

## **ABSTRACT**

Worker cooperatives model has been introduced as one of the mechanisms in South Africa to eradicate poverty, unemployment and inequality in the society.

This study investigates the challenges that the worker cooperatives are experiencing despite all the interventions that have been introduced by government.

In-depth interviews were conducted by the researcher with the representatives from the worker cooperatives in the three metropolitan municipalities in Gauteng; City of Ekurhuleni, City of Johannesburg and City of Tshwane.

The key findings revealed that there are common factors that have been contributing to the failure of the worker cooperatives, namely, non-adherence to the cooperatives values, lack of start-up capital and inadequate funding, lack of prior industry-specific experience, inadequate technical training and mentorship, and monitoring and evaluation tool in the local government.

The best practices of implementation of the worker cooperatives model in Italy and Spain must be followed, although it might take time for South Africa to catch up with these countries. Cooperative Federations were established in Italy to grant member-cooperatives with financial support and training programs to enhance their skills. Moreover, government established cooperatives regional economic development agencies with services such as technology transfer, marketing and distribution. In Spain, a cooperative support organisation Mondragon Cooperative Corporation (MMC) was established to provide cooperatives with business incubation programs that support cooperatives start-ups. The MMC also provides newly cooperatives with support services such as training, capital and information required for business to grow.

***ASSESSING THE FAILURE OF WORKER COOPERATIVES MODEL: A CASE OF  
SELECTED GAUTENG METROPOLITAN MUNICIPALITIES***

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A research report submitted to the Faculty of  
Commerce, Law and Management of the  
University of the Witwatersrand, Johannesburg in  
part fulfilment of the requirements for the degree  
of Master of Management in Public Policy.

## DECLARATION

*I, Keleabetswe Morobane declare that this research report is my own work, except as indicated in the references and acknowledgements. It is submitted in partial fulfilment for the degree of Master of Management in Public Policy. It has not been submitted before for any degree or examination in this or any or other university.*

*Keleabetswe Amelia Lekalakala*



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*Signed at Johannesburg*

On the 03 day of AUGUST 2017

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## **CHAPTER 1**

### **1. Introduction**

There is an increasing number of people who are losing jobs on a daily basis in the South African labour market. This comes as a result of accelerating number of company closures due to economic conditions. According to the report compiled by the Department of Labour a large number of companies who face closures are those faced with the challenge of unfair competition from international competitors, those that are struggling to make profits as clients' tastes and preferences of goods and services change, those that are continually replacing labour with technology and those which operate in the industries that do not add value to the development and growth of the economy (Department of Labour, 2013).

In this regard, people who are affected by this are retrenched by their employers and it becomes difficult for them to find employment opportunities. Hence there is an increasing number of people remaining unemployed for a long time, and as they become discouraged to look for other employment opportunities, they end up depending on government to provide for their basic needs, such as free housing, water, education for their children and primary health. This as a result puts a burden on government as it becomes government's responsibility to ensure that people are provided with the social above-mentioned services, which affects the government's spending on public services (The South African Economic Update, 2014). Consequently, this has a bearing on taxpayers because when government expands its spending on public services, it affects an overall tax rate of the taxpayers.

As the result of the above, there must be a permanent solution that can be put in place as a mechanism for retention of relevant skills in the economy, which can contribute to the reduction of unemployment level in the country. One of the key solutions to the escalating unemployment rate is the inclusion of these unemployed people into the economic activity through entrepreneurial activities such as worker cooperatives. These people can contribute their skills into the economy by forming cooperative organisations in the industries from which they have acquired experience. According to Ortman and King (2007), there are several conditions under which worker cooperatives are developed such as the following; Economic conditions – which could be a result of war, technology, changing labour market, depression, government policy

(Ortmann & King, 2007); and Public policy as determined by government interest, legislative initiative, and judicial interpretation.

Worker cooperatives can be established in key economic sectors such as agriculture, mining, manufacturing, tourism, transport, housing, etc. however, the problem that South Africa is currently facing is that there are numerous worker cooperatives that were developed within the above-mentioned industries but they failed to survive due to challenges they were experiencing (Rogerson, 1990).

### **1.1. Background**

Worker Cooperatives defined as an association of persons who come together on a voluntary basis with the purpose to address their shared economic and social needs. A worker cooperative is a jointly owned and democratically controlled enterprise organised and operated on cooperative principles (Cooperative Act no 14, of 2005). There are different categories of cooperatives in South Africa which the Cooperatives Act of 2005 (the Act) provides for their registration namely: primary, secondary and tertiary cooperatives. According to Twalo (2012), the above-mentioned forms of cooperatives comprise different types of cooperatives namely; Worker cooperatives – owned and controlled by the workers. Another form of cooperatives is Consumer cooperatives, which occurs when people form a group with an intention to buy goods together in bulk get a discount and other collaboration benefits. There is also Housing cooperatives is a business formed by a group of people who build houses. There is also another form of cooperatives known as Marketing cooperatives whereby individuals come together to sell their products together through one organisation. Credit union cooperatives which are dominantly stokvels or saving societies are classified as a form of stokvels. This form of cooperative (credit union) are mostly popular in South Africa.

Cooperatives movement in South Africa was established in the 1980s, whereby a range of initiatives in the 1980s and 1990s were established to support the worker cooperatives in South Africa. According to Phillip (2003). These initiatives were inspired partly by the development of the cooperatives movements in Zimbabwe after liberation and Mozambique. During that period, a cooperative forum in the Western Cape was already operating and the development resource centres in the local communities were providing support to the existing worker cooperatives. Moreover,

trade unions supported cooperatives as part of the approaches to resolve the dismissals in their industries (Phillips, 2003). However, a baseline study conducted by the National Cooperative Association of South Africa (NCASA) on Cooperatives in 2002 highlights that only fewer worker cooperatives from this phase of cooperative development managed to survive due to issues such as the following; the challenge of business viability due to entrepreneurial skills level; and poor management skills when the enterprise requires shared management of resources along with the need for transparency.

Despite all these challenges, the development of worker cooperatives is a collective entrepreneur model that provides decent and sustainable employment and a democratic workplace (NCASA, 2002). In this regard, worker cooperatives have the potential to expose millions of South Africans who are faced with substantial economic reformation and joblessness or underemployment to the potential economic prospects.

## **1.2. Research problem**

The development of cooperatives has been identified as one of the mechanisms that can be used to create economic opportunities in South Africa. As a result of this, relevant legislation framework including policy interventions and the strategies pertaining to the development of cooperatives were developed to administer and oversee the development and contribution of the cooperatives into the South African economic growth and industrial growth.

In order to oversee and administer the effective development of cooperatives, the Cooperatives Act 14 of 2005 was developed and in 2013 the Act was amended ([www.dsbd.gov.za](http://www.dsbd.gov.za)). Subsequent to this, the Integrated Strategy on the Development and Promotion of Cooperatives 2012 – 2022 was developed by the Department of Trade and Industry, and the Cooperatives Administration Regulation was developed and administered by the Department of Small Business Development (DSBD).

Despite all these initiatives, cooperatives have not been successful in contributing to the economic activities as per expectation. This can be attributed to the cooperative members' lack of knowledge, because most of the members who formed the cooperative do not know what a cooperative enterprise is (Thaba & Mbowa, 2015). According to the Integrated Strategy developed by the Department of Trade and Industry (the dti) which focuses on the Development and Promotion of Cooperatives (2012), over 80% of the cooperatives that were registered with the Companies and Intellectual Property Commissions (CIPC) do not survive. It is evident on the table below that cooperatives that are worker owned experience high mortality rate from 68% - 94%. Subsequent to this, the research problem for this study is the failure of worker cooperatives to succeed despite all the above-mentioned interventions that have been introduced by government and the stakeholders.

Table 1.1 below highlights the registration and survival data of cooperatives in 2009. As South Africa is experiencing growing figure of listed cooperatives, it is evident in the table below that the increasing number of registered cooperatives does not necessarily result to positive impact in the local economy. With the financial support and other support measures offered by government and the private sector in the sectors in which these cooperatives operate, the expectation would be to see these cooperatives thriving. According to the table below, cooperatives that registered with the CIPC experience an overwhelming mortality rate. In the transport and trade sectors the survival rate of cooperatives is 6%, recycling and waste management sector the survival rate is 8%, food and agricultural sector the survival rate is low at 11%, and mining sector has 12% survival rate. Taking into consideration the intervention programs that are available to support and leverage economic opportunities that these cooperatives have the potential to offer, it is imperative to get to the core constraints that cause these cooperatives to fail to meet the expectations for which they were developed. Hence this research seeks to investigate and address the causes of the large number of the cooperatives mortality rate.


**Table 1.1: Cooperatives Sector Analysis**

Sector Analysis of Co-operatives Type of Co-ops	CIPC 2009 Data	the dti Baseline Study	Survival Rate(%)	No. of Dead Co-operatives	Mortality Rate (%)
Food and Agriculture	6 086	671	11%	5 415	89%
Services	4 209	357	8,5%	3 852	91,5%
Textiles	1 247	272	22%	975	78%
Multipurpose	3 160	187	6%	2 973	94%
Construction	1 280	202	16%	1 078	84%
Manufacturing	1 093	137	12,5%	956	87,5%
Arts and crafts	340	103	30%	237	70%
Social	311	90	29%	221	71%
Other	328	89	27%	239	73%
Home Industry (Baking)	334	83	25%	251	75%
Transport	856	50	6%	806	94%
Trading	2 708	47	1,8%	2 661	98,2%
Financial/Credit Services	233	36	15%	197	85%
Housing	78	25	32%	53	68%
Burial	65	19	29%	46	71%
Mining	78	12	15%	66	85%
Consumer	128	11	9%	117	91%
Recycling and Waste Management	85	7	8%	78	92%

**Source: CIPC Register 2009 data from the Dti's baseline study**

Subsequent to the table above, the CIPC provided updated information on the cooperatives registered from the year 1800 to 2017. The table below highlights total registration number of primary cooperatives, secondary cooperatives and tertiary cooperatives. According to the CIPC Data Management Unit, the mortality rate per sector could not be provided due to the registration system that does not record cooperatives mortality rate. The system does not capture registration per sector as well. In the table below, the majority of cooperatives registered are the primary cooperatives, followed by secondary and tertiary cooperatives respectively. The total number of primary cooperatives registered is 129 651, secondary cooperatives currently registered are 894 in number and tertiary cooperatives stand at the lowest total number of 59.

**Table 1.2: Number of cooperatives registered between 1800 and 2017**

<b>Total Companies Registered Per Type Of Entity</b>					
<b>Company Statistics Report</b>					
<b>Registered between: 01/01/1800 and 25/01/2017</b>					
Primary Co-Operative	129,651				
Secondary Co-Operative	894				
Tertiary Co-Operative	59				

**Source: CIPC Data Management Unit**

### 1.3. The purpose of the research

The purpose of this project is to investigate why the worker cooperatives are experiencing failure in spite of the existing interventions and support they receive from government and its stakeholders. This study further purports to identify the constraints that contribute to the survival of worker cooperatives. Therefore, the recommendations to improve the worker cooperatives model will be provided.

### 1.4. Research questions

The **primary question** is: what are the factors that contribute to the failure of worker cooperatives?

The **secondary question** which the study aims to address is:

- What are the underlying reasons for the worker-cooperatives failure?
- What common challenges exist in all the worker cooperatives or are they facing different challenges?
- What can be done to address these factors?

### **1.5. Objectives of the research**

The objectives of the research are to explore the mechanisms or tools that can be implemented to reduce the failure rate of the worker cooperatives, especially in the current economic conditions in South Africa where the majority of young people are experiencing a high level of unemployment. In this regard, international best practices are used to be able to learn from their experiences and success for promoting worker cooperative models.

### **1.6. Structure of report**

The report consists of the following chapters; chapter 1 focuses on introduction, background of the research, identification and discussion of the research problem. The chapter further focuses on the purpose of the research highlighting the primary and secondary research questions.

Chapter two focuses on the literature review of the worker cooperatives in South Africa including the history of worker cooperatives before 1994 and after the new democratic government. This includes the review of prior research on worker cooperatives model and the challenges of the worker cooperatives to achieve job creation in the local economy. This chapter reviews the international best practice by looking at Italy and Spain as case studies. This includes the intervention these countries implemented for their worker cooperatives model to become successful.

Chapter four looks at the research methodology, with focus on the methodology and methods that were used to collect data for the research, including theoretical paradigm, data processing and analysis techniques as well as data presentation. The chapter further discusses the limitations of the study including fieldwork challenges and how the challenges were addressed.

Chapter four focuses on data presentation with focus on description and interpretation of the results from the interviews.

Chapter five discusses and analyses the research results. The findings from the research are discussed and compared with findings from previous research and the findings from the international best practice.

Chapter six presents conclusions of the study and recommendations are provided.

## **1.7. Conclusion**

This report seeks to explore the challenges that the worker cooperatives model is experiencing by using literature and international best practice. The purpose of the research is to seek measures that can improve the model in order to achieve its intended purposes or achievements.



## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1. Introduction**

This section focuses on the development of cooperatives in South Africa, including the history of cooperatives in South Africa before and after 1994 and the contributions the worker cooperatives have made in the economy during and after apartheid regime. This section will further focus on the conditions under which the worker cooperatives were established and whether the same model to develop the cooperatives was used after the apartheid era. Thus, this section seeks to explore literature on cooperatives based on the previous and current experiences of the cooperatives model in South Africa. Moreover, this section intends to establish whether worker cooperatives are receiving sufficient support from government based on literature, and if so, this section will explore if there been improvements in terms of the support that was provided to the worker cooperatives movements after 1994. Upon establishing the above, recommendations will be provided based on the context provided in the literature.

Additionally, this section will highlight successful cooperative development models implemented by the following countries: Italy and Spain. These two countries were selected based on their previous economic conditions and challenges they experienced, which made it difficult for the economies to be reinstated to their normal conditions. As a result, these countries resorted to cooperative model as one of the mechanisms to recover their economic conditions. The purpose of this is to draw lessons on how to improve the current cooperatives development model and interventions that have been introduced by government.

#### **2.2. Development of cooperatives in South Africa**

During apartheid era, the cooperatives were introduced and traditionally aimed at the farmers and farming communities in South Africa. The legislative framework that was developed to support the cooperatives sector in this era were the Cooperatives Society Act of 1922, the Cooperatives Society Act of 1939, and the Cooperatives Act of 1981 (Nieman & Fouche, 2016). Cooperatives started to be recognised as a new form of production due to the deepening economic recession and increasing levels of unemployment. The recognition of cooperatives was an attempt by the government to

reverse the economic conditions and to promote development (Rogerson, 1990). Moreover, the economic, political and social restructuring in the 1970s and 1980s opened up a space for the introduction of cooperatives, predominantly worker cooperatives, as a new form of production in the country (Rogerson, 1990).

After the democratic government took over, the government extended its support for cooperatives as a means to help enhance the development and growth of small-scale farmers and other local communities in the country (Ortmann & King, 2007). In this regard, the new Cooperatives Act 14 of 2005 was approved by government, which advocated for the development of cooperatives. The new Cooperatives Act was also based on international cooperatives principles which are; voluntary and open membership, democratic member control, member economic participation, autonomy and independence, cooperation among cooperatives, concern for community, education, training and information (Thaba & Mbohwa, 2015).

The development of cooperatives in South Africa took different categories namely; primary, secondary and tertiary cooperatives. Primary cooperatives are formed by five members with a purpose to provide employment to its members and to facilitate community development (Cooperatives Financial Institute of South Africa, 2014). Secondary cooperatives are defined as cooperatives established by two primary cooperatives or more with the purpose to offer services to its members such as marketing, transportation or logistics, etc. (the Department of Trade and Industry, 2004). Tertiary cooperatives are formed by secondary objectives and the purpose of the secondary cooperatives is to support, engage public institutions and the private sector on behalf of its members (Ortmann & King, 2007).

According to Ortmann & King (2007), the development of cooperatives was seen as a mechanism to create jobs in the local communities, generate incomes and eradicate poverty for the previously disadvantaged people. According to literature, the number of registered cooperatives in South Africa is growing at a fast pace, however the main challenge with cooperatives is the high failure rate (Thaba & Mbohwa, 2015). Thus, between 2009 and 2015, 88% of the cooperatives registered with the CIPC has failed to survive, according to Thaba and Mbohwa (2015). Thwalo (2012) describes the failure of cooperatives in South Africa as a result of the manner in which they are organised and their organisational structure.

### **2.3. History Of Worker Cooperatives prior to 1994**

There are diverse historic explanations why worker owned movements were established, particularly in the emerging economies. In other countries, the worker cooperatives model was introduced to react to unemployment. Those are countries like Denmark and Poland. The worker cooperative model was perceived as the only answer to the challenge of unemployment and an instrument to avoid the threat of increased pauperisation and existent deprivation (Develtere, 1994). Accordingly, this was the result of the new unskilled and semi-skilled workers entering the workforce, massive retrenchments caused by the policy amendments and the reduced capacity of workers intake by the state enterprises. Subsequently, the producer cooperatives in handicraft, manufacturing and agro-processing sectors became successful in the development phase, as producers came together as a group to form a cooperative. In this regard, the producer cooperatives begun as a consequence of industrial struggle regarding salary cuts (conversion), employee buyout of dwindling businesses or, predominantly, initiatives of unemployed people.

The development of cooperative movements in South Africa and the Sub-Saharan Africa was introduced during colonialism era to promote cash crops produced by farmworkers (Erasmus, 1994). These were small holder farmers who did not have control of other essential resources and tools needed for farming and commercialisation such as credit, agricultural technology, and transport. Subsequent to this, according to Erasmus (1994), there are five various categories of cooperatives that were well-known in South Africa, namely; employee co-operatives, agrarian co-operatives, financial co-operatives, housing co-operatives, and consumer co-operatives.

In the 1980s, worker cooperatives (worker co-ops) were established due to a growing number of people losing their jobs as a result of structural unemployment and a subsequent interest in survival instruments of the unemployed (Develter, Pollay & Wanyama (eds), 2008). Another reason for the development of worker co-operatives in South Africa was due to a mass retrenchments due to industrial restructuring, when organised labour resorted to the model to retain workers in the labour market (Erasmus, 1994). These responses to mass retrenchment and structural unemployment included attempts by trade unions to create jobs for retrenched

workers. In that context of growing structural unemployment, robust opportunities were unlocked for struggles inside the working class among the working, the unemployed and the long-term unemployed. In light of such challenges, worker cooperatives became part of a plan for bringing together and mobilizing the people who were not working to make income. However, agricultural worker cooperatives were dominant during that time.

Subsequently, worker cooperatives that was established during the 1980's was in the clothing and textiles where workers were dismissed while they were striking for recognition at BRT-Sarmcol in Howick. This worker cooperative was formed by the members of the trade union called the Media and Allied Workers Union (MAWU). One of the cooperatives formed at that time, around 1985, was called Sarmcol Workers Co-operative (SAWCO). The worker cooperative specialised in activities such as production of T-shirts silk-screening and buttons, including embroidery of names and symbols of particular trade unions and of popular organisations (Rogerson, 1990). Furthermore, the cooperative was engaged in a buying food in bulk as a project to provide assistance to the striking workers. However, for this type of cooperatives, there was no formal support that was offered by the government or the private sector. As the result of this, the worker cooperatives failed to achieve what they were intended to do.

Although these cooperatives did not receive support from the government, during the apartheid dispensation they were deemed to be survivalist, because the members' wages were marginal and they were paid at sporadically (Phillip, 2003). This can be attributed to the cooperatives irregular presence in the market as according to Phillip (2003), worker cooperatives were not renowned in the market because they operated in the informal sector. This was dominant in cooperatives that were operated by the black marginalized people. They could not be were not recognized in the formal sector because of the strong presence of white cooperatives that were supported by the government of that time financially and non-financially. Members of the black worker cooperatives often had to find alternative sources of employment or rely on family and community networks to support themselves as they were not generating sufficient surplus to sustain their businesses and livelihoods.

## **2.4. Worker Cooperatives After 1994**

According to Erasmus (1994) though the co-operative members and stakeholders involved in the development processes of worker cooperatives such as trade unions, NGOs, communities and the state were dedicated to improve the standard of living of the local communities, they were became unsuccessful, especially for the members who were retrenched.

The National Cooperatives Policy of 2005 was developed upon the election of the new democratic government and adopted by government as a guide to achieve its vision of accelerating economic growth and development. The policy outlines the potential contributions of the cooperatives development as to; create and develop income-generating activities and viable decent work. This implies that the potential of worker cooperatives lies on providing full time and secured employment opportunities to the owners of the cooperative, and therefore reduce the level of joblessness and poverty in the local communities by generating income. The businesses also develop business potential of the owners, by getting involved in the productivity processes and taking decisions for the businesses. By participating in the daily activities, the owners of the cooperatives are able to experience the challenges, risks and successes of the business, in this way they learn from those experiences and it becomes easy for them to be able to avoid the same challenges or they are able to handle them better should they experience them in the future. The worker-owner involvement in decision-making and production also strengthen the competitiveness of the business and are able to have access to the markets. As a result of this, the worker cooperatives gain the credibility to finance, establish and grow a sustainable and vibrant distinctive sector of the economy which reacts to the community and economic needs of the society. Theorists of participatory democracy and self-management, which are the values of worker cooperatives argue that workers increase their unity beyond the boundaries of their enterprises. This as a result favours local and stable employment, locally focused investment, supply of resident community goods and reducing public harms such as environmental contamination, that have negative effects in the wellbeing of the local communities (Harnecker, 2009).

Subsequent to this, the national, provincial and local governments have progressively encouraged the cooperative sector with various measures promulgated in the Cooperative Act No. 14, of 2005. The Act has enabled the increase in the registration statistics of the new cooperatives, in which the majority are black and female-owned (Roelants, Hyungsik, & Terrasi, 2014).

In this regard, the Co-operatives Act of 2005, the National Co-operatives Policy of 2005 and the national Department of Trade and Industry (the dti) treaded in as the facilitator of the development of the cooperatives South Africa. In terms of the policy statement, a feasible, self-motivated, self-directed, independent and self-fulfilling cooperative movement can play a key role in the economic, social and national development of South Africa through the operational and capable services extended by cooperative enterprises to their members (Cooperatives Development Strategy of South Africa, 2004).

Confronted with the challenge of joblessness and unemployment, the majority of people are realising the potential opportunities of the workers co-operatives model, which is a collective entrepreneurship that affords decent and viable jobs and an autonomous workplace (Phillip, 2003). In reality, however, the South African context has demonstrated enormously challenging for worker co-ops to succeed and become viable due to concentrated challenges that the cooperatives are faced with. Nonetheless, while the worker cooperatives as a means for mass job creation have restrictions, there are various set of noble motives to support their growth and development in the society. This is due to the reality that the worker cooperatives have an imperative part to play in developing alternative forms of work organization, and in building forms of workers control and worker proprietorship.

The involvement of the owner-employees in the processes of making decisions business owners, the worker cooperatives have particular advantages over other types of companies. Since the users are the members, the cooperative has first-hand information about the consumer the different behaviour patterns of consumers, habits and expectations. The protection of the benefits of the members permits much more opportunity for dealing with immediate economic or other problems; and the

autonomous decision-making process makes the decisions taken more sustainable and representative of members' needs.

#### **2.4.1. Government programs to support cooperative development in South Africa**

Various government departments and other stakeholders have introduced programs that aimed at expanding cooperative enterprises and enhancing their productivity level from one level to another. The Department of Rural Development and Land Reform has developed various cooperatives programs in the rural areas which intend to organise primary cooperatives, with worker cooperatives included, into secondary cooperatives. These programs include providing support to new and existing cooperatives, facilitating training and monitoring including capacity building programs, coordinating establishment of infrastructure for cooperatives such as wholesale facilities, storage and packaging, facilitating market opportunities and assist cooperatives to access relevant Cooperatives Incentive Schemes (Department of Rural Development and Land Reform, 2015). To ensure effective support for cooperatives, the Department implemented a program called Comprehensive Rural Development Program (CRDP). The purpose of the program is to promote the creation of a vibrant, equitable and sustainable rural communities and food security through establishing and supporting cooperatives in local communities (Department of Rural Development and Land Reform, 2013). Some of the initiatives undertaken through CRDP are; assisting community members to register cooperatives, assisting the community to establish agricultural cooperative enterprises such as chicken farming, cattle farming and crop production to support their livelihoods (CRDP Evaluation Report, 2013). In terms of the DRDLR Mid-Term Report (2013), a total number of 658 cooperatives were developed through the CRDP. In this regard, case-studies were undertaken to establish the survival rate of these cooperatives. According to the findings, very few cooperatives are still operating effectively. In an area where 13 cooperatives were investigated, it was found that only 5 cooperatives were still functioning (CRDP Report, 2013).

The challenges that were identified as a cause of this high failure rate is that primary cooperatives are ineffective in a sense that people who are involved in agricultural production are most likely to be unsuccessful (CRDP Report, 2013). As a result, the

program finds it difficult to transform primary cooperatives into secondary cooperatives as per expectation. The only area in which the program is most likely to be successful is providing assistance for registration of cooperatives.

In terms of the Department of Agriculture, Forestry and Fisheries, the Department is responsible for developing smallholder farmers through cooperatives by mobilising them into various types of cooperatives for collective source of inputs and marketing their products (Department of Agriculture, Forestry and Fisheries, 2017). Some of the programs offered by the Department are as follows; Farm Together Program, AgriBEE Fund and the Framework for the development of small-holder farmers through cooperatives. The Farm Together Program was formed through partnership between the DRDLR, the DAFF, and the AgriSeta (Annual Report on the implementation of the Farm Together Cooperative Training Program, 2013). The main objectives of the Program was; to provide skills development and capacity building to the previously disadvantaged members of the small-holder farmers to enable them to be able to engage with the markets; equip the cooperative members with the necessary skills to address the key issues affecting their daily performance; address the skill gap in the agricultural sector; and equip the members with high level of managerial skill (Annual Report on the implementation of the Farm Together Cooperative Training Program, 2013).

Moreover, the aim of the Farm Together Program is to train 2 300 beneficiaries with special focus on Comprehensive Rural Development Program (CRDP) in the first phase of the program. The beneficiaries of the Program were recruited from the cooperatives in Agriculture, Forestry, and Fisheries, Self Help Groups (SHG) and the Communal Property Associations (CPA), (Farm Together Cooperative Training Program, 2013). The department is also responsible for linking the cooperatives to support mechanisms such as finance, entry to markets, value addition and agro processing through AgriBEE program. The AgriBEE program is an intervention strategy to support the previously excluded black farmers to participate in the mainstream economic activities (Department of Agriculture, Forestry, and Fisheries). The purpose of the fund is to provide support to small, medium and micro enterprises, including cooperatives in the sector to acquire shareholding or equity deals in viable and sustainable enterprises, and to promote enterprise development initiatives



through value adding and agro-processing. The maximum funding grant for the enterprises is R5 000 000.00 (Five million rands). In order to advance the growth of the cooperatives in Agriculture, Forestry and Fisheries sector, the department facilitates mobilization of existing cooperatives into commodity based secondary cooperatives.

Another program implemented by DAFF is the Framework for the development of smallholder farmers through cooperative development. The purpose of the framework to mobilise the smallholder farmers into different types of cooperatives (Framework for the development of smallholder farmers, (2012). In this regard, DAFF has collaborated with the provincial departments of Agriculture in South Africa to carry out this initiative with the purpose to take advantage of the economies of scale (Framework for the development of smallholder farmers, 2012). According to the framework, this initiative takes place into two levels namely; the first level is mobilising small holders into primary cooperatives to provide different services to the farmers, and the second level is mobilising the cooperatives that are already existing into secondary cooperatives. In terms of the framework, the mobilization of the secondary cooperatives will alleviate the constraints that the cooperatives in agriculture, forestry and fisheries are experiencing such as supply of inputs, accessibility to the markets, accessibility to finance through the following initiatives; establishment of input supply cooperatives, marketing cooperatives, financial services cooperatives or cooperative banks, and agro-processing and value-adding cooperatives.

In terms of contributing to the community development, the Department of Public Works is working through Expanded Public Works Program (EPWP) to development the cooperatives within the EPWP sectors. In this regard, the department identifies opportunities where cooperatives can be developed and opportunities for sustaining them to maximize job creation opportunities in line with EPWP. The development of cooperatives in this regard, is mainly in the field of cleaning and gardening services to the properties within the public works portfolio. However, the department is identifying in which other initiatives where cooperatives services can be expanded to within the EPWP. The department is responsible for facilitating the cooperatives access to markets, access to development finance, training/skills development related to

business management and capacitating cooperatives to comply with legislative requirements (Department of Public Works).

The Department of Public Works has developed a program called Training and Enterprise Development Support (ED) which is EPWP delivery strategy targeting the development of small enterprises including cooperatives to generate employment opportunities (Department of Public Works). Additionally, the ED provides the following support services to the cooperatives; facilitation of exit opportunities for programs such as Vukuphile Learnership Program. The purpose of the Vukuphile Learnership Program is to provide contracting skills to emerging entrepreneur contractors to be able to execute labor-intensive projects in the construction sector to participate in the implementation of government infrastructure projects such as sewers and water reticulation, electrical lines, and Stormwater drains. The program puts emphasis on administrative, technical, contractual, managerial and entrepreneurial skills (Department of Public Works). At the exit level of the program, the learners are fully qualified to bid and execute labor-intensive projects.

Furthermore, the Department of Small Business Enterprise has introduced a funding program for the cooperatives namely, the Cooperatives Incentives Scheme (CIS). The CIS is a 100% grant for registered primary cooperatives (Department of Small Business Development). The objectives of the CIS are to provide a matching grant to the cooperatives as a means of promotion of the cooperatives; improve the cooperatives' competitiveness by lowering their cost of doing business; and provide the incentive that supports broad-based black economic empowerment (Department of Small Business Development).

## **2.5. Challenges facing worker cooperatives**

Despite the opportunities stated above, the worker cooperatives in South Africa are incapable of sustaining their business for a substantial period due to the following challenges (Twalo, 2012):

- Lack of member capability to run the business – including sector-specific skills and training to operate efficiently. Moreover, the members of worker cooperatives do not have the necessary business skills to run the

business, because of the nature of the business. As worker cooperatives are predominantly established by people who lost their jobs, despite their experiences in the field of the business, because in their work experience they were not trained to run a business.

- Another hindrance to the survival of worker cooperatives is limited availability of start-up capital. Incentives or investment opportunities that are available for start-up capital are limited and available to companies who specialise in certain industries.
- People who start worker cooperatives depend on personal capital as it is not easy to access capital investment due to factors such as information deficiency or the conditions on which the capital is allocated, i.e. start-up capital is provided in a form of a loan, or company profits or revenue.
- Based on the manner in which these enterprises are established, these conditions are not favourable to their capital needs.
- Moreover, worker-owned business have limited access to markets and information on business opportunities. This has also become a disadvantage to the growth and sustainability of worker cooperatives.
- Administration and management challenges have affected majority of worker cooperatives survival and growth, including a proper indication of the enterprise's short term and long term interests or vision which results to lack of accountability and lack of commitment by members. Newly established worker cooperatives experience dire competition from private enterprises, especially those which are predominantly based in rural areas. As soon as they are established they face high competition from companies which have potential to provide better services to local clients; and they have better capital infrastructure to produce more with the same or less amount of labour and time.
- Lack of demand for the newly established cooperatives' products due to lack of business management skills, etc. contribute to a high rate of cooperatives' mortality.

Moreover, there are other factors that contribute to the failure of worker cooperatives such as; members' lack of knowledge about what a cooperative is; members' lack of

knowledge of cooperative values; members' investing time on the enterprise, and open communication between cooperative members and cooperative institutions/agencies established by government (Thaba & Mbowa, 2015).

### **2.5.1. Proposed measures to deal with the identified challenges**

As a result, the challenges identified above can be addressed through extensive support from government and the private sector. It is evident that worker cooperatives have the potential to create opportunities in the local economy. Taking into consideration the state of the economies of the countries below prior to introducing worker cooperative model as a source of employment and income generation, it is evident that following the same or relatively similar worker cooperative principles and models, South African worker cooperatives will be able to develop and establish and advance economic development (Department of Trade and Industry, 2012).

Worker cooperatives in Canada, in the regions of Italy and Spain were able to survive due to the support they received from government, private sector and other stakeholders such as education Ministry. The following interventions were implemented through government policies in the respective regions; In providing support for the development of worker cooperatives in Italy, the Marcora Act was passed in 1985 by government, which created a fund to assist in the development of new cooperatives, predominantly those formed by workers confronted with job loss through closure of business due to bankruptcies, sale and removal, owner sequestration or other causes of business closures. In 1992, a solidarity fund was introduced under Law 59, which was passed as a policy mechanism to support cooperatives development. In this regard, cooperatives were mandated to invest a tax exemption contribution of 3% of its annual surplus in this fund. The purpose of this mandate was to support cooperative start-ups and expansions (Adeler, 2014). In the case of Spain, for start-up capital, Mondragon created a cooperative bank (Caja Laboral Popular) in 1959, which allowed Mondragon to use its profits to create new cooperatives and provide banking services to the members of the cooperatives. This cooperative bank was initially established as a credit cooperative with members being worker cooperative (Corcoran and Wilson, 2010).

Another intervention that was introduced which could also be explored in the South African context is that, the worker-shareholder co-op model was also introduced, which allows workers to collectively purchase share in the company they work for. The worker-shareholder co-op acquires a portion of corporate profits and is able to participate in the company's decision making. This model also enables the company to acquire expansion capital, facilitate corporate restructuring, and enhance personnel retention.

## **2.6. International best practice**

### **2.6.1. Italy**

In Italy, the cooperative movement existed in the nineteenth century and since the development of the model it has contributed to the advancement of the country. In this regard, the first cooperative was recognised in 1854 in Turin (Borzaga, Depedri, Bodini, 2010). One of the most devastated and poorest regions in Europe at the end of World War II in Italy was Emilia Romagna (Corcoran and Wilson, 2010). However, the region is now one of the most affluent industrial areas in the world. The region of Emilia Romagna realised per capita GDP of 25% more than the average for Italy and 36% more than the average for the European Union (EU). According to Corcoran and Wilson, the rate of unemployment in Emilia Romagna was lower in 2006 at 3% in contrast to the 8% of the entire Country of Italy and an average of 9.1% for the EU. This can be ascribed to the continuous growing worker cooperative enterprises in the region. The cooperative movement in Italy runs in various sectors and they take a very large market share. According to Borzaga, Depedri, Bodini (2010) worker cooperatives in Italy, in particular, began in the previous two decades of the eighteenth century mainly in the construction and farming sector. In order to form a worker cooperative, the workers who acted as equity holders provided capital, in other instances capital was borrowed from the financial intermediaries.

Emilia Romagna is one of the regions that have formed prosperous worker cooperatives in Italy. In a worker cooperative in Emilia Romagna, decisive management decisions were made by the worker-owners. Out of an estimate of more than 7,500 co-ops, two-thirds of the estimated number are worker-owned (Zamagni,

2006). Ten percent of the labour force is working for the co-operatives in the region, which has resulted in the lowest unemployment rates in Europe. According to Corcoran & Wilson (2010), over 80,000 members are employed in worker co-operatives, making a total of about six percent of the labour force (Corcoran & Wilson, 2010). Prior to this achievement, Emilia Romagna was one of the utmost distressed and underprivileged regions in Europe at the end of World War II, but currently it is among the greatest wealthy regions in the world due to its effective worker cooperatives model. The region's per capita GDP is 25% higher more the average for Italy, and 36% more than the average for the European Union (EU). It has an enviable recent yearly progression rate of 2.2% (Corcoran & Wilson, 2010). The unemployment rate, in 2006, was 3% compared to 8.4% for all of Italy, and an average of 9.1% for the EU.

According to Putnam (2000), the Emilia Romagna region has one of the highest indexes of social interrelation and social capital in the world, as demonstrated by extraordinary rates of volunteerism in worker cooperatives. In Emilia Romagna, firms tend to be very small scale whereby more than half the population is co-op members. Subsequent to this, worker cooperatives generate, according to University of Bologna economist Stefano Zamagni (2006), around 30% of the GDP in the region and up to 60% of the GDP in some cities like Imola. In Bologna itself, 15 of the 50 largest businesses are cooperatives, and cooperatives employ 25,000, or 10% of the labour force.

Social co-operatives are the most prevalent type of worker co-operative in providing social services. With the discontent of government-delivered health care facilities and services, including the caution of taking these services into the private sector, the resolution had been to create social co-operatives which are therefore understood to be more cost effective and innovative.

In addition, the increase and growth of worker cooperatives in Italy has been experienced in the Province of Trento in the 1980s, mostly in the construction sector. This was encouraged on by a policy that was adopted in 1985 which promoted unemployment reduction. The policy established incentives for employing workers that

had been laid off and provided for funding of public works under a special project, called “The big project” (OECD Working paper, 2014).

#### **2.6.1.1. The following interventions were implemented in Italy for Cooperative Support initiatives:**

Co-operative Federations were established in Italy. Each federation have their own financial institutions, insurance companies, as well as training, research and development centres. These institutions were established to grant member cooperative with financial support, insurance for the member companies/cooperatives, training programs for workers of the member cooperatives to enhance their skills. Research and development centres were established for new information and products developments. This is also used for updating technologies for improved productivity. The federations also provide services such as market feasibility studies, payroll, legal assistance, workplace safety and training, tax preparation, collective bargaining and more (Logue, 2006). Market feasibility studies are used to enhance the cooperatives updated information about existing market for their products, and identifying new markets to expand their businesses. For payroll and legal assistance, the federation prepare and train the cooperatives to be able to handle their own financials and accounting principles. Moreover, each federation manage coop development funds that offer below—market-rate loans to finance new coops start-ups, conversions and expansions (Adeler, 2009). Apart from federations, government established regional economic development agencies cooperatives with services such as technology transfer, marketing, distribution, and exporting (Corcoran and Wilson, 2010). A network of retail service centres have been established by the government regional agencies to support the service needs of small cooperative businesses and the growing links between firms. In terms of the legal framework, the Basevi Law was passed in 1947 which promulgated for supervision of the cooperatives in Italy. The national apex organisations that were responsible for supervision of the cooperatives were established, with branches located in the provinces.

#### **2.6.2. Spain**

In the case of Spain, worker cooperatives have been capable of improving social welfare of local community (Gutierrez, Lopez, De Las Vacas, 2008). The local impact that worker cooperatives have is the potential to increase opportunities, permit equal

right to resources, and enable a reasonable distribution of income (Cabaleiro, 2004). In Spain, the worker cooperatives have increased in the services sector recently. The most noteworthy worker cooperative is the Mondragon system of cooperatives in northern Spain, although there are also many worker cooperatives in other countries like India, Italy, England and several other countries, including an estimated 500 in the United States. Mondragon is an association of worker-owned and organised enterprises that produce a variety of high-tech and other products, including the nation's leading producers and exporters of consumer durables (Schwartz, 2009). These worker-owned enterprises are recognised to have been more productive than their counterparts, and have promptly spun off new cooperatives while keeping them advantageously aligned in diverse business activities (Krimerman, 1998).

According to Schwartz (2009), the Mondragon Corp. (MCC), based in northern Spain, is a multidimensional commercial group with 256 self-governing companies more than 100 of which are worker-owned cooperatives that hire more than 100,000 people. It has long been famous among scholars and advocates seeking to support workers' rights. 49% of people in workers cooperatives are women. In addition, the sector of workers cooperatives now represents around 17.000 businesses which make a revenue of nearly 54,000€ (Schwartz, 2009). These companies employ around 205700 workers compared to 70,000 when COCETA was first created in 1986 (Hall, 2002).

The now widespread Mondragon Cooperative Corporation (MCC) was established in the late 1950s, which is now the eighth biggest business organisation in Spain. The MCC has developed from a loose organization of only a few industrial worker groups to an association of over 100 grass roots cooperatives with more than 3,000 worker owners (Schwartz, 2009). The MCC is by far the biggest worker cooperative organisation in the world and is often used as an example of the great potential and flexible organisation the worker cooperative model holds.

#### **2.6.2.1. The following cooperative interventions were introduced in Spain:**

Cooperative Support Organisations MMC was established. MMC comprises the following support entities and interventions; a business division which provides technical assistance, management, and advice in terms of creating new cooperatives. Assistance and advice is provided to people who want to create new worker



cooperatives through MMC. MMC is viewed as a centre of cooperatives network in Spain. MMC also has a business incubator sector that supports cooperatives start-ups. It helps newly cooperatives to develop by providing them with support services such as training, capital and information required for business to grow. It also supports cooperatives sector diversity through innovation and innovative production processes. In this regard, MMC provides cooperatives with relevant innovation capacity to improve production processes. MMC has established a Research and Development Centre in priority sectors such as energy, construction, technology, telecommunications business management, etc. for new products, production processes, and energy efficiency and renewable energy.

Subsequent to the above, the Ministry of Education was actively involved in introducing co-operative related courses for students in educational institutions; and vocational schools in the Faculty of Business Studies, and Faculty of Humanities and Education. Educational institutions were utilised as important components of supportive infrastructure required to build the sector-specific capacity of cooperatives, and individuals working, managing and directing in the cooperative organisations. Students developed closed ties with Co-op organisations and enhanced their skills through employment in co-ops throughout their studies (Adeler, 2009).

Subsequent to the above intervention mechanism, in the case of South Africa the Department of Small Business Development was introduced as an institution that was tasked with facilitation of development and growth of small enterprises and cooperatives. The interventions introduced by the DSBD were implemented in the form of policy review, where the Cooperatives Act of 2005 was amended in 2013 to include international cooperatives values. In addition to this, the industry specific programs were introduced and facilitated by industry specific national, and provincial departments. The departments have been mandated to provide training opportunities and incubation programs to the respective industry specific cooperatives to improve the effectiveness and sustainability of the cooperative enterprises.

## **2.7. Theoretical Framework**

According to Creswell (2003) theoretical perspectives provide a theory to guide the researcher what issues are important to examine in the research. This research is based on interpretative theory to provide guidance as to what issues are more important to examine. The purpose of interpretative theory or explanation is to foster understanding, by placing what the researcher wishes to explain within a specific context. In this regard, this paper seeks to discover the factors that have resulted to the inability of worker cooperative model to achieve the core objectives for which it was introduced. The paper explores and provides potential interventions that could be implemented to improve the status of the cooperative policy in South Africa.

There have been various debates on whether a cooperative enterprise should be treated as a firm or as an organisation of economic units. (Sexton, 1995) argues that there must be a development of alternative models as application of advances in economic theory of cooperatives reflecting the richness of the environments in which the cooperatives operate and the need to have alternative models that apply in different settings.

Worker cooperatives have a specific feature which is a joint cooperative ownership and an autonomous governing of the cooperative for the advantage of all persons who work in it (COPAC, 2015). Academics and those conversant with the cooperative movement argued that the structural arrangement of worker cooperatives is based on worker cooperative value and employee contribution (Rothschild-Whitt, 1976 in Staber, 1993). The theoretical framework in this regard focuses on the value of worker cooperatives and employee participation. The worker-owner values reflect those of the community, which means that a worker cooperative is characterised by shared values. Shared values of a worker-owned business implies that the organisational leaders must develop organisational directive which guides its development. Moreover, the leaders of the cooperative must develop a clear mission of the business beyond producing goods or services and providing jobs for its members. There should be periodic assessment of the relationship between what is written in the mission statement of the company and the actual or daily execution of work to ensure that they are not implementing values that are impossible of realisation (Whyte and Blasi, 1982).

Theorists argue that the organizational form of the worker coops is particularly suitable to employment creation and maintenance due to the value the model adds to the community. This can be attributed to the involvement of workers in management decisions which is probable to influence the production process decision due to the nature of the business, which is mainly labour intensive. Therefore, worker cooperative values promote self-responsibility, democracy, equality, solidarity and the ethical values of honesty, openness, social responsibility and caring for others (Tchami, 2007). This is represented by theory of community democracy, where members of the cooperative have the influence to take decisions. In terms of voting rights, the principle followed is one member, one vote (Whyte and Blasi, 1982). The norm of equality among the members is a crucial norm in arranging the business as well, however, the practicality of equality in a worker cooperative is questionable. The issue here is that do equivalent rights have to be converted into the same contribution by members in making decisions, should all the member-workers obtain the equal salary without taking into consideration member-worker skill or length of service (Whyte and Blasi, 1982). This norm of equality makes it difficult for member-owners to decide on the organisational principles in terms of operation and individual responsibilities. Hence it is imperative for the worker cooperatives to devise a directorial framework that outlines member-owner participation level and responsibilities. Handling of authority is another questionable element of equality norm within worker cooperatives. Collective decision-making requires a lot of time, which can lead to frustration of members, which can become a serious problem as the business grows beyond the limits of a small organisation (Whyte and Blasi, 1982).

Moreover, member participation enables cooperative members to be able to represent and defend the interests of the cooperative than when they were acting as individuals (Integrated Strategy on Development and Promotion of Cooperatives, 2012). An example that can be provided in terms of the results of the successful implementation of the above-mentioned values is that the structural comportment of worker-owned businesses have a potential to produce more jobs per output level and needs less capital for the creation of every occupation than do the underlying dynamics of the capitalist firms (Staber, 1993). The perception that the members are owners of the

business encourages them to do work harder as they are aware that disordered work means disappointment and discouragement on fellow co-op members.

Therefore, there are theoretical explanations to believe that cooperatives play a counter-cyclical part in the economic growth, with extraordinary development and slight disbanding rate in poor economic periods, through absorption of jobless or displaced labour or reinstating companies that are undergoing insolvency, bankruptcy or closure (Staber, 1993).

Scholars of participatory democracy and self-management have asserted that democracy in the business has the prospective to lead workers to expand their commonality outside the borders of their enterprises (Harnecker, 2009). One of the theorists of participatory democracy and self-management contends that self-governing working places favor native and steady employment, locally focused investment, distributing local community goods, and decreasing public ills such as environmental contamination (Dow, 2003).

Organisation philosophers and those acquainted with the cooperative association argue that the organizational arrangement of worker cooperatives, founded on value-rationality, equality, and workplace democracy, is mostly appropriate to employment creation and conservation (Rothschild, 1976). It is supposed that, worker cooperatives can create jobs more inexpensively than capitalist corporations by mobilizing workers' effort, wage flexibility, and perhaps even their savings. (Estrin, 1985).

## **2.8. Conclusion**

The literature gathered on this section provides different models that were used to create employment and business opportunities in the local economy through worker cooperatives. Worker cooperatives were established under similar conditions in South Africa, during and after apartheid regime. Structural changes in the economy was the core reason why worker cooperatives model was introduced. Structural unemployment was a consequence of mass retrenchments of workers in the industry, which resulted to the introduction of worker cooperatives model as a solution to retain

skill in the industry and create opportunities for those people who lost their jobs. However, the cooperatives model that was used before 1994 did not bear the expected results as only white cooperative movements received support from government. The exclusion of cooperatives that were formed by the disadvantaged black people from government support programs created a gap between the white and black owned cooperatives which resulted to the non-survival of the black owned cooperatives.

Subsequent to the findings from literature, the failure of cooperatives can be attributed to policy administration which has a bearing on the growth and sustainability of cooperatives businesses. The key challenges pertaining to policy administration is lack of intra-governmental coordination. The existence of various government linked institutions to support cooperative development and policy thrusts in departments all constitute a strength of the emerging government support system (Satgar, 2007). However, there must be synergy between these institutions to strengthen learning from policy practice. As the failure of worker cooperatives can be attributed to the challenges of policy administration, the key issues that literature identifies as the source of worker cooperatives failure are as follows: lack of entrepreneurial skills which results to poor management of the cooperatives enterprises; there is limited access to the market where worker cooperatives can market and sell their products, there is no primary communication strategy that provides information to worker cooperatives regarding business opportunities, worker cooperatives are faced with unfair competition with the private and/or large enterprises which results to little demand of their products because of poor quality of the products and uncompetitive prices. Consequent to this, it is evident that the worker cooperatives model has not done much contribution in creating opportunities for the previously disadvantaged communities, hence the level of unemployment in the economy has not changed much.

Following the evidenced of failure of the worker cooperatives proclaimed in the literature, it is imperative to scrutinize the existing cooperative implementation strategies and support programs to identify area that need to be improved in that regard. Moreover, international best practices will be explored focusing on the countries that had similar unemployment and introduced worker cooperatives model to improve their economic conditions. Lessons learned from the international best

practice's worker cooperatives model, including their success stories, will be taken into consideration to be used for recommendations.

## **CHAPTER 3**

### **3.1. Qualitative Research Methodology**

The research followed a qualitative approach because it aimed to understand the ideas, processes, and strategies on the development of worker cooperatives that will be able to create employment opportunities and be competitive in the market. Qualitative research provides an in-depth perspective on the issue that a person may not obtain from other forms of research methods such as standardised survey questionnaires (Maloba, 2009). Qualitative methodology is used to gain insight into underlying issues surrounding a research problem by gathering opinions rooted on people's feelings, attitudes, motivations, values and perceptions (Henning, 2004). Cresswell (2003) qualitative research enables the researcher to able to develop a level of detail about the problem that is being investigated and become more highly involved in the actual experiences of the participants. Furthermore, qualitative research uses multiple methods that are interactive and humanistic meaning that the researcher can explore the participants' viewpoints in order to obtain a deeper understanding of the extent to which worker cooperatives can contribute to poverty alleviation and reduce unemployment.

### **3.2. Research Theory**

In terms of the research paradigm, this research sought to gain a deep level of understanding about the challenges that result to the failure of the worker cooperatives model by exploring the respondents' perceptions and interpretation of the challenges they are facing on a daily basis. The respondents in this regard included from worker cooperative organisations or businesses, policy makers and policy advisers. The research, therefore, was based on interpretative paradigm where the type of discourses were interrogated and the research and policy documents were analysed to look for the way in which the existing cooperative policy interventions and regulatory framework can be improved. In this regard, country experiences were used by the South African Cooperatives Model. This paradigm is supported by Henning (2004) by explaining that the foundational assumption in interpretivists is that most of people's knowledge is gained through social constructions shared meanings, documents, etc.

Hence document analysis was conducted in this research to establish historical and current effects of exchange rate in the manufacturing sector.

### **3.3. Theoretical Paradigm**

Interpretative paradigm was applied in this research due to the qualitative nature of the study. In this regard, discourses such that caused the failure of the worker cooperatives model were interrogated with representatives from all the spheres of worker cooperatives' avenues who were allowed to give their daily challenges, which are the consequences of these discourses. Policy documents and research reports that have been used to provide advice and recommendations to the challenges of worker cooperatives model were scrutinized and used for identify the gaps and failures that need to be addressed.

### **3.4. Instruments for data collection**

Both primary and secondary research were conducted to gather data and assist in answering the research question. Primary research was used in the form of semi-structured questionnaires where in-depth interviews were conducted with the participants. Due to time constraints and unavailability of critical participants for one on one interviews, telephonic interviews were conducted as an alternative. Secondary data was collected through desktop research; and sources such as policy documents, research and annual reports from organizations such as Cooperative and Policy Alternative Center (COPAC), International Labour Organisation (ILO), National Treasury and the Department of Trade and Industry (DTI), Department of Labour, and the Department of Small Business Development (DSBD).

Moreover, secondary research was used mainly for document analysis with the purpose to establish the impact of cooperatives policy framework and whether policies that are aligned to overall cooperatives policy have contributed to the support of the cooperatives in their respective sectors.



### 3.5. Sampling

Due to the restraints of resources such as limited contact with the sample, the scope of the research was limited to worker cooperatives in Gauteng province in the following regions, Ekurhuleni, Johannesburg and Tshwane Municipalities.

Purposive sampling was used in the study, in addition to the participants that have already been identified below and selected to participate, the database of registered worker cooperatives was requested to select additional participants for the interviews from the following municipalities namely; City of Johannesburg, Ekurhuleni Metropolitan Municipality and Tshwane Municipality. In addition to the identified municipalities, the following constituencies were interviewed:

- A representative from the Department of Small Business and Development – as it the custodian of the cooperatives development models and legislative framework. The Department of Small businesses is also providing support in terms of funding to the cooperatives. Their involvement is critical because they work with cooperatives from a critical stage of development.
- In terms of the worker cooperatives, the following companies were interviewed: Modibosefako Worker Cooperative, Ramadiatau Piggery Cooperative; LesediT10K Worker Cooperative; Tswelopeleyatshepo Cooperative; Tippmag Environmental Management Cooperative; Boikemelo Carpentry Cooperative; Sweetwater Holdings; Impilo Enhle Worker Cooperative; Ubuciko Boqobo; Mpumelelo Manufacturing Cooperative; Jikeleza Projects; Lesedi Recycling Primary Cooperative; BGSK Construction; and– Inqayizivele Poultry Cooperative.

A total of 18 interviews were conducted, of which four interviews were face to face and the remaining 14 interviews were conducted telephonically. The following participants were interviewed on a face to face basis; a representative from the Department of Small Business and Development (DSBD), City of Tshwane, City of Johannesburg and The Gauteng Enterprise Propeller (GEP). Due to unavailability of other participants that were expected to form part of the interviews to complete the study on time, the worker cooperatives were interviewed telephonically and they were eager to

form part of the study. From the City of Tshwane, five cooperatives from different industries were interviewed, 3 cooperatives from the city of Johannesburg and 5 cooperatives from the City of Ekurhuleni were interviewed. The interview questions were semi - structured for both the worker cooperatives and the institutions that are responsible for working with the development and sustainability of worker cooperatives, financially and technically.

### **3.6. Data processing**

During the interviews, the participants were requested permission by the researcher to record the interviews on the audio. Recorded interviews were transcribed and with the purpose to transform raw field notes into organised notes after each interview.

### **3.7. Data analysis**

Interpretative theory was applied to analyse data. Interpretative theory explains and foster knowledge and understanding of the event or a phenomenon by articulating what the researcher seeks to explain within a specific context (Creswell, 2003). Having identified the factors that explain the failure of worker cooperatives models, data was analysed by investigating the relationship between the failure of the model and the relationship between its impacts in the local economy. Having identified these factors and their relationships, the research data that provides explanations as to why they are related. According (2009), data analysis theoretical analysis encompasses elements and relationships. Hence data in this research has been analysed based on relationship between the causal factors and the explanation of their recurrence. Thematic analysis has been used after data has been collected through interviews and documentary analysis. In this regard, common issues that recur from the data collected and the main themes that summarise all the views that have been collected were identified. Data was categorised according to the themes for purposes of classification, summarisation and tabulation. A more interpretative approach was also be used to make sense of the data collected from the interviews and to highlight key issues and the findings.

### **3.8. Data presentation**

Data was presented as per the questionnaires. These themes were structured into sections, followed by relevant sub-sections. In order to inform and support the findings, quotes were used. Each code was validated before it can be used to inform and support the findings. Therefore, the key findings were reported under each theme or chapter using appropriate verbatim quotes to illustrate the findings. A separate chapter that discusses the findings was also be integrated to link it the findings with existing research (Gill, Stewart, Chadwick, 2008).

### **3.9. Validity and reliability**

The information gathered from the interviews was verified through literature review and research reports. In this regard, different literature articles that speak to the same subject were used and research reports by reputable institutions and individual researchers were used for validation and verification of information. In this regard data was validated through triangulation method. In this regard triangulation was used to produce a more comprehensive description of the research problem and to achieve an in-depth-understanding of research questions. According to Denzin & Lincoln (2003), triangulation becomes feasible when different data collection mechanisms are used to ensure consistency within one study. The following triangulation techniques were applied for data validation and reliability; data triangulation in which different data sources like periodic reports, were used; investigator triangulation was used to minimise the researcher's biasness and theory triangulation which included approaching data from different perspectives.

### **3.10. Limitations of the study**

Due to lack of resources, the scope of the study could not be extended to other municipalities within Gauteng provinces and other provinces, which is a disadvantage as the findings from this research will not be based on 100% population of worker cooperatives. Another limitation is that because the methodology that was used in the research for data collection is qualitative, the findings cannot be extended to wider population with the degree of certainty that quantitative analysis can.

### **3.10.1. Fieldwork challenges**

The participants that were deemed critical in the study such as SEDA, SEFA, SANACO, Department of Land Reform and Rural Development and other stakeholders were not available for the interviews. The respondents were contacted by email, as some of them did not respond to the email, they were contacted telephonically to no avail. The researcher used online reports to source data related to the cooperative programs the above-mentioned officials are currently facilitating. The participants at SEDA were bound by the company confidentiality clause, which did not allow them to disclose any information about their clients, i.e. worker cooperatives. Hence they did not agree to participate in the study. Due to the confidentiality clause, this paper does not discuss any issues related to SEDA cooperatives programs. In terms of Trade Union Federations, a request to participate in the study was sent to the federations, however, only one federation responded, although the response was not the desired one, whereby they alluded that they do not work with cooperatives. As a result, the paper does not use information regarding the above-mentioned Trade Union Federations.

Another challenge that was experienced is language barrier. The majority of the interviews were conducted in other African languages, and had to be translated to English for data analysis.

### **3.11. Conclusion**

The methodology applied on this study is qualitative. The purpose of using qualitative methodology is to explore the daily challenges of the worker cooperatives and the causes of those challenges. Qualitative methodology is also used to gain insight into the underlying issues around the identified causes of failure of the worker cooperatives model, which is the research problem in this regard.

Interpretative theory is used to interrogate the types of discourses and the policy documents were analysed to identify policy gaps and how those gaps should be mitigated to improve the cooperatives' policy. For best practice, country experiences were used to gain knowledge of successful cooperative models in other countries to learn how South Africa's cooperatives' models can be improved.

In terms of data collection, primary and secondary research was conducted to complement information that is already existent to answer the research questions. Two questionnaires for interviews were developed for the participants, worker cooperatives and the organisations that are actively working with the cooperatives. Both questionnaires were semi-structured.

A total number of 18 representatives from organisations and worker cooperatives participated in the interviews. Data was presented as per questionnaires, where themes were presented into sections and subsections. The quotes used were used to support and inform the findings.

## CHAPTER 4

### Presentation of the results

#### 4.1. Introduction

This chapter presents the research results emanating from the interviews that were conducted by the researcher. The interviews were guided by two research questionnaires, one questionnaire for the worker cooperatives and one for the institutions that are actively working with the worker cooperatives by providing them with financial and technical support. The responses in this regard are presented per questionnaire and will follow the sequence of the questions in each questionnaire.

##### 4.1.1. Worker cooperatives

Data was mainly collected by conducting interviews. These findings reflect only the challenges that the worker cooperatives have been experiencing since they started running.

The worker cooperatives that were interviewed were sourced from the database of the City of Tshwane, City of Ekurhuleni, and the City of Johannesburg did not provide the database, but they provided a list of the cooperatives they prefer to participate in the study. The table below provides the details regarding the cooperatives that participated in the study, the industries in which they operate and the production or services.

**Table 4.1. Worker cooperatives that participated in the study**

<b>Cooperative</b>	<b>Sector</b>	<b>Product or service</b>
Modibosefako	Clothing and textile	School uniform and Curtains
Ramadiatau Piggery	Agriculture	Pork
LesediT10K	Electricity and energy	Electrical wiring and maintenance, sell electricity products

<b>Cooperative</b>	<b>Sector</b>	<b>Product or service</b>
Tswelopeleyatshepo	Horticulture	Garden maintenance
Tippmag	Horticulture	Garden maintenance
Boikemelo Carpentry	Manufacturing	Household and office furniture
Sweetwater Holdings	Agriculture	Farming
Impilo Enhle	Multipurpose	Grass cutting, catering, and selling clothes.
Ubuciko Boqobo	Manufacturing	Household furniture
Mpumelelo Manufacturing	Manufacturing	Catering equipment
Jikeleza Projects	Construction	Building of houses,
Lesedi Recycling	Recycling	Household utensils, e.g bowls
Inqayizivele	Poultry	Sell chicken

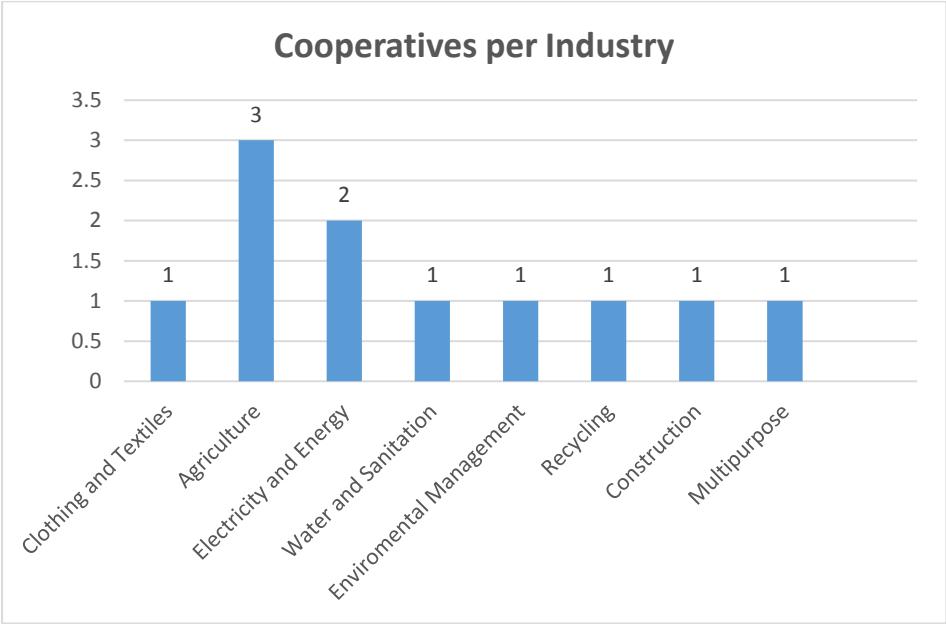
**a. How long has the business been running?**

The total number of the worker cooperatives that participated in the interviews is 14. Out of the total number of 14, only one cooperative has been operating for seven years, and the other 13 cooperatives' lifespan is between 1 year and 5 years. The cooperative registered in 2009, and it is still struggling to acquire land and equipment to run the business. "Lesedi Recycling Worker Cooperative alluded that it started in with five members, and three members withdrew from the cooperative to look for employment. The remaining members decided to look for job opportunities as the business could not operate anymore. The municipality of Tshwane and Ekurhuleni's databases were used to investigate the sustainability of the other cooperatives that registered with the municipalities before 2012.

A respondent from a worker cooperative that is no longer operating, Didintle Fashion and Design Cooperative indicated that the cooperative did not receive funding to buy equipment which resulted to the failure of the business. She then decided to start her own business in Johannesburg which she is currently running by herself. Another worker cooperative that was contacted was Cane of Dreams Worker Cooperative. After the members came together to form a worker cooperative, they did not get business opportunities from either government or private sector, as the nature of their business depended on projects from government. As a result the members decided to withdraw from the cooperative and get jobs at the labour market. The only member that was left is now running her own business.

**b. In which industry has the business been operating?**

**Figure 4.1: Cooperatives per industry**



The figure above illustrates the industries in which the cooperatives interviewed operate and the number of cooperatives interviewed. In this regard, three cooperatives are in agriculture, three cooperatives are in the manufacturing sector, and other cooperatives are in the following industries; one in each of the following industries: clothing and textiles, electricity and energy, water and sanitation, environmental management, multipurpose, construction and recycling.



**c. Did you receive start-up capital? If so, where did you receive the capital from?**

The response to this question by 12 out of 14 worker cooperatives was, “no, we did not receive start-up capital for our business, we contributed money out of our own coffers”. A responded from Tippmag Enviromental Management Cooperative highlighted that they are still applying for government funding, which can take long for their application to be finalised due to the required paperwork. Boikemelo Carpentry alluded that they have applied for funding with the Department of Trade and Industry (the dti). The problem they are facing is that due to the nature of their business there are few suppliers of carpentry equipment. Upon submission of the application, the dti requested them to bring three quotations and the potential suppliers’ tax clearance certificates, which is the department’s supply chain policy. The cooperative did not get the funding because the suppliers failed to submit the documents required by the dti on time, which caused them to forfeit the funding. Although the members have experience in carpentry, they are unable to utilise their experience to earn a living because they do not have equipment, and office to operate their business.

Only two cooperatives received funding to start their businesses. Ubuciko Boqobo cooperative received the start-up capital of R10 000 from ESKOM. Although it was not sufficient to buy equipment for business, they bought basic equipment that could get the business off the ground. The members of Mpumelelo manufacturing contributed from their own coffers to start the business, however the dti assisted them with a grant to purchase equipment. Although the grant was not sufficient, they resorted to buy small or basic equipment with the grant.

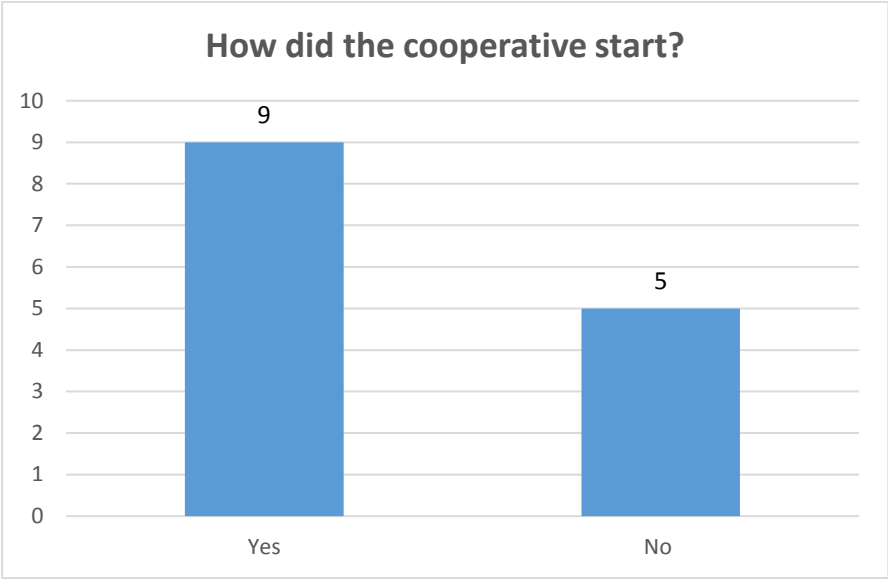
**d. Does the business have basic equipment?**

The responses to this question by the participants were similar. The cooperatives do not have basic equipment. After they registered the cooperative, the members applied for funding to buy equipment, whereas others did not apply for funding because they registered on government tender database, hoping they would receive a tender with which they will use the money to but necessary equipment for the project.

A respondent from LesediT10K said the following: “we do not have basic equipment to use when we get projects. We have tried to acquire loan from people because our business does not qualify for loan at a commercial bank. This has affected us because without basic equipment in our industry (electricity) there is no work for us”.

**e. How did the cooperative start?**

**Figure 4.2: How did the cooperative start?**



The figure above illustrates the responses by respondents when they were asked how their business started. The majority of those interviewed, when they were asked the main reason why they formed a worker cooperative alluded that it is because of the opportunities that were presented to them that are available, and that they wanted to be economically active so that they do not stay home and remain dormant. Based on the above response, the participants were asked to indicate if they wanted to join the cooperative because of the opportunities. In terms of the figure above, 64% of the respondents said yes, they went to start and join the cooperatives because of the opportunities presented to them. To elaborate further on this, a participant from LesediT10K Cooperative said the following “I heard about the worker cooperatives and went to recruit other people who might be interested in forming the cooperative and we went to register. We used our own money to register the business and started running the business in the garage.

All the cooperative members were unemployed before they registered the cooperative. They heard about the cooperatives opportunities in their respective local municipalities including the financial support that come with the opportunities. The members went to attend workshops hosted by their respective local municipalities that teach the local communities about the different types of cooperatives, how to start a cooperative and what form of funding is available in the municipality and relevant stakeholders.

In another case, an interviewee from Modibosefako Clothing Cooperative highlighted that she started the cooperative after she tried to run her own business. When she realised that her business was not thriving, she recruited other members in the community who were in the same industry to form a worker cooperative. The members registered a cooperative and used the resources from their individual businesses to make clothing, including school uniform for the local schools. This was not the case with other cooperatives though, Tswelopeleyatshepo Cooperative, like the majority of the cooperatives that were interviewed, started the cooperative after they found out from the local municipality about the opportunities that are available in establishing any form of cooperative including funding. The members of the cooperative did not have experience in water and sanitation, but after registering the cooperative they attended training related to the industry.

**f. Is the business receiving support from relevant stakeholders?**

Only two respondents received funding from relevant stakeholders which is Ubuciko Boqobo cooperative which received the start-up capital of R10 000, and Mpumelelo manufacturing received an undisclosed amount of money in a form of a grant from the dti to buy basic equipment for the business. Ramadiatau Cooperatives was in the process of receiving assistance to acquire land from the Department of Rural Development and Land Reform. The person who is assisting the cooperative with the processes of acquiring land highlighted that the Department is also in the processing of assisting the cooperative to apply for funding from the Department of Agriculture. All other respondents did not receive funding from other institutions such as Gauteng Enterprise Propeller (GEP), National Youth Development Agency (NYDA), etc. When the respondents were asked the reason why they have not received support from other institutions, they indicated that they do not have information about other

institutions that can provide them with any form of support. Most of the respondents indicated that another reason why they do not have that information is that they do not have equipment such as computers and internet connection that they believe could assist them to try and attain this type of information. They highlighted that if they go to look for such information the nearest local community office, they have to travel by taxi, which can be cumbersome at times because they do not have money.

A respondent from Boikemelo cooperative highlighted that they are trying to do things on their own because they have not received support from other institution that are responsible for assisting worker cooperatives with different forms of funding. They have not heard of their existence and even if they had, they would have a challenge of applying for assistance because they are not in the position to apply for loans, which the type of funding that is available from other institutions as opposed to the DSBD Cooperatives Investment grant.

**g. What type of training did you receive?**

The respondents who attended training indicated that the training was organised by their respective municipalities. The training focussed on business management and entrepreneurial skills. Although they attended training, the training was very short and condensed. Some of them could not even apply the knowledge they gained at training at their businesses as they were not ready and fully equipped to run businesses. This is a response by one of the respondents who attended training: “We went to attend a workshop at the local municipality and we were presented with the opportunities that are available in the cooperatives field. The City organised a trip to Kenya, and I was one of people who travelled there to see how the cooperatives in Kenya are doing. But since I came back from Kenya nothing has been happening in my business except that some of the members have withdrawn their membership to look for jobs”. This is a cooperative in the electricity and energy industry. Upon establishment of their business since 2014, the business has not been doing well. The participant further alluded that the members of the cooperative do not have prior experience in the industry but they attended training and workshop where they acquired basic skills on the industry (LesediT10K Cooperative). In terms of the industry-specific training, the members were work-shopped on industrial electric wiring, communication electronics and health and safety skills.

Other participants who received industry-specific training indicated that the training programs were very short and compressed. The training they receive does not have practical, 95% of training is theory, which makes it difficult for them to have expertise in their field of business, especially those who did not have prior experience. Depending on the nature of training and the service providers, it takes about the minimum of five days to 3 months. A participant from Tswelopeleyatshepo Worker Cooperative said the following; “I did not work in the water and sanitation industry before I joined the cooperative. I went to join the cooperative because I was not working and the other members of the cooperative were not working either. The type of training we received was mainly theory and we only did practical work at the local horticulture training sector for not more than one month”. The participants highlighted that it is also difficult for them to have mentors because upon registering the business and attending training, they still struggle with office-space, equipment for their business and sustainable projects. On the issue of finding mentors, it is difficult to find people who are interested to take them into their businesses to gain extensive entrepreneurial and specialisation skills for their respective businesses.

**h. Has your company expanded since its establishment or is it still the same?**

None of the worker cooperative that were interviewed had expanded business throughout their operation. When they were asked the reason why they have not grown to expand business, they indicated that they are struggling with a lot of things like accessing the market formally or even achieving production line that could enable them to expand business. On the contrary, other members of the cooperative leave when business does not do well. The majority of the cooperatives that were interviewed alluded that the 2 or 3 of the members whom they started the cooperative with lost interest and they were replaced by the current members. In other instances, other members remain in the cooperative but they are not active. The only time they become active is when they have business.

The respondents indicated that the reason why they are unable to expand their businesses can be attributed to the inability or failure of their businesses to secure projects because they depend on government tenders. Hence they are stagnant.

Another reason is that they do not have markets on which they can display their products. The opportunities for their businesses in the markets are very rare. A respondent from Tippmagg Cooperative alluded that another reason for the failure of the company to expand is because members do not have experience in the industry and they do not have marketing expertise to utilise for the company to have access to the markets.

**i. How do you market your products?**

The respondents indicated that they rely on government to create a market for their products. For those companies making school uniforms, they work with the Department of Social Welfare. The Department give them orders for different schools uniforms, once they are done with those orders they wait for another school term or activities that open opportunities for them to make uniform for the school kids. For the cooperatives in the agriculture, especially piggery cooperatives, their products are marketed in the local community stores or butcheries. Two cooperatives indicated that they do not have a strategy to market their products, reason being they had not identified external markets upon establishment of their businesses. As a result, the only market for their products is the local communities. If the community does not buy their products they run out of business. Moreover, nine cooperatives alluded that they rely on the national government including local municipalities to market their products such as school uniforms, furniture, including school desks. However, three cooperative who do not have contracts with government like Ubuciko Boqobo Cooperative, they are trying to develop the company website to market their business, they are also resorting to printing flyers and distribute them to the market and local communities. This cooperative was funded by a state owned enterprise (ESKOM) to kick-start their business. Although the grant was not sufficient they are still seeking other grants of funding opportunities to assist them to acquire land and buy equipment to expand their business.

**4.1.2. Organisations that are working with the worker cooperatives**

Gauteng Enterprise Propeller (GEP), the Department of Small Business Development, the City of Tshwane and City of Johannesburg. In response to the

above, or to emphasise the interventions by government institutions that participated in the interviews, these organisations highlighted the following:

**a. How many worker cooperatives is the organisation currently working with?**

To respond to this questions, all the organisations that participated in the study did not provide the exact number of worker cooperatives that they work with or those that are in their database. The table below illustrates the number of worker cooperatives registered in the City of Tshwane and City of Johannesburg.

**Table 4.2: Cooperatives working with the municipalities**

City of Tshwane			City of Johannesburg		
Active cooperatives	Dormant cooperatives	Total number of cooperatives	Active cooperatives	Dormant	Total
120	380	600	150	650	800

The city of Tshwane mentioned that they have at least 380 dormant and about 120 active worker cooperatives in their database. These worker cooperatives are registered under Tshepo 10000 project in the City of Tshwane. The city of Johannesburg mentioned that they have an aggregate of 800 different types of cooperatives registered. However, the respondent provided a rough estimate of 150 active and 650 dormant cooperatives. The GEP did not mention the number of the worker cooperatives in their database, the responded did not mention the names of those cooperatives that received funding from the GEP. The answers provided in this question were generic.

**b. In what sectors of the economy are the worker cooperatives operating?**

The responses to this question was a rough estimation. This was based on the database that the respondents had access to, during the interviews. The respondents are not actively involved in updating the database, therefore, they were unable to give the exact updated numbers. In terms of the sectors in in which these cooperatives

are operating, the majority of the worker cooperatives that request assistance from GEP are based in agriculture/farming, catering and manufacturing. However, the participant did not provide information about the number of worker cooperatives per sector.

According to the respondent from City of Johannesburg, the worker cooperatives that register with them are in horticulture/landscaping. These worker cooperatives are responsible for taking care of the recreational centres and parks in the Johannesburg area. Another industry in which the worker cooperatives dominate in Johannesburg are in textiles, recycling, waste management, manufacturing of shoes and others are in agriculture. However, the participant did not provide the number of the worker cooperatives per sector. Instead, the participant provided a list of only five cooperatives that they recommended to participate in the study.

In the city of Tshwane, the worker cooperatives are predominantly in the following sectors; water and sanitation, electricity and energy, road and transport, environmental management, clothing and textile as well as agriculture. Looking at the database provided by the City of Ekurhuleni, the worker cooperatives are predominantly in the manufacturing sector.

**c. What type of support apart from entrepreneurial skills do you provide to the worker cooperatives?**

In the responses provided for this question, the respondents from the GEP, the City of Tshwane and the City of Johannesburg could not provide comprehensive information about the number of worker cooperatives they supported as well as the total number of cooperatives that received support. The reason for this is because the officials who deal with this information from the respective company were not available to attend the interviews.

The GEP provides different types of assistance to the worker cooperatives as it was established to address the market failures through support to cooperatives and other businesses. The type of support it offers to the different types of cooperatives are among others; start-up finance, micro-finance loan program, as well as growth and



expansion finance. In most instances, the GEP has assisted the cooperatives with start-up capital.

The DSBD indicated that they provide a grant to the cooperatives, Cooperative Incentive Program (CIS) which aims to improve the viability and competitiveness of the cooperatives by lowering the cost of doing business and acquisition of start-up requirements. The officials who are dealing with CIS was unable to attend the interview due to other commitments.

The City of Tshwane has a program that brings young people together to form cooperatives in different sectors. The City recruits the youth through newspapers and uses workshops as a communication point for these cooperatives regarding what types of funding and training programs are available for those who are interested. They also work with the University of Pretoria to provide training to those young people who are interested in establishing cooperatives. These are predominantly worker cooperatives because the members are shareholders and workers subsequently. The name of the program is called Tshepo 10000. These cooperatives based in the following sectors; electricity and energy, housing, waste management, and water and sanitation. Another program is the general program that focus on unemployed people across all age groups.

The City of Johannesburg facilitates registration of all the cooperatives and provide them with relevant training. The City has established business hubs where the cooperatives can be assisted and provided with incubation programs. To empower cooperatives, the City established a forum called Cooperatives Forum. This is a program where the City tries to foster a relationship with the cooperatives and other forms of businesses such as SMMEs. This is conducted in the form of a monthly workshop where the City open a platform for these businesses to talk about the challenges they are facing on a daily, and share ideas on how they can resuscitate or rescue their businesses. The City of Johannesburg invites experts from the business field both in public and private sector to interact with the cooperatives and try to share their stories of how they became successful in business. The City has established relationship with the following institutions for different funding programs; Anglo Zimele, South African Breweries, and the local Banks. The City has established

relations with Productivity South Africa to assist the cooperatives in the development of their products. Another program offered by the City of Johannesburg to empower and create opportunities for the cooperatives is called Jozi at Work. In this regard, the City outsource its public services such as waste management, cleaning of public spaces to the worker cooperatives.

The City was once involved in the establishment of a worker cooperative in the metals sector, where a large number of workers were facing retrenchment. The trade union in that industry (National Union of Metal Workers South Africa) decided to work together with the city to assist these workers to remain in the economic activity. The dti intervened by providing equipment for the cooperative. However, the worker cooperative that was establish did not survive, it only operated for a short period and it collapsed. According to the respondent, the reason for this was that the cooperative members failed to apply cooperatives values of self-help, self-reliance and equality.

In terms of support measures offered to the worker cooperatives to market their products, the programs that are available are predominantly for the cooperatives that operate in agriculture. The City of Johannesburg has established the Johannesburg Fresh Market where the cooperatives are provided a platform to showcase their products. The City is also involved in the national trade and investment promotion programs that are facilitated by the national government to promote local market goods. In this regard all the cooperatives from different industries are invited to the trade and investment exhibitions to showcase their products. It is the same with other municipalities. The City of Tshwane allows its cooperatives to market and showcase their products at the Tshwane Fresh Produce Market.

Apart from all these efforts, the worker cooperatives are still not making any progress in terms of running the businesses efficiently. Some of the cooperatives that have registered with the City have not even started running since registration, although others start to operate after receiving assistance from the above-mentioned entities through the City, it is only for a short while that the business operates.

**d. Do you have after-care strategy to check the progress of the cooperatives after training?**

The response to this question by the City of Johannesburg and City of Tshwane was that they do not necessarily have programs that look at the performance of the cooperatives that attend training with them. In terms of the City of Johannesburg, they are using the Jozi at Work program as part of forming a relationship with the cooperatives which enables them to see if the cooperatives are progressing.

The GEP responded that after-care support is available, however the respondent did not provide further details in terms of the after-care program.

#### **4.1.3. Summary of the results: Key issues identified from the findings**

##### **a. Cooperatives lifespan**

The period in which the worker cooperatives registered in a large number is between 2012 and 2016. This can be attributed to the increased effort by the local government of trying to attain the countries' intention of creating an inclusive economy, whereby the previously disadvantaged majority are included in the economic activities. The cooperatives have registered in different economic sectors, however, according to the databases received from the City of Tshwane and Ekurhuleni, the sectors in which the worker cooperatives are predominant are agriculture and catering, multipurpose and hairdressing, which are not really critical sectors of the economy.

##### **b. Lack of start-up capital**

Upon registration of business, it becomes difficult for the worker cooperatives to acquire money to start their businesses. Although there are different types of funding from different agencies such as NYDA, SEFA, Anglo Zimele, GEP and commercial banks, it is not easy for the cooperatives to acquire these forms of funding. The cooperatives expectation is that funding for start-up should be in the form of non-repayable grant like the one offered by the DSBD. Their perception is that they cannot afford to pay back the money they loan from other institutions, given that they are newly established companies, with no market or product knowledge. That is, they establish business under uncertainties of making it to the market. Lack of start-up capital, according to Twalo (2012), has also caused the worker cooperatives to be unable to sustain business for a substantial period. This has resulted to the cooperatives failure to purchase equipment for the businesses. In the study conducted

by SEDA, one of the challenges faced by the cooperatives in the poultry sector was difficulty in finding funding to start the cooperative which has resulted to the cooperative members failing to continue with business (Small Enterprise Development Agency, 2013).

Due to lack of start-up capital, these cooperatives fail to purchase basic equipment needed for production or business purposes. Hence, there is a high withdrawal rate of members from the cooperatives. Once they realise that there is no equipment, and the business is not running or struggling to meet their demands, they resort to go out to the labour market to seek jobs. Lack of basic equipment such as computers and machinery, especially for those in the manufacturing and construction sector have been deemed as a reason why the cooperatives remain dormant. For those who have received start-up capital, the indication is that it is not sufficient to buy basic equipment, especially in the manufacturing, agriculture and construction sector. The perception is that the grant is too little and does not take into consideration the fact that these industries cannot be allocated same funding as other cooperatives in sectors such as catering, hairdressing, clothing and textile and multi-purpose sectors.

It is evident that the worker cooperatives are predominantly established by members who have not been employed before, they do not have prior experience of the industry in which they are operating.

### **c. Cooperatives change sectors**

Only few worker cooperatives are started by members who have relevant experience. In terms of the interviews, only one cooperative was formulated by members who were retrenched by their employer and they started a juice manufacturing cooperative. Subsequently, the cooperative did not survive the market challenges and it was dissolved. One of this cooperative's members decided to start her own business but the business is no longer operating in the juice processing field. The majority of cooperative members are young people, who after realising that they are unable to be absorbed into the labour market, decided to resort to business opportunities.

Another issue of concern is that when the cooperatives realise that they are not performing well, those members who are left in the cooperative resort to change to

an industry that they did not register for. There are several cooperatives that were contacted and they indicated that they decided to change the business because they realised that they were not making any progress. One example is the juice manufacturing worker cooperative in Ekurhuleni Municipality. The cooperative was left with one member, who then resorted to go and seek opportunities in other industries. The member found opportunities in construction and that's where the business started running. The member is currently running the business alone and has secured few sub-contracts in the building construction. "I used my severance package from the previous employer to start the juice manufacturing cooperative with other members who withdrew their members after realising the business was not performing. I then resorted to construction and used the remaining money from severance packages to buy equipment and tools for my new business. The project that I am doing now I nearing completion and I am seeking other projects in construction because I do not have money to sustain my business. I do not have any other project in the pipeline" (Jikeleza Projects).

Lesedi Recycling Worker Cooperative had the same challenge of membership withdrawal. In this case, the members did not agree with the idea of saving the revenue or profits from the sales of their products. They wanted to share the all the money and leave the company without money. After the members' withdrawal from the cooperative, the remaining member resorted to the opportunities in arts and designing. Although this member would like to return to recycling the challenge is that there is no funding although they have previously applied, and the land that the cooperative acquired is now used by another business.

#### **d. Accessibility of support by relevant institutions**

The support that is available from other entities for business start-ups is not easily accessible. The worker cooperatives alluded that they are unable to comply with the requirements for alternative financial support because their companies do not have reputation of being in business for a long-time. The cooperatives fail to comply with the requirements for alternative funding because the funding is repayable, of which the cooperatives are required to use the little that the company is making for repayment.

The GEP provides financial support to the worker cooperatives, and the respondent municipalities are responsible for training and finance by working with other training and financial institutions. The DSBD is providing financial support in the form of grant.

The GEP offers after-care support to the cooperatives they have assisted with funding and training, whereas the local municipalities do not have after-care programs currently.

According to literature, although sector-specific support programs are available by relevant institutions, available programs are not sufficient to accommodate all types of cooperatives and the current number of emerging cooperatives in need of support (Department of Trade and Industry, 2009).

The worker cooperatives have a challenge of accessing the market. If government does not create opportunities for them, their businesses are unable to be sustainable in the market.

#### **e. Training**

Some cooperatives have attended entrepreneurial or business management courses offered by the local municipality in partnership with institutions such as SEDA and other learning institutions like the University of Pretoria. In terms of technical training, the cooperatives attended workshops where they learned and gained knowledge of the respective industries in which they are operating. Although this training was compressed, it was mainly theory than practical work. This form of training is not sufficient according to the participants because after they have completed they still need practical experience and they are not provided with mentors after training as well who would assist them gain that practical experience.

#### **f. Sectors in which the cooperatives operate**

These worker cooperatives are mainly in cleaning, catering, multipurpose, agriculture and manufacturing. GEP has confirmed that they are working with cooperatives in the above-mentioned sectors. In the City of Johannesburg the cooperatives are in landscaping, textiles, recycling, waste management and manufacturing, whereas in the City of Tshwane the worker cooperatives are predominantly in energy,

environmental management, agriculture, clothing and textile. In Ekurhuleni, the worker cooperatives are mainly in the manufacturing sector.

## **4.2. Conclusion**

Start-up capital is a challenge for the worker cooperatives to access. The participants alluded that they are depending on their own finances for the business to operate. The challenges they have encountered with the start-up capital is that it is not available to all the worker cooperatives. Although others have received the funding, they indicated that it is not enough to purchase basic equipment.

In terms of assistance by relevant institutions, the worker cooperatives have not been able to receive assistance, as they are not aware of their existence, and for those who are aware, they do lack access to computers or internet to apply for assistance. The worker cooperatives also alluded that they have attended training, but the training has not assisted them as per anticipation. They are unable to apply the skills acquired because the training is condensed.

Furthermore, as it is important for the worker cooperatives to operate mainly in the critical sectors of the economy, according to the information gathered the worker cooperatives are mainly in agriculture, and manufacturing. Although most of the members do not have previous experience in these industries. They have acquired industry-specific experience through training after they have registered the cooperatives.

## **CHAPTER 5**

### **Data Analysis**

#### **5.1. Introduction**

The purpose of this chapter is to discuss the results from the interviews according to the respondents' perceptions and experiences. All the responses from the interviews are grouped together and the themes are extracted by examining the similarities from the respondents' answers.

In this regard, this chapter firstly discusses the factors that contribute to the failure of the worker cooperatives. Upon identifying those factors, the chapter will further look at and discuss what causes those factors that are identified as the cause of the failure of the worker cooperatives. Furthermore, the chapter will outline what can be done to address these factors. The findings from the research will be provided in the conclusion of this chapter and the conclusion will also highlight the inference drawn from the research.

#### **5.2. What are the factors that contribute to the failure of worker cooperatives?**

##### **5.2.1. Cooperatives registration with lack of industry experience**

###### **5.2.1.1. Worker cooperatives**

Although the members of the worker cooperatives come together with an intention to start business in order to become economically active, the perception on which the cooperative is established is the main reason why the cooperative does not succeed. Lack of experience cuts across worker cooperatives in all the industries, however, due to the fact that the study was targeting key industries, the discussion will be restricted to the industries in which the participants are operating. In the case of the experience of the members of the cooperatives, it is only one out of five members who has got experience in the field of the business, however, in most cases all the cooperative members lack experience of the industry or field in which the worker cooperative operate. The cooperative members register with the perception that after they have received training, the skill or knowledge they acquired will enable them to run and sustain the business, provided that they receive support from the responsible authorities. Taking into consideration the industries highlighted above, in which these



businesses operate, it is only those cooperatives which are in agriculture and clothing industry that thrive because these industries do not require intensive technical expertise as opposed to other industries such as energy, manufacturing, environmental affairs, water and sanitation.

Lack of industry experience has got negative effect in that, there is little or no exposure to the industry, therefore, once the cooperative starts running, none of the members can refer back to the past achievements, individual professional profile in the industry, potential market clients and potential client base. Another challenge is that the members are not exposed to common challenges in the industry, therefore none of them has got experience in handling those challenges. As a result, when drafting a business strategy or business plan, members are unable to outline contingency mergers based on their experiences.

Moreover, this affects productivity level, innovation and competitiveness of the business in the market. It becomes cumbersome for the member-workers to achieve desired productivity level as they are newly trained and therefore they are still learning productivity processes, which could take a while for them to consider moving on to innovation of new production mechanism or techniques. This has a severely negative impact on competitiveness of the products in the market, hence the members of these cooperatives end up looking at government for support.

The respondents alluded that the reason why they have registered the cooperative without experience is because they had been looking for opportunities in the labour market to no avail. However, after being informed about the cooperatives model and the opportunities that arise in certain industries, they chose to register and attend training that could enable them to make opportunities in the industry. However, they realised after they had completed training that running a business takes more than receiving funding and training. The respondents indicated that for an enterprise to seize the opportunities that exist in the industries, there are several key things that are important such as intensive experience, exposure in the industry, knowledge of relevant stakeholders or platforms to establish relationship with potential clients, latest knowledge of technology and production processes.

According to literature findings, the worker cooperatives model failure is caused by members' lack of experience. According to Twalo (2012), the members of the

cooperatives do not have necessary capacity to run the business. Although the cooperatives model on the development of the worker cooperatives was based on persons who had were facing retrenchments, or employees of companies that are facing closures, what is currently happening in the cooperatives environment in South Africa does not relate to the requirements of the model, which is registration of cooperatives by people who are already capacitated by sector-specific skills. This as a result to the increasing level of mortality rate, as the findings from the fieldwork indicated that the members of the worker cooperatives end up withdrawing from the businesses to look for employment opportunities in the labour market.

Subsequent to this, an article by the ILO also identifies skill and resources as challenges for worker in establishing cooperatives. According to the article, for a business to be successful, specialised skill is required, which may however be difficult for the cooperatives to find (Cooperatives and the world of work, 2014). The article further alludes that once the members of the cooperatives becomes experienced and the business becomes more established, the members will be able to provide other members with relevant support and share with them their experience.

#### **5.2.1.2. Organisations that work with the cooperatives**

Although local government has been actively involved in promoting the worker cooperatives as one of the models to create employment, this has not yielded positive results. The interventions that have been introduced by the municipalities such as identification of critical sectors in which the cooperatives are needed did not have that much of impact in the majority of the worker cooperatives because people who are available to participate in those sectors do not have relevant experience. The cooperative members had to attend sector-specific training which could not help much because the training was not mainly practical, it was theory. This resulted to the members failing to apply this training into their cooperatives which consequently resulted to failure of the cooperative.

Subsequent to this, interventions by the government agencies as support structures outlined by the Cooperatives Administration Regulation of 2015 were implemented, but member capacity proved to be a hindrance for this intervention to be successful.

The municipalities have identified the critical industries in which the cooperatives need to be involved and create job opportunities for the local community members. Hence there are programmes like Tshepo 10 000 in the City of Tshwane that identified key sectors in which they aim to attract young people to work together with them to improve their standard of living. However, the challenge is that these young people do not have experience in the identified industries, hence they try to work with training institutions such as the University of Pretoria to provide them with relevant knowledge of the industry and basic business skills.

The City of Johannesburg is also facing the challenge of lack of skill and experience of the worker cooperatives in the identified priority sectors. It is only few of the cooperatives who have the skill, however, they fail to run the business and work for the business at the same time. The City of Johannesburg has got a program as well that seeks to bring young people to participate in the economic activity by encouraging them to register and become members and employees of their business such as Jozi at Work. The challenge they are facing is that the members of there is lack of skill in the identified priority areas, hence the majority of those cooperatives that are successful are mainly in those areas such as gardening, recycling, and cleaning of the City's public areas. These are industries that are not critical to the local economy, however, they create employment for the local community. The challenge is, these jobs are contract based. The City contracts these services to the worker cooperatives and when the contract ends, they need to reapply, which is not a guarantee that the business will receive the contract again.

The GEP's responsibility of providing finance lies with the ability of ensuring that those cooperatives that are in the critical sectors of the economy receive financial support. However, the respondent from GEP did not provide details regarding which sectors are of priority in receiving financial assistance.

Cooperatives members' industry-specific experience has proved to be contributing factor to the success of the worker cooperatives in Spain. The institutions that were actively working with the worker cooperatives in Spain were operating independent of government. This is a big difference between the cooperatives in South Africa and those in Spain and Italy. The cooperatives depended on cooperative banks to loan money for start-up capital or they depended on the cooperative federations that had

established their own financial institutions that assisted the member cooperatives with finances and had insurance for the member cooperatives.

## **5.2.2. Absence of after-care strategy or dedicated organisation responsible for overall monitoring of worker cooperatives progress**

### **5.2.2.1. Worker cooperatives**

The challenge that these worker cooperatives are facing is that, with the little knowledge they have acquired about the industry they require regular update on the new development in the industry and they also need continuous support of skill acquisition and knowledge update. In this regard, the members of the cooperative believe their businesses would be performing better if there was a dedicated institution that is responsible for ensuring that they receive continuous support, not only financially, but also continuous technical support and advice. The members feel discouraged when they return to their businesses and they meet challenges that they are unable to deal with as a newly established business. The respondents from various cooperatives indicated that although there are various programs for support, it is not easy to apply the knowledge in the business, especially when all members do not have common vision for the business. This leads to conflicts in the business and the members fail to resolve these conflicts on their own.

The worker cooperatives' dependency on government support has created an environment of dependency throughout the development phase of the business. The respondents have shown their dissatisfaction on how they become vulnerable to the market in terms of applying the knowledge they acquired from training. They indicated that they do not receive support or advice in terms of how to sustain their business as well, or how to survive when certain conditions arise. Hence they end up vulnerable and loose interest along the way. They have alluded that they have been exposed to an organisation that can assist them with implementation of the skill and knowledge acquired to improve productivity and competitiveness, especially for those who do not have intensive experience in the industry.

### **5.2.2.2. Organisations that work with the worker cooperatives**

The GEP mentioned that they have after-care strategy they use to ensure that the companies that receive funding continue to run effectively. However, the representative did not disclose the strategy they have put in place.

In terms of the municipalities that participated, they both indicated that once the training has been provided to the cooperatives, the only way in which they continue their relationship with the cooperatives is through workshops. There is no after-care strategy in place that they are using to ensure that these worker cooperatives are implementing the knowledge and training they received effectively.

According to literature, after-care programs are administered by national departments that are responsible for sector-specific cooperatives. The Department of Rural Development and Land Reform has introduced a program that focuses on organising primary cooperatives to secondary cooperatives. Although detailed information about the programs is not provided in literature and if these programs have been successfully implemented, these programs include providing support to new and existing cooperatives and coordinating infrastructure provision to the cooperatives. In agriculture the after-care program that is available intends to advance the growth of the cooperatives in agriculture. The department is responsible for ensuring that the existing cooperatives are mobilised into commodity based secondary cooperatives.

### **5.2.3. Lack of start-up capital**

The opportunities that are presented to the worker cooperatives such as availability of start-up capital encourages the members to end up registering businesses to access this capital. However, after realising that start-up capital is limited the members become discouraged, of which if they had registered with the correct motive and with relevant experience, the members would use their experiences to create a momentum for their businesses. This is a similar challenge that has been identified by Twalo (2012) in his research findings that start-up capital has become a hindrance to the survival of the worker cooperatives. He further alludes that due to the availability of alternative of start-up capital in the form of loan, the conditions on which it is offered are not favourable to the newly established worker cooperatives. Hence the majority of the cooperatives who participated in the study alluded that the reason their

businesses are not thriving is that they are struggling to access funding for their businesses and that their lack of industry experience and knowledge is a disadvantage because it becomes difficult for them to approach relevant bodies that can assist them with funding. One of the participants alluded that applying for funding is not easy because of the requirements for application, and the waiting period for the application is not reasonable. At times, the members run out of option for funding and withdraw from the cooperative (Tippmag Environmental Management Cooperative).

Moreover, lack of start-up capital results to the worker cooperatives' failure to purchase equipment required for business. This factor was also emphasised in literature, where the findings indicated that cooperatives in the poultry sector are unable to operate due to insufficient or lack of capital, as a result their businesses could not start operating (SEDA, 2013)

Contrary to the above, in countries such as Italy or Spain, start-up capital is not deemed as a challenge for the worker cooperatives. This can be attributed to the model that is used for the worker cooperatives to acquire capital. Firstly, member of the cooperatives in these countries have got relevant experience of the work they specialise in as they had established the cooperative based on the needs of the industry. Start-up capital in Italy is provided by the cooperative bank Caja Laboral Popular, which was initially established as a credit cooperative. The condition under which the start-up capital is provided by the cooperative bank are accommodative to the worker cooperatives as opposed to those conditions by commercial banks (Adeler, 2009).

For the selected cooperatives that have received start-up capital, due to lack of industry experience, the capital is not enough to sustain the business until the workers have established the business to the level that it can run independently of government assistance. Another factor that results to their failure is that the challenges of acquiring start-up capital limits the cooperatives from acquiring business opportunities or exploring other opportunities from outside based on their experiences, hence they depend on government tenders to sustain their businesses.

On the side of the organisations that work with the worker cooperatives, the respondents from the municipalities indicated that there are different types of funding, but there is a criteria that is used to select companies that qualify for funding. The

funding is not available to all the worker cooperatives who are registered in their databases. Hence they continue to encourage the cooperatives to explore other opportunities that are available outside the municipality.

After-care strategy must be an integral part of training as it will serve as a form of communication between the cooperatives and the organisations that exposes the gaps that result to failure of the cooperative at an early stage of starting the business. The cooperatives in the manufacturing and piggery sector; Mpumelelo manufacturing, Ubiciko Boqobo manufacturing and Ramadiatau Piggery Cooperative emphasised this as they feel that they need to communicate regularly with the organisations that are responsible for providing assistance to the cooperatives that are in the key sectors of the industry, because they phase hostility in the market immediately as soon as the business starts running. Hence Ramadiatau is currently working on a close level with the Department of Rural Development and Land Reform to assist them with other processes that can assist their request for land and funding to be easily expedited.

In the case of international best practice, after-care program is provided by the cooperative federations in Italy. The cooperative federations have their own financial institutions, which were developed to offer their member cooperatives with continued and monitored below-market rate loans or financial support, insurance for the member companies, ongoing training (Logue, 2006). The federations also established research and development centres to assist the cooperatives with new product development and improved productivity.

#### **5.2.4. Inadequate technical/industry related training**

Due to lack of industry knowledge and experience, the worker cooperatives' expectation is that they should receive intensive technical training and ongoing mentorship by people or private companies that have been in the industry for long. Their expectation is that they be placed on a long-term practical mentorship program, where their mentors take time to expose them to the industry and gain momentum in the market.

One of the factors that contributed to the success of worker cooperatives in Spain is that the Ministry of Education was involved in the cooperatives field by introducing cooperative related courses, the Ministry also promulgated for vocational schools

which were used as components of supportive infrastructure required to develop the sector-specific capacity. Moreover, closed ties between students and cooperative organisations were developed, which was utilised as a mechanism as well to enhance their practical skill (Adeler, 2009).

### **5.3. What is the cause of these factors that causes worker cooperatives to fail?**

The limited knowledge of the cooperatives values by the cooperatives members has undermines the value of the cooperatives model, which has caused the failure rate of worker cooperatives. The cooperatives values of self-help, self-responsibility, democracy and equality have not yet been properly adhered to, which is the core requirement for the cooperatives model to be successful. The members of the cooperatives lack genuine motivation for registering the cooperatives. It is because of the opportunities that are available in the cooperatives industries that people, especially youth, form a cooperative to earn a living. The members perceptions of being involved in a worker cooperative is that government will provide them with funding or start-up capital to buy equipment and other materials they need for their businesses. They fail to work together to find means to acquire funding or any form of assistance outside the one offered by government for their business to be successful. They fail to take responsibility upon themselves to explore other opportunities that could create a momentum for their business. Hence there cooperatives are experiencing a high rate of member withdrawals from the business.

Due to scarcity of job opportunities in the labour market, when the unemployed young people find out about these opportunities they do not consider their interest in running and working for their businesses, they do not consider the challenges that they will experience in the businesses. Although few cooperatives have alluded that they have previous experience in the industry, others indicated that they were already running businesses before, it is important to note that the challenges they phase previously might be different from those that they phase as worker cooperatives because ownership is assumed by more than one person.



#### **5.4. Are these factors common in all the worker cooperatives?**

Based on the results from the interviews, it is only 2/10 worker cooperatives that are not experiencing the above-mentioned challenges. The major contributor to these challenges is the high rate of joblessness that causes vulnerability among members of the local community that leads them to take any opportunity that is presented to the community.

In this regard, there are several common factors that contribute to the failure of the worker cooperatives. These factors, however, cut across all other types of cooperatives, from primary, to tertiary cooperatives. Although it is government's aim to use cooperatives model to create employment in the local economies, to eradicate poverty and improve the standard of living, these values are overlooked by the manner in which the cooperatives are established. The above-mentioned government efforts to uplift the local economic participation by the community members has been misconstrued by the very people whom this model of cooperatives have been introduced. In relation to the findings from the fieldwork, it is imperative to take into consideration the fact that that worker cooperatives model has not been serving its intended purpose.

In the three municipalities on which the fieldwork was conducted, worker cooperatives model has been introduced to the people who seem to be the correct target at that time. Local government is actively working with the relevant stakeholders to bring the model to the people, trying to educate and capacitate the interested population, but both parties are failing to meet each other half way. The first cause of this is that the worker cooperatives opportunities that are available are utilised in an incorrect way. To those people that they have access to the opportunities, they fail to make them long-term opportunities. This failure can be attributed to the following factors; the worker cooperatives lack business acumen. The members of a worker cooperative enter into the field with different intentions. It has been discovered that members view the cooperative as a source of income, but they lack the ability to make money out of the money that was invested in the business. The worker cooperatives are established by people who are desperate to earn income, these people do not have prior experience of the industry in which their cooperatives operate. Upon registration of the business they attend the training or workshops on business management skills

and other business related courses. Other training programs are to impart them with knowledge of the industry on which they want to run their businesses. They are not offered practical experience. There is also lack of mentorship programs, where businesses, especially in private sector absorb the newly registered company members to train them while they are still new in the industry.

The organisations that deal with the cooperatives have the responsibility to introduce after-care strategy or program that could be used to ascertain that the cooperatives are looked after even after they have attended training. This should include ongoing training and development programs that takes the members from implementation phase of skill acquired from training to expansion phase of the worker cooperatives. This is the same sentiments by the worker cooperatives such as LesediT10K, TswelopeleyaTshepo, and Tippmagg Environmental Management Cooperative.

#### **5.5. What can be done to address these factors?**

- The cooperatives members' basic knowledge on cooperatives values must be improved through workshops. Thaba and Mbowa (2015) support this challenge of lack of basic knowledge about the values of a cooperative by arguing that it affects the cooperative negatively. In this regard, the cooperatives fail to invest time in the business trying to work out the strategies that they can use to make the business successful. This results to the members failing to communicate ideas and brainstorm potential business ideas as a collective. In this regard, the relevant authorities that are responsible for promoting cooperatives model in the local economies such as local governments need to emphasise the importance of member adherence to the cooperatives values and encourage the members to make it their responsibility to take care of their business survival;
- Sector-specific funding must be prioritised, especially in the key sectors of the economy. This will assist to determine the threshold based on the cooperatives needs of funding. This will also eradicate the problem of allocation of inadequate funding, which fails to secure required basic equipment for the cooperatives;

- Sector-specific training is also crucial to advance the members' capacity in their respective sectors. Phillip (2003) argues that to establish a cooperative, it is imperative for the members to have a high level required skill or technical training. Moreover, industry-relevant skill is important for the members to be able to assist and share their experience with new members (Cooperatives and the world of work, 2014). The methodology that is currently used for sector-specific training by Spain must be applied in South Africa by including institutions of higher learning, technical training colleges, and private sector mentorship programs (Adeler, 2009);
- After-care programs must be cascaded to the municipality level, whereby all the municipalities will be able to interact with the cooperatives on an ongoing basis to assist them transit from primary to secondary phase of cooperatives, this could also be used as a form of monitoring and evaluation of the performance of the cooperatives; and
- The incubation programs in the municipalities must be improved in the municipalities must be expanded to incorporate research and development services.

The above can be achievable, as in the case of Spain and Italy. In the case of sector-specific training, higher educational institutions such as universities and vocational schools in Spain were used as supportive infrastructure required to build cooperatives sector-specific capacity. This enabled students to enhance their skills and create relationships between the students and the cooperatives organisations. Apart from government programs, a cooperative support organisation must be established to function as a centre of cooperatives network in South Africa, as in the case of Spain. This organisation can also serve as a business incubator that supports the cooperatives from start-up phase to expansion phase. The organisation must be able to support the cooperatives sector diversity through research and development, to enhance innovation and innovative products processes. The best practice that can also be used is in the case of after-care programs in Italy. Government established regional economic agencies that were responsible for ensuring that there is a growing links between the cooperatives and the firms. This was to support the small cooperatives by creating a link between them and the firms to identify potential

markets for the cooperatives and ensure they remain in the market. Another important aspect that contributed to the success of the worker cooperatives in Italy is the members' viability to adhere to the cooperatives values. The cooperatives did not depend on government assistance to start businesses. Rather the members, especially those who acted as equity holders contributed to the purchase of equipment and financial viability of the cooperatives. Moreover, other cooperatives borrowed from the financial intermediaries and sought business opportunities in sectors where government was unable to perform accordingly, like health sector. These cooperatives started to provide health-care services after realising the dissatisfaction of government-delivered health services in health sector.

## **5.6. Conclusion**

The challenges that the worker cooperatives model has been experiencing have been taking place in for a long time. This can be related to literature which highlights these challenges from the apartheid regime, of which the new democratic government has been working on eliminating. The cooperatives policy has implemented with the purpose to improve the performance of the cooperatives in the economy. However, taking into consideration the magnitude of the challenges that the cooperatives are experiencing, the parties that are involved need to reconsider the implementation at the local government level. The worker cooperatives values have been undermined by the members of the cooperatives by taking advantage of the opportunities that are available without having relevant industry experience, and business acumen. Moreover, lack of absence of after-care strategy at the local government level has not done enough justice to the proper monitoring of the progress of the worker cooperatives after they have registered. Another critical challenge that has been affecting the cooperatives is lack of start-up capital. The cooperatives members are struggling to continue with business because they are struggling to access business start-up capital. These challenges have been there despite the government's initiative to intervene. Therefore, intervention must be emphasised at the local government level where cooperative members can easily access information.

In order for the current South Africa's worker cooperatives model to be successful, the best practices in Italy and Spain are relevant and the model these countries used has elevated their economic performance. Currently Italy and Spain are the world's

best performing worker cooperative economies, whereby in Italy the worker cooperatives are generating about 30% of GDP and Mondragon is the eight largest business corporation Spain.

## **CHAPTER 6**

### **6.1. Conclusion and recommendations**

Worker cooperatives have been seen as one of the mechanisms to alleviate poverty by providing economic opportunities to people who are unemployed. In the case of South Africa, government has supported the development of cooperatives through legislative framework such as the Cooperatives Act 14 of 2005, which was amended in 2013. In addition, different cooperative programs have been introduced and implemented by the sector-specific national, provincial and local government to provide necessary support to the cooperatives and enhance cooperatives' sustainability. The purpose of the research was to investigate reasons why the worker cooperatives are failing in South Africa, with the objective to explore the mechanisms or tools that can be implemented to reduce the failure rate of the worker cooperatives. To provide answers to the primary and secondary questions, literature on cooperatives was collected and reviewed, and empirical data was collected in the form of interview. Qualitative research methodology was used to collect data to gain more understanding into the challenges that the worker cooperatives are facing. To understand further the reasons for the failure of the worker cooperatives, the research explored those different programs provided by government departments such as the Department of Small Business Development, Department of Agriculture, Forestry and Forestry, Department of Rural Development and Land Reform and the Department of Public Works. International best practice was also used with the purpose to adopt the lessons learned by the countries that were selected, i.e. Italy and Spain.

#### **6.1.1. Conclusion of the study**

Worker cooperative model has been used in many countries to advance economic development under different economic conditions. The model has been successful in countries such as Spain and Italy. The model in which the worker cooperatives were established in these countries was developed in such a way that these cooperatives remain independent of government support as they continue to grow. To answer the primary question, South Africa has tried to use the model to achieve the same economic accomplishment, but based on the interviews conducted in this research, this has not been yielding positive results. Taking into consideration the values on which the worker cooperatives were developed, it seems highly unlikely for the worker

cooperatives that were interviewed to apply. Lack of industry-specific experience and member participation in decision-making has resulted to majority of the cooperatives to remain dormant, because once the cooperatives make money, they fail to make rational decisions in appropriating the income. This can also be attributed to the vulnerability of cooperative members who do not even have business acumen. When the business starts making money, members want to share all the profits and continue with the business without intentions of saving a portion of that money for expanding production or for other important business commitments. This has caused a lot of conflict among members who ultimately resorted to withdraw from the cooperative. Moreover, due to the inability of the cooperative members to apply previous knowledge and experience in the business which is critical to manage the challenges that might arise and access to the relevant market for the products, this does not give the members courage to seek opportunities in the market. Previous experience is important because it enables the members to be innovative and increase productivity.

Lack of self-responsibility is another factor that contributes to the high rate of failure of worker cooperatives. The members fail to take responsibility of running the business without depending of funds or grants from government and private sector. As a collective, it should be their responsibility to explore new and existing ideas on how to make the business successful, but they wait to be invited to the workshops or trade expos to showcase their products. Their response to this is to blame it on the funders not giving them sufficient money to buy equipment and necessary resources.

These factors that cause the failure of the worker cooperatives model are linked. There is a positive relationship between these factors. If the business does not have start-up capital, it is unlikely to buy basic equipment to run the business. Attending workshops for business management skills and industry related skill has not proved profitable to the worker cooperatives, especially because the training does not delve into advanced methods of running businesses in a technologically advanced society. This as a result does not encourage innovation. For those businesses that are relying on opportunities from government projects, it becomes cumbersome for the business to be sustained because once the project ends, there is no guarantee of getting another project.

The factors that causes worker cooperatives to fail have negative impact on the relationship between the cooperatives model and dilutes the initial plan of introducing it to the community because it does not benefit the population it was intended. This results to a negative relationship between the application of the model and the outcome thereof. This does not, as a result reduce the level of poverty and unemployment, but rather leave people more vulnerable for employment opportunities. When they realise the cooperatives are not performing well, the members withdraw from the cooperative to seek employment, which takes them back to the similar situation they were in before joining the cooperative.

In this regard, the model that is currently followed is overlooked by not emphasising registration of members with sector-specific experience. The registration requirements must be specific in adherence to the values of the cooperatives model, such member self-reliance, self-responsibility, equality, etc. Prioritisation of funding on qualifying and worker cooperatives in key sectors of the economy must be expedited, although there are industry-specific funding, like the one offered by the department of agriculture, department of land reform. In addition to this, there must be a dedicated institutional body responsible for monitoring the allocation of the funds and the criteria for registration of the worker cooperatives and allocation of funding must be strictly established.

The Cooperatives Development Policy highlights that worker cooperatives may be formed through a conversion of a conventional private enterprise into a worker owned cooperative including takeovers and rescues of enterprises facing financial troubles, but according to literature and interviews conducted, this has not been materialising. The cooperatives that are registered are not formed by either of the above-mentioned factors. Although there has been increasing number of company closures over the years, according to the Department of Labour report on job opportunities and unemployment 47340 companies closed and a total number of 48004 workers were retrenched in 2014/2015 (Department of Labour; 2015). These company closures and worker retrenchments have been increasingly taking place in the critical economic sectors such as manufacturing and mining. This must be used as an opportunity by government workshop the employees and company owners about resorting to converting companies to worker cooperatives.



### **6.1.2. Reasons why worker cooperatives are experiencing high failure rate**

Due to lack of start-up capital the worker cooperatives find it difficult to sustain their businesses. Start-up capital has become a constraint for cooperatives because of lack of information regarding the financial or incentives opportunities available for cooperatives development. Another reason why start-up capital has become a challenge is because some of the funding is available in the form of loan by organisation such as SEFA, commercial banks and NYDA, of which the cooperative do not qualify for, in terms of the conditions for repayment of the loan.

Upon registration of the cooperative, the majority of the businesses struggle to operate because of their expectations that they are going to be afforded government tender are not successful. Upon failure of acquiring tender from government, some cooperatives resort to other sectors in which they did not register their cooperatives. By changing sectors due to available opportunities, the cooperative find it difficult to sustain business because of lack of experience in the sector which results to members opting-out of the cooperative.

Accessibility of support by relevant institutions has become a hindrance for the cooperatives to succeed. The cooperatives register on local municipalities' database as one of the requirements for programs such as incubation programs. However, due to lack of funding and experience, it is unlikely for the cooperative to qualify for the selection criteria for incubation programs.

Sector-specific technical training is not sufficiently offered to the worker cooperatives. This has resulted to the majority of cooperatives inability to provide expected services and this also affects the innovative capacity of the cooperative.

## **6.2. Recommendations**

**6.2.1.** The entities that are responsible for worker cooperatives model and registration must develop a diagnostic tool that will determine whether the cooperatives are registering for the right reasons. The diagnostic tool must be able to determine whether the members have relevant experience in the industry, how long they have been in the industry, and if they have knowledge of the relevant market.

**6.2.2.** The worker cooperatives must be established for the right reasons, i.e., by people who have business acumen, and they must have a business plan that provides clear guidelines of how the business must run, revenue must be allocated, bearing in mind that they must save a certain percentage of the revenue. There must also be a business rescue strategy or plan as well.

**6.2.3.** Mentorship must be on a long-time basis by medium and large businesses. The cooperatives members must be placed in those businesses on part-time business. It must be on the job training to gain relevant experience.

**6.2.4.** Private sector must be encouraged to assist these cooperatives by offering them support in the form of mentorship, funding, business acumen, etc. The cooperatives' legislation must provide for incentives for the businesses that are supporting these cooperatives by means of tax rebate. For example all companies that support cooperatives could be reimbursed a certain percentage of company tax or government can reduce company tax as an allowance.

**6.2.5.** Grants for buying equipment must be increased especially for the worker cooperatives that operate in the critical sector of the economy such as manufacturing, agriculture, tourism and construction. Although this is not a guarantee that the cooperatives will thrive after buying equipment, this could be a motivation for the members to work harder and have self-responsibility to make the company thrive. This could also encourage the members contribute in self-development and product marketing, instead of depending on government projects. The level of funding must be allocated by the nature of business, or per industry in which the cooperatives are working to be able to cover those cooperatives that require big capital machinery to run their businesses.

Moreover, the manner in which funding is allocated must be reviewed. Considering a large number of cooperatives registered with CIPC, it is evident from the interviews that only few of them that have been granted funding.

**6.2.6.** To enhance worker cooperatives values, the model must be reintroduced not only to the local community, but also to people who are in the process of retrenchment due to the economic conditions. These must be educated about the value of forming

a worker cooperatives. Upon attending training on business management skills, it must not be short and condensed.

**6.2.7.** In terms of challenges that cause failure in the case of South Africa, Cooperatives Law and Policies must define clearly the manner in which start-up capital for worker cooperatives will be provided to those in need of capital, with a fund that already exist, private sector must commit to paying a certain percentage of their profits to the fund and work together with the cooperatives bodies that government has appointed to run the cooperatives funds. Private companies that are anticipating retrenchments in the future must work together with cooperatives institutions to advise their employees on opportunities such as forming a worker cooperative after they have been retrenched, and at the same time there should preparatory training for them.

**6.2.8.** The workers must also be informed about other organisations that can provide them with a start-up capital at a low interest rates such as cooperative banks. In addition, the members of the cooperatives must also be advised to join the cooperative banks to save a portion of their profits, especially when they start making income for the company. They must decide how much percentage of the profits they want to save, taking into consideration the newly revised cooperatives law/policy which has reduced the cooperatives savings from 5% of indivisible reserves to 2% or not less than 1%.

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## **ANNEXURE A – RESEARCH QUESTIONS**

### **Research questionnaires**

Two survey questionnaires will be developed due to the different nature of targeted participants. One survey will be focusing on worker cooperatives and another survey will be focusing on institutions that are responsible for the development and advancement of worker cooperatives, as outlined in the methodology section.

The following questions will form part of the worker cooperatives survey:

#### **Research questions**

- How long has the business been running?
- In which industry has the business been operating?
- Did you receive start-up capital? If so, where did you receive the capital?
- Does the business have basic equipment?
- How did the cooperative start?
- Is the business receiving support from relevant stakeholders?
- What type of training did you receive?
- Has your company expanded since its establishment or is it still in the same condition?
- How do you market your products?

The following questions will be form part of the survey for relevant organisations that will be participating in the study:

#### **Research Questions**

- How many worker cooperatives is the organisation currently working with?
- In what sectors of the economy are the cooperatives operating?

- What type of support apart from training/skills development does the organisation provide for the cooperatives?
- Do you have after-care strategy to check the progress of the cooperatives after training?