiments, although political motivations of co-operators were important, the primary motivations behind their development were material factors (p 191).

In the post-apartheid era, national, provincial and local government co-ops development imperatives at the level of policy have suggested an official commitment to developing co-ops, in part due to pressure from COSATU and the SACP; co-ops have remained on the state's agenda in the post-apartheid dispensation.

The state has formally committed itself not just with legislation and policy for co-ops, but through funding and training initiatives too. Notable instances are the Co-operatives Act (2005), the National Co-operatives Policy (2004), and the Gauteng Provincial Government Co-operatives Policy (2005). The state's commitment to assisting with the development of co-ops has been reaffirmed in the New Growth Path economic policy (NGP, 2011). The National Department of Trade and Industry

(DTI) is the ultimate 'custodian' of co-op development in South Africa, ensuring that co-ops are part of the national development agenda currently embodied in the NGP framework (Natrass, 2011: 3).

Earlier it was stated that the South African state has a neo-liberal policy agenda: where, then, do co-ops fit? State policies stress co-ops as autonomous, non-racial and democratic enterprises that can contribute to local economic development, create employment and alleviate poverty. These goals dovetail well with the neo-liberal imperatives of the post-apartheid state: co-ops are seen not, as COSATU, NUMSA and the SACP supposed, as challenges to capitalism, but as instead bodies that operate competitively on the open market.

Key to the neo-liberal agenda of the state at provincial and municipal levels is the concept of LED. Through LED initiatives, particularly at the municipal level, co-ops are linked to larger macro-economic policy and goals. For the post-apartheid state, co-ops, at least in theory, should be understood as labour-intensive and as more job creating than traditional small enterprises, for example. With the relative failure of small enterprises, particularly in township and rural settings, to emerge and provide employment and poverty alleviation, coupled with a national economy unable to absorb large amounts of unskilled workers into employment, co-ops have often been seen as potential means to creating employment.

But with this focus, the aims of co-ops have been shifted. Oakshott (1978) suggested, for example, that co-ops should be understood as a principal means of engendering a *democratic* form of economic development in which people can become directly involved in the development process by having a stake, or rather a 'buy in' in social and economic development processes. While participation is often used to justify the role of the state in co-ops, particularly through LED, co-op development has been subjected to a focus on *market* participation. Thus, state-sponsored co-ops are envisaged as follows: the state ought to provide an enabling environment for co-ops to be set up, and they then develop to compete in open markets. Indeed, the promotion of co-ops as a means to LED can be seen as a good example of how the neo-liberal state seeks to 'outsource' economic development to citizens by placing

the responsibility of developing the economy, creating jobs and alleviating policy squarely on the shoulders *of the poor*, whose misery is viewed, not as the *result* of the market economy, but as the product of inadequate *participation* in the market economy.

Although research has been done by COPAC in 2005/2006 and by IERI (Institute for Economic Research And Innovation) in 2007 on state-sponsored co-ops in the EMM jurisdiction, this research focussed primarily on broader (i.e. technical, quantitative) relationships between the co-ops and the EMM as well as various national and provincial government departments and institutions, and secondly on some of the crucial success and failure factors for these co-ops.

## **2.6. Qualitative Research on Co-ops in South Africa**

The aim of this section is to discuss the literature on recent co-ops in the South African context, with a view to identifying the gaps and critical weaknesses in the South African literature. With this in mind, this research report seeks to offer a novel approach to understanding why worker co-ops are so often unable to penetrate the local economies in which they are located. In this, the findings of this research lay the basis for providing a critique of the current state of thinking around co-op development, and offering a sociological analysis which is both rich and relevant, particularly to those who understand co-ops to be a panacea to the ills of unemployment and authoritarian industrial relations in South Africa.

### **2.6.1. The NUMSA and NUM Co-ops**

Philip's (1988) research on the NUMSA co-ops development programme shows their emergence in the context of growing unemployment. The key moment for NUMSA was when workers were fired, over a wildcat strike, from the BRT Sarmcol rubber factory in Howick, Kwazulu Natal in 1985. The co-ops were set up by the union to provide employment and wages for retrenched workers in order to sustain them

through the court case that was brought against BRT for unfair dismissal. Although the workers won the court case, this was only in 1999.

In the meantime, the union set up T-shirt producing worker co-ops for the fired workers, so that the co-op could supply the union with t-shirts. For Philip (1988), the NUMSA worker co-ops who were involved in t-shirt production for the union (and some farming), could not easily escape the necessity to match the terms of necessary labour time set by capitalist industry. The inability of the t-shirt producing co-ops to compete in open markets became apparent when the 'tied market', which was the union (producing t-shirts for the union) quickly became saturated (p154).

The NUMSA co-ops that survived facing a manifest degeneration of internal democracy in order to survive economically, shown by the exercise of managerial prerogative by certain board members rather than 'time wasting' collective decision-making by members. The procedures for internal democracy included the annual election of a board from the membership in order to make decisions on behalf of the members of the co-op. The board was initially accountable to the membership and subject to recall. This began to erode with managers exercising more and more managerial prerogative as the co-ops faced greater competition. NUMSA officials also interfered with the internal mechanisms for decision-making in co-ops, seeking to impose what they thought was the most 'democratic' and 'efficient' way for co-ops to produce. Other pressures Philip (1988) identified for co-ops were under-capitalisation, marketing difficulties, low productivity, and low education levels. Thus, the NUMSA co-ops had a very limited potential to provide an alternative to wage labour in the 1980s (Philip, 1988: 145).

Subsequent work by Philip (2006) tends to support these claims, showing that ideology and commitment will be irrelevant if the co-op cannot organise production effectively in the face of external challenges. My research shows that a number of factors can contribute to co-op failure, not just market factors. However, Philip stresses open market competition, and the struggle for a co-op to survive on the open market, as the most important factor leading to the development of hierarchy and the erosion of shop floor democracy in co-ops (Philip, 2006: 121). They must

adapt their internal form to meet the pressures of competing in the open market (Philip, 2006: 122).

Co-ops, therefore, must maximise their potential in order to survive (Philip 1988: 146). This requires the development of hierarchies and managerial prerogatives to make decisions parsimoniously and efficiently when a co-op faces the open market. Philip's (2006) research on worker co-ops run by the National Union of Mineworkers (NUM) in Qwe Qwe and Flagstaff in the Eastern Cape, South Africa and in Quting and Leribe, Lesotho tends to confirm this position. The two Lesotho co-ops were successful, and this was directly linked to the degeneration of direct democracy in production, manifested in the employment of wage labourers, who were not members and divorced from decision-making power. This suggests that in production, democracy has to be 'institutionalised, mediated and transformed' into indirect democracy if the co-op is to survive (Philip, 2006: 112).

Compounding the problem, the NUM co-op experience showed serious internal problems that the ability of worker co-ops to function well in situations of dire poverty (Philip, 2006: 126). High member turnover rates, due to members not being able to pay themselves a monthly wage, meant that no real organisational memory or legacy was able to develop. Indeed, power often moved from the co-ops to local chiefs ("traditional leadership"), or to NUM officials, who sought to maintain "ownership of the embattled assets" (Philip, 2006: 110, 114). Again, for Philip, this shows the need for moving away from the rigidities of the traditional co-op form to more authoritarian, traditional 'business-like' managerial structures (Philip, 2006: 260).

The only alternative was, for Philip (1988), protection from the pressures of competition in the form of a 'tied' market, using solidarity networks (p 150). Trade unions or community-based organisations (CBOs) could provide protected markets for co-ops. However, although links to trade unions and CBOs were essential, co-ops would still need to try match commercial prices – or finding gap in the market (p 153). Similarly, Satgar (2007a) suggests that sustainable and democratic co-ops require social support, resources and a 'solidarity market'. In his view it is a question

of how a co-op was set up in the first place, such as how 'institutionalised' self management might be, the extent of training of management principles for members, and institutional support by the state. As supportive examples, Satgar (2007a) mentions several international experiences, including the MCC.

There are some serious empirical problems with these claims, however. As noted earlier, the MCC in Spain exemplifies a process of degeneration and goal displacement; rather than a 'third sector' in the economy; it has been subsumed into capitalism, and emulates traditional capitalist enterprises.

Satgar (2007a) also does not take into consideration that 'solidarity' markets may quickly be saturated, as Philip discovered. Philip's (2006) research on NUM worker co-ops again stressed that 'tied' markets are easily saturated, often by the oversupply of goods by one co-op, or by too many co-ops supplying the same product. This was directly linked to the lack of substantial local demand in marginal markets (Ibid p 261). Thus, "Despite high expectations, co-ops in South Africa do not actually have a good track record in creating decent and sustainable employment" (Philip, 2007: 45).

To this, I will add that even if a 'solidarity' market *could* protect a co-op from the vicissitudes of competing on the open market, this might still in fact *undermine* democracy, through relations of dependency between a co-op and the organisation providing the 'tied' market. For example, NUMSA officials had, as Philip (1988) shows, a significant ability to interfere in the internal workings of a co-op, and this would surely only increase if the sponsor was the co-op's sole guarantor of existence and survival. In the NUM co-op case, the Cape co-ops could only survive due to NUM intercessions, which in practice meant co-op members were expected to account to the NUM for the use of assets: thus NUM had final authority in the decisions made by co-ops (Philip, 2006: 260).

Given these experiences, there do not really seem to be strong grounds for Satgar's (2007a) optimistic view that state sponsorship will protect and enable co-op democracy. Satgar's (2006/2007a/2007b) positions are based on liberal-pluralist

assumptions about the state: it is just a neutral machine that can be used by any well-organised force, so, if it can be harmful to co-ops in some cases, it can, with the right policies and politicians, become pro-working class.

A detailed exposition of state theory is beyond the scope of this report, but suffice it to say that there is little empirical support for the notion that the South African state, in any historic incarnation, has been pro-working class; theoretically, there is a strong case to be made that the state elite is structurally, inherently part of the ruling class, and that this class has interests at odds with those of the popular classes (Bakunin, 1873: 4). (See pages 48-50 for further discussion on the state).

I would also argue that while open market competition is an important factor in determining the internal form of a co-op, and that hierarchy is probably a necessary response to market pressures, it does not follow that hierarchy will ensure co-op success in open markets, or that the erosion of co-op democracy should be reduced to market pressures.

The theoretical framework set out in Philip's (2006) research is explicitly based in the field of New Institutional Economics (NIE), associated with Douglass North. Here, *homo economicus* is taken as given, and social institutions are seen as basically shaped by rational, self-interested, economic behaviour geared towards minimising transaction costs, with parsimonious solutions to otherwise intractable problems inevitably occur (Granovetter and Swedberg, 1992: 9). This is precisely why, says Philip (2006), worker co-ops tend to only operate efficiently in markets if they make decisions parsimoniously and efficiently when faced with competition.

The problem is that human behaviour is more complicated than *homo economicus* concedes, that institutions have dynamics that cannot be reduced to rational economic choices driven by individuals, and that individuals and organisations are shaped not just by markets, but by hierarchies and networks of power (Granovetter and Swedberg, 1992). It is reasonable then to assume that issues like brand loyalty, workplace culture, and internal conflict over the allocation of resources affect success and structure; the role of sponsors like the state, as well as power dynamics

within co-ops, are important in determining the internal form of a co-op. Erasmus (1991), for example, shows that a lack of managerial and technical skills, the absence of democratic norms and procedures, a lack of basic education among general members of co-ops and a predominant survivalist consciousness amongst co-op members all affect co-op dynamics.

### **2.7. The state of play: Data from the DTI National Baseline Study of Co-ops (2009)**

A baseline study of co-ops in all sectors of the South African economy was commissioned by the DTI, as custodian of national co-op development. The baseline study was designed to paint a broad picture of how co-op development in the post-apartheid era had actually played out given the 'enabling' role played by the state toward co-op development. This 2009 study consisted of two components, an international benchmark component which was conducted through a desktop research study and a quantitative component in the form of a national survey of a representative sample of co-ops.

The baseline study found that 71% of co-ops were launched as community-based grassroots projects while only 11% were launched as special projects by the state (DTI, 2009: v). However, in some provinces like Gauteng, the state's role was far larger. The baseline study also highlighted that nationally, most (59%) of co-ops did *not* regard themselves as 'successful' (DTI, 2009: 34) and furthermore, that 31, 41% of co-ops had an annual turnover not exceeding R 5000 (DTI, 2009: 46). In terms of democratic participation, the baseline study found that participation levels were low, with the chairperson or secretary of a co-op making most decisions. (DTI, 2009: 212).

The findings of this study show that most co-ops, be they service or worker co-ops have not been successful in open markets, and further, that member participation in democratic decision-making has been insignificant. This suggests that there is no simple correlation between open market success and hierarchical decision-making. More specifically, hierarchy does not guarantee success, nor can its emergence be reduced to market pressures: given the patterns, the internal form of the co-op

cannot be simply the result of market factors, since generally, the IHP co-ops are not operating successfully in markets by any measure.

## **2.8. A framework for Understanding State-sponsored Co-ops and their Relation to the EMM**

From what I have argued above, while it is vital to understand the impact of *external* forces on co-ops (for example, market and state), it is also essential to understand the social dynamics *within* co-ops, and develop a means of understanding the interaction between these two levels. For example, to understand the EMM-sponsored co-ops, such a framework is needed for a meaningful interpretation of the power relations that exist both *within* state-sponsored co-ops and *between* these co-ops and the local state, and what the outcomes of these power relations mean for the internal form of the co-ops under study.

Steven Lukes, in his seminal work *Power: A Radical View* (2005), offers a useful way of thinking about power. His views on power supplement the analyses of Philip (1988 and 2006) and Satgar (2007a) in two important ways. Firstly, Philip and Satgar identify the overt forms of power, which is the power of the open market, the state or trade unions to determine the internal form of co-ops. Both authors ignore the existence of covert or hidden forms of power and influence, such as the perceived legitimacy of the state in the eyes of co-operators or the disciplining effect of a threat of punishment by the state. Secondly, the role of powerful agents within co-ops, afforded legitimacy by the members of co-ops to make the 'right decision' their behalf within co-ops is not dealt with in the pre-existing literature.

In Lukes' (2005) formulation of power, covert (rather than overt) forms of the exercise of power are often more pervasive, effective and persuasive when 'A' gets 'B' to do something that 'B' would usually not do/choose/act. It will be illustrated how Lukes' understanding of power is relevant as a theoretical framework to this particular research project. In order to elucidate a theoretical framework based on

Lukes' three dimensional model of power, it is essential to understand how Lukes defines 'power'.

For C.W. Mills, suggests Lukes (2005), power ought to be identified with not just with its existence, but with the powerful being in a position to make decisions. It is, therefore, the capacity to exercise power that is the key to identifying where power lies (p 5). Thus it is the capacity for 'A' to be in a position to make 'B' do something that he or she would not usually do.

For Lukes (2005) then, this overt exercise of power is only the 'first dimension' of power in which individuals or groups have been afforded the capacity to make decisions that will affect others by virtue of their structural positionality within the social system, or the charismatic or other forms of authority which present these individuals or groups as 'elites' (p 20). This view of power is based on the study of behaviour in understanding how decisions are made over issues where there is an observable conflict (p 19).

The 'second dimension' of power, argues Lukes (2005), was developed with the intention of improving the Millsian view of power, namely the assumption made by Mills that there is no exercise of power when conflicts are not observable (p 19). Rather, the 'two face' model of power as developed by Bachrach and Baratz stipulates that all political organisations have a bias in favour of the exploitation of some kinds of conflict and the suppression of others because organisation is the mobilisation of bias (p 21). Thus some issues are organised 'into' politics and some are organised 'out' (p 22). This form of power is able to understand the presence of power not only in situations of observable conflict, but in instances where certain issues are 'politically sanitised', not brought to the table for discussion, not deliberated and *not contended* by any party because they are considered outside the realm of 'reasonability'- the realm of *non decision-making*. Thus it is the mobilisation of organisational bias means that those in power (i.e. within a powerful organisation) can mobilise what issues can be brought for deliberation and which issues ought to be consider (organised in) and which issues should be excluded (organised out) of politics- the power to set the agenda.

This forms the basis for Lukes' (2005) formulation of the 'third dimension' of power. He suggests that the organisational bias of the system is not just sustained by individually chosen acts (organisational bias), but by socially structured and culturally patterned behaviour of groups - the system may be biased in ways that are not consciously chosen as a result of individual choices (p 27). Therefore, the third dimension of power is when 'A' may exercise power over 'B' by getting him or her to do what they would not normally do, but also determines or shapes what 'B' wants. It is therefore legitimacy, or at least the perception of legitimacy which is maintained in a socially and culturally patterned way (i.e. a normative and symbolic interactionist framework) of a given organisation that is the exercise of the third dimension of power- *the ability to determine what people will choose* (Ibid).

In terms of mapping out the relationship between stakeholders in the co-op development process in the EMM, the local state and its agents of co-op development, it is the second and third dimensions of power as elucidated by Lukes that are of particular interest. Lukes provides a useful theoretical framework to understand how covert power relations are implicated in determining the co-op form. The theoretical framework allows for the simultaneous assessment of the internal dynamics within the case studies as well as the relationship between the state-sponsored co-ops and the EMM.

Lukes' concept of 'organisational bias' is useful in understanding the role of the various organisations involved in co-op development in the EMM, particularly over which policies, legislation, various governmental attitudes, dispositions and beliefs around co-op development might mobilise the type of decisions that are considered 'safe' to be made both by the state (locally, provincially and nationally) in relation to the thrust of co-op development; and by co-ops themselves in relation to what they can (or cannot) demand from the state. The second dimension of power as a concept is also useful for understanding the nature of the state bureaucracy in terms of how the hierarchy and division of labour on the one hand, and the prospect for oligarchy, on the other are implicitly connected to the mobilisation of organisational bias.

The third dimension of power is useful for understanding how the state at all its levels, but particularly the EMM, is perceived by worker-owners within state-sponsored co-ops, and how this perception affects decision-making. This is to suggest that the formulation of a particular normative and value based framework around co-op development that is constituted by the relationship of these co-ops to the EMM is the locus of the co-ops' perceptions toward the EMM and the co-op development process. This normative framework that is mutually constituted (through the thrust of the EMM's LED policy but also through symbolic interaction) could potentially have a role to play in the type and scope of issues (for our purposes issues of funding, training and procuring government contracts) that are considered to be within the ambit of 'acceptability' in relation to the co-op development process and state rule.

Concretely put, the normative framework, or the social and culturally patterned interactions, will determine the limits to 'acceptable' interactions between the co-ops and the EMM, especially in terms of the degree of autonomy from state interference (and the prospects for relations of dependency to develop between the co-ops and the state) the co-op might enjoy, the frequency and type of interactions between the co-ops and various government officials as well as in terms of what is discussed at ad hoc and planned meetings between state-sponsored co-ops and the EMM. This raises further prospects for enquiry around understanding the networks of power (both formal-state mandated-and informal-socially constituted- networks of power) between various government officials and departments as well as between EMM officials and the co-ops by allowing us to determine, through an evaluation of the mutually constituted normative framework what exercises of power are considered normal, acceptable or even desirable by co-ops in relation to the EMM.

In terms of the internal structure of co-ops and the prospects for democracy or authoritarianism, all three dimensions of power are relevant to an evaluation of how decisions are made within these co-ops around production, marketing,

management, and how the internal structures of state-sponsored worker co-ops are deeply implicated by the norms and values around co-op development and power relations within the co-ops. When decisions need to be made, an evaluation of an overt exercise of power by certain factions within co-ops ought to be understood, even within the context of an alleged and formal 'democratic' decision-making (based on one-member-one-vote). That is to suggest that it is possible that certain individuals perceived as being more 'able' to make the 'right' decisions and are thus afforded a high degree of authority and legitimacy to make decisions that would be 'beneficial' to the co-op in terms of possible open market success. This also brings in the issue of oligarchy, and the possibility that strategically placed individuals could enjoy high levels of legitimacy and authority within a co-op and use the co-op's structures to mobilise their own interests.

### **2.9. A Framework for Understanding the Local State**

Having raised questions about Satgar's (2007a) understanding of the state, and having suggested that the state exercises power over popular class organisations, such as worker co-ops, it becomes necessary to outline the theory of the state that is being used in this work.

One approach to the state is that of liberal-pluralism, which thinks of the state as a neutral body that may be wielded by various interests. Since, however, society is marked by structured inequality, interest groups are never equal; the state must be biased towards the wealthy and powerful, regardless of the existence of parliamentary democracy, as anarchist (Bakunin, [1870] 1971: 220-222) and Marxist (Miliband, 1977) writers have stressed.

Marxism therefore suggests that the state should be seen as basically subordinate to the economically dominant class (Miliband, 1977). By contrast, Anarchism, in rejecting economic determinism, however qualified, stresses the independent and autonomous resources and dynamics of the state (van der Walt and Schmidt, 2007: 109-113). Agreeing with Marxism that class is the central inequality in society, it

argues that the dominant class as an elite comprising as both those who control means of production (capitalists) and those who control means of coercion and administration (the state managers) (van der Walt, 2011: 16).

The state is therefore not neutral, nor is it simply a tool of economic interests: it ensures both the economic and political power of a tiny minority, and any group heading the state, which is a hierarchical organisation controlling territory, is ipso facto part of that ruling class. If we apply this understanding, it is possible to understand the relationship between the EMM and its state-sponsored worker co-ops as shaped by interplay between neo-liberal commitments and attempts to control the working class.

Bakunin (1870) suggests that state legitimacy and ostensible support for popular initiatives would “denature and retard” their autonomy and internal structures, reinforcing internal hierarchy and external subordination to the state authorities (p 346). This is not to say that independent internal forces can also “denature and retard” democracy in popular organisations (such as culture), because the popular classes are by no means automatically revolutionary or democratic. However, just as the Russian peasant commune, the *mir*, with its faith in the Tsar as a benevolent ‘little father’, was ‘denatured’ by an authoritarian political culture, so too, by inference, would positive perceptions of the state by other popular organisations ‘denature’ their politics and structures, I would suggest that this framework provides a useful basis for understanding how the relationship between state-sponsored co-ops and the EMM might be articulated in terms of the state being an ‘ultimate guarantor of rights’ and of co-operator’s confidence in the state as a vehicle for co-op survival. It is precisely this confidence that would enable the operation of all of Lukes’ dimensions of power in and over the state-sponsored co-ops of Ekurhuleni. Rather than the state as potential ally of co-ops, Bakunin’s and Lukes’ analyses suggest that the state could not act as a mere supporter of autonomous working class co-ops.

## **2.10. Toward Developing Testable Hypotheses**

However, while the Millibandian and Bakuninist approaches to the state are useful, it is important to *test* them through research, rather than assume their validity and force the data into their moulds. Therefore, I will develop here some modest but testable hypotheses, with particular reference to the arguments of Philip (2006 and 1998) and Satgar (2007a and 2007b), and the other literature.

**Hypothesis 1:** A hierarchical structure does not guarantee co-op success in open market competition.

**Hypothesis 2:** Worker co-ops struggle to survive, as they operate in marginal markets and face entrenched, powerful competitors.

**Hypothesis 3:** The internal structure of co-ops is shaped by a range of factors, besides the imperatives of open market competition.

**Hypothesis 4:** Sponsorship by the state will demonstrably undermine co-op democracy, rather than promote it

The hypotheses will be tested with empirical data collected in the field concerning the internal form of the state-sponsored co-ops and their relationship to local markets and to the state.

## **2.11. Conclusion**

In this literature review, an exposition of literature around co-ops in South Africa was performed in order to understand how this research project ought to make a meaningful contribution to the pre-existing body of literature on co-ops in the pre-apartheid, apartheid and post-apartheid South African context. A discussion of the MCC in Spain and of the experience of worker self-management in the former Yugoslavia was performed in order to develop a more solid understanding of how an archetypal cases: a 'successful' co-op programme that competes successfully in the market, in the case of Basque Spain; and state-led development in the form of

worker 'co-ops' in Yugoslavia. These have important implications for how we understand the EMM co-ops.

The literature review also allowed us to define the gaps in the literature, and allow us to justify how this research project could make a contribution to our understanding of co-op development projects in South Africa; an exposition of the south African literature on co-ops development in the pre-apartheid, apartheid and post-apartheid eras, allowed us to develop four testable hypotheses which would form the basis of the research project. The theoretical framework, using Lukes (2005) and Bakunin (1870 & 1873) then enabled an evaluative framework to understand the relationship between state-sponsored co-ops and the EMM, and what this might mean for the internal form of the co-ops under study.

## Chapter 3: Methods and Methodology

### 3.1. Overall Approach

In order to provide some answers to the research question, it is essential to have a well-designed and carefully thought-out research design. In this research report, although the specific cases chosen may not have external validity because of their context specificity, general conclusions that can be drawn about the relationship between the EMM LED department and state-sponsored worker co-ops under study in terms of autonomy in decision-making can have applicability outside of this research project. That is, the analysis of the relationship between state-sponsored co-ops, markets and the state has theoretical generalisability for how we understand the process of democratisation and development in situations similar to those found in the research site and phenomena under study. This requires theory to be tested – where necessary, to be refuted – in order to build theory that can help explain the relationship between state-sponsored co-ops and the state itself in a range of contexts.

Burawoy (1998) suggests that in the extended case method, ‘dwelling’ in theory through participation provides the basis for a reflexive model of science that uses engagement rather than detachment from the social world in analysis (p 5). Reflexive science uses multiple dialogues between observer and participant, between local processes and extra-local forces and, through the former processes, extends the dialogue of theory with itself (ibid).

While Burawoy stresses participation as the key means to gain context specific, qualitative understanding of the social processes at hand, full-time, lengthy participant observation in the field is not always possible. In my case, for example, full-time participant observation was not possible due to time constraints, and due to my not being able to become a member of one of the co-ops under study(the

researcher did not meet the criterion for membership<sup>3</sup>). However, Burawoy's general point stands: while unable to use full participant observation, I was able to immerse myself in the co-op world through in-depth interviews and non-participant observation.

Four 'extensions' of the extended case method are, Burawoy suggests, important to a research project. These are, firstly, 'extending' from an observer to a participant. This required immersion in the field, whereby the observer produces social 'ripples' (reactivity of the responded due to the researcher's presence) worthy of observation (Burawoy, 1998: 17). Secondly, extending one's observations over space and time, which necessitated extended time spent in the field in different participant's contexts, serves as a means to understand and condense social phenomena toward broader social processes (Ibid: p17/18). Thirdly, extending out from social processes to social forces, showing that the social processes observed exemplify common patterns that can be viewed as social forces (Ibid: p19), Lastly, an extension from understanding social forces to developing theory requires using data collected to build upon and challenge pre-existing theory (Ibid: p20).

The extended case approach therefore, was useful as a methodological framework to govern data collection and theorisation. The importance of the extended case method logic to this research stemmed out of a desire to understand the relationship of two state-sponsored co-ops to the EMM in terms of perceptions, opinions, norms and values of respondents developed in their relationships in order to draw out the social processes and forces that centre around power. These phenomena interpreted from each case study could was then explained in conjunction with the theoretical framework that guided observations and was simultaneously used to test observations.

The research question is definitively a 'what' question that is; it is primarily exploratory and thus seeks to understand what constituted the relationship between

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<sup>3</sup> The criteria for co-op membership is discussed at length in chapter six.

state-sponsored co-ops, local markets and the EMM. The research is primarily exploratory in that it seeks to uncover exactly what the relationship between the three is by understanding how the relationship is structured and articulated by the parties involved. A further avenue for research on this topic would be to try and understand why these phenomena are happening. The conclusions of the research sought to make tentative arguments as to why the particular phenomena under study are happening.

### **3.2. Site Selection**

The desirability of studying the relationship between state-sponsored co-ops, local open markets and the EMM in Gauteng is that Gauteng is the principle hub of economic activity in South Africa. While Ekurhuleni is still the major site of industrial production within Gauteng, the economy of Ekurhuleni has experienced a major neo-liberal transformation, characterised by a shift toward light manufacturing and services, as well as a very high unemployment rate. Yet, remarkably, and seemingly at odds with the neo-liberal project, the EMM has also sought to develop co-ops by providing funding and training to the co-ops that they had set up. By using the rhetoric and praxis of LED, neo-liberal market fundamentalism permeated the IHP, by forcing upon co-ops 'autonomy' from state control and 'success' being measured by profitability. Thus the research site provided an interesting geographical space to test the hypotheses developed in the literature review, and the work of Philip (2006) and Satgar (2007a).

### **3.3. The Units of Analysis and Scale**

The principle unit of analysis for this research is that of the co-op as an organisation. That being said, it was the individual worker-owner's experience of decision-making within two worker co-ops as case studies, these co-op's forays into local markets, and the experiences and perceptions of co-operators and EMM officials in the relationship that constituted the core unit of analysis.

This was important because the research sought to understand the perceptions, motivations and actions of co-operators and officials in terms of the various and multi layered dimensions of the relationship between the two. In terms of scale, the research moved from the 'small' individual, to the organisation of the co-ops in the study, to the analysis of their contexts and their effects, to the derivation of generalisations from these cases.

Why, then, choose *two* co-ops as cases? According to Skocpol and Somers (1980), the logic of juxtaposing cases is to persuade the reader that an explicitly delineated theory can repeatedly demonstrate its fruitfulness (p 176). John Stuart Mill's development of the 'method of agreement', suggests that the overall differences between cases are important, but the crucial axes of similarity between cases can provide the basis for demonstrating the validity of a chosen theory. The opposite of this logic is to use the 'method of difference' whereby similarities between cases are important, but the crucial difference between the cases is the basis on which theory can be tested (Liebersohn, 1991). This is not to suggest that the two methods are, by definition, at odds with each other. Rather, the two methods are complimentary to inferring causal logic, on the one hand, and improving, refuting or confirming deterministic theory.

The choice to select two state-sponsored co-ops as cases derives directly from the synergy between the method of agreement and method of difference approaches to case selection. The study of the co-ops as two separate cases allowed the researcher to track similarities and differences in perceptions and experience between the individual worker-owners and in their relationship to the EMM officials on their own terms. This stemmed from a desire to isolate the relationship specifically between these state-sponsored and initiated co-ops in relation to the EMM, and the relationship between internal democracy within a co-op and possible market success.

In order to test hypotheses of this project, I identified two co-ops that were analogous in terms of being set up by the EMM LED department through similar processes of training and funding, that had failed to penetrate local open markets in a sustained way, that have existed for longer than five years, are involved in 'light manufacturing', have had regular meetings with EMM LED department officials, and have attended the quarterly EMM Co-op Forums, to which all IHP state-sponsored co-ops sent representatives. However, the logic of choosing two cases is not only based upon finding similarity, but also on finding difference, particularly of critical differences that shaped the contours of the co-op's relationship to the EMM, on the one hand, and whether each co-op was run in a participatory and democratic fashion or not (in particular in relation to market pressures).

Variables such as the internal decision-making dynamics and structures within co-ops, the relationship between members of each co-op, and the relationship between the internal decision-making dynamics of the co-op and possible market success and failure were pertinent. Just as important was an assessment of the relationship between state-sponsored co-ops and the EMM (in terms of formal/informal networks, power relations, agency and autonomy) but also the normative framework that shapes the relationship to the EMM more broadly and how the local government and co-ops might affect the norms around co-op development respectively. In the final analysis of cases and their relationship to open markets the EMM LED department, juxtaposition and synergy between cases formed the basis for testing the four hypotheses developed in the literature review.

### **3.4. Sampling Techniques**

In this research, the researcher used non-probability (namely purposive) sampling in order to identify suitable respondents (co-operators in two state-sponsored co-ops and government officials and ward councillors involved in co-op development in the EMM). Maxwell (1998) points out that non probability sampling is useful in choosing respondents who will be able to provide specific information – rather than according

to the respondent's representativity of a broader population, which is often the strategy used in quantitative methods. Purposive sampling was the most relevant from of sampling to this research project because the researcher sought to understand a particular relationship between specifically state-sponsored co-ops, open markets and the local state as these relationships were articulated within a specific context. While the sample cannot said to be representative of a broader population, the research nevertheless produced theoretical generalisations as suggested by the extended case method, in the form of more general propositions to about the impact of the state in co-op development projects, with tentative applicability elsewhere.

### **3.5. Data Collection Strategies: Interviews, Documents, Observation, Focus Groups**

#### **3.5.1. In-depth Interviews**

I interviewed seven co-operators, two EMM officials involved in the co-op development project and five individuals involved in the training and setting up of the co-ops. The interviews provided a wealth of data which helped me understand a range of perceptions toward participation in co-op development more broadly and decision-making in particular.

According to Weiss (1995), qualitative interviewing as a data collection strategy is useful when the objective is the production of deep, contextual and detailed knowledge and that it is often used in cases where it is important to access data regarding people's experiences, perceptions and interpretations of the perceptions, as well as about how events affect their thoughts and feelings, and what meanings they attach to their experiences. This was important for the purposes of this research, which required this type of rich contextual information. This type of contextual information was necessary to understand the co-operator's as well as the official's experiences, perceptions, interpretations and understandings of participation in determining their own roles in decision-making within co-ops, the

extent of co-op market access, power relations within co-ops, and the relationship between co-ops and the local state.

### **3.5.2. Document Analysis**

According to Mariampolski and Hughes (1978) the major constraint in using primary data sources is that 'data collection and transmission procedures are beyond the control of the researcher', and that the materials available 'are not a matter of choice' (p110). Nevertheless, document analysis became a useful strategy for data collection in this research. Analysis of the 2005 Co-operatives Act, the National Co-operative Development Policy (2003), the Gauteng Provincial Government Co-operative Development Policy (2004), the EMM LED Policy (1999), the EMM LED department Co-operative Position Papers (2003-2010), EMM Executive council meeting minutes, co-op meeting minutes, training manuals for co-ops and co-op statutes and financial statements were useful in trying to determine the policy and institutional nature of the relationship between co-ops and the state.

A comparison between what the documents say about the developmental and democratising role of co-ops and the role that various levels of government ought to play in the co-op development process and how this actually plays out on the ground was of utmost importance to the research.

### **3.5.3. Non-Participant Observation**

Non participant observation of how decisions were made within co-ops was useful in understanding the dynamics of decision-making, and learning of the day-to-day experiences and challenges that co-operators face within the co-ops themselves. 12 weeks (six weeks in each co-op) were spent with co-operators at their place of work, the co-op, which allowed the researcher to build trust and rapport with respondents.

Unfortunately, *participant* observation was not possible for two reasons. Firstly, the researcher came to the research site as an outsider, and was not a member of the township community, and there was not enough time to develop effective insertion. Secondly, as the researcher did not meet the criterion for membership in a co-op i.e. living in the same ward in which the co-op was located, unemployed, previously disadvantaged, and so could not really join either.

#### **3.5.4. Focus Groups**

A focus group was held with members of Buthina Borona Household Co-op. A focus group was not able to be held with the members of Mapungubwe Sewing Co-op because it proved impossible to get all of the members together at once to hold a focus group. In addition, the members were unwilling to participate in a focus group. Nevertheless, I developed a schedule of questions for the focus group that was held with the membership of the Buthina Borona Co-op. I developed the schedule of questions in order to guide the respondents toward producing conversation that was useful to the research. The focus group was a useful tool in picking up on dynamics between respondents, that is, verbal and non verbal cues which allowed the researcher to gain a greater understanding of how respondents relate to each other, and how more or less power and legitimacy was held within certain individuals within a co-op. In addition to the relationships between respondents that the focus group elucidated, the focus group were an invaluable resource which produced much contextual information such as stories, anecdotes and challenges that the Buthina Borona co-op faced on a day-to-day basis.

#### **3.6. Plan of Analysis**

The data attained from the in depth interviews, document analysis, non-participant observation and the focus group was coded along thematic lines. Some of the themed codes included: role of local government, role of national government, role of provincial government, internal democracy, success/failures of the co-op in the

market, positive involvement of EMM in developing co-ops, negative role of EMM in developing co-ops the extent of co-operator participation in determining production decision outcomes, norm construction, autonomy, formal/informal power networks, oligarchy, and democracy. The thematisation of coded data allowed the researcher to test the hypotheses developed in the literature review and make generalisations based upon the clustering and frequency of similar responses around the questions asked as well as divergences and common threads within and between cases, relationships and the various documents analysed, which is the basis of the comparative case study methodology.

### **3.7. Ethical Appraisal**

It was imperative that ethical standards were adhered to at all times over the course of this research. As the co-operators and local government officials are not vulnerable subjects, the research did not cause harm to them. The following underpinned all research processes: It was made clear to all respondents that participation in the research was voluntary, and that respondents were free to withdraw from the research at any time; the purpose of the research was made clear to the respondents; confidentiality was guaranteed if respondents so wished; permission was obtained by respondents for interviews to be tape-recorded.

When permission was not granted, no tape recorder was used; an opportunity was provided for participants to obtain appropriate information about the nature, results and conclusions of the study. When respondents wished to remain anonymous, this request was granted, as to not cause harm to the respondents who requested anonymity. While it seemed improbable that harm could come to the respondents in the co-ops studied if the state officials were privy to the names of respondents, possible harm to respondents was avoided by keeping names and details private.

## **Chapter 4: Industrialisation, Deindustrialisation and the Origins of Local Economic Development (LED) and State-sponsored Co-ops in Ekurhuleni.**

### **4.1. Introduction**

This chapter seeks to discuss the context in which the EMM worker co-ops are embedded, and how the EMM's co-op development project was envisioned and then set up by the municipality. Massive poverty and deindustrialisation, the rise of neo-liberalism and the transition from apartheid, are the backdrop to the EMM's LED and IHP initiatives. LED stresses local development and empowerment, as well as BEE, yet must be located in state policies that promote marketisation while seeking to legitimise the post-apartheid state and control the Ekurhuleni townships. LED portrays the state as a space in which the interests of working class people can be heard, on the one hand, and committed, on the other, to helping the black working class out of poverty and unemployment.

This chapter examines the impact of industrialisation and then the relative decline of heavy manufacturing toward light manufacturing in the former East Rand, noting how the shift from Import Substitution Industrialisation (ISI) policy toward greater market liberalisation coincided with the long-term unsustainability of the apartheid economy and polity in a liberalising global economy. The chapter also discusses the formation of the East Rand's African working class from the early 20<sup>th</sup> century, through apartheid, up until the post-apartheid dispensation. This chapter then goes on to discuss the rise of broadly Keynesian (RDP) then neo-liberal (GEAR) macroeconomic policy at the national level in the post-apartheid period, and suggests that LED acts to maintain the legitimacy of neo-liberalism at the level of the local state.

I make the argument that the seemingly contradictory impulses of neo-liberal restructuring and of 'people centred' LED are in fact quite compatible, since the

EMM's LED policy sees a market order as the heart of 'people centred' economic activity. The EMM intervened strategically into the Ekurhuleni economy to correct economic problems that capitalist markets could not seem to correct on their own. The IHP, and more broadly, state-led co-op development, were also a means by which the local state could re-legitimise its role in society considering the deleterious effects of neo-liberal transformation discussed in the chapter. Moreover, 'strategic interventions' in township economies, for example the IHP, allowed the local state to be recast itself a neutral arbiter of interests in economic development in Ekurhuleni.

The central argument of this chapter is that while the process of setting up the co-ops was framed by municipal officials at the EMM's LED department as an essentially grassroots, bottom-up process, the agenda for co-ops development was actually set by the municipality itself, with no participation or consultation with communities as to whether they actually wanted co-ops or not. Within this process, the municipality should be understood to be a guarantor of existence for co-ops in Ekurhuleni.

A corollary to the central argument is that while co-operators, once set up within co-ops could choose the products that they would like to produce collectively, and design the internal procedures for democracy, member participation and member control, seemingly autonomous from control by the state, the final form of the co-ops was designated by the local state itself and the objectives set for the co-ops by the state were not democratically decided upon. Central to these were objectives framed within neo-liberalism: that the co-ops should develop into profitable market enterprises. Thus, the co-ops development project of the EMM reflected neo-liberal imperatives for economic development in the Metro.

#### **4.2. Industrialisation, Urbanisation and Poverty on the East Rand**

The massive gold mining industry of the Witwatersrand had its epicentre in the East Rand (now Ekurhuleni) by the 1920s (Nieftagodien and Bonner, 2001). South Africa's rapid growth of secondary industry from the 1910s was also centred on this area, which drew in vast numbers of black workers, both permanent and migrant. By the

1940s, the South African economy was dominated by manufacturing, which boomed until the late 1960s, when the economy entered serious decline (Kemp, 1991). By this stage, the permanent settlement of a massive black proletariat was evident, in part due to the economic decline of black homelands (Bonner, 1995). Apartheid laws were unable to prevent the process, although limiting and controlling the urban black population through influx control and urban planning was central to the apartheid project (Bonner, 1995; Kenny and Barchiesi, 2002; Posel, 1983).

### **4.3. Relative Deindustrialisation on the East Rand**

Despite the 1960s boom, the apartheid economy had serious internal problems (Kemp, 1991; Moll, 1989), and from the 1970s entered a deep crisis. The East Rand was hard hit, as industrialisation moved first to stagnation then to reversal. This meant a sharp decline in the ability of manufacturing to absorb new labour (Kenny and Barchiesi, 2002).

The adoption of neo-liberalism from 1979, accelerated under the ANC from 1994, exacerbated the situation (Marais, 2002). Large state industries shed jobs, while trade deregulation exposed local firms to fierce competition. Meanwhile, the East Rand's gold mines also shrunk dramatically, shedding jobs. The situation generated massive unemployment and unrest, particularly in the 'Kathorus' (Katlehong-Thembisa-Vosloorus) complex, which dwarfs Johannesburg's better known Soweto. With economic stagnation, a large mass of unemployed and under-employed workers struggled to survive. A lack of skills development for black workers on the East Rand (Bonner, 1995) also reduced their employability in other sectors. Political reforms from the late 1980s removed influx control (Rogerson, 1990) compounded the problem as massive squatter camps emerged. By 2006 the estimated unemployment rate for Ekurhuleni was 40 per cent (Machaka and Roberts, 2006).

#### **4.4. LED, Neo-liberalism and Co-ops in Ekurhuleni**

Neo-liberalism was first adopted in the last years of apartheid, and was retained by the post-apartheid government. Although the 1994 Reconstruction and Development Programme (RDP), promised in the ANC's first election campaign, leaned to Keynesian policies (Hart, 2002; Chipkin, 2002), it was superseded in 1996 by the far more neo-liberal Growth Employment and Redistribution (GEAR) policy (Bond, 2000; Marais, 2002). The GEAR policy, advocated a much more influential role for the market in bringing about a 'service delivery state'.

GEAR is neo-liberal, but operates alongside an African nationalist project of BEE, centred on creating a black capitalist elite i.e. the imperatives of BEE seek to make the capitalist class more demographically 'representative'. While BEE, in the sense of state support through legislation and subsidies for *black* capitalists, does go against a strictly laissez faire neo-liberal approach, undertaking some direct social engineering, the BEE project is harmonised with the neo-liberal one wherever possible: for example, state privatisation contracts have been directed to BEE companies. There is not a perfect fit between neo-liberalism and BEE, but there are compatibilities (van der Walt, 2011).

However, even after the original RDP was quietly abandoned, the ANC government retained a commitment to a central role for local government in economic development, institutionalised in legislation and policy such as LED. Rhetorically, the language of the RDP was retained in GEAR:

... foster the growth of local economies... formulate strategies to address job creation and community development ... If necessary, the democratic government must provide some subsidies as a catalyst for job-creation programmes controlled by communities and/or workers ... target appropriate job creation and development programmes in the most neglected and impoverished areas of our country (GEAR, 1996: 5).

The ANC swept the East Rand elections in 1995 and 1999, with huge support from the townships, which were also COSATU and SACP strongholds. Yet the ANC

embraced a policy framework thoroughly imbued with the logic of neo-liberalism. Neo-liberalism, according to Bond (2000), was viewed as the solution for an ailing national economy, characterised by industrial decline and pressures for thoroughgoing global integration.

Yet running alongside a fairly orthodox neo-liberal programme, including privatisation, casualisation, trade and capital liberalisation, was the RDP language of 'democratising local governance' and a 'developmental' role for the state. Even today, the African National Congress (ANC) describes its project as a 'developmental state', which puts people at the centre of development, and which implements a common national agenda based on a popular mandate through elections (ANC, 2007).

Are these contradictory projects? The vague participatory rhetoric on the part of the ANC is, in fact, quite compatible with the neo-liberal project because a 'people driven' economy can be viewed as market economy, which integrates the poor and is created through the interventions of a strong state. If that state plays a central role in 'development', it can do so by partnerships with the private sector and other parts of civil society. Where necessary, the state can actively intervene in the economy to deal with market failures, such as failures to deliver jobs or services to poor communities – again, this is quite compatible with neo-liberal theory (Friedman, 1962).

State interventions *supplement* the market, but do not *substitute* for it when this is not necessary. The EMM committed itself to reviving the East Rand economy with initiatives designed to attract (or foster) private business, such as large-scale municipal support of the development of industrial districts and clusters (Machaka and Roberts, 2006: 123). The IHP in Ekurhuleni may be seen in this context. The EMM stepped into township economies to promote job creation and poverty alleviation by developing worker co-ops, in a context where the local township markets (and the Ekurhuleni economy as a whole) were unable to create adequate jobs or end poverty. As indicated in chapter one, the aim of the state, in fostering co-ops, was to create co-ops that could compete effectively in markets and quickly be

weaned from state support. Since the members of these co-ops would almost certainly all be black, state-sponsored co-ops could also be viewed by officials as part of the BEE project.

Both of these sets of initiatives form part of LED, wherein the local state creating conducive conditions for the market to lead development. Authors such as Oldfield (2002) and Chipkin (2002) suggest that the seemingly contradictory impulses of neo-liberalism and democratic development rhetoric are brought together in the LED policy. 'Democratic development' involves the state creating conditions for market-led growth, and these conditions include involving communities and firms in consultative processes when devising development policy.

#### **4.5. The Origins of LED**

Pieterse (2002) explains that a central role for local government in development arose from the White Paper on Local Government (1998), which emphasised participation, efficiency and partnerships with communities, business and civil society (p 6). There was a growing global interest in democratising and decentralising governance, in line with notions that effective capital accumulation requires partnerships (Evans, 2002), and this partly explains why a central role for local government were also embraced in South Africa's post-apartheid constitution, the original RDP, and the RDP White Paper (Pieterse, 2002). Hart (2002) also stresses that a degree of decentralisation toward local government administration is not unusual in neo-liberal transformation (p 235). However, notions of "peoples' power" in the ANC-led movement, championed also by COSATU and the SACP, also played a role.

The Municipal Structures Act of 1998 and the Municipal Systems Act of 2000 provided the basic framework whereby communities would have some role in development through ward committees, and also provided the mechanisms of LED and IDPs. These Acts were closely tied to the creation of new local governments that merged former white, black, Indian and Coloured townships into common

municipalities, of which the largest are the 'Metros'. Thus, the EMM was created in 1998 through the centralisation of about ten East Rand local government structures.

In practice, popular participation in local service delivery and development through LED and IDPs has been largely superficial (Oldfield, 2008: 489). It has centred on 'customer consultation' rhetoric, with privileged access to participation controlled by ward councillors, who control the ward committees (Ibid, p 491). Since councillors are bound by neo-liberal national, provincial and local economic policies and budgets, their ability to address immediate community demands is also very limited.

So, while local government is presented as a prime mover of development, it does so within narrow limits set by larger policies. Thus, while the new municipal systems opened new opportunities for township communities to exercise their rights and make demands, elected local politicians tried to balance urgent demands from poor communities with the imperatives of fiscal austerity in highly unequal urban centres (Hart, 2002: 235).

If the local state was envisaged as the key facilitator of development, other bodies like NGOs, unions and churches were increasingly seen as 'local developmental organisations' and partners (Chipkin, 2002). Here, the state was framed as a neutral and benevolent actor, a neutral arbiter of interests that gives equal value to the interests of capitalists, the working class and the poor on the other. In the rhetoric of 'developmental local government', community participation was necessary to the development process, including its legitimacy for township communities (Xusa and Swilling, 2008: 264).

#### **4.6. Co-op Development and 'Industrial Hives' in Ekurhuleni**

The EMM co-ops clearly fit into the drive to LED. Co-ops are understood by the EMM as a means of involving working class people in development, and of integrating them into open markets as competitors. Although potential market success for co-ops should be realised by 'producing locally for local demand' (EMM LED policy, 1999), this rhetorical framing of the role of state-sponsored worker co-ops in LED

could not escape the logic of the free market competition in the townships, where co-ops would be competing with large retailers and informal traders for business. Therefore, co-op democracy is not the key measure of success: it is by the production of commodities by disciplined workers, that success is measured. The EMM LED department clearly believed that the worker co-ops could garner support from local communities, as job creators and as service providers, thus also enabling a sort of broad-based BEE for township people. Success would mean that the 'second economy' of the townships could start to merge into the 'first economy' of the suburbs and city business districts (EMM, 2010).

Why, however, co-ops in the first place, rather than SMMEs? SMMEs are, in fact, absolutely central to LED programmes, and are closely associated with neo-liberalism. The basic interest in co-ops has its roots in the ANC movement. Co-op support was on the ANC's constitutional guidelines for post-apartheid South Africa (Rogerson, 1990: 287), and were supported by the SACP; co-ops has also, as noted above, been championed by COSATU (notably NUMSA) from the 1980s. These commitments to co-op development were carried forward into the post-apartheid dispensation, and became wedded to the neo-liberal project. Thus, for example, the free-market-centred RDP White Paper emphasises financial, credit and training support, regulation and market access support for co-ops (RDP White Paper Discussion Document, 1994).

Since, as noted above, state support for co-ops had been closely tied to apartheid, the new government overhauled the legislation. The Co-operatives Act of 2005 replaced the Co-operatives Act of 1981. This was felt to be inadequate because the custodian of the Act was the Department of Agriculture, which this linked support for co-ops toward agricultural and trading co-ops (and white farmers); it was not suitable for a more inclusive, comprehensive development of co-ops (Satgar, 2007b: 2). The 2005 Act defined co-ops as 'autonomous associations of persons united voluntarily to meet common economic and social needs and aspirations through a jointly owned and democratically controlled enterprise organised and operated on cooperative principles' (Cooperatives Act of 2005: 2). The National Co-ops Policy

(2004) and the Co-operatives Act (2005) however also envisage co-ops as a means to foster a move to the 'first economy'- a move; however, that must start with some state support through measures like training and funding.

The (DTI) became the custodian of the 2005 Act, and created a co-ops section. The DTI Co-op Development Unit provides the broad framework within which provincial and local government should develop co-op development strategies (COPAC, 2006: 8). The DTI, although it has a concrete industrial strategy, centred on promoting export industries (Bezuidenhout, 2010), is generally strongly neo-liberal. Locating co-ops within the DTI ambit is significant: it links co-ops to the neo-liberal project.

At the provincial level, the Gauteng Department of Economic Development (GDED) drives co-operative development at the provincial level through the policy thrusts of the provincial co-ops policy of 2007. This department too provides a special emphasis on local economic development. The emphasis on local economic development means that co-ops support and development ought to be directed toward the support of co-ops in the province.

Local governments are afforded autonomy in developing co-ops, and this has fostered varied and fragmented responses to the development of co-ops. Some municipalities largely ignore co-ops, and where state-sponsored co-ops do emerge, this is from the initiatives of local officials and politicians.

The EMM, located in a huge manufacturing centre and a stronghold of COSATU and the SACP, regularly included ANC councillors influenced by those organisations, and it is thus not surprising that co-op ideas gained some purchase. Given the state's support for co-ops, and given the sympathy of the EMM council for co-ops, as well as the dire poverty of township communities, it is understandable that COPAC's (2005) research on co-ops showed that 54.2 percent of co-ops in Gauteng province were government initiated (p 14).

I would suggest then that giving citizens a stake in 'development' through developing their 'capabilities' via training and funding for co-op development to generate competitive companies can be seen as part of an ideological and pedagogical process

that fosters neo-liberal capital accumulation, on the one hand, while upholding the legitimacy of the local state on the other. Indeed, given some of the deleterious effects of neo liberalism like mass unemployment, the state-sponsored co-ops, in providing the promise of jobs and upliftment, nominally address the problems neo-liberalism creates, so ensuring the state is seen as working class-friendly. Yet this solution is itself framed in a neo-liberal way, based on competitiveness, profitability, transformation of the township economy, as well as the BEE project.

In sum, it could be suggested that the EMM's state-sponsored co-ops have complicated roots, but are closely linked to both the neo-liberal and BEE projects; their development is a means of meeting both *economic* imperatives (job creation and development) and *political* imperatives (legitimizing the state and the market). The LED approach provides the basis for a municipal role in co-op formation, with the EMM LED policy of the stating that the co-ops amount to community-based interventions in the local economy (Ekurhuleni LED policy 1999: 7). This is part of a 'people-centred' approach that views itself as promoting 'equality', 'democracy', 'local production' and BEE (Ekurhuleni LED Policy, 1999: 1, 7). These were tied, in turn, directly to the view that 'municipalities must work to stimulate local production and commerce through markets' and 'deliver municipal services through collective community initiatives and enterprises'. The state would be a 'planner, provider, facilitator or partner' (Ekurhuleni LED policy, 2000: 1-3).

The concrete means through which the state co-ops were established was the IHP, which was part of the EMM's LED and IDP. From 2003 to 2005, the EMM's LED department set up 25 worker co-ops, which formed the basis for the IHP. The national LED fund allocated R 1.5 million, while the EMM's executive approved R7.89 million for the IHP (IERI, 2006: 3).

This funding was specifically designated as 'start-up capital': it would provide starting capital (R 100 000 for each co-op), pay private service providers to train the prospective co-operators, enable the refurbishment of municipal- and other state-owned buildings as premises for the co-ops. Through the training, the municipality pushed co-ops to establish statutes (essentially their 'constitutions') as well as

business plans. Moreover, the new co-ops had to sign Memoranda of Understanding with the EMM, as the condition for access to the start-up capital; these also entailed regular reporting to the EMM LED department by the co-ops.

The initial IHP idea was quite complicated. A 'hive' would be an 'economic node', consisting, firstly, of up to five worker-owned and managed producer co-ops, which were the 'hive's' primary productive units. These would be linked via a 'secondary' management co-op, and a 'secondary' credit co-op. These were 'secondary' in that they comprised of members from the 'primary' production co-ops.

The 'management' co-op would manage the affairs of the industrial hive as a whole. It would be made up of five members elected from the worker co-ops, as a board. Its responsibilities would include maintaining the grounds, repairing shared machinery and tools, and ensuring security. The 'credit' co-op would also comprise up of five members, elected from the worker co-ops. It would provide credit to members for goods purchased from the industrial hive, as well as finance for the worker co-op(s), or to start new co-ops in the community. Other functions of the credit co-op were to provide capacity-building in terms of technical support services such as accounting (IERI, 2006: 20-21). In addition, the chairperson of the credit co-op would be the representative of an industrial hive in meetings with the EMM LED department. Together, these 'hives' comprised the IHP.

The original target of the EMM was to form eight to ten credit unions and thirty worker thirty co-ops, with ten 'hives' or 'nodes' (IERI, 2006: 21). In the end, 12 industrial hives were set up, with 25 worker co-ops spread between the hives, with no credit or management co-ops established anywhere. The reasons for this failure were a lack of appropriate funding, a lack of knowledge and capacity by the co-operators and the LED department to run these 'secondary' co-ops, and a sense of urgency from all parties: the worker co-ops should be started as soon as possible, so that members could begin to pay themselves a wage. This meant that some steps were missed, and the final IHP was rather simpler than originally envisaged.

#### **4.7. Finding Co-operators**

The LED department of the EMM got approval from the EMM to begin implementing the IHP in March 2003. The process was far from smooth, as problems arose from difficulties securing suitable co-op premises, a lack of administrative and management capacity on the part of the LED department, and inadequate funding.

A major problem—which led directly to the inability to create management and credit co-ops in the ‘hives’—arose once the EMM LED department approached the COSATU Job Creation Fund for funding. The Job Creation Fund was set up by COSATU to provide funding for SMMEs for unemployed workers. However, while COSATU promised to provide funding for the IHP in early 2003, it reneged. Other funding had to be sourced from the national LED fund and from the EMM coffers. This led to a long gap between co-ops initiated, and the co-ops receiving funding. This gap was, in some cases, up to four years in duration, leaving co-operators to fend for themselves. Vishwas Satgar, the director of COPAC, a co-ops development and advocacy NGO based in Johannesburg, was very close to the project in the early phases. He explains:

Cosatu’s Job Creation Fund was very disappointing. They should have actually come in and assisted, um, with funding because, you know, this fitted in with creating jobs which is what they ... were positioned from. The national government didn’t have the ability to fund it and nor did the province. So the co-operatives really struggled for a while after they were set up. But that’s the reality; would the bank actually fund a co-operative? You know? So ah, financing for co-operatives is, I think, the most tricky area in terms of a co-operative actually sustaining itself and getting lost without ... (Vishwas Satgar, Interview One: 21/10/2010).

From mid-2002 onwards, even before funding had been allocated to the project by the national LED fund or the EMM, ward councillors were given a mandate by the EMM executive to put recruitment of potential co-operators in motion. They were to

spread the news within township communities (at ward council meetings, for example) that the municipality had the intention of setting up co-ops, and that they wanted unemployed people to get involved. Once councillors had drummed up support within the townships, representatives of the LED department met interested parties at community centres and town halls from October 2003 and March 2004. At these the LED department gave presentations about the IHP, about co-ops and about how getting involved could enable people to pull themselves out of poverty and create jobs. Vusi Mashile, project manager in the LED department explains the process:

People who are unemployed had to bring themselves over, apply, and then there were information sessions held with them, for them to know whether they were engaging as entrepreneurs or some would say no, they want specific jobs, then they would fall out, but those who want to group themselves were then supported on the training (Vusi Mashile, Interview One: 22/09/2010).

The LED department representatives explained that they would get the co-ops started by providing funding and training, and set up an Ekurhuleni Co-op Forum, but that the co-ops would have to become self-sustaining. There was, however, some confusion amongst potential co-operators regarding the aims of the IHP and the co-ops development project. Many simply believed that the government was providing jobs, and asking for applicants. Satgar explains:

We ... learned from that experience about expectations of people, and the kind of immediate change that people wanted through government delivery, there was also a kind of um, a passive citizenship, while your creating the co-operative ideal of worker-ownership, I don't think the idea was clear to beneficiaries. We were clear that we didn't want to set up hope then inflate their expectations and then push them back into poverty. In our interactions, we met weekly with the LED team and constantly wanted these issues addressed (Vishwas Satgar, Interview One: 21/10/2010).

Thousands of applications were submitted to the EMM's LED department. Potential co-operators were asked to bring copies of their ID books so that the LED department could do background checks. The criteria for selecting candidates were that they had to be currently unemployed (but previously employed in Ekurhuleni), that they had to live in wards in which a co-op was going to be set up (or in an immediately adjacent ward), and that they had to have basic literacy skills. A skills audit was also performed by the LED department in conjunction with the Provincial Department of Labour, to assess the training, education and skills that potential co-operators had. The skills audit was completed between October 2003 and March 2004 (EMM LED Department Progress Report Summary, 2005: 3). The skills audit was used to build a database in which potential co-operators could be selected. Also important was that the co-ops needed skills to be successful. Karuna Mohan, former head of the LED department, explains:

... the worker-owner issue was to really say the East Rand was the industrial hub of the country and it still is, and ah, in many senses you have the proletariat that has been displaced from formal labour, and in particular you were looking for those skilled people who worked previously in industry to actually get involved, hence the worker-owner issue (Karuna Mohan, Interview One: 16/09/2010).

On the process, Satgar notes:

Out of that (skills audit) we generated lists of beneficiaries , we built up a database , I think we even tried to get CVs and so on onto the database, so out of these processes, selections were made, so it was not top down, the beneficiaries weren't handpicked, it was open, public and transparent... (Vishwas Satgar, Interview One: 21/10/2010).

Not all who were selected chose to stay with the IHP programme. Mohan reports that 'there were a number of people who after they realised what a co-operative was didn't want to be in it, and that's a choice that people made' (Karuna Mohan, Interview One: 16/09/2010).

The LED department was continually hampered by the lack of administrative capacity on the part of the department. Ms Mohan explains:

Well, maybe we need to just to be clear, the LED department between 2002 to around 2004, towards the end of 2004 comprised of me only, so I only got staff in late 2004 and I had to train a lot of my staff on what is economics, what is local economic development, what is development and also in terms of training them on what is co-operatives (Mohan, Interview One: 16/09/2010).

This led to delays in getting the IHP off the ground, but eventually successful applicants were chosen, and allowed to choose who they would like to have in their co-op, and were instructed to elect an executive out of the new co-op's membership. Then basic training was provided, and the co-ops had developed their business plans, statutes and were registered with the Department of Agriculture (this was before the 2005 move of co-ops to the DTI).

Business management, accounting and co-op principles training and developing business plans and co-op statutes was outsourced by the EMM LED department to the Department of Labour. The Department provided on-the-job training in the skills co-operators would need to actually produce, as well as training in as accounting, business management. COPAC was commissioned by the EMM LED department to provide training to co-operators on co-op principles and conflict resolution. It focussed on training around co-op principles, co-op management and participatory decision-making. In addition, COPAC assisted co-ops in performing viability studies for the products they proposed to produce, and helped them draft their business plans. Overall, besides the training, COPAC's role in the IHP was to try to develop 'co-op consciousness' within the minds of co-operators.

It was also later explained to co-operators by the LED department that they could apply for further funding from various governmental bodies such as the DTI and the Usombovu Youth Fund and, by 2006, the Gauteng Enterprise Development (GEP).

The GEP was a Gauteng Provincial Government initiated organisation with a mandate to provide SMME and training and funding.

Although many of the co-ops were registered on paper, they usually did not have premises from which to operate, nor start-up capital with which to set up their enterprises. While the LED department had managed to find and refurbish a dozen old municipal buildings for the 'hives' to be set up, many co-ops were only provided with premises at the end of 2006. The reason was that there were many bureaucratic hurdles to be crossed: determining which local and provincial government departments owned particular buildings, checking whether these buildings were occupied or not, and then seeing if buildings on offer would suit the needs of newly set up co-ops. Following this, the buildings had to be refurbished.

Finally, the start-up capital of R100 000 was provided by the LED department. However, while some co-ops got these funds in early 2006, for many, this final step was often only completed from late 2007 to mid-2008. A respondent close to the project in the training phases, who preferred to remain anonymous, describes how the delays raised and then dashed the expectations of co-operators and their families:

[It was] anything like two years before the money was in the bank account of the co-operative. Now in the meantime you are dealing with adults, probably with family responsibilities, and they don't live on air in between. They come back home every day to tell their families that we have hope, there will be employment coming, and months and months go past... By the time the money goes into the bank, they start using it for all kinds of other purposes, not related to growing the co-operative... you create a terrible mindset of dependency, and this expectation and entitlement when co-operatives are about self help!

When people put their names down we have to say: 'ok fine , you are unemployed, you are interested in becoming a member of the co-op, how do you think we should assist you, what's the least that you are

doing to pull yourself up with your own boot strings?’ Of course that’s tough talk, tough love to someone poor with no food in their stomach but that’s how it must be done, we see it happening, and there’s so much evidence of it and it so amazing how much money has just gone down the drain (Respondent 10, Interview One: 12/11/2010).

In sum, the initial calls took place in 2002; community meetings were held in 2003 and 2004; selections from 2004; allocation to premises from 2006; and the completion of the transfer of start-up capital in 2008.

#### **4.8. Setting up the IHP as an Exercise in State Power.**

The idea to set up co-ops, as opposed to any other type of firm, came to working class communities from without. People applied to join the co-ops, not because of a deep commitment to the co-op form, but because they hoped the IHP could change their grim reality of day-to-day grinding poverty and inequality. The LED saw itself, and sought to be seen, as a saviour of the working and poor people, defender of their rights and a chief instrument of poverty alleviation. However, the ‘persona’ the local state had, generated high expectations; LED presentations that would get the co-ops up and running would require an investment of time and energy on the part of co-operators. These were often forgotten as potential co-operators developed expectations of immediate improvements.

The process of forming the co-ops was shaped by the LED’s formal commitments to participation, but was in essence an exercise in power. As a result of the local state being promoted as a prime instrument of service delivery and LED, it was in a prime position to impose its will upon the working class. The process of setting up state-sponsored worker co-ops in Ekurhuleni was essentially a top-down process that was framed as a grassroots, bottom-up one.

The state was not just the initiator, but also the regulator and the guarantor of existence, for the co-ops. It promoted itself as a neutral arbiter of the interests of all, but its project effectively acted in a top-down manner towards poor working class

people. This co-ops trainer involved in the IHP (but who opted for anonymity) suggested that all of the key decisions were made by the EMM:

I was seeing, the Metro council officials taking decisions, taking decisions for the co-operators, very key decisions, and I was seeing the members of co-ops just becoming like furniture, or items you take here to put there, the bulk of the key decisions were being taken by the officials, which, by the way, on one hand, you don't necessarily have to blame them, there's a very serious dichotomy between the need for autonomy, independence and self reliance, is some are important aspects, member control, non-discrimination and all those things that you find in the co-operative movement which in this case made the beneficiaries just accessories and they never get to be able to make their own decisions and determine their own destiny. And because he who pays the piper calls the tune in this instance (Respondent Ten, Interview One: 12/11/2010).

Satgar, as we have seen, also mentioned the 'passive citizenship' with which the process tended to associated (Vishwas Satgar, Interview One: 21/10/2010). Within the LED department there was recognition that relationships of dependency and control were developing between co-ops and the EMM, and a degree of resentment by officials. Vusi Mashile, a co-ops organiser at the LED department, explains:

Because of these 25 co-ops that were set up through support of the municipality, we found that most of them are not... productive, and because the element of this entitlement to some of them waiting for the municipality to go seek funding for them, the municipality to behave as if it has to be always with them, every time when they need to work together, then the municipality must send officials to bring them together. Then we say that is not... supportive of what a co-operative should be, it becomes counter co-operative ... (Vusi Mashile, Interview One: 22/09/2010).

The state also set the agenda for co-ops development by the use of expert individuals and organisations in order to define for the working class what co-ops are and what they ought to be, how co-ops should operate, and how they should engage with local markets.

#### **4.9. Ongoing Monitoring: The Local State Managing the Co-ops**

Besides the role of the LED department in the co-op's founding, training, statutes, and funding, provision was also made for ongoing monitoring by the local state. One key means of monitoring was the Ekurhuleni Co-op Forum, in which all of the IHP co-ops would come together to collectively discuss, challenges and issues with the LED department officials.

The Ekurhuleni Co-op Forum entailed quarterly meetings between elected co-op representatives (two per co-op), and LED department officials. The intention of the Forum was to provide a space in which co-op representatives could raise issues around production, marketing, internal difficulties and funding with the LED officials. It also provided a conduit of information, where the LED department could suggest further training, opportunities for external funding from bodies like the DTI and GEP, and contract possibilities. Training service providers often gave presentations on what they could offer co-ops.

The role of LED department officials was defined as strictly advisory role: they could not make binding decisions for the co-ops, except over how the start-up capital was to be used. This control enabled the LED officials to insist on compulsory monthly reporting by the co-ops, supplemented by ad hoc meetings between the co-ops and the department. As a condition of funding, co-ops would report on how they were progressing with buying equipment and raw materials, how they were coping with sales, administration, and with the general day-to-day running of the co-op, as well as on other problems that they had encountered.

The monthly submission of progress reports was meant to give the LED department an accurate means to measure the progress of each co-op within the IHP, and the

opportunity to intervene solve problems as expediently as possible. Since problems were understood here to mean a failure to meet the mandates of the co-ops, in terms of economic development, the reports essentially required the co-ops to focus their efforts on behaving as the LED department required. Thus, like the Ekurhuleni Co-op Forum meetings, the reports served to train the co-operators to act as disciplined, efficient and market-competitive citizens, subordinate to a state that presented itself as a benevolent guardian.

#### **4.10. Conclusion**

This chapter sought to elucidate the origins of co-op development in Ekurhuleni from the first mention of co-ops in the LED policy of the Metro, to concrete plans being put into place to realise their development. The chapter then went on to expound on the vision of the IHP as a means to creating democratic and poverty alleviating employment through co-ops that has a 'positive impact' on communities. I argued that the role of the local state in developing co-ops seems on face value as a move away from the logic of neo-liberalism, the co-ops development project of the EMM reflects how the developmental imperatives of the local state are articulated with neo-liberal intentions. I argued too that while the process of setting up the co-ops up was framed by municipal officials and experts close to the IHP department as an essentially grassroots, bottom up process, the agenda for co-ops development was actually set by the municipality itself, with little participation or consultation with communities as to whether they actually wanted co-ops or not. While seemingly autonomous from control by the state, the final form of the co-ops were designated by the local state, and thoroughly imbued with the neo-liberal mantra of putting markets rather than people first.

## **Chapter 5- Case Study One: Mapungubwe Sewing Co-op**



Interior of Mapungubwe Sewing Co-op showing African themed evening wear. ( Nathan, 2011)

### **5.1. Introduction**

Previous chapters have discussed co-ops and states both generally and theoretically, as well as looked at the South African and East Rand context of the launch of 25 state-sponsored co-ops by the LED department of the EMM, through the IHP initiative. The following chapters shift the focus to the case studies of two co-ops in the IHP: the Mapungubwe Sewing Co-op and the Buthina Borona Household Co-op. As I have shown, the co-ops were launched in a process dating back to LED policy developments in 1999. The IHP project started in 2002, although it would be nearly five years by the time the establishment of co-ops came to a close, with the completion of the transfer of start-up capital in 2008.

This chapter examines the emergence of the Mapungubwe Sewing Co-op, and how it interfaced with the local open market in Benoni, and with the EMM LED department. This is done with a view toward organising the evidence gathered in the field so that

it can be used not only for comparison with the other case study (Buthina Borona Household Co-op) but to test the hypotheses developed in the literature review, and help answer the research question. In the chapter, I argue that the development and maintenance of authoritarianism in the Mapungubwe Sewing Co-op is not dependant on market factors alone, but on a range of contingent factors both internal to the co-op, and also the role of the state. In addition, I argue that the relationship between the co-op and the local state has been one of 'false autonomy' and dependency from the outset.

Generally, Mapungubwe struggled – and became markedly undemocratic without, however, becoming a successful competitor in the open market. Despite initial optimism and hope by co-operators and LED department officials when the IHP started, Mapungubwe co-op suffered attrition of members and a failure to penetrate the local economy of Benoni. Meagre and irregular wages realised from marginal participation in the local market provided little disincentive for members to remain with the co-op; many opting to find alternative, better paying employment elsewhere.

## **5.2 Mapungubwe Sewing Co-op, an Introduction.**

In early 2004, the EMM LED department instructed the ward councillors in the Daveyton ward cluster (wards 54, 55, 56, 60 and 61), which included the township of Actonville, to organise a community meeting: here representatives of the LED department would come and explain to potential co-operators the proposed IHP, and the role that co-ops could play in poverty alleviation, job creation and LED. At the local community centre in Daveyton in mid-2004, community members were invited to further consultations with the LED department over the nature, scope and potential of the IHP, and community members who were interested were asked to leave their details with the LED representatives.

After a series of meetings, a list of possible co-operators was developed, and was whittled down to just 12 co-operators for the proposed Mapungubwe co-op. The

worker-owners for Mapungubwe were selected on the basis of their employment status (being currently unemployed), living in the ward (or the immediately adjacent ward) to that in which the co-op was to be set up, and having basic literacy and numeracy. While well over 1000 individuals had applied for positions in the co-op, hundreds lost interest as no immediate jobs were available; others were ineligible as they were already employed, or lived too far from Actonville, or did not have adequate literacy and numeracy skills.

In the process of constituting Mapungubwe as an actual productive unit, it was decided by co-operators themselves that poultry production would be the most viable option for the co-op. The worker-owners themselves felt that there was a gap in the market for poultry products. This was precisely the kind of tacit knowledge of the local (township) market that the LED department relied upon for worker-owners to make business decisions. Once the choice was made, a business viability study was undertaken in conjunction with COPAC. The viability study was part of the mandatory business plan that each co-op had to submit to the LED department in order to access the start-up capital.

Training was also provided. Vusi Mashile, Co-ops Development Officer in the LED department, explains the process clearly:

Training came in two forms. One would normally would ... work with Department of Labour through their skills programme to train them on specific engagement or technical engagement [in] moving forward ... then we would [also] have to partner with whoever is ... for ... training-needs specific [functions]... (Vusi Mashile, Interview One: 21/09/2010)

The LED department provided some training, outsourced other training to COPAC, and then involved the Department of Labour. The first round of training workshops by COPAC focussed on co-op principles, co-op decision-making, developing a co-op statute, and drafting business plans; COPAC as noted also developed a feasibility study for the proposed co-op project. The Department of Labour appointed a service provider, the Bridge A Gap Development Institution—a small business/ SMME

consultancy—to provide workshops on management, finances, conflict resolution, IT and human resources. It also provided some training on how to breed chickens, on order and record stock, and how to market their products.

Through the training, it became possible to make decisions on how the co-op would be run. The Mapungubwe co-op's statutes (rules and regulations binding all members in a co-op to mutually agreed-upon behaviour) were developed with the help of COPAC. There would be a management board of the co-op should consist of between six and ten directors, with five executive positions: chairperson, the deputy chairperson, secretary, deputy secretary and treasurer (Statute of Mapungubwe Poultry Co-operative Limited, 2005:10).

The executive committee was elected from the membership. The chairperson's responsibility was to recruit new members, and to procure business and contracts, assisted by the deputy chairperson. The secretary was in charge of overseeing the actual day-to-day running of production and ensuring meeting minutes were recorded and sent to the LED department, along with the co-op's monthly financial statements; she was to be assisted by the deputy secretary. The treasurer was involved in managing the finances of the co-op, and was responsible for ensuring wages were paid on time.

Mapungubwe's statutes establish how surpluses, if any are posted, ought to be divided. A surplus is defined as the amount of profit left over after all of a firm's expenses are paid, including wages. In terms of how the surpluses were to be divided, 30 per cent ought to go to reinvestment, 20 per cent is for education and training, 20 is for bonuses and 30 per cent is for community development (Statute of Mapungubwe Sewing Co-operative Limited, 2005: 26).

There was, however, a serious problem with the venue selected by the EMM LED department. As the chairman of the co-op, David Booi, explained to me:

But now the venue we were given it was an old clinic. They said we cannot use that because the chickens they are eating; it had to first be

disinfected. It cannot use for producing food. So we had to choose another one (David Booi, interview one, 15/06/2010).

The LED department, having provided the venue for this co-op, now had forbid poultry production due to urban hygiene regulations.

Furthermore, the co-op had experienced multiple break-ins at the old clinic site, where computers were stolen, as well as the wanton vandalism of the co-op's assets. This also forced the co-operators to consider relocation. Chairperson Booi believed that the high level of crime was a result of young men from a local youth hostel, adjacent to the old clinic, and stated that the LED department were reluctant to do anything about the high crime rate.

The co-op was thus required by the LED department to find another venue, or to change their product: the co-operators did both. After three months of searching, the co-operators were able to find suitable premises in which to move in April 2006. The new venue is on Princess Avenue, Benoni, amidst many other small businesses in the tailoring/alteration, clothing, vehicle spares and cell phone markets. It comprised a small single room with large windows for display of products.

Before the co-op moved its production site, it changed its product to clothing. The idea of sewing came from the secretary, Linda Buthelezi, who had previously worked as a seamstress. However, the co-operators were never re-trained in sewing skills by the EMM. As the secretary was the only person with the skills to produce clothing, she committed herself to training the other members so that collective production could occur. Nor was formal market research was performed to identify the feasibility of the product, although co-op members *believed* that there was a gap in the market for good quality, handmade clothing in Benoni: most clothing stores in the area provided poor quality, mass manufactured clothing to consumers.

Other products were discussed but dismissed. Mr Booi, the chairperson, explains:

[The secretary,] because she had that expertise, it was much better that we use her ideas, because others they were saying 'let's go for brick manufacturing,' [or] 'with bread', it was also thrown out... [The LED

department] said 'you can't operate a bakery there'... with bread, it's a clinic that had to be detoxified; it will take a lot of money. With a bakery it cannot work there, so we had to go with this sewing. That's how it came about (David Booi, Interview One: 15/06/2010).

Start-up capital was provided in January 2006 by the LED department, on condition that the funding would be used for the purchase of machines and raw materials so that production could be started. The co-operators purchased sewing machines, needles, scissors, marking pens, tables, chairs, and cleaning equipment and products. They also bought the necessary raw materials: textiles and cotton thread. The co-op spent a total of R21527 to get set up (Mapungubwe Sewing Co-operative Limited Asset Register: 2006). A business plan was developed by the co-operators, in conjunction with COPAC, and submitted to the Registrar of Co-operatives at the Department of Agriculture offices in Pretoria in May 2006; the co-op became registered as a legal entity.

### **5.3. Disintegrating Membership**

Almost immediately after the co-op began production on Princess Avenue, membership began to dwindle. From the original 12 members it went down to five members, and then down to only three members of the original executive of the co-op, consisting of the chairperson, the secretary and the treasurer. David Booi explains:

They [the members] didn't understand the concept of the co-operative. They thought maybe they would come into the co-operative and make a lot of money at once, that it was something that had to come from us. They didn't understand so they stopped coming... (David Booi, Interview One: 15/06/2010).

When asked how many of the original members of the co-op were still with the co-op, he responded:

Yes, yes, yes, we do have Sarah, Steven passed away, this one is employed somewhere... Hannah has moved out of Benoni, Amit has got a serious problem (he is still a member) ... alcohol problem ... this other member Robert is employed somewhere, he is working somewhere... this one, Siphokazi, he joined another co-operative and this one, Ntlantla, he absconded ... this one Michael's got a wife: the wife couldn't understand what was happening there because we were going to meetings, she was expecting money to come in. This one passed on, and then and then this one, myself. So we recruited other people ... They also disappoint us ... (David Booï, Interview One: 15/06/2010).

This is corroborated by the secretary, Linda Buthelezi, who explained:

It's like we were eleven when we were formed it, that, for now it's like we are left three. *Ja*, 'cause others they are just moving because they see that there is no profit and all those things, so they move out as time goes on, and they look, find jobs, *ja* (Linda Buthelezi, Interview One 22/09/2010).

Therefore, several factors explain the high member attrition. Firstly, there were disappointed expectations that members, upon joining the co-op would earn substantial amounts of money from the outset. Second, there were disappointed familial expectations, that members in co-op would bring home a monthly wage to support the family. The co-op has simply been unable to pay its membership a regular, liveable wage. Respondents would not say exactly how much the co-op was paying, but they did state that it was only a few hundred Rands per month. Other members who joined—particularly new members who missed the initial training by the LED department—did not have a clear understanding of the co-op form, or of internal democracy, member control, subjecting profits to member's needs, the strict separation of money for capital and wages.

Mapungubwe co-op has never achieved sustained profitability in the five years it has been operating. Faced with fierce competition from clothing retailers in the area, it

has never been able to penetrate the local clothing sector. Whilst the co-op may just be able to cover its fixed expenses, such as monthly rental (R1500 per month), and purchasing small amounts of stock, very little cash is left over to pay the three members. In bad months, members might not get a wage at all. Nor is net profit left over to reinvest back into the firm, or pay bonuses. The lack of profitability also explains why member attrition has been so rapid and pervasive in Mapungubwe.

One could suppose that the meagre, irregular wages would act as a disincentive to existing members of the co-op recruiting new members, since the meagre profit realised by the co-op would have to be shared between more people. Nevertheless, the chairperson sought to recruit new members to join the co-op anyway. He approached the LED department to arrange a meeting with the officials and the membership of the co-op to discuss the issue:

We were advised (by the LED department) to recruit other members. We went out to recruit, to constitute the co-operative at something like back to, I think it was, 14 members. So there was this conflict between the old members and the new members. The new members we found felt that these people [the older membership] did not consult with them.

I said, 'no, we did have a meeting', I said 'bring a number of people experienced in this field'. So I went to get others, two women, they came in here with a plan: they wanted to take over, they had a big venue to operate, so their plan was to take over the co-operative. I say, 'no, you are not in the statute; you cannot be talking of that thing. The old members, you cannot do away with these old members, they are in the statute, they are the people that have to accept you into the co-operative, you do not have powers to kick them out' (David Booi, Interview Two, 25/07/2010).

This incident highlighted some of the difficulties in finding new members after the training and funding processes had been completed. The two new women who the co-op sought to include were clearly not familiar with the form and principles of the

co-op, and tried to reconstitute the management structure with themselves at the top, against the wishes of the existing membership (and in contravention of the co-op's statute), leading to conflict. In fact, they were then prevented from joining the co-op by the board. The assumption of hierarchy as the norm by the workers shows that many have little to no experience of democratic management or necessarily much faith in it.

In another incident, the chairperson thought that he had found an ideal new member, one who was familiar with the co-op form and who had the necessary sewing ability to make a real difference in the success of the co-op. However, this potential member's contribution never came to fruition. As chairperson David Booi explains:

We brought in one woman from Brakpan: she was doing sewing. She advised us that she can make these denims, and these tents for these *bakkies* [small trucks] out of canvas, you zip it, *ja*. We went to buy the material, [but] she had a baby now, she ... will tell us 'the baby is in hospital', she wanted money ... She would come in the office..., she would come into town, and then we'll discuss, have meetings and all that as we were expecting her to start working on her skills, ... showing us and then we'll go out...with seat covers (she said she could also produce seat covers for the cars). We said '...we've got a taxi rank here, you can go talk to those people, and you start with these things'. [But] she disappeared (David Booi, Interview Two: 25/07/2010).

Not only do some new members expect to receive a wage immediately upon assuming membership, but some, like the woman just mentioned, act towards the co-op as they would towards another employer: working as little as possible, seeking to secure loans and advances etc. And with to the co-op's revenue problems, co-operators are faced with two options: chronic unemployment or membership in a co-op that is unable to pay them an irregular and low wage; neither breaks the cycle of poverty.

#### **5.4. Internal Democracy and Decision-making**

In some ways, the Mapungubwe Sewing Co-op used democratic decision-making, as when, on the decision about what the co-op ought to produce, all members were afforded the opportunity to bring their suggestions to the table. The incident in which the two potential members sought to take over the co-op also shows member solidarity, as these women were summarily forced out. However, the membership was not immune to divisive infighting over the start-up capital, as Mr Booi explains:

We never pursued other funding because we had problems already, internal problems. Out of something like 25 co-operatives that were launched, the money, all of the money just disappeared. They all collapsed... all of them ... we are not immune from those problems also here; there were a lot of infightings. As long as we are working like this thinking 'maybe I can cheat this one, this one can cheat this one, this one, I'm not going to bring any jobs' ... (David Booi, Interview One: 15/06/2010).

Some members believed that the start-up capital should be used to provide monthly stipends and cover transport costs for the membership, others (the chairperson in particular) felt that this was unwise: the co-op should first become profitable before members could be paid a wage.

While the start-up capital had been provided to Mapungubwe just before the move to Benoni, production only began three months later. The delay was caused by the co-op having to purchase machinery and stock, while the secretary was making designs for clothing that would be produced in the interim, and frantically trying to train members how to sew. Due to the delay, the co-op had no source of income at all in this period. When production began, wages were so low that some members suggested that they supplement their meagre wage with stipends paid from the remaining start-up capital.

Eventually the chairperson and some members were able to persuade all of the co-operators to accept that they would have to wait for the co-op to be profitable

before they could be paid. This had, however, the inadvertent effect of encouraging the attrition of members, as many chose to seek waged jobs instead.

There are, however, elements of authoritarianism in the relationship between the chairperson and the secretary, particularly in terms of gaining new members:

So now since she [Ms Buthelezi] has been left there for a long period, she's got this thing of believing that she is suspicious of new people entering the co-operative. But when I talk to her I become very, very hard on her, I just simply tell her that 'this is what you're going to do, this is what you're going to do', I do not negotiate because the co-operative belongs to every one of us. Also the objective of the government is that at least five people must be employed in the co-operative. By 2014 if ever the government is saying it's going to bring the level of unemployment down we should have contributed to say: 'Right, as members of this co-operative we can also be counted to say we are contributing in this thing'. That is the idea, but now, with them, they don't get it, they don't get, most of the people they don't understand it (David Booi, Interview Two: 25/07/2010).

This relationship reflects a tension between the chairperson and the secretary around the objectives of the co-op, particularly in terms of the supply of labour relative to the productive base of the co-op. It is feared by pre-existing members that the addition of more members will simply lead to a situation in which an already small pool of profits (as wages) must be shared equally between an increasing numbers of members. This acts as a disincentive to seek new members. Tension lies not only in terms of resistance to the allocation of a highly limited pool of profits to an increasing membership, but also, that the Mr Booi fears that Ms Buthelezi would dominate the production and subsequent profit realised through completing the project. Furthermore, tensions between Booi, and Buthelezi around perceived local government mandates to alleviate poverty, provide jobs and develop the local economy a democratic fashion only add to the low levels of trust.

Currently, the small income generated is used to pay the wages of the three members, plus and one part-time employee of the co-op, and to purchase more raw materials for production, and pay for the rental of premises, leading to a situation in which a lack of surplus (due to the inability to realise a net profit) means that no more members or employees, for that matter, can be meaningfully employed. A part-time seamstress was employed in early 2010 to assist the secretary in cutting and sewing fabric to make clothing.

Authoritarianism then arises as the chairperson feels he must impose his ideas on what the co-op ought to be doing, which he views as in line with the LED department's objectives for the IHP: sustainable, democratic employment. David Booi feels that the principles of the co-op— democratic and participatory decision-making, are more important than the secretary's wishes to have the co-op survive with a few members only. Yet his defence does not mean that he practices these principles himself, as shown by his imposition of these ideas on the secretary, as well as his insistence that more members be recruited.

Meanwhile, since the secretary of the co-op alone has the knowledge necessary to produce clothing, she is imbued with power to make day-to-day decisions without consulting the two other board members. She does what is necessary to ensure that the orders are completed, including employing a part-time seamstress, a non-member, to help her. She designs, cuts and sews the fabric, with the assistance of the part-time employee, who is a highly skilled seamstress. Because this person is an employee not a member of Mapungubwe, she does not have decision-making powers, and is thus subject to the managerial prerogative of the secretary. The part-time seamstress works at the co-op two days a week, getting paid R100 per day, which is all the co-op can afford to pay her.

Mr Booi, the chairperson and Sarah Molefe, the treasurer, are not involved in the day-to-day production operations of the co-op, as they do not have sewing skills, and do not do any sewing; they were never trained by the secretary, and never requested training from her. However, the chairperson and the treasurer play a role in the administrative functions of the co-op. The treasurer comes in once every two

weeks record transactions in the co-op's books, while the chairperson represents the co-op at the EMM Co-ops Forum and tries to secure more business and funds in various ways (discussed at length later in the chapter). Mr Booi also suffers from high blood pressure, making him feel light-headed and claims to be thus unable to get more involved in Mapungubwe's day-to-day operations. As the chairperson and treasurer are less involved in the operations of the co-op, they get paid a smaller proportion of wages than the secretary.

The significance of this is that the co-op begins to resemble a traditional capitalist enterprise in which managerial prerogative and authoritarianism in decision-making is the norm. Wage differentials between board members, and the employment of a part-time seamstress, only reinforce these tendencies. The board members, who are the only remaining co-op members, are not accountable to each other, and the part-time seamstress is not a worker-owner, but just a worker, as she is not a member of the co-op.

Philip (2006) suggests that hierarchical management arises in co-ops is closely linked to market pressures, but in the Mapungubwe case, hierarchy arises from a range of factors. A certain faith in hierarchy as necessary, as well as member conflicts and an unequal distribution of production knowledge all contribute greatly to the undemocratic form of the co-op – and these factors are not the only ones (see below for more). When I asked the chairperson why he thought the co-op had degenerated so far from its initial aims, he explained that:

I cannot say at any stage that they [the co-op principles] are there, they had to be instilled. Because right now, the co-operative principle, I cannot say they are working at this stage (David Booi, Interview Three: 12/09/2010).

Democratic principles are not well embedded within the co-op, nor are they practiced by the members. Authoritarian decision-making is taken as the norm for the secretary in particular. As Ms Buthelezi explained:

I'm saying to you like the co-op is not as active as it was before, so now we are short, we only have three members with one person helping out, *ja*, I have to make decisions because for business ... (Linda Buthelezi, Interview Two: 25/09/2010).

However, although hierarchy is here justified for business reasons, as we have seen, business is far from successful: markets may promote hierarchy, but hierarchy clearly does not guarantee market success.

### **5.5. The Pitfalls of Competing in the Market**

The Mapungubwe Sewing Co-op has never been able to penetrate the Benoni economy effectively. The inability of Mapungubwe to retain its original membership, and pay members a regular, liveable wage, boils down to a question of a lack of profitability.

The clothing that Mapungubwe produces is beautiful: evening gowns and dresses, resplendent with sequins; an array of tailored men's and women's suits; a range of waist coats and dress shirts. The secretary can produce school uniforms too, although she has not done this in the co-op. It may be difficult to understand how Mapungubwe could not be profitable in terms of the middle class, upwardly mobile and suburban market they are targeting. Yet, as two respondents explained succinctly:

We are not making any profit so far (David Booij, Interview One: 15/06/2010).

We don't make enough money to support ourselves, *haai*, we are just struggling (Linda Buthelezi, Interview One: 22/09/2010).

The marketing training received from Bridge A Gap was designed to give co-operators an ability to market, promote and advertise their product. As respondent one explains:

It came [the marketing plan] also from training because we had this what you call it...production list, how we are going to produce in the first year, it was saying right, 'we are producing so many garments, with the school uniforms, after we have done research, within all the schools'. Doing research in the township, doing research among the members of the co-operative as to how much, what is going to be needed, after all the information has been gathered ... So (I don't know whether it was Bridge A Gap) they came with a document that showed, these school trousers are going to cost so much once they are produced. The first year you will produce so many, at this cost. Once we develop understanding what is happening we develop and buy more machines, employ more people and produce so many (David Booï, Interview One: 15/06/2001).

Initially, then, local schools were identified as a major target market by the co-op. At the beginning, it was never intended that the majority of sales would come from people walking off the street, nor through co-operator's networks. It was believed by co-operators that there would be a demand for school uniforms in the area. So, they geared themselves around servicing this market at first.

However, although the chairperson tried to approach the schools directly to discuss the possibility of the co-op as a supplier of school uniforms, these engagements bore no fruit. At a meeting of the co-op with the LED department, the then-deputy director of the provincial DSD told members of the co-op that they were 'in the process' of negotiating contracts to produce school uniforms to various sewing co-ops in the province.

However, several attempts to secure a contract via the DSD failed. Mapungubwe had an opportunity to secure a contract to produce school uniforms from the provincial DSD in early 2009. Sadly, it lacked the capacity to do so. The chairperson explains:

*Ja*, contracts, and then once we move from that stage *ja*, I did get I was saying we did get, from one woman that was working at the Social Development [Department] at the province. She phone me, she said 'no

you must attend this kind of meeting, go raise your problem there, you'll be given a contract to make school uniforms for this current year' (2006)...but I was worried about what was happening there [at the co-op] because I was not there and also we were not coming together to do all the final touches.

I can get a contract here, but without having all these things that are needed for us to start running it wouldn't be alright. I said 'no, she must wait, so long as the co-op is functioning there's no problem, if you bring this thing it will collapse because very soon I might not be around'... Without having to manage this situation correctly I was not very happy with that so I didn't follow through with that (David Booi, Interview Two: 25/07/2010).

Ms Buthelezi gives another explanation as to why Mapungubwe did not get the DSD contract:

*Ja*, we approach some of them but we didn't succeed. There are other one there it was, I think... Social Development [Department]. *Ja* that's where we went so I think last when we spoke to them, they said 'we are supposed to bring the, the forms' so we did gave them the forms. The time they call us they said 'we must come', it's like they called us, it was around 10 o'clock, they wanted us for 11 o'clock, so it was short notice and when I was not around and then we didn't hear from them again, when we called them they said they would call us just like that (Linda Buthelezi, Interview Two: 22/09/2010).

Both explanations as to why Mapungubwe was not able to secure the contract boil down to operational incapacity: the inability to attend the meeting and the delay in communications between the DSD and the board. Most importantly, the lack of capital and labour necessary to complete the contract in time would have overwhelmed the co-op: thus, the chairperson's concerns about the co-op's incapacity to complete the project. The administrative bungling, both on the part of

the DSD and to a lesser extent the co-op, also meant that the momentum built-up around actually getting the contract was lost.

Without a contract to produce school uniforms, coupled with an advance payment from the state to buy the raw materials necessary to produce them, and without substantial working capital, there is a real fetter on the ability of the co-op to meet a large contract even if one did come about. The implication is that the cycle of poverty –the inability of the co-op to pay its members a regular, liveable wage – remains unbroken. The prospects of the co-op being able to pull its members out of poverty therefore remain bleak.

Mapungubwe has since sought to penetrate the local clothing market, by producing high-end goods and relying on word-of-mouth: ‘The co-op, because it is in town, over time people are going to know about it, this place will market itself’ (David Booi, Interview One: 15/06/2010). Thus, members decided to spend a portion of their start-up capital on the fabrics and thread necessary to produce evening wear. However, as shown by falling membership and meagre wages, this has also not been a success.

#### **5.6. Pricing, Perceptions and Competition**

Mapungubwe Sewing Co-operative is not very competitive. When pricing evening wear, the co-op’s main source of income, the co-operators seek to keep prices in line with the prices of their competitors, small-scale clothing stores in the area. However, it cannot match the prices of their competitors, who often import Chinese and Indian-produced clothing in large quantities, without selling at a tiny profit, or even at a loss. Local prices for raw material and labour are simply too high to be competitive with mass manufactured goods sourced from cheap labour, high productivity, countries.

The members of Mapungubwe were scathing in their critique of the local clothing market in Benoni. Indian shop owners were a scapegoat as to why the co-op was not successful on Princess Avenue. For chairperson Booi:

You go right now to town, ever person is opening a shop, all the prices are the same. These are 'co-operatives' most of them, more especially with Indians: it's a family, they occupy the whole street. You move from this shop [since] you say 'no these are expensive', you go to this one, he phones this one, 'there's somebody who's coming to buy clothes, tell him the price is so much'. You move to that one he phones this, 'so much he's going to buy' (David Boozi, Interview Three: 12/09/2010).

The notion of the local Indian businesses as some sort of cartel, colluding with each other to set prices, was used to suggest that they effectively cut Mapungubwe out of the market. Moreover, these shops did not carry Mapungubwe's goods. However, it is not necessary to show to the existence of a cartel to understand why Mapungubwe was undercut. As we have seen, Mapungubwe cannot match the prices of bulk Asian factory imports, and suffers a lack of suitable marketing and advertising. The secretary, Ms Buthelezi, would like to see a better marketing strategy developed, especially because of the competition faced:

I think the co-operative can grow 'cause some of us can go market, do marketing, but it doesn't work because there is so many people [competitors]. The business [now] comes off the street but also from people that I know (Linda Buthelezi, Interview One: 22/09/2010).

But a comprehensive marketing strategy and advertising campaign cannot be launched, due to a lack of expertise—and funds. Not only does the co-op have a low and erratic cash flow, but its statutes set a distribution of surplus that is dysfunctional to its market needs: 30 per cent to reinvestment, 20 per cent Marketing is absent, and a total of rather than 50 percent goes to questionable items like bonuses and the 'community'. In fact, the division of surplus was set by the LED, as a means of encouraging co-operators to become more productive, but is pretty arbitrary. Arguably surpluses could be better utilised for recapitalisation or kept for working capital.

The bind in which the co-op finds itself leaves Mapungubwe with only one realistic route to relative 'success': getting a contract from the government. This is no guarantee of success, due to the lack of capital, but state contracts –what Philip called a 'tied market' where prices are effectively subsidised—are perceived by members to be a way out of poverty. Mr Booi explains:

Its' [the co-op]surviving because it's still got members, it's still got machines and all those things, but it's not operating currently and then they do have those contracts so those contracts it means that they've gone back, they could still come back one day (David Booi: Interview Two: 25/07/2010).

### **5.7. Mapungubwe Sewing Co-op and the Local State**

As noted, the Mapungubwe Sewing Co-op, like the other IHP co-ops was an initiative by the EMM's LED department, from the initial idea, to the vision through to the strategy and implementation. The EMM, and, specifically, the LED department, outsourced training and developing statutes and business plans and were heavily involved in funding and monitoring, the latter primarily through the Ekurhuleni Co-op Forum and monthly reporting.

#### **5.7.1 The Relationship Established in the Ekurhuleni Co-op Forum**

Chairperson Booi explains:

We had these ... quarterly meetings ... every three months there was these meetings. With the meetings, there is other institutions that were funding co-operatives, on board, they'll come with a lot of documentations there, this is GEP... *Ja* a lot of them, institutions, they will be coming in there addressing us... this one providing training on this, this one on marketing, this one on this, this one on funding... *ja* they will bring all those people... (David Booi, Interview One: 15/06/2010).

The Ekurhuleni Co-op Forum was felt by the membership of Mapungubwe to be a useful conduit of information, and a democratic space in which to air their problems. An opportunity for funding arose in late 2009, but the chairperson explains that this was not followed-up:

I attended another [Ekurhuleni Co-op Forum] meeting in Brakpan, it was about funding... several meetings. I never fill all those forms to say 'now we need a funding'... what I'm happy about is that we are operating ... the co-operative, Mapungubwe, will be found operating. So we decided to say, 'let us first be self sufficient', it must generate income this thing, not to be dependent on government only. So it's much better that should have to generate income on our own (David Booï, Interview One: 15/06/2010).

There was, however, more enthusiasm for other opportunities advertised at Ekurhuleni Co-op Forums. For the secretary, Ms Buthelezi:

They should teach us also how to market ourselves, and they should put us in touch with people in high places who know how to get us funding. Even if we don't get funds and get contracts, jobs, we can have a way out its better than funds (Linda Buthelezi, Interview Two: 22/09/2010).

At first, the principal issue brought by Mapungubwe to the Ekurhuleni Co-op Forum was the issue of the delay in receiving start-up capital, even before they had moved to the Princess Avenue site. After they had received this capital, the emphasis shifted from issues of funding, to issues of sustainability. This issue raised its head in late 2009: the chairperson believed that getting a government contract would allow the co-op to build on the momentum.

In reality, the co-op was depending on the state for its own survival in the long-term. It could barely survive (let alone grow) in the market, as the LED department had hoped; this push reveals a mismatch between what the LED department wanted for the co-op, and what the co-op wants for itself. The LED department wanted self

sufficiency for co-ops in the open market, but Mapungubwe, on the other hand, craved contracts, that is, dependency on the state.

Another major issue that emerged at the Ekurhuleni Co-op Forum was that elected representatives from Mapungubwe sometimes used the Forum to push their own issues, rather than those mandated by the membership. The chairperson and deputy chairperson were usually the representatives, but there were occasions where other members of the co-op were elected instead. Then, Mr Booï explains:

... some members were taking information which was not emerging out of a meeting situation; they will take it to the LED. And then, when they come back to you, in the form of a feedback they will be addressing things that were never raised in a meeting, so it will be satisfactory to that person who raised this thing with the LED, but not to the other members; it was confusion. But they were there for us most of the time, they were trying their level best to address our problem. The major problem it was that a lot of people they were coming out- going, they were learning, as individuals: 'oh we can go to this place, there's money in the co-op we can go and report, also'... Things like that *ja*, that's all what caused the problem within the co-operative, you see (David Booï, Interview Three: 12/09/2010).

Poverty and desperation led to ongoing member attrition, and also created the situation where some representatives sought to push their own agenda ahead of the mandated agenda given to the by the co-op. The same situation had led in mid-2007 to a conflict within Mapungubwe over what the start-up capital ought to be used for:

So at one stage we had a meeting there, people went to Brakpan there was a meeting there. Other co-operatives were taking out of this money ... for the transport ... so with my co-operative, people were taking out of the whole money. So we had a big fight over that. Said that 'No, other co-operatives they hired Kombis to come to the meeting, we are expected to pay out of our own pocket that is not fair, we want this money to be

paid back'. So we took this thing over to Karuna [Mohan, LED department]. I was still an executive member for that Forum meeting. She said: 'No. This matter is for the co-operative. I won't intervene'. She threw it out ... (David Booi, Interview Three: 12/09/2010).

Just as the drive to get government contracts, against LED department desires, showed had some autonomy from the department's control, so here, the LED department head reinforced this autonomy, as she refused to intervene in the internal conflicts of the co-op. This refusal to get involved is surprising; the conflict concerned how the start-up capital was going to be spent, and the Memorandum of Agreement signed between the co-op and the LED department stipulated that the start-up capital could only be used for purchasing raw materials and machines. Admitting that 'In conflict resolution the power struggles that inadvertently come about do require some kind of outside mediation' (Karuna Mohan, Interview One: 16/09/2011), she felt in this case that it was better to let the co-op resolve the issues independently.

The threat of the *possibility* of intervention sufficed: the members who favoured responsible use of money, like Mr Booi, were able to win soon after it was known that the issue had gone to Ms Mohan. This refusal to intervene was arguably itself, then, an exercise of state power in Lukes' (2005) terms. On surface it seems as if the autonomy of the co-op is respected by the LED department, while if we look deeper, the mere suggestion by the LED department that intervention was possible was enough to make the members of the co-op quickly resolve internal strife in line with LED mandates. The suggestion of external intervention to enforce the Memorandum of Agreement had a disciplining effect on co-operators. Here, the exercise of power operates in the realm of non-decision-making by those who can, and this makes the autonomy enjoyed by the co-op a somewhat 'false' autonomy, compatible with neo-liberal imperatives of making the co-ops autonomous plus profitable and self-sufficient.

### **5.7.2. Reports and the Weakening of the Relationship**

As a condition receiving start-up capital from the LED department, Mapungubwe had to send the LED department monthly progress reports (in practice, by fax), stating how the co-op was progressing and explaining its spending. The monthly submission of progress reports was meant to give the LED department an accurate means to measure the progress of each co-op within the IHP, and to solve problems as expediently as possible. Every month Mapungubwe would send reports as the chairperson explains:

We had to give reports on a monthly basis. Every month we had to submit reports for a period of three years. Every month the report would come in, but now with the reports at times, people are employed. We give them the reports, they don't read the reports, you raise issues you don't get feedback (David Booij, Interview Two: 27/05/2010).

Although Mapungubwe was sending their monthly progress reports diligently, feedback from the LED department was sporadic, and increasingly rare. This was a source of frustration for the co-operators, particularly because of the LED department's 'pledge' to play a role in the co-op development process after the co-ops were set up. This was in line with ideas of 'people-centred development' and consultation, with the state as partner. To some extent, the limited feedback can be put down to the administrative incapacity, and a sheer lack of personnel at the LED department, which then had only three full-time officials. It also reflected, however, the vision of the co-ops as becoming self-sustaining in markets, without endless state support.

After its brief period of profitability, and as its numbers stabilised at a very low level, the Mapungubwe Sewing Co-op had less and less to report. It started to report less frequently, and play less of a role in the Ekurhuleni Co-op Forum. The co-operators were also annoyed, as repeated requests to have meetings with LED officials to discuss awards of state contracts seemed to fall on deaf ears. By mid-2010, the co-op stopped sending reports altogether:

'We have nothing to report' (David Booi, Interview Two: 27/05/2010).

*Ja*, before we used to have [to] every month ... report. We were sending them reports, they want report for everything that was happening. Now we don't. We were sending them reports on what we were doing, the bank statements, but we don't have anything so we don't send them anymore (Linda Buthelezi, Interview Two: 22/09/2010).

Even before then, the chairperson Mr Booi had decided that it was better to just meet directly with officials, without relying on the reports or the Ekurhuleni Co-op Forum. As he explained:

We did send reports. They were not that organised ...to respond immediately ... It was much better if ... we were ... having to raise things emotionally [to just] go there: 'We've got this problem and this problem'... Then they'll come and attend to it. But with the reports, they had a lot of co-operatives to deal with and ... they [the LED officials] were not organised ... to deal with these things (David Booi, Interview One: 15/06/2010).

Therefore, ad hoc meetings were increasingly set up between the LED department and the co-op, or its representative, to discuss urgent matters that could not wait until the next Ekurhuleni Co-op Forum. The meeting between Mr Booi and Ms Mohan at the Forum concerning the drive by some members of the co-op to try to use start-up capital for transport was one example. The LED department did not, however, get involved with the direct running of the co-op, but used the ad hoc meetings to suggest how the co-operators should behave. As the secretary Ms Buthelezi explains:

No they ... when they come, we were free with them. So they would tell us: 'ok, you can do it like this'. Then maybe when we have a problem we tell them: 'ok, we have a problem, we have ... '. Then they help us, they said: 'oK, in this problem you can do this'. *Ja*. But the way they were

doing [this], they were not forcing, they were not making any decision for us. We were in charge (Linda Buthelezi, Interview One: 22/09/2010).

Mapungubwe was not alone in this. Many other co-ops in the IHP stopped sending reports to the LED department, as many had faced similar difficulties in becoming viable in local open markets. While Mapungubwe limped on, many other co-ops started to close down altogether, some as early as 2008.

The whole IHP began to implode. The Ekurhuleni Co-op Forum too became moribund as many IHP failed. It would also be fair to suggest that the LED department had lost interest in the IHP. The head of the LED department, Ms Mohan, was replaced in late 2009 and the new head focussed attention not on the IHP, but rather on developing food gardens in Ekurhuleni townships. Ekurhuleni Co-op Forum effectively closed down. The secretary of Mapungubwe, Ms Buthelezi, put it quite succinctly: 'As for now they just say they'll call, but now it's not active any more' (Linda Buthelezi, Interview Two: 22/09/2010). Instead of Forum meetings, ad hoc meetings and monthly progress reports, there are irregular check-up phone calls from LED officials, and some visits: in 2010, the officials visited the Mapungubwe Co-op only once.

### **5.8. Conclusion**

The story of Mapungubwe Sewing Co-op's development can be summed up as one of frustration and disappointment. While there was much optimism and hope shared by both co-operators and LED department officials when the IHP started, this has waned steadily over the past seven or so years. In the case of Mapungubwe, the steady attrition of members and the failure to penetrate the local economy of Benoni speaks volumes about the failed objectives of the IHP project to provide jobs, decrease poverty and contribute to LED – the objectives of the project as mandated by the local state.

This case study shows that co-op market success and sustained profitability, or indeed failure does not rest predominantly upon the existence or absence of

democracy i.e. that hierarchy and authoritarianism in decision-making, in and of itself, does not guarantee optimal outcomes (in this case, sustainable profitability in open markets).

The Mapungubwe Co-op was never profitable in these markets, and so unable to provide a regular, liveable wage for the co-op's membership. In turn, its failure to be profitable rested on a range of factors, such as a lack of marketing, cheap import competition, and undercutting by rivals.

This case study certainly cannot disprove Philip's (2006) proposition that co-ops must 'degenerate toward success', because although this co-op has experienced a manifest degeneration away from democracy, toward forms of decision-making that resemble those of 'traditional' capitalist firms, this has not resulted in increased 'success' i.e. in competitiveness, efficiency and profitability for the co-op in the cut-throat clothing market of Benoni. What can be stated is that while hierarchy and authoritarianism *may* be a *necessary* condition for co-op success, it is by no means a *sufficient* condition.

Moreover, one can also argue that the development of hierarchy and authoritarianism in worker-co-ops may have causes other than market pressures. Democratic production management and administrative decision-making as mandated by the state was never deeply entrenched and at times sporadic. While competition in the open market played a role in Mapungubwe becoming less than democratic, this was not the sole factor.

Rapid member attrition due the co-op's inability to pay members a regular, liveable wage, coupled with large variations in long time member's understanding and appreciation and valorisation of democratic decision-making, and the inclusion of new members and part-time employees (non-members) unfamiliar with the democratic imperatives of the co-op form, meant that democratic principles never became deeply embedded within decision-making structures in the co-op.

A lack of participation was taken as the norm when it came to making day-to-day production decisions: only the secretary had the expertise to produce quality

products for the co-op, and she used managerial prerogative. There were also arguably low levels of trust between the chairperson and secretary. The chairperson and treasurer were largely absent from the day-to-day operations of the co-op, which also limited the accountability of members to one another. The part-time employee, supervised by the secretary, of course had no decision-making power.

Regarding Satgar's (2007a) view that a democratic co-op can survive on the market if sponsored by the state, it is not possible to disprove this claim, since Mapugubwe was *neither* successful in the market, *nor* was it democratic.

However, it is possible to test Satgar's claim that state support strengthens co-op democracy. On the one hand, relations of dependency on the state developed. On the other, the local state controlled much of the co-op's activities. No truly grassroots, bottom-up movement was developed in the working class, by the working class, to win over the hearts and minds of the township proletariat toward the goal of a democratic socialist project, or even a democratic co-ops movement. Neither democracy, nor abstract conceptions of market success, were as important to co-operators as securing a regular, liveable wage in order to support themselves and their families. Simply put, securing material gains through wages was much more important to co-operators than securing and consolidating democracy in production. Under the veneer of a progressive co-op project there was, then, on the one hand, state control and on the other, working class participation as a result of desperation.

## **Chapter 6: Case Study Two: Buthina Borona Household Co-op**

### **6.1. Introduction**

This chapter examines the second case study, the Buthina Borona Household Co-op. Like Mapungubwe Sewing Co-op, this co-op was initiated in 2004 by the EMM LED department as part of the Metro's IHP. It shares many similarities with Mapungubwe, particularly in terms of the funding and training process provided by the local state, in terms of the problems surrounding member attrition, and an inability to survive in open markets. There are, however, some crucial differences that make this case substantially different from the Mapungubwe example. These centre on much more democratic practices of decision-making, and more deeply held co-op principles.

This chapter is structured in the following way. Firstly, there is a discussion of some of the struggles faced by the co-operators in getting the operation started, which also serves to illustrate the notably democratic practices of this tight-knit group of co-operators. Members were able to collectively and democratically face the day-to-day challenges the co-op encountered, such as member attrition, chronically low wages and a pervasively marginal presence in the local household goods market of Vosloorus township. A subsequent section discusses the place of the co-op in the open market, and the relationship between the co-op and the LED department. In conclusion, this chapter argues how many contingent, context specific factors, and not only market factors, determined the democratic and participatory internal form of the co-op. However, co-op democracy was always limited by ongoing state interference and patronage.

### **6.2. Buthina Borona Household Co-op: an Introduction.**

A meeting was held at the Katilehong community hall in early 2002 between LED department officials and interested community members. After a series of further

meetings, a list of hundreds of aspirant co-operators was whittled down to just 50 co-operators: these were chosen by the department as co-op members. The next step was choosing a name for the co-op that reflected the collective nature of production. A combination of the Zulu and Sesotho word for 'we' was chosen: thus the name 'Buthina Borona' co-op

Between October 2003 and March 2004 the process of setting up the co-op and training the co-operators took place. Once the Buthina Borona co-op was named and formed, there was of course the arduous process of training and planning, including workshops run by COPAC focusing on co-op principles, on developing business plans, and on the need for a co-op statute.

The first round of training workshops by COPAC focussed on introducing co-op principles, on understanding the structure of co-ops in terms of decision-making, on developing a co-op statute, on assisting in drafting business plans and on facilitating a feasibility study. There was much optimism. The secretary, Sam Mahlangu, explained that the training helped create an inspiring vision:

All the trainings they were helpful, 'cause we didn't know anything about co-operatives then ... They also taught us about ... Mondragon in Spain. They showed us on the TV, CDs of Mondragon, how the co-operatives started, how they are being operated, how they are controlled, how many people has got a say , each and everyone has got a say, one vote, things like that. It is more than an inspiration because in this way it was unifying us. *Ja*, that spirit of Mondragon people had the spirit of co-operative that what I've seen in that (Sam Mahlangu, Interview One: 12/10/2010).

The chairperson, Hendrietta Dlamini, added:

To me it was(helpful)because I was able to, because I was able to sustain the co-operative...I was trained enough to ... oh, because two, I was able to overcome all obstacles, that is why I am still here in the co-operative (Hendrietta Dlamini, Interview One: 30/09/2010).

The process of selecting a product to produce was democratically undertaken by the members themselves. All of the members were given the opportunity to put forward suggestions, as the chairperson, Ms Dlamini explains:

The ideas was from us, like for instance I will say: 'butcher'; and another will say 'eh, maybe a bakery'. You see, *ja* we came with different ideas... we have to ... explain *neh*, [to training facilitators who asked] 'Why you are saying a bakery will be suitable for you'? *Neh*, we explain ... until they found that cleaning products are more useable because they are used in each and every house. They use cleaning household products every day. So they've (the members) seen that if we take ... this project of manufacturing household products it's much more recommendable because we will be able to make profit every month. Because every day these cleaning products are bought from the shops. By then it was a good idea. We didn't consider that we have to do thorough marketing ... through researching you see? (Hendrietta Dlamini, Interview One: 30/09/2010).

Buthina Borona, like Mapungubwe, made its choice of product through a reliance on the members' views, based upon their lived experience, of what was likely to sell. The Buthina Borona co-operators themselves that household cleaning products manufacture would be the most viable option. The decision to manufacture household cleaning products was voted upon by the membership.

Once the decision had been reached, the next decisions that had to be made dealt with how the products were going produced i.e. how tasks were to be divided in accordance with co-op principles, with the co-op's statutes. The statutes of Buthina Borona, developed at this time, stipulated that the management board should comprise six to ten directors, with five executive positions: chairperson, deputy chairperson, secretary, deputy secretary and treasurer (Statute of Buthina Borona Household Co-operative, 2005: 2). After much deliberation, an executive committee of five board members was elected out of the membership, each with a portfolio,

both in terms of managing the co-op and the actual production responsibilities of each board member.

In terms of production responsibilities, the chairperson's responsibility was to procure business and contracts and marketing for the co-op, assisted by the deputy chairperson, while the secretary was to be in charge of overseeing the actual day-to-day running of production, assisted by the deputy secretary. The treasurer's role in production was to be the safety officer, bearing in mind the corrosive chemicals (such as sodium laurel sulphate, a known carcinogen in its pure form) that the co-op was going to be using.

The business plan developed by the co-operators was eventually submitted to the registrar of co-ops at the Department of Agriculture in Pretoria, and the co-op became registered as a legal entity in late 2005 (again, this was before the DTI became custodian of co-ops, as legislation was revised).

A second round of training was organised by the provincial Department of Labour, which appointed Bridge A Gap to provide workshops based on the co-op's needs. This training focussed on skills in terms of management, finances, marketing, conflict resolution, IT and human resources, which were attended by worker-owners. Unique Training Solutions, another training consultancy, was also appointed by the provincial Department of Labour to train co-operators on how to produce the detergents.

Bridge A Gap's role was also to assist the co-operators to solidifying their business plans for submission to the LED department to access start-up capital, and to assist the co-operative to set up their initial operation. There was, however, a disruptive two-year gap between when the basic training was completed (2004) to when the start-up capital of R100 000 was received by the co-operative (2006). As for Mapungubwe co-operative, the COSATU Job Creation Trust let the LED department down, and so funding had to be sourced from within the EMM, and from the national LED fund. While the Buthina Borona Household Co-op felt it was necessary

to begin production as soon as possible, this was not to be because of the two-year gap between the training and the funding.

In the interim, the LED department quickly found a venue for the co-op in Vosloorus, and so, much of training took place at the new venue. Obviously, the on-the-job training Buthina Borona Household Co-op received was different to the poultry-producing training provided to Mapungubwe co-op. Unique Training Solutions had worked with Lever Brothers, the chemicals and detergents multinational, and so could teach the co-operators how to produce household cleaning products, like dishwashing liquid fabric softener, floor polish and disinfectants.

Once the start-up capital was received in early 2006, R 40 000 was immediately spent on machinery. However, a tumultuous period followed soon after the co-op had received the start-up capital. The first elected chairperson and secretary, elected in September 2005, as well as two non-executive members, were caught embezzling R 60 000 from the start-up capital. This resulted in the rest of the board taking these individual to court to try and get the money back. Hendrietta Dlamini, the current chairperson but who was a new member at the time, conveys the story:

The former chairperson took the money. We even went to court about it 'cause when we checked, we wanted a bank statement; he said 'the money was in the bank' but it was out, so we didn't sign, we didn't know it was the chairperson and the secretary and another two guys. No, this case was taken to court, he was given, he took about 60 000 from the co-op without our permission, so the court found him guilty because he didn't consult with us, as the co-operative. So he was given a suspended sentence of five years. And the other one died, I think maybe from years of stress. And the other one decided not to come [back]. Others resigned. That was a delay because it took, I can say nearly a couple of years, and it was stressful against us because we were not working again (Hendrietta Dlamini, Interview One: 30/09/2010).

There was a two-year court battle, from early 2006 to March 2008, and the co-op could not start production until the matter had been resolved: the members needed the stolen money to purchase raw materials. It was the co-op itself that had to pay the R10 000 in legal fees, although R20 000 was returned to the co-op. The chairperson and secretary, having been found guilty, both resigned from the co-op; their membership was also revoked unanimously and permanently. R40 000 of the R60 000 stolen was never recovered. After R10 000 had to be paid to the lawyer, only R10 000 was left to purchase raw materials.

A new executive was elected in January 2008, and production finally started in April. In early 2009, the Buthina Borona Household Co-op applied for additional funding from the DTI, plus assistance in marketing from the GEP. Unlike Mr Booie of Mapungubwe's reluctance to apply for additional funding, the Buthina Borona co-operators embraced opportunities to grow the co-op. The GEP provided Buthina Borona with product labels and advertising banners, and it organised SABS (South African Bureau of Standards) approval for its products. (The membership felt SABS approval would ensure that their products were trusted by consumers and that more consumers would buy their products).

DTI 'funding' was not monetary, but rather entailed providing additional machinery and materials. The Buthina Borona co-op board was instructed to get quotes, and three quotes from different suppliers were duly provided. The DTI then provided the co-op with two new detergent manufacturing machines, and a one-ton *bakkie* (small truck), to the value of R200 000.

The condition of this grant was that the co-op was to submit a monthly financial report and progress report to the DTI, in addition to the monthly progress reports that had to be sent to the LED department. The co-op now had the machines they needed for production (including the DTI grant two years after receiving LED department start-up capital), the worker-owners trained and eager to get started, the business plan in place, and raw materials purchased.

This was no guarantee that the co-op would be able to sustain and maintain profitability from when production began. Problems soon emerged.

### **6.3. Member Attrition**

Buthina Borona Household Co-op started production in April 2008. By this time, however, over 30 members had already left, out of 50 original members. While some resigned officially, others simply left and were never seen again. Like the Mapungubwe Sewing co-op, Buthina Borona experienced such attrition of members simply because the co-op was unable to provide the membership with a decent, liveable wage from the outset. As Ms Dlamini, the chairperson, explains:

The reasons that some of the members left along the way is that some complained that they're breadwinners at home so if we don't get any money ,they can't support their families so they have to go and look for work. And other reasons why other people left is because they ... do not have any patience. So, even if we got these machines, they still complained because they said '*ja* we do have machines but still there's no money coming into the company' (Hendrietta Dlamini, Interview One: 30/09/2010).

The two-year long period between the set up process and when the actual start-up capital was provided by the LED department only made matters worse. Once the money arrived, the court case added a further delay. Understandably, conflict arose between certain general members and the board, over whether stipends could be paid from the start-up capital. The chairperson explains:

So they decided it's either they go look for work, or we do something, like for instance, the money which we were having, why don't we have stipends? So we object to that, because how can you have a salary when whereas the company is still starting? So it's best if we can have salaries after we've seen that now, the company's booming, the profit, we are making profit every month and then we can sit down and ... discuss how

much our salaries is going to be. But unfortunately there was the misunderstanding that: 'no they can't work without getting any salaries', so others resigned. Others we were compelled to write them letters because [if] you don't come to the co-operative site for three days and ... there's no formal notice or any written notice that whether you are sick or you are doing something, so the co-operative has the right to write you a letter to asking whether you are coming or not, or not if you are not ... they have to take you out (Hendrietta Dlamini, Interview One: 30/09/2010).

While stipends could possibly have been paid to members out of start-up capital without the knowledge of the LED department, paying stipends to members would have quickly exhausted the start-up capital.

The Buthina Borona co-op's and the EMM LED department's Memorandum of Agreement also expressly stated that start-up capital was only to be used to purchase capital goods and raw materials. This was not always adhered to in every worker co-op in the IHP, but was strongly promoted by the board of Mapungubwe co-op, and then by the second board of Buthina Borona co-op.

At the Ekurhuleni Co-ops Forum, the EMM LED department had impressed upon co-ops the importance of becoming economically viable before wages could be paid to members. This message was internalised by the Mapungubwe and Buthina Borona board members. Economic viability meant that co-ops had to cover the costs of purchasing raw materials and cover their running costs before wages could be paid. Thus co-operators were not entitled to any remuneration, until each co-op was economically viable.

However, viability could only be attained if gross profits were made by competing in open market. Both co-ops considered it 'essential' to cover the fixed running expenses (such as rent and utilities) and raw material costs *before* wages could be paid to members. This was to ensure that even in a 'bad month', where no wages could be paid, the co-op could continue with production the next month. In

'traditional' capitalist firms, including SMMEs, deferring wages for the long-term survival of the firm is known as 'sweat equity'. Since stipends could not be paid out of start-up capital, 'sweat equity' on the part of members was needed. But since (see below), Buthina Borona Household Co-op (like Mapungubwe Sewing Co-op) would fail to succeed in its market, sweat equity often had little pay off, with wages remaining meagre and sporadic. Many co-operators in Mapungubwe and Buthina Borona, in any case, refused to invest sweat equity.

To what extent can we say that these unhappy members of Buthina Borona Household Co-op viewed themselves as co-operators, as worker-owners? It would seem many saw themselves as *workers*, and without wages, there was no point in staying. The idea that they were workers with the capacity to become *co-operators* in a democratically-run and self-managed firm was secondary to securing the means of reproducing their labour power.

The Buthina Borona Household Co-op did enjoy a short period of profitability for nine months, from the beginning of 2008. Products were produced, and largely sold to the families and friends of the members. However, this was a very small market, and the prices of raw materials also increased; these were not compensated by wage cuts or higher productivity. Higher prices had the effect of scaring away the market that had been developed; that market was also very small and quickly saturated (see below), so more or cheaper output would not have solved the problem by itself. As sales fell, there emerged the inability of the co-op to pay members a regular, liveable wage, and members started to leave the co-op *en masse*.

There is a definite sense of disgrace for workers, particularly men, at not being able to bring home money for the family, as the co-op secretary, Sam Mahlangu, explains:

People left because when they leave their home... their families they think they are going to work. They come up with nothing, and yet they are being supported by these families, so over the years they said: 'no to this thing of yours man, it doesn't work. Better quit it'. Or someone

decided to quit because it's a disgrace and a shame to come bare-handed to the house (Sam Mahlangu, Interview One: 12/10/2010).

Currently, only five members remain. Four of the members are board members, and one has general membership. One board member, and the remaining general member, have developed alternative sources of income to supplement the meagre salary paid by the co-op. The treasurer of the co-op, Albert Mahlangu, who is also the sales manager, owns a small tuck shop in his house; the general member, Refilwe (surname unknown), does sewing on a part-time basis.

Massive attrition boils down, again, to the expectation on the part of members that they would receive a wage immediately upon assuming membership within the co-op. Their expectations were quickly dashed as the co-op was unable to pay them a wage between the workshop training and start-up capital stage right through the court case, to the point where production and the selling of products occurred. By the time the co-op had experienced its brief period of profitability in 2008, at 30 out of the 50 members had already left. Once the spell of profitability was over by September of 2008, and the co-op was once again unable to pay wages to the membership, another 14 co-operators left. The co-op was, however, able to gain one more member from another co-op that had shut down close by: Refilwe. However, of the five executive positions, one is not filled: there is no deputy secretary.

#### **6.4. Internal Democracy and Decision-making**

Generally, the Buthina Borona co-op has democratic decision-making, showing that the excitement felt at the MCC example matched an embrace of co-op ideals by leading figures. The process of selecting what the co-op ought to produce was democratic. Conflict arose over how the start-up capital ought to be used, and the way in which the matter played out was also an indicator of democratic decision-making. The deputy chairperson, Rio Williams explained that:

When there is a conflict we call a meeting, we sit in the meeting, we iron out all the issues. A person must be told 'This is not the right procedure

in our co-op'. And then we took it from there. We don't take decisions one man, this is not a one-man show (Rio Williams, Interview One: 10/10/2010).

In the start-up controversy, the board won the an argument that stipends just could not paid because the R10 000 left over after the court case against the former corrupt board members would very quickly be depleted, leaving no money to purchase raw material necessary to start production. The issue was then voted on by the membership, and the majority decided that paying stipend from start-up capital would not be in the long-term interest of the co-op. Consensus does not have to form the basis for democracy: when there are key differences in opinion, a majority vote after careful discussion will secure democracy, so long as all of the individuals agree to abide by the vote.

Although many members left after this decision had been made, the board and the majority of the membership felt that this was indeed the right decision. The statute of the Buthina Borona co-op states that the board shall manage the affairs of the co-op on behalf of the membership, but that the board is subject to mandates allocated to it by the membership, and it is subject to election, re-election or non election by the membership should it not fulfil their responsibilities (Statute of Buthina Borona Household Co-operative, 2005: 10-13). An incident that shows that the board was indeed subject to mandate and recall was that co-operators collectively dissolved the original board for embezzlement, elected a new board and pressed charges,

Of course, the fact that almost all remaining co-operators by late 2008 *were* board members had implications for the way in which democracy was. Deputy chairperson, Mr Williams, explains:

The co-op itself must have a board of directors, then from there it must have members... the board of directors they don't take decisions, they just recommend to the members, the members took decisions. Unfortunately, this co-op, it don't have members, but if it was up and running... people are going to be employed in this co-op they must

become members. The board is involved in every aspect of the running of this co-op, it was not supposed to be like that (Rio Williams, Interview One: 10/10/2010).

However, it does not necessarily follow that the decisions made within the executive structure are not democratic of themselves. Each of the board members has a production portfolio which clearly delineates responsibilities: the chairperson is the production manager, the deputy chairperson is the deputy production manager, the secretary is the marketing manager, and the treasurer is the sales manager. Chairperson Ms Dlamini explains how labour is divided between board members:

We all decide, so like for instance I'm the production manager, Sam [Mahlangu] is the assistant production manager. If he sees that pine gel is finished, *neh*, or I see that first, *neh*, we sit down and discuss...And then we meet with these three [board] members. We have decided on this date, *neh*, we will be making ... pine gel because it's finished. So we look for if all our materials are available. If they are not then we will decide who will go and buy these raw materials ... but the decisions are made by all co-operative members. (Hendrietta Dlamini, Interview One: 30/09/2010).

This democratic nature of how decisions are made in a participatory fashion was also confirmed by the secretary and the treasurer:

We take that decision together, we task ourselves to meet that goal together (Albert Mahlangu, Interview One: 10/10/2010).

I tell you, no problem, ah, strong combination among ourselves, members, no argument (Sam Mahlangu, Interview One: 12/10/2010).

These opinions indeed show that decision-making is democratic, as members deliberate and come to decisions collectively. The division of labour is fairly strong, as confirmed by the deputy chairperson, Rio Williams:

The decision is for the person in charge, for production, they give us orders: 'Please can you do this; please can you do this'... I cannot start

this myself and do a pine gel without consulting [the production manager] (Rio Williams, Interview One: 10/10/2010).

There is an integrated division of labour in production, so that a certain board member cannot just begin producing or marketing a certain product without the consultation of the manager responsible for that particular aspect of the production process.

By contrast, in the Mapungubwe co-op, the secretary makes all of the important decisions relating to day-to-day production. No consultation is made with the other two board members, because these two board members are not involved in day-to-day production at all. Thus the secretary is left to make what decisions are necessary to ensure the co-op can realise at least a small gross profit. In Buthina Borona Household Co-op, efforts to produce, sell or market goods are collaborative: there is necessarily a expertise in decision-making for each aspect of a process, and the person in charge of the particular process leads decision-making, but other members may make recommendations to that particular member, and the members all coordinate with one another, and all of the board members helping out where possible.

This then suggests that there are two forms of decision-making at work within Buthina Borona co-op, relating to administrative decision-making and productive decision-making respectively. In the case of administrative decision-making, the processes for deciding how money ought to be spent or how members ought to be recruited, for example, are performed in a highly democratic manner in which all of the board members participate in the decision that has to be made. Decision-making in this respect is thus based on consensus, or, if this is not possible, majority vote. On the other hand, in terms of decision-making relating to production, each manager, which is simultaneously a board member, has a portfolio of responsibilities in which they are entitled to make decisions themselves, with 'non-binding' recommendations and advice from the other board members.

Buthina Borona Household Co-op has experienced long stretches of up to four months where the co-op cannot pay board members a wage. Wages are not treated as part of a surplus profit but rather as a 'variable running expense' to be debited from profit, and without adequate profits, there are no wages. Members consider it essential to cover their fixed running expenses and raw material costs *before* wages can be paid to members.

Nevertheless, the members of the board remain at Buthina Borona Household Co-op in spite of the co-op's relative lack of success in the open market, as the chairperson explains: 'I'm coming for a long, long time with this co-operative so I can't just leave' (Hendrietta Dlamini, Interview One: 30/09/2010). Co-op principles seem to be well understood by the board, and have a real existence outside of the paper commitments of the co-op statutes. The collective norm of participation as a way to make decisions has become internalised in each board member. The acceptance of the principles and ethos of the co-op form is expressed in solidarity that has been built between this small tight knit group of co-operators, as well as the belief that if struggles can be faced head on, they ought to be faced collectively.

### **6.5. Marketing and the Market**

Buthina Borona has experienced great difficulty in penetrating the local detergent and cleaning product markets in Vosloorus. The issue of profitability has always been at the forefront of discussions within the co-op itself, and with the LED department. During the period when Buthina Borona was profitable in 2008, it purchased a pay-as-you-go telephone to supplement its income, but so far this has only brought in between R300 and R400 per month, hardly enough to support five members currently.

However, the Buthina Borona co-op relied heavily on sales to a small network of family and friends, and this was soon saturated. Deputy chairperson Mr Williams gave an explanation as to why the co-op lost profitability:

The problem is that our products, they are very good. You buy once and of all, when you buy this, can use almost a year or two years [points to the five litre bucket of pine gel] you see? Because we only took a little thing then, *ja* this is how they budget with us...this is a five litre. Then he have already budgeted for the year, but now we are depending on a person, a person like me and you, coming by, selling fifty millilitre of liquid soap to go and wash his car once a month. Then that person, if he's, September now, he'll come next year in June to buy another bottle (Rio Williams, Interview One: 10/10/2010).

Bulk buying of the co-op's products ensured that return customers were less frequent than they could have been if products were sold in smaller units.

Meanwhile, rising raw material prices caused other problems. Chairperson Dlamini explains the situation:

Yes, before it was [profitable] because we were able to bought the computer, bought the telephone [but] ... when we started increasing our prices because of the raw material being increased at the suppliers, ... people started... losing interest of coming here and buying these products. By then, like for instance, we started telling our neighbours that we are manufacturing liquid soap, pine gel. Our prices have increased ... they lose interest of buying to other, they rather bought from those who buy and sell because their prices are cheaper, rather than us ... (Hendrietta Dlamini, Interview One: 30/09/2010).

However, although the prices went up, the co-op's product was still often cheaper than the equivalent products at major retail stores. Why then did family and friends 'lose interest' in the products?

The feasibility study included information on comparative prices, and the basic pricing strategy of the co-op then was to set their products two or three Rands cheaper than major brands and retailers. It seemed that the small increase in co-op prices brought the prices closer to those of brand name products, and customers

preferred to pay just a bit more to get what they viewed as 'superior' goods. This, at least, was the view of the Buthina Borona members, who felt that the lack of an identifiable brand was one of their chief obstacles. A certain understanding of the mentality of the target market was clear:

I think it's very important for us, to them we don't know because you see I said community is a funny person. 'Cause I've worked with the community for more than three decades, I know how they think... they might think something today and think something else tomorrow. They can see these products on the table every day and still go and buy at the shops, it's their mindset (Focus Group One, Respondent Four: 26/10/2010).

These are funny people, they pass here going to shop right, going to Pick-n-Pay, going to OK, going to JD: those are big supermarkets. It's no longer that he does not know that we're selling, is because his mentality still claims that whites are more superior than us, they are going to buy genuine things, they are doing *fong kongs* here [slang for imported fakes], that's what they're thinking, but our product when you compare, they're better than the products they are buying at big retailers. You see the difference is the brand name; people have the mentality of brand names (Focus Group One, Respondent One: 26/10/2010).

Co-operators agree that marketing and advertising have proven to be one of the biggest obstacles facing the co-op. However, a lack of finances to perform marketing in the form of advertising has meant that the co-op now relies on a meagre trickle of customers coming off the street. The secretary, Albert Mahlangu, explained the problem:

A small firm like us we cannot even go to the media, or go to our local radio stations, like Kasi FM. We'll be paying plus minus R10000 a month to just to do an advert, and they're not guaranteed of people buying

from us! You see advertising needs a lot of money, so that the company can grow (Focus Group One, Respondent Two: 26/10/2010).

Unlike Mapungubwe Co-op, the Buthina Borona Co-op did develop a marketing strategy; however, this had not been put into practice due to a lack of funds. Marketing training that was provided by Unique Training Solutions, appointed by the Department of Labour in the training phases of the IHP, and as noted, the GEP provided product labels and advertising banners. In mid 2010, the board also considered designing a flyer to hand out to passers-by: with the flyer would come a small bottle with a sample of Buthina Borona dishwashing liquid. Unfortunately, this campaign would have cost over R1000, which the co-op did not have, thus the idea was never taken up. Generally, it was impossible to undertake real marketing.

#### **6.6. Tied Market: The Drive for State Contracts**

Like the co-operators in Mapungubwe Co-op, the Buthina Borona co-operators increasingly felt that the solution to these problems was to secure government contracts are understood as a panacea to the ills plaguing the co-op. The deputy chairperson, Mr Williams, argued:

The local government, they should be doing this. This is the co-operative, this is a co-operative doing manufacturing household product, and ... local government ... offices are being cleaned by ... the very same product that is done by these co-operative .... [They should say] 'We have given them R100 000, now let's maintain that co-operative, let's sustain it, let's get their products, so that they must be used to all the departments within or locality'. It's very simple: each and every department use liquid soap, use Handy Andy, use pine gel, 'Lets buy these products, the use floor polish, lets buy these products' – from us.

Then we know now, every month we send x amount to our local government, they send us x amount of money. Now we are starting sustain the business, we are starting to create the employment, we are

starting now to do the so-called national interest, Black broad-based Economic Empowerment, local economic empowerment... skills transfer... poverty alleviation: we have done it. This poverty eradication, we have done it. Job creation, we have done it. Now that's the national interest. Now if we don't preach what we don't practice, our government is preaching but it's not practicing what they are preaching. They should practice it...

They [should] just said every month: 'Can you afford to deliver us 1000 litres of liquid soap?' Then we do that. 'Can you deliver us 1000 litres of pine gel?' We do that. Now ... we invoice them: within seven days they pay us our cheque. Then everyone goes home happy, we employ more people, then that means we are supporting more families. Those families they become the business, when it grows, then more families will get employment. Then you go beyond the borders of Gauteng, Ekurhuleni, the borders of the whole South Africa. Then you start skill transfer to SADC region. But it's not happening (Rio Williams, Interview One: 10/10/2010).

Moreover, a contracts—it is believed—will provide the financial basis for a rigorous marketing and advertising strategy, which will in turn ensure that Buthina Borona's products become a real alternative to the expensive (and in the co-operators' view, actually rather poor quality) brand name products. The co-op wants to achieve the goals of creating employment, transferring skills to the community and paying members a regular, liveable wage, but sees this as requiring a 'tied market' in the form of a state contract.

In Buthina Borona Household Co-op, there is certainly a sentiment that the LED department 'abandoned' the co-op after the training and funding processes were complete: that the co-op is unable, rather than unwilling, to become successful without more assistance from government. Most co-operators agreed that the LED department should have, from the outset, provided co-ops with contracts before exposing them to the open market:

Yes, it needs to be a pilot project; it needs to be hands on. You'll see the machines working here, in big companies; the only machine that is not working is the broken one. Ours aren't running because people aren't buying the product. Then you come here, you set up shop, people don't bother to buy because your prices are too high.

The government must give us a job, 'do us x, y and z and we'll pay you x, y and z'. On job training, a pilot project for a certain number of years. 'Good people, now five years is gone, bye bye, now you'll get a clearer understanding of what it takes to run a business.' How can you [be] understanding them if you don't practice? Without supporting systems there is nowhere to go (Focus Group One, Respondent Four: 26/10/2010).

The co-op approached the LED department several times with the request for contracts. In early 2010, the department's response was that the co-op should get registered on the vendor database of the Gauteng Provincial Government. The database of vendors assures that any product or service procured by the provincial government comes either from an SMME, or from a co-op, or from a business that is BEE-compliant.

The secretary, Albert Mahlangu, and the treasurer, Sam Mahlangu, then made several attempts to get Buthina Borona registered as a vendor, but, at present, they have been unsuccessful. The vendor office has told them on more than one occasion that the Gauteng Provincial Government is not looking for more vendors at the current time and that they should come back in January of 2011. So far, the members have not reapplied in 2011.

Failing to make much progress with the EMM's LED department, Buthina Borona tried other avenues for contracts. Several letters sent to the DTI specifically suggested a contract to provide cleaning products for the DTI's offices in Pretoria. Although the DTI acknowledged that they had received the letters, nothing ever came of these requests.

## **6.7. Pricing and Perceptions and Competition**

Members of Buthina Borona believed that their failure to succeed was also partly due to 'cartels', such as big retailers setting prices below prices that are competitive for the co-op. With the increasing cost of raw materials, and the inability of the co-op to reach economies of scale in production, the prices of their products had to be increased by between 50 Cents and 1 Rand more than the equivalent brand name products sold by big retailers– their direct competitors. Aside from the realities of competing with big retailers, co-operators believed that big retailers had colluded to set prices in order to cut Buthina Borona Co-op out of the market. Deputy chairperson Mr Williams, for example had this to say on the matter:

You see, the issue here is that if you don't have a person supporting you, a supporting system, like any business... They came together, these big businesses, they are controlled by one person in the ICC, Shoprite, Pick-n-Pay have their own brands, controlled by one man... they're too strong, they're trying to get all these big companies, they have successfully got Shoprite, and to centralise and control it from one place.

This was directly linked to marketing and branding:

Can you compete with Sunlight [brand]? You've got a Sunlight liquid soap here, you've got a Sunlight liquid soap for Lever Brothers, can you compete? You can't! Because when they advertise, on the TV, we don't have money to advertise on the TV, 17 seconds on the TV will cost you R500 000 we cannot afford that.

Other obstacles also arose:

When you want to put your stock in Pick-n-Pay, you must have insurance first. You pay security. You must have a merchandiser, to make sure they [items] are not spending their whole lives on the shelf ... those products must be a fast-going line, now you need to pay for that. If you have a small business starting, you need to pay a certain fee upfront; you have to go to the ... distribution centre where they distribute according to the

different outlets. Now you see we are caught in a dilemma, a Catch-22, we are in a deep blue sea (Focus Group One, Respondent Four: 26/10/2010).

Moreover, even if collusion had not occurred, the big retail stores are nevertheless still able to price smaller competitors out of the market with their ability to buy in bulk. Worryingly for Buthina Borona, a shopping centre development was springing up less than three blocks away from their premises. This was felt by the members to be not an opportunity, but a threat to any further efforts in the local market.

SMMEs were no better. Explaining severe competition from *spaza* shops (small township stores) and other small businesses in the area, ethnic minorities and foreigners were also seen (by the deputy chairperson) as colluding:

This thing of a cartel, the Indians, the Nigerians, the Pakistanis, they are doing these things. What these guys from Pakistan are doing, these Somalis, they penetrated each and every corner, almost fifty meters apart or less. They target unemployed people; they use their garages to open *spaza* shops. When they buy products, they come with a big lorry, from the central place they deliver themselves. They hit the local *spaza* shops hard with their prices. They sell illegal products like Omega and RG cigarettes which are banned in South Africa. Then [when] you come as you open shop here, people don't bother to buy because your prices are too high. What they are doing, they collect money, one truck goes to one stop and that way they can buy in bulk and save (Focus Group One, Respondent Four: 26/10/2010).

Mr Williams also believed that these groups also colluded to fix prices at a level that priced Buthina Borona out of the market, while providing poor quality goods.

Thus, the co-op all-too-often lost the pricing battle with their competitors, who brought products from wholesalers and resold them to the community, or were able to develop economies of scale, in the case of the big retail stores. In these

conditions, it was very difficult to compete, especially as Buthina Borona could not itself purchase in bulk or achieve competitive economies of scale.

### **6.8. The Relationship Established in the Co-op Forum**

The Ekurhuleni Co-op Forum was felt by the membership of Buthina Borona to be a useful, especially the presentations on further training and funding possibilities by GEP, DTI and the Department of Labour. These were seen positively, as chairperson Dlamini explains:

Like for instance when we were in meetings *ne*, they will come and do presentations... LED will invite them, GEP, DTI and other stake holders, and not to mention... the Department of Labour... [which] helped us a lot. We know how to manufacture because of Department of Labour. Department of Labour paid ... Unique Training Solutions to train us on manufacturing products, *ja , ja , ja*, so Department of Labour was also involved, *ja* (Hendrietta Dlamini, Interview One: 30/09/2010).

As with Mapungubwe Co-op, Buthina Borona was given a degree of autonomy by the LED department (for example, choosing what product they would like to produce), but always within the agenda set by local state regarding what co-ops should do, and what co-op success entailed. Since success meant survival in the open market, state contracts were not favoured by the EMM LED department. The mantra of neo-liberalism, of putting the market first, and of the co-ops acting as successful businesses, framed the engagement between the co-op and the LED department. Representatives of Buthina Borona were told time and again at the Ekurhuleni Co-op Forums that co-ops should build their success in the market; calls for contracts fell on deaf ears.

### **6.9. Reporting and the Disintegration of the Relationship**

As with the other IHP co-ops, as a condition for receiving start-up capital from the LED department, Buthina Borona had to send (in practice, fax) monthly progress reports, which described buying machinery and raw materials, sales, administration, and the general day-to-day running, and any problems encountered: sometimes, issues raised by co-operators led to ad hoc meetings being held in between quarterly Ekurhuleni Co-op Forum meetings. As the chairperson Ms Dlamini explains:

... if we as co-op members have some problems we have that right to call one official from LED and have that meeting with him or whoever is available. It was an every month thing having those meetings with LED, reporting ...submitting our reports and giving us their report (Hendrietta Dlamini, Interview One: 30/09/2010).

Yet although Buthina Borona was sending their monthly progress reports in diligently, feedback from the LED department became less and less frequent as time went by. The deputy chairperson Mr Williams explains the frustration felt by the co-operators:

Before it was time, at least every month we meet them, they come and visit us here and look what we are doing, 'are we coping', 'are we doing fine'. But now, we don't know. They are just vanishing in a thin air (Rio Williams, Interview One: 10/10/2010).

You must first know your child, what he's doing, what he is not doing. If I was the mayor, the person who created these co-operatives, I would check what they're doing. But they don't check, they don't care. 25 co-ops, R100 000 each, 2.5 million, and they don't care and they're using taxpayer's money (Focus group one, Respondent Two: 26/10/2010).

This was a source of frustration for co-operators, particularly because the LED department pledged itself to play an advisory role in the IHP process, part of the notion of 'people-centred development'.

By the end of 2009, there were very infrequent interactions of the co-op and the LED department, whether at the Ekurhuleni Co-op Forum, through the monthly reports, or in the ad hoc meetings. An LED department official did come to Buthina Borona in early 2010 to inform the co-op that there was an opportunity available to relocate to a new, larger premise. As yet, they have not heard back from the department about how the renovations at the new site were progressing, or when they could move in. As Buthina Borona faltered in terms of members and sales, they had less and less to report to the LED department, which had also appointed (see previous chapter) a new head with little interest in co-ops.

### **6.10. Conclusion**

While there was much optimism and hope shared by co-operators and LED department officials when the IHP started, this has waned steadily over the past seven to eight years. The steady attrition of members from Buthina Borona clearly shows the inability for the co-op to pay members a regular, liveable wage, in spite of brief period of profitability in 2008 did not last.

Yet, while the Buthina Borona Co-op has failed to meet the objectives of mandated to it by the state – job creation, community service and market success –it has ‘succeeded’ in one crucial respect where Mapungubwe Sewing Co-op failed: internal democracy, a hallmark of the co-op form, has been probably the greatest success of Buthina Borona. This practice, for core production and administrative decisions, is deeply entrenched in the membership.

Therefore, Buthina Borona has been successfully democratic, but unsuccessful in the open market. Does this bear out Philip’s (2006) argument that co-op democracy is at odds with open market success? The data suggests a complicated relationship between these aspects. The co-op’s brief period of profitability co-existed with its democratic practices, and its inability to remain successful was at least partly due to factors that were outside of its control: consumer brand loyalty, market saturation,

and the difficulty of competing with small family business on the one hand, and large supermarkets on the other.

However, it *is* significant that no effort was made to compensate for higher raw material costs – the key factor in ending the co-op’s initial success, that was under the co-operators’ control – by reducing wages. Compensation for these costs was possible by cutting another input cost: labour. This, at least, was within the co-op’s control, but the co-operators did not choose this option. This would seem to suggest that it was difficult to make such an *unpopular* – but *necessary* – decision in this democratic co-op. Hierarchy here would not *guarantee* market success but it was probably a necessary component of it: here, to use Philip’s (2006) phrase, rather than the co-op undergoing ‘degeneration towards success’, there was neither ‘degeneration’ nor ‘success’ .

The co-op also became uncompetitive because it was unable to market its products well enough, and faced the massive competition that Buthina Borona faced from large retailers and small businesses. It simply did not have the finances and skills in place to create awareness around the product, to create an easily identifiable brand or compete with ‘cartels’ and department stores. Consumer brand loyalty, and consumer’s sensitivity to prices, particularly in the context of poverty was also cited as an obstacle to the co-operative being able to penetrate the market. Here, state control played a key role in the problem: as noted earlier, the co-op was set up in a way by the EMM’s LED department that made any real marketing campaign impossible– principally through a lack of funding and ongoing training.

Against Satgar’s (2007a) assertion that a ‘progressive’ state can play a formative role in supporting co-ops, Buthina Borona’s democracy is clearly limited by the state (as the marketing example shows). Nevertheless, the co-operators take democratic participation as the norm in management; they view democracy as something that is useful and worth maintaining. This democratic co-op ethos is a key factor in explaining the co-op’s internally democratic form. For this co-op, the ethos of facing challenges collectively and ensuring that each member is accountable to the other members in every mandate that is carried out suggests that democracy is

understood by these co-operators as helpful means of facing, and hopefully overcoming, challenges rather than any one individual having to face challenges the co-op faces alone.

## **Chapter 7: Discussion- Comparing the Cases in Order to Test Hypotheses and Build on Theory**

### **7.1. Introduction**

This chapter is perhaps the most important one in the research project as it provides an exposition of the crucial similarities and differences between the two cases that have been selected. This is of critical theoretical importance because it allows for a logical means of testing the hypotheses developed in the literature review. Thus, according to Skocpol and Somers (1980), the logic of juxtaposing cases is to persuade the reader that an explicitly delineated theory can repeatedly demonstrate its fruitfulness (p 176).

Before I continue, it is important to restate the hypotheses developed in the literature review:

**Hypothesis 1:** A hierarchical structure does not guarantee co-op success in open market competition.

**Hypothesis 2:** Worker co-ops struggle to survive, as they operate in marginal markets and face entrenched, powerful competitors.

**Hypothesis 3:** The internal structure of co-ops is shaped by a range of factors, besides the imperatives of open market competition.

**Hypothesis 4:** Sponsorship by the state will demonstrably undermine co-op democracy, rather than promote it.

A key objective of this research project is to test the hypotheses developed in the literature review with evidence gathered in the field: the hypotheses should be refuted, provisionally confirmed or reworked in terms of assumptions and concepts to help develop a larger explanatory model.

## **7.2. The Axes of Similarity Between the Cases**

The Mapungubwe Sewing Co-op and the Buthina Borona Household Co-op exhibit many similarities, by virtue of the fact that they are both projects of the LED department's IHP. There is clear similarity in the ways in which the project was initiated in 2003, from the time the message was sent out to communities via ward councillors that the development project was in the initiation stage, to the selection of potential co-operators, right through to the training and set-up phases of the project. Each co-operative was allotted R100 000 as a contribution to start-up capital for the provision of start-up capital to purchase assets and raw materials to begin production.

Also a similarity: unfortunately, in both cases, the co-ops have failed to meaningfully penetrate the local economy by producing a net profit, and so pay the existing membership a regular, liveable wage. As an adjunct to this phenomenon, both co-ops experienced massive member attrition, as neither co-op could pay the members regular wages.

## **7.3. Hierarchy, Co-op Success and Member Attrition**

Both co-ops have experienced high levels of member attrition, partly due to delays in getting up-and-running, and partly due to cash flow problems, with poor performance leading to the inability of the co-ops to pay members regular, liveable wages. In both cases, the boards decided (a decision that was also mandated by their statutes) that paying members a stipend out of the start-up capital was not in the best interests of the co-op in the long run. There were also significant delays in the process in both cases in accessing funding, finding premises and beginning production. For the start up funding, the long time period (two years) between when each co-op was set up, and the funding was received was a major obstacle preventing each co-op from commencing production. The court case that the Buthina Borona Co-op had to go through delayed production for an additional two years. Although Buthina Borona's premises were expediently secured by the LED

department, Mapungubwe having to move premises and start producing a different product delayed the onset of production significantly. All of these factors led to massive member attrition in both cases.

Both Mapungubwe Sewing Co-op and Buthina Borona Household co-op failed to make headway in local, open, markets, with limited sales of their commodities leading to serious problems. The EMM's LED viewed self-sustaining marketing activity as the basic criterion for co-op success: in both cases, the co-ops have failed. In some months, no wages are paid; in others, wages are very low.

Co-op principles and theory were attractive to at least some members, but basic material survival was primary for many, a 'survivalist tendency' with a long history in South African co-ops, which ranked economic survival issues as paramount. This is in line with Erasmus (1991), who earlier found that material rather than ideological factors were the primary causes of the formation of co-ops in South Africa and Zimbabwe (p 591). Given low sales, there was an oversupply of labour relative to the output and (more importantly) the sales of the co-ops: even when running, not enough income was generated to support all of the members.

The result was that the majority of members, under family and financial pressure, have left to seek alternative employment. In the case of Mapungubwe Sewing Co-op, the original membership of 2005 was twelve, with the current membership stands at only three, who are the three remaining board members (plus one part-time employee, who is not a member). Similarly, Buthina Borona Household Co-op, membership in 2004 stood at fifty, while currently the membership stands at five: four board members plus one non-executive member.

Therefore, the basic aims of the IHP, in which the state-sponsored co-ops are located, to provide gainful, sustainable employment, as well as alleviate poverty, have not been met. In both cases, there were attempts to do sustainability studies and develop business plans, but great reliance was (in practice) placed on co-operators understanding of local markets. While co-operators were able to identify goods that were in demand, they clearly underestimated the challenges: the

fierceness of competition in local markets (Mapungubwe), brand and price sensitivity (Buthina Borona), and barriers to entry (in the form of large chains, as well as family businesses, the latter based among ethnic minorities).

Both the Mapungubwe and the Buthina Borona co-op underwent training, with bodies like COPAC, the Department of Labour and Bridge A Gap (as well as Unique Training Solutions for Buthina Borona). The training was certainly seen by the long-term, committed co-operators as having provided the skills necessary to ensure success in the local market.

However, there was a crucial gap in the training and advice provided by the local state, and its contractors: they did not set the ratio of worker-owners to the amount of market share, or advise on this issue; rather, the co-ops were allowed to choose the size of their membership from the outset. LED policy which stipulated that co-ops ought to provide gainful and sustainable employment for its membership (LED policy, 2002). But the state planners and service providers had little understanding of the day-to-day realities of the co-op's markets. COPAC, however, did play an advisory role on the matter of member numbers in the start-up workshops, but without a clear assessment of market conditions, this advice was necessarily quite general.

The R 100 000 rand start-up capital (plus the additional R200 000 worth of capital goods that was received by Buthina Borona Household Co-op from the DTI) set the ratio of fixed capital to labour. Since the organic composition of capital was higher for many competitors (for example, Mapungubwe competed with factory-made clothing from Asia; Buthina Borona competed with mass-produced brand name goods sold in supermarkets), they would naturally struggle to match prices.

Since no money was put aside for marketing (although Buthina Borona had some marketing materials produced, it could not use them), and co-op statutes in fact barred profit from being used for this purpose. Both co-ops also suffered from factors in sales like advertising and branding. Meanwhile, distribution was also a problem: unable to access big stores, and excluded by small traders, both relied

heavily on the passing trade. The co-operators keenly felt a need for more training – and financing – in terms of marketing.

Management systems could play but a limited role in addressing the problems. In the case of Mapungubwe co-op, a definite managerial prerogative has emerged, but the co-op struggles to survive. In the case of Buthina Borona, strong democratic tendencies exist, but the co-op has also not been able to successfully sustain its presence in the market.

So, while it could probably be argued (like Philip, 2006), that hierarchy within a co-op might be a *necessary* pre-condition of open market success, it is by no means a *sufficient* condition. This would confirm **Hypothesis 1**: ‘A hierarchical structure does not guarantee co-op success in open market competition’.

#### **7.4. Worker Co-op Viability under Capitalism**

Mapungubwe co-operators found it impossible to break into local markets, believing that there was a cartel operating against it from rival local traders, mostly comprising ethnic minorities. The alleged cartel was viewed as basically driven by local Indians. Not only did these shops undercut Mapungubwe’s prices, but they also were largely not *producers*: rather, they were traders dealing in bulk Asian factory imports.

Here the issue of marketing came in: the co-op’s products did not have much of a presence in the local market, with much of the sales coming from people walking past the doors of the shop, or friends ‘in the know’ regarding the location and product of the Mapungubwe Sewing Co-op. The co-op wanted marketing assistance by the LED department.

Buthina Borona experienced a brief period of profitability, lasting but nine months from the beginning of 2008, when it was able to pay a regular, liveable wage and post a surplus. However, the market for Buthina Borona’s product consisted largely of family and friend networks. This market was soon saturated.

There were also increasing costs for raw materials: these could perhaps have been compensated by lower wages or higher productivity, but given the tiny market, more output would not itself have solved the problem. To have more sales, would have required better distribution and marketing. Illustrating this, slight price increases led many family and friend customers to return to traditional brands.

Unlike Mapungubwe, competing mainly with small family traders, Buthina Borona also faced challenges from large retailers and stores. Buthina Borona could not get its product into the supermarkets, and while these stores charged more for brand name goods than the equivalent Mapungubwe products, large advertising budgets meant that the branded goods were better known and better trusted. The goods that Buthina Borona has been producing are perceived by the local community, by the admission of the co-operators, to be inferior to the equivalent brand name products at big retailers, even though Buthina Borona's products have SABS certification. The chairperson and deputy chairperson emphasised that this was the 'mentality of black people': strong brand loyalty, and a distrust of products made by other blacks.

As with Mapungubwe, the Buthina Borona Household Co-op members believed that they were being sabotaged by small local traders, almost always identifying members of ethnic minorities—Indians, Nigerians and Pakistanis—as the problem. They believed these outsider groups undercut their prices with inferior products. Again, these minorities were not producers, but instead, traders in mass manufactured goods purchased wholesale.

There is a larger issue here that is also worth noting. Philip (2006), in explaining the recurrent failure of worker co-ops, has argued that they struggle to achieve scale economies and significant sales simply because they lack adequate local demand, being located in marginal markets that are easily saturated.

Our overview of co-op history certainly bears this out: the early turn-of-the-century Cape 'Knock Out and Lock Out' cigarette company survived because of workers *politically* supporting the product, but even then it failed when prices rose; NUM and

NUMSA co-ops soon saturated local markets, as well as markets in the unions and elsewhere. This certainly suggests that Satgar's (2007a) optimism about a thriving co-op sector thriving – let alone challenging capitalism – is unrealistic, not least because even the 'tied' or 'solidarity' markets that the working class can generate are tiny, and captured by the cheaper goods and services generated by capitalist and state firms.

The cases studied here would certainly bear out Philip (2006) against Satgar (2007a). This would bear out **Hypothesis 2**: 'Worker co-ops struggle to survive, as they operate in marginal markets and face entrenched, powerful competitors'. Against significant sections of the local and international left (Katsiafis, 1987; DLF 2011, Proudhon, 1923; Zita, 2009), I have contended that co-ops cannot provide a means of gradually superseding capitalism and the capitalist state, the data would strongly suggest that this approach is utopian. It would bear out, instead, Bakunin's arguments that worker co-ops, if 'incontestably one of the most equitable and rational ways of organising the future system of production', would be 'overwhelmed' by markets (Bakunin 1873: 15).

### **7.5. Understanding the Internal Structure of Worker Co-ops**

However, if markets shape co-op structures, as Bakunin (1873) and Philip (2006) stress, should it be posited that they are the primary variable? Given that neither co-op studied here actually did succeed in the open market, it is not possible to test Philip's proposition that co-ops will 'degenerate to success' by shedding democracy to become market-viable.

It is, however, possible to make the more modest claim that there a wide variety of factors can promote the growth of hierarchy within co-ops, besides insertion into markets. Within the Mapungubwe Sewing Co-op there is an unequal distribution of understanding of and belief in democratic norms and values, exemplified by ongoing conflict between the chairperson and the secretary. Instead of a collective decision-making process, managerial prerogative is used to run the co-op's production. The

secretary, as a seamstress, is accepted as more able to make the right decisions on production, and therefore controls the production decisions. She also supervises the co-op's sole non-member, the part-time employee. In her view, democratic decisions are inefficient, a waste of time; she takes managerial prerogative as the norm. To use Lukes (2005), the first dimension of power—overt control—is clearly evident here. The second dimension—the ability to set the basic agenda—is also in evidence. The secretary has power by virtue of her holding most of the knowledge necessary to produce, and this power is accepted.

At the level of the board, there is also a top-down process, where the chairperson feels compelled to impose his ideas on exactly how the co-op *ought* to be run, which he understands to mean the LED department's development objectives. These are viewed as more important than the secretary's wishes to simply have the co-op up-and-running as a business. So, he views success as meaning fulfilling LED aims; she views it as running a small business well.

Severe conflict results, with low trust between the chairperson and the secretary, and the chairperson simply preventing certain steps being taken: for example, as representative on the Ekurhuleni Co-op Forum, and main liaison with the LED department, he can—and did—refuse to apply for additional funds. Thus, to defend co-op democracy, he is willing to assert personal control. Yet if he can overtly control these external relations, he has no direct control over internal decisions relating to production, which the secretary dominates.

What matters is, in fact, how the members of the co-op *choose* to respond to markets, and their own beliefs. Unlike Mapungubwe, with the development of managerial prerogative, the valorisation of hierarchy and the existence of authoritarianism, in Buthina Borona Household Co-op, the internal operations of the co-op are basically democratic in terms of decision-making.

Persistently democratic practices in Buthina Borona must, in part, be attributed to the co-operators believing that democratic participation is worth maintaining, and is useful. It is well understood by the members that democracy and collective control

can be the key to running a successful co-op, if only they could attain a big contract (from the state), they believe they would be able to balance the internal incentives of the co-op with the external incentives of a tied market. Even the drive to get government contracts, viewed as the key to success, was decided upon collectively, by the members themselves.

This would seem to bear out **Hypothesis 3**: ‘The internal structure of co-ops is shaped by a range of factors, besides the imperatives of open market competition’.

In chapter two, it was suggested that economic behaviour cannot be viewed simply in terms of *homo economicus*, a model that has been applied to human behaviour in all contexts by the New Institutional Economics (and which had an important influence on Philip, 2006). *Homo economicus* cannot explain why the members of Buthina Borona co-op maintain ‘inefficient’, ‘time-consuming’ democratic decision-making processes that are not ‘parsimonious’ in terms of market incentives.

Clearly, people do not act simply through rational choices to maximise individual gains. Some behaviours are not ‘rational’ in this sense – such as the refusal of Buthina Borona’s chairperson to secure more funds, or Mapungubwe’s failure to compensate for raw material price rises by increasing productivity or cutting wages. Attitudes to what work is *for*, how it *should* be structured, and what success itself *means*, are *variable*. This would back up Bakunin’s points made in relation to the old Russian *mir* that political culture – in the *mir*’s case, an authoritarian political culture – would have an enormous impact on the structure of nominally collective production systems (Bakunin, 1873: 15).

It is also clear, as noted earlier, that customer choices are also complicated, shaped by ‘mentality’ and advertising, rather than objective evaluations—as seen with Buthina Borona’s products. Also, individual actors often simply lack the full information needed to make rational choices—both co-ops relied on members’ beliefs on what would sell, in choosing products, yet in both cases, there was no real information about market conditions.

## **7.6. The Relationship Between Co-ops and the State as an Exercise in Power**

The point that a wide range of factors shape individual behaviour, as well as internal co-op structures, is relevant to understanding how the state impacts upon co-ops. As noted earlier, Satgar (2007a and 2007b) argues that a sympathetic state can defend co-op democracy, by shielding it from the market. The IHP co-ops sponsored by the LED department of the EMM local state provide a good test case.

The relationship between the IHP co-ops and the EMM state was, at its core, an exercise in power and control, the state (specifically, the LED department) over the co-op. State control over the IHP co-ops included the state conceptualising, initiating, structuring and mandating the co-ops, as well as providing training contractors, and the state undertaking in ongoing monitoring and engagements with the co-ops.

The co-ops were envisaged as 'autonomous' organisations, free from interference by the LED department, but even this was based on the state's language of 'people-first' LED. The democratic form of the co-ops was a state imposition (as noted above, with uneven acceptance by the co-operators), and the state also set the objectives set for the co-ops, and stipulated the way in which profits were to be used. Since the state provided the premises and start-up capital, many co-ops were in limbo while the LED department sorted premises and funding.

Some of the objectives set by the state were quite impractical. The state allowed co-operators to choose their products and membership size, without a real investigation of consideration of market conditions. Although business plans and marketing strategies that were created, that seemed fine on paper, when co-ops began production the reality of competing in local open markets became evident as the co-ops failed, with many closing and some limping on (Mapungubwe and Buthina a Borona, for example). The state and its partners involved in setting up the IHP did not appreciate the actually-existing market conditions, or such factors as black community perceptions of co-op products, such as their brand loyalties.

On the other hand, it imposed the notion that the co-ops would succeed to the extent that they became self-sustaining businesses in local markets. This was impractical given the stiff competition in the markets, and the low levels of demand in marginal, working class, markets. At the same time, stipulations in state co-op statutes that effectively made advertising impossible to finance crippled attempts to expand sales. When co-operators sought to secure 'tied' state markets through contracts, they were either ignored (Mapungubwe Sewing Co-op) or informed that opportunities did not currently exist (Buthina Borona Household Co-op).

The LED department wanted co-ops to be both democratically run and controlled *as well as* profitable, and not to be dependent on the government for their survival. These desires were expressed from the outset, particularly in the training workshops around co-op principles, and in the creation of the co-op statutes. The envisioning of the IHP, and these goals, was never endogenous to the communities in which the co-ops exist.

Nominally, the co-ops, once given premises and start-up capital, were basically autonomous of the state, but real autonomy from the state was never achieved for these co-ops, as will be discussed below. The co-ops had to provide monthly reports and attend the quarterly Ekurhuleni Co-op Forum meetings. All, including the Mapungubwe Sewing and the Buthina Borona Household Co-ops, were required to fax the LED department monthly progress reports. These had to state how each co-op was progressing with buying machinery and raw materials, coping with sales, administration, and the undertaking day-to-day running of the co-op. These allowed the LED department to monitor how the co-ops were achieving the preset LED goals. The Ekurhuleni Co-op Forum was set up by the LED department as a means of communication between co-ops and the LED department, in order to collectively deal with challenges co-ops faced in accessing the market, and also suggest avenues for further training and extra funding.

The LED department had direct and overt power (Lukes' 'first dimension' of power), as it could directly intervene if the reports indicated problems or a break with mandates for example, on how the start-up capital was utilised. But in doing so, it

also set the basic agenda upon which could be made (his 'second dimension') and what sorts of decisions were likely to be made (the 'third dimension'). For purchasing the means of production only), it chose not to intervene. Issues like state contracts, and by extension the whole issue of the neo-liberal idea that co-ops should survive in open markets, were removed from discussion.

When the LED department refused to intervene in, for example, conflicts in Mapungubwe over how the start-up capital should be used, the mere *possibility* that it *could* intervene provided the key impetus for the conflict to be resolved by the affirmation that this capital could not be used for stipends, transport etc. The exercise of power on the part of the local state operates in the realm of non decision-making, where the possibility of intervention which has a self-disciplining effect on the members of the co-op.

Thus, co-op autonomy was really a 'false' autonomy. Satgar's (2007a and 2007b) postulation that democratic co-ops benefit from state is less than convincing. Rather, the data bears out **Hypothesis 4**: 'Sponsorship by the state will demonstrably undermine co-op democracy, rather than promote it'. If we accept, as I have argued we should, the notion that the state is a centralised bastion of the ruling class of the capitalists and state managers and basically opposed to the interests of the popular classes, we can see these effects should not be surprising.

In no sense does state control seem to provide a basis for co-op democracy: at best, it replaces market domination with state domination, neither of which is democratic; at worst, as in the EMM case, the LED department wields state domination to force the co-ops under the domination of the market. Therefore, the impact of state-sponsorship should be included as one of the factors undermining co-op democracy.

Both co-ops (see below) now long for government contracts, as a solution to their situation. However while these would—if the co-ops were able to secure the contracts, and service them—simply provide an opportunity to pay wage and reinvest surplus; they would not end subordination to the state, but deepen it by effectively make the co-op dependant on the state for its continued success. Again, this strongly

suggests that the notion that state aid – whether through tied markets and/ or ongoing support and interventions – can promote a road beyond capitalism is fundamentally incorrect.

While the role of the local state in sponsoring co-ops seems on face value to be a move away from the logic of neo-liberalism, the IHP initiative reflects a combination of neo-liberalism and LED ideas of ‘people-driven’ development. These are *not at odds* but rather dovetail together rather well: setting up the co-ops up was framed by municipal officials at the Metro’s LED department as a grassroots process, but the agenda for co-op development was actually set by the municipality itself, and framed by neo-liberal notions of development through the free market, based on self-sustaining and competing agents.

Co-op democracy itself was imposed from above. Many joined simply as a ‘survivalist’ attempt secure wages, arising from a situation of grinding poverty and exploitation. There was a mismatch between the goal of democratic development through co-ops, and, many cases, their assumption that work must always be hierarchical. The mismatch occurred *because* the state imposed the *idea* from above, that the state had *little understanding* of the nature of competition in local economies and because the state *failed to consider* non market obstacles to co-op success.

The tensions in Mapungubwe co-op reflect this imposition. First, there were ongoing clashes over how the start-up capital should be spent, centred on efforts by some to access the capital for immediate income. Second, while a democratic approach is mandate accepted by the chairperson, in practice he often relies on imposition; it is bluntly rejected by the secretary. Choosing to run the co-op in a democratic fashion never came from the membership of the co-op, it was never collectively decided upon by all: even the chairperson defends the democratic form as *obeying* the LED department’s mandates.

In Buthina Borona, because the long-term co-operators generally accept co-op principles, by contrast, the collective norm of democratic participation as a way to

make decisions is accepted by each board member. This is shown by the democratic way in which key decisions are to be made and the collaborative manner in which decisions and mandates are carried out. But this took place after a disastrous situation in which a number of co-operators, on the first Buthina Borona board, looted the co-op account and had to be charged in court. Thus, the democracy arose after a clash against those who had no interest in it, but saw the co-op simply as a quick way out of grinding poverty and exploitation.

Also illustrative of the mismatch between LED department goals, and co-operators' wishes, was that over the past ten or so years, both of the co-ops under study have sought to attain contracts from local, national or provincial government departments to supply various departments with the goods that they produce. The desire for contracts in the form of preferential procurement has occurred in the context of the inability of both co-ops to become successful in the open market.

While the IHP forced upon co-ops the neo-liberal assumption that they could realise 'freedom' from joblessness and poverty by competing in local open markets, this has not been achieved. In the context of a failure to penetrate local open markets to produce a net profit, co-operators have come to perceive state contracts as the means to achieving their goals.

Neither co-op, at the time of writing, has been unable to procure a government contract. Partly this reflects internal co-op dynamics (in Mapungubwe, for example, the chairperson's opposition to this step), but it must also be noted that the state did not and does not want to perpetually fund the co-ops. They were envisaged as operations that, once running, would support themselves through the open market.

Whether the co-ops could actually service any contracts without substantial advance payments is another matter. In the case of Mapungubwe Sewing Co-op, a lack of working capital means that the co-op would probably not be able to meet production demands. For example, it would struggle to hire in new staff or procure adequate raw materials. Incapacity to complete the project due to a lack of raw materials (with little cash to purchase material and thread) and the secretary's

authoritarian way of managing the co-op. It was feared that she would dominate the production and subsequent profit realised through completing the project.

### **7.7. Conclusion**

This chapter discussed the crucial similarities and differences between the two cases that have been selected. This was of critical theoretical and empirical importance because it allowed for a logical means of testing the hypotheses developed in the literature review.

It was shown that the market factor of competition was only one determinant of the internal form of the co-ops under study. A range of factors were important in determining whether the co-ops remained democratic, or became more hierarchical. Besides the impact of the state itself, there were factors such as co-operators own value systems and political culture. The co-ops all faced, in addition, serious problems of surviving in the market, both due to market conditions, and state interference, including the setting of impractical goals and expenditure plans. The local state has tended to dominate the co-ops, but there are limits to its power: it has been unable to force the co-ops to succeed, and in fact, despite the state's stated aims, the co-ops have failed to become autonomous of state aid.

## Chapter 8: Conclusion

This research report began by asking a question: *‘what is the relationship between state-sponsored co-ops, local markets and the EMM?’* Hypotheses were developed, as follows, as a means of testing some of the key arguments in the literature and providing an answer to this question, backed up by empirical evidence. These were the following:

**Hypothesis 1:** A hierarchical structure does not guarantee co-op success in open market competition.

**Hypothesis 2:** Worker co-ops struggle to survive, as they operate in marginal markets and face entrenched, powerful competitors.

**Hypothesis 3:** The internal structure of co-ops is shaped by a range of factors, besides the imperatives of open market competition.

**Hypothesis 4:** Sponsorship by the state will demonstrably undermine co-op democracy, rather than promote it

All four hypotheses have been confirmed. State-sponsored co-ops in Ekurhuleni have failed to achieve their basic aims—democracy, sustainability, and economic development—as a result of their relationship to local markets *and* to the state.

Several larger claims may also be made, as a result:

First, *democratic worker co-ops are basically fundamentally incompatible with both markets and states*. Market competition promotes hierarchical management forms (although such hierarchy does not guarantee market success, nor does it necessarily arise solely from market conditions). State support promotes a relationship of dependency and subordination to the state machinery that, rather than defend co-op democracy against markets, simply removes co-op democracy in another way. This is simply, however, one example of the many ways that state aid undermines co-op autonomy, by controlling aims, agendas and operations. State aid is one of the key factors in *undermining* co-op democracy (cf. Bakunin 1873: 15-16).

Second, it is exceedingly difficult for worker co-ops to attain market viability when faced with barriers such as large wholesalers, supermarkets, mass manufactured consumer goods, and family-based small traders. This research would seem, then, to affirm the anarchist Bakunin's arguments that worker co-ops will be 'overwhelmed' by markets (Bakunin 1873: 15). They cannot therefore (also see van der Walt and Schmidt 2009: 83-85) really be thought to provide a realistic means of superseding capitalism or the capitalist state. Nor can they reasonably be imagined to provide real solutions to the problems of unemployment and poverty in South Africa.

Disappointing as it may be, the EMM's IHP co-ops confirm the general picture that worker co-ops are unable to address, in the current social order, issues like mass unemployment due to deindustrialisation, and grinding poverty exacerbated by neo-liberal stringency. Their situation is in line with other South African material evaluating how 'successful' the IHP co-ops had been: this showed 80% of co-ops reported that they had not accomplished the goal of job creation, 79% felt that they had not accomplished the goal of fighting poverty, 88% of co-ops felt that the goal of community development had not been accomplished at all, and 100% of co-ops felt that they had not accomplished the goal of local production (IERI, 2007: 28).

Third, there is no basic incompatibility between the South African state's rhetoric of 'people-driven' development through democratic LED, and its project of neo-liberalism i.e. putting markets first. The two are easily reconciled by the notion that successful market competition (for example, by a co-op) is the very heart of 'people-driven' development. The state acts here to *facilitate* marketisation, rather than to control markets. This does not mean the state will do this well: the argument can be made that the co-ops were set *up to fail* from the outset because of the highly impractical goals and processes determined for them by the LED section of the EMM state.

This research has suggests two key points for future investigations of state-sponsored co-ops in the South African context. Firstly, that it must not be assumed that market factors are the chief determining factor for the internal democratic or authoritarian form of a co-op. A range of contingent factors as highlighted by this

research are just as important to understanding the internal dynamics of a co-op under study. Secondly, that when the state is involved, the goals set for co-ops by the state will be impractical due to the inability of the state to appreciate the intricacies of local markets, and the assumption that co-ops can be autonomous from state control, particularly when they fail to become successful. The state often wants to wash its hands clean of a project once it has been set up, in order for it to compete in the market. Furthermore, the state's use of 'experts' to develop co-ops necessarily means that the process of developing a co-op, or a broader co-op movement comes from without. The implication of this is that 'experts' in the state often have a superficial understanding of the day-to-day struggles faced by co-operators, meaning that these 'experts' impose impractical objectives on state-sponsored co-ops.

It cannot be argued that a 'one size fits all' theory can put to work to understand the relationship between state-sponsored co-ops, local markets and the state. However, the theoretical approach developed in this research can provide guidelines to how to approach such a question. Therefore, an explanatory theoretical model must be operationalised with sensitivity and subtlety to the political, economic and social context in which state-sponsored co-ops are located.

State-sponsored co-ops around the world in their various forms have been shown to be severely limited in their ability to simultaneously democratic and successful in terms of the market. The role of the state in developing and maintaining co-ops has more often than not lead to authoritarianism and interference on the part of the state in the day-to-day running of a co-op, or, more subtly, forms of false autonomy tying the co-op to the state. Similarly, when state-sponsored co-ops are tied to the state with a 'tied market' there is no guarantee that co-ops can balance the internal incentives of the co-op form and success. On the other hand, when co-ops are unable to become successful in terms of the market, it is not a foregone conclusion that a co-op will have strong democratic processes and member participation.

Of utmost importance in developing co-ops is that they are set up by co-operators on their own terms, outside and against the state. This is important, because the

approach taken by Satgar and others (e.g. Democratic Left Front, 2010), who advocate careful engagement with the state to garner resources and support for co-ops, cannot provide a real example of co-ops becoming radically autonomous from state control. Nor can they show co-ops being successful in the long-term with in some sort of 'solidarity economy', chiefly because no such economy actually exists.

Developing a truly grassroots co-ops movement based in the popular classes must be formulated within the working class, for the working class. This would require workers and the poor, rather than radical academics and the state to spearhead the development of co-ops. To avoid the paternal relationship that Bakunin suggested was the logical conclusion of the relationship between a co-op and the state, co-ops could be developed within an independent, radical mass working class movement, especially unions, not just to earn concessions from capitalists and the state, but toward the goal of defeating capitalism. However, co-ops cannot be a substitute for unions and community organisations that directly confront the system.

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David Booi, interview one, 15/06/2010

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Hendrietta Dlamini, Interview One: 30/09/2010

Karuna Mohan, Interview One: 16/09/2010

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Respondent 10, Interview One: 12/11/2010

Rio Williams, Interview One: 10/10/2010

Sam Mahlangu, Interview One: 12/10/2010

Vishwas Satgar, Interview One: 21/10/2010

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## **Focus Groups**

Focus Group One, Buthina Borona Household Co-op: 26/10/2010.

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