

Compromised Success Potential of South African Co-operatives Due to Lack of Credible Data

Thembinkosi Twalo

Co-operatives in South Africa are meant to address job creation and poverty challenges. However, they do not seem to be successful because of human, systemic and structural factors. The government's efforts to address factors that compromise the success of co-operatives are also compromised due to lack of reliable understanding of this sector. This lack of understanding is an outcome of insufficient data on co-operatives, inappropriate data collection mechanisms, the inability to regularly update the co-operatives' data (registration, state of affairs, etc) and an inability to contact the co-operatives. Consequently, while many co-operatives struggle to access resources, markets, finance, information and support, the government is not clear about the nature and extent of required support, and is also not able to read early warning indicators to assist them before they fail. This paper then points out possible explanations for the general failure of co-operatives and thereby depicts the need for more evidence with additional facts and statistics to establish a solid basis for evidence-based decision making on intervention strategies, investment and support. In a nutshell, this paper argues that the quality of available data is not good enough for planning and decision making purposes, hence it proposes a research agenda for South African co-operatives.

Introduction and Background

The role of co-operatives in South Africa's socio-economic development, job creation and poverty reduction is significant. The significance of this role, however, is diminished by the stifled success of the co-operative sector, because this sector is not organised in a manner that enables the co-operatives to thrive as businesses. The government has tried several mechanisms to support the co-operatives, but this is compromised by their systemic, structural and organisational arrangement which prevents the government from having a reliable understanding of this sector. The required reliable data about the co-operatives includes the market for their products, operating conditions, number of co-operatives, geographical location, nature of activities, modus operandi, profile of the members (education level, age, gender, race), extent and nature of required support, infrastructure, feasibility of the enterprises, access to resources, markets, finance and information, membership to a wider business network, proficiencies in marketing, administration, and management, status (commercial or subsistence) and feasibility of the enterprises.

There is data on co-operatives, but it is insufficient for formulating an effective business strategy that will help them to graduate from the subsistence status many of them have, to vibrant commercial enterprises. This is aggravated by the fact that the available data is disjointed, does not relate to each other, and is held by different institutions. This makes it difficult to access and use it for planning and intervention purposes.

The areas for which reliable data is required indicate that there is a wide scope for research in the South African co-operative sector. The purpose of this paper is to depict how support for co-operatives is compromised due to data challenges and how this translates to a compromised success potential of South African co-operatives.

The realisation of data challenges in the co-operative sector was illuminated when the Human Sciences Research Council (HSRC) was commissioned by the Department of Labour to:

assess and evaluate the progress made in skills development since the implementation of National Skills Development Strategy II in March 2005 (Reddy, 2012: 3).

One of the three thematic areas in this project was a study on the *Impact of Skills Development Support on Small, Medium and Large Enterprises, BEE Enterprises and BEE Co-operatives* (Cosser et al, 2012). One of the challenges experienced in this study was the lack of credible data on co-operatives, hence this paper seeks to draw attention to this obstacle with a view to stimulate discussion and point out future possible directions for co-operative research. The paper sets the scene by unpacking the concept of co-operatives and thereafter dedicates most of the discussion to different areas of investigation in this sector.

Concept of Co-operatives

The South African Co-operatives Act No 14 of 2005 (The Presidency, 2005) defines a co-operative along the same lines as the International Co-operative Alliance (2011: 1) as the latter defines it as:

an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

In addition to the definition that is aligned to international principles of co-operatives, the Act provides clear regulations for the registration process which outlines requirements and procedures, rules for their functioning and operations, capital and ownership structure and governance of audits, conversions, amalgamations, transfer, division and winding up (The Presidency, 2005).

Despite the government regulation of co-operatives, the coming together of the people in pursuit of a common goal continues to manifest several dynamics. The joint ownership of a co-operative has a potential to be constructive and successful or unhelpful, unco-operative and unsuccessful. However, the negative effect of the pursuit of common interests is mitigated by the principles on which co-operatives are established namely:

1. Voluntary and open membership.
2. Democratic member control.
3. Member economic participation.
4. Autonomy and independence.
5. Education, training and information.
6. Co-operation among co-operatives.
7. Concern for community
8. User ownership.
9. User control.
10. User benefit (Biju, 2013; Cooperative Grocer Network, 2013; International Labour Organisation, 2002; Zeuli and Cropp, 2004).

Furthermore, there are many types of co-operatives and they include:

1. Worker co-operatives (businesses that are owned and controlled by those who work in them).
2. Consumer co-operatives (a group of people who buy goods together in bulk for the purpose of getting a discount and other collaboration benefits like equitable distribution of labour).
3. Housing co-operatives (a group of people who build houses together for co-operative members and thereby receive benefits such as having houses built for them by the team of co-operative members who contribute their respective skills).
4. Community businesses (businesses that are owned and controlled by a community).
5. Marketing co-operatives (a group of people who sell their products together through one organisation).

6. Credit unions (stokvels or savings societies through which people save for a specific purpose and offer loans to members and/or non-members) (The Co-operative Group, 2013; Kansas State University, 2013).

Co-operative Sector's Data Challenges and Research Agenda

One of the common denominators of many studies on co-operatives is lack of credible data. The Department of Trade and Industry (DTI) (2012: 52) summarises this challenge as:

Inadequate economic and social impact statistics on co-operatives: Lack of regularly updated statistics about the full spectrum of the co-operative sector, its social impact, is resulting in insufficient market transparency and poor appreciation of co-operative business model. The limitations of the data obtained from the Registrar of Co-operatives makes it impossible to generate credible statistics on the state of co-operatives in South Africa. Thorough and regular monitoring and evaluation of the evolving support process for co-operatives has been inadequate (emphasis in original).

The lack of credible data is, amongst others, due to the challenge with locating some of the co-operatives as their contact details change, but they do not update this with Companies and Intellectual Property Commission (CIPC) which is responsible for their registration. Consequently, the DTI (2012: 39) caveats that its data "is not conclusive, due to the inadequacy of data". Theron (2008) learnt that many of the co-operatives provided only a cell-phone number, while half of them had no telephone numbers at all. The Co-operative and Policy Alternative Center (COPAC) (2005: 7) also experienced challenges with contacting the co-operatives due to:

the inaccuracy of the Registrar of Co-operatives' contact list ... few had accurate contact details reflected on the Registrar of Co-operatives' list. This meant that COPAC had to construct a contact list virtually from scratch.

In addition to the inaccurate contact details on the Registrar of Co-operatives' list, most of them are also "not linked to a sectoral and/or apex body" (Co-operative and Policy Alternative Center, 2005: 31), which means they do not enjoy support from these bodies and from the network of co-operatives in the same line of business.

As a result of being uncontactable and not linked to a sectoral and/or apex body, one form of support such co-operatives forfeit is training and capacity building. In light of the serious need for training in the country, it is then ironic that many co-operatives forfeit this benefit. This question needs to be investigated further to establish the impact of support on co-operatives that are reachable and linked to a sectoral and/or apex body. This may be helpful in shedding light on the nature and quality of training (accreditation and impact) provided by these bodies and the proficiency and profile of training providers. The COPAC study revealed that training providers, on the whole, are "not from government, technical institutions, or SETAs [but from] ... support organisations and NGOs" (Co-operative and Policy Alternative Center, 2005: 31). This requires thorough analysis in order to establish the accessibility of government support, profile of training beneficiaries and determinants of training (who gets trained, on what, by whom?).

Another irony relates to motivation for the establishment of co-operatives. Theron (2008) argues that high poverty rates translate to the formation of co-operatives in an effort to ameliorate poverty. Limpopo and Eastern Cape provinces are known to be poorest and second poorest respectively (Makiwane and Chimere-Dan 2012; Michael, 2003), yet 35% of trading co-operatives are in KwaZulu-Natal, 33% in Eastern Cape and only 6% in Limpopo. This then suggests that attributing poverty alone to the establishment of co-operatives is not convincing as there are other factors that have to be investigated.

Moreover, as businesses, the support of co-operatives seems to be undermined because of their administration and management. There is limited data on co-operatives vis-à-vis conventional businesses. The limited data translates to relatively limited support because not enough is known about them to warrant as much support as conventional businesses. This was

corroborated by a study undertaken at Amathole District Municipality (2010: 6) which revealed that there is:

little information about the experiences, successes and challenges facing cooperatives. There are very few publications that tell the stories of co-operatives.

The lack of reliable, accurate and up-to-date co-operatives' data poses planning and intervention difficulties. In light of the challenges relating to contacting co-operatives, surveys do not seem to be an effective data collection mechanism. Researchers generally experience difficulty in contacting co-operatives by phone, mail and email (Lwazi Research Project, 2013; Department of Trade and Industry, 2012; Co-operative and Policy Alternative Center, 2005). This is aggravated by research fatigue and a generally negative attitude towards telephonic interviews due to weariness with telesales and telemarketing and their concomitant fraud. Employing fieldworkers for data collection is more practical, but less sustainable due to its high costs. Therefore, the development of a tracking system that will enable government to be kept abreast with the state of co-operatives from registration and throughout their life cycle seems to be a plausible mechanism that needs to be explored. This will enable the government to readily know co-operatives that are active or dormant, the nature of required support and be able to read early warning indicators. Such a tracking system could be akin to student tracking systems that are used at schools and universities, which report on the students' performance and activities at particular times, for security and academic support purposes. In the case of co-operatives, the use of cell phones could be one option. Currently, cell phones serve a multipurpose as they are used for banking, entertainment, communication, advertising, shopping, navigation, making videos and taking photos. The possibility of their use for data collection and regular reporting is therefore not farfetched, as software and hardware for this purpose could be explored. In fact, the World Bank Group (Harrod and Jansen, 2011: 174) suggests that farmer organisations and co-operatives should use ICT which:

is a catch-all term for an increasing number of technologies, each offering corresponding opportunities for innovation ... [Such include] well-established and familiar technologies like ... mobile phones to the more specialised technologies.

The benefits of using ICT include enhanced connections to members, improved accounting and administration, stronger collective voice, including improved political voice.

The government has several support mechanisms for co-operatives, but they seem to be compromised by factors such as stringent bureaucratic processes, illiteracy of the beneficiaries, poor infrastructure and lack of access to markets, finance and information (Department of Agriculture, Forestry and Fisheries, 2012). This is aggravated by the fact that most co-operatives are community-based, operate in informal economies and such economies are structurally disconnected from the first-world economy which requires higher levels of skills (du Toit and Neves, 2007). The notion that the skills profile of most co-operative members is low and the co-operatives' failure rate is high corroborates Mbeki's (2003) assertion that members of the third world economy experience difficulties in establishing small businesses due to skills shortage. Although skills play a crucial role in establishing and sustaining co-operatives, the fact that their survival rate is the highest in Limpopo province (Mtshizana, 2011) suggests that it takes more than just skills to establish and sustain co-operatives. There is a view that the high co-operatives' survival rate in Limpopo is because the Co-operatives Act (2005) is accessible to many people there since it was translated to XiTsonga — an indigenous language spoken in that province — and this is:

the only African language the Act was translated into. Therefore, members of co-operatives in that province can at least read and fully understand the legislation in their own language (Mtshizana, 2011: 1).

Some co-operatives are established through government initiatives such as Municipalities' Local Economic Development projects and others are self-initiated. This has an impact on their sustainability because the top-down approach wherein the government starts up the

co-operatives arguably renders them less resilient to failure because the beneficiaries often do not own the vision of the business. During tough times in the business, they often give up because they do not have the vision from which to draw inspiration, direction and innovation. For the South African co-operative sector, this needs to be investigated further to establish facts and statistics that either corroborate or challenge it. This may also be helpful to co-operative investors such as government and donors for establishing a reliable co-operatives' risk profile and thus be in a better position for ascertaining a viable co-operative model in which to invest. The establishment of the factors that sustain co-operatives could also investigate a broad range of hallmarks of sustainable co-operatives in addition to the role of vision and the impact of being self or government initiated. Such could also investigate the extent to which the number of members affects the sustainability of the enterprise, as well as the role of other variables such as location (rural/urban), gender (male/female dominated, male or female only), age (youth/elderly dominated, youth or elderly only), formal education (high/low formal education levels, qualification types) and competition survival strategies.

The other factor that may contribute to the high failure rate of government initiated co-operatives is the nature of government support. The view that such support is mainly for setting up the co-operatives as legal entities, and thereafter support to ensure that they are self-sustaining institutions is usually insufficient as there are inadequate aftercare services and training on production, finance and marketing (Department of Economic Development and Environmental Affairs and the Eastern Cape Socio-Economic Consultative Council, 2010). While not discounting the need for government support, this, however, is an area that warrants research because of the difficulty of balancing self-reliance and over-reliance on government. It is sometimes difficult to distinguish between dependency syndrome and genuine need for support. The need for investigating this issue is underscored by COPAC's (2005: 30) observation that "co-operatives that were self initiated are much better off in terms of asset base than those initiated by government". Possibly, those that are initiated by government tend to be indefinitely dependent on government and are characterised by the "I have nothing to lose" attitude, whereas the self-initiated ones may be characterised by a strong drive to succeed and high levels of commitment, knowing that their investment is at stake.

Moreover, while most co-operatives operate in the second economy, the general acceptance of their position in this tier as if they should be there and not in the first economy is concerning and could be contributing to their high failure rate. COPAC (2005), for instance, suggests that their capability of operating in the first economy is limited since they "are empowerment and developmental enterprises that need to be nurtured and supported in the 'second economy'", thus they would be overwhelmed by the demands of conventional businesses. In addition to generally having no prior business experience and operating in economically marginal areas, Kanyane and Ilorah (2015: 11) observed historical, ideological, organisational and operational challenges, hence "their chances of success are slim". The lack of business experience and skills is a fertile ground for poor financial management which then compromises their success potential, as evidenced by the 20% survival rate recorded for Limpopo Province which is the highest in relation to other provinces (Eastern Cape Development Corporation, 2011).

It is, therefore, crucial to investigate the other factors that play a role in establishing and sustaining co-operatives as, for instance, more evidence is required with regard to the ability of members of the third world economy to create successful businesses. This will enable decision-makers and policy-makers to formulate strategies of supporting co-operatives whose members have low levels of skills, and ascertain the extent and nature of required skills. One way of addressing the low skills profile of many co-operatives' members could be the introduction of minimum education requirements for co-operative membership if government is of the view that, materially supporting co-operatives whose members have low education qualifications is a poor investment. This, however, could be a catch-22 situation, as it would work against the co-operative principles of open and voluntary membership, autonomy and independence.

Some co-operatives have shot themselves in the foot by up-skilling their members. Theron (2008) discusses the Masibambane 2000 co-operative experience wherein the leadership was

sent on emerging contractors' training and upon completion, they 'defected' to form as private contractors as that had better financial incentives. In many such cases, the investor (mostly government or donors) and the loyal members usually have no recourse as there is nothing to bind members who wish to defect. This requires research and development of terms and conditions for receiving support and contractual obligations that could be enforceable on both the investor and the beneficiary, without discouraging co-operative members from participating in training and capacity development initiatives.

According to COPAC (2005), the leverage co-operatives have in relation to conventional businesses lies in the bonds of solidarity among members. However, this is only leverage when it serves a positive role since it is also possible for it to serve a negative role when these bonds are undermined for the purpose of pursuing personal interests to the detriment of the group interests. Classic examples of this phenomenon include co-operatives that have unfavourable experiences of the human factor in the labour process as depicted through cases of corruption, abuse of funds and power, theft of the co-operatives' intellectual property, lack of accountability and lack of commitment (Liptak, 2013; Co-operative and Policy Alternative Center, 2005). In addition to human factors, the nature of other factors that compromise the success of co-operatives is systemic and structural. Systemic factors include cases of weak administration and management, and operating without business plans or inability to use business plans. Structural factors include cases of small co-operatives that operate in silos and thereby forfeit chances of supplying big retailers and multinational businesses through unified bodies. Burgess (2011) refers to the Kat River Valley citrus farmers in Eastern Cape province as a good example of such productive partnerships because in this enterprise, established businesses and emerging co-operatives work together in doing business with established retail organisations. As to why such business models are not replicated throughout the country is a matter of investigation which would unearth the impediments to productive partnerships of co-operatives.

One of the hallmarks of a co-operative is fair distribution of profits (Stocksy, 2013). The meaning of fair distribution of profits is subject to various interpretations and thereby renders the remuneration of co-operative members a potential area of conflict. One school of thought suggests that fair distribution of profits means equal distribution of profits. Ironically, the equal distribution of profits is deemed unfair because it does not give a commensurate reward for the members' labour contribution (Grossman, 2010). In conventional businesses, the market is a key determinant of fair distribution of profits. The argument is that, the labour market which is the virtual market where labour buyers (employers) and labour sellers (workers) meet (Ehrenberg and Smith 2009), determines the remuneration in a free market environment as workers are at liberty to sell their labour (ability to work) to whoever is willing to pay them what they regard as fair remuneration. However, the efficiency of the market in determining fair values is contested, based on the view that '[f]or markets to be efficient there needs to be free and unfettered flow of voluminous information — information about job openings, compensation packages, growth opportunities, skill sets, etc — and a very large number of potential candidates who are available to trade jobs' (Venkatasubramanian, 2009: 767). In the co-operatives' context, the lack of potential candidates with the required skills for establishing and sustaining an enterprise renders the fair distribution of profits principle problematic.

The dynamics of the fair distribution of profits principle underscore the need for exploring an efficient compensation strategy for co-operatives. This principle is a reflection of the co-operatives' spirit that "we are in this together" which is premised on the human body scenario of different parts that play different roles for the common goal of sustaining the body. Although the roles are differentiated, they are deemed to be equally important and inter-dependent. Considering the differentiated roles and responsibilities in the co-operative's overall success, the compensation strategy then needs to ascertain how each member's contribution should be remunerated. In fact, although they are all contributing, it is rather erroneous to suggest that their respective contributions are equal as there is usually no agreed precise measure of the value of an individual's contribution, together with the value of their time, skills and experiences.

In conventional businesses, the marginal productivity theory of wages often addresses the remuneration dilemma (Stein, 1958). According to this theory, the employment of additional labour is determined by the worker's marginal revenue productivity (MRP), that is the productivity increase as a result of employing one more worker. If any adjustments made to workers, such as increasing wages or the number of workers, does not translate to increased productivity, then the employer would reduce them so as not to lose profit. However,

[e]fficiency wage models reject the premise that wages are aligned to the marginal productivity of workers under perfect competition. In contrast, these models argue that paying higher-than-market wages can be a rational choice for firms, eg in order to increase the work effort of employees (Meager and Speckesser, 2011: 11).

This, then, suggests that a one-size-fits-all approach to the question of compensation strategy is not feasible, hence a thorough investigation of this challenge is required particularly for the co-operative sector because it has different rules of engagement in relation to conventional businesses. This is more so because there are multifarious factors that shape compensation such as geographical location, culture, working conditions, skills and family.

Conclusion

This paper has pointed out possible explanations for the general failure of co-operatives in South Africa. However, more evidence with additional facts and statistics is required to establish the exact nature and extent of the co-operatives' challenges and status quo, hence the research agenda proposed in this paper. In addition to data challenges, the paper further drew attention to the human, systemic and structural factors that impede success of co-operatives. By and large, the South African co-operatives sector has ample data that needs to be mined to ensure informed decision making and effective and efficient support strategies.

The Author

Dr Thembinkosi Twalo is a Senior Research Specialist at the Human Science Research Council (HSRC) Research Use and Impact Assessment programme (RIA), Pretoria, South Africa. He holds a PhD in Education from Nelson Mandela Metropolitan University (NMMU) with the thesis titled *Appropriateness of municipal workers' job behaviour and performance at the Buffalo City Metropolitan Municipality*. His research areas include labour (ability to work), policy implementation, local government sustainability, co-operative development, skills development, academic support, education-labour market articulation, learning and teaching materials, performance management, impact assessment, monitoring and evaluation and knowledge brokering.

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Book Review

From Corporate Globalisation to Global Co-operation. We Owe it to Our Children

By J Tom Webb

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Tom Webb is searching for a better world. *From Corporate Globalisation to Global Co-operation* provides a devastating critique of the world as it is. In a tour de force assessment of the impact of the neoliberal economic consensus on the environment, nature, inequality, and more, Webb powerfully sets out the need for action.

In a world of asymmetrical information, Webb accurately challenges the present day application of neoclassical economics, starting with the current distortion and corruption of Adam Smith's work by reframing concepts such as the "invisible hand" more in-keeping with the intended purpose and context; followed by calling out the fiction that is "trickle up economics"; and highlighting the inherently flawed capitalist desire for exponential growth in a world of finite resources.

This leads Webb to the conclusion that sooner or later capitalism will collapse, "weighed down by its destruction of nature and human society, without which no economy can exist".

With this, one could be thoroughly despondent and wanting of hope but for Webb laying the foundations on which a blueprint for an alternative economy — a co-operative economy — can be built. And then builds on them.

Webb writes of the need to transition from "power over" to "power to" organisations and looks at co-operatives as a source of hope. Looking at the co-operative movement through rose-tinted glasses is an easy trap for good co-operators to fall into. But it is a trap Webb avoids. Firstly by drawing on a range of examples from across the world, and secondly by critiquing and challenging some of the current practices within the movement. Although I do feel some movement criticisms are insufficiently substantiated or evidenced by Webb, and could be disputed. Without having advanced evidence to support some of the assertions made about individual societies the criticisms risk not having whatever impact was intended.

A call is made by Webb for the movement to raise its game:

co-operative performance needs to improve significantly if co-operatives are to rise to the challenge posed by the collapse of capitalism.

But goes on to warn that

where co-operatives simply copy the competition they become just like the competition. When the resemblance is complete they have destroyed their co-operative.

The list of challenges for co-operatives are well worth a read for those seeking to improve their co-operative.

Webb strongly believes that not enough is being done to tackle the business-driven environmental destruction evidenced at the start of the book. To tackle this he calls for the addition of an 8th principle into the International Co-operative Alliance statement of identity:

Co-operatives recognise that the human species is but one part of an interconnected and inter-dependent universe and that respecting nature and life in all its expressions is not separable from respect for the dignity and value of each person.

Anticipating and dismissing the argument that we should not change the Statement because it has international recognition, Webb describes the inability to change the Statement as a step backwards.

Webb's fondness for worker co-operatives, and in particular the Mondragon model repeats throughout the book, but comes through most strongly when he suggests not only the addition of an 8th principle, but the subsequent merger of the Mondragon Principles with the ICA Principles. Many may see this as provocative. Others may welcome a shift away from a perceived slant toward consumer societies within the current ICA statement. This leads Webb to call for the movement to create a stronger conceptual framework for global co-operation.

Webb sees co-operatives as part of the radical centre: "radical in the sense that it is rooted in the dual social and individual nature of humanity". For Webb co-operatives provide a solution. A solution that needs to be supported by public policy. Webb sets out the public policy benefits of co-operatives, focussing on the difference from investor driven business. Though while no doubt evidence could be adduced for many of these benefits, it is not presented here.

Having set out his views, Webb continues by setting out a list of support states should provide to co-operatives, while also arguing for the maintenance of co-operative autonomy. When calling for a 'level playing field' between investor driven and co-operative enterprise Webb is clear that "what co-operatives need is appropriate, not equal, regulation". The public policy asks include a constitutional right to establish co-operatives, supported by incorporating legislation recognising the ICA statement and the different forms of co-operative.

Indivisible reserves get special mention — with a call for special tax treatment as in Italy, coupled with a call for state regulation to prevent current members appropriating indivisible capital built up over generations. Here it seems Webb is nailing his colours to the mast of common ownership rather than co-ownership within co-operatives. Some may conclude that this clearly mirrors Principle 3, but would present some challenges in the UK.

Having set out the need for action, tackled the myths on the current economic consensus, promoted and critiqued the movement, and set out the public policy benefits of co-operatives with details of the necessary support, all in 164 pages, Webb ends his book in an aspirational and hopeful tone. Webb reminds us that "nothing is inevitable, but everything is possible". With co-operatives as a tool, and co-operation as a way of thinking and a state of mind, Webb believes we can build a better world.

The Reviewer

Ian Adderley is currently a trustee and Chair of the UK Society for Co-operative Studies, has worked in the co-operative movement, and served as an elected member in a number of co-operatives.