

# AGRICULTURAL COOPERATIVE DEVELOPMENT

A MANUAL FOR TRAINERS



Food  
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Agriculture  
Organization  
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# AGRICULTURAL COOPERATIVE DEVELOPMENT

**A MANUAL FOR TRAINERS**

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# INTRODUCTION

## **Current trends in the development of cooperative organisations**

**T**he economies of many countries are currently undergoing transformation to adjust to market oriented reforms. The involvement of governments and parastatals in the national economies has been harmful in many ways and as a result, they are called upon to intervene less, and to let markets work. In a number of countries, government policy has consisted of approaches that resulted in less rather than more effective operation of cooperative organisations.

Cooperative organisations have often been created from above without the genuine participation of members. As a result the members have, in many cases, become alienated from what should have been their own organisations, with little or no influence on issues that should be of direct concern to them, such as the marketing and pricing of their own products. The potential of genuine cooperative organisations to contribute to rural development based on popular participation has to a large extent been wasted and the very concept of cooperative self-help has fallen into widespread disrepute. Thus, in many countries a review of policy concerning cooperatives is needed with a revised approach being based on the principles of participation, and consultancy rather than intervention. This does not necessarily mean that existing policies need to be completely abandoned, in many cases, they can be adapted to suit a more participative and market oriented approach.

The impact of economic and political changes on cooperatives has been varied with some positive and some negative effects. A positive effect is that cooperatives often benefit from the withdrawal of parastatals through achieving a more sustainable relationship between members and their environment. Cooperatives can also contribute to society more as “schools for democracy” without the state subsidy and support.

The growing trend is for privatisation, decentralisation and participation, in which people have far more responsibility for their own development. This will include a much stronger emphasis on mutual self-help and reliance on own resources, and a reduced expectation that governments will intervene with assistance. Many governments have come to accept this approach.

However, putting this into practice is a long term process requiring training and organisational growth to develop the business skills needed for a market economy.

While the restructuring process taking place in many countries results in a more favourable environment for the development of cooperative organisations, at the same time it exposes them to the tougher conditions of free enterprise and competition with other commercial firms.

Through mutual self-help in areas of common interest, cooperative organisations can achieve strength in the market place. Through participatory activities it is possible to mobilise local resources and local knowledge for self-reliant development. That is the way towards developing a genuine cooperative movement, a small scale farmer owned business organisation, one which has successfully been adopted by farmers in many countries throughout the world.

## About this manual

This manual is intended for cooperative trainers who will either work directly with cooperative organisations and their members, or will train other trainers.

It is not intended to be a theoretical textbook, but a source of ideas and suggestions for facilitators or resource persons, in making the work of cooperatives more efficient and effective.

Some of the ideas and proposals are of particular use for smaller cooperative organisations or organisations in the process of being formed. Others will be more relevant to larger organisations with wide experience in business transactions that are in the process of being transformed into genuine self-help organisations (e.g. in Eastern European countries). However, many of the principles of participation and self help are of relevance regardless of the size and origin of the cooperative. All cooperatives also need to deal with business aspects to a great extent from the very outset.

This manual emphasises the need to base all training and promotional activities on sound principles of first appraising local circumstances.

For any promotion/training to be effective it should be based on what the cooperative members feel they need to know, rather than attempting to pass on everything there is to know about a particular subject. Local cooperative members are unlikely to have the time or interest to listen to information that is irrelevant to them. If they are also asked to contribute to the development/training process either financially or in terms of their input, they will be very unlikely to want to do so unless they can see immediate use for what they have learned.



## Objectives of the manual

This manual deals with ways in which trainers and promoters of cooperatives can support cooperative members and management in the development of their cooperative organisations. Its aims are:

- to broaden the trainers' view of their role, and ways in which they can react to circumstances, and to increase their confidence in their own capabilities. In short, to increase their **competence**.
- to help the trainer become an effective **facilitator and moderator**. That is to say someone who can offer new methods for dealing with problems and tasks, assist in solving conflicts, draw attention to alternatives and assist in the more effective operation of the cooperative
- to equip the trainer with tools to act as a **resource person**, providing information to the cooperative organisation, its members, leaders and managers.
- to familiarise the trainer with **participatory techniques** which involve all parties concerned with the future of cooperative organisations.
- to support the trainer in the various tasks of **raising awareness among** cooperative promoters, members, decision-makers, leaders and managers, of their problems/ constraints as well as to their potential/capabilities, without taking the initiative away from them, thus ensuring the greatest possible acceptance of whatever plans are to be followed.



## **Structure and approach of the manual**

This manual will guide trainers through the processes of training others on how to:

- work with cooperative promoters, members, leaders and managers to arrive at a clear picture of the cooperative's business and group development needs;
- translate, together with the local partners, these needs into accurately focused training and non-training solutions;
- agree on training and development objectives and plans with the local partner in order to meet the above objectives;
- choose training and development methods and processes to effectively implement and execute the above plans;
- choose suitable training content;
- carry out training activities based on the above plans and
- assist the local partners in monitoring and evaluating the benefits that are derived from effectively planned and conducted training and development.

As a result of the above process, new training needs may be identified and assessed, leading to a new sequence of training activities.

A range of examples and exercises are given which could be used in promotional and training activities. Further sources of such material can also be found in the bibliography. Exercises given are intended as suggestions, and trainers may well find that other exercises are more suitable in their context, or an exercise introduced in one section may be better used in another section.

Neither profound knowledge of any one subject nor the most perfectly conducted participatory exercise, however, can replace empathy and a genuinely respectful attitude by the trainer towards his or her trainees. It is only possible to enhance the motivation of co-operators if more responsibility for - and thus ownership of - the results of the training lies with the trainees.

You do not need to know the answer to all you are being asked. It is more important that you help whoever is enquiring, to find out for himself or herself. That way you do not feed the hungry with fish, but teach them how to fish, so that they will never have to go hungry again. In order to be a good trainer it is important to have an appreciation of what it is like not to know, not to be able to do or to be afraid of never getting there in the first place. There may be some truth in an old proverb that says: You teach best that which you most need to learn.

# MODULE 1

# UNDERSTANDING COOPERATIVES



# MODULE 1: UNDERSTANDING COOPERATIVES



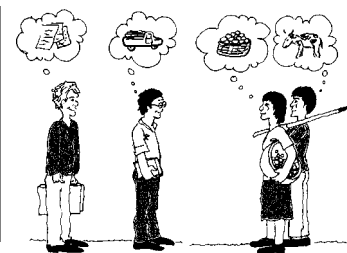
## Introduction

**T**his module gives an introductory overview of cooperatives covering the following aspects:

- what are cooperatives & what distinguishes them from other forms of business
- conditions for creating a cooperative
- forming a marketing cooperative

# SECTION 1.1

## WHAT IS A COOPERATIVE?



### Objectives of the section



By the end of the module, participants will be able to state the main characteristics of cooperatives and the difference between them and other types of business organisation and the main conditions needed to create a cooperative.

### Key learning points



- Principles and values of cooperatives
- What distinguishes cooperatives from other forms of organisation
- Conditions needed to create a cooperative
- Essential conditions for success
- Advantages of cooperatives over other suppliers
- The role of government

### Teaching strategy



Ask training course participants to discuss the two questions below in small groups of three or four.

- What is a cooperative?
- How can cooperatives be distinguished from other forms of organisation?

Ask the groups to present their thoughts on these subjects, then hold an open discussion at which the common characteristics of cooperatives given below should be drawn out (Other characteristics may also be mentioned).





## Reference information



Cooperatives are based on values of self-help, self-responsibility, democracy, equality, equity and solidarity. While cooperatives are also businesses, the main objectives for people to set up or join a cooperative is to improve their economic and social conditions through joint action for the good of all members rather than through individual concerns only.

Cooperatives have a number of common characteristics such as that:

- members are united through at least one common interest
- members pursue the goal of improving their economic and social situation through *joint* actions
- members use a jointly owned and operated unit which provides them with goods and/or services. Regardless of its physical size and activities, the unit's purpose is to use the joint resources of the members to produce or obtain goods or services for the members.

## Seven principles of cooperatives

At the congress of the International Cooperative Alliance in Manchester in 1995, seven principles of cooperatives were agreed by which Cooperatives put their values into practice:

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

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

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

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

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

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

### ***4th principle: autonomy and independence***

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

### **5th principle: education, training and information**

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

### **6th principle: co-operation among cooperatives**

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional. and international structures.

### **7th principle: concern for community**

Cooperatives work for the sustainable development of their communities through policies approved by their members.

## **Conditions needed to create a cooperative**

Cooperative organisations are based on several fundamental conditions:

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

## **Essential conditions for continued success of cooperative organisations**

There are a number of conditions which are essential if a cooperative is to continue to be successful after the initial enthusiasm of starting up.

- the cooperative needs to produce **visible and tangible (economic and social) benefits** for members, outweighing the costs involved in cooperation. Cooperatives can only develop as autonomous self-help organisations when they are able and allowed to operate as business institutions geared to succeed in market competition.
- the cooperative has **motivated, experienced and dynamic managers** who are able to plan and implement business policies. They must be able to provide the services and goods required by the members, taking into account both the interests and needs of members as well as the entrepreneurial goals of the cooperative enterprise.

- the structure and management of the organisation correspond to the **capabilities of its members**. If members' competence and motivation is low, the promotion of complicated and complex cooperative organisations does not make sense.
- **members participate as both users and owners.**  
Cooperatives are participative self-help organisations in that the members are also co-owners and have both the rights and obligations of participating in goal-setting, decision-making and control or evaluation processes of their cooperative. Members decide upon the services to be provided and benefit from what is produced or obtained by the cooperative. There should be incentives for them to contribute their own resources (capital, labour, produce) to the development of the cooperative. A major reason for the failure of cooperatives is the lack of participation of members. It is extremely important that members act as both users and owners in the development of cooperative organisations through participation at three levels:
  - participation in provision of resources (input participation)  
e.g. contribution of capital, labour, delivery of produce,
  - participation in the decision-making processes of the cooperative organisation as a member in the general assembly, section meetings, work groups, committees or as an elected leader on the board, and
  - participation in the produced benefits (output participation), by sharing the surplus earned during the year by the cooperative enterprise, in the form of a patronage refund, interest on share capital, or the use of joint facilities and services.

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

## Potential advantages of cooperative organisations

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

Cooperative organisations will have advantages over their competitors when they can either provide the same services/activities at lower costs through:

- economies of scale (e.g. bulk purchase)
- reducing transaction costs e.g. for information, implementation, control and exchange of services and goods,
- reducing uncertainty concerning e.g. prices and availability of inputs,
- avoiding linked markets, i.e. where for example the purchasing of inputs or the marketing of produce are linked to the provision of loan facilities.

or,

- they can offer new services / access to external resources / services not otherwise available.

Since members are not only clients, but also owners of the cooperative organisations they also participate in forming and steering their own organisation which means they can help ensure it meets their needs and share its profits or distributed earnings. Non-members do not have this advantage.

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

## **The role of government and external assistance in promoting cooperative organisations**

In many cases, governments have provided too many regulations and controls on the activities of cooperatives for them to be able to function effectively. Ideally, they should act only to create the general framework conditions needed so that cooperative autonomy, self-financing and self-reliance is strengthened and not undermined. This means ensuring that legally, groups are allowed to elect their own leaders; to market their own goods; to earn profits and to make their own decisions about distributing surplus and to carry out numerous other business activities in the members' interests. Government's should not otherwise intervene in the internal organisation or operations of a cooperative, and should leave all attempts to improve efficiency and to comply with cooperative principles and values to the members themselves.

It should be clearly understood that cooperative organisations should not act in any sense as agencies of government, and should not play a role as a governmental agency, or as an entity charged with special responsibilities by a government. The potential which cooperatives have for achieving desirable economic and social conditions must be understood as the potential they have for reaching the objectives of and for satisfying the needs and interests of their own members rather than directly influencing society in general.

## **Development of cooperatives from other self help organisations**

There have been many attempts by government to promote the development of indigenous self help organisations into formal cooperatives. Such a process however, seems most effective when it results from efforts of members themselves. They can at best be assisted, either informally, by members of established cooperative organisations, or, more formally, by facilitators or cooperative promoters from representative organisations of cooperatives, or NGOs.

Government intervention to precipitate or control such a process in most cases has proven counter-productive.

## SECTION 1.2 FORMING A MARKETING COOPERATIVE



### Objectives of the section



By the end of the section, participants will be able to analyse a request to form a cooperative and draft outline statutes

### Key learning points



- Key information needed in forming a cooperative
- Legal regulations
- Interests of members and prospective members
- Finance
- Facilities
- Marketing
- Management
- The statutes
- Name & Location of business
- The Objective
- Membership
- Organs of the cooperative
- The general meeting of members
- The management board
- The Control board
- Equity capital and joint liability
- Proceedings and regulations

## Teaching strategy



### Case Study:

Using the case study below and the above reference material, participants should work in groups of 5-10 to prepare a draft set of points for discussion by members of a new cooperative. Imagine you are the farmers concerned in forming the cooperative.

#### A farmers cooperative

In Agar province, the farmers have become concerned that they are receiving lower and lower prices for their produce from the traders who come to their villages to buy them. They are considering forming a marketing cooperative to sell their produce directly and 15 farmers have come together to discuss some of the needs of members.

The villages have roads leading to them suitable for four wheeled vehicles during most of the year, though there can be problems during the rainy season. At present most of the produce is sold by the traders in the main town of the province which has a number of large to medium sized industries involved in food processing and also a sizeable tourist industry. The farmers produce maize, wheat and a range of fruit and vegetables. The quality is fair but could be improved and at times, they cannot sell all their produce to the traders.

The groups should consider in particular the following points making suggestions where possible or listing questions which need to be answered. State any assumptions made which would need to be checked.

- Objective and activities of the Cooperative
- Facilities needed by the cooperative
- Membership
- Management of the Cooperative
- Finance - equity capital and joint liability



### Notes

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## Reference information



### Forming and organising a marketing cooperative

In considering whether or not to form a cooperative, a number of issues need to be discussed. Before going into detailed plans, members need to be clear what they expect to achieve through the cooperative. i.e. what is the purpose and is this the best way to achieve such a goal?

An objective of a marketing cooperative for example might be to assist the interested farm households in marketing their produce on a sustainable basis, thus providing increased income and improved living conditions.

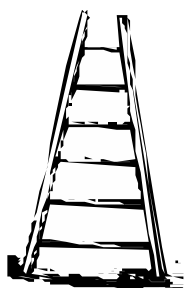
The cooperative would then need to design, plan organise and implement all activities related to this objective.

For example:

- market surveys and studies to explore what kind, quality and quantity of produce customers want;
- arranging contracts with the customers;
- providing training to members to improve and maintain the quality of their produce;
- assisting farmers in improving and increasing their agricultural production; collect the goods at the farm gate, or being ready to receive the products delivered by the farmers themselves;
- controlling products with regard to quantity and quality.
- preparing the produce for delivery to the customers. i.e. processing, packing, storage and delivery.

## Main steps and activities in forming a cooperative

(Adapted from DGRV 1990:35)



### Step I: Hold an initial discussion meeting

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

#### *i Interests of members and prospective members*

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

#### *ii Regulations*

- what permission is needed to set up and run a cooperative business?
- what will any permits cost?
- are there favourable conditions which will favour the cooperative development process, e.g. government assistance programs, favourable credit conditions etc?

- what internal regulations ('statutes' or 'by-laws') need to be agreed by the founding members in order to get a clear understanding of the cooperative group and its activities?

Contact the local authorities to review the law and statutes regarding cooperatives in the area. Model statutes may be available which could guide this process.

### iii Finance

- are members able to contribute their own resources to the cooperative (cooperative shares)?
- how many members will join, and with how many shares (paid up)?
- how much working capital is needed? how much will be available? (cash money, liabilities)?
- are the member households able to, and interested in, providing their produce in the needed quantity and quality on a sustained basis?

A plan needs be prepared stating the finances required and where it will come from to finance the planned activities.

### iv Facilities

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

### v Marketing

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

### vi Management

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

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

(Adapted from Gachanja 1989: 11)



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



sound foundation. Cooperative movements, governments or other institutions often make available a set of model statutes as a guide to help the founder members to formulate statutes for their specific cooperative.

However model statutes are intended as guidelines only, the fact that they exist, does not mean that they should be imposed on the founder members. New cooperatives often accept model statutes without discussing their contents section by section which means that members do not understand the meaning of the statutes or whether they are needed for their particular cooperative. If statutes are not properly discussed, it may happen that a few members create and impose their own rules and run the cooperatives according to their own style and for their own benefit. This is likely to result in members being unhappy with the results and apathetic about their involvement in the cooperative.

The founder members will need to formulate the statutes of the cooperative themselves. Outside resource persons may be needed at this stage particularly someone familiar with the process and the legal requirements. It may be more practical for a sub group to be formed to gather the information needed & draft the statutes, for discussion by all the founder members.

## **Contents of the cooperative statutes/by-laws**

The statutes are most important basis for the legal relations between the member and the cooperative and consequently should be as detailed as possible. Cooperatives are free, within the limits of the cooperative law, to make statutes regarding all matters necessary for the functioning of the cooperative organisation and for achieving its objectives.

Some cooperatives include the relevant aspects of cooperative law within the statutes even though these are already prescribed by the cooperative law. Since cooperative members often have easier access to the statutes than to the law, in this way they are able to obtain all necessary legal information from one document.

The statutes should be divided into following main headings:

### ***Firm(name) & Location of business(residence)***

A cooperative must be recognisable by its name. The economic function should also be evident in the name, e.g. marketing, purchasing, production, multi-purpose, integrated agricultural cooperative etc. Its location should also be part of the name. e.g. 'Arango district agricultural marketing cooperative'

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

### ***The Objective***

A cooperative unites people who have at least one common interest which is usually articulated as a problem which the members would like to solve. In defining the objective, it is important that the members consider what the root problems are first before deciding how to solve them. (e.g. low incomes rather than lack of markets for a particular crop).

The cooperative can only carry out activities which work towards the objectives for which it was formed. The cooperative therefore needs to look at all its intended activities when defining its objectives. These activities or functions of the cooperative can be identified once the nature of all

the problems of its members have been defined and the necessary measures for solving these agreed. For example, a marketing cooperative should not only market the products of its members, but also show the members new or better methods of improving the quality of their products.

The objectives of the cooperative should include a general statement as to the purpose of the cooperative, e.g. “to market the farm produce of its members”. A specific statement would then detail the goals of the society, through which the cooperative can fulfil its purpose.

For example

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

## **Membership**

Cooperatives are only as strong as their members make them. Members need to be aware of their dual role, as both owners and customers of the cooperative. Members need to understand the rules governing operations of a cooperative if they are to play these two roles successfully. Matters related to membership must, therefore, be regulated with utmost care.

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

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

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

- acquisition of membership - who can become a member
- termination of membership - when can a membership be ended
  - transfer of member's share capital
  - death of a member
  - exclusion of a member

- arrangements between member and cooperative
  - rights of the members
  - obligations of the members

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

### **Organs of the cooperative**

(adapted from Gachanja 1989:71)

#### ***i The General Meeting of members***

The **general meeting of members** is the supreme organ of the cooperative. This means that the general meeting makes all basic decisions regarding the structure and operation of the cooperative and any decisions made at a general meeting override decisions made in any other forum. However, in the early stages of cooperative activities, especially, members may not be in a position to participate effectively in the decision-making process for example, because:

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

In order to ensure that members participate actively in meetings and are able to make effective and informed contributions, it is suggested that the cooperative organises discussion seminars prior to the general meeting. At these seminars members could be informed in detail and discuss the issues on which decisions need to be made at the general meeting. Such “seminars” should be an integral part of the statutes. The cooperative should assess which issues need prior discussions in this way. In such a seminar it would also be possible to invite “resource persons” such as bank officials and local decision-makers, who are in a position to analyse issues from all sides. Thus, members can be informed extensively but left to form their own opinion. These seminars could be held together with the meeting. However, the seminar must have an official end and the meeting a formal beginning.

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

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

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

## **ii The Management Board**

The **management board** (management committee or board of directors) is responsible for running the cooperative. It should consist of at least two members who can be asked to act on behalf of the cooperative either jointly or individually. It is advisable to act jointly to guarantee the control of the management. The statutes should spell out whether the board can act and take decisions only on the explicit authority and approval of and by the members, or whether the board can act more independently, thus acting on behalf of the members without having to consult them on every issue.

The management board may carry out its activities as their main work, as a part time job, or as an honorary occupation depending on the size of the cooperative and amount of work involved. In many cooperatives the functions can be carried out on a part-time basis with perhaps one or two paid clerks to assist the board. As the business and needs of the members expand, however, more and more time will be needed and it may become necessary to employ a full time manager.

It must also be decided for which period the board is elected (usually between two years and five years).

The following aspects of the management committee of the cooperative organisation may be defined in the by-laws:

- who is responsible for the management of the cooperative organisation
- who represents the cooperative organisation
- what are the tasks and obligations of the management committee
- who reports to the control board. (see below)
- what is the composition, duties, obligations and service regulations of the management committee?
- which decisions need the approval of the control board?
- when should the management committee participate in meetings of the control board?

## **iii The Control Board**

While the management board (also called Supervisory Board) is responsible for running the cooperative, the purpose of the control board is to exercise the members’ control over the decisions made by the Management Board. The functions of the control board also, should be laid down in the statutes.

The **control board** should consist of at least three members elected by the general meeting. Some restrictions on who is eligible may be written in to the statutes. e.g. minimum or maximum age, a certain level of education or professional experience etc.

The following provisions may be included in the by-laws/statutes

- duties and obligations of the control board
- joint meetings of the management committee and the control board, matters which need the approval of the control board

- composition and election procedures
- constitution and decision-making

### ***Equity capital and joint liability***

Equity capital (ownership capital) must be determined in the statutes. The amount of the business share must be calculated to guarantee the smooth running of the cooperative business. It may be written into the statutes that the equity capital can be paid in instalments rather than all at one time. A minimum sum (or percentage) should, however, be fixed.

The statutes should also make provisions for any statutory reserves required by law, and any other reserves (voluntary reserve fund) thought necessary. The joint liability beyond equity should at least be as high as share equity which increases the credit worthiness of the cooperative.

Distribution of any net surplus needs to be decided by the general meeting. Surplus should be distributed according to the transactions with the cooperative and may be according to the paid-up shares of the members.

Members' participation in the financing of the cooperative should not however be restricted to share contributions and payments into the reserve. Members can be induced to make larger contributions towards the financing of the cooperative where it is seen to be to their benefit, for example, by paying them a form of dividend on members' money which exceed the statutory requirements.

The statutes should clearly define:

- which members' money form a part of the cooperative's self-financing;
- how any extra money is to be treated, e.g. as form of borrowed capital (loans from the members) on which an interest must be paid, or as deposits etc., and
- how to calculate the value of non-peculiar contributions -such as labour- from the members.

Borrowed funds form another source of cooperative's financing. The statutes need to clarify matters such as:

- any extra liability which may be imposed on the members when the cooperative borrows money externally;
- who gives the authority to borrow and to whom this authority should be granted;
- the purpose of such borrowed funds and
- which sources of funds are acceptable.

### ***Proceedings and regulations***

Cooperative law only contains general regulations for the functioning of the cooperative. In order to avoid misinterpretations, the statutes should make provisions for details such as invitations, calling and chairing of meetings, the establishment of sub-committees and rules for voting. This will help the members and the organs to protect their obligations and rights.



# **MODULE 2**

# **PARTICIPATION**

# **LEARNING AND**

# **TRAINING**



# MODULE 2: PARTICIPATION, LEARNING AND TRAINING



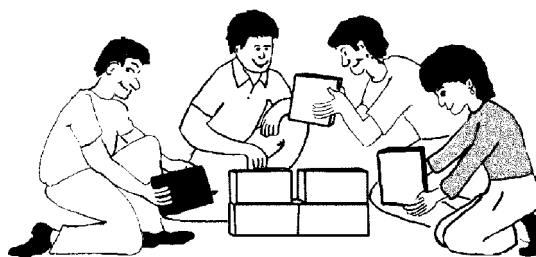
## **Introduction**

**T**his module is concerned with participation - both the need for participation at all levels in cooperatives and the need for participation in training and advisory work with cooperatives. The module introduces a number of different participatory training methods and techniques and discusses other issues concerned with the organisation and conducting of training programmes



## SECTION 2.1

# PARTICIPATION IN COOPERATIVES



### Objectives of the section



By the end of the section, participants will be able to state the reasons why participation is so important for cooperatives and what the constraints are in increasing the levels of participation.

### Key learning points



- The meaning of participation
- Levels of participation in cooperative organisations
- Constraints of participation
- How to assess the level of participation in a cooperative

### Teaching Strategy



#### Exercise 1: The meaning of participation

These exercises are intended to promote a general discussion on participation in cooperatives, participants experiences and whether the level of participation is seen as a problem.

Write the question *What does the term participation mean to you?* on the board and read it out to the group.

- Give each participant a number of cards and ask each participant (or pair of participants) to write down his/her answers or ideas in a few words (one idea per card)
- Collect the cards after everybody has finished writing. The cards can be mixed in order to avoid individual sequences and preserve anonymity.
- Read the cards to the group by holding them up one by one. Then fix them to the board according to categories/divisions proposed by the participants.
- Ask if anything important is missing (“analysis of gaps”).
- The group discusses and analyses the cluster(s), and possibly adds further cards.

## Materials needed:

- ✓ One or two pinboards or a wall where small cards or sheets of paper can be fixed with pins or glue or adhesive tape.
- ✓ Enough small cards for each participant to be given several
- ✓ A thick pen for writing for each participant.

(the writing on the cards will need to be large enough for everyone to read them)

## Exercise 2: Levels of participation

Present the typology of participation given in the reference material and ask participants individually to write down examples from their own work of at least two of the different kinds of participation.

In groups of 3-5, ask participants to discuss their examples and make a list of examples of each type of participation

As one large group, ask each sub group to contribute an example of participation until example of each type are presented.

Discuss with participants what happened as a result of the different forms of participation.

Draw out the main features of effective participation in cooperatives as given below

- Representation of all concerned parties, social groups, men and women (if the cooperative is heterogeneous in terms of socio-economic status and/or by gender)
- Equal opportunity for all parties to take part in cooperative planning, implementation, monitoring and evaluation
- All parties are involved in decision-making over cooperative activities, inputs and benefits
- All parties have the capacities (time, resources, skills, decision-making power etc.) to participate in cooperative activities and decision-making
- All parties contribute (ideas, materials, finance) according to their abilities and needs
- Free exchange of information between all members
- Accountability of all members.

(Source: adapted from Kerstan 1995)



## Notes

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## A typology of participation

Type of participation	Characteristics
1 Passive participation	People participate only in being informed of what is going to happen or what has already happened. It is a unilateral announcement by an administration or cooperative management without listening to people's responses.
2 Participation for material incentives	People participate in providing resources, for example labour, in return for food, cash, or other material incentives. It has been very common to call this participation, yet people have no stake in prolonging activities when the incentives end.
3 Participation in information giving and by consultation	People participate by answering questions posed by researchers using questionnaire surveys or similar approaches. People do not have the opportunity to influence the proceedings, as the findings of the research are neither shared nor checked accurately. Managers, promoters or cooperative research working groups may also listen to members' views and needs. They are, however, considered somewhat as "externals" by the members since they still define both the problems and solutions, although they may modify these in the light of people's responses.
4 Interactive participation	People participate in joint analysis, which leads to action plans and the formation of new local cooperatives and the strengthening of existing ones. These groups take control over local decisions, and so people have a stake in maintaining structures or practices.
5 Self-mobilisation or active participation	Members participate by taking initiatives independent of external institutions or management to improve their cooperatives. Their management may develop contacts with external institutions for resources and technical advice they need, but members retain control over how resources are used. Members have control over cooperative planning and decision-making. Such self-initiated mobilisation and collective action may or may not challenge existing inequitable distributions of wealth and power.

(Source: adapted from Pretty et al. 1995)

It is only the fourth and the fifth types of participation which live up to the ideal of a true cooperative. Types one, two and three have been and still are very common in the cooperative context. However, members' long-term interests are not seriously taken into account in these types. When a cooperative is dominated by top down management, members tend to become discontented and eventually withdraw from the cooperative.

## Constraints of participation

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

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

## Key questions for assessing the level of participation in cooperatives

Levels of participation can be increased by changing the cooperative rules (by-laws) and tasks of the management and of the members, by changing the members responsible, and/or by training. However, there may be political conditions which mean that none of these measures are possible.

at grassroots level	at institutional or management level
How far do members participate in decision-making about cooperative policies?	How are members' needs and interests assessed?
Who contributes labour (paid or unpaid), finances and material?	What are the functions and positions of the management and the Board?
Who benefits from the actual or expected outcome?	How are benefits shared?
Who has access to and control over resources and facilities?	<ul style="list-style-type: none"><li>- equipment/vehicles</li><li>- funds</li><li>- training</li><li>- others?</li></ul>

## SECTION 2.2 PARTICIPATORY TRAINING IN COOPERATIVES



### Objectives of the section



By the end of the section, participants will be familiar with a number of different participatory training methods and be able to plan a short training course

### Key learning points



- Training needs in cooperatives
- The role of the trainer
- Planning for training
- Participatory training techniques
- Training aids and materials

### Teaching Strategy



Participatory training methods are best learned through direct experience. This session therefore puts the emphasis on involvement of the participants in planning and preparing training sessions. Before starting, use one of the warm up/icebreaking exercises given in the annex to this section, (such as the self portrait/stepping stones) then explain exercise 1 below. Depending on the size of the group, this session can take from 2 hours to

half a day.

When exercise one has been completed, continue with exercise 2 which can take a similar time. With a group of 20 participants, plan to take a full day for these two exercises.

### Exercise 1

In groups of three, participants plan and prepare a short (fifteen minutes maximum) *practical skills training session* using one of the participatory techniques described in the Annex to this module. The subject matter can be their own choice, but should be something with which they are familiar, but that other members of the group are not. Allow one hour for this after which the groups should conduct their training in front of the plenary group. If possible, it is a good idea to video tape these sessions for play back after all groups have presented.



## Reference information



### The need for training

Since the environment in which cooperative exist continually changes, there is continually a need to learn new skills and techniques. While this is always true to some extent, at present there is a greater than usual need for training as cooperatives learn to adjust themselves to a market oriented environment.

The purpose of all training is to develop skills and encourage behavioural and attitudinal changes in participants. Not all problems however, can be solved by training. For example lack of access or lack of resources are not training issues.

Training needs arise when there knowledge or skills needed are lacking, or when new activities are to be started, new products are to be introduced etc. Training needs may exist at various levels:

- for the whole organisation/cooperative (e.g.: improving knowledge of market conditions or new products, improving active member participation);
- for administrative staff or groups with specific tasks (e.g.: Improving loan negotiation or business planning);
- for individuals (e.g.: improving negotiating skills, leadership capabilities, communicative skills).

Training of members should above all aim at developing an active body of members who are able to participate effectively in the running of their societies. This includes learning how to set up appropriate structures, install helpful rules and take charge of the general direction of their organisation. Direct involvement of members in all these aspects of the running of a cooperative is the only self-reliant way to ensure long-term survival for the organisations.

Cooperative organisations must be effectively managed to survive in the new environment. Managers and skilled personnel must be responsive to the members, as management is ultimately the responsibility of the members and those elected by them. Thus, one of the most important requirements is to train managers and skilled staff in cooperatives. In many cooperatives members have to assume leading functions for which they possess little experience or training.

### Requirements for the trainer

Training is best provided by experienced trainers, co-operators or other persons familiar with cooperative development work. Depending on the situation trainers could come from cooperative unions, from cooperative colleges or other training institutions, from non-governmental organisations(NGOs); from business/assessment centres, and sometime also from ministries concerned with cooperative organisations. The trainer's role is to motivate those who want to learn; to provide them with the learning opportunities; to check progress and to give feedback. It is not to be a supervisor or inspector of cooperative work. These two functions need to be separate.

The task is to facilitate the development of the cooperative's capacity to organise and manage its activities. As such, trainers need to work with the members of cooperative self-help organisations, building up their confidence in their own abilities and promoting their self-reliance.



## Advisory work

Trainers may also act in another capacity as advisors or promoters of cooperatives working directly with the cooperatives. In this role, they need to be willing to leave decision-making to the members or their elected leaders, and to promote attitudes of self-help and self-reliance. They need to be good communicators and familiar with the basic technical skills needed for cooperative development. They also need to have a sound knowledge of management, planning, accounting and monitoring and evaluation skills needed by the cooperative. Advisors and promoters need to constantly be learning in order to meet the growing demands of the cooperative organisations.

While the advisor may use many of the methods and techniques discussed below in their work with cooperatives, they also have an additional important role to play as a link with other individuals, institutions or organisations that can provide services and further information needed by the cooperative(s) concerned. The promoter/advisor can facilitate communication among cooperative organisations, between cooperative organisations on the one hand and government agencies, private sector institutions (banks etc.), and projects'/programs' development services on the other hand.

## The task of cooperative trainers

Cooperative trainers need to be competent in a number of basic areas:

- they need a clear understanding of the principles of adult learning (see below);
- they need to know a variety of participatory methods and techniques;
- they need to know the cooperative context and have experience with a variety of practical skills and techniques useful to cooperative management and
- they need to be experienced in managing the practical and organisational aspects of training.

The specific technical skills needed will depend on the cooperative and its context.

While training is provided for cooperative members, managers and staff, care should also be taken in many countries, to familiarise political and administrative decision-makers (officials) with genuine cooperative development. Normally, they are responsible for creating the enabling and conducive environment to let this happen. Activities should concentrate on providing possibilities for a dialogue among all parties concerned, on exchange/exposure programs, international conferences, etc.

## Participatory learning

*Nobody knows everything -  
Everybody knows something*

Member participation in cooperative decisions and actions has been identified as a prerequisite for successful cooperative performance. However, not all people feel comfortable in groups. Some are shy and do not speak up easily. Other people dominate discussions or do not listen. In order to involve all the members in group discussion and, eventually, in group activities, the promoter/trainer will need to know and use participatory training methods.

Participatory learning is about developing yourself through experience - not by being dictated to. Participatory learning is a creative problem-solving process, in which, ideally, every member of a group participates actively - members, managers and promoters/trainers. This is essential to arrive at a development *with* and not *for* the group.

Participatory training is concerned with encouraging participants of workshops or members in the field to discover things for themselves and to learn by bringing their own experience, ideas and skills into the process of mutual learning. In cooperative training, participatory methods are particularly relevant and useful for four reasons:

- The nature of cooperative organisations requires participation.
- The trainees are usually people who are interested in cooperative organisations.
- Most of them have a background of experience in cooperative work.
- The participants are usually mature adults.

### How adults learn

They are voluntary learners. They rarely learn if they do not find the topic relevant to their lives.

They learn best when the context of the training is close to their own tasks or jobs.

They have experience and can help each other to learn.

They learn most from their peers. Exchange of experience results in effective learning.

They learn best in an atmosphere of active involvement and participation.

Their short-term memory becomes weaker. Reinforcement by repetition can help.

They need to work at their own pace. Too much hurrying may impede their learning capabilities.

They have a sense of personal dignity. If they are not treated with respect and made to feel humiliated or laughed at before others, they may refuse any further learning in that context.

*(adapted from Pretty et al. 1995)*

The basic objective of training should be to create a learning environment by *facilitation*: providing a process by which the group is encouraged to discuss and work out their topics and solutions on their own. This is rarely possible in the formal teaching situations that we are all used to at schools and colleges: the teacher is assumed to know something that the 'unknowing rest' have to acquire, too, by listening quietly and passively. Experience has shown that such ways of learning have little lasting impact.

### The need for action

Learning by doing is much more effective than learning by listening. This is most likely to happen if participants gain some practical experience in the topic(s) during the training.

**What we hear we FORGET  
What we see we REMEMBER  
What we do we UNDERSTAND**

## Active learning will occur

- if the participants' expectations, skills and experiences are taken into account,
- if participants have a chance to take active part themselves during the course,
- if the topics and solutions found during the course are relevant to the context and real life situation of the participants.

Action also means that action is taken to learn about member concerns, e.g. by workshop and/or field methods employed in participatory appraisals (see module 9), and the fact that members are encouraged to participate more actively in their cooperatives' decisions and planning.

## Training content

The content of training depends on the situation and training needs of the cooperative(s) concerned. While there are a number of common areas where a new cooperative may need training, the specific content will depend on the difference between the existing skills and knowledge of the members and the skills and knowledge needed to run the cooperative effectively. An analysis of the situation to determine the training needs should ideally involve all the (sub-) groups of members.

Besides the learning content, there is often a need for learning *new methods*. In participatory learning and action, there is at least as much emphasis on method as on content. For example, one-way communication such as simple lecturing about participatory monitoring and evaluation is unlikely to lead to much learning unless participants *experience* what participation means.

Through participatory learning methods, participants learn not only the subject matter, but also acquire self-confidence and self-esteem. In this way they become more capable of adapting what they learn to their own circumstances.

Participatory learning also involves changes in attitude and behaviour, particularly in developing an attitude of basic respect for other people. Communicative skills are frequently lacking and require extra attention by trainers and promoters.

## Training needs

**Which problems are training issues.** Which cooperative problems can be solved through training? As mentioned above, not all problems are concerned with lack of knowledge or skills and hence training is not a solution.

Initial assessment of the cooperative to determine where changes are needed can best be done through the methods of Participative Appraisal (See module 7 for participatory appraisal methods). Methods such as semi structured interviews and transect walks can help to define problems within the organisation which may or may not have training solutions. Once these issues have been highlighted, they need to be analysed to determine whether this represents a training need. Issues to decide include:

- are members/trainees already capable of doing what the organisation wants them to do but lack motivation or resources? (possible training in motivation but main need may be resources)
- do members/trainees only need more discretionary power, or perhaps new incentives (i.e. structural change)? (not a training issue)
- do members/trainees lack skills or knowledge (training issues)

## How are needs determined?

Cooperative training needs may be known (or assumed) by the trainer before the course starts. For example, a manager may approach a promoter with a request for training in bookkeeping or for information on marketing conditions. Members may complain of autocratic leadership styles by their management and a lack of information sharing. Any of these may indicate a training need.

Once training has been determined as the main approach to overcoming a particular problem, the particular training required for the people concerned can be defined through three main ways:

### Temporarily assigning duties

One way of finding out individual training needs can be to temporarily assign responsibility to a particular person or group of persons to do the job, and to ask them to come and see the trainer or the manager if they run into problems. Choosing the right people for the job in this case needs to come before assessing their particular training needs.

### Self-assessment

Another way of assessing training needs is to involve those who are to take on a new role as early as possible in the planning of change, and to ask them to visualise what the change will mean to their job. This helps find out from them what they think they would need to do the job which is planned for them and ensures their uncertainties are taken into account. Most people tend to be rather more cautious and less self-confident when it comes to functioning under changed circumstances, and will ask for more assistance than is actually required in the long run. But if notes are taken of such discussions, a picture as to the actual inputs necessary will evolve giving indications as to what kind of training will be needed in the long run.

### Formal assessment

A third possibility for assessing training needs is to start with an assessment of the skills which will be needed to close the “gap”, (which can be done through participative appraisal methods) and then to select people from within the organisation who either have these skills profiles, or to find trainable ones, and to have them trained for the profiles needed. This option, although practised frequently, is really best suited to cooperatives which have drawn up a set of interlinking role descriptions to meet their vision of the future organisational structure and functioning. Even with such profiling of jobs and staff curricula, this method often results in a waste of talent and skills since people often have more relevant skills than, for one reason or another, they let be seen.

## Participation of members in training needs assessment

Cooperative training needs should be assessed with as much participation by members as possible (see module 7). In a small cooperative this can mean involvement of all members. Where the cooperative is larger this may not be possible and assessment can then be made through members of guiding cooperative committees, by work groups and/or by institutions promoting cooperatives, in close co-operation with members. The more the members are involved in self-definition of training needs, the more they will be committed to the organisation which gives them the chance to learn, and any changed roles will be clearer to them from the outset. Both contribute to a general attitude of all involved being involved in the cooperative's common objectives.

## A note about feedback

Giving participants feedback is very important both to give them confidence about their contributions and to guide self-reflection. Even if you do not personally agree with them, everyone needs to know that their contributions are appreciated. Even if their comments are not practical a reply can begin with: *“That’s a good point, but/and what about ...?”*, or: *“That is an interesting point, what do the others think?”*

By asking the participants themselves to reflect critically on their own performance they will realise better that they are ultimately responsible for their own learning. However, many adults have not learnt to do this and find it difficult to see, accept and acknowledge in public that their performance can improve. This is a very sensitive issue, since ‘losing face’ can put off participants from involvement in the learning process.

## Use a variety of methods

Participants usually come to training courses intending to learn. By varying their methods, trainers can keep this motivation by making courses interesting to all (or most) participants. Ideally, each topic should be supported by a number of different methods.

A facilitator/trainers tasks include:

- creating a learning climate or atmosphere
- asking questions & providing information
- posing problems instead of providing solutions
- encouraging their search for causes and solutions
- emphasising people’s own capacity to solve their problems
- motivating for action
- supporting regular evaluations of the learning impact, his/her own performance, the participants’ performance
- stressing the importance of applying and practising the acquired skills, knowledge or behaviour immediately

## Know the cooperative context and a variety of skills and techniques useful to cooperative management

In this manual, you will find most of the factual information you need to live up to cooperatives’ training needs.

## The role of the trainer

Basically trainers carry out three roles. They act

- ✓ as facilitators,
- ✓ as ‘animators’/sensitisers, and
- ✓ as resource persons,

**As a facilitator**, the trainer remains neutral about the content of the workshop or training session, and has no stake in the decisions that are taken. He or she helps a group discover and use all of its potential for creative and constructive team and cooperative work. He/she is concerned with the process of discussion and decision-making, rather than the content.

The facilitator's responsibility is:

- to create a setting which makes participants feel comfortable and at ease
- to guide the discussions -introduce the session, structure the discussion, regularly summarise
- to acknowledge the people's views and opinions
- to ensure that there is good communication in the group - to ask others to listen, to encourage everybody to contribute. This is particularly important with regard to individuals or subgroups conventionally inhibited to speak out at meetings (women, social inferiors/subordinates, young people).
- to use practical methods promoting people's active involvement
- to consider carefully how participants react to one another
- ensure that all the members are satisfied with and committed to the decisions made.

The facilitator should make the participants exchange their experiences and make them look for solutions to their problems. He/she should help the group members to become self-reliant, i.e. to manage their affairs on their own.

**As an animator**, the trainer's role is to raise participants' interest. An animator is more involved in the outcome of the discussion process than a facilitator: He or she manipulates the process. He/she helps to identify problems and to find new solutions which (s)he is already aware of. The animator needs to understand the different forces operating in a group. When the process gets stuck, he/she needs to identify the problem (e.g. a hidden conflict, a power struggle) and help the group to deal with the problem in a constructive way.

**As a resource person**, the trainer provides information to the group that has so far not been available to it on cooperative processes & procedures. This role is closest to the role of teaching.

The role which dominates depends on the knowledge and personality of the trainer and the requirements of the training situation.

In the course of a workshop, all of the roles may be needed. For example, he or she provides factual information (resource person) at the beginning. As trainees grow more comfortable with one another and with the overall process group cohesion will increase and they will begin to assert their own authority over the training. The trainer can then turn over control to the trainees and act more as a facilitator. As the training draws to a close, the trainer will need to reassert authority over the process once more. Some direction may be required to bring out key learning points and encourage the group to switch from action to reflection (animator).

## Planning and organising training

Depending on the size of the group, the topic and the duration of the event, several people may be required to prepare and plan a session. There are six main points to consider in preparing and planning a workshop:

**The location:** Is it accessible to all participants, or will some be excluded due to distance? It is particularly important to consider access by subgroups or individuals, such as poorer people, women or those who cannot easily leave their occupations. Is all necessary equipment available? Is the seating arrangement and lighting suitable? e.g. if slides are to be used, can the room be darkened, if group sessions are used, can the chairs and tables be rearranged to suit small groups or are a number of smaller rooms available?

**Dates and duration** (is it convenient for everyone?). Check if all relevant subgroups have the time to attend the meeting or workshop. In particular, divisions of labour and labour peaks (daily or seasonal) need to be considered when the time (dates and duration each day) for the event are set.

**The participants** - are they the most suitable for the course? age, gender, interests and expectations, educational and professional background, disciplines, status, prior experiences and knowledge, number (size of the group)? - Do they have any biases towards you or your organisation? - Are they attending the course of their own choice?

**The goals** of the session: What is to be achieved?

Are the goals of the training relevant to the local conditions of the participants (concerns, experience, time, place)? Can the goals be reached in one session or is a series of sessions needed? Are the goals clear to all (staff and participants)? Are the available staff able to carry out the tasks or are more resource persons needed?

**The content (subject matter of the workshop)** to achieve the goals: What are the topics? Do they suit the participants? Can their choice be influenced by the participants?

**The methods** to be used in the workshop: Which methods are used for the subject matter? (role-plays, buzz-groups, exercises etc. ...) Is the trainer prepared to explain and use the methods?

None of these factors should be neglected as they all closely interlinked and a successful performance depends on them all.

### **Example workshop planning form**

Time	Topic	Method	Materials	Trainer	Comments
Before workshop				Senior official	Tables in banquet
9.00	Opening of workshop	Speech from front	Notes	JR	Head table
9.20	Introductions	Stepping stones (small groups)	Flipchart	PJ	Banquet style
9.45	Introduction to principles	Lecture with buzz groups	Over Head Projector (OHP) transparencies	JR	Overhead projector
etc.					

\*“Plenary” refers to the whole group of workshop participants

## The physical setting of the workshop

### *Venue and room(s)*

If possible, visit the training site before the participants arrive. Check if there is sufficient room for group work to be done or if you want to encourage role plays. You may need to adapt the learning methods used (or their order) to suit the facilities available. Walk around the room before the session starts and sit in various seats to check that everyone will be able to see the front of the room (or wherever any presentations will be done). If you find any serious distractions or obstacles that may interfere with the training (telephone, movement behind the windows, pillars blocking the view...) see whether they can be dealt with or an alternative found.

### *Seating arrangements*

Different seating arrangements can have a surprisingly large influence on the session. They can be changed according to the prevailing methods used in a session. For example, in a conference requiring both eye contact among participants and a work surface for everybody, arrangement of a single large conference table is probably the most appropriate style. For group work, moveable tables and preferably a number of smaller rooms or ways of dividing up a large room are more appropriate. (A variety of different arrangements with their advantages and disadvantages are given in the annex).

## Participatory training techniques

A variety of participatory training methods and exercises suitable for use with cooperative training are described in the annex to this section.

Active participation in most cases involves group discussion. This is because group discussion:

- Stimulates interest.
- Encourages people to talk and to express their opinions. Often this brings hidden conflicts within the group out into the open. Skilled trainers can use conflicts productively.
- Helps participants remember things that they have had to defend or explain to others.
- Is a cooperative exercise through which the group seeks solutions to problems. The experiences and wisdom of group members is used.
- Can influence attitudes and beliefs, and so open the way to the use of newly acquired skills or information.

Two points should be considered in facilitating group discussions.

Firstly, it is advisable to bring out the variety of different ideas and opinions *before* the main discussions start and decisions are taken. Silent people need to be encouraged to express their views.

Secondly, the whole training group ("plenary") may need to be divided into subgroups for effective discussion which may need to be homogeneous in terms of competence or interest. Generally, people are more ready to talk when they are in small groups. They are encouraged to present the results of their discussions in the plenary. In this way, opposing or complementary approaches to problems can be worked out as a basis for further discussion.

For suggestions about basic techniques of gauging participants' views, forming groups and initiating discussion see annex to this module.



### ***Assessing the range of attitudes, experiences and concerns on a given topic***

The trainer can encourage participants to identify the range of problems related to a particular topic by asking questions and stimulating active expression:

- Encourage participants to voice their views and experiences about a given topic by open questions, i.e. questions that cannot be answered by “yes” or “no”. E.g. “*What are the main problems you see in cooperative management?*”
- Ask participants to complete statements about the topic in question. This method is suitable if there is not much time for extensive discussion and the learning process has a goal determined by the trainer (eg. *Complete the sentence “A good cooperative manager will ...”*)
- Ask participants to give their views about a statement which may be controversial. E.g. *What do you think about the sentence “A good manager knows best which decisions must be taken?”*
- Ask participants to describe conflicts they have experienced in their work. This can also be done through role-plays. E.g. Ask 4 to 6 volunteers to make a role play with the following content. “A group has a conflict with one of its members. What happens and how do they try to master the situation?”

### ***Recording and visualising the results of discussions***

In participatory training, trainers’ questions and participants’ replies are often recorded and *visualised*. Questions, replies and ideas can be written on a blackboard or on cards or pieces of paper which are pinned or stuck on boards or walls by the participants themselves for everyone present to read (provided all participants are literate).

There are certain advantages that paper and cards have over the blackboard. Participants are more active and become responsible for the documentation of their own arguments. During the discussion, the cards (“ideas”) can easily be moved or changed as the new ideas area brought out.

At the end of a particular session, the cards can be glued on large sheets of paper the way they have been arranged by the participants and/or trainers and kept until the end of the event. In this way, a kind of “external group memory” is maintained. (For visualisation techniques see annex to this module.)

The papers can be copied (by hand or photocopier) for further use by the participants. By adding dates and numbers to every paper, the process of the training event can be recorded.

### ***Visualising discussions with illiterate participants***

The most important techniques of visualisation are diagrams and mappings, which allow both non-literate and literate people to participate in the process. Diagrams and mappings are pictorial or symbolic representations of information. They provide a focus for attention while discussing an issue and help show associated ideas. (See annex to this module.)

There is usually someone present who is able to draw even if only at a very simple level. He/she can help to record the results of discussions by drawing pictures or symbols, the meaning of which should be known to all. Alternatively, prepared symbols are used for listing ideas (e.g. sticks to represent people, circles and squares to represent places or buildings). However, it is very important either to know the meanings that local people ascribe to particular symbols or to thoroughly discuss the meanings of new symbols to make sure that everybody involved gets the messages right. (See also *participatory appraisals in module 7.*)

## Lecturing

Formal lecturing is still the most widely used method of instruction, however, in its usual form, it is not participatory. It is assumed that real knowledge belongs only to the lecturer. Communication is one-way, with no feedback or reinforcement from the audience. Attention spans are limited, especially if the lecturer speaks in a monotonous way and lectures often go on much too long.

People immediately forget most of what they hear and if there is no feedback during or after the lecture, the lecturer has no way of knowing how well trainees understand or believe the messages.

However, most trainers will need to lecture from time to time. For a new subject, it is often useful to begin with a short lecture since it is not practical to have a discussion until some information has been provided. During initial periods lecturing can also be useful to help participants relax in a new situation while the stage is set for more interactive activities.

There are a number of ways to help ensure that sessions involving some lecturing stay interesting and exciting. In general, this means keeping the lecture sessions short before using another technique such as:

- Including a buzz session or brainstorming session (see annex to this module) to draw out participants ideas
- Using slides or video material asking participants to engage in 'active viewing' - watching and taking notes on a particular issue, e.g. *Can similar events take place in your own work situations? Which questions would you like to ask the people involved?*
- Making use of teaching aids (see below) to add interest to a talk

In general, a lecture should rarely last longer than 20 minutes.

## Field visits and exchanges

Real-life experiences are one of the most effective ways to learn. Representatives from one cooperative can visit the site of another. Seeing either positive or negative examples, talking to peers, being shown around or even participating in another cooperative's activities, are very good ways to learn. Organising such events, providing transport, lodging etc. needs to be planned for well in advance as it can be more time consuming than expected.

Another method of gaining practical real life experience is called "exposure". This means that people who are used to taking decisions in a top-to-bottom manner (often those working in administration or management of large organisations), are encouraged to come into close contact with people at grassroots level.

In the cooperative context this means visiting ordinary members at their work sites, discussing and observing, even working and living with them for some time. In this way, the needs and concerns of the members become more apparent and readiness to get involved in true participatory procedures is likely to increase.

## Reactions to participatory methods

People will probably not be accustomed to the participatory approach. Resistance to new methods is common, even when they are more enjoyable. Most people resist change unless they see the direct benefits.

In the beginning, participants may be apprehensive, sceptical or even uncertain about why they are attending the training. They do not see any sense in "playing games". They may think their role is

to listen, rather than speak. Senior trainees may not have been in a formal learning setting for many years and may be anxious about how they will be seen by their more junior counterparts. Junior counterparts or women may feel reluctant to speak openly, for fear of directly confronting their superiors, male relatives or colleagues.

## Reducing tension and encouraging active participation

There are many things trainers can do to reduce tension and encourage active participation (see exercises in the annex).

- Help participants by asking their views, listening to them and encouraging their active involvement.
- Ask them questions, do not simply give answers. They will gradually come to appreciate your style and approach.
- Divide the plenary group, if it is too heterogeneous, into sub-groups to facilitate open exchange of ideas. Formation of homogeneous sub-groups can also be appropriate when there is tension between groups or difference in interests.

## Common mistakes in training

- The most difficult thing for a promoter/trainer to do is to keep quiet and let participants learn for themselves. For example the temptation is often a great to answer someone's question directly or to demonstrate oneself instead of asking other participants to do that. It may well take participants longer to do the same job, but at the end they will know how to do it, rather than knowing how you did it.
- When lecturing, there is a great temptation to want people to learn everything you know. Too much detail and straying off the point, prevents the main message from getting through.
- A nervous or anxious trainer often wants to keep a tight control over the workshop because s/he is afraid of not being able to cope with an unprepared situation. Experience helps to overcome this nervousness, but more important is being well prepared. Keep enough material and exercises in reserve in case any sessions turn out to take less time than planned for. However, also be prepared for what can be cut out if the time available turns out to be less than expected, or an exercise takes longer than planned.
- At first, the use of participatory methods makes greater demands on the trainers' / promoter's skills than do more traditional methods. Participatory training can require more preparatory work than traditional methods. This is why many trainers prefer to use formal methods such as lecturing. However, the amount of preparatory work rapidly falls off as experience is gained in the methods, and while the involvement of the trainer during the workshop often remains higher than with traditional methods, the positive results will become more and more obvious.
- Dealing with group conflict. Conflicts between participants, between groups, or between trainer and participant can severely affect the functioning of the workshop if they are allowed to grow out of proportion and affect the entire group. However, conflict need not be destructive if it is recognised early enough and used constructively. How conflicts are resolved depends on the source of the conflict and the individuals that are involved. Sometimes conflicts may require intense arbitration and negotiation

outside the workshop setting, while other conflicts cannot be solved at all (and may in extreme cases even lead to expulsion of certain participants). Those due to differences in opinion over a given subject are, generally, easier to deal with.

## Learning from the trainees

Participatory training involves continuous learning on the part of the trainers as well as the trainees. Feedback that trainers receive about their performance is very useful here and a good way to learn from participants is to ask them to evaluate you. This can be done formally at the end of the workshop through a written evaluation of their overall training experience. Specific questions can be asked about the content and organisation of the course/workshop, the relevance of the content for their work, the trainer's/promoter's style etc. These questions may be open or closed, leaving the participants with a limited number of options to choose from. This type of evaluation is of little use however unless the results are acted on when running a similar workshop. The results are also of little help to the workshop which has been evaluated and a more useful way to learn from trainees is to use methods of continuous feedback during the workshop to react to requests and questions as they arise rather than at the end.

A number of training evaluation exercises are given in the annex to this module.

## Training aids and materials

The choice of training aids and materials depends on the methods and goals of the training session and on the participants' learning needs and level of formal education.

Always make sure **sufficient equipment and writing and drawing items** are available such as chalkboard, flip-charts, pin-boards, paper, cards, pencils, crayons, pins, glue etc. One can also improvise with whatever is available, e.g. pieces of paper can be fixed to a wall or cloth instead of a pin-board.

**Handouts.** In general it is better to either give out handouts well before the class starts, or after it has finished since otherwise they can be a distraction as participants read the handout rather than concentrating on what is happening in the session. However, do not read long texts to them, that is boring and unnecessary. Take care not to "flood" your participants with written material during the course. Even later, in their daily working routine, they usually have little time (or incentive!) to absorb and digest large quantities of written information.

## Visual aids

In addition to visualised ideas (see annex), films, slides, overhead transparencies, posters and models help improve communication in any well-designed training session particularly in introducing or reinforcing critical points, or illustrating complex information. "A picture is worth a thousand words."

**Overhead transparencies** can be drawn by oneself or photocopied. They are projected on a wall or screen by means of an *overhead projector* and can present large scale-texts or drawings to the group of participants. The information they display is explained by the trainer and discussed by the group. They are more participatory than handouts that are distributed to every single participant to be read.

**Slides** can be shown in sequence to illustrate a story or a lecture. They are produced with ordinary cameras in the same way as print photographs but using slide film in the camera instead of print film. In some areas, it can take time to process the slides (if they need to be sent away),

but the cost is similar to print processing. A selection of good pictures is important. Too often pictures are taken from too great a distance and with too many people. Slides, are projected onto a wall or a screen by means of a *slide projector*.

**Videotapes and films** are, a very powerful medium both for providing information and for changing attitudes. 16 mm film is becoming much less common now as videotapes are very widespread. Although film is a better medium for large audiences because the quality is much sharper, video tape is much more convenient, needing only a commonly available video cassette player and a television to show to a workshop audience. In thirty minutes of videotape or film documentary the participant may learn more about cooperative history than he or she could in three hours of reading - and (s)he may remember it longer. Certain scenes can be selected if the whole videotape/film is not suited to the purpose of the training, and the tape/film can be stopped at any point to start a discussion (this is more difficult with film than videotape as with film, a darkened room is needed and it is very disruptive to keep turning the lights on and off. It is necessary to preview the videotape/film, noting the main points and any special features you wish to emphasise or explain, and to prepare a list of study questions for a follow-up discussion. (Some suggestions as to where suitable videotapes and films can be obtained can be found in the annex.)

**Posters or drawings** are useful to remind people of a message and to start discussions. They should be kept simple, showing just one message. However, it is important to make sure that the drawings or cartoons are understood by pretesting them with people from the area before using them. If you are producing the posters or drawings yourself, they should be pretested at an early stage (e.g. pencil drawing) to make sure they are understood. It is easy to change a pencil drawing but much more effort to start again when a final poster has been printed.

**Real objects** are often the best visual aid. Participants should be allowed to see and feel the object, e.g. seeds, fertilisers, a piece of equipment etc. If you can arrange it, make it possible for the participants to observe new things in their natural contexts, e.g. a new technology at its working place.

Teaching aids should be selected according to the facilities available and the needs and interests of your participants. Many visual aids requires sophisticated equipment, so always check:

- If any needed equipment is available and working properly
- If electricity is available
- If the room is suitable for their use
- If any essential spare parts are available and easily accessible (e.g. OHP or slide projector bulb).

Whatever teaching aids are used, make sure that all participants are able to see them clearly.

Consider how copies will be made of materials produced during the workshop. Is there a photocopier available, or, can materials be roneo duplicated or copied by hand?

## Training with illiterate participants

If you deal with non-literate trainees, visual aids become all the more important. You can also make use of the visualisation methods used in participatory appraisals (e.g. maps, models). Lectures can be visualised and memorised more easily when they are supported by series of pictures.

Two further training methods are mentioned here: the method of GRAAP and puppet theatre which are particularly useful for working with illiterate members.

**GRAAP** means *Groupe de Recherche et d'Appui pour l'Autopromotion Paysanne*, a French-African initiative, which has been developed in Burkina Faso since 1975. The method is based on two assumptions:

- First, as a reaction to fast changing environmental conditions, to external interventions by governments and foreign organisations the problem solving capacities of the people concerned have diminished continuously.
- Secondly, to improve their living conditions, they need to be guided by facilitation from outsiders. The characteristic method relies on diverse series of pictures prepared by development agencies.

## The GRAAP method

External agents enter communities and facilitate free expression of ideas by everybody, encouraging the formation of homogenous subgroups for problem analysis. The facilitator summarises the views that all groups have in common and also names the issues on which there is no consensus.

Only then are the pictures used. The participants in the meeting are asked to put together a number of pictures representing their daily activities while discussing the relations between their various (possibly conflicting) needs and their activities. Reflecting on ways to improve their lives, participants' contributions are visualised by further pictures during the discussion. They are encouraged to recognise the environmentally damaging impact of some of their activities.

**Glove puppets** can be used to characterise persons or animals. They are used as the actors in short plays or dramas, and have been used very successfully in many countries. A close and intimate relationship can be built up between the puppets and members of the audience. - A puppet story can be made up about local problems and a puppet can have a discussion with a member of the audience. Also, puppets can be outrageous and say things that would be offensive in some societies if addressed by the trainer.

You can find further suggestions of training and consciousness raising among illiterate people in the sources indicated in the annex to this module.

## MODULE 2 - ANNEX

### EXERCISES FOR PARTICIPATORY TRAINING

The examples given are a selection from a wide range of exercises provided by the training manuals listed below. Pretty et al. (1995) is particularly good for further exercises.

#### A. Exercises for introduction and icebreaking

(Adapted from Pretty et al. 1995)

##### 1. Name game (time dependent on size of group)

This exercise speeds up the process of becoming acquainted and remembering the names of other participants. Knowing and pronouncing names correctly is particularly important in mixed groups where many names will be unfamiliar.

###### *Instructions*

Introduce and explain the exercise and start a round, in which everybody says his/her (first) name. Leave enough time for the others to repeat the name for themselves and find a way to link that name to that person. Unusual names can be written on the board.

When the round is completed, you say "My name is ...", point out another person, say his/her name, and ask him/her to look for another person. For example: "My name is Laura, your name is Olatunde. Olatunde, would you point out Mohan?" You should avoid looking at Mohan as you do this and should ask the rest of the group not to help Olatunde by looking at Mohan.

Olatunde has to say her own name first, point out Mohan, mention his name and ask Mohan to look for another person, at which point Olatunde should not look in the other person's direction.

Continue several times until it seems that names are becoming familiar.

One variation is when everyone has taken their turn, ask participants to change chairs, to avoid associating names with the position of the people in the circle. Use the procedure again, until everyone seems to know all the names.

##### 2. Who are we? (5 minutes)

This is a relatively short method to introduce participants to each other. Individual introductions often take too long in a large group, unless everyone is strictly limited to name and organisation or function. But even after this, few people remember details.

This exercise gets everyone physically active early on, and most people find it interesting to know the mix of people present. There are usually a few laughs about those left out.

### **Instructions**

Ask people to raise their hands in response to various questions to tell us “*who are we?*”.

Ask who works for government agencies, or NGOs, for formal or informal cooperatives, who has a leading function in the cooperative, who is an agronomist, who is an economist or livestock expert, who has experience of participatory methods in the field, who is from this country/ another country, etc.

Then ask participants to look around for others they may want to talk to later.

Finally ask: *Who has been left out?*

Circulate a sheet with names, addresses, etc. with one person responsible for seeing that it gets around, and have it typed and distributed by the end of the session or course.

### **3. Self-portraits - stepping stones (20 minutes)**

This exercise helps to create a relaxed atmosphere and allow each participant to introduce aspects of themselves. It usually causes much amusement. Participants come to associate something visual with both the name and the events that led the person to come to the workshop.

#### **Instructions**

Ask participants to draw a self-portrait on a piece of paper. They can choose whatever style they like - artistic, cartoon, abstract. Ask them to write their names on the portrait.

Ask them to write down at the bottom of the paper the three “stepping stones” (important events) that led them to this workshop. Explain to them that “stepping stones” may be e.g., childhood experiences, influence of parents, relatives, friends, formal training experience, key events or meetings, reading, job experience.

Collect the portraits and display them on boards or on the wall.

Give participants time to view the exhibition.

### **3. Countdown (5 minutes)**

The participants realise that something which everyone assumes they can do comfortably becomes amazingly complex when a few externally determined rules are changed. The key learning point is that when we interact with local people, we often impose rules which are unfamiliar to them, making it difficult for effective communication.

#### **Instructions**

Ask the participants to stand up and form a circle.

Tell the participants: “*We are going to do something very easy... count to fifty. There are only a few rules. Do not say ‘seven’ or any number which is a multiple of seven. Instead clap your hands. After someone claps their hands the order of the numbering calling is reversed. If someone says seven or even a multiple of seven, then we have to start again.*”

When, inevitably, someone accidentally says seven or a multiple of seven, or they forget to reverse the order of counting after someone claps, then start up the counting at another part of the circle.



After a few minutes, stop the exercise and tell everyone that we'll try it again later.

At another moment when people need some refreshing, get people to do the exercise again.

Repeat this 3 or 4 times before evaluating the exercise.

In the evaluation, ask the group:

Why was the exercise so difficult?

What is the relevance of this for your work?

## B. Methods of visualisation

(Adapted from Grieshaber 1994, Kerstan 1995, Pretty et al. 1995)

### 1. Writing cards

In a workshop setting the following technique of visualisation works well if the participants are literate. You need one or two pinboards or a wall with some application of cloth, a large sheet of paper or the like, on which small cards or sheets of paper can be fixed with pins or glue. Every participant should have a thick felt pen for writing. In this context visualisation means writing down ideas or questions for everyone else to see.

#### *Instructions:*

- The trainer writes the question to be discussed as a heading on the board and reads it to the plenary group.
- Each participant is given a number of cards (do not distribute too many cards if the group is large).
- Each participant (or pair of participants) writes down his/her answers or ideas (one idea = one card!)
- The moderator collects the cards after everybody has finished writing. The cards can be mixed in order to avoid individual sequences and preserve anonymity.
- The trainer reads the cards to the group by holding them up one by one. Then the cards are fixed to the board according to categories/divisions proposed by the participants (use several cards if the same idea is attributed to several categories!).
- The groups of cards form "clusters" which the trainer can surround with lines. The participants give each cluster a heading and decide, if necessary, their priorities for further discussion. The clusters constitute a "map" of the group's experiences and opinions.
- The moderator asks if anything important is missing ("analysis of gaps").
- The group discusses and analyses the cluster(s), and possibly adds further cards.
- There are certain rules that should be followed by all, like writing clearly, using only one idea per card and writing no more than three lines on each card.

## 2. Diagramming

Diagrams are a useful way to help participants to visualise ideas and concepts. In this manual only a few diagrams are introduced. Many other types of diagram can also be useful in participative training - see reference sources.

### *Exercise: Venn diagrams (45-60 minutes)*

Venn diagrams can reveal important linkages and constraints in the participants' own institution or cooperative organisation according to the perceptions of different groups of participants (e.g., managers, board of directors, members). They can highlight contrasting perceptions of different roles, responsibilities and linkages, can point to areas of conflict and dispute as well as pointing to ways of resolving them. Besides this, Venn diagrams are useful to teach participants about the value of using visuals to understand institutional linkages and relationships. They can be used as part of organisational learning.

The assessment of roles and benefits of local institutions tends to be a sensitive issue. It is therefore important to ensure that the composition of participants in the discussion allows a free expression of opinions.

### *Instructions*

Make a list of the main institutions and groups operating in the cooperative setting in question. Both in a workshop and field setting, participants are divided into sub-groups to produce diagrams of a known cooperative, usually the one to which they belong. The division can be made according to different roles participants/members have in the cooperative in question or according to status. (If you are involved in training of more complex, such as secondary or tertiary, organisations, you may also divide according to departments.)

Ask the groups to draw a circle to represent themselves as a cooperative and other circles to represent groups, programmes, institutions and/or departments with which they have relations. The distance to their circle indicates the strength of the relation, e.g., the intensity of co-operation, the size of the circle their importance to the people. It is important that all participants understand exactly which aspect is meant to be visualised through the different sizes of the circles, e.g., roles the cooperative board actually play or which it should play.

A variation of the method: cutting circles of paper and laying them on or against each other takes more time, but is better, as changes can be made during participants' process of reflection. The circles are put on a large sheet of paper or onto the ground. Circles can overlap, depending on the degree of contact in the real world. They are contained within a circle if they are part of that circle's institution.

Ask the groups to exhibit their Venn diagrams and to explain them to the others.

Analyse the major differences between the groups and the underlying causes.

A much simpler version is the two-circle exercise, which can be applied in locally restricted situations. You draw two circles - one circle represents the community, the other the cooperative group in the community. List the problems in the community and list the problems that affect especially the group in the group circle. Discuss how the problems are connected, possible solutions to the problems and how solving group problems will affect the community.

**Flow diagrams** are useful to illustrate the system to which a cooperative belongs (setting), or the impact of an innovation or intervention in the cooperative setting, leading to a better understanding of the anticipated and unexpected effects from the members' perspective.

## ***Exercise for system diagram***

### ***Instructions***

Divide participants into groups. Ask them to consider a typical cooperative organisation in an area they know well. The first step is for them to identify and represent the components of the cooperative.

Then ask them to show the links and flows of communication between different internal components (such as members, members' subgroups, working groups, management, Board)

Next they should show the linkages that the cooperative has with external groups such as markets, government, input suppliers, etc.

Discuss with the groups whether the system they have depicted has changed over time. Ask: What barriers are there to communication between the different groups and how might they be overcome?

## ***Exercise for impact diagram***

### ***Instructions***

Divide participants into groups. Ask the teams to select an activity or event, the impact of which they wish to explore (e.g., policy changes, rise of prices for inputs). They could also consider the impact of the training on their lives and work.

Ask them to represent the impact on paper (or on the ground), as a diagram showing how the activity or event affects different groups and the consequences. These could be positive or negative. Ask them to link the consequences, using arrows to indicate the direction of flow.

Encourage them to think of primary, secondary and tertiary effects, grouping these into different sub-systems.

Ask them to exhibit their flow diagrams and discuss them as a group. The following questions may be useful to structure the discussion:

- How might the process differ in practice?
- What have you learnt as a group from this exercise?
- What applications can you think of for your work?

## **Preference ranking**

This method can be introduced through one of the exercises below.

### ***Instructions***

Ask the participants to split into small groups (according to gender, to profession, to origin etc.)

Provide a list of dishes and ask the group to make a preference ranking of food they would like to have for lunch. Each group should find their own criteria for preference and set up a matrix for scoring.

After the groups have finished, compare the different criteria and priorities of the different groups and discuss the reasons for their preferences.

Alternatively:

Write the techniques which have been introduced and practised during the training in a vertical line on the white-board or flip-chart. Ask the participants to name the criteria for them to use or not to use these techniques in their work as promoters/trainers (such as 'easy to apply', 'quickly leading to results', 'cooperative members can easily be involved', 'good visualisation', etc.). Write the criteria in a horizontal line so that you obtain a matrix.

Ask all participants to give their vote ("yes" or "no") for each technique according to the first criterion by raising their hands. Write the number of votes into the respective boxes of the matrix. Continue to score all techniques according to each criterion.

Add up the scores which were given to each technique and note the sum in the last column on the right.

Finally rank the techniques according to the highest votes. They are the preferred techniques of the participants (so far).

In the field, a matrix like this can be drawn on the ground, options symbolised by objects chosen by the people, and scoring done with stones, beans, seeds etc. placed in the cells of a matrix.

## Matrix scoring

### *Instructions*

Subgroups are asked to choose a topic which is important to them and about which they all know something (e.g., fertilisers, tree species).

They are asked to identify the 5 or 6 most important objects belonging to the topic.

Each subgroup must now define criteria on what is good and bad about each object. They should continue asking until there are no more replies.

All criteria are listed and all negative criteria are turned into positive ones (e.g., "vulnerable to pests" or "expensive" become "resistance to pest" and "cheap"), in order to make the scoring consistent.

Each sub-group is then asked to draw a matrix with the objects across the top and the criteria down the side (on the ground or on paper).

Participants decide which score out of a fixed range, e.g., between one and five, or one and seven, they want to give to each item according to the listed criteria.

They must then fill each box with the number they think represents the relative value of that item. In scoring, non-literate participants use seeds, stones or other small objects to represent values in the box.

The results of the various matrices are presented to the plenary group, explained and discussed. If there are differences of priority, discuss if and how they can be reconciled or if separate solutions can be found for each sub-group.

## C. Exercises to bring out the variety of ideas and opinions among participants/members

(Adapted from CEMAS 1984, Grieshaber 1994)

### 1. Brainstorming (time: 10-30 minutes)

“Brainstorming” is a way of quickly collecting ideas from among the participants. All ideas are treated equally, none should be rejected. A brainstorming session can work well with a large group and takes less time than a buzz group (see below). The trainer writes the topic of the session on paper so that all participants can see it.

#### *Example: What is a cooperative?*

The participants are asked to write down all their ideas concerning this topic on cards. Everybody can be encouraged to contribute by giving a fixed number of cards to each participant. The writing should be done silently, and there should be no comments. When everybody has finished writing, the trainer reads the cards to the plenary and fixes them to the board, while questions of understanding can be answered by the writers.

Alternatively, when the group has got to know each other better and all are involved, ideas can just be called out with one person writing them on a board or flipchart, but without commenting as they are written up.

Only after a large number of ideas have been collected should they be used for discussion.

### 2. Buzz groups (time: 30 minutes)

During a long session, the plenary group can break into sub-groups to discuss one or two specific issues. This gives shy people a better chance to express their views and experiences. The trainer divides the participants into pairs or small groups of 3 to 5 people and has them discuss prepared questions about the topic, for example,

“How am I affected by ...?” - “What kind of expectations do I have about the topic in this meeting?”

The room soon fills with noise as each sub-group “buzzes” in discussion. The trainer should wander about among the groups and offer her/his advice if it is needed. The answers of each group may be collected on cards afterwards, and used as a basis for further discussion in the plenary. One member of each group can, in addition, present the findings to the plenary.

Buzz groups are also helpful for trainers, as they allow you to draw your breath, to gauge the mood by listening to some of the discussions and to encourage participants to reflect on what they have learnt and how they might apply it in their work.

Disadvantages of buzz groups are the time required and the need to have a seating arrangement which allows small groups to work together for quick and easy discussions.

### 3. Different posters or statements in the corners (30-60 minutes)

Different posters/pictures concerning a topic are placed around the room. The participants are asked to go to the poster that best expresses their attitude towards /experience with the topic. When the participants have decided on their posters, the groups formed in front of each poster discuss among themselves why they have chosen this particular poster. Then each group in turn explains to the plenary, their reasons for choosing the poster.

#### *Example*

Use pictures expressing different images of a cooperative on the walls of the room (e.g., an oasis, a chain, a family, mushrooms, an army, school class and teacher,...)

### 4. Role-play (time: about 1 hour)

Role-playing is an enjoyable and useful exercise to raise many aspects of a topic with a group. Role-plays can increase the participants' self-confidence and give them the opportunity of understanding, or even empathising with other people's viewpoints.

Role-playing is particularly suitable if the subject deals with human relations (leadership, communication, participation etc.) in cooperative operations.

#### **Here is one way to do it**

The trainer divides the participants into small groups and asks them to act out a scene concerning a topic which is closely related to the working experience and needs of the participants. There may also be a group of observers.

After the role-plays have been presented, the issues raised are discussed, It is important to allow plenty of time for the discussions.

#### **Another way to do it**

Each person taking part in the role-play receives a description of a situation with additional information about the character he/she is to play. This additional information is *not* made available to the other people taking part in the exercise. The trainer stops the action *before* the acted problem situation is resolved, as soon as the factors that have created the problem are revealed. Participants not participating in the plot act as observers. They can be given one or two guiding questions for systematic observation.

**Disadvantages:** Role-plays can be time-consuming and their success depends on the willingness of participants to take active part. Some trainees may feel that a role-play is too exposing or embarrassing.

### 5. Case studies (time: 1 to 3 hours)

A prepared text with a "case" appropriate to the topic of the session/course is either read out to the plenary group or distributed among groups formed by participants. Either way participants are divided into small groups. The case can be based on either a true or fictional story. It can be a complete story or open ended. Correspondingly, the groups either have to complete the story by providing an appropriate ending, or they have to reply to one or two questions concerning the story. Each group is asked to present their results to the plenary. - The case must be understood by everyone, and it should deal with a situation that is familiar to the participants.

Case studies have been found to be particularly useful for:

- accounting and auditing
- business management
- personnel and human relations, conflicts
- communication and flow of information
- management committee policy making
- public relations

### Advantages

Participants are encouraged to examine alternative ideas and solutions. They can test the knowledge and experience they have, and in the process may well identify areas where they need to learn.

Case studies can be written to highlight problems which are obscured by the complexities in real life. Furthermore, the indirect approach of a fictional case study may help to overcome resistance to change attitudes and behaviour. For example, if you criticise people's performance on a job, there is a tendency for them to defend themselves and to reject your criticism. A fictional study can mirror their behaviour and induce them to question it in the setting of a training course.

**Disadvantage:** Case studies can take a lot of time.

## D. Exercises for enhancing group co-operation

### 1. Knotty problem (10-15 minutes)

(Adapted from Pretty et al. 1995)

Participants experience that groups empowered to solve their own problems are much more successful than if instructed by outsiders such as administration officials or top-down cooperative planners. In some cooperative organisations, the management may in fact act like outsiders.

#### *Instructions*

Select one, or two participants to act as managers. They are asked to leave the room while you instruct the rest of the group.

Ask the remaining participants to hold hands in a circle and tie themselves into as entangled a knot as possible. **They must not let go of each other's hands.**

Tell the participants to follow the managers' instructions literally, and not to make it easier for them to by doing what they have not been told to do.

Once the knot is complete, the managers are asked to return and to unravel the knot within three minutes, using verbal instructions only.

Instruct the managers to hold their hands behind their back. They are not allowed to touch the group, only to instruct them verbally.

The first attempt is generally not successful and sometimes even produces a more complex knot. When the knot is ready, simply ask the participants to "*get out of the knot yourselves.*" The second untying process is usually much quicker.

Ask participants to comment on what relevance this has to the realities of cooperative organisation. You can raise various issues such as:

- *What does the game tell us about the roles of 'outsiders/managers' and 'insiders' (in the knot)?*
- *What does the exercise tell us about the effectiveness of 'outsiders' and 'managers' in organising people?*
- *What does the game imply for facilitating participation in cooperative development?*

## 2. Chairs (30-45 minutes)

(Adapted from Pretty et al. 1995)

Conflicts can be managed by turning them into co-operation. This exercise also shows that there are cultural differences in handling conflict. Moreover, it may raise questions of dealing with conflicting goals and rules (imposed or self-imposed).

### **Instructions**

Copies of three different instructions are prepared. You need a room without tables, but with a chair for each participant.

Explain to the participants the relevance of this exercise by referring to its objectives. Then give each participant one set of instructions (either A, B, or C), distributing equal numbers of the three different instructions. Tell them not to show their slip of paper to other participants, as this will defeat the purpose of the exercise.

- A Put all the chairs in a circle. You have 15 minutes to do this.
- B Put all the chairs near the door. You have 15 minutes to do this.
- C Put all the chairs near the window. You have 15 minutes to do this.

The trainer tells everyone to start the exercise, following the instructions they were given.

The sub-groups cannot carry out their instructions unless they co-operate. Several 'solutions' are possible:

- Consecutively putting all chairs in a circle, then near the door, then near the window.
- Renaming the situation, by hanging two sheets in the middle of the room, on one of which is written "Window", and on the other "Door".
- Putting all the chairs in a circle between the door and window.
- Disobeying part of the instructions by putting one third of the chairs in a circle, one third near the door, one third near the window.
- Disobeying the instructions entirely.

This exercise has great scope for creative conflict resolution. Groups often burst into frantic action, use force and sometimes carry chairs with others desperately sitting on them to their corner. When some participants are trying to find a cooperative solution, others can be seen continuing to collect and defend their chairs. This, in its turn, frustrates the co-operators, who forget their positive intentions and join the argument.

Relevant questions for the analysis include:

- What did you experience when playing this game?
- Did you feel that the chair you were sitting on was yours, to do with as you pleased?
- How did you relate to people who wanted something else? Did you co-operate, persuade, argue, fight or give in?



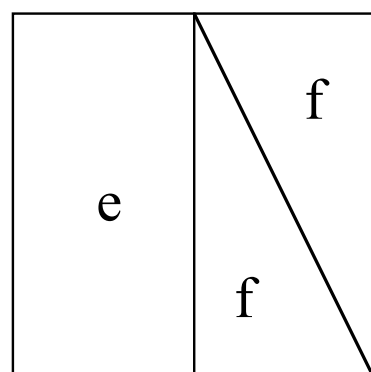
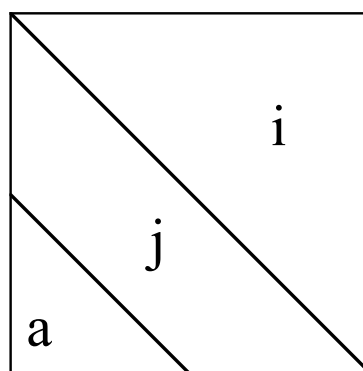
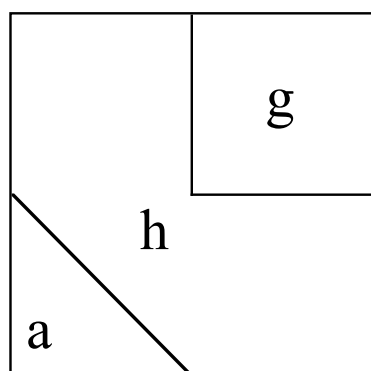
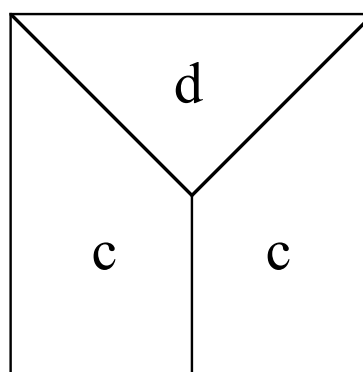
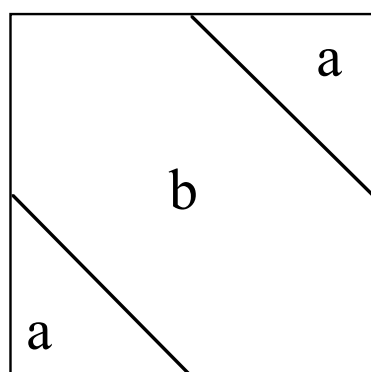
- Did you follow instructions? Why did you interpret them as you did? Did you see them as an instruction to be carried out whatever the cost and to the exclusion of others? Why?
- In what way are your feelings about instructions influenced by your cultural background? Has culture influenced the way you behaved in this situation?
- How would you handle this assignment if you did it a second time?
- Can you relate what happened to real situations in cooperative processes?

### 3. Cooperative squares (one hour)

This exercise helps to experience and analyse some of the elements of co-operation and individuals to look at their own behaviour when working in a group.

#### Instructions

Prepare a table for each group of five people. For each group you will need five envelopes labelled A, B, C, D and E, and five pieces of thin card 10 cm square. For each group, cut their five squares exactly as shown in the figure below.



Distribution of pieces into envelopes:

1. Envelope: i h e
2. Envelope: a a a c
3. Envelope: a j
4. Envelope: d f
5. Envelope: g b f c

All the cuts are either to a corner or to the middle of a side. It is essential that you measure and cut accurately. Label the pieces as indicated, and put the pieces into the corresponding envelopes.

Start the exercise by explaining that this exercise allows us to look at what is essential for successful group co-operation. Ask the participants to form groups of five and to sit around a table. It is possible to have one extra person to observe each group.

Then read the instructions to the whole group:

*Each of you will have an envelope which has pieces of cardboard for forming squares. When I give the signal to begin, the task of each group is to form five squares of equal size. There are two important rules:*

*(1) no one may speak or signal - the task must be done in silence.*

*(2) no one may take or ask for a piece from any other person, but they may give pieces to others.*

The task is completed when each individual has before her/him a perfect square of the same size as those in front of the other group members.

Looking at the pictures of the five squares, it seems very easy. But participants usually end up with three or four squares and odd bits which just won't fit together. They come to realise that their individual desire to produce one square is secondary to the group task of completing five squares. Personal success does not always equal group success, and may actually be impeding the group goal. A good solution for one person may in fact obstruct a good one for the group as a whole.

It is important to spend some time on evaluation of this exercise in the plenary. If there are observers, they may be asked questions just like the group members:

- *What happened? Was the task achieved quickly? Why not?*
- *Did the group co-operate? Would increased co-operation have speeded things up?*
- *What roles did different people in the group play?*
- *Did anyone break rules? How?*

#### **4. Nuts game (2 hours)**

(Adapted from DSE 1994)

This exercise helps to establish a deeper, more rational experience of the advantages of co-operation, especially with regard to the conservation and management of scarce resources. Mutual contributions to a common goal and establishing of group rules are rewarded with higher benefits for all.

At first, participants experience going through a stage of individual greed and frustration until the need for collaboration and team work is recognised. Finally, there is not only a feeling of cooperativeness and participation in a game, the rules of which have been collectively manipulated for the better. The net result of the teamwork also materialises in much higher individual and group scores.

You can also use the game to make participants reflect on rules: Who defines them? Who insists on respecting rules?

## Instructions

The plenary is split into sub-groups of 4 to 6 players. Seating arrangements should allow for visual and audible separation of the groups: It should be difficult, or even impossible, for them to see or hear the other groups (use boards for division or separate rooms, if possible). You need an organiser for every group from the team of trainers or workshop assistants.

Each group sits around a table with a plate in the middle containing a pool of 25 nuts (or beans, pebbles, etc.).

The rules of the game are written on a board visible to all members:

- On the trainer's signal, the players take out as many nuts as they wish from the pool, all at the same time, using only one hand. This is called a "round".
- The organiser keeps record of every group member's choices by filling in the group record sheet (see below).
- The organiser doubles the balance left in the pool after each round out of the replenishment fund, up to a maximum of 25 nuts.
- The game is over when the pool is empty or after 10 rounds.
- Organisers may give some hints for improvements after approximately 8 rounds without co-operation. If the game is over too soon, e.g., after one or two rounds, the organiser may suggest another game, offering a new sheet for every new game.
- The game is evaluated in two or three steps.
- Participants are encouraged to answer the question '*How did you feel?*' by writing cards individually

The groups may be encouraged to form buzz groups and discuss the question: *What happened in the group?* Then they present their groups' reports, possibly assisted by comments from the respective organisers.

In the absence of participants (e.g., during a coffee break or in a separate room), the evaluation matrix below is drawn on a flipchart or board and filled in by the organisers using the group scores from the record sheets. It is presented to the participants only after the first steps of evaluation have been completed. Then ask participants: *What conclusions would you draw with respect to your work?*

### Record sheet nuts game

Group	Game										
Round	1	2	3	4	5	6	7	8	9	10	Sum
Pool											
Replenishment											
Total Fund											
Player A											
Player B											
Player C											
Player D											
Player E											
Player F											
Harvest											
Losses											

## Evaluation matrix nuts game

		Group				
Score		1	2	3	4	5
	no. of games					
without cooperation	max. rounds/game					
	max. harvest per group					
	max. harvest per player					
	min. harvest per player					
	no. of games					
with cooperation	max. rounds/game					
	max. harvest per group					
	max. harvest per player					
	min. harvest per player					
Losses						

## E. Training evaluation exercises

(Adapted from Grieshaber 1994, Pretty et al. 1995)

The choice of evaluation methods involves sensitivity to the degree of trust between the evaluator(s) and those who are being evaluated on the one hand, and the degree of trust between participating group members on the other hand.

There are methods to ensure that the evaluated person(s) remain anonymous (e.g. questionnaires, secret ranking of issues). In situations of conflict and where traditions call for unconditional behaviour of respect for authorities (e.g., trainers), this can be very useful to obtain information undistorted by social inhibitions. Written questionnaires and prepared charts are methods that can be used here. They involve standardisation, as everybody is expected to react to a preconceived set of questions and categories.

## 1. Questionnaires

Questionnaires consist of prepared sets of questions which are distributed to each participant/member. The participants/members are meant to answer the questions as honestly as possible. The questions can be answered by “yes” or “no”, by ranking a set of options and/or by comments (open questions) such as:

*What did you find most useful about the training?*  
*If you were organising training of this kind, what would you do differently?*  
*What would you do the same way?*

Questionnaires are particularly suitable to situations where there is need for anonymity and lack of trust, i.e. negative opinions can be expressed without fear of sanctions by other group members or authorities. Methodically, they are easy to evaluate since all participants answer the same set of questions, their answers can easily be grouped by the trainer.

## 2. Scoring

Charts or matrices are another useful method of evaluation. Questions are asked with answers to be checked by participants according to their feelings (see example).

A number of questions or statements are asked with a range of 5 to 7 optional replies, from e.g., “excellent” to “terrible”. Instead of written words, the options can be given symbols. Each individual is asked to make one cross in the column that best reflects their point of view, feeling, or opinion. Examples:

*The facilitator gave me the support I needed or*

*The resource person provided valuable ideas*






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Another way of signifying different values is a matrix with faces. A matrix is presented with five different faces in the top column. The faces' expressions represent the scoring criteria “very well”, “well”, “o.k.”, “not so well”, and “badly”.

In the left vertical column the topics that the trainer wants to have evaluated are entered.

All participants are asked to put a cross (one only per topic) into the boxes that best represent their opinions or feelings.

In some situations, scoring can also be done in front of the plenary group.

Example: How did I get along with the methods used in this course?					
	very well	well	o.k.	not so well	badly
discussion in small groups					
role-playing					
energisers					
etc.					

Depending on the degree of trust in the group - and between trainer and participants - the trainer can invite the participants to give some comments on their choices.

### 3. Group discussions and role-plays

In contrast to the above methods, role-plays and group discussions are methods of evaluation that require much flexibility on the part of the trainer and trust among the group members since open criticism can easily be provoked. You can encourage participants to answer questions, either individually, or in buzz groups. The answers should then be discussed in the plenary.

*Examples of questions:*

Things I liked.

Things I disliked.

Suggestions for improvement.

The most important lesson I learnt.

What I found most difficult.

What main obstacle I anticipate in applying what I have just learnt.

You can also ask participants to act out any important issue during the training. Role-plays can express criticism that might not otherwise have been made.

### 4. Why do we do what we want to do? (about one hour)

This exercise is particularly useful when the trainer wants to assess the learning effect of the methods he/she has used.

The trainer hands out written questions about the topics of the course.

The participants discuss and answer one question at a time in groups of three. The procedure is as follows:

Two of the participants ask the third person the first question.

(S)he must try to explain her/his answer to the satisfaction of the others. Then they change roles and deal with the next question, two of them posing it to the third person.

After all questions have been answered in this way, all groups reunite and in turn each reads their answers to the other groups.

*Examples of questions:*

*Why do we have introductions at the beginning of courses or sessions?*

*Why do we ask participants what they expect of the workshop?*

*Why do we set up the chairs in a circle?*

*Why do we sometimes discuss in small groups rather than in the plenary group?*

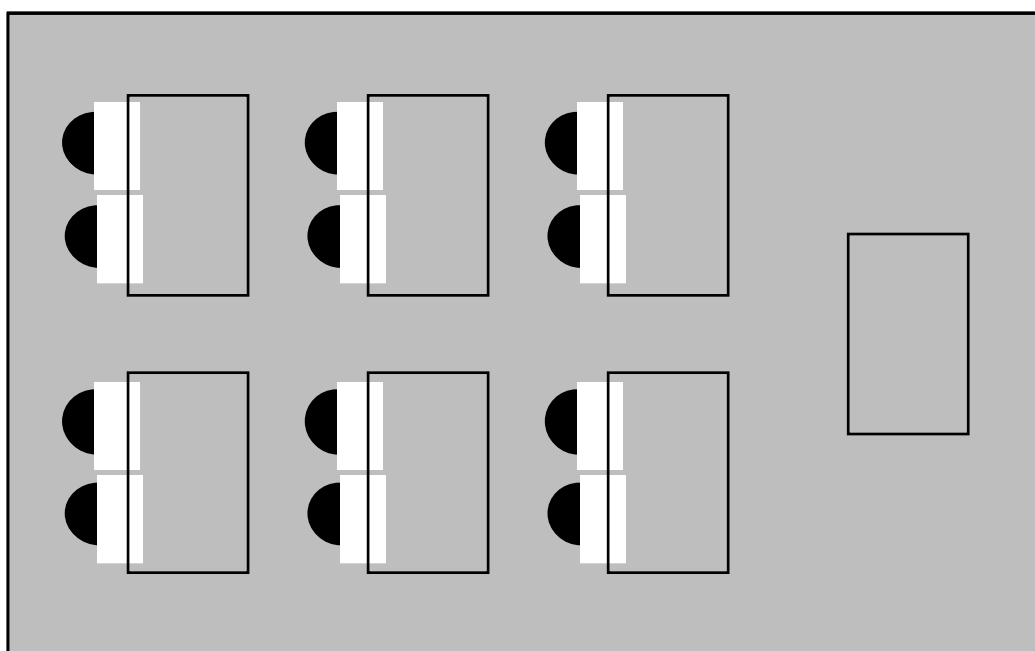
*Why do we visualise our ideas and discussions?*

etc.

## Seating arrangements

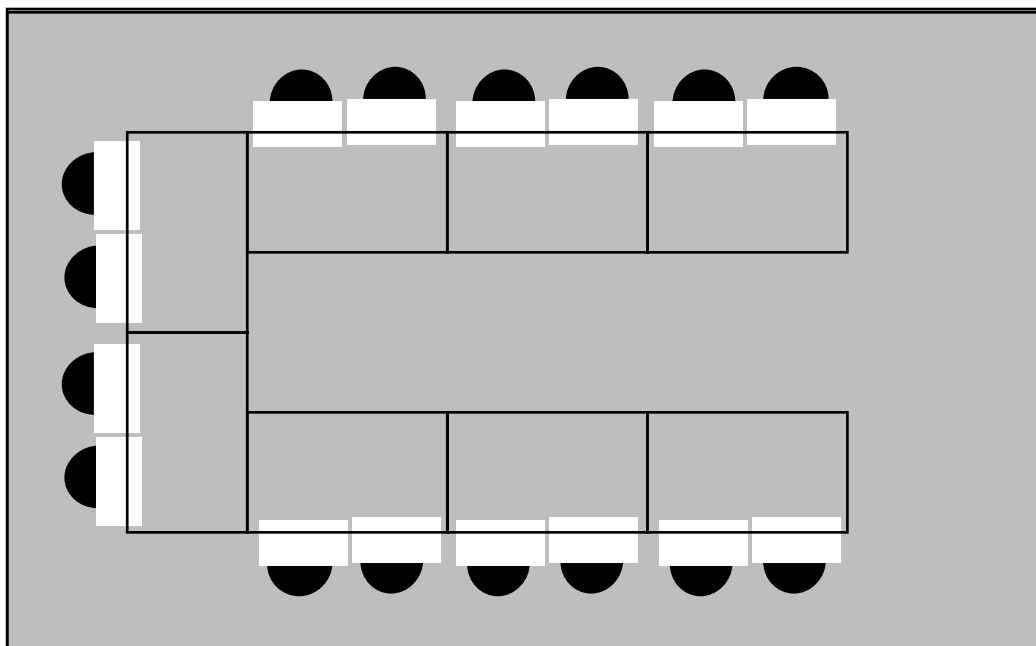
Here are some diagrams presenting the various seating arrangement styles, with their advantages and disadvantages, respectively (adapted from Pretty et al. 1995):

### *Classroom style*



<b>Advantages</b>	<b>Disadvantages</b>
Can fit many people into the room. Everyone faces the front	Participants cannot make eye-contact with each other. Difficult for trainer to make eye-contact with those at the back. Trainer cannot walk easily among the participants. Difficult to break into groups. It is like the classrooms in school, too formal

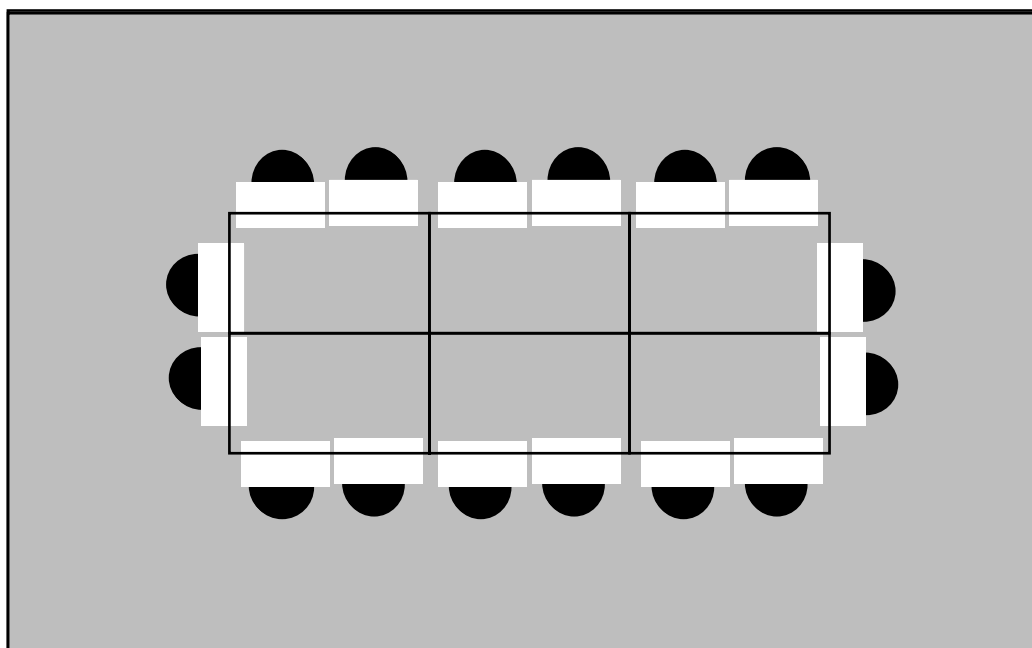
## U-shape



Advantages	Disadvantages
Trainer can walk among participants Trainer has eye-contact with all participants	Cannot break into small groups easily Participants along each arm of U do not have eye contact with each other Fewer people can fit into the room



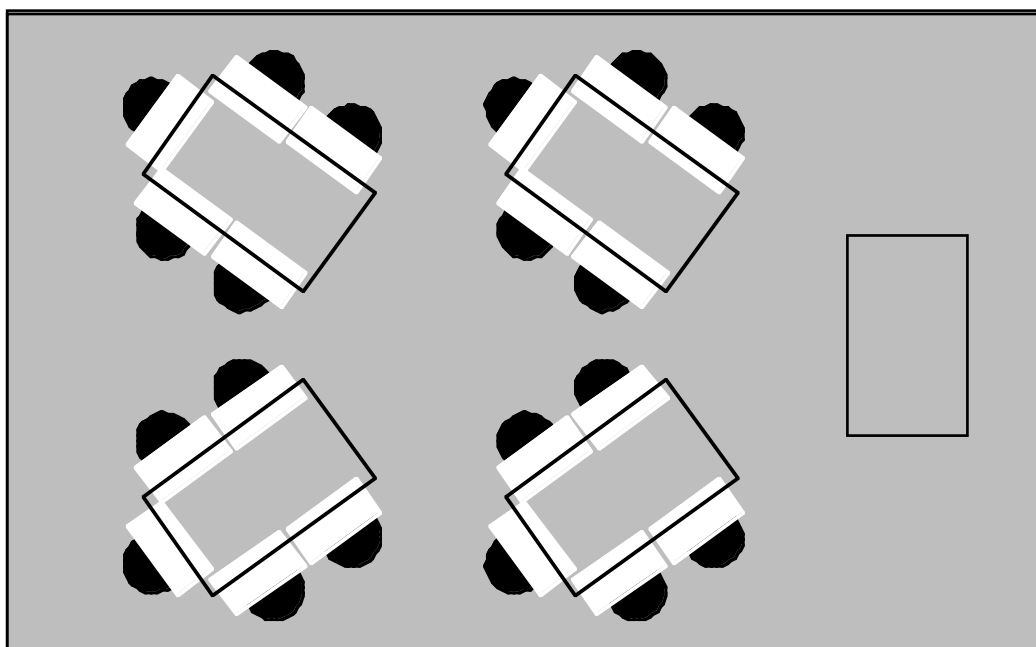
## Conference table



Advantage	Disadvantages
Large table useful for plenary group discussions	Cannot fit many participants around the table Participants along each long side do not have eye contact with each other Cannot break into small groups easily During general discussion, several sub-discussions may form and disrupt proceedings

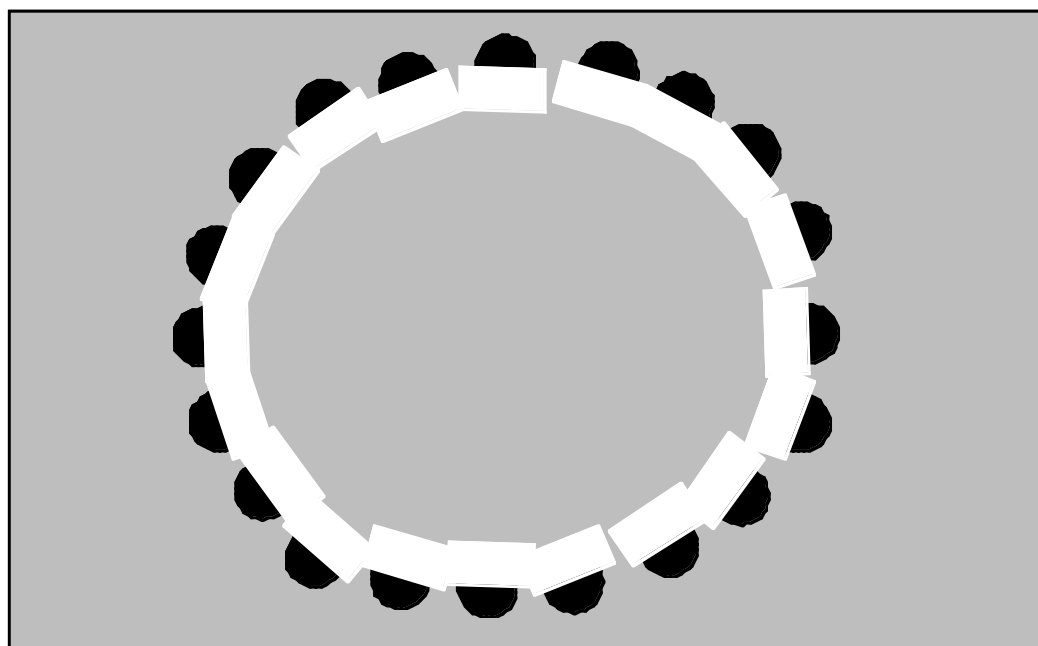
## Banquet style

The banquet style comprises several tables arranged singularly in a manner reminiscent of fishbones. Each table accommodates three to four participants, leaving the side unoccupied that faces the front of the room.



Advantages	Disadvantages
Participants are arranged in groups Arrangement is easy to use if mixing lectures with group work Trainer can walk easily among the groups	Fewer people can fit in the room Participants cannot make full eye contact with all other trainees If tables are too long and thin, participants at the ends are likely to be left out of the conversation

### Circle or semicircle of chairs



Advantages	Disadvantages
<p>People can relax and interact well Participants are all able to see one another No natural 'top' position for trainer, so very egalitarian Easy to move into various exercises and games Stops people sticking to a specific desk or chair</p>	<p>No flat working surface No tables on which to rest books or materials Intimidates shy people In large groups, participants sit far from those opposite them</p>

The arrangements most suitable to participatory training are the banquet style or circle respectively semicircle of chairs.

# ***MODULE 3***

# ***COMMUNICATION***



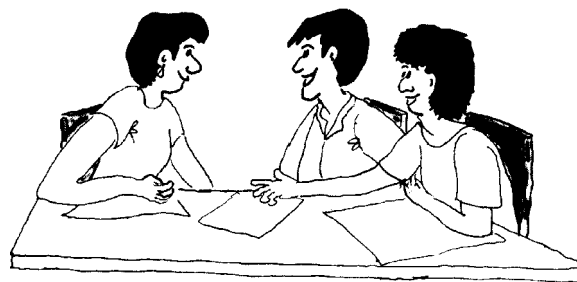
## MODULE 3: COMMUNICATION



### **Introduction**

**M**ember participation in the affairs of the enterprise is a characteristic of cooperatives. Active and effective participation of members, however, is impossible without effective communication. Good communication and the free exchange of information is at the heart of all successful development of cooperative organisations. Good communication within the organisation is essential to maintain a shared vision and coordinated actions. Good communication with others outside the organisation is essential to promote the organisation within the community and the markets and to maintain support from political and other organisations.

## SECTION 3.1 INTERNAL COMMUNICATION



### Introduction



Member participation in the affairs of the enterprise is a characteristic of cooperatives. Active and effective participation of members, however, is impossible without effective communication. Good communication and the free exchange of information is at the heart of all successful development of cooperative organisations. Good communication within the organisation is essential to maintain a shared vision and coordinated actions. Good communication with others outside the organisation is essential to promote the organisation within the community and the markets and to maintain support from political and other organisations.

Members need firstly, to be kept well informed about the activities and decisions that the management, board or steering groups take, and secondly, their knowledge and concerns need to be listened to and respected when objectives are decided and plans for activities made. Leaders and managers need to listen to their cooperative members in order to recognise their concerns. They should share their information with the participants at regular times about both internal and external matters which affect the cooperative. The work and results of individual members/work subgroups needs to be reported by themselves to the group as a whole and members should be able to approach their cooperative's board and management whenever they need to.

Good communication practice is needed to keep the cooperative running smoothly, effectively and harmoniously.

### Objectives of the section



After completing this module, participants will be able to describe what is meant by effective communications in the cooperative context and be able to use a number of techniques to help overcome conflicts in cooperative training.

### Key learning points



- Communication issues in cooperative organisations
- The importance of listening
- Conducting meetings
- Dealing with conflicts in training sessions
- Handling grievances

## Teaching Strategy



### 1 Problems in communication

After a brief introduction to the importance of communication, the series of communications exercises described in Exercise 1 (see annex) should be used to demonstrate the problems in information flows when there is limited access to different people. Ensure enough time is allowed for discussion of each of the three parts of this exercise.

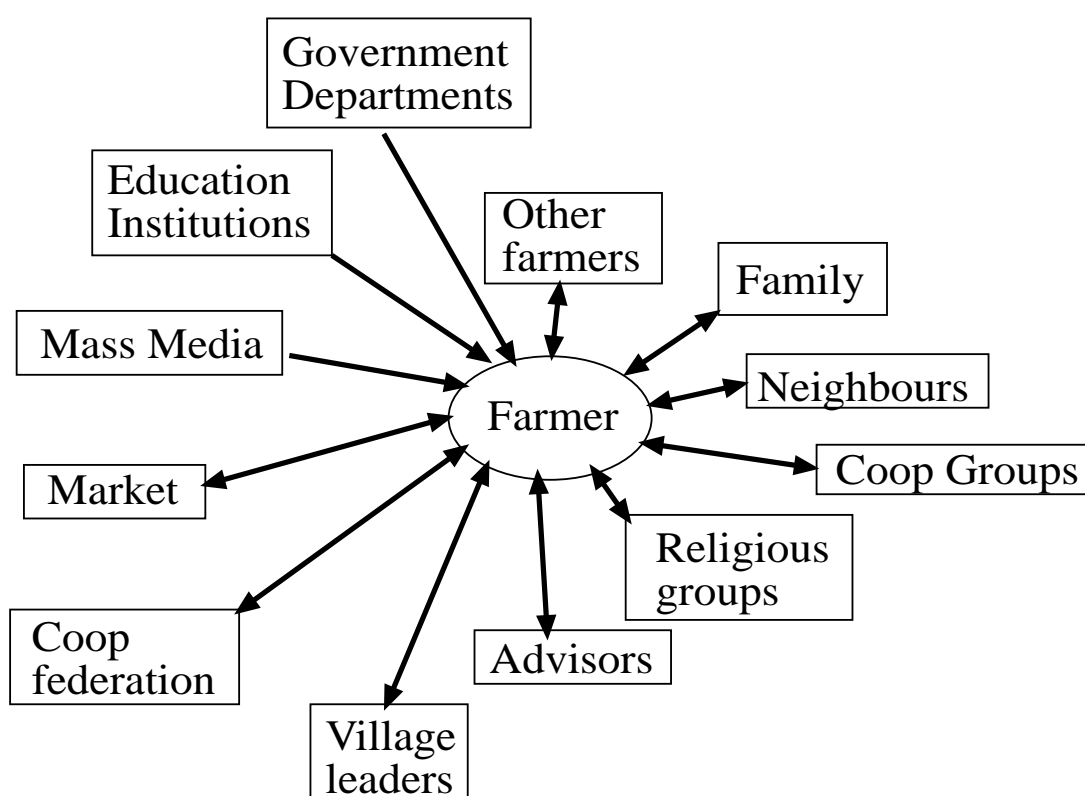
In the general discussion ask participants to think of examples from their experience of lack of communication due to:

- Language
- Dialect and Jargon
- The choice of medium.
- Complexity of the message.
- Preconceived notions
- Social power relations.
- Emotions

### 2 Communications map and barriers

We all communicate, and are influenced by, a whole network of people, not just those we work directly with. Show the diagram below (or draw one on a flipchart or blackboard) as an example, then ask participants in groups of 4-6 to prepare diagrams of communication networks in their own lives.

#### Example of a communication network







## Reference information



### What is communication?

**Communication** means the *exchange* of information, including ideas, emotions, knowledge, skills, etc., between people.

The term is used to mean both the social aspects as well as the technology from voice to telephone to television and satellite or even means of transport. In the context of this course, we are mainly concerned with the human aspects rather than the technology.

People do not just *receive* signals or messages, they also send signals to others. As soon as individuals are aware of each other's - direct or indirect - presence there is an exchange of information. It is impossible *not* to communicate in direct interaction, in the sense of sending and receiving messages. *However*, whether the messages being received are those intended by the sender is another matter.

All information is interpreted by the receiver and in this interpretation is changed according to the values, attitudes and beliefs of both sender and receiver, the understanding and attitude of both regarding the subject matter, the feelings of each person about the other and the circumstances in which the messages are exchanged. This is why it is so important to have feedback and **exchange** of information since one way communication is so easily open to misinterpretation.

### Means of communication

Communication takes place through various channels, i.e. voice, pictures, radio and television, print, visual aids, computers etc. Communication methods can be divided into those useful for mass communication, those useful for groups and those for individual (person to person) communication.

Mass communication is largely one-way, as in radio or television broadcasts, newspapers or posters. This is when the "receivers" of information usually have little chance of giving a feedback to the "sender".

Group methods such as slides, video, flipcharts and other visual aids allow more feedback and discussion.

Individual methods such as a conversation between two people either directly or by telephone, post or e-mail *allow* true two-way communication. (Though even where two way communication is *possible*, it does not mean it will take place. A conversation can still be little more than one person giving orders and another agreeing to them).

Some means of communication are particularly useful in the cooperative context. These may include, among others, group meetings or cooperative clubs, reporting to sub-groups or to the general assembly, writing and distributing members' newsletters or magazines.

## Communication problems

*“The management board/leaders formed the cooperative for their own purposes only, we do not know our own role in it ...”.*

*“We do not know what the management board is doing...”.*

*“We as the management board have to decide for the members. They do not know...”.*

*“We cannot speak to you now, as the members of the executive committee have not yet arrived “*

*“Subgroup (X) doesn’t do their share of the work”*

*“Member“(Y) is too dominant/should not be part of the cooperative”*

*“The executive committee has to answer your questions...”.*

These are just a few examples of communication problems in cooperative organisations. Poor communication and/or lack of information is one of the main reasons for failures of cooperative organisations.

Something is wrong with the communication between members and leaders/managers, when they think they know better than other members, and have to decide for them, or when members don’t feel sufficiently informed about the activities of their organisation.

Common problems in cooperatives can be listed as follows:

- monopolies of information held by cooperative subgroups e.g. managers, board members, particular working groups, men vis-à-vis women, land owning vis-à-vis landless members, etc.
- lack of transparency in decision-making
- ignorance of members’ needs and interests
- insufficient communication among members due to too great a variation in cultural or economic backgrounds (language, status, gender, etc.)
- one-way-communication without feedback mechanisms (top-to-bottom structures)
- members’ fear of their superiors
- silent minorities (e.g. women)
- lack of communication facilities (e.g. transport, telephone...)

Communication problems occur between and within all levels of the cooperative organisations:

- within and between leading committees
- cooperative subgroups,
- cooperative groups,
- secondary/ tertiary associations,
- the local environment,
- regional promotion agency,
- national promotion agency/government,
- donor agencies.

Consequently, the groups to be included in training activities on communication may need to include various agencies and promoters, as well as the whole range of members and potential members of the cooperative.

Functional or divisional organigrams of cooperatives can help members determine where there are problems concerning the flows of information between the various groups or individuals.

Problems of communication occur whenever people work or live together. Every person perceives or interprets real events in her/his own individual terms, and one's individual knowledge may be very different from others'. Misunderstandings are bound to occur unless effort is put into making communication effective. This involves listening as much as talking and making sure that both 'sender' and 'receiver' of information understand each other. (See exercises 1, 2, and 3.)

## Examples of conflicts

In any cooperative context, conflicts are bound to arise because a number of different people with different interests work together. People who are involved in a conflict feel insecure and uneasy and often do not know what to do about it. Conflicts have a tendency to become worse the longer they exist. Sometimes unresolved conflicts can disturb the work of an organisation for a long time. That is why conflicts need to be solved.

Sometimes, for example, members may not be satisfied with the services or activities of their cooperative. However, if there is poor internal communication, rather than raising criticisms, members may withdraw from business with the cooperative, believing that criticism would be futile or even damaging to themselves. In the long run, unresolved problems of communication can endanger a cooperative's existence.

There are often barriers of communication on the part of one particular group within a cooperative, or between several groups.

Barriers of communication can be removed by developing an awareness of communication weaknesses and strengths. There are a number of exercises that are useful to the development of competence (see annex). Even leaders who withhold information from other members or feel superior can often become convinced of the advantages that sharing of information by means of effective communication will have, if they are included in such training.

Improving communications can also help involve less dominant cooperative members such as women, the young, or the non-literate which will in turn help to strengthen the cooperative.

While mediation can be helpful, ultimately conflicts can only be solved by the people involved themselves. People in responsible positions can be trained to handle conflicts and answer grievances through a participatory approach.

## Improving communications

Giving information is not enough. The fact that a person is able to hear does not necessarily mean that this person also understands. One of the most common causes of communication breakdown is that the "receiver" does not understand the message.

**Different languages** among communication partners can be a problem in cooperative contexts. The management may belong to one ethnic group, a large section of members to another. In situations like that, it is important to pay attention to the problem of translation and informant selection - are all factions represented effectively?

**Differences of dialects** or the use of **jargon** are less obvious obstacles but can nonetheless impede effective communication, particularly in hierarchical relations. Although people speak the same language, there may be different meanings even of identical terms, depending on the social backgrounds of the partners and their mastery of the dominant language version. Sometimes it is necessary to agree the meaning of concepts.

Some people like using large words to *impress* rather than *express*, e.g. Latin terms for biological species instead of common local terms. These words may look impressive on paper or sound learned, but if they are not understood, they are not performing their task.

**The choice of medium.** If you send radio broadcasts - do your communication partners have radios? If you choose a certain language for these broadcasts - who and how many people can understand them? If you print a newsletter for distribution among members - can everybody read it?

**Complexity of the message.** What is sent may be too complicated to be understood by the receiver(s). A message should be adapted to what the receiver already knows, begin with what they know and build on from there.

**Preconceived notions** can impede communication from both sender and receiver's point of view. e.g. "My mind is already made up, don't confuse me with the facts".

There are also obstacles of communication based on **social power relations**. Some leaders may not be willing to impart what they know - they hold monopolies of information to keep other people in dependence. Some authorities tend not to listen to those whom they consider as their subordinates. Superior attitudes or negative prejudice of one party towards the other may impede good listening and understanding, as one is not taking the other's message seriously.

**Feelings and emotions** can also affect communication. What a person really feels may not be what that person says, and often what the heart hears is quite different from what the ear hears. Dependent people may shy away from both sending clear and direct messages representing their points of view and from asking for information lest they embarrass their superiors.

The following example illustrates the influence that vague expressions, social power relations and emotions may have on communication:

The sentence "*This year our accounts do not look very good*" contains vague expressions and may be interpreted differently by different people according to their circumstances. To different people it may mean:

*"Most of you have neglected your duties" or*

*"Didn't I tell you we took the wrong decision? You should have followed my advice" or*

*"You, have embezzled money from our sales returns" or*

*"I hope you will all make an effort to improve the situation".*

On the part of the "receivers", the message can also have a variety of meanings. Are the accounts only mildly alarming or actually disastrous to the cooperative? The listener/s may interpret the message in terms of self-criticism, or blame it on the circumstances or on the leaders. During discussions, some of these implications may become clear; however, others will always remain hidden.

In order to avoid misunderstandings, some questions should be asked and answered that go beyond the content of purely technical information to find out how has the message been taken, what has been understood and if the intention of the person communicating is clear.

Direct communication is more effective than indirect communication, e.g. if the board members are accessible to all members, communication will be easier than if they can only be approached through the manager. Information may be distorted when intermediaries are used to pass on the messages. (See exercise 3.)

## The importance of listening

Some years ago, a survey was conducted over 18 months in Chicago, USA asking thousands of workers *what is the single most important attribute of an effective manager*. The main attribute identified was *listening to individual employees*.

Active listening serves several purposes:

- to learn new details and get new ideas
- to gain information and better understanding about what exactly is being said or meant
- to gain information about whether/how your own messages have been understood (by listening to comments and questions), and
- to create an atmosphere of mutual understanding, respect and interest toward others.

## What makes good listening difficult

Listening to people may seem to be a very easy thing to do. However, most people's listening skills are far from perfect. We think we listen, but actually often hear only what we want to hear. This is almost a natural process, because (1) human perception is highly selective, and (2) the "think speed" and a person's rate of speech are very different. The brain works so fast that the relatively slow input of words leaves the mind much room to think about other things. If the listener is expected to either reply or act on what is being said he or she tends to divide her/his attention between listening to the other and considering how to react.

Selective perception means that we tend to hear only the things that fit the way we think or feel. A person may not be ready to listen because the idea that is being communicated is not compatible with her/his other interests or attitudes, e.g. (s)he rejects a suggestion to keep milk cows, if he/she does not like working with livestock.

Other reasons why a person may not listen are boredom or distractions such as feeling hot/cold/hungry/thirsty/tired or worried about other matters such as family, health, or money.

## Improving listening

Listening ability can be improved simply by giving some attention to it. (See exercises 1, 2, and 3.) Here are some important orientations to improve listening

**Give feedback.** Immediate feedback is very important to clarify the meaning of what has been said on the spot. ("So what you are saying, Mr. ..., is ...") If there is a misunderstanding, the sooner it is corrected, the better.

**Listening between the lines.** Very often one thing is said while something quite different is meant.

**Listening for attitudes.** To understand a person's motives, listen for expressions about ideas, other people, classes, groups etc.

**Listening for ideas.** Every speaker has a purpose, but it may not relate to the content of the speech. Listen carefully and get an idea of the speaker's perspective. Try to understand the framework and point of view.

**Avoid negative feedback.** For useful feedback, the environment must be one in which everyone feels free to express opinions, feelings, ideas, and attitudes, without recrimination (see exercise 4). Negative feedback that can prevent people making comments in future can include non-verbal reactions (a bored manner, a look of disparagement, shaking one's head...) as well as spoken criticisms.

## Promoting effective communication in cooperative organisations

The most common communication situations in cooperatives are the meetings at various levels, written communications to and from members and the informal conversations during members activities.

Generally, it is very important that there are mechanisms for regular information sharing, e.g. regular meetings, a notice board in the office where information can be displayed, a letter box for suggestions, members newsletters and magazines (particularly for large cooperatives).

Chairpersons of meetings need to know or acquire skills on how to conduct meetings in a participatory way (see exercise 6) and all members at all levels need to be take the time for more informal chats with each other.

Members' participation in actively preparing notices and newsletters helps to improve their feeling of identity with the organisation.

To some degree, good communication practice can be institutionalised through regular reporting on matters of concern to the members, writing minutes of meetings and making them available to members etc.

### Questions to ask when planning communications

*Who?, What?, Why?, When? Where and How?:*

**Who** am I going to speak to? What kind of people are they? Do they know enough about the subject to act on the information? Who should be told?

**What** is the purpose of this message? What am I trying to say? What background information do I need to include? What could I leave out?

**Why** is this message being sent? Why is it important that they receive the information? Why is this change being made?

**When** should I communicate the information? When will they need it?

**Where** can I meet them? Where can they receive the information?

**How** should this be communicated? What is the most effective medium to use?

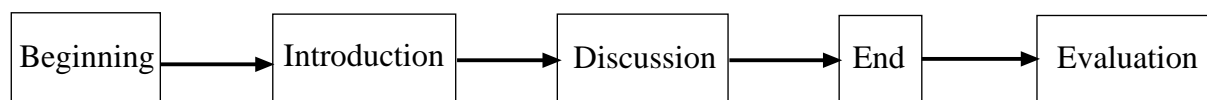
## Conducting meetings

Participatory methods can help promote the more active involvement of members in the decision making processes of cooperatives. e.g. at board meetings and member meetings. Bringing people together, encouraging them to speak out and to reach a consensus about future activities requires a special attitude as well as knowledge of and skills in the use of certain methods on the part of the leaders of meetings.

Formal procedures can help to structure meetings. The regular order of business or agenda to be followed in a meeting is usually determined by the rules of the organisation. If the organisation has not made a formal agenda, the usual order is (adapted from FAO 1984):

- read the minutes of the previous meeting,
- approve/discuss the minutes,
- topics for the meeting
- reports of committees
- reports of officers
- unfinished business
- new business

However, participatory conduct of meetings involves more than formalities. All meetings should have five distinct phases: **B**eginning, **I**ntroduction, **D**iscussion, **E**nd and **E**valuation. (adapted from Grieshaber 1994)



### **Beginning**

Any beginning of a session is a time for getting in touch with one another, even if the participants already know each other. That is when feelings of trust and understanding and a relaxed kind of atmosphere can be created. When the participants have not met before, or only formally, it is very important to get to know one another.

There are a number of introductory games or exercises that can be used for this (See Module 2 or the reference list). A welcome address and/or warm-up game, a song, a dance are always good methods to make the participants feel comfortable.

It is useful to provide name cards to be pinned on participants until they are familiar with each other (alternatively write everyone's name on a piece of tape to stick onto the person's front (chest or shoulder)). If there are fixed table arrangements, you can also write name cards that are put on the table in front of the respective participants.

Especially at the beginning of a meeting/workshop, it is important to give participants the opportunity to share concerns, hopes, wishes and expectations concerning the meeting. These need to be listed and considered during the following phases. (See also exercise 5.)

## **Introduction**

In this part of the session participants are introduced to the topics, including, if possible, those requested by participants themselves at the beginning. Stimulation and increasing motivation for learning are the major tasks of this phase. If a new topic is to be introduced, participants' interest and active involvement can be raised by exercises and questions, e.g. case studies, brainstorming (see exercises in the annex), by a short lecture by a resource person, or by a film or video tape.

## **Discussion**

Now ideas are exchanged, discussed, and the issues are analysed. The participants need to link their own experiences to what has happened in the introduction, and to share them with the others. This is frequently done through group work, with the groups' results being collected and presented in the plenary, when all groups have completed their tasks.

The chairperson acts as facilitator and does not impose his/her own view on the other participants. In a training situation, however, the trainer may direct the discussion towards certain issues he/she considers important by asking further questions.

This phase constitutes the most important one as everybody's experiences and opinions have to be considered. Therefore it requires the largest share of time in any session.

## **End**

The results of the discussion are collected and summarised. Their potential for further use should be made clear. If the summary cannot provide directions for future activities discussed during the previous phase of the session, a future plan can still be made. For example, questions like this can be posed to participants: *How are we going to deal with this problem in the future?* or *What can we do about this now?*

After discussing such questions, decisions could be made either by consensus or by votes, or, if the issue is too controversial, postponed to another session. Subgroups with varying interests may be formed to think about solutions in the meantime.

In some meetings, participants may want to finish their sessions with a communal activity such as a song or game.

## **Evaluation**

Giving participants an opportunity to express their opinions about and impressions of the session is important for any group process. Evaluations can become a learning event for everybody involved, especially if there have been frustrations concerning the topics dealt with, or between certain participants not expressed during the event itself.

The form of evaluation (see module 2-3) will need to vary with the size of the group, the degree of mutual familiarity and, the issues to be evaluated, e.g., the performance of the trainers, the content of the course etc.

Evaluation should also include questions about possible improvements for future sessions.



## **Dealing with conflicts in training sessions**

There are seven basic ways in which people can deal with conflicts. (See exercises 7 and 8.)

### **1. Avoiding the conflict**

Here conflicts are denied; not addressed by any party; kept hidden or suppressed. Groups that avoid conflicts cannot develop relationships deep enough to warrant lasting confidence. They usually have an air of distrust about them, and some members or groups may either stop participating in activities or leave the cooperative.

### **2. Removing the conflicting party/parties**

Members that oppose or disrupt the cooperative's objectives are driven out of the group either by expulsion; by punishment; or just ignoring their wishes. Such members may then establish new groups that compete with the cooperative.

### **3. Suppression of the minority**

The group suppresses those with other opinions by any means at their disposal. The minority is expected to listen and accept what the majority wants and thinks is best for the group. For some time this strategy may work but sooner or later tensions and hostility often break out again.

### **4. Agreement**

The majority rules and decides, but the minority agrees to what is proposed. This will be the case in situations where no high stakes are at risk for the losing section.

### **5. Alliance**

The different parties do not give up their opinions but agree on a common point (short-term goal) that all consider good for them. The conflict is still there and may surface again once the short-term goal is reached.

### **6. Compromise/Consensus**

When the parties involved in a conflict have similar influence and support, they may look for a compromise. Each faction gives in as much as necessary in order to reach a better solution in the end. - Conflicts are often solved like this. However, it has to be accepted that neither party is usually entirely content with the final solution, since a compromise is by definition less than either party would like.

### **7. Merging differing approaches into a new one**

The parties differ with regard to the methods but have a goal in common. Different opinions are discussed, weighed against each other and measured against the common goal. The whole group is involved in the process of conflict solving, and each member makes sure that her/his wishes are recognised. The newly found solution can be an even better one than the solutions envisaged by the differing positions at the outset.



## SECTION 3.2

# EXTERNAL COMMUNICATIONS



## Introduction

Cooperatives need to work with private and state technical services, as well as with commercial networks for inputs and bank credits. They buy inputs from commercial organisations, sell to commercial organisations and sometimes to individuals and need to negotiate terms and conditions. The better the image of the cooperative and its activities, the more favourable the conditions it will be able to negotiate, so it is also for the cooperative to promote itself both with the organisations with which it works and within society in general.

## Objectives



At the end of the section, participants will be able to describe the main issues of external relations of the cooperative and will be able to plan public relations activities

## Key learning points



- Relationships with governments
- Gaining or maintaining independence
- Public relations
- Strategies and techniques of negotiation

## Teaching Strategy



### I A debate on relationships of cooperatives with government

First ask for volunteers to be speakers for and against the motion 'We believe that relations with government are beneficial to cooperatives and should be strengthened'

There should be two speakers for strengthened relations and two against. All other participants should also prepare their arguments for or against the motion.

The speakers then present their arguments and a general debate is held with a vote at the end.

## **2 Negotiating exercise**

Ask participants to prepare the following role play. Participants should work in groups of five to discuss the issues and their tactics. Half the groups should plan the tactics of the hotel management, the other half of the groups as the cooperative.

One person from the hotels groups should then play the general manager of the hotel and one from the cooperative group play the marketing director of the cooperative.

### ***The scene***

*Groups playing the cooperative:*

You are the person in charge of marketing for an agricultural cooperative and you have just been informed that a large customer (the main hotel in the area) has agreed to buy its fruit and vegetable supplies from another supplier. Only vague reasons have been given. The decision will drastically affect the profitability of the cooperative and also its plans for development. You decide to see the Managing director of the hotel to try to negotiate a new sales agreement which would be acceptable to both parties.

*Groups playing the hotel:*

Decide your reasons for changing to the new supplier. You will agree to meet with the cooperative representatives and may or may not come to an agreement, depending on the conditions offered.

## **3 Plan a PR (Public Relations) campaign**

In groups of 5, plan a PR campaign to last for one week to promote a new activity of the cooperative.

- decide on the subject and goal of the promotion.
- analyse the situation and possibilities for implementation (internal and external criteria: budget, organisation and resources, period for the campaign)
- decide on the methods to be used
- plan the activities, including timetables, staff, budget, possible co-operation partners, evaluate of the results
- decide on the promotional materials (posters, leaflets, radio programmes etc.) and plan their preparation
- prepare your plan for presentation to the plenary (using flipchart, cards, blackboard etc. as appropriate (or alternatively present your plan as a role play)

## Reference information



### The relationship between cooperatives and governments

Governments have the task of creating optimal conditions for the development of the country. However, they often follow very specific interests. Through legislation, governments exercise an immediate influence on the activities of cooperatives - both positively and negatively. Economic policies on the other hand, only indirectly determine the developmental possibilities of the co-ops.

Cooperative organisations need the right legal, political and economic framework, within which they can develop autonomously. It is therefore important that cooperatives are able to exercise an influence on governmental policy.

The co-operation between governments and cooperatives ideally is one of regular consultation, constructive dialogue, positive action in order to clarify their interests and viewpoints (and those of the members!) at local, regional and national levels.

Such regular consultations should consist of:

- information from governments as to the real social and economic conditions and the reasons for the conditions, as well as assessments made by the cooperatives about these;
- consultations to agree rural policies, which have social and economic well-being as a general goal, and that of the coop members, as a particular goal.

Governments rely on trustworthy information and analyses for political decisions. Cooperative organisations can generate the necessary information for their own analyses and for making well-founded suggestions for political activity.

It is important to find out the right distance to maintain to governments and their departments/officials. Maintaining this right measure of distance improves their ability to negotiate with governments. If cooperatives get 'too close' to governments, the governments can in some cases interfere with the internal affairs of the cooperatives.

However, officials and governments should not be seen as a monolithic block. Although local officials represent the government, they also have their own regional allegiances and as such can be suitable partners both for information as well as to represent local interests at a higher governmental level.

### Gaining or maintaining independence

Political democracy is an important basis for the effectiveness of cooperative organisations. In some cases, governments may exert considerable control over the cooperative through such measures as:

- influence on elections within the organisation;
- requiring reports from the board;
- requiring cooperatives to execute government-political measures;
- providing financial support and securing privileges with the expectation of voter support;
- limiting the growth of co-ops, in order to prevent a substantial political power-concentration.

In order to counteract too strong an influence by governments over cooperatives, they must have the broad-based support of their members. Mobilising members becomes easier, when the federations do obviously good work; offer good services for their members; and have a clear vision and concept of what they want to achieve for their member cooperatives.

## **Public Relations (PR) and the cooperative image**

Public Relations is the relationship between the general public and the cooperative and refers to the image which the cooperative presents to the outside world and how this is promoted. Relationships with the media can be particularly important in forming this public image.

Opinions on cooperative organisations are based on different sources: some of which will be due to factual knowledge, but others due to prejudices, bias, experience etc. Even business relations are often based on feelings or affections than on a rational background. Often an image is held of an organisation long after major changes have taken place, For example, in countries where cooperatives which were previously controlled by government, the publicly perceived image of what a cooperative is, often remains the same even after government controls are removed. Public relations activities build the image of a cooperative and can help to combat ignorance or false knowledge regarding the cooperative.

### ***The tasks of PR***

Cooperative public relations activities are generally oriented in three directions:

- to generate the basic conditions for cooperative member promotion;
- to generate a positive relationship with business partners, which can directly lead to business relationships;
- a socio-political role of promoting a better understanding of democracy.

Specific activities include:

- presenting the aims, possibilities and organisation of the federation;
- dissemination of the cooperative idea and cooperative principles, as well as of the knowledge of the organs of cooperatives and their democratic interaction;
- dissemination of cooperative related information and commentaries on politics and the economy from the point of view of the federation;
- information about business activities of the cooperatives in connection with product promotion.

The purpose of these activities is to develop an 'image' (the sum of all the opinions and perceptions held by people outside the cooperative organisations) of the cooperative which will help achieve its aims and objectives. Each cooperative organisation should strive to generate its own image which should be clearly different from that of its competitors.

Cooperative organisations should assess what people think of cooperatives to help them establish an image-profile.

For example, the 'German People's and Raiffeisenbanks' have a well established image of catering for middle and lower class segments - and thus for the majority - of the population. They are mainly present in the rural areas and are close to their members and clients. Raiffeisen cooperatives

are the main service providers for farmers in Germany. Their good image is based on:

- competence in their field of activities;
- trustworthiness and
- their market position.

A positive image among the public also acts internally to mobilise the members and employees of the cooperative and its federation by strengthening a feeling of togetherness within the cooperative organisation.

### **Practical PR**

PR is a learnable activity in everyday working life. Members who have an interest in writing, in the media and in working together with people are particularly qualified for this task. There are various ways of bringing something to public attention and to influence the decisions of the relevant decision-making groups such as:

- invitations to the general public or a chosen group to attend an open day, one which allows the visitors to view the inner workings of the cooperative;
- distribution of pamphlets and leaflets. This action is intended to disseminate core ideas in a few words. It is often connected with the request to take part in a particular action;
- poster promotions. These make the public aware of an action or activity, and pick up on a particular theme or action/activity. They are also suitable for product promotions;
- the open letter. This is used to make a request, suggestion, demand, protest or public adoption of a position. It is usually directed at politically active organs or at public figures and simultaneously attempts to lay open a situation by publishing it in the press. Readers are called upon to form an opinion and to support the signatories or the issue.
- public discussion. The form taken depends strongly on the local culture:
- discussion at a stand (e.g., at the market as part of sales promotion);
- discussion in a public forum, with experts and public figures;
- podium discussions, either with or without audience participation;
- rallies and demonstrations. Since these are generally very politically oriented, their use is limited for PR work.
- campaigns. Cooperatives, can carry out campaigns aimed at promoting a single issue of concern to the cooperative. If this is for an activity carried out by a number of cooperatives, the costs can be shared and the overall campaign may best be co-ordinated by a federation.

### **Negotiations and contracts**

The art of negotiating (discussions to agree a mutually acceptable conclusion) is particularly important in a market oriented economy. Price, quality, durability, deliverability, guarantees etc., are all factors which need discussion and agreement between partners when deciding to purchase inputs or to sell products to a particular purchaser. Depending on the importance of the business more or less detailed negotiations take place before contracts are drawn up. In all negotiations, it is assumed that one party has something to offer which the other wants. This relationship is not

always easy to recognise when negotiating with government or promotional NGOs. Withdrawal of labour is of limited use in a non-government controlled cooperative, but co-operation with government in more general ways can be part of the negotiations when, for example, cooperatives wish to seek subsidies or achieve an improvement in basic legal conditions.

The goal of negotiations is thus generally, to find acceptable solutions for a problem, in which self-help alone cannot solve the problem. All partners have their own suggestions for solutions at the outset of negotiations: that which appears best to them, and which they hope will be accepted without alteration. Through negotiation, a compromise is reached which is acceptable to all partners.

### **Strategies and techniques for negotiating**

Negotiating can be learnt and the better negotiation processes are understood and applied, the more easily negotiations can be concluded to the benefit of both parties.

The better prepared one is for a negotiation, the more likely it is that the negotiation will be successful. One's own interests must be clear, the goal of the negotiations should be clear and not confused with wishes. The interests of the negotiating partner should wherever possible also be known in advance of the negotiations. An ability to judge character is a particularly useful skill.

### **Stages of a negotiation**

<b>Negotiating phases</b>	<b>Behaviour</b>
Make contact and introduce the discussion	Create and maintain a positive atmosphere Pay attention to non-verbal expression - gestures, tone etc.
Objective introduction of the topic	Short speech. Address the interests of the partner
Discussion phase	Where the discussion does not resolve differences: Summarise partial results Emphasise progress Introduce breaks, give new impulse to the debate by asking questions

⇒ no agreement ⇒ new negotiations
Decisions
⇒ agreement ⇒ contract



## **Debating**

Debating is the most important ingredient in negotiations. It allows both sides to set out why they consider a particular opinion to be right and to justify this claim. Ideally a complete debate takes on the following form:

- Claim (thesis)
- Justification (core of the debate)
- Support, example
- Conclusions

### **Method for debate:**

#### **1. Clarify the status and aim of your own contribution**

- clarify the position you will defend
- introduce the speech in such a way to associate your own argument with previous discussion
- emphasise the importance of your argument compared to those of the others

#### **2. In order to convince others see to it that**

- no claims are made without justification, no justification without proof
- for proofs, use easily verifiable facts
- communicate experiences as a proof which others can follow, i.e., use cases which can be generalised
- don't silence or try to make your opponent look foolish

#### **3. Enter into the arguments of the opponents**

- where there is lack of clarity, repeat how one has understood the other
- take up and discuss essential points (not side issues)
- take up the issue at hand from both viewpoints, and attempt to clear up the matter

### **Documenting the results of a negotiation**

The result of a negotiation, a conference or other important discussions is usually written down. The form which this documentation takes varies, depending on its significance. The main forms are:

- the confirming letter (to the business or negotiating partner);
- the report (for internal use, to all participants or other interested persons);
- the memorandum (for internal use);
- the minutes (written by one or by both partners, occasionally meant for third persons);
- paper of intention (may be part of the minutes) and
- the contract between the participants as legal document.

## **Taking minutes**

The purpose of taking minutes is to provide a record of a meeting which acts as a memo for participants, information for absentees and for third persons. It can also be a legal document if confirmed by all participants.

Minutes should contain the reason, the date, the place, the theme or the agenda; the names of those present (with attached attendants list); time of beginning and end; the course of, or the result of discussions, maybe the signatures (partners and perhaps, the minute-taker). The course of, or the results of discussions are generally ordered on the basis of the agenda. It is important to distinguish clearly between contributions to discussions and decisions made.

## **Contracts**

The majority of economic and socially important agreements are regulated by a contract, generally recognised as a legally binding document.

For enterprises with primarily economic goals it is particularly important to remember in negotiations and preparing contracts, that co-operation means working together. The goal is always to strengthen the organisation. The co-operation should be marked by free-will; co-operation as partners; similarly oriented interests and equal decision-making authority.

If one of the partners of the co-operation loses his/her independence over arrangements, this can lead to a subordination and restriction of the freedom to make decisions. In this case one can no longer speak of co-operation.

Contractual regulations should generally be those set out in the laws of the land unless it is felt necessary to supplement these for a particular contract or cooperative.

The contract regulates the conditions under which a transaction or a partnership comes into being. The more complicated the relations are, the more important it becomes to write them down. This generally holds for the following contracts:

- Co-operation contracts between partners with similar interests (co-op/co-op, or co-op/private enterprise)
- Buying contract referring to the purchase and delivery of goods
- Rental contracts concerning the use of buildings and vehicles
- Contracts with national and international promotion - NGOs
- Contracts with governments and state departments

Rules and principles for contracts vary considerably from country to country and on the subject matter. In general however, they are composed of six parts:

- identity and location of the contract partners;
- goal of the contract;
- how the contracted performance is remunerated;
- which fines are to be expected on non-fulfilment;
- regulations relating to the duration and conditions for cancelling the contract;
- the signatures of the contract parties which validate the contract.

# MODULE 3 - ANNEX

## COMMUNICATIONS EXERCISES

(Adapted from Grieshaber 1994)

### I. Exercises on communication in cooperative groups

The first four exercises are best used as a set. They deal with the idea that good group-communication involves everybody's ability to communicate freely and to everyone and not just a few members' ability to do so. The exercises also help to understand more about decision-making in groups.

*Total time for the four exercises (A, B,C,D): about 2.5 hours*

#### **Instructions: A (about 15 minutes):**

Five people (a,b,c,d,e) sit in a row one behind another. They all look in the same direction and have to stick to the following rules:

a is the boss, but can only talk to b,

b can only talk to a and c,

c can only talk to b and d,

d can only talk to c and e,

e can only talk to d.

The facilitator instructs all participants to try and convey as many messages to *a* and *e* as possible. All of them have to talk about their journey to the workshop (where they are from, how they travelled, how long it took them to get here and so on). Everybody has to start at once.

After a few minutes, the facilitator stops the exercise and asks the *participants involved*:

How did you feel during the exercise?

About how many participants do you know something concerning their journeys?

Then the rest of the group is asked to give comments:

What was wrong with this communication?

Anything to add?

The answers are noted and listed.

#### **Instructions: B (about 15 min.):**

Five people sit in a circle. Another person sits in the middle of the circle. Everyone who sits in the circle is allowed to talk to the person in the middle. But they are not allowed to talk to each other. Only the person in the middle may talk to those in the circle.

The topic they discuss is provided by the facilitator, it should be controversial like: “*Should we get an incentive to attend this workshop?*” or: “*Should we send more girls to school than boys?*”.

After about five minutes of discussion the facilitator stops the group and asks the participants to give a short evaluation:

How did you feel during the exercise?

Did you manage to get to the point?

Then the rest of the group is invited to answer the following questions again:

What was wrong with this communication?

Anything to add?

Again the answers are noted and listed.

### **Instructions: C (about 15 minutes):**

Six people sit in a circle.

Everyone can talk to his/her two neighbours, but to no-one else. The topic to discuss may be one that is currently important in politics or some other controversial topic like: “*Women should not be allowed to drive cars*”. (A list of possible controversial subjects can be found in the exercise “Controlled Dialogue” below)

After about 5 minutes the facilitator stops the discussion and asks the participants again:

How did you feel during the exercise?

Did you get to the point?

Then the audience is invited to give comments:

What did you think about this way of communicating?

Anything to add?

Record the answers and list them.

### **Instructions: D (about 20 minutes):**

Again six people sit in a circle. Everyone can talk to everyone.

A topic of discussion might be: “*It is always good to respect traditions.*”

After about 10 minutes of discussion, the facilitator asks the participants:

How do you feel now?

Did you get to the point?

And the audience should give comments on:

What did you think about this way of communicating?

Anything to add?

Again the answers are listed.

After the four exercises are finished, groups of three are formed and asked to come up with statements to complete the following sentence (group work lasts about 10-15 minutes):

*“The best way to discuss in a group is ...”*

Then the statements of the groups are collected and the whole group is asked:

*What does this mean for a good facilitator?* or, depending on the training context:

*What does this mean for a good cooperative?*

The statements are collected in the form of the following sentences:

*“A good manager/chairperson will ...”*

*“A good manager/chairperson will not ...”*

Again the completed answers are collected on newsprint to make them visible for all participants.

The facilitator may summarise by a written sentence:

*“Communication works best in a way that everyone can talk to everyone in a direct and open way.”*

Optionally, this exercise may be followed by a discussion of obstacles and problems that arise in the cooperative working context, and possible solutions.

## **2. Controlled dialogue: Clear speaking - careful listening**

This exercise serves several purposes:

- better understanding of the processes of communication
- development of an ability to compare what has been said with what has been understood (by practising good listening)
- practice in clear expression
- gaining an understanding of the complexity and the problems of (direct verbal) communication

*Time: about 45 minutes*

### **Method:**

Three times 10 minute dialogues in subgroups with change of roles, evaluation and discussion

### **Instructions:**

Divide the participants into groups of three; hand out instruction papers to each member; give some proposals for subjects to be discussed or give time for groups to find their own subjects. For example, *“It is unfortunate to have a daughter as a first-born child.”* - *“It is the duty of a son to take his parents into his home.”* - *“Modernisation along Western lines is unsuitable for developing countries.”* - *“Abortion should be legally permitted.”* - *“It is wise to honour traditions.”* - *“Most of the money from richer countries is spent foolishly and irresponsibly.”*

Two members of each group discuss the selected topic, the third person observes. One of the conversation partners (A) makes a statement, and the other (B) should oppose it.

The discussion has to follow certain rules:

No argument may take more than two minutes.

Before one partner (B) answers the other (A), he or she has to repeat the contents of the other's statement as correctly as possible. He/she is allowed to continue only if the other is satisfied with the repetition.

The first person cannot repeat their statement and can only answer yes or no to questions, so the second person needs to repeat the statement using expressions such as "Do you mean to say..." or: "Did I get you right ...", or: "Are you trying to say..."

Now B makes her/his own statement, after which it is the other partner's (A) turn to repeat correctly what B said until (s)he is satisfied, etc.

After about 10 minutes change roles and choose a different observer.

Evaluation and analysis (if possible, in the small groups), according to the following questions:

*Shortcomings on the part of the speaker?*

*Shortcomings on the part of the listener?*

or:

*What happened and why?*

*What do we learn from this exercise?*

*Conclusions for our working context*

Summary and discussion of the results in the plenary.

### 3. Whispered message

This exercise helps to make people aware of the problem of ineffective listening and to improve their conscious listening skills. It illustrates the distortions that may arise from indirect communication.

#### **Instructions:**

Select ten people from the group present. Ask them to leave the room (or the site). Then ask one of them to return to the room. Make sure that none of the people outside can listen. Then you read a story of about ten sentences to the person and to the plenary group.

#### **Example:**

My Aunt Jane is very old. She is almost seventy years old and forgets a lot all the time and sometimes does silly things.

Last week she left the house alone. Nobody knew where she had gone. Finally, Uncle Peter, her husband, found her in the market. There she was, trying to buy things. But she only remembered the lower prices of goods as they had been 20 years ago. So she was arguing with all the traders, calling them liars and cheats. All the people had a lot of fun with her, since Aunt Jane is well known, and most people like her. She had no money on her to buy anything, but eventually some market women gave her some fruit as a gift.

My mother said: "I think we should send Aunt Jane more often to the market. She is a very good business woman."

After reading the story to the first person, keep the text to yourself and ask the next person to come into the room. The first participant is asked to tell the story as exactly as possible to the second participant, the second to the third, and so on. This procedure is continued until all the ten people have returned one by one.

The group and the other people who have come in before are not allowed to make any comments. They are just asked to watch.

After the last player has told the story to the group, read the original text aloud once more.

Now invite the whole group to discuss the question:

*What has happened to the story and why did it happen?*

Members/Participants are asked to give suggestions on how the results could be improved (without showing the written text to all participants).

An alternative and similar exercise is to use a picture with a number of elements in it (e.g. men and women, food and fuel, transport etc.). Show this picture to the first person who is then asked to describe it to the second etc. The last person has to tell the group what he/she thinks was in the picture. Then, show the original picture to the group and discuss what happened to the picture, who remembered what and why.

#### **4. One look into the mirror**

This exercise is about feedback. If there are two or more subgroups in one training group or cooperative, this exercise can help to bring them into contact and to make the unsaid judgements between them visible, e.g., between representative groups of different cooperatives; men and women; groups of different tribal affiliations; of different socio-economic backgrounds, etc.

This exercise may also be used to discuss the variety of interest groups which may exist in any given cooperative organisation.

##### ***Instructions:***

##### ***Phase one:***

The group is divided according to the different identities or interests that their members represent. Each sub-group has 45 minutes to answer the following questions:

*How would you describe the other group(s)?*

*What do the others think about us?*

*How do we see ourselves?*

*How do we want the others to see us?*

Each group writes the answers on cards. After 45 minutes the groups meet and share their answers. There should not be much discussion of the results yet.

##### ***Phase two:***

Only after each group has presented their outcomes is there the chance to exchange, to ask and discuss the mutual answers.

##### ***Phase three:***

Ask the participants:

*What can we do to improve our co-operation?*

With the use of the feedback and the results of the discussion it may be possible to agree on certain points and come to a common basis for action.

## 5. Exercises to express wishes and needs of participants

At the beginning of a training event or meeting, members are asked to speak about their wishes and needs concerning the proceedings and contents of the workshop/meeting. For the facilitator/ chairperson this means supporting those who still feel unsafe or afraid to speak in front of the others, and finding a way to stop those who speak too long.

He/she needs to listen carefully to what the group-members say, because they will express how they want this group to be, as well as how they feel at the moment, both being helpful and necessary hints on how to continue.

If this phase is presented as an exercise with certain rules, it can help ensure that all participants have the same chance to speak and to make it easier to speak out.

There may be a need to insist that the reports of each group member are listened to and not being commented on by others, lest the former become afraid of presenting themselves to the plenary group.

**Exercise 1.** Everyone is asked to draw a picture of his/her expectation or vision. After 10 or 15 minutes the pictures are hung on the wall and participants explain their pictures one by one. This is a particularly relaxing way of self-presentation as the “adult” level of communication (lecturing, writing) is given up in favour of the “child” level (drawing).

**Exercise 2.** Ask participants to write up to 5 cards (depending on the number of people present and on the space of wall or pinboards available) to answer questions such as:

*What do you expect to learn at this workshop? or*

*Which decisions do you want to be taken at this meeting?*

Note: In some social settings, local patterns of behaviour towards recognised authorities (chairpersons, facilitators, influential members present) do not allow free expression of wishes and needs.

## 6. Role plays on different leadership styles

This exercise helps a group to see how the behaviour of the leader affects the group he or she is working with at meetings. It is a good exercise to use at the beginning of a workshop on leadership and management.

This exercise has four phases.

### **Instructions:**

#### **Phase one:**

About six volunteers should be called on, for each of the two role plays to come. Every volunteer should be asked to act out a meeting of a group with which they are familiar (e.g., cooperative committee). They are given a task to make a decision about a matter of general interest to the cooperative, e.g., what to do about a case of theft or how the cooperative can best approach a donor organisation for funds, or how a working group should be formed to do some research on market conditions etc.



One person is selected to act as the chairperson or leader. The leader is told to act the part of a very dictatorial chairperson: to call for ideas but not to listen to people; to squash their suggestions; to impose her/his own point of view on the group; to tell them that it is all their fault etc.

Other members of the group are each given specific roles:

- A is asked to support whatever the chairperson suggests,
- B suggests several different possibilities,
- C supports speaker B,
- D always interrupts and opposes the chairperson, etc.

These instructions can either be given orally to individuals before doing the play, or be written on slips of paper for each volunteer.

The chairs should be arranged in an open circle in front of the group, so that everyone can see and hear well. The actors should be reminded to speak clearly and make all their gestures clearly visible.

The chairperson starts the play and each person acts the role he/she has been given.

Meanwhile the audience is asked to take notes on the following questions, which the trainer has written down before the play:

- What does the leader do in the group?*
- How does the group react?*

When the situation has become clear to the audience, the animator stops the action and asks the second group of six to come to the chairs.

### **Phase two:**

This is a different committee in a different place, but their task is similar. Most of the members have been given similar instructions about their roles, but this time the chairperson has been asked to be very passive. This style of leadership is called *laissez-faire* (from the French: "let them do as they like"). This leader shows little interest, makes no suggestions, does not respond to suggestions of the group, does not help to reach decisions or solve conflicts.

The audience is asked again to take notes.

Again the trainer stops the play when the situation has become clear.

If the group is fairly big, it is best to let the participants discuss these questions in threes for a few minutes before gathering up all the answers in the plenary. The mistakes and reactions should then be thoroughly discussed.

### **Phase three:**

After the discussion the trainer asks another question:

What does a good leader/chairperson, manager do in a group?

Try to get specific answers not just general statements. The answers are recorded.

### **Phase four:**

Finally the role-play can be re-enacted with someone who volunteers to play the part of a democratic leader/chairperson as effectively as possible.

## 7. A conflict in a group

*Time: for all phases around 4 hours. As this is a sensitive subject, the time may need to be extended.*

Conflicts exist in every group, including in cooperative organisations. The following exercise provides a basis for discussion of conflicts and possible ways of conflict management.

### **Instructions:**

#### **Phase one:**

Read the following story to the participants, making sure that everybody gets it right. Of course you may invent stories that are more appropriate to the situation and the experience of the participants.

*“In the club (local name) there are 15 female members working together on a small income-generating gardening project. Altogether they started with gardening and have done quite well so far. But recently five of the members bought three sewing machines with which they wanted to start a sewing business in addition to gardening.*

*During the discussion in the meeting following this event, the owners of the machines claimed a bigger share of the common profit, because the machines were theirs and they wanted a small fee from the other members for the use of the machines. The other members disagreed: “if the sewing machine owners want to sew on their conditions only, they should leave the project!”*

*The machine owners are surprised, for now they want to start fighting for their “rights”. The other members of the group are surprised too. Every interest group calls on outsiders for assistance, such as district development workers, officials of NGOs, without the knowledge of the other group. The communication between the two factions has almost come to an end. Each of the group wants to win the “fight”.*

*Some of the members do not feel so intensely involved. They see there is obviously something wrong, and they want to change it.*

*What can they do?”*

Divide the participants into small groups of four and ask them to discuss the following questions:

*What has happened in this group? - Describe the situation again in your own words.*

*How did it come to this? - Give the main reasons leading to the deadlock situation.*

*Do you know situations like this from your own group experience?*

#### **Phase two:**

In groups of five ask the participants to come up with ideas about how conflicts in general can be solved and how it could be done in the case at hand.

What would you recommend to those members who want to change the situation? - Try to find more than one idea!

#### **Phase three:**

After the groups have each written down their ideas, collected them and presented them in the plenary, introduce the members to different conflict solving strategies (see above) and compare them to the solutions they have given.

Make sure that the participants have understood the different conflict solving strategies. Maybe every strategy can be illustrated by examples of the case study results that have been just presented or, alternatively, from the participants' experiences.

Finally, ask the participants to form small groups to discuss the different solutions and give comments on what they think is realistic in cooperative group work.

## 8. Role plays on group conflicts

### **Instructions:**

Divide the participants into groups of five and instruct each group as follows:

Make a role play with the following content: A group or cooperative has a conflict with one of its members. What happens, and how do they try to master the situation?

After about 30 minutes of preparation, ask each group to present its play one after another. The audience is asked to take notes according to the questions:

What are the causes of the conflict?

Do you approve of the solution?

What else could have happened?

## 9. The pool

*Time: 30 to 60 minutes*

This exercise is a helpful method if there are subgroups with opposite ideas on a certain issue. It helps making obvious the major differences of interests and viewpoints among them. These are important to know when goals need to be defined and decisions have to be taken. Participatory decision-making is a kind of systematic communication which ensures that all members are satisfied.

The most important part of working with groups is the process of searching for options. Here the members need a good deal of assistance from the promoter/trainer. Only after all known options have been brought up and discussed openly in the group can the final decision be a success and, if reached by consensus, can it be supported by all.

### **Instructions:**

Ask the subgroups to withdraw from the room (or site) and to each elect a representative. Then the representatives meet in the middle of the whole group and discuss their views in front of all the other participants.

### **A variation is the “Open Chair”:**

This variation makes the exercise more interesting and allows more participation.

A free chair is placed among the representatives to give members of the silent majority the chance to come into the middle spontaneously and to join the discussion. The facilitator should watch out that there is some rotation among the spontaneous participants in the exchange. They should not all come from the same group.

### **Another more participatory variation: Discussion with supporters in the background**

Again different options are discussed in the middle of the room. But now those who agree on the same issue sit behind their “representative”. The time of discussion is limited to 10 minutes. After this time the representative turns round to his/her supporters and listens to their ideas about how to continue the discussion. It is also possible to change the representing person from round to

round, so that all have a turn at sitting in the middle. The rounds continue until the participants think that the topic has been satisfactorily discussed or a decision is close.

After all arguments have been given the facilitator stops the discussion. The whole group is asked to think about goals or solutions that may be acceptable to all.

## **Public Relations Exercises**

Plan, and prepare:

### **1. An Open day**

To demonstrate products or production installations:

Decide on place, date and time, content and methods, who will be responsible, breaks, refreshments and any entertainments

### **2. Handbills, leaflets**

For example, to advertise a particular product.

Include direct address, limited amount of text, large print, clear layout, graphic design

### **3. Poster**

To promote the cooperative. The message of a poster should be simple and cover only one issue. No more than 10 words and preferably five or less.

Use drawing or photograph, large print size, bold design

### **4. Open letter**

To inform the general public of an issue of concern to the cooperative, to let their views be known and to ask for support.

Use clear and easily understandable language and a polite tone.

Include the motive for the initiative and a suggested solution or a request for a public debate on the issue. Restrict the letter to one page.

### **5. Public debate**

Public debates on an issue give an opportunity for both sides of the argument to be heard. It is important to have a good chairperson. Participants from cooperatives should be well prepared with expert knowledge on the subject, experience in debating and be composed in the face of other opinions.

Prepare a debate in the training session on a subject of interest to all participants, where there is a difference of opinion. Choose two speakers for and two against the motion.



# MODULE 4

# ORGANISATIONAL DEVELOPMENT



# MODULE 4: ORGANISATIONAL DEVELOPMENT



## Introduction

**M**any cooperative organisations were started by highly motivated and enthusiastic leaders while others began as state sponsored organisations. Regardless of the specific reasons which led to their formation, all cooperatives, at some stage of their development, face a change in markets, leadership, outside support, or members' needs and priorities. At times the survival of the organisation can depend on its ability to adjust to the new situation and to adapt its structure. Such changes are easier to implement if the cooperative has previously set in place an organisational development framework and established an on-going process of adjusting and fine-tuning structures and objectives. This very rarely happens in practice however, and it is only when faced with serious changes that cooperatives begin to see the need to adjust and develop. This lack of development agenda and familiarity with the processes involved can lead to rushed decisions, forcing changes without waiting for members to adjust.

## SECTION 4.1 ORGANISATIONAL DEVELOPMENT AND THE VISION STATEMENT



### Objectives of the section



By the end of the section, participants will be able to

- State the aims of cooperative organisational development
- Explain why it is important to have a vision and how to develop a vision statement

### Key learning points



- Objectives of cooperative organisational development
- Balancing operational success and member satisfaction
- Approaches to organisational development and the role of the trainer/promoter
- Importance of a vision and well defined shared objectives
- Elements and characteristics of a vision/mission statement
- Processes to help the cooperative developing a vision

### Teaching strategy



Ask participants whether the cooperatives they come from have stayed the same since their formation, or whether there have been changes and if so, what prompted them. Build on participants' experience and on the results of the discussion to introduce the principles and aims of organisational development. Stress the balance between member satisfaction and entrepreneurial spirit, as well as the distinction between a cooperative and purely commercial companies.

Briefly outline the main approaches to organisational development, e.g. member driven, participatory and trainer/promoter led. Divide participants into groups and ask them to analyse the various approaches pointing out the advantages and disadvantages of each. Ask them in a general discussion to relate the approaches to their own organisations and to outline what difficulties and advantages there would be following each of the approaches. Refer to the checklist and example questions/exercises presented in the Annex to module 4 as possible tools to adjust and



use to facilitate the organisational development process (they can be given out to participants as hand-outs).

Introduce the concept of a shared vision, and its importance in helping the cooperative develop sound objectives. Ask participants whether any of their cooperatives have a shared vision and whether this have been achieved through a deliberate structured process or informally agreed upon. Outline the various approaches to help the cooperative identify its vision.

Distribute the following case study and ask participants to analyse it and comment on it in groups:

### Case study

The main objective of an agricultural cooperative is to achieve higher incomes for all members. They have under-utilised hill-side land and would like to use this land to produce a crop for cash-sales. An agronomist familiar with the area has recommended growing oranges. A map of the community's land is drawn and trees are marked everywhere that the agronomist says that they can grow. While they draw, members express the hopes they have for their families; their own businesses; the community and the cooperative. These ideas are written down and hung up on a board. After they have been read out to the members, they are grouped together and common ground is found by discussing what is realistic and what is not. The vision statement finally arrived at was:

“We want our village to grow oranges on all its hill-sides and for this purpose we want our cooperative to supply the saplings, the fertiliser, all other input as well as know-how on irrigation and orchard planning. We also want it to supply the start-up capital so that all members who wish can participate and to eventually sell all oranges on behalf of participating members.”

Follow up the group discussion with a plenary session in which participants discuss the approach taken and the appropriateness and implications for the vision set in the case study.

Outline the way in which the vision developed can form the basis for strategic development. Distribute the second part of the case study, asking participants to look at it in groups and to comment on the strategy options presented. Ask them to come up with additional approaches should they have more ideas.

### Case study Part 2

After further discussion of the vision statement, the members thought that there could be problems in trying to implement it on all of the hillsides as the land was owned by different people with widely varying levels of income and amounts of land. They were also unsure whether the cooperative could find enough money for the capital start up costs of the scheme. They suggested a number of strategy options to consider for if the cooperative does not have the financial reserves for start-up investments and production loans for all members, including:

- work teams of members physically prepare a certain part of the land per year, regardless of who is the owner or who holds tenure for this particular piece;
- the first saplings are bought on loan from an outside agent;
- the first fruit harvests from these lands go to the cooperative, until repayment of establishment costs is achieved;
- the co-op concentrates on finding markets for members' orange production;
- members agree to deliver all oranges to the cooperative for a period until or beyond such time where even the last member has his first full harvest.

## Reference information



### *Defining organisational development*

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

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

### *The aim of cooperative organisational development*

Cooperative organisational development must be based on two principles:

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

### *Ensuring a balance between operational success and member satisfaction*

*Why is it essential to put members first?*

If members are forced to contribute to goals unilaterally set by their elected leaders or by paid managers, they are likely to do only what is essential (see passive participation, Module 2). They might still attend the annual general meeting and trade with the cooperative where they have no alternative, but they will not be prepared to forego short-term gains for the sake of long-term organisational success. In the long run this will reduce trust capital and voluntary member loyalty (see comparative advantages of the cooperative form of organisation in Module 1).

### *Reasons for lack of entrepreneurship in cooperatives*

In small commercial companies the founder entrepreneur tends to provide the capital, manages the business, makes all decisions, takes all the risks and automatically becomes the main beneficiary of all growth.

Within cooperatives these roles tend to be split between different people. At times some of these inputs come from outsiders, e.g. new ideas may come from external advisors, capital might come from lending institutions, managers might not be cooperatives members. All these parties are also likely to have different expectations.

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

### *Bringing together member satisfaction and entrepreneurial spirit*

To attract entrepreneurial abilities cooperatives should ensure that:

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

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

Looking at organisational development and to the fulfilment of these goals over time, key issues to consider are:

- How can the cooperative grow, innovate and change in such a way as to follow the changing member needs?
- How will it know what members expect?
- How can it combine its goals of meeting needs and operational efficiency?

Answers to these questions are not only specific to each cooperative, but can only ever be satisfactory for a period.

## **Approaches to organisational development**

Any externally planned organisational change will encounter more resistance from within than an internally planned one.

While day to day management of the enterprise is perhaps best left to managers (regardless of whether these are elected representatives or professional managers), the medium to long-term development direction needs to be set by the general membership. Managers might need to provide professional input, ensuring that the decisions taken within the cooperative are relevant, economically sound and well informed. Members, however, should remain the ultimate judges of the organisation.

Once members have the main say in determining the overall direction for the cooperative, their leaders and managers can look after the economic operations which would suit the framework decided upon.

### ***Obstacles to member-driven organisational development***

#### **1. Lack of knowledge and skills:**

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

#### **2. Attitudinal problems:**

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

#### **3. Implicit norms:**

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

#### 4. Structural problems:

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

### ***Participatory cooperative organisational development***

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

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

- regular meetings are held to discuss current objectives, and that the majority of members continue to agree on these;
- there are basic rules which only they can change, e.g., the by-laws, standing rules;
- basic behavioural norms are transparent and accepted, e.g., by developing a code of ethics, setting benchmarks for the preferred management style;
- the basic rights, responsibilities and duties of managers and leaders are known and agreed, e.g., through the development of role descriptions;
- incentive and contribution systems are approved by members and
- learning opportunities become part of the process.

### ***Initiating participatory organisational development***

Generally the first issues arising in terms of organisational development are:

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

There should then be a certain preparedness for compromise to achieve a common perspective on what the cooperative can do for its members. If such compromises cannot be achieved, an alternative is to split up into smaller units, where agreement can be achieved more easily.

### ***Trainer's/promoter's role in initiating organisational development***

A planned approach to organisational development places some demand on communication, facilitation and entrepreneurial skills, which are in short supply in many cooperatives. Someone has to help create the right climate, ask the right questions and motivate contributions. Ideally this should be someone who has sufficient knowledge of the members' needs, management's problems and the relevant markets.

Depending on their financial status a cooperative group might be able to buy the expertise themselves or ask for assistance from the cooperative movement, the State or other cooperative promotion institutions.



Members, leaders and consequently staff, rarely have a clear understanding of the true nature of their cooperative and of its prime objectives. No enterprise lacking an understanding as to ***why it exists, what it is trying to achieve and what its future could be***, can expect to succeed.

Will a leader suggest a certain set of objectives to which all members agree after discussion, or will members come up with the objectives themselves through brainstorming and discussion? What happens if after a while some members discover that they did not understand what was implied? Or when they become disillusioned because what once sounded good no longer proves to be what they want?

Before arriving at a shared set of objectives, at least a vague idea must exist of what all the members are looking for.

### ***What is a vision?***

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

### ***Why build a vision?***

Developing a vision means all involved need to communicate their main aims clearly and unambiguously. Shared objectives can then emerge, be discussed and agreed upon and ranked in terms of priority. Under such circumstances it is difficult for individual members to "take over" and determine objectives regardless of the others.

Such a vision should lay the foundations for **strategic planning of operations** and for the **development of structures and behaviour** which allow the best level of member participation, leadership and management. A common starting point and a shared goal, helps guide decision-making on structures, operational and management issues.

### ***Developing the vision***

Developing a vision, identifying and ranking objectives are linked processes. Objectives without a clear, almost visual shared picture, can be realistic, but that does not guarantee that all involved are motivated enough to work towards their realisation. Similarly, a vision not related to clear objectives remains a pipe-dream.

There are two ways in which cooperative members can build their own vision. One is to focus on the current situation and try to find new creative solutions to problems experienced. The other is to develop scenarios which are based on the hopes and aspirations of the members - putting aside for the moment the current problems. The second approach is also a useful path for formal or informal cooperatives in the start-up phase. It will show the group how similar or dissimilar their ideas are and whether or not they can agree on a common vision.

A starting point for identifying and developing shared goals and a shared entrepreneurial vision, could be a very participatory meeting where members, leaders and managers analyse the key issues the cooperative is facing. Questions should then be asked by a facilitator, to assist the participants analyse the problems and, through the process, highlight what are the key shared objectives and perspectives. The box below gives an example of such questions. (which would need to be altered to suit the specific situation).

- Which markets are we in?
- Which markets do we want to be in?
- How reliable are the markets now and how will they develop?
- Are we getting the deliveries from or purchases by members which are needed to be able to stay in / establish ourselves in this market?
- How would our own enterprises and the cooperative enterprise need to change in order to stay in the market / access new markets?(e.g., in terms of trade volumes, product quality, prices, member benefits)
- What could we do if we lose / cannot enter these markets?

Good moderation of the discussions, visualisation and above all, attentive listening should result in a fairly good appreciation of the differences or similarities in perception and at the same time help the trainer to identify key persons in the cooperative (See Module 3: Communication, for details).

## Considerations to include in the vision

For the vision to extend beyond the enterprises only and to touch on structural and attitudinal development, the following questions should be answered (adapted from Parnell 1995: 92):

- What benefits will the cooperative provide for its members?
- What markets will it be in, what will its standing be within those markets, and what will be the scope of its activities?
- Who will be its members, how many will there be and what kind of relationship will they have with their cooperative?
- What position will the cooperative hold in the minds of its members, its customers and its other stakeholders?
- How will it be led and managed, and how will the members participate in these processes?
- How will the activities of the cooperative be financed?
- What approaches, methods of working and systems, will be used? What technology will be used?

Once the answers are written down and combined with the operational scenario, the document can be called a “vision statement”. It should be a broad statement articulating the co-op’s purpose and reason for being, and could be displayed prominently in the cooperative’s stores and any newsletter published.

In assisting members to develop a vision for the whole cooperative, it is often useful to give examples, stressing that they are approaches which fit other organisations, not necessarily models on which to base the statement to be developed.

During the discussion which leads to drawing up the statement, contentious areas should be approached gently, and discussion should build on constructive rather than conflicting contributions.

Such a vision building process may need to last over several meetings. Concurrently with, or as a consequence of the process of developing the vision, certain objectives will turn out to be more realistic than others. The picture of the cooperative’s possible future will emerge more clearly as discussions proceed.

## How visions and objectives fit into organisational development

The objectives derived from developing the vision form the basis on which to plan for strategic management. A first step would be to translate the objectives into a **strategy statement** which identifies the cooperative's primary customers, its product strategy and its unique strengths and opportunities.

The planning process (see Module 6 for more details on tools) is usually continued with a part of the membership (a work group), the elected representatives and managers. Member representatives will contribute local knowledge and managers will hopefully be able to explain market trends and financial considerations. Eventually the final strategy statement should formally be accepted by the Board, made available to all staff and interested members and can then be referred to as a focus to set clear directives for managers and leaders.

The process of choosing between different alternative strategic approaches will bring a range of critical factors to the surface. Many of them will be assumptions regarding factors the cooperative cannot influence (e.g. selling prices in two years time), while others will relate to resources which members could contribute or find.

Eventually realistic resource application and time schedules can be added to the detailed plan showing how the process towards realising the vision will proceed. That then is largely the work of management and the Board, or (mainly in larger cooperatives) of specially established work groups of members and sectional staff.

In order for the organisation to stay flexible, it is important that external changes be recorded and interpreted through continuous monitoring and self-evaluation procedures. It will be necessary to hold members' meetings from time to time to appraise whether the original vision and the main objective are still realistic. If the original objectives were well thought through, they will usually last. Adjustments are often possible by adjusting one of the supporting objectives, or by ranking them differently. This, of course, will result in changes to the strategic plans and may require revised operational targets.

Internal changes will also need continuous monitoring. Changes within the membership, for instance, will influence the chances of success of the strategy. Because members contribute voluntarily, such developments usually demand a review of existing incentives, contribution systems, norms and regulations.

In order to allow for **controlling, monitoring and evaluation** of internal and external changes, appropriate indicators need to be identified. They should be identified for all assumptions made and for all sub-objectives and operational targets set (e.g., profit or loss for economic success; the additional amount of fertiliser purchased each year as an indication of the development of investment potentials of farmers; participation in meetings; the opinion of members on the cooperative as measures of satisfaction etc.). For more details on this process see Module 7.

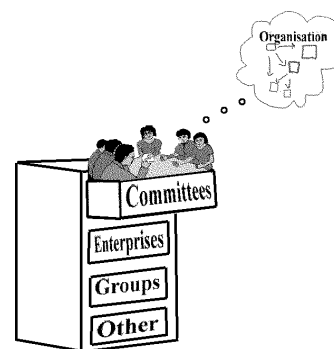
### ***An additional benefit***

Successfully completing a vision building exercise can bring new motivation to members, leaders and managers. This energy should be used to begin acting on achieving the vision, e.g. begin work-group activities, implement structural changes, collect the financial contributions agreed upon. The more time between the exercises to develop the vision and the implementation of activities, the lower will be the chance of finding volunteers.



# SECTION 4.2

## NORMS, STRUCTURES AND ENTREPRENEURSHIP



### Objectives of the section



By the end of the section, participants will be able to:

- Describe the role of norms and structures in organisational development
- Outline the reasons for promoting cooperatives groups and entrepreneurship

### Key learning points



- Types of organisational norms and their influence on cooperative development
- Structures ensuring effective control by members
- Members representation and leadership
- Cooperatives as learning organisations
- Promotion of innovatory approaches and entrepreneurial potential
- Group development, cohesiveness and motivation
- Cooperative business development

### Teaching strategy



Introduce the role of explicit and implicit norms in organisations and the ways in which they affect behaviour and influence organisational development.

Ask participants to list examples of both explicit and implicit rules within their cooperative and analyse the effect that these have had on organisational change. Which are the norms which have promoted change and which ones have hampered it?

Ask participants what determines cooperative structures. Build on the results of the discussion to develop further the factors affecting the development of structures.

Ask participants to think which cooperative structures have, in their own experience, proved conducive to effective control by members. During the following discussion, address issues such as spreading responsibilities, work groups and member representations.



## Reference information



### Norms and cooperative development

Organisational norms influence the behaviour patterns inside co-ops almost as much as structures or material incentives. Organisational norms are so much a part of the organisational culture, that they are often only noticed or questioned when problems arise or contrasts are made with other organisations.

#### *What are organisational norms?*

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

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

The set of explicit and (particularly) implicit norms is very specific to an organisation and is an integral part of its organisational culture. It determines the “do’s” and the “don’ts”, regardless of whether they are written and formally recognised or not.

#### *How norms influence cooperative development*

Cooperatives, much like any organisation, need a framework of rules of behaviour. These rules should ensure that the enterprise remains under the control of its members, and they govern the relationship between members, and between members and third parties. As the organisation develops, however, some rules may become redundant and it may then be necessary to alter them or adopt new ones instead. Old patterns of communication can become ineffective and even inhibit development. Certain social rules may also stand in the way of innovative entrepreneurs. An example of this is the complete avoidance of conflict. While such an approach can be appropriate in some instances, it can prove paralysing in others.

As a facilitator/trainer you may notice that certain implicit norms prevent the cooperative making effective use of all its potential (e.g. the role of women within the cooperative). Bringing the issue to the attention of the cooperative often results in scepticism, with people wondering why norms which have served the organisation well in the past should be replaced.

If these norms are made explicit, it is easier to help members to change them. When members understand that external or internal changes threaten the co-op’s survival, they are more prepared to discuss changes and look for new solutions. Similarly, if it can be made clear how a change in the norms can lead to better use of members knowledge and/or resources, members may be willing to change.

When rules are implicit, members often do not know what it is that stands in the way of effective interaction or innovation. Implicit norms are also more specific to the society in which the cooperative exists. It can be quite uncomfortable for the group to even consider giving up certain behaviour patterns or beliefs for the sake of cooperative success.

The starting point for changing implicit norms is to somehow bring them to the surface and make them explicit. Making a norm explicit does not mean taking away from members the decision as to

whether or not they want to hold onto old norms. Imposing a change in values and norms without achieving the support of the organisation can seriously damage the competitiveness and effectiveness of the cooperative.

### *Critical issues where norms need changes*

The fact that a vision has been developed by the broader membership can help to make certain norms explicit and include them into by-laws. It doesn't, however, automatically alter the norms held by the individuals most directly involved with and responsible for operational management such as leaders and managers.

Cooperatives throughout the world have found it necessary to institute by-laws and codes of conduct to ensure that member promotion remains the focus of activities and is not hampered by implicit norms of their leaders or managers. To enable members to be more conscious of attitudinal problems they were not aware of, we have included a "checklist" of areas in which such norms or rules should be considered (See annex to this module: 'Formal assessment - How flexible is the cooperative'). Decide for yourself if the organisation you advise needs to question any of them.

## **The development of appropriate organisational structures**

The organisational structures of cooperatives are partly determined by law (e.g., cooperative acts, tax laws, land law, banking law, company acts and other relevant legislation) and partly by the cooperative itself, according to a range of factors distinctive to its specific situation (e.g. its objectives, type of activities, member's requirements, etc.). In this manual we will concentrate on the latter.

There cannot be a single blueprint for all cooperatives. Each cooperative has to develop its own structures to suit its objectives. During this process, a range of elements need to be considered to ensure relevance and efficiency.

### *Structures necessary for effective control by members*

In every cooperative there needs to be a structure to ensure **effective and ultimate control** remains in the hands of the members. Members' meeting will normally be vested with certain powers to exercise in the interest of the members, including (Hanel 1992: 92):

- drawing up and subsequent changes in the by-laws,
- deciding on general and business policy issues for the cooperative,
- taking decisions regarding election/appointment/dismissal of the Board of Directors, the Board of Supervision and the Advisors' Board of the Society,
- approval of the operational plan, the estimate of revenue, the adoption of the balance sheet, the general conduct of business and management.

In most countries the law prescribes some system of external auditing. This, however, cannot replace internal control mechanisms. Apart from the long intervals between external controls, the reports are usually difficult to read, and need to be analysed, summarised and explained to the members before they can actively participate in the control of their enterprise and the performance of their managers and leaders. External audits also often contain insufficient information. They may confine themselves to the assessment of the economic development or only assess whether the accounts are formally correct. They neither inquire whether members interests are being promoted effectively and efficiently, nor do they consider the future prospects of the cooperative.

## Special needs in large cooperatives

Large-scale cooperatives need more complex organisational systems to ensure that all member interests are represented. This is particularly important when issues concern the future of the cooperative rather than day to day decisions such as how surpluses should be distributed.

Cooperative managers and leaders need to be constantly aware of members' needs and wishes. Yet the larger the organisation, the more difficult it is for members to feel that they "own" both process and results. Opportunities for discussion between members and leaders, and mechanisms for leaders and managers to report back to members on progress need to be set up more formally than in smaller organisations.

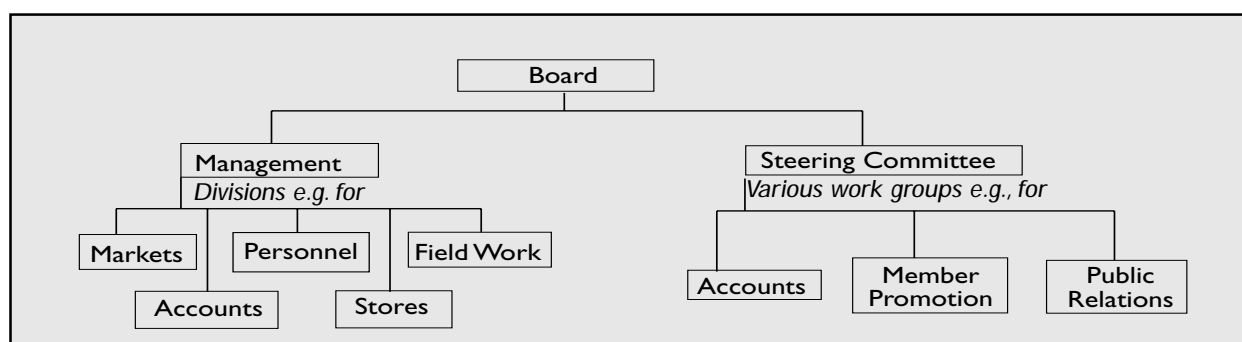
## Ideas for effective control structures which spread responsibilities

One way of doing this without overburdening managers, is to establish a number of work groups, whether working separately or co-ordinated by a steering group. Each group will concentrate upon specific aspects of the development process and, within a given set of guidelines, will deal with details of the changes that needed. Their task is to push forward the development process agreed to by members, find ways of detailing objectives and make sure that operational plans for implementation are in line with member promotion and can be monitored. They will be guided by the vision statement and strategic plan, and should be able to call on managers when they require additional information.

Groups may be of different sizes and not necessarily of a fixed composition, with some individuals joining in only when required (e.g. specialists, outside facilitators).

If there is a steering group, it should co-ordinate activities and monitor progress, drawing together the findings of work groups, and supporting groups and act as a link between the groups and the Board. In this case, work groups should include one person drawn from the steering group to make communication easier and faster. The steering group members should be elected or appointed by a members' meeting. Work groups can be assembled voluntarily, by appointment from the steering group or by election from members. At any one time there should be somebody assigned the responsibility of reporting on progress which has been made.

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



None of the groups need to be representative of the entire membership. However, they have to be made up of people who know enough about the various key activities of the cooperative. They should also never take the existence of any part or activity of the organisation for granted, and their standing must be such that their recommendations are taken seriously by the members they represent, as well as the managers and leaders.

Sometimes it can be advisable to call in an external facilitator who can put forward an independent view. If necessary these facilitators should be able to point out where defensive positions are

being taken, and can also help to reconcile the different views of the group.

Care needs to be taken that the whole process does not become too bureaucratic, with activities centred on the preparation of formal reports.

Group related subjects together to help avoid the proliferation of work groups. The success of the entire process will depend on there being a commitment from the top of the organisation, thus maintaining everyone's enthusiasm, and making sure that the required changes take place. This can be fostered by the steering committee reporting successes regularly, and securing the removal of the barriers to change which may exist at the highest levels in the organisation.

## Members representation in organisational development

Most representational systems operated in large scale cooperatives are based on the geographical location of the members. This is useful where communication and transport infrastructures make it impossible for members to effectively communicate with a central meeting place. There are, however, other approaches to representation. As long as they provide for the representation of all significant interest groups, work groups can be formed according to other criteria such as those given below. These groups can then monitor the development of various interest areas and advise the Board. Monitoring groups could for example be formed to consider:

- The main business activities of the cooperative (bearing in mind that no activity is in itself the purpose of the cooperative but only the means of providing the members with the benefits they wish to receive from their cooperative).
- Member control and how it is exercised, including issues relating to the structure of control, the functions of the board, management structures and governance
- Financing, capital generation and asset re-deployment
- Membership benefits and member loyalty
- Human resource development
- Pilot projects for new approaches
- New markets and external stakeholder related possibilities of repositioning the cooperative

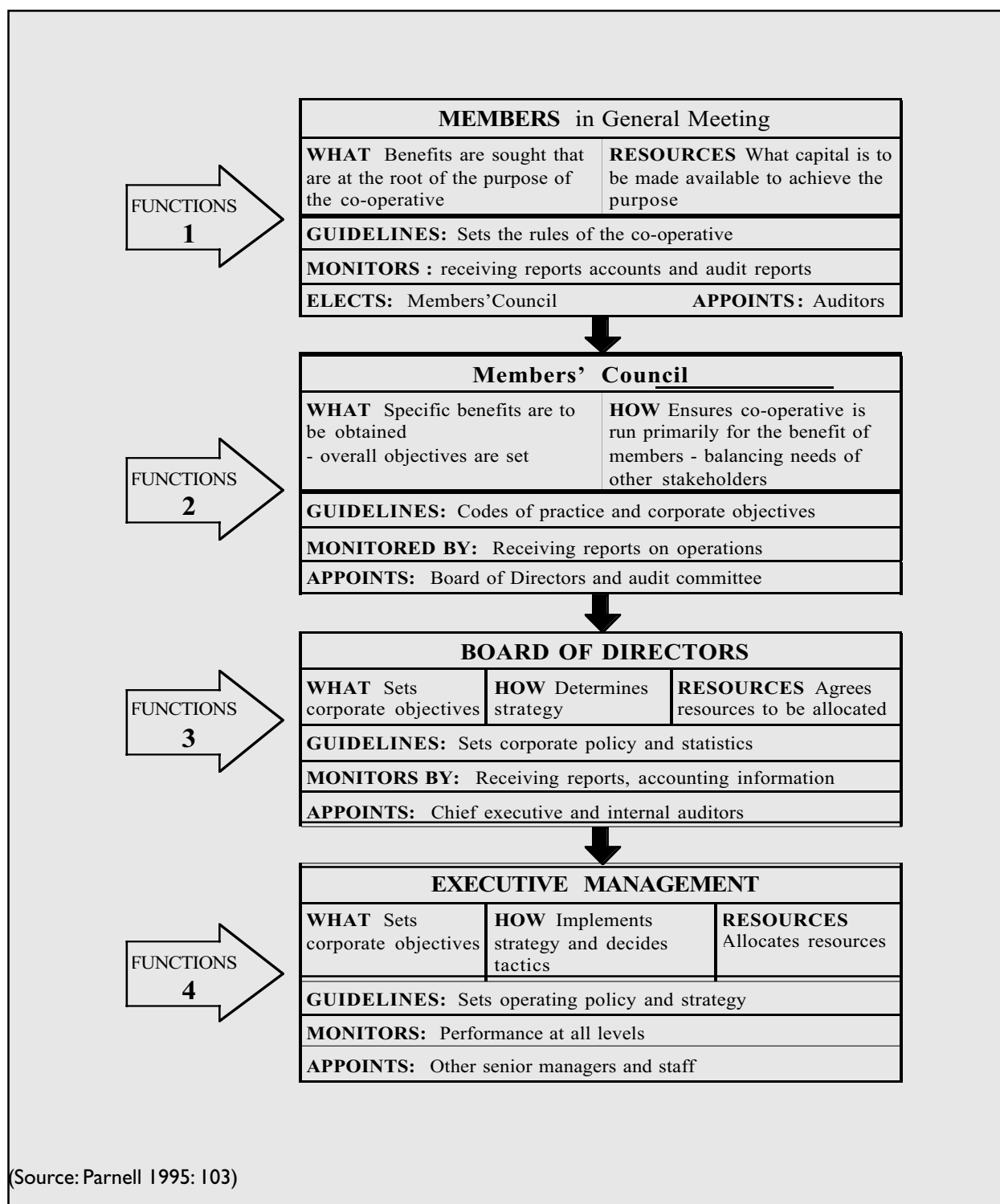
## Leadership structure

**Board structures** may be either a single or a two tier system, according to whether it includes a supervisory board in addition to the board of directors. This is usually determined by cooperative law, though there are situations when a supervisory board is introduced even in the absence of any specific internal legal requirement. While the board of directors concentrates on the functions related to directing the affairs of the cooperative, a second subsidiary board can serve to reflect the interests of different subgroups. This can allow other stakeholder groups to be represented (e.g., financial institutions with a stake in the cooperative or promotion agencies) but this sectional representation should not be carried through to the boardroom.

All members who carry out representative functions need to be given clear job descriptions and training. Standing orders for boards and committees can usually provide this. Without such guidelines and the necessary training, representatives will either feel the task too demanding or they will feel insecure, which could result in them defining their roles themselves. They will either become apathetic or, more likely, exercise too much detailed control over professional managers. This will in turn frustrate the managers and limit achievement for the cooperative as a whole.

In an attempt to distinguish the different roles from each other without providing a blueprint, the allocation of responsibilities between different tiers in the member control system can be seen as follows:

Diagram 4.1: A system of member control for a cooperative



## Structures to enhance management effectiveness

Successful **management of a cooperative** is linked to the involvement of members in its affairs. Annual general meetings, which tend to be very formal, will not help to achieve this goal. Much more imaginative approaches are required.

The member-driven development of a vision described above can be applied to strategic management.

Work groups can be established to develop **promotion plans**, spelling out targets for service delivery and benefits which the cooperative intends to pass on to its members, therefore establishing a target for member promotion beyond the usual patronage refunds and dividends on cooperative shares held (see also Hanel 1992: 94). These promotion plans can then be compared to the actual records at fixed periods through the year. The data on trade with members can be presented as promotion reports and promotion balance sheets.

The promotion plan also needs to consider how to counteract free-rider effects.

**Free-rider effects** are created when non-members - who do not contribute as co-owners to the development of the cooperative enterprise - benefit from the cooperative services to the same extent as the members. This can be the case when marketing to non-members has become necessary to make full use of technical capacities (e.g., warehouses or machinery). This situation can severely endanger the stability of the cooperative unless it is countered by member-specific benefits and incentives which motivate members to maintain membership.

As with the steering group approach to organisational development, the promotion work group should discuss its findings fully and directly with members and leadership, so as to gain the greatest possible acceptance.

Similar work groups with a clear purpose and plan can be established for individual promotional activities of the cooperative. An example is included in the annex to this module.

## Incentive development

It has so far been assumed that members are willing to participate in self-determined planning and organisational development, and that they consider this important and worthwhile.

This demands a great deal of long-term engagement on the part of members, leaders and managers which highlights the potential and the need to create and maintain an appropriate incentives system.

It has also been established that:

- in order to become involved members have to see that their benefits will be greater than the inputs they will provide;
- the group decides on the economic and social benefits they want to derive from their organisation;
- the long-term economic viability of the cooperative and the incentives and/or gains for the individual member must be balanced.

To remain competitive, cooperatives must continuously innovate and adapt to meet the changing needs of both members' businesses and markets. Within this perspective, cooperatives should be conceived as **learning organisations** by members and the leaders and managers alike.



A key aspect in learning processes and methodologies for an adult audience, is the need to highlight what the learner will achieve and gain individually in acquiring that particular skill or piece of knowledge.

Within this context, learning opportunities should start from the learners' own experience and show significant and preferably direct relevance to their working and living situation.

Incentives to engage in the learning process need to be provided if the cooperative is to achieve the long-term balance between the organisational economic success and the increase of benefits to members.

### ***Entrepreneurial incentives***

The primary function of cooperative promoters is both entrepreneurial and innovatory, focusing on the identification and implement cooperative opportunities. The identification of the possibility to produce something more cheaply is therefore both the result of an innovative approach and an entrepreneurial achievement.

### ***Outside support for the development of entrepreneurial potential***

In the early phases of establishment of a cooperative, incentives for promoting entrepreneurial behaviour often need to be provided. External assistance should be actively sought by cooperative leaders and managers with the specific goal of increasing entrepreneurial opportunities and management capacity. This assistance usually takes the form of training courses, project or venture finance, or entrepreneurial advice offered through the cooperative movement, NGOs or governmental institutions.

Promoters/trainers usually work with the prospective entrepreneurs. They need to be able to recognise the different needs they might have, depending on their experience, knowledge base and problem solving capabilities. It helps if they can identify whether the need is of a technical, operational nature or more concerned with communication and social competence. The next step would be to find out whether they need to become more effective (learn to do the "right" things) or more efficient (learn to do things "in the right way"). Before one can aim at being efficient in any activity one has to aim for effectiveness, since there is little point in learning to do the wrong things in the right way!

### ***Incentives to motivate cooperative entrepreneurship***

After the novelty of any product or service has worn off, economic returns can only be assured if competitiveness is maintained. Similarly, the organisation as a whole needs to remain innovative and efficient in particular with regard to member promotion. Satisfaction of initial needs of members must be followed by identifying emerging needs and developing suitable options to satisfy them.

To some extent cooperative entrepreneurs will be motivated by status. They may feel pride in their contributions, or they may like to be involved out of interest in something outside of their own business. Such motivations, however, cannot be assumed to remain valid indefinitely, particularly where there are major difficulties or economic risks while the returns are to be shared with many others.

There is thus a need to create additional incentives for entrepreneurial activities in cooperatives. General promotion of members will need to be balanced by rewarding entrepreneurial activities and tasks. The successful negotiation of a sales contract for a cooperative product could for example be rewarded with a fee or small percentage of the profit made. Other possibilities could

include paying out profit shares or royalties for ideas which work; or giving enterprising members a chance to experiment on a small scale using cooperative funds and keeping any returns above those which the capital would have earned through other uses.

### *“Shared learning” as an incentive to members*

Generating new opportunities for members, such as discovering new markets and locating new/cheaper sources of inputs, cannot be done through routine management. However, even when strong entrepreneurship exists, funds for identifying and implementing opportunities can be lacking. The cooperative itself may also not have the power and influence and experience to tackle and remove external constraints affecting its potential. Particularly in its early phases of contact with the market, it will to a large extent have to learn by trial and error and members experiences can help each other and the cooperative as a whole.

Developing a cooperative strategy requires knowledge of members’ needs resources and capabilities. At the same time, members need to know about the cooperatives’ future range of activities, in order to plan their enterprises. In addition to this, knowledge of the environment of the cooperative system is needed by both the cooperative and its members. They will all need an understanding of market structure and competitors, the legal and regulatory framework and government policies. For both, the more complete the knowledge, the more effective the strategy will be.

Developing a vision, policies, a strategic plan and eventually operational plans, present “learning opportunities”. Participating in any group meeting can therefore benefit members and cooperative in two ways:

- It can reduce the amount of trial and error necessary to discover effective strategies for both the cooperative enterprise and the members’ home-businesses.
- If all involved increase their skills in strategic management, planning for the cooperative, as well as for member businesses, will improve.

## **Cooperative group development**

Organisational development comprises both technical and human processes. In this context the need to implement appropriate structures for the development of leadership and participation has already been discussed. This section now goes into more detail as to how groups usually develop over time, and what needs to be watched, in order to ensure that changes in the structure and size of groups enhance, rather than decrease the chance of all members benefiting.

### *How self-help groups change with time*

Self-help groups arise in times of need. When they begin through members’ own initiative, with a long term perspective in mind and choose a cooperative form, it is usually an indication of social commitment by its members. However, the number of such types of cooperatives is shrinking world-wide, and where markets are liberalised, cooperatives face the question of whether or not to remain cooperative.

Older groups or groups that were originally non-voluntarily associated differ from the younger and voluntary ones in terms of their composition. Younger groups are for instance much more homogenous with regard to their aims.

If less well off members have the option of leaving the cooperative but do not, it is usually a good indication that they are getting benefits which they would otherwise not get. Sometimes however, they are legally free to leave but although they gain little benefit from the cooperative, they have invested much of their scarce funds in the organisation and feel they might lose this if they leave. In other cases, they are bound to the cooperative through loan, hire-purchase or tenure agreements. It is important to know if they remain members because they are satisfied with the cooperative and if their continued membership is indeed fully voluntary.

The same can be the case with wealthier members if they feel that they had no real say in the organisation, but do not leave on account of other obligatory relationships. In both cases, inactivity, apathy and perhaps even damaging behaviour on the part of these members can result.

## Maintaining motivation within the cooperative group

A cooperative needs transparency and a focus on objectives, the mechanisms and structures which enable members to retain control. It also needs effective channels of two-way communication. There could be a Board member, or a work group dealing exclusively with membership development who would attend local meetings, visit selected groups of members, and regularly talk to people. This can help ensure that the cooperative makes best use of its greatest advantage over non-cooperative competitors: directly collectable information on member/customer preferences. The main tasks of such a board member or work group would be:

- to develop trust and maintain good relationships between members and between members and the cooperative;
- to convince the Boards and managers of the need for, and importance of being fair in their dealings within the cooperative;
- to make sure that transparency, accountability and truthfulness are a dominant pattern in all activities and communications;
- to remind members constantly of the common vision and objectives;
- to make sure that decision making remains open to suggestions by members (e.g., by feeding member ideas to managers and leaders), thus contributing to the flexibility of the organisation;
- to deal promptly with negative feelings that members may have about the cooperative's activities.
- to be prepared to recommend or use sanctions against those who pursue their own interests at the expense of the group
- to make sure that those who play by the rules are seen to benefit from the cooperative's activities
- to make sure that it does not become easy to become a "free rider" (see Module 5).
- to make sure that new members can join freely (so as to avoid the cooperative discriminating against other members of the community), provided they fulfil the profile agreed upon by all members in the statutes
- to make sure that members can leave freely, provided they do not leave any burden behind on the rest of the group.

Putting the mechanisms above in place means giving the cooperative the best chance of maintaining its unique potential as an organisation based on sharing resources and capabilities, optimising the benefits for all its group members in both the short and long run.

## Cooperative enterprise development

A cooperative is not just a social organisation, but also a business venture which, in certain cases, may have even reached big business status. A trainer/promoter called in to train or advise in organisational development will need to have a clear understanding of business enterprise considerations.

### *The form of the cooperative*

Any outsider coming in should first of all try to understand the form of the cooperative. Does it have a clear identity with regard to its enterprise activities, such as e.g., a one-product marketing cooperative? Or is it a marketing cooperative for a variety of products? Does it perhaps also supply members with inputs and finances, in which case it would be a multi-purpose cooperative? Or does it include value-adding activities such as canning, drying or packaging of produce to its marketing functions, and so is rather an integrated cooperative?

### *Returns on resources*

The next area of interest for an outside promoter is whether the cooperative makes effective use of all the resources existing within the enterprise. Cooperatives must be able to compete effectively, both in terms of the business activity in which they are involved and by being able to pay market rates for resources they seek to use.

Frequently when cooperatives are being established members are prepared to work on a voluntary basis, often also providing capital and forgoing interest on it. The use of these “below true market cost” resources may be essential to gain a foothold in the market. It may be a price which the members are prepared to pay in return for an alternative “pay off” in terms of other benefits. However, such resources will rarely continue to be made available once the cooperative is well established or the particular activity well off the ground.

All too often ineffective managers in cooperatives will continue to call upon members to contribute their resources at below market prices long after their use can be properly justified or sustained in the real interest of the membership. Such funds are generally more difficult to obtain in multi-purpose cooperatives, since any activity will usually meet the need of only a part of members.

### *The future for cooperatives businesses*

The successful enterprise of the future will focus on its comparative advantage. Cooperatives, as agents in competitive markets, will need to do this too. Access to sufficient capital and creative professional management will be key factors in this regard. These enterprises will have to be highly customer oriented, be increasingly environmentally conscious, be flexible in order to respond to changing needs and be innovative in order to take the lead in their specific area of activity. They will have to search for and use appropriate technology, that is to say environmentally safe and economically advantageous technology.

In theory, a cooperative has a special potential to adapt to such changing demands, because it is a member cum client driven organisation. The potential of any specific co-op should be assessed with regard to potential barriers to change, such as:

- lack of consistency of entrepreneurial activities and investments with the common objective or focus. If the enterprise is allowed to pursue activities to satisfy personal priorities rather than the real needs of the membership, skills as well as financial and other resources are being misappropriated;

- conflicts in the relationship between the necessity to achieve profit or surplus, and other aims of member promotion. When cooperative managers can make decisions independently of members' wishes, they will look to maximise returns. In the long run though, members will leave the cooperative, taking their capital with them since they lose control over the cooperative.
- the ability to attract the right kind of people for leadership and management tasks;
- the ability to access sufficient funding without sacrificing the essential feature of member control;
- a lack of flexibility due to overly bureaucratic and slow decision making processes or too heavy capital investments.

The ability to react rapidly to changing external circumstances can help make a cooperative enterprise competitive with other commercial organisations.

## Training versus non-training solutions in organisational development

Within cooperative organisations, there is usually wide consensus on the need to establish cooperative promotion institutions which offer advice and training in organisational development. Formal training through seminars and workshops is however not well suited to organisational development, where the need is more for consulting and on-the-job training of a particular kind.

This is particularly true where advice is only given following the group's request and where the advisor attempts to be led by the views and perspectives which the members themselves have of their problems. In both cases the whole approach to training and consulting is likely to be based more on experiential learning than on provision of information or formal teaching. Typical situations in which promoters/trainers are called in are described in the annex to this module.

However, since organisational development is something which happens locally and in groups, a promoter is frequently asked to facilitate, moderate and act as a resource person with such groups. Therefore he/she needs very similar training skills to those used in subject matter related, formal training events. To be effective, the promoter will need substantial background knowledge of the co-op, as well as the respect and trust from the group.

This kind of rather informal training can often indicate more formal training needs, which ideally, the promoter should be able to assess together with the group.

In many cases, the promoter/trainer is called in when the cooperative members are unable to identify the real causes of the problems or simply lack the knowledge or information to assess their own situation properly. Situation analysis is then carried out together with those concerned. As part of this process, the leaders and members should be shown how to do that regularly themselves so that not only will the problems be identified, but they will also be able to analyse future problems themselves.

Apart from such on-the-job training and member education, training needs may arise which can better be dealt with by formal training procedures. To be effective, this training should be based on clearly identified training needs, and should be well planned, monitored and evaluated.

(See Module 2 - training needs assessment)

# ANNEX MODULE 4

## ***Tools and checklists for facilitating cooperative organisational development***

### **4.1: Determining if there is there an organisational development problem at all**

The questions below can help to find out whether the cooperative organisation really faces a problem of organisational development, or whether the problems encountered are problems of routine operational management.

Ask these questions separately of members, managers and board members, or other leaders. If the answers are similar, there is a common understanding of the problem - if not, there may be communication problems within the organisation.

Questions with which to establish the basic appreciation members, management and leadership have of the cooperative:

- Where will this cooperative be in 10 years? Is this sense of direction clear to all members, leaders and management and do they share it? Does this vision coincide with recognised cooperative performance advantages?
- Do you see regularly recurring behaviour patterns or rules being enacted which counteract this vision?
- Are the cooperative's internal structures and mechanisms supportive of a development towards the vision?
- Does the cooperative provide the appropriate incentives to attract people with the capabilities necessary for the future planned ?
- Is there a need for training of members, leaders or management in order to develop the relevant capabilities?

If there are no answers by any of the relevant groups, or if the answers differ widely, this is an indication that there is no real shared vision. Discuss your assessment and the reasons for your view in a joint meeting of all groups. Ask those present to identify the areas where change has to take place in order to reach common ground. Then relate the answers to the criteria given for what cooperative organisational development entails.

### **4.2: Initial assessment of the cooperative's situation**

The answers to the questions above could be found in a series of informal interviews, rather than one large group discussion. You should, however, have yourself introduced, perhaps in a public meeting open to co-operators, customers of the cooperative and competitors. It is important that no stakeholder group at that stage gets anxious as to the future of their interests, but still takes the interview seriously enough to give considered opinions. Take one trusted member of another stakeholder group with you when questioning other stakeholder groups, and make sure the answers are recorded between you and your companion after each talk, so that interpretations are not altered later.

The examples of rules below are intended to assist the outside advisor in forming a rough impression as to the markets and the state of the cooperative and members enterprises. Review the rules of the cooperative to see which of the following apply to the cooperative in question:

**1. Examples of rules which ensure that the cooperative remains true to its purpose and objectives, and rules which prevent it from being taken over by another stakeholder group. Those which:**

- ✓ Relate voting power to the role that the member has as a member, namely his ownership, usage and/or staff role
- ✓ Restrict voting power to members effectively fulfilling these roles
- ✓ Prohibit the selling off of assets, unless it is proven that the cooperative no longer has a purpose (to prevent the reckless destruction by one generation of members at an enormous cost to coming generations - ensure long-term survival)
- ✓ Limit the participation of other stakeholder groups in the affairs of the cooperative, e.g., by limiting the number of employee representatives in a consumers' or a farmers' cooperative
- ✓ Limit the power of investors in a cooperative, e.g., by limiting the proportion of the capital that may be held by any one member
- ✓ Make sure that those who no longer make use of the cooperative's services relinquish the rights of membership, in particular, that they lose their power to vote.
- ✓ Limit the participation of investors in the economic results of the cooperative to the extent of interest paid at current market rates

**2. Rules that promote real cooperative behaviour by the members and on the part of the management of the cooperative. Those which:**

- ✓ Ensure the full involvement of the members in the main decisions about the cooperative
- ✓ Provide for the conduct of the cooperative's affairs according to sound practices of good corporate governance
- ✓ Limit the use that non-members may make of the services of the cooperative, without them being offered the opportunity of becoming members
- ✓ Ensure that the affairs of the cooperative are conducted with transparency and within ethical and social norms of the surrounding greater society
- ✓ Ensure that benefits are distributed fairly between members and broadly according to the use made of the cooperative services
- ✓ Ensure that members are properly informed about the affairs of the cooperative and trained in how to participate. In particular, rules which provide for a commitment to develop leaders drawn from the members who can act on the members' behalf
- ✓ Provide sanctions against those who do not fairly balance their own interests with those of the rest of the members of the cooperative
- ✓ Adequately reward members contributions in kind, shares, money etc.

### **3. Rules that govern the way the cooperative conducts its business, include rules that:**

- ✓ Extend information and participation (within strict limits) to other stakeholder groups.
- ✓ Ensure that the cooperative acts fairly and responsibly in the way it conducts its business, not only with its members, but also with its customers (if not one and the same) and other stakeholder groups.
- ✓ Encourage further co-operation with other cooperatives provided that this results in improved benefits to the members
- ✓ Ensure that profitable trading is conducted, so as not to threaten the future of the cooperative.

### **4.3: Example of structuring promotional activities using a work group**

Members of a dairy cooperative could, for example, be promoted beyond the direct marketing function if they were allowed to use the facilities of the cooperative to set up a milk-recording scheme in a work group. Using the cooperative's information systems they could better target breeding or feeding, and thus improve their milk production.

Details: Such a working group would use the delivery records of the cooperative to identify farmers with low or very variable milk volumes. Through cooperative contacts it might be able to get access to animal health and breeding specialists, and find out about suitable breeding lines for the area. It could, perhaps, also use the milk-collecting vehicle to advertise the availability of artificial insemination and, perhaps, even have the milk-van take frozen semen to members.

Such a working group could equally research and report to members the results of various feeding practices. Again using cooperative records of feed sold, milk delivered, and additional interviews with progressive local farmers and extension workers, it could combine outside knowledge and local experiences to promote those farmers whose production methods are not so advanced.

### **4.4: Examples of typical situations in which promoters/trainers are asked to advise on organisational development**

An advisor or group promoter usually gets called into a cooperative under one of the following scenarios:

- The cooperative is just being started and nobody knows how to set it up to comply with the regulations and so that it fulfils the objectives.
- The cooperative was state supported, and all state support has now been withdrawn and the cooperative has to compete in open markets.
- The cooperative, which so far was based on a common marketing activity only, now looks to share a machine or an implement, and has questions as to how this can be organised.
- Or: the cooperative has been established for some time, working economically successful, but its members have gradually distanced themselves. Active participation has declined and members have withdrawn, or at least, have not increased their asset share in the cooperative.



### a. *How flexible is the cooperative?*

For an assessment of the potential for change in any cooperative enterprise you might like to consider asking some of the following questions. The answers you will get can demonstrate more clearly where particular barriers to enterprise development might lie:

- Does the current management have the necessary expertise for all the various activities the cooperative is running or wants to run?
- How much competition is there for staff time, management time, finance or other resources among the various fields of activity the cooperative maintains? Can you identify fields which do not contribute to either surplus or other direct benefits to most members? Has non-member business reached significant proportions? If so, are certain resources committed to serve them especially? Do these secondary activities strengthen or weaken the cooperative? Do they support the main purpose for which the cooperative was established?
- What is, and has been, the relationship between dividends and re-imburements on patronage on the one hand, and legally required and voluntary contributions to reserves made during the last few years on the other? What reserve levels are ultimately needed to achieve the objectives agreed upon by the members? How competitive are the cooperatives prices to members considering the patronage refunds and comparing it with competitors accessible to most of the members?
- What salaries can the cooperative afford to pay to managerial staff? How do they compare to what is paid elsewhere? What other benefits can the cooperative afford in order to become interesting for well trained staff?
- What interest rate does the cooperative have to pay to external sources of money? Do members capital contributions to the cooperative relate to their turn-over with it (e.g., the amount of produce they want the co-op to market for them), or are they independent of this? Is there a limit to member contributions and, if so, is this limit still appropriate when own capital is compared to capital raised externally? Is there full transparency of financial reporting and reliable quality of management in order to attract capital? Do the proposed investments fall within the long-term development plans of the enterprise, and are they based on realistic budgets?
- Are decision making channels adequate to both the requirements of sound and member driven control, and the need to react to external change?



## **Notes**

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# MODULE 5

# AGRICULTURAL COOPERATIVE MANAGEMENT



# MODULE 5: COOPERATIVE MANAGEMENT



## Overview of the module

- Managing the cooperative group: leadership, team management and individual needs
- Managing the cooperative business: production, marketing and financial issues
- Case study on managing a cooperative
- Diversification, growth and collaboration



## Introduction to the Module

A cooperative must create real, wanted and tangible benefits for the current members as well as make economic provisions for the future of the organisation. Therefore management tasks in a cooperative relate to the management of the group as much as to business management.

The members of the cooperative need to be involved in deciding and steering the organisation's policy, yet often they do not have the knowledge and skills to do this effectively. Training for the members in group management may be needed to change this situation.

Both elected and recruited professional managers play an important role in group management. Professional managers should be catalysts, facilitators and sources of information. Elected leaders/board members usually chair members' meetings and planning sessions.

While delegating management to their elected or appointed leaders, members need to support them by providing them with clear objectives and by taking an active part in shared decision making processes (see Module 4). It is then a responsibility of **the business managers** to translate these objectives and decisions into actions.

Perhaps the most important management decision to be made in a cooperative is the appointment, direction and monitoring of its leaders and top level managers, if necessary, including their replacement and dismissal. This management area lies somewhere between group management and pure business management, since both the top managers and the members of a cooperative have functions in both areas.

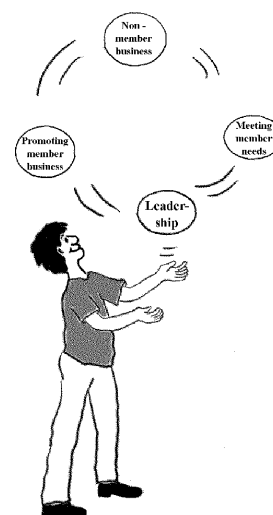
The business management is carried out by unpaid elected leaders when a cooperative is very small. In larger cooperatives a **management team** usually includes both the Board of Directors and salaried professional management staff. The paid staff is then ultimately responsible for business management. In such large cooperatives the membership retains ultimate governance, but most of the work of controlling should lie with the elected leaders. They, in turn, should rely on the managers for most decisions in the day to day running of the enterprise, and expect them to present regular reports and request approval in the case of larger investments.

To meet the needs of members-owners, the ideal management **style** for a cooperative should be “*management with explanations*”, a much more communicative and responsive approach than that found in most commercial companies. Because of the twofold objective of the cooperative, the management function should normally also go beyond planning, organising, directing and controlling the business resources. It can at times be extended to include a certain amount of control over member resources, knowledge as well as skills, provided members have voluntarily identified them and made them available to the cooperative’s operations.

Finally, as cooperatives grow and develop, issues of diversification of the cooperative business and possibilities of collaboration or even merger with other organisations become important.

# SECTION 5.1

## MANAGING THE COOPERATIVE GROUP



### Introduction



Module 4 discussed structures which enable active member participation in goal setting and control procedures, entrepreneurial incentives, and the motivation which capacity building programmes can bring. In all systems, however, the structures provided can only partly determine how the system works. It is the people who fill any system with life. This module discusses

the **management styles and behaviour** which best help the members to participate optimally as decision makers, voluntary co-workers on committees or even in the physical implementation of operational plans. It is therefore important to see how to develop leadership from within the group, how and what incentives will lead to increased participation and how levels of trust and transparency can be increased.

### Objective of the Section



By the end of the section, participants will be able to outline the key management issues involved in running a cooperative, and to identify the management implications which differentiate the running of a cooperative from other types of organisation.

### Key learning points



- Developing leadership within the cooperative
- Role, functions and activities of the board
- Developing and maintaining members' motivation
- "Free rider" effect
- Promotion of members economies

### Teaching strategy



Divide participants into groups and ask them to analyse the role of leadership within the cooperative and list what they see as the essential characteristics of a good leader (competencies, skills, personality, etc.). Discuss the results in a plenary, asking participants to provide examples from their own experience of where these characteristics, or the lack of them, have proved crucial to cooperative operations.



## Reference Information

### Developing leadership



The quality of leadership plays a key role in determining the success of any organisation. Leadership does not refer to one single person within the organisation, but should be present and organised at all levels. Similarly, leadership is not confined to that which can be provided by the charismatic, high profile leader, who usually comes to mind when discussing the topic. Leaders are not the product of destiny but can in fact be developed, trained and nurtured.

### Creating a pool of leadership talent

Existing cooperative leaders need to be committed to developing **active involvement of members** who will take on the roles of member representatives and directors. The future of every cooperative depends upon the identification and development of such active individuals. Those in the current leadership, however, are the only people in a position to do anything about the frequent problem of lack of participation. Instead of complaining about a lack of support or carefully avoiding any potential competitors, they should invite prospective leaders to take responsibility in ad hoc or permanent committee structures, and provide for training and exposure for them. When this is not done deliberately, members can get the impression that current directors want to drive other potentially interested members away in order to secure their existing positions. This in turn undermines their trust for the current leadership and lowers the level of support.

Another approach to leadership development (for larger organisations) is the integration of a formal training unit or “*electoral college*” into the structure of the cooperative (perhaps through the by-laws), which seeks out and prepares individuals for leadership roles within the higher levels of decision making. Since most members have not had prior experience which could prepare them for the role of director or member representative, they often lack confidence to take up such roles. However, since new members and new ideas are essential to every organisation, regular *training opportunities* should be provided for, not just for current directors, but for all who have aspirations to serve in boards, committees or working groups. This can be an incentive and will also ensure continuity of leadership.

To remain successful and dynamic, every cooperative needs the best available members to serve the interests of all its members, whether they carry out the function of a member, representative or director. Making provisions for the future must therefore not stop at material and financial investments. Leaders should also be given the opportunity to develop their skills and knowledge, in an on-going effort to ensure matching their abilities to the continuously changing external environment.

### Characteristics of a good leader

The starting point for any elected leader is his/her unequivocal commitment to the cooperative and the ability to install confidence. He/she ought to demonstrate a basic knowledge of the cooperative’s functions, and beyond all, show an understanding of the aspirations of members and a commitment to set about meeting them. He/she should try to channel the aspirations of the membership and convey them to the managers.

### **Leaders need to:**

- keep members focused on achieving the cooperative's objectives;
- foster team cohesiveness and a spirit of co-operation;
- be supportive and appreciative of good performance while at the same time monitoring progress and being able to recognise when changes are needed

The Board Director and Work Group Director's attention should concentrate on:

- a shared ownership of the organisation's vision;
- a clear understanding of the main objectives of their cooperative, developing appropriate strategies for achieving these goals;
- attaining a good working knowledge of the cooperative as well as of the markets in which it operates, monitoring trends and developments within the relevant business areas
- awareness of the legal implications of being a board director, including responsibilities towards members and third parties as well as the risks and penalties for failing to carry out their responsibilities;
- understanding of the process of arriving at, recording, implementing and monitoring the results of decisions;
- becoming familiar with basic financial and control information, in order to use this information in the decision-making process; be able to select key indicators for monitoring the results of the cooperative business
- taking an active role in the business and strategic planning process, and in monitoring progress against such plans.

These sets of competencies and skills may need to be taught by professional trainers. The Board itself needs to acquire such competence and should be involved in an on-going process of developing a pool of members who will be in future be able to take over the leadership positions.

### **Leadership in action - Improving decision making**

Apart from the practical aspects of separating the functions of managers, directors and board members (for details see Module 4: The development of appropriate structures), other approaches can promote more cooperative working relationships between leaders at the various levels.

If the backgrounds and experiences of group members are very similar, their views and perceptions may also be very similar such that problems are often seen to have only one solution. In such cases, it can be helpful to ask representatives of other subgroups or outsiders to join discussions and challenge some of the views. By providing an outside view, they can improve the decision making process by ensuring that more than one option is considered.

Any board (work group) member needs to know how it is that he or she can contribute to the work of the board. This usually involves being able to ask the right questions as well as being a skilled decision maker. Questions need to aim at:

- clarifying data and information provided during the discussion;
- checking the accuracy and reliability of data;
- getting more information;
- stimulating alternative ways of looking at issues;
- determining the likely effects of any particular course of action;



There are two main aspects of decision-making which are particularly relevant to any work-group or Board Member:

- the need to classify the decision which has to be made, since this will determine what issues to considered and ultimately influence the decision to be made
- a thorough understanding of the process of decision making itself. When faced with making any decision the board director, work group director or work group member should go through a mental checklist (see box).

### **BOX 5.1**

The following steps are an example of a mental checklist to help the decision making process (Parnell 1995:116):

**Step 1:** Decide what types of decisions you are being asked to make

- Is it a decision that the board/working group should be making at all, or is it one which the management/Board should be taking?
- Is it a decision which can only be made following expert advice?
- Is it a decision where the wider membership should first be consulted?
- Is it a capital expenditure decision or a decision requiring that a formal approach be followed, for example, a feasibility study needs to be prepared?
- Is it a decision of principle, where, for example, the rules of the cooperative or a code of ethical practice has to be considered before coming to a decision?
- Is it a decision which will set a precedent for future decision making?
- Is it a decision which will affect others who should be consulted first, for example other cooperatives or other enterprises operating in the same locality?

**Step 2:** Be clear in your own mind as to the objective of your decision.

**Step 3:** Make sure that you have the facts you need to make the decision, and have the understanding of how the people involved feel about the issue involved. Of course, you are rarely likely to get all the information you would like to have, but you need to be satisfied that you have sufficient information to make an informed decision, and that you are not being rushed into a decision prematurely.

**Step 4:** Ensure that you are being offered all the alternatives in terms of the different decisions that could be made on the issue in question. Try to discover if you are being led towards one specific decision to the exclusion of others which may also be appropriate. Always consider the option of making no decision or doing nothing.

**Step 5:** Consider the evidence, and weigh the alternatives for each of the options that are viable. Ensure that the issues have been viewed from various angles. Remember your objectives, and try not to jump to conclusions which cannot be supported by facts.

**Step 6:** Check to find out what is to be done to convert your decision into practice and who will be responsible for implementing your decision. Also when will it be implemented?

**Step 7:** Put into place arrangements to monitor the effects of your decision, when you will follow-up and what can you learn from this decision which could improve decisions in the future.

## **Role and functions of the Board**

In accordance with the cooperative's vision and its strategic approach, the Board's functions relate to the monitoring and controlling of operational plans and to ensuring that members' interests are being followed at all times. To fulfil this task efficiently certain actions should be taken at regular intervals. Annual or six-monthly plan help the Board ensure that time and resources for these activities are accounted for. Such plans are not meant as a limit to the creative thinking of the Board, but more as a tool to help individual directors channel their thinking and avoid concentrating on certain aspects.

The type of plan and what activities it assigns to the board will depend on the nature of the cooperative's business. Plans will include items which would be on the agenda at each Board meeting, with the exception of those which have been called to discuss one issue only (extraordinary or single-purpose meetings).

## **Frequency of Board meetings**

Though the frequency of Board meetings will depend on the characteristics of the cooperative and the activities in which it is involved, it is generally agreed that for the Board to be able to provide direction to the organisation it should meet on a monthly basis. If it convenes less frequently, management will need to take decisions which might result in policy changes not necessarily reflecting what the members want. If it meets more frequently there can be a danger of interference with operational tasks which should be left to the managers.

## **Purpose of routine Board meetings**

### **Routine meetings of cooperative Boards should include the following**

- ✓ Membership - applications - resignations
- ✓ Results/performance against budget
- ✓ Financing/cash position (Liquidity, cash flow)

### **The annual Board Plan should include the following items:**

- ✓ Review of vision statement
- ✓ Review of objectives and members' benefits
- ✓ Update of strategic plan
- ✓ Establishment of annual budget
- ✓ In-depth review of results against budget and the strategic plan (monitoring and current evaluation)
- ✓ Review of corporate policies
- ✓ Review of remuneration policy
- ✓ Top management performance review
- ✓ Board performance review
- ✓ Visits to operating facilities (in order to keep in touch with what is actually happening on the ground)
- ✓ In-depth reviews of key areas of activity (including personal reports by the general manager and by other top management staff)
- ✓ Review of human resources development (progress towards developing creative people through the organisation)

Ideally the meeting that considers the vision statement and seeks to update the rolling strategic plan should take place in a relaxed atmosphere, preferably keeping the board together for work on these critical issues for more extended periods of uninterrupted deliberations.

## Meeting members' needs

### *Members' motivation*

The degree of member participation within any cooperative depends largely on the impact which the cooperative has on the daily lives of its individual members. If the cooperative fails to deliver what the members need and expect, then its future will be in jeopardy. Cooperatives can drift on for years before their eventual demise, but no successful cooperative can exist unless its leaders are able to keep in tune with members' feelings and wishes (see Module 7 for monitoring of this issue). In smaller cooperatives the task of finding out what members think and feel can best be achieved by getting out and walking about the cooperative, into all its operating locations and speaking to the people at all levels.

Successful two-way communication between the cooperative leadership and its members, however, is not solely the task of directors or board members. It needs to be a combined function involving staff at all levels of the cooperative. Informal discussions (as explained in Module 7) can and frequently do happen most easily on the shop floor and in the members' fields; while they wait in a queue to deliver their produce or during breaks at a general meeting.

Individuals have different, and sometimes complex motivations for joining and participating in cooperative groups. Obtaining goods and services more economically and efficiently is an obvious motivation, but not enough on its own to encourage involvement beyond what they think is needed in return for the benefits they are hoping for or expecting. That means the capital contributions, the contribution to goal-setting, decision-making and monitoring processes they are prepared to make will relate to what they see themselves gain in return.

Members' perception of whether participatory activities are a benefit or an obligation will depend on whether:

- they think this will help them to have their goals included in the overall goal system of the cooperative
- they are rewarded in some way for the time and expenses they incur in attending meetings and group discussions (Which can be in terms of status, recognition or education).

### *Maintaining high levels of motivation*

As the cooperative grows and becomes more heterogeneous in terms of its membership, the level of motivation will depend on it meeting more and more specific needs. **Focus groups or clubs** based on particular shared interests of subgroups within the membership can help to maintain more active interest levels and ensure involvement of members. Small group meetings are also more productive than large scale ones, increasing the effectiveness of operations and providing more useful feedback for the following general meetings. General meetings should focus on members' real interests and concerns, limiting long monologues of managers and directors and keeping to the minimum necessary legal formalities and routine business. Leaders should promote a participatory approach to running the meetings, moderating the discussion in such a way to ensure that every member has a chance to make an input.

When member numbers are too large to do so, task groups on specific issues (or on diverse opinions) should be encouraged to have preliminary discussions in advance, and have one or two representatives report to the membership in general. This, too, could ensure a more focused and directed dialogue, while still providing transparency.

## **The role of member loyalty in competitive environments**

Members loyalty can be a major strength for the cooperative, representing a source of competitive advantage, particularly since members are also the cooperative customers and financiers. Therefore the integration of customers into the organisation can have wider advantages than those resulting from cost savings in market research, information gathering and reduced reaction times.

Members often join a cooperative in the early stages because of certain ideals of co-operation, and regardless of the efficiency of the cooperative as a business, they may resist changes which go against these perceived ideals. A relatively minor change in running the cooperative as a business may result in disproportionate protest if it goes against members views of the purpose of the cooperative. Members can be very loyal to what they see as the ideals of the cooperative which can be a strength provided it is recognised as this and ways can be found to use this loyalty while still bringing about necessary changes.

At the same time, in a competitive economy, member loyalty cannot be a substitute for ineffectiveness or inefficiency. While loyal members can at times be asked to put up with temporary shortcomings in order to attain longer term benefits, should the inefficiencies persist, members are unlikely to maintain their loyalties and will look to alternative ways of achieving what they want.

The degree of integration of members' own economic interests and the common enterprise will also affect their relationship with the cooperative. If the member has delegated important functions to the cooperative or has invested substantial funds in it, he or she is more likely to take responsibility, to persist in asking for certain services or to take part in monitoring and planning, all in all showing ownership attitudes rather than only customer behaviour.

## **The “free-rider” effect**

Particularly when the cooperative becomes a large group, there are increased chances of occurrence of the so called “free-rider” effect, i.e. some members trying to get as much as possible from the cooperative without contributing a fair share. The reasons while the risk can grow proportionately with the size of the cooperative, relate mainly to three aspects:

- The relationships between members become less personal
- There is a comparative loss in weight of influence for each member which reflects in lower attention being paid by managers to the individual. This can result in (some) individual members trying to get as much as possible from the cooperative while contributing as little as possible.
- Non-member business can often increase in order to make more efficient use of a cooperative's resources.

The cooperative, particularly a growing one, should try to set up group management systems which discourage the free-rider effect. This could include systems limiting large numbers of minimally contributing members, or approaches which favour the development of subsystems. In order to decide which path to follow, let us first look at the status of non-member business, which in most cases is responsible for members tendency to behave in such a way.

## **Non-member business**

In some cases cooperatives allow non-members to benefit from the cooperative services. Whether cooperatives should extend services normally given to members to persons not contributing share capital and carrying part of the risk has long been a controversial issue. Some countries have

altogether prohibited it by law, while others has allowed it, either unrestricted or up to a certain percentage of total turn-over. National tax regulations sometimes also treat cooperatives differently, depending on whether or not they trade with non-members.

Non-members are usually allowed to get cooperative services because the organisation, and thus the members, hope to gain from achieving economies of scale, or better use of existing capacities. Non-member business can also have a certain promotional effect where users may eventually become members.

This type of situation, however, raises the issue of the relationship between non-members and members and the potential impact it can have on encouraging free-riders. As long as the benefits non-members receive from such transactions are not comparable to the benefits members gain through refunds on patronage, this should not normally be a problem. However, if non-member business is left unchecked, the risk for the members grows, particularly in societies with unlimited liability, where more business necessitates additional external finance. Allocating the surplus from non-member business to the reserves can limit the risk. Since reserves are usually at the disposal of the management, this strategy gives the managers more power in relation to the board, and can in the long run, reduce member control.

If non-member business becomes dominant, the cooperative is in danger of losing its distinctive and essential character. It becomes a partnership, where members profit more from higher patronage refunds or advantageous prices than through their own direct trade with the cooperative. As a result, even when they no longer have enterprises which make membership necessary, members can remain (non-active) members, profiting from the pay-back on their capital accumulated. This leads to a progressive decrease in the percentage of members active in goal-setting, decision-making and monitoring processes. The once homogenous group splits up into at least three groups: active members, inactive members and non-members trading with the cooperative.

### **Containing “free-rider” effects**

Decreasing genuine involvement of members and raising numbers of non-active members can reach such proportions where it becomes very difficult to find members prepared to take up honorary leadership roles and contribute to the steering of the cooperative. In such cases, the cooperative faces the issue of deciding whether to become a commercial organisation. Alternatives to this approach include:

- regularly clearing the membership register of inactive members.
- introducing a dual system of membership, where, for example, only active members have a right to vote. A dual membership system is, however, difficult to manage and can act against a more active engagement of the rest of members.
- automatically terminating membership when the member has given up his business or comes to retirement age. There are many cooperatives these days which practice such schemes. Sometimes the funds withheld or paid in during a life-time membership are then paid out. Otherwise (where cooperative law permits such practice) the by-laws stipulate that the member will be paid an annuity or monthly payment for 10 to 15 years after his retirement from the cooperative. This could be a way of augmenting pensions of ex-members, and, at the same time, making use of the money for a longer period. Membership could also pass on to the heir of the individual business, provided he or she accepts all obligations and rights connected with the membership.

## Promotion of members economies

The single most important reason for forming a cooperative or being a member, is the hope that the co-op will provide benefits to its members. In the case of service or promotional cooperatives this primarily implies promoting the members economies, providing services which:

- are needed
- are either not available on the markets at all or
- can be supplied by the cooperative at more favourable prices, qualities or conditions, than those offered to the members on the market.

### Conflicting member goals

A major difficulty in sustaining effective promotion of members' economies lies in divergent interests of members as customers or clients and their role as capital providers. As an example, even in relatively homogenous groups of members the need for low cost services on the one hand and the need for growth of the cooperative enterprise on the other, present conflicting objectives. In order to find consensus in conflicting goal situations, the consequences of alternative decisions have to be considered. Decisions should be taken based on convincing arguments rather than by bargaining or playing politics.

*Goals can be complementary (where one goal's achievement can contribute to the achievement of another), conflicting (where the achievement of one goal is only possible at the exclusion of another) or neutral where no relationship exists between achieving two goals.*

### Conflicts between the economic goals of members and the cooperative enterprise

Problems can arise through the "natural" competition of economically determined potentials and limitations of the cooperative with the essential aims of members. On the one hand, members primary interest in co-operating lies in obtaining good services, being paid good product prices and having to pay as little as possible for inputs. On the other hand before a cooperative can decide on the details of what services to provide and at what price, it has to make sure that an adequate basis of owned capital is maintained, or else the organisation will be driven into insolvency if not bankruptcy and dissolution. This, in turn, necessitates that a number of primary economic aims are followed, such as to:

- maintain or increase market share;
- minimise cooperative costs to at least the level achieved by direct competitors;
- protect the attained economic potential;
- guarantee ones' liquidity;
- continually develop improvements.

In order to deliver effective and efficient member promotion the goals of members, and those of the cooperative enterprise, have to be aligned. If this is achieved it should normally lead to the growth of members enterprises; an increase of the intensity in the business relationships with members; a growth in member numbers and an increase in business transacted with non-members.



## SECTION 5.2

# MANAGING THE COOPERATIVE ENTERPRISE



### Introduction



This section concentrates on business management aspects which are specific to cooperative enterprises. It does not cover those general aspects of business administration which are common to commercial and cooperative enterprises. Business planning, budgeting, preparation and analysis of financial statements, which are essential management tools in either a cooperative or a commercial company, will therefore not be discussed in details in this module. It is assumed that the training audience has a basic understanding of these principles. Any additional information on enterprise management knowledge should therefore be sought elsewhere.

### Objectives of the Section

By the end of the section, participants will be able to



- outline the key differences of management functions which distinguish the cooperative business from a commercial company
- state the main differences of the various sources of cooperative finance and the ways to promote the best balance
- outline the key personnel management issues relative to the type of cooperative they come from

### Key Learning Points



- cooperative management as both developmental and entrepreneurial
- sources of cooperative capital
- advantages and disadvantages of each source
- ways of promoting the increase of members funds
- the role of budgets in financial planning and in reducing conflicts
- reasons for preparing accounting statements
- key issues of personnel management relative to the size and type of cooperative participants come from.



## Teaching strategy



Ask participants to have a brief discussion in groups, identifying cooperative management aspects which are different from those of a commercial company referring specifically to financial and personnel management. What are the differences? What are the factors determining these differences? What are the implications for running the cooperative? Discuss the group results in a plenary.

Introduce the concept of financial management and briefly describe the main source of cooperative finance. Ask participants which proportion of total capital these sources represent in their cooperatives. Have the relative percentages changed over time and if so, what prompted the change? What do they perceive as the highest value capital? Are there specific policies within their cooperative to manage different shares?

According to the size of participants' cooperative, to their understanding of financial issues, and to the specific training needs of the class, discuss issues related to:

- interest on cooperative share capital
- cooperative share holding as a security
- cooperative legislation related to financial issues
- attracting member's finance
- effect on finances of improving services offered and overall efficiency
- loan finance.

Regardless of the level of sophistication of participants' understanding of financial issues, ensure that the nature of the three types of funds is clear to all as well as the relative advantages and disadvantages of opting for each of them. A copy of the checklist in Box 5.2.1, or a simplified version of it could be given to participants as a handout.

Briefly analyse the role of budgets in the planning process and in preventing conflicts within the cooperative and the need for regularly preparing accounting statements.

Building on the results of the initial discussion, develop the key aspects of personnel management which are specific to the cooperative situation. According to the size and complexity of the cooperatives which participants come from, discuss the following points to the appropriate level:

- position of the top manager vis à vis the Board of Directors
- relationship between the Board of Directors and the various committees
- supremacy of the Board
- representation of staff on the Board
- recruitment and induction policies
- internal promotions and external appointments of managers
- performance ratings and reward systems
- flexible management and good governance.



## Notes

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## Reference Information



As in a commercial business, management functions within the cooperative will include both corporate management and operational management. While corporate management is almost exclusively the domain of the Board, operational management should largely be left to general management.

Aspects which add complexity to cooperative business management include:

- difficulty in delineating exactly where the boundary between Board and general management responsibilities lie
- different hierarchy of objectives for the two aspects of management (provision of services and benefits to members should stand above all else)
- need for cooperative managers to operate under members democratic control.

For cooperatives to succeed in competitive environments the management role should be seen as one which is essentially **developmental and entrepreneurial**. This involves:

- discovering unused, or under-utilised local resources, and mobilising them to provide better services, higher income and employment for members. Cooperative managers have therefore to identify and continuously monitor those member's needs which can be met by the cooperative or through links with other cooperatives
- leading members through a flexible but disciplined business planning and management system. To be able to understand the business situation and successfully liaise with the Board, the manager needs to be both a skilled communicator and be familiar with the main accounting statements.

In addition to its role in setting objectives, formulating policies and overseeing operational management, the Board retains its own management function even when professional managers are employed. It is also the Board's responsibility to translate management reports and plans to the members for them to be able to participate in the control and planning of the cooperative. A **mutually supportive co-operation between Board and managers** remains the most critical factor determining cooperative success. If cooperatives are to reach their ultimate goal of member promotion, members, directors and managers should share the same vision, values and unity of purpose.

### a. Financial management

#### Sources of cooperative capital

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

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

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

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

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

### ***Distinctive features of cooperative finance***

The need for finance in a cooperative is no different from that in commercial companies, yet the **role** it is given in determining the success or failure of the organisation is different. Part of the difference stems from the fact that cooperatives represent people-centred organisations, as opposed to a capital centred commercial companies. This, in turn, translates into different organisational aims.

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

- some goes to the members according to the capital they have invested in the cooperative;
- some serves to reimburse them according to their trade volumes with the cooperative (patronage refunds, reimbursements or discounts)
- some is retained (institutional capital) in order to finance the growth and development of the organisation.

### ***Legal limits on dividends payable on cooperative shares***

**Interest on cooperative share capital** in many countries is limited by the law governing cooperatives. There is usually a legal maximum of interest/dividend payable on members' capital, and often statutes and by-laws specify a ceiling beyond which no single member may hold funds in the cooperative. This has its roots in the history of cooperatives. While the need for members to provide capital was seen as a necessity towards achieving the cooperative goals, interest or dividends were perceived as a means of attracting the capital, and not meant as an end in themselves, as is the case with investments in commercial companies.

When a coops makes surpluses (profit) it has been traditional for only part of this surplus to be returned to the members who own the share capital and the remainder to be kept as cooperative capital. They must, however, achieve at least enough surplus on trade and fixed costs to be able to renew investment.

### ***Cooperative share-holding as a limited security for raising outside commercial finance***

Cooperative members should be considered as owners, and with the right to withdraw their initial funding when they want to stop being a member. There might however be a legal provision for notice time, in which the co-op may still use an ex-member's money. Nonetheless cooperative shares cannot be traded, which means that the members capital should be seen as **variable or partly variable**.

The variability of cooperative capital, together with the limited liability of members, are the main reasons why cooperatives are limited in raising commercial outside capital. Their equity is considered relatively insecure, with only the institutional capital useful for leverage.

### ***Cooperative legislation and cooperatives potential to attract new members***

Whether, on leaving the cooperative, a member will be paid out only what he paid in initially, or whether he will be apportioned a part of the reserves, varies from country to country. Even within a country, it can vary from cooperative to cooperative according to the aims and objectives of co-operators and policy and law makers. This has a crucial influence on the cooperatives' ability to attract share-holding from members. Some cooperatives do not allow members leaving the organisation to receive a share of the growth a cooperative has achieved since they became members. This cooperative model is referred to as the **Club Model of cooperatives**. Others cooperatives on the other hand do allow members to receive this share - referred to as the **Ownership Model cooperatives**. (Parnell 1995: 55)

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

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

### **Securing finance**

Members wishing a particular service to be made available must ensure that the cooperative has adequate finance to allow it to function effectively. Agreeing for the cooperative to work with their funds, is a commitment to its business purpose, and can also create confidence in other lenders, such as commercial banks. Members are considered to have more information about their cooperative than an outside lender would have, and their willingness to invest in it or lend it money can help the cooperative organisation to attract loan capital from other sources, too.

### ***Difficulties in attracting sufficient finance from members***

Where there is an ageing membership, or where members have not yet been able to break the poverty cycle, it can be difficult to attract sufficient finance from members. Apart from denying members a share in the organisation's growth, the Club Model faces other potential problems with regard to finance. It might be difficult to attract sufficient external member capital since members would rather invest where they can obtain **higher interest** rates on their capital. This is particularly the case where:

- the government sets fixed dividend/interest ceilings which bear no relation to current banking rates
- members are not dependant on the services of the cooperative
- they have alternative markets, suppliers or employers
- large numbers of non-members have been able to obtain the same services, without the need to invest
- where members see no clear purpose, objectives or future for the cooperative.

In addition to this, the more indivisible reserves there are in relation to the total assets, the more management can become independent of control by the members. The management would be aware that withdrawals of shares by departing members can no longer threaten the existence of

the cooperative, and thus their jobs. Yet when management and membership lose touch with each other, members can no longer feel certain that funds they invest will be used safely and to their advantage, and will in turn become even more reluctant to invest.

### **Attracting more member-finance**

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

Improving services offered and overall efficiency of the cooperative will also affect funding, attracting more members and more business, and raising member loyalty. Funding and efficiency are linked in a cause-effect relationship through two processes:

- Cooperatives with sufficient funds are able to invest in appropriate technology that reduces costs, improves quality, or both. As a consequence of the technology they are generally more likely to earn a surplus which contributes to improving the financial status of the cooperative. On the other hand, a cooperative using poor or out-dated technology and with insufficient funds has greater difficulty in improving its level of efficiency. Possible ways of breaking this vicious circle include looking for ways to use labour more efficiently, ensuring that paid staff numbers are not excessive, and that they are committed to the work. Another approach includes retaining part of the surplus whenever possible, as for example in normal agricultural years.
- Member loyalty or their volume of turn-over with the co-op can be maintained or raised through competitive pricing policies and favourable payments. Extending credit facilities and prompt payment of deliveries places demands on the working capital. This is another case where money is needed to make money. Short term cooperative loans or good value commercial loan finance could help achieving a level of turn-over which could trigger off the process.

In certain processing and marketing cooperatives in North America, the founder members purchase delivery rights which guarantee that the cooperative will purchase a given amount of produce each year and that members will deliver a certain amount of produce. These rights are freely transferable among members, which gives them a market value. As sequence, members have an incentive to behave in a way which maintains and increases the value of their rights.

### **New legal instruments to attract member finance**

There are several legal **alternatives for attracting member capital**. Individual cooperatives may need assistance to both find out whether what are the laws in their area and to decide on whether and how to use them.

It is also becoming increasingly common to seek adjustments in the cooperative law, or, where the law leaves room for this, the organisation's by-laws, so as to:

- detach personal liability of members from the amount of share-capital they hold (or have signed for).
- allow for staggered minimum of share-holding by members according to the volume of business done with the cooperative enterprise.
- allow for a certain amount of participation in the reserves provided exit from the society occurs only after a certain age or under other predictable conditions.

In addition, more experimental ways of increasing members' motivation to contribute capital are:

- the acceptance of “investor-members” - persons who are interested in investing in the cooperative, but who do not intend to use its services and who might or might not have voting powers, but obtain preferential treatment with regard to dividend payments.
- the issuing of investment certificates (a kind of non-voting preferential share which can be traded) to members and non-members alike.
- organising activities linked to the cooperative in non-cooperative, limited company forms

The last three categories of finance above would be considered external for the purposes of the balance sheet under most countries accounting systems. Yet, ways of making them near equity by means of subsidiary, debentures or bonds are being explored.

Taking in deposits on small savings accounts for members and retaining parts of the patronage reimbursements (e.g., through deferred patronage refunds, remittance of obligations or refunds in form of shares) are other means of long-term use of external capital, though both are frequently prohibited by banking laws or competition law. These practices require the highest standards of accounting records, in order to make absolutely sure that the capital retention is credited to the individual member and is not “lost” in general trading income.

### ***Criticism of new cooperative self-financing methods***

These different ways of raising finance are moving cooperatives closer to a commercial company model, in that they give investors certain preferences with regard to capital gains over members with less capital. However, they still do not give cooperatives the same amount of access to capital markets as companies. If such means are to be used in order to increase member-funding they must be installed in the cooperative's statutes or by-laws, and must, of course, be legally acceptable in that country.

Making members shares tradable once a member no longer wants to use cooperative services is another possibility of maintaining certain levels of own capital without tying down the individual. However, making them tradable while the member still enjoys services would be tantamount to relinquishing the cooperative form altogether. There would then be no fundamental difference between the cooperative and a commercial company. Share values and profits would become more important than member interests, and the influence of members would become more and more unequal.

### **Loan finance**

Members know how cautious they are when borrowing for themselves. They are usually just as careful in assessing the possibility of cooperative loans, and comparing benefits and costs. Borrowing beyond members capacities should only ever be done where it is expected to increase the future flow of profits and other benefits quickly enough and in sufficient amounts to cover the necessary repayment, while still leaving a margin for the enterprise. Decisions on loans exceeding a certain amount (usually stipulated in the by-laws) should only be taken in a general meeting of members.

If cooperative leadership wants to attract outside investment, they have to provide sound proposals on which both members and investors can base their investment decisions. Both need to cover risks with a certain amount of profitability and their expectations of such profits will determine their willingness to invest. Therefore any proposal will be judged on its profitability. Loss making operations usually do not find external financing. Yet the transparency of financial reporting, the quality of long-term planning, and above all, the reputation of a cooperative will be important criteria in the investment decision too.

Generally speaking, **investments should only take place as part of carefully planned programmes**. They should be based on realistic budgets demonstrating a high potential for success, and should be available both to members and non-member investors.

Investments from reserves are the only funds which may not always receive interest. At times, reserves may be used to invest in activities which members want to have, and are prepared to “pay for” with reduced dividends or reimbursements on patronage. Care should be taken, however, that they form part of a larger development plan, which members know of and agree to, and that members are treated fairly and equitably when such investments are made. If one set of members effectively subsidises another this is seldom perceived to be fair in the long run.

**Box 5.2.1 - Issues to consider before opting for external finance** (adapted from Parnell 1995: 171)

When considering whether or not external financing is needed, the following points should be considered:

**Step 1:** Consider the need for additional finance only within the framework of a carefully developed strategy plan

**Step 2:** Before trying to find external finance consider other low cost/low finance options, since:

- the more finance you lock up within the business the more you reduce your flexibility to change the course of your enterprise at some future date;
- managers like to control assets - it gives them power and prestige;
- before investing in labour extensive technologies or sophisticated marketing, cooperatives should first try exercising their collective bargaining power to negotiate better prices for inputs and produce, as well as for out-sourcing (buying in services) and subcontracting (e.g. manufacturing processes);
- using modern, relatively low cost technologies or pooled buying power can reduce capital needs;

**Step 3:** If it is decided to invest in new facilities make sure that the investment really adds to the benefits provided to members.

**Step 4:** If the investment will profit only a subgroup of members, examine whether they cannot invest in it themselves (either individually, or by using one of the special member contributions to capital described above), or whether the activity which the investment is to support should not be organised as a separate sub-organisation or sub-cooperative.

**Step 5:** If the new investment is considered necessary to increase the marketing options of the cooperative (e.g., by adding value to primary products), consider whether members could undertake this investment together with non-members or members of other cooperatives. In the process they may lose part of the control, but perhaps the entity would gain greater competitiveness. An example of this would be the establishment of a freezing plant. There are already various competitors in the field with enormous capital power. To enter the market for frozen vegetables, even if they were of a novel kind, would not guarantee lasting market success unless capital investment was similar to that of competitors.

**Step 6:** If it is decided that the cooperative will carry out the investment itself and that additional capital is needed, the first source to be considered should be the members. All too often it is assumed that members cannot, or will not, come up with the capital needed, when in fact, they can if the alternative is that the investment will not take place.

**Step 7:** If it is decided that it is necessary to involve outside capital in the cooperative, an attempt should be made to attract such capital without offering internal control since:

- the type of strategic investor needed will only be interested in securing control if he/she is not satisfied with the quality of the staff involved in running the business;
- outside investors will expect a level of transparency in the way the cooperative operates, which ensures full access to information about the business (see above and Module 7 Monitoring and Evaluation).

**Step 8:** Most cooperatives will be well advised to seek a mix of different types of finance,

- Some of which is locked into the business but is tradable (see investment certificates above)
- Some of which is in effect long-term finance (bonds)
- Some of which is short-term, and which can be quickly adjusted to meet short-term needs. Suppliers credits and bank overdrafts would fall into this category. However this short-term finance must not be used for long-term investments.

## Information on finances

Financial issues are among the most argued over, both within the management teams and between cooperative management and members. A policy of transparent information on finances goes a long way in avoiding conflict and assisting decision making. Of all the instruments used in the planning, management and reporting of finance, three are particularly important: budgets, balance sheets and cash flow statements (See Module 6).

### ***Clear budgets can help reduce possible conflict between Board and Managers***

A management tool which can improve communications between cooperative managers and Board directors is a budget. Budgets can be drawn up based on forecasts of sales, costs, returns and expenditure, and usually form part of the continuous planning process. There is usually one overall expenditure budget for the organisation as a whole. Large organisations draw up several sub-budgets in addition, which either cover sections of the organisation, such as the sales department, the stores, head office and production, or for so-called cost-centres, such as sales, investments, production costs and fixed costs.

To maintain a certain flexibility, the Board usually agrees on an annual, and sometimes, on a longer-term budget, and during that period is only involved in expenditure decisions above a certain limit. This ensures that managers react quickly, while at the same time, ensuring that financial controls are kept to a level where risks are in line with members' appreciation of risk.

### ***How budget systems reduce the reasons for conflict***

Board directors coming from the same community as the members and being elected by them, will not take undue risks. Particularly when they are only used to spending relatively small sums of money in their own enterprises they tend to give a lot of attention to financial details. If this happens repeatedly it can hamper the decision making processes necessary to run a business effectively, and often also means that insufficient attention is given to larger investments. Too close a scrutiny on expenditure will also give the cooperative manager the feeling that his discretionary judgement is not wanted, which may lead him to cease taking responsibility altogether, thereby forcing the Board to spend more time on management tasks than perhaps sensible with regard to its role as a policy making body.

It is often difficult to establish a balance between too detailed and too loose financial control. At the planning stage it is therefore important to establish which types or levels of expenditure the Board should take a regular interest in (in addition to agreeing the overall budget), to clarify what "regular" means, and, for this, to become part of standing monitoring procedures. Changes in these "rules" should be discussed with, and be accepted by the managers.

In most cooperatives the relationship between the Board and the managers is more close knit than in commercial businesses and nowhere does this show up more critically than in investment decisions. The Board directors can walk into the cooperative's stores or offices at any time in the course of their routine purchasing or selling activities to see activities or resources. Such close contact has an impact on the decision-making of both management and the Board. It puts a responsibility on the board directors to recognise the extent of their influence.

The relationship, however, is reciprocal, and managers often contribute to a climate of unnecessary distrust by being less than open in communicating information to the Board. Much cause for discontent can be removed by establishing routine procedures for sharing information. Such procedures can also function as guidelines for information for meetings.



### **Reasons for preparing accounting statements**

A Source and Application of Funds statement (SAF) is a planning and monitoring rather than a management tool. It shows where capital coming into the business came from and where it went (or, as a forecast, where it is supposed to come from, and what it will be spent on). The degree of detail which such a SAF may contain, depends on the purpose for which it is drawn up.

A balance sheet is closely related to a SAF, but shows a picture only at a given moment, of the assets and liabilities of the enterprise

Both statements mirror the financial situation of the enterprise, and therefore allow for judgements on credit-worthiness, financial strength and securities available for potential loans. They are thus statements which need to be presented to potential investors, and also the tools which should be looked at when considering the effects of lowering or increasing member equity. A critical area for cooperative finances are the creditors and debtors accounts. Although it might be necessary to finance short periods with extended terms of credit, too high a level of short term obligations can give investors the impression that the cooperative is running into serious liquidity problems.

### **Analysing cash flows statements**

A cash flow statement is a planning and a controlling tool. It is similar to the SAF statement but it shows the actual flows of money during certain periods of time. It can therefore be used to make sure that bank accounts are not being overdrawn and to make sure that cheques written will not be bounced by the bank due to lack of funds. Cash flow statements, however, do not say anything about the profitability of a business, and nothing either about its solvency. The first can only be established through the Profit & Loss account, and the second, via the Balance Sheet or SAF statement. (see module six and the group enterprise manual - bibliography)

## **b. Personnel Management**

Most modern principles of personnel management in commercial companies hold true in cooperative societies too. Thus the commonly used tools for recruitment, motivation, performance-rating and general management of human resources can also be applied to cooperatives. Some aspects however differ in view of the distinctive character of cooperatives.

Different approaches to personnel management in cooperatives are mainly needed in regard to:

- the position of the top manager vis à vis the Board of Directors,
- the representation of staff on the Board (or Boards),
- the promotional policies frequently followed in cooperatives with all lay Boards and
- the need for flexibility of the organisation as a whole and therefore for its personnel structures too.

### **The position of the top manager vis à vis the Board of Directors**

Wherever there is a successful cooperative there is usually an excellent relationship between the chief executive officer or General Manager and the Board of Directors. Though it can be argued that such a relationship is the result of the success of the enterprise, such good relationships tend to be the prerequisite for success. A shared vision, agreement on objectives and focus on purpose need to be agreed between policy makers and managers, regardless of whether the latter are paid or honorary.

### ***How can good relationships be maintained?***

Trust, mutual respect, openness and honesty are all central to good relationships. A good relationship between the manager and the board also depends on well-understood boundaries defining the manager's job and the decisions reserved for the Board of directors (see below). The manager needs to know what is expected of him by the Board, that his performance will be measured objectively and that recognition will be given for results. The manager must expect detailed questioning, while the Board must be prepared to deal with issues at a strategic level. The Board also has the responsibility towards the managers to make sure that the democratic decision-making processes in the organisation do not take up so much of the manager's time that he/she is prevented from doing his/her real job, namely to deliver the benefits to the members.

### ***Policy making and executive functions***

Keeping these two functions separate is important in any cooperative. When they are covered simultaneously by one person, there is a high risk of concentrating too much power in one individual. However, a manager should be employed based on his/her proven quality to get results rather than for reasons of politics or status. This can mean at times that they have more knowledge about the cooperative enterprises than does the Board. In order to tap this expertise, yet safeguard the Board's policy making power, an attempt should be made, even in small cooperatives with honorary managers, to design a system where operational managers are represented on the policy making body, but do not vote on policy.

### ***Working together in the members' interest***

Professional management always tends to involve a certain degree of **loss of member orientation**. Particularly for this reason the majority of Board Members should be drawn from the membership, and need to be prepared to set out the rules and guidelines according to which the managers are to work.

To maintain transparency, accountability and member control, cooperatives should design systems of good governance, which might include separation of powers; a written code of ethics for directors of the Board and managers as well as clear monitoring and control procedures.

**Clear policy guidelines** need to be defined by the Board. Such guidelines must ensure that the top management has a certain level of freedom in decision making while at the same time ensuring adequate control to avoid power abuse. Chief executives should for example, not participate in decisions which concern the review of their own performance, their salaries and their working conditions.

The **service contract duration** of operational managers should not exceed three to five years and should include an appropriate trial period. More than any other type of organisation, cooperatives should promote openness and transparency in matters of significance to members. This includes details of contracts held by senior executive staff and directors as well as the way in which any performance-related, severance payments, or any other substantial benefits are made to them

### ***Supremacy of the Board***

Certain decisions should be reserved for the Board or the Board together with the members. The items to be included in such a schedule will differ, depending on the particular cooperative, but will generally include issues such as (adapted from Parnell 1995: 188):

- Recommendations to be made to members regarding revisions of the cooperative rules
- Recommendations on financial matters requiring approval of members, including the distribution of profits/surplus, capital raising from members and the allocation of shares

- Decisions reserved for the Board by legislation
- Actions required as the result of auditors' reports
- Policy towards, and relationships with, federal, national and other levels of cooperative organisation
- Development of long term strategies and plans
- Establishment and monitoring of the annual operational budget for revenue, expenditure and capital expenditure
- Property and land transactions, including the purchase, leasing and
- Approvals of all significant items of capital expenditure
- All significant policy decisions, in particular regarding:
  - changes to management structures
  - methods of raising capital
  - personnel policies
  - the opening of new facilities and the closure of existing facilities
  - remuneration policy for the board and senior executives
- New business acquisitions and disposals of existing parts of the cooperative's business
- Appointment and dismissal of key executives, normally limited to the chief executive, board/cooperative secretary, and other senior posts reporting directly to the chief executive
- Selection and appointment of outside non-executive directors
- Approval and monitoring of operational control systems

### ***The representation of staff on the Board***

In most cooperatives, employees are eligible to become members, and thus to be represented on the Board of Directors. If a Supervisory Board has been installed, their representation there is often prescribed by law. It is not uncommon for employees to gain more influence over the cooperative than the majority of members, to the extent that it may become necessary to put in place safeguards such as:

- The number of directors drawn from employees should not provide a majority in the event that only a quorum were present at the board meeting.
- Making reserves indivisible in a "Club Model" cooperative
- Ensuring that voting shares are only held by fully active members
- Limiting the investment of the individual member to a maximum share of the total, e.g. 10%
- Making sure that voting on any change of statutes is undertaken on the basis of such decisions requiring a "qualified majority" of members in favour, e.g. 75% of all members, not just of those turning up at a meeting to vote.

### ***Recruitment and induction policies***

Any staff member needs to demonstrate the necessary **technical skills** to do the job as specified by a role description for which he or she is to take responsibility. Whether they are capable can be determined through assessment centres or by using a more theoretical approach, comparing job profiles and curriculum vitae against each other.

Management staff must also bring to the job **management skills**, including leadership and organisational abilities. They need to be appointed only after selective interviewing and testing.

### ***Finding suitable managers***

Managers are normally recruited in the same market as commercial company staff, since it is not common to find managers who have been trained specifically for service in cooperatives. In any case, the essential tasks of entrepreneurial management, do not differ between a cooperative setting and a commercial company.

Cooperatives should not exclude the idea of employing women or members from minority groups in management capacities. This introduces new ways of looking at problems, and thereby stimulating other colleagues. Nothing is more likely to cause the stagnation of organisations than constantly recruiting managers who are very similar to each other in outlook. The priority criteria for all appointments, should remain the person's ability to make the best contribution towards achieving the cooperatives' overall objectives.

### ***Internal promotion or external appointment?***

The importance of selecting the right chief executive cannot be overemphasised. Yet it is easy to fall into the trap of making internal appointments only because there is somebody with inside knowledge, and to ignore that the person chosen may not have the skills and abilities required. Ignoring internal human resources can prove just as wrong, since the newcomer as an outsider can be refused open co-operation. As a general rule, no member of the organisation should be promoted into the job of a senior executive without competition from outside, and under strict consideration of their qualifications. **Promotion** as a reward for past performance is not going to guarantee equally successful performance in the new position nor ensure that the best person gets the job.

The most **promising prospective managers** are those able to maintain a balance between harnessing the individual employees' creativity and human resources, and developing a framework of systems essential to achieve the cooperative's objectives. This should be emphasised in the selection procedure. How well the manager can then practice this capability in the course of day-to-day business, depends to a large degree on the Board's effectiveness at creating the right kind of climate for open management. It is also related to the manager's appreciation of the main differences in management objectives between a cooperative and other companies.

Once appointed, the manager should go through an **induction** period. This could include frequent access to the Board, and according to the situation, additional training in a cooperative college or in another training institution. Over the induction period the manager should become well-acquainted with the cooperatives' objectives, its monitoring and evaluation procedures and the standing rules. A trial period of six to twelve months should then be given, before finalising a longer term.

Any staff below the level of that reporting directly to the Board should be selected and employed by the managing director/senior executive officer or general manager, depending on the set-up of the cooperative. In spite of this the Board might reserve the role of setting the wage scales, promotional policies and health and safety aspects of all employees for itself.

## Performance rating and reward systems

Too often top managers set their own performance criteria which they have borrowed from other organisations and which may not suit the cooperative. Performance indicators which relate directly to the purpose and objectives of the cooperative are rarely set. If, for example, the objective of the cooperative is to supply farming members with the inputs they need, managers should be rewarded for establishing what the need is, and finding sources of supplying them, rather than in terms of the units of input they have “sold”. They are not meant to be salesmen, but rather deliver the best service possible to the owner-member. Rewards should be granted on the basis of performance in achieving strategic and operational targets (for more details see “The basis for strategic management” in Module 4). These indicators can also be apportioned to, detailed and specified for all levels of staff. This could, for example, be done by developing a merit assessment form, with ratings on staff experience, achievements etc. (An example of such a form is given in the annex to this module).

### **What are adequate rewards?**

Promotion should not be used as a reward. Pay packages, additional benefits, increased responsibility or a more prestigious job-title could represent adequate **means of rewarding** a job well done. But perhaps the most important reward of all is when staff and, above all, managers, feel that the objectives to be followed match their personal aspirations.

A manager’s motivation depends largely on:

- knowing what is expected of them and that they will be measured against the achievement of these expectations;
- having the necessary freedom to manage in their own style, provided it delivers the results and does not go against any value of the organisation;
- being involved in the total enterprise as part of the team, as opposed to being relegated to oversee a small segment;
- perceiving a certain level of challenge in their work they do;
- feeling that they are being developed as people and given opportunities for professional development and training;
- perceiving that what they do is worthwhile (most cooperatives ought to be able to provide this much more readily than investor companies);
- knowing that their achievements will be acknowledged and rewarded.

### **Flexible structures for Management Personnel**

An inadequate governance system (i.e. the norms and structures in place), can stifle an organisation, leaving it inflexible, slow to react and without clear direction. On the other hand, cooperatives which have systems of governance which enable them to react flexibly to changing external conditions, will increase their capacity to serve their members (see Röpke 1992). The design of systems of governance can be crucial to the future development or existence of an organisation.

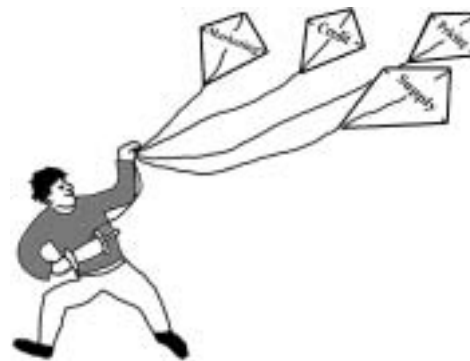
### **Combining flexible management structures and good governance**

The best approach for creative and flexible personnel structures is a well developed system of **management by objectives**. A clear vision, and objectives to which all staff are committed to, may not in itself be sufficient. Staff must also be empowered to do their job. Levels of competence and responsibility have to go hand-in-hand, and supervision and control needs to be limited to those areas where self-monitoring is not enough.



## SECTION 5.3

# MANAGEMENT OF SERVICES TO SUPPORT MEMBERS' PRODUCTION



### Introduction



Agricultural cooperatives provide a large number of services to support producers such as input supply and marketing. While the services offered and the level of support which the cooperative provides will vary widely, many of the issues regarding the management of these services are common to most or all cooperatives. Although discussion in this section is largely limited to agricultural cooperatives, most of the arguments are just as valid for service cooperatives of non-agricultural small entrepreneurs.

### Objectives of the Section

By the end of the section participants should be able to



- describe the characteristics of rural service cooperatives
- state the functions of marketing, supply and credit cooperatives
- outline the main factors influencing their management

### Key learning points



- Promotion of producer's service cooperatives
- Cooperative marketing roles
- Conflict resolution in collection and delivery
- Cost of marketing
- Cooperative price policies
- Management of a supply cooperative
- Management issues in credit cooperatives
- Good credit policies

## Teaching strategy



Ask participants whether any of their cooperatives are involved in the provision of services. Encourage some discussion on the reasons for this involvement, helping them to identify the specific members' needs that service operations address. Lead the discussion in order to group the services identified into marketing, supply and credit activities.

Focus the discussion on market cooperatives. Outline the key functions of cooperative marketing societies and briefly describe the type of activities involved. Avoid describing a long list of activities and operations, but encourage participants to bring out at least some of the points.

Ask participants whether in their cooperatives there have ever been any problems or disputes arising from the marketing services, particularly with the delivery of supplies or the collection of produce. Analyse some of the experiences and build on them to outline the management issues to ensure that such instances are limited to a minimum.

Describe the cost the cooperative incurs to finance its marketing operation and ask participants which systems are used to cover these costs in each of their cooperatives. Ensure that the discussion highlights a distinction between levy and commission and enough ideas are brought out as to ways to keep these costs low.

Start the session on supply management by outlining the objective and functions of this cooperative activity. Once again, start from participants own experiences and build on them. Like in the marketing section, encourage participants to share specific problems met by their cooperative and help them analysing them using this as an opportunity to outline the key points of the session.

Describe the main issues involved in managing credit operations within a cooperative. According to the specific involvement of the cooperatives represented and to the level of familiarity with financial issues that participants have, discuss the following issues:

- Avoiding bad debts
- Drafting applications
- Characteristics of good credit policies
- Dealing with overdue re-payments.



## Notes

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## Reference information



### Agricultural service cooperatives

Most agricultural service cooperatives found today are based on farmer members (entrepreneurial members) interested in improving their market relations, their production capacities and their productivity. In general, their needs for support services increase with:

- greater diversification of their production,
- the higher the level of technology used and
- a more commercial orientation.

### Provision of services to members

Entrepreneurial tasks for promoting and managing producer's service cooperatives include a series of progressive steps:

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

Most agricultural cooperatives aim to supply their members with below market price inputs. At the same time they try to market their produce at prices which are higher than the individual could get, which is achievable due to the higher quantities marketed. Some rural cooperatives only purchase or provide services. The majority, however, are multi-purpose, selling to and marketing for members, purchasing inputs, even offering loans and insurance facilities. These are complex organisations and require relatively high levels of skills for management and control.

### Management tasks in rural cooperatives

To achieve higher produce prices cooperatives need to be flexible in terms of when, where and how to sell. With this in view, they often maintain storage or even processing facilities. By processing on a cooperative basis they can achieve economies of scale which would be impossible for individual producers, and help in this way to increase their profit margin. They can also generally negotiate lower prices for inputs by buying in bulk.

Both for selling members' produce and to purchase inputs, specific management skills are needed to find the optimal size of turnover and calculate prices in such a way that they stay competitive while covering all costs involved.

Economies of scale, can be achieved either by

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

Another typical management task is to increase the operational efficiency of the cooperative, reducing costs while maintaining the same level of quality. This can be achieved through better

management of resources and people, investments into new technologies, higher stock levels held for processing or later sales and credit facilities for members.

Particularly important for multi-purpose cooperatives is the identification and use of complementary activities. This can lead to increased production and marketing activities of the cooperative and can help make use of cooperative facilities more evenly throughout the year.

## Marketing

Agricultural marketing includes all those activities, arrangements and preparations which assist the farmer in selling his marketable produce. Generally the cooperative can help this process by:

- providing an efficient marketing system in areas in which suitable facilities do not exist or are inadequate
- improving the members' (farmer's) incomes by ensuring a better return for their produce through combined bargaining power, price stabilisation, lower trade margins, and the identification of better markets.

There are two different levels of co-operation in marketing:

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

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

### ***Functions of cooperative marketing societies***

Marketing aims to fill the gap between the needs of customers and producers in such a way that both attain maximum satisfaction. Marketing cooperatives should therefore try to add the features needed by consumers at minimum cost, and in such a way that the highest share of the final price can be given to the producer. Providing these features to consumer at minimum cost does not mean minimising the service provided. On the contrary, as consumer needs grow, delivering better quality, ready to use and conveniently available products can mean greater marketing input, but can equally be the only way to stay in the market.

### ***Importance of market research and producer information***

Market research and producer information is a support-service which cooperatives traditionally offer. This service provides advice to members concerning customers' needs and how to meet these needs by providing the required type of product, available at the right price, place, and time. Information about competitors and about the most suitable promotional strategy can also be provided by the cooperative.

In most cases, though, just provision of such information is not enough to enable small producers adjust production levels to market requirements. The information has to be accompanied by extension services on production methods and techniques, and by providing handling, storage and processing facilities. It often happens that primary cooperatives cannot afford to offer all these services, and thus have to rely on secondary organisations.

Cooperative market research and awareness of the producers' and cooperative's collective financial and technical capacities may suggest that the current product no longer has a market or at least in the form in which it has been sold up to now. The question then arises as to whether adding value by processing, packaging or selling the product at different times (by storing the produce) could offer new possibilities and what the cooperative's role could be. If none of these options are viable, production alternatives need to be researched and members advised on them.

### **“Adding value to primary products”**

A frequent recommendation to cooperatives seeking to grow is to “add value to primary products”. To do so may mean storing, packaging, cooling or further processing - activities demanding facilities which need careful planning.

With regard to **storage and cooling**, the cooperative will need to know what quantities of produce will have to be stored at which periods, taking into account that the storage space needed might in cases be reduced if the collection or assembly of produce can be spread fairly evenly throughout the year. Storage facilities must be laid out in such a way as to minimise spoilage, deterioration of quality, shrinkage and pilferage. Sometimes produce will have to be prepared for storage by drying out, cleaning, sorting into separate grades of quality or preventative treatment. All these issues need to be considered when calculating the cost of storage and working out whether the selling price at a later time will cover the total cost of storage as well as the initial production costs plus any inflationary losses incurred during the storage period.

The range of possibilities for **packaging** is very wide, from simple newspaper wrapping to canning, depending largely on the product, the method of transport and the customers' preferences. If co-sales are direct to the consumer, the packaging can also carry the cooperative's label (for easy identification in the market), whereas if it is sold through wholesalers or a higher level cooperative, packaging could be designed simply to minimise transport, loading and administrative costs (e.g. by the use of one-way containers instead of re-useable ones).

Further **processing** can alter the appearance (e.g., by washing, drying, depulping, separating, maturing etc.), or simply add to the durability (by canning, freezing, chilling etc.). It is likely to be the most expensive, but also most profitable way to add value to a product. It can be a precondition for reaching high price markets and stabilising of prices and can lead to considerable savings in transport costs. Whether this should be done at primary or secondary cooperative level depends largely on:

- the urgency with which the produce has to be processed
- the amount of produce to be handled at primary level and the amount needed to operate a processing plant economically
- the storage facilities available at primary level
- the transport facilities available between primary and secondary society; its frequency, speed and cost.

A compromise solution might, in some cases, be to establish a central processing plant jointly owned and operated by several local societies. In any case the establishment of a processing plant should always be preceded by a careful feasibility study, as it is usually combined with a comparatively high degree of risk because of the long term funds which have to be invested.

The produce to be marketed can be assembled, either by individual delivery to the society or by collection from the members' enterprises by the society. The identification of the appropriate systems for collecting or receiving produce, and the critical stages and operations within, can be crucial to maintaining member loyalty. It should thus be preferably done together with at least a representative number of members.

### **Common causes of disputes between members and the management**

The most common reasons for disputes are due to:

- information problems (e.g. the collection or reception times and loading or off-loading procedures);
- a failure to agree to values to be credited for returned sacks or crates
- disappointments with regard to produce grading
- disputes over weights and volumes
- the portion of payment for produce that should be made on delivery.

Therefore great care must be taken in the design and management of collecting and receiving systems, as well as in efficient communication between the society and its members. When reviewing the alternatives it is advisable to consider whether:

- the society or the member should transport the goods
- collection should take place on request or schedule basis
- packaging should be provided by members or by the society
- the receiving centre should be open all day or for certain periods only
- grading should, or need not be observed by members
- payment should be made by cash on delivery or by cheque, or account entry and whether the product is perishable or durable, robust or delicate, low or high in value, varies in price according to grading and is harvested seasonally or continuously

members are:

- in need of cash, indebted or not indebted with the society
- scattered over wide areas or living close to each other, the cooperative society's facilities and whether there is a reasonable availability and quality of roads and other avenues of transport, communications, and outlets.

### **Alternatives to cooperative collection**

The decision as to whether or not the cooperative should deal with collection of crops will depend on a comparison of the total cost of members delivering produce, compared to the cooperative collecting the produce. There may be non-economic reasons for members to prefer the higher cost option and they need to be considered as part of the decision, to see whether such intangible arguments still outweigh the economic advantages.

The most economic number and location of collection points should also be worked out which result in the lowest total cost (members' marketing cost plus cooperative's marketing cost). Normally the volumes of output in an area will determine the location and number of collection centres. However, this might cause conflict between larger and smaller producers and so it may be advisable to locate collection points in relation to member numbers rather than to volume.

The management of collecting or receiving includes decisions regarding a wide range of issues including:

- transport and delivery scheduling,
- information about and communication with members
- bag, crate and other container systems

- the physical reception of produce
- congestion of facilities and queuing of members
- sampling and grading of produce
- the prevention of deception etc.

Details of these questions are not entered into here, except for mentioning two important points.

### ***What can be done if, despite good systems applied, there are still conflicts?***

If it has been decided that to grade members' produce in order to sell it better into the market, the basis of such grading and the producer price differentials have to be explained clearly to members. The grades should never be manipulated in order to regulate the flow of produce at times of oversupply or shortage by respectively stricter or more lax application of grading standards. Only a society which is reliable and consistent in its grading of produce can hope to win the confidence of market partners and fetch better prices, as well as keep the trust of members. The same, issues, also applies to measuring of quantity (e.g. weighing).

One of the best ways to reduce conflict over what exactly was delivered is to have the member countersign the form on which the grade, the amount delivered and any other test results influencing prices paid are recorded upon receiving the produce. Where the by-laws stipulate compulsory acceptance of produce delivered by members and where substandard produce is delivered frequently, the addition of a quality clause may be in the interest of all concerned.

### ***Avoiding fraud in the delivery and reception of produce***

There are many potential ways in which members or staff can attempt to **defraud** the cooperative society in the course of delivery and reception of produce. If challenged on this subject most cooperative managers can tell tales of horror. Three points should be kept in mind when designing systems to detect and prevent this from happening:

- Fraud thrives on ignorance. Member and staff training are the best long term protection.
- Fraud thrives on dirt and disorganisation. Reception centres and the testing and other equipment must be clean and the flow of produce must be smooth and co-ordinated.
- Dishonest members and staff cannot be taught to be honest. Management must minimise opportunities which tempt the potentially dishonest, and ensure that the society is run in such a way that both staff and members feel that they are earning a fair reward for a common endeavour.

## **The costs of marketing**

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

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

- 2 The Variable Costs which are incurred directly by the marketing process and vary according to the volume of produce handled. This group includes:
- transport costs (if the society is responsible for it)
  - handling charges, casual labour etc.
  - leakage in storage and transit caused by drying, spilling, spoiling or pilferage
  - packing materials
  - bank charges for crop finance
  - insurance fees for produce storage and movement

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

Depending on the mode of operation the society can use one of the following methods of **cost covering**, by charging:

- a *Commission*, which is a fixed percentage of the sale's price deducted from the total sales proceeds. The revenue which the society can obtain from this commission is related to the current market price and the volume of produce handled; or
- a *Levy*, which is a fixed charge imposed on each unit of weight or volume sold through the society, either as a flat rate on all produce, or differentiated according to grades. Thus the revenue of the society under the levy system is not dependent on the market price which the product fetches, but only on the quantity sold. The commission and the levy are usually fixed in advance of each season.

If the society practices a price stabilisation policy (see below: Prices and Payments to members), it receives its revenue from the difference between purchase and resale price. The margin is not fixed in most cases, but adapted to the market situation. Nonetheless, the risk of the entire marketing activities then lies with the society.

The choice of the method used often depends on the history of the society as well as on the marketing system and the type of product marketed. In individual cases it will depend on the dynamism and efficiency of the management and on how far the cooperative is prepared to participate in the marketing risk. But the choice, in most cases, is between the commission and the margin, rather than levy systems. Especially in a competitive market, producers usually prefer a system which gives the society an incentive to look for higher prices and which transfers part of the marketing risk to the society. In practice, the levy system is mainly confined to regulated markets and to highly integrated societies with secondary organisations.

## Keeping marketing costs low

In order for the **marketing cost per unit of produce** to remain acceptable, it is essential that the cooperative achieves fairly constant and sufficiently large volumes of throughput. This is even more so where the cooperative has entered into delivery contracts with secondary organisations or other buyers, and has to face financial losses if the agreement is not honoured.

Fluctuations in volume of produce received can be caused by:

- changes in the output of the members due to alterations of yields or production patterns
- a change in membership
- a change in members' loyalty to the society

A cooperative has very few means of avoiding changes in productivity or membership, but it can employ various methods to ensure that all, or at least a great part of the members' produce is marketed through the society such as:

- *General loyalty clause:* the by-laws of most cooperatives with marketing functions include a clause appealing to members, without putting them under a direct obligation.
- *Exclusive delivery clause:* Some cooperatives go further than an appeal, and include an obligation into the by-laws for members to deliver their produce exclusively to the society in return for compulsory acceptance of all produce. In several countries such a clause would be an offence against the anti-trust laws and cannot be applied.
- *Delivery or mutual contract:* Contract delivery puts the relationship between society and member on a more businesslike level. The obligations of both sides regarding the time, place and terms of delivery are clearly defined in the contract. In some cases it may include a guarantee of a fixed or minimum price. Frequently the contract is also linked with a credit agreement. Such contracts can include all produce, percentages of total output, or a specified part. They can vary according to the time covering either one or several seasons and they can take the form of either sales or agency contracts.
- *Production cum delivery contract:* In this specialised contract the member not only pledges delivery, but also undertakes to cultivate a certain acreage with a specified crop, or to rear a certain number of livestock over a given period of time. This type of contract may also give a cooperative the right to supervise production methods and subject members to an often elaborate extension programme. Contract farming is often employed when the society has to invest heavily in processing equipment and needs a certain guaranteed minimum quantity of produce to ensure economic running of the plant. The same applies when it has to fulfil contracts itself which spell out quantity and quality of produce in a detailed manner.
- *Compulsory delivery:* As a result of government legislation.

In all modes of delivery, with the possible exception of compulsory delivery, certain problems exist with regard to enforcing the contracts or clauses mentioned. A general appeal for loyalty cannot be enforced other than by expulsion, which obviously does not solve the problem of constant or sufficient amounts of produce being delivered. Breach of contract can, in theory, be prosecuted by law-suit resulting in penalties and fines; by arbitration for damages or by a court injunction to keep members from selling elsewhere. However, even if the society has these means at its disposal it will still have to consider the grave consequences of such actions. To invoke any of them can easily lead to some members leaving the society. This may be desirable in isolated cases, and even have a deterrent effect on other members. But, if disloyalties extend to a larger part of the membership, large-scale sanctions could be disastrous. A society faced with such a problem would do better to look for the cause of such disloyalty and try to remedy it. It may well be that the root of disloyalties lies in the inefficiency of the society, or in its inability to foster proper understanding among the members.

## **Determining prices and payments to members**

In its sales policy, the cooperative has to determine the prices and conditions under which it is prepared to sell, the appropriate time for the sale and the person or organisation with which it wishes to trade. In addition the terms of payment granted to the buyer or the burden of interest for the interim finance determine the cost of financing the marketing.

### ***Influences on cooperative price policies***

The more usual terms of sale for a cooperative are:

- Ex store - where the transport risk and costs are carried fully by the buyer;
- f.o.r. (free on rail) - the society carries the risk and cost of transport (including loading) to the nearest railway station
- Free station xxx - the co-op carries the risk and cost of transport to the railway station indicated by the buyer
- Free delivery - the co-op carries transport risks and costs up to the buyer's store

and in foreign trade:

- f.o.b. (free on board) - the co-op carries all risks and cost including the loading costs aboard a ship indicated by the buyer
- c.i.f. (cost, insurance, freight) - the co-op carries transport costs and risks up to the port of destination indicated by the buyer.

Due to seasonally fluctuating market prices for many agricultural commodities, the best time for the sale has to be determined, calculating the difference between selling price and additional storage and finance costs in the meantime. The choice of market partners is often determined to a certain degree when the society is affiliated with a secondary organisation. But the main loyalty of the primary society is to its members, and, should the secondary society turn out to be inefficient, then the primary cooperative should choose a more efficient partner. The choice should depend on prices offered, conditions of delivery and payment as well as the reputation of the buyer (particularly with regard to the time he takes to pay). Where government-restricted and supported marketing channels do not (or no longer) exist, most agricultural produce is either sold through contract arrangements or through auctions. Contracts can become effective immediately or be concluded well in advance. Public auctioning is advisable if the sale has to be concluded immediately. Auctioning requires the seller to deliver certain amounts and satisfactory quality to attract sufficient numbers of competing buyers.

According to the cooperative principle of service at (near) cost, the **prices paid to members** for their produce reflect either directly or indirectly the market price and the cost of marketing. Most marketing cooperatives employ some sort of differentiated price-system, taking into account the differing grades and sometimes the size of the consignment or the time of delivery. Within its means, the society should aim at stabilising producer prices, either by absorbing price differences through a flexible margin averaging out at just above true marketing cost over the course of the year, or by establishing a stabilisation fund. These "guarantee" schemes can be funded by allocations from the running costs of the society or by levying a separate charge. However, it should not be the function of the society to counteract the negative impact of long-term price trends, as such a move would eventually exhaust the financial resources of the cooperative.

### ***Setting payment conditions which satisfy both members and the cooperative***

The actual **payment** to members can take one of the following forms:

- Payment of the total price to the member on delivery of his/her produce. This method can only be employed if the society works under a fixed price system with a stabilisation fund or if the market price is already known at this time, due either to a firm offer by the buyer, a long term delivery contract or to government regulation.



- Split payments involving a first payment on delivery, a second payment after sale and possibly a third payment at the end of the season or at the closing of the stores. The first payment must be considered as an advance on future sales proceeds, and should generally not exceed 65-75% of the anticipated market price minus marketing cost, in order to allow for a possible fall in prices. If the prices for the produce have been subject to great fluctuations in previous years, the percentage advanced should be kept at a lower level.
- Payment after sale of the produce. This method is mainly used if the period between delivery and sale is relatively short or if advances are not usual for other reasons.
- Payment at a fixed future date after delivery or sale. A delayed payment is often used by marketing societies, which are either unable or unwilling to make arrangements for interim finance.
- Payment by weekly or monthly account. This method is usually confined to societies handling animal products or other produce which require the continual operation of the society throughout the year.

Members usually prefer immediate payment, while it is in the interest of the cooperative enterprise to delay it in order to save on financing costs and reduce own risk. The compromise which has to be found depends on the availability of finance to the cooperative and, to a certain extent, the procedure adopted by any competing marketing institutions. Although payments can be made in cash, a payment by cheque, by bill of exchange or by crediting the member's current or savings account is preferable for administration and security. Time is also needed to deduct members' outstanding debts from payments and direct cash payments do not easily allow for this. However, the form of payment should be agreed upon in general with the members at a general meeting or through their representative bodies.

## Supply Management

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

- to keep the prices at a reasonable level by:
  - using its bargaining power based on bulk buying;
  - shortening the supply lines through direct purchases from factories or importers and through production on the secondary level in the cooperative network;
  - efficient handling to avoid losses and waste.
- to supply goods and services of a type and quality which are to the best advantage of the producer. This, of course, requires the staff to have a sound technical knowledge of the supplies offered, and the cooperative to educate and train the farmer/small producer in the use of these supplies.
- common purchasing of supplies usually develops either:
  - as a secondary function in marketing cooperatives
  - from a simple purchaser group when members decide that, in addition to the pooled bargaining power, they would like to keep stocks of assorted supplies locally and to minimise the risk involved may form a cooperative.

## Functions of a supply cooperative

The task of purchasing supplies involves deciding what to buy, where, when and how much. In general, the rules explained in the module on marketing about **the right product at the right time in the right place** also apply to supplying members in their role as customers. Great care should be exercised to regularly ascertain members' satisfaction as to the services offered.

### **What influences the demand?**

The assortment and level of stocks maintained will depend to a large extent on the size and financial capacities of the cooperative. In the early stages of development of the cooperative deciding what goods to stock is often a major issue of concern to members, while later on it becomes increasingly a decision to be made by management alone. Unfortunately the availability of records of past sales tends to guide management more than any formal or informal questioning of members aimed at identifying their current needs. While this approach can adequately reflect seasonal variations in purchases by members, it also results in changes in production patterns remaining undetected until members begin to complain.

Other factors changing the demand for inputs are:

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

These are changes which the cooperative management should constantly monitor and keep the members informed about. Information can come from a wide variety of sources, such as:

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

Once this information is available, the management can decide on the appropriate assortment of stocks. When storage space or financial means are limited, it is useful to rank the goods to buy. The ratio of monthly surplus to investment for all goods selected can show which goods are especially profitable for the cooperative and which are not. While purchase of less profitable goods which meet a specific members' need may still continue, the awareness of different levels of profitability will ensure that losses can be more easily predicted and therefore covered through trade of more profitable ones.

## Optimising order sizes

Determining the amounts of each product needing to be ordered is relatively easy in small societies. The manager or secretary can talk to each member to establish demand. Their orders can either be given "loose", i.e., the producer has no obligation to buy in the end, or treated as "binding". In larger societies the process is more complex and based on estimates calculated according to:

- total acreage under certain crops
- member numbers with this crop

- past sales
- average income
- other factors influencing the propensity to buy

Once the total demand has been established, the size of individual orders has to be determined, considering the different options of having the whole supply delivered at once or in several deliveries.

Factors affecting this decision include:

- the period for the demand and possible delivery schedules
- cost of transport
- availability and cost of storage space
- capital available.

The optimum order size can usually be calculated by comparing capital, storage, administrative, insurance, handling and purchase costs per unit at different order sizes. An allowance for remaining risks should also be made, depending on storage periods. The cost of storage and of the capital tied up are usually the largest portion of costs for large orders, while the administrative costs grow disproportionately with small orders.

### ***When and where to order***

The timing of the order should be such that the supplier has sufficient time to arrange delivery before the demand arises or stocks on hand run out, and ideally making the most of seasonal discounts or rebates. This requires permanent stock recording and planning (see “Controlling” below).

The choice of sources of supply should be made on the basis of trade-offs between:

- the best quoted prices (including both stocks and delivery)
- terms of delivery and trade discounts
- payment conditions (e.g., period of credit)
- delivery date or schedule and reliability of the supplier (in terms of punctuality, frequency and continuity of supply)
- quality of information supplied with the product.

Where the society is affiliated with *secondary organisations* offering the same goods at less advantageous conditions than a wholesaler, there can be a conflict between the best service to members in the short run and the obligations to the cooperative principles. Usually secondary organisations are prepared to adjust conditions under such circumstances.

Occasionally a cooperative can produce its own supplies. For instance in areas with mixed farming they can produce their own formula feed by mixing grain delivered by members with bought components such as vitamins, concentrates, etc. This processing of members’ crops on the primary level saves unnecessary transport and handling costs.

### ***Overcoming problems in cooperative supply***

Delivering supplies to members means organising reception, storage, marketing and distribution. Some aspects are critical is determining members’ satisfaction with the system.

The first management function on reception of goods is to check them against the order. For this purpose a good order, delivery and stock recording system needs to be set in place.

This should include the following information:

- the location of the stocks in store
- a brief description of the stock (name of product)
- the normal stock order quantity and stock level at which the order should be repeated
- the date and quantity of goods received and issued
- the current balance of stock.

An example of such a system is a **bin card system**. Using such a system a clerk can find out very quickly what needs to be ordered that day, record the orders placed and not yet delivered and inform the storekeeper, as well as the accounts department, of the order.

When goods have been received, a physical check must be made as to quantity and quality. Warehouse staff then enter the quantity received on the bin card, while clerks check the delivery note and compare it with the order. He then passes the invoice and an (annotated) delivery note to the accountant, who settles the account. On sales of goods from the store the bin cards or other stock register should be debited immediately, and entered daily or weekly for a clerk's inspection against invoices. This system, of course, needs to be adapted to the abilities of the staff and to the specific requirements of the cooperative.

## Storage of supplies and sales promotion

Storage problems for inputs and members' products are often similar. Good calculations of space, layout and quality of shelter needed can reduce the cost of storage and handling. Security and hygiene considerations should be an important factor in planning storage facilities.

Though members may have formed the society to buy their supplies there, active sales promotion of stocks available becomes necessary as the cooperative grows and when it faces strong competition from other suppliers. This type of promotion aims at:

- keeping members informed as to the stocks available;
- informing members of new lines and reminding them of existing ones;
- counteracting competitors marketing efforts and appealing to members' loyalty
- attracting new members or non-member patronage.

While the cooperative should sell to members what they need and at prices as close to cost prices as possible, it can support its marketing with extension services, advertising, informative talks for members, a members magazine or special demonstrations. A well-priced range of supplies will often be very attractive to potential members, but the information about products, prices and current stocks will need to have somehow reached them.

At times cooperatives need to deal with complaints and returns of supplies purchased where the quality is below the expected standard. While generous treatment of complaints can increase loyalty, over-generosity can breed a certain level of dishonesty, with people trying to abuse the system. The cooperative should advise members on storage needs of the produce and on how to calculate their requirements accurately in advance. This will ensure a closer match between members' needs and what is available, hence reducing the chances of genuine complaints.

## Setting prices for supplies

The price policy a cooperative adopts depends to a great extent on its mode of operation:

- If it acts as a buying society for its members, with the members carrying full risks and deliveries going directly to them, they should be charged the wholesale price plus a commission.

- If the cooperative maintains own stores and outlets, and takes the trading risk, it has to decide whether to charge prices similar to those of local competitors (passive price policy), or to adopt an active price policy.

An **active price policy** should only be adopted when the cooperative has experienced managers and group leader, good financial resources, or the backing of a secondary society. Underselling competitors often results in a price war, in which only the competitor with the better financial resources survives. The member will benefit either way, but the benefits will arise at different times. A **passive price policy** gives them larger patronage refunds or pay-outs on surplus at the end of the year, while an active price policy gives them a lower price at the time of purchase.

In its price policy, the co-op must also consider whether it should give discounts for bulk buying, allow rebates for early orders or make additional charges for small quantities. In the case of active price policies it needs to calculate in advance the minimum percentage of mark-up or commission to be added to the purchase price to cover the cost of operation, as well as to calculate at the end whether the margin charged has indeed been sufficient. In passive pricing only the final calculation is necessary.

Prices can be calculated on the assumption that all goods sold should be charged the same percentage mark-up or commission, or that there should be a differentiation between different groups of goods, either because of differing cost, or to relate prices to “what members can pay”. In the latter case the aim is to cover the total cost of operations, but to allow for lower margins on some goods to be compensated by high margins on other lines.

## Credit management

Apart from credit cooperatives whose main purpose is to offer credit, most cooperatives can at times offer credit facilities to their members. Small rural organisations have advantages in providing such credit facilities, due to the familiarity between lending institution and borrowing members. If not managed carefully, however, they can lead the cooperative to problems. In particular, since most cooperatives are now based on limited liability by members, un-recovered loans can lead to bad debts and severely threaten the organisation.

### **Guidelines for avoiding bad debts**

Cooperatives offering credit will first of all need to assess **loan applications** carefully to make sure that the loan is for an activity which is likely to succeed and that the amount and duration of the loan requested are in line with the financial requirements of the activity proposed. As a further check, local leaders or other influential people could be asked whether they believe that the applicant is honest and can be expected to pay back such a loan.

What information is required, however, depends on the kind of loan requested. If, for example, the loan is 10-20% of the value of a crop expected to be harvested within the next few weeks, it could be enough to inspect the standing crop. If a production loan is being sought over the period of a whole year, more details will be needed, including checking on availability of some sort of collateral. The ratio of collateral to loan should not be higher than 3:5 in the case of a production loan. This may be partly in the form of guarantees by other members, pledges of crops or livestock, or an agreement for exclusive marketing through the cooperative and deductions from net sales proceeds.

For loans meant for financing expansion or intensification of production, the application should also include details of the applicant's current financial situation (e.g., records of previous income; sources of supplementary income; a forecast of income and expenditure; outstanding debt and liabilities) as well as details of his/her current farming enterprise (farming/productive activities; the

size and situation of the farm; land tenure agreement, etc.). Such loans can be covered by a mortgage or life insurance. Personal possessions (e.g. jewellery) which have a regular market value and can be kept in trust by the cooperative, are generally to be preferred to agricultural assets as collateral.

### ***Drafting applications***

It is usually a good approach for the loan officers to provide some initial assistance to loan applicants. This would ensure that they are aware of the issues to consider, and enhance the quality of the application. It would also result in fewer unacceptable applications, which will in turn limit the time wasted in assessing applications which do not qualify for funding.

### ***Characteristics of good credit policies***

A credit policy should aim at distributing the risks of lending for a variety of purposes, ensuring that no single loan has the potential to endanger the organisation. A single loan should be:

- not larger than 50% of the sum of all loans granted, or higher than the total amount of share capital plus reserves;
- authorised by the cooperative's external auditing service if it exceeds 30-50% of capital owned;
- authorised by a members general meeting if it exceeds 10-20% of the total capital owned by members;
- not given to a member of a loan committee/board unless the whole committee/board is in favour;
- in accordance with local banking legislation or any other law providing for loans by cooperative societies;
- decided upon in the presence of the applicant.

### ***General loan conditions***

A cooperative society has to establish the terms under which credit should be granted, referring to the rate of interest and other charges, the form in which credit is given and the way in which it is disbursed (in cash or in kind). Agricultural credit is usually given on a separate account with fixed maturity dates.

An indirect way of influencing members' ability to borrow and invest is by increasing securities which members hold as savings or capital shares in the cooperative. Since both can be the basis of extending loans, this would, in the long run, encourage them to accumulate capital for longer term investments.

Before the actual disbursement of any loan, the applicant should sign or thumbprint a loan bond or contract stating clearly the terms and conditions of the loan. If the member is illiterate the contract should be read out to him. The minimum content of the agreement should be: the amount, the repayment dates, the use which has to be made of the loan; the rate of interest; any alteration of the value at disbursement or repayment; the securities pledged; the form of disbursement, and the steps to be taken in the event of loan default.

### ***Dealing with delayed or refused repayments***

Loan recovery should start well before the first notice of approaching maturity. If the date due has been passed without repayment, a second note should be sent out specifying a short period in which repayment must be made and warning of the results of non-payment. If this approach is also ineffective, and no valid reasons are given which justify missing the payment deadline, appropriate court action (e.g., foreclosure of the mortgage etc.) should be taken. However, before going to

court, the real financial situation of the member should be assessed since, if he/she is unable to pay, it might be better not to take legal action and expel the member. It is sometimes argued that the measures outlined above are rather harsh for a cooperative. They are, however, vital, especially in the early days of the organisation, in order to instil the proper moral obligation to pay from the outset. By careful selection and a thorough assessment of the members' loan applications it should be possible to keep the number of these cases to a minimum. And apart from that, a positive borrowing record is still the best recommendation for new applications, not only with cooperatives, but with commercial banks as well.

## Controlling Service Performance

Members of cooperatives are often not in a position to control the operations of the cooperative enterprise. External auditing of the cooperatives, or supervision of the business transactions, may then be necessary. Special cooperative auditing federations have developed in countries with free market systems, whereas in largely state-controlled environments it is generally done through government departments.

Such external audits, however, are neither done often enough nor are they detailed enough to serve as a base for strategic management decisions. Therefore all cooperatives need to develop their own controlling mechanisms which are appropriate to their organisation's needs and resources.

**Member control** includes formal and informal participative planning, monitoring and evaluation procedures, voting in general meetings, election of leaders and any other way which influences governance (i.e. the norms and structures to guarantee members' will is carried out).

Controlling systems represent the basis for installing monitoring systems. They are that part of monitoring which deals with gathering and summarising information about economic and financial factors influencing the competitiveness of the enterprise. While monitoring and evaluation (see module 7) are instruments to help steer the whole cooperative in terms of the fulfilment of its original objectives (in other words its organisational development), controlling systems are necessary for management to make sound operational decisions (in other words the day to day management and the strategic management of resources). Controlling is therefore that part of the monitoring procedure, which is done by the staff of the organisation in the course of ordinary day-to-day work, while monitoring is the process of member representatives taking account of the data-collected in controlling, augmented by other internal and external information, and relating it to their leadership and decision making tasks.

### ***Training needs for controlling***

In general, the more vital the services of the cooperative are to the members', the more important it is to employ reliable and comprehensive controlling systems.

In small, local cooperatives with an all honorary management, controlling is often a neglected issue. The elected leaders and managers are trusted, and usually they deserve and honour this trust. However, there are situations when it might be a good idea to ask the members of such cooperatives to share responsibility for controlling. They could keep their own records of their trade with the organisation, and be invited to perform cross-checks from time to time. Larger, registered cooperatives have to employ formal systems of controlling at different levels of management. They cannot meet the demands of (internal or) external auditors or other supervising authorities, unless such systems are in place.

It is in controlling that we see some of the most obvious training needs for management staff at all levels. Promoters/trainers should routinely assess the relevant controlling systems and capabilities and should, where necessary, suggesting when staff need formal training.

A further training need arises from the need of professional managers and lay board members to work together as a management team. Often members of lay boards are at a disadvantage when it comes to assessing whether the controlling systems applied are adequate, while legally and morally they are responsible for their success or failure.

Whatever the size of the cooperative, continuously changing socio-economic environments demand fast and reliable gathering of information. Members and their representatives must be willing to be involved in the control and steering of their enterprise. Management needs to act transparently and informatively. Yet the longevity and economic success of the organisation can still be endangered, if controlling systems fail and the information needed comes too late, or is not properly presented.

Controlling systems should be introduced which will bring to the attention of the managers, when operational plans and targets need to be altered.

The easiest operational targets to control are time schedules, asset protection and production targets. Controlling economic and financial results is more difficult and requires understanding of tools such as:

- Profit and Loss Statements
- Profitability Statements
- Gross Margins and Break Even Points
- Cost-Benefit Analysis (including internal and total rates of return on capital employed in various possible alternatives)
- Budget variance reports
- Cash Flow
- Stock (or inventory) control systems and
- Control systems for creditors and debtors

Usually managers prepare these reports and statements, and present them to the Board(s) for discussion. Some of them should also routinely be prepared to inform the members general meeting.

### ***Time and effort required***

There are management specialists who believe that controlling processes only need to be initiated once shortcomings either in management's procurement of information or in the co-ordination of operational activities are identified.

However, frequent alternation between intense and relaxed reporting expectations on the part of the Executive Board can lead to insecurity of management, eventually resulting in lack of initiative or superficial preparation of reports. Thus a certain regularity, discipline and emphasis on reporting is preferable. One could, for example, envisage regular (e.g., monthly) reports on profit and loss, cash flow, budget variance, creditors and debtors (principally included in a cash flow), while product profitability statements, break-even and cost-benefit analysis should be reported and discussed either when new activities or product lines are to be introduced, or at certain phases in the product's life cycle.

Details and frequency of such reports can be determined according to efficiency criteria. The size of operation, the available staff time and structural model of the organisation would influence how data is gathered.





## SECTION 5.4

# DIVERSIFICATION, GROWTH AND COLLABORATION



### Introduction



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

### Objectives of the module



By the end of the module, participants will be able to describe the reasons for diversification of the business and advantages and disadvantages of partnerships, mergers, and federations

### Key learning points



- Diversification of the business
- Partnerships and mergers
- Strengths and weaknesses of Federations



## Reference information



All cooperatives work within a complex political, economic and social environment and need to be able to adapt and change as changes occur in society. The stronger the cooperative-group, the greater are its opportunities to meet its objectives and promote its members within the system. This can be done in a number of ways - building relationships with other groups and organisations, forming federations and unions of cooperatives and lobbying and public relations work to promote the cooperative (see Module 3). Where other organisations - whether other cooperative groups, private or state organisations, have the same, or similar goals, working with them can strengthen the cooperative and help it to achieve its goals.

Such collaboration can occur at various levels:

- between several cooperatives at the primary level, e.g. by investing in commonly owned subsidiary companies, or by cooperatives running processing facilities (e.g. mills or cheese factories etc.)
- via vertical integration, with certain functions of the primary cooperative being dealt with at higher levels (such as insurance, bookkeeping services or financing. Integrated systems of primary, secondary and tertiary cooperatives can ensure economic viability, whereas the decision making processes most closely related to member promotion can continue to be made in smaller, more homogenous and local groups.

## Building partnerships from a position of strength

Strength at a political and social level can be built through the formation of co-operation with other organisations in the form of federations or unions. Both large and small cooperative groups need some form of representation at the national level in order to gain a voice and influence governments and decision-making state institutions. During the initial phase of the cooperatively organised self-help groups, national or international NGOs have often helped in the formation of such federations.

The concentration of ideas and resources which come through the development of federations can in itself be a useful stimulus for economic growth. In order for this new potential to be realised, good leadership both for the economic development of the cooperatives and for integration of their different socio-political orientations will be needed. In order for the federation to be supported from a broad base, the representatives of the member organisations and the members of the primary organisations need to have a clear understanding of the structure, the purpose and the potential of the federation. A clear idea of what the cooperative should be in the future, and a vision of what their objectives should be, is an essential element for this understanding.

## Determining factors for cooperative change in market economies

Technical, political and socio-economic developments can all make demands on the ability of an enterprise to adapt and change. As far as production is concerned, economic development can lead to an increased division of labour, as well as to specialisation in processes or to co-operations in economic enterprises. Such specialisation and co-operation generally lead to a reduction in costs. In agricultural markets a similar trend is seen towards specialisation and concentration of resources. A growing transport network also leads to enlargement of markets.

As a part of this dynamic economic system, primary cooperative organisations rapidly run up against boundaries as far as the promotion of their members is concerned. Market competition

forces them to adapt, improve their performance and rationalise the relationships with other firms connected with the cooperative. The demands of members correspondingly increase, requiring strengthened development of cooperative activity. Cooperative adaptation generally means structural adaptation to a dynamic market and the search for the optimal size for the enterprise. This development must be followed by the cooperative system if it is to remain competitive.

However, there are also negative aspects of economic growth in a cooperative. Concentration of processes in the cooperative organisation can contradict the idea of a cooperative as a manageable regional entity with close customer contact. The competitive advantages of close customer contact, typical of most cooperatives often diminish with increased growth which can counteract the other advantages of growth. Concentration can also lead to the loss of local economic democracy.

## **Opportunities for cooperatives in developing agricultural markets**

Primary cooperatives, particularly in their early stages, generally fulfil only a few functions. However, as the demands of their members continue to grow, even experienced cooperatives can find it difficult to fulfil all the functions required. One solution to the problem is to move some functions to secondary organisations better capable of dealing with them. Alternatively, such functions could be taken over by independent private organisations with subsequent loss of control and influence by the cooperative. Which functions can best be filled at a local, regional or national area is a decisive development question.

The development steps and measures taken by the cooperatives in market led economies can provide some answers in this area.

## **Optimum size for a primary cooperative**

The optimum size for a cooperative is different for different aspects. For example, the larger the cooperative, the greater the capital base and hence the larger the economies of scale. However, the larger the cooperative, the less members feel they belong together in a social organisation. A small, close-knit cooperative can easily communicate with all its members and it is relatively easy for all members to participate in decisions. On the other hand, the larger the number of members the larger the capital basis, with the associated advantages of increased promotional power and stronger economic and socio-political influence. These two aspects of cooperative development are mutually exclusive, and an optimum size for a cooperative must seek a balance between these two factors. It is also possible for subunits of cooperatives to be formed, or smaller cooperatives to work together to maintain the advantages of small cooperatives whilst gaining some of the advantages of larger units.

Apart from the material needs of cooperative members such as the development of an enterprise or raising the standard of living, there are many non-material needs. These include such issues as a feeling of community, the desire to live in a common physical neighbourhood or identification with common problems of the area. These non-material needs also need to be considered in setting priorities for the cooperative.

In general, economic growth and proliferation tend to work against the satisfaction of the non-material needs of the members. However, while small cooperatives are often adequate for satisfying the basic requirements of the members, a wider range of products or services are needed to attain a higher standard of living, and this requires a larger business. These two issues need to be balanced against each other.

## **Diversification**

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

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

### ***Reasons for diversification***

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

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

### ***Potential dangers of diversification***

The introduction of completely new products and activities is a radical change. It brings more problems than does the introduction of products related to the demand, or of products which have a loose but clearly related connection to the existing programme. Based on existing experience, knowledge and relationships the initial problems and risks are low.

Diversification requires systematic preparation: Analysis of the situation (finances, staff, resources and organisational capabilities) and the possibilities for diversification within the markets. Details of economic viability should always be considered in relation to the promotional tasks of members.

## **Mergers**

A merger is the amalgamation of two or more primary cooperatives. The main reason for a merger is to produce a larger and more viable organisation. Another reason might be the transfer of a poorly functioning cooperative to an economically stronger organisation where pooling ideas, management and resources can help both. The concentration of resources is normally aimed at increasing the economic power and with it, the potential for promotion of the cooperative members.

In practice economic advantages are more often based on a stronger market position than on reduction of costs. From a legal point of view a written merger contract is agreed by the committees after prior meetings between the respective boards (and supervisory committees if any). The members need to vote whether or not to go ahead with the proposed merger. The members, as well as all assets of both organisations are then transferred to the new merged cooperative. This, in turn, enters into all legal relationships.

A merger needs new organisation and business plans to be developed to exploit the advantages effectively.

### **Disadvantages of mergers**

Cooperatives are fundamentally based on manageability. Merging tends to reduce the feeling of local or regional belonging. Social relationships tend to be looser and more heterogeneous. There are, however, ways of reducing the alienation between members and the cooperative administration in larger merged organisations. In order to maintain the original spirit of belonging of the members of the previous local primary cooperatives, appropriate representation is needed in the successive cooperative. Local advisory committees, yearly local as well as joint meetings, extension of local buildings etc. all help to maintain the feeling of relative autonomy.

### **Unions and federations**

Cooperative federations/unions are associations between primary cooperatives representing common interests and with the task of reaching a particular goal through united action. The purpose of the integration is the promotion and representation of the specialist economic and politico-economic interests of the members and the cooperative's affiliated organs. Cooperatives can unite themselves in regional federations. These, in their turn, can also form a central federation at the national level.

The respective markets in which the cooperatives operate, to a large extent determine their core businesses and the services offered to members. Delegating tasks to central unions may be a sensible step both to provide some services more efficiently and to increase their competitiveness. Long term co-operation depends on mutual interests since the union does not directly influence the finances of the individual cooperative.

In practice, interests in federations are often also connected with social and economic power and influence. Federations have knowledge and information on details of problems, and are often called to take part in the drawing up of legal documents for political authorities and groups. Federations often have the right of auditing (bookkeeping and management) over affiliated cooperatives. In Germany primary cooperatives have to be members of a federation in order to be audited. A state inspection is then unnecessary.

The development of federations can thus lead to a regional or national cooperative system, which simultaneously fulfils both representative and economic tasks. These tasks, however, can be organisationally separated. In the first case the cooperative organisation has its main task in the representation to the state and to the public, as well as in the supervision and consultation of the affiliated cooperatives as far as their work and maintenance of cooperative principles is concerned.

In Germany cooperative federations exist to fulfil this representative (as opposed to the economic) task. They are not in themselves cooperatives, but rather societies or associations. The central unions on the other hand are mainly concerned with economic goals. As with the primary cooperatives, they are established according to cooperative law.

Well known examples of central institutions in the cooperative banking sector are the Raiffeisen Banks (Germany), Crédit Agricole (France), Norinchukin Bank (Japan), Rabobank (The Netherlands), Credit Unions and their federal and national finance facilities (USA) etc.

The advantage of federations is that the local cooperatives can remain small and manageable. Local cooperative establishments need not be able to do or offer everything which one can obtain from the central cooperative enterprises. The federation appears as the most appropriate response to the pressure ever to increase goods and services. In this way, the principles of cooperatives and character of the movement are maintained.

### ***Disadvantages of federations***

Larger structures require more formality and control of the administration and finances. Expansion and development of functions and activities will necessarily change the orientations and values. Economic efficiency and effective management become more important criteria.

The main difficulties in leadership and in representation are the diverse interests of a structure consisting of many autonomous units in which decisions are made democratically. If a merger of a number of cooperatives takes place at a primary level, this can lead to moves towards autonomy at the cost of the federation.

The distance between the central federation organisation and its members can easily lead to an alienation from its members. The participation of the members in the processes of developing goals, making decisions, and controlling the organisation can fall. To maintain this participation, an increased flow of information is needed, with consequent increased costs. Such increased information flows are essential, however, for effective consultation of local, regional and national actions, as well as for a rapid feedback. Communication from the bottom to the top should guarantee that the higher levels of the organisational structure do not lose sight of the needs of the members.

### ***Potential tasks of a cooperative federation***

A cooperative federation can fulfil a number of tasks more effectively than the primary cooperatives such as:

- discuss and advise on primary cooperative questions and economic, legal, tax, and other issues;
- advise on cooperative auditing;
- provide consultation on management and organisational issues;
- establish and maintain educational facilities to train members and their leaders and managers;
- establish relations and contacts to other organisations and institutions;
- exchange economic, professional and technical information among members;
- public relations, publicity and advertising activities;
- collection and evaluation of statistical data;
- defending cooperative interests.

While taking over these tasks the federations also try to exercise social and economic power in order to influence the decision-making processes regarding the social and economic environment in favour of their member organisations. Federations can have a significant influence over governments in defining legislation.

In order to carry out the above tasks and functions effectively, the management of federations must ensure a continuous training process both within the federations and within the member cooperative organisations.



## **External relationships of federations**

Federations interact with outside organisations in a number of different ways depending on the circumstances. Lobbying for members interests, publicity of the aims and capabilities of cooperatives, and negotiation of agreements with economic and political organisations are all widely used.

A high standard of information is generally important for successful relationships with business partners, as well as to administrative relationships to governments and state institutions. In order to be able to provide this, a range of sources of information need to be available including:

- Market information about products and prices
- Information about political intentions and state planning
- Knowledge of laws and administrative guidelines
- Information about state or private donors investment procedures and preferences.

Although lobbying (seeking to influence members of the legislature) can be done by cooperatives at a local level, federations can be more effective because of their greater representative power.

In general federations political activity is aimed at influencing state-economic and social policies at a governmental level, but also on lower official channels, such as regional or local state departments. This is primarily attempted via political parties and people in political positions. The media (press, radio etc.) may also be used to influence political opinion.

Lobbying may be seen as a very positive activity, as long as it complies with the existing laws and does not include illegal forms and activities.

Specific political activities include:

- directly influencing political decision-taking organs;
- directly supporting a party or of deputies either with financial means or election support,
- keeping in constant contact with relevant institutions (also state-administration) and organisations (here the organisational prerequisites, such as an office, budget and a qualified member, have to be created).
- dispensation of (or withholding) exclusive information;
- membership acquisition and active participation of cooperative members in political parties;
- occupying administrative posts with people having the trust of the cooperatives;
- filling of vacancies in administrations with cooperative members, or with persons who have a positive relation to cooperatives,
- organising socio-politically relevant public activities and arranging social events.

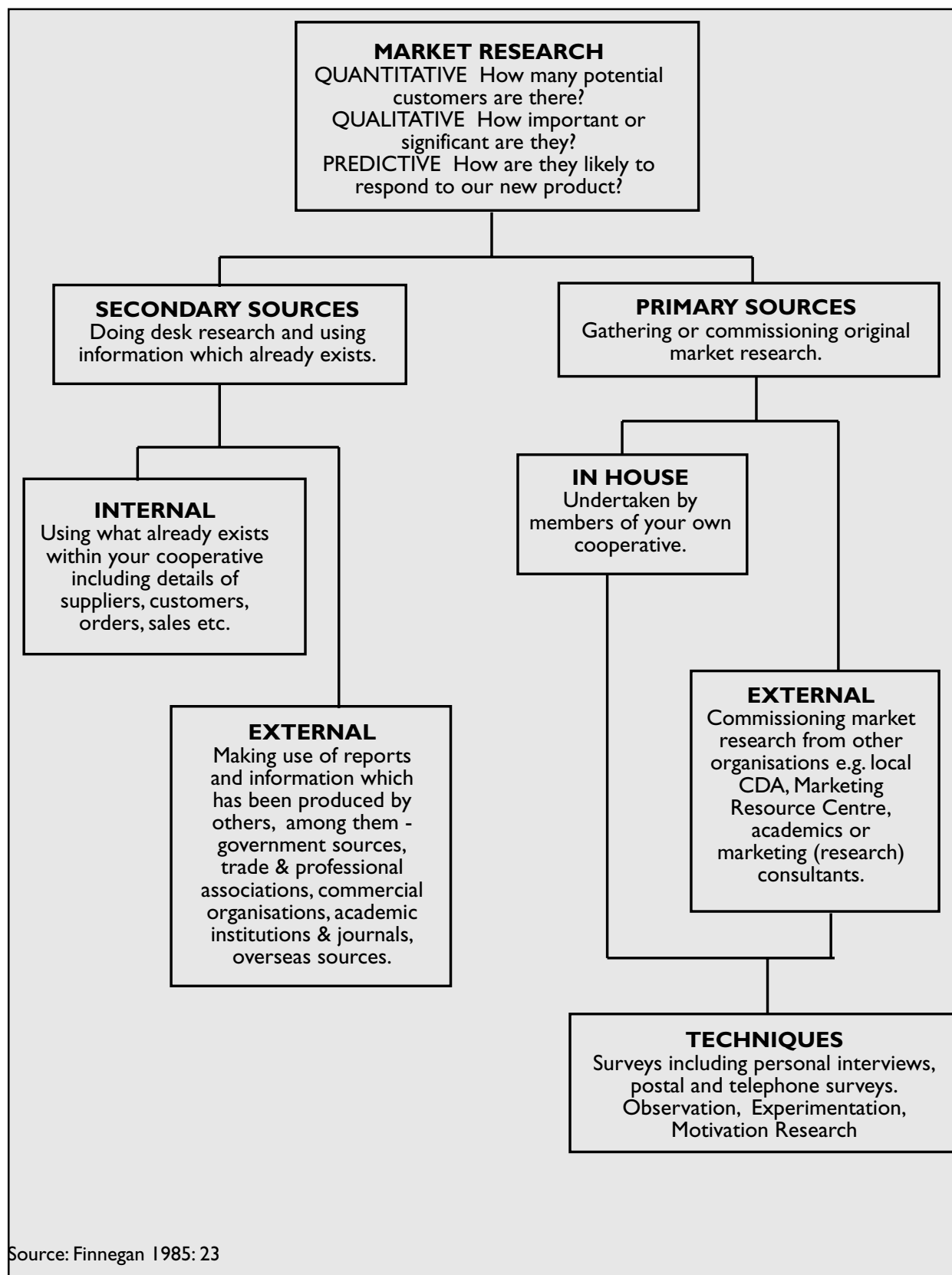
Possible direct actions are public appeals and protests; addresses and demonstrations, strikes and boycott actions. These actions serve largely to exercise political pressure. One should therefore think through carefully what effect they may have before carrying out such actions.

Representatives of federations could also stand for election to parliament or become members of parties. Lobbying can in practice often be a simple matter of telephone contacts or invitations to lunch or to dinner. More important than short term influences are, however, long term and permanent contacts.

# Annex Module 5: Management Training

## Diagrams

Flow Chart Market Research – Gathering market information



Source: Finnegan 1985: 23

## Merit Assessment Form

Period ended **31 December 19--**

Employee's Name **James Kent**      Grade **3**      Age **28**

Department/~~section~~/~~branch~~\* **Costing**      Official status **Assistant Cost Accountant**

Points rating	1-5	6-10	11-15	16-20	Maximum	Award
Performance:						
Work output	Slow	Normal	Above normal	Fast worker	20	<b>15</b>
Work quality	Inaccurate, careless	Requires checking		Entirely reliable	20	<b>18</b>
Knowledge of job:						
Experience	1-5 years	6-11 years	11-15 years	---	15	<b>11</b>
Training	To intermediate grade	Supervisory grade	---	---	10	<b>10</b>
Qualities:						
Cooperation	Reluctant/passive	Helpful/cooperative	---	---	10	<b>8</b>
Adaptability	Slow to adapt	Quick to understand	---	---	10	<b>7</b>
Attendance/ Time-keeping	Bad to irregular	Sometimes absent or late	Good to excellent	---	15	<b>9</b>
*delete as appropriate					<b>100</b>	<b>78</b>

### Rating key for fixing grades

Grade 1:	0-30 points	Grade 4:	71-90 points
Grade 2:	31-50 points	Grade 5:	91-100 points
Grade 3:	61-70 points		

*Merit assessment form. Note that, using this method of fixing grades, the employee in this example is placed in grade 4 (with 78 points). If, therefore, he is at present in grade 3, the implication is that he is ready for promotion to grade 4 as soon as a vacancy occurs. Pending promotion, he may be given a salary increase to bring him mid-way between the upper limit of grade 3 and the lower limit of grade 4.*

Source: Hall 1979: 235

# **MODULE 6**

## **TOOLS FOR PLANNING AND ORGANISING COOPERATIVE ACTIVITIES**



# MODULE 6: TOOLS FOR PLANNING AND ORGANISING COOPERATIVE ACTIVITIES



## Introduction

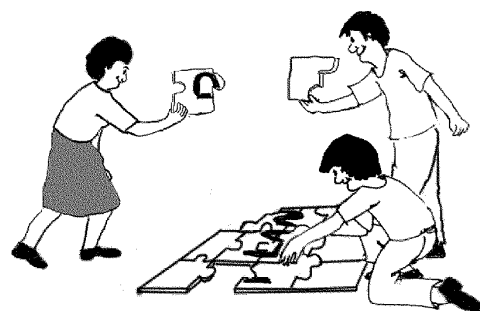
Planning refers to deciding on goals, tasks and resource use before starting the implementation and ensuring that the right things are done at the right time and in the right way (effectively and efficiently). There are a number of planning tools which are appropriate to the specific requirements of organising and planning activities within cooperatives. They are intended to make certain processes easier to foresee; help to exclude negative unexpected results; assist in finding finance and generally assist optimal resource utilisation (financial, technical and human).

This module covers the following aspects:

- Turning visions into operational plans: overview of the key planning steps
- Logical framework analysis
- Strength, Weaknesses, Opportunities and Threats: the SWOT analysis
- Planning relationships and assigning responsibilities
- Physical and economic planning: stock inventory, budgeting and reporting

## SECTION 6.1

# FROM VISIONS TO ACTION PLANS



### Objectives of the section

By the end of the section, participants will be able to



- state the key planning actions which form the core of strategic cooperative management
- prepare a simple log-frame, beginning with the designing of a “problem tree”, to the drafting of a planning matrix, identifying assumptions and defining indicators and means of verification
- carry out a SWOT analysis and apply it to the cooperative situation

### Key learning points



- Setting objectives and operational goals
- Identifying outputs, activities and inputs to achieve the goals set
- Dealing with uncertainties
- Planning implementation of activities
- Main planning tools for strategic management
- Logical framework analysis
- Planning as a cause-effect sequence
- Analysis of stakeholders
- Problem analysis and development of a problem tree
- Objectives tree
- Planning matrix
- Identification of direct and indirect indicators and means of verification
- SWOT analysis
- Elements of a SWOT analysis
- Using a SWOT analysis

## Teaching strategy



### Exercise 1

Run a small group discussion in which participants describe and discuss any planning activity they have previously been involved in. Stress the fact that it does not necessarily have to be a planning operation within the cooperative activities, but it can equally refer to their private life, work situation or economic activity they have been involved in. The purpose of the exercise is to identify the processes and steps they have gone through, and highlight any logical path followed in the process. Ask participants to draw up a list of steps they have gone through and to be prepared to present the results to the class.

Allow about 20 minutes for the discussion and reconvene the group into a plenary session. Ask the various groups to present their results and encourage an exchange of views on the various approaches followed.

Highlight the principles of the key planning steps as outlined in the reference material, building on the results of the discussion.

Ask participants to get back into their groups and critically analyse the steps they had identified in the light of what had been discussed in the class and the additional information presented regarding the five planning steps. Ask them to try to relate any problem or success in the subsequent implementation of the plan to the way the planning was done (e.g. Would more emphasis on determining outputs or inputs have reduced implementation problems?)

### Exercise 2

Introduce the rationale of logical framework analysis and the cause-effect sequence to participants. Highlight the fact that though these tools are used in project planning, they can be very useful for planning cooperative activities.

Outline the key stages of the preparation of the log-frame

After describing the problem tree approach, define a problem (you might want to follow the example problem tree provided in the reference material) and ask participants to develop a problem tree. If the size of the class is too big, you might want to have this exercise done in small groups, then reconvene into a plenary.

Once the problem tree is complete, help the class turn it into an objectives tree (or trees), emphasising the need to consider alternative approaches.

Build on the same example of problem/objective identified, to explain the applications of the project matrix, highlighting the relevance and practical relevance of external assumptions, indicators and means of verifications.

### Exercise 3

Introduce the elements of SWOT analysis and highlight the applicability of this tool to analysing the cooperative internal and external environment, and therefore in planning organisational development.

Divide participants into groups and ask them to prepare a SWOT analysis for a cooperative. If they don't come from the same cooperative, choose the cooperative with the highest number of representatives in the class and make sure that one of them is present in each group. After about 20 minutes, ask the groups to reconvene in a plenary and consolidate their results.





## Reference material



### From visions to action plans

The five key planning actions which form the core of **strategic cooperative management** include:

- Setting objectives
- Determining cooperative development objectives
- Defining immediate or sub-objectives
- Setting targets for output
- Foreseeing input needs
- Planning activities
- Installing monitoring and evaluating procedures for the use of resources and output.

Assuming that the main aims and objectives of the organisation are to be set internally (i.e. by members, leaders and managers) there need to be methods to translate visions into clear objectives. Most of these methods and tools are standard instruments used in other enterprises too. Where outsiders have a legitimate interest in the economic results and assumptions of the planning process, the effective use of these tools is particularly important. An example would be potential donors, or banks asked to lend money to the cooperative.

### Setting objectives and operational goals

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

Two analytical tools can prove useful at this stage:

- the “Logical Framework Analysis” (Log-Frame), which is normally used for project development, can help in turning problems into objectives, and
- “SWOT” analysis which helps analyse strengths and weaknesses within an organisation and identify opportunities and threats. This can therefore help translate a vision into a feasible operational plan.

The two tools have complementary but different purposes. While SWOT analysis focuses the discussion on possible avenues to take, the Log frame analysis can be used as a follow-up to determine actual operational targets, input needs, time horizons and indicators for controlling and monitoring of internal and external factors of success. The Log-Frame is also much more geared towards assessing the operational side of the organisation, whereas SWOT analysis, helps assess the state of and plan for organisational development. On the other hand, the less quantifiable areas, such as organisational culture or incentive systems, can turn out to be important organisational strengths on which to build. In a Log-Frame these are not given much recognition.

## Setting targets

The next step, setting of targets, represents the **pre-feasibility** stage and helps determine which operational outputs could be achieved and with which activities and inputs. The final outcome of this stage is a general selection of operations. In our example certain fundamental economic decisions would be taken at this stage, for example, which vegetable crops to produce, how much of each to produce and where to market them etc.

**Outputs** refer to services or products (including patronage refunds etc.), over which members should decide. The cooperative managers and leaders tend to limit their control over the activities which should lead to the production of these outputs.

Before operational plans can be made, members need to be aware that certain outputs may be mutually exclusive or compete with each other. For example, increased patronage refunds often mean less dividends. The advantages and disadvantages of competing outputs, or of various operational alternatives could be listed, prioritised and decided upon. Alternatively, interested members could form a work group and follow it through to the next stage - discovering and deciding on operational alternatives to achieve these outputs.

To generate each of these outputs requires a series of **activities**. Cost, time and productivity are the criteria leading the choice of alternative activities. It is therefore important to explore these options with managers as well as staff and members. By so doing, there will also be the added effect of increasing the ownership of the activities chosen hence enhancing their sustainability.

The planning process will need to identify all the inputs required to generate the outputs defined. **Input** planning must therefore take account of the true capabilities of the cooperative enterprise, its contributing members and any outside sources. The combination of desired outputs, certain activities and the inputs foreseen to be necessary then form a particular operational plan.

## Feasibility study

Having chosen an operational plan, e.g. a particular production process, the next step would be to complete a **feasibility study**. This helps to decide whether the plan is practical. Referring to our earlier example, this could mean deciding the quantity of crops to grow and what further processing would be done, whether to employ permanent or temporary staff etc.

Such a feasibility study would assess aspects such as:

- the availability of resources, both human and material;
- whether they are sufficient in quality and quantity;
- whether the financial resources of the cooperative enterprise and members are sufficient for the planned production;
- possibilities of substituting finance with labour or material resources;
- whether the collective knowledge of the group is adequate for the endeavour;
- whether there is sufficient demand in the expected markets (including competition);
- calculations of the cost of operations and the expected revenues and profits to be obtained.
- analysis of risks

(For more detail on feasibility studies see FAO Group Enterprise Resource book , pp26.)

### **Accommodating uncertainties**

Throughout the planning process, some **assumptions** have to be made about risks, conditions and circumstances over which neither the cooperative managers, nor the group have any real control. Assumptions need to be based on sound information about external factors, in order to judge their validity.

Planners (group, leaders and managers) should establish the boundaries of managerial responsibility by specifying the events, conditions and decisions which are essential to success but which lie beyond control of those implementing the plans. The likelihood of assumptions holding true is crucial and any activity based on a set of assumptions which are unlikely to come about has only a limited chance of success. In addition to making explicit the assumptions on which they are based, plans should also provide guidance as to how to monitor their development.

### **Planning implementation of activities**

The next step is to develop a **management or business** plan. Its level of complexity will depend on the size and ambitions of the cooperative. In large cooperatives, separate divisions might each make their own plan. Negotiations would then take place between divisional managers and top managers about the allocation of available resources and, finally, all divisional plans would be taken together to form one overall business plan for the cooperative as a whole.

A business plan is essentially a set of guidelines for the group enterprise. Despite the fact that such a business plan is usually prepared by managers, it should not become the guide to implementation without at least the involvement of members' leaders, representatives or a general members' meeting.

The main contents of such a "business plan" should be:

- a statement of main and sub-objectives
- specific targets for various activities and phases (what will be achieved in the first month, after six months etc. - see Logical Framework below)
- assignments of responsibilities (who does what, when, how?) A clear statement of responsibilities will help to ensure that the objectives and targets above are realised. In small cooperatives this might largely concern members and leaders, in larger cooperatives it would lead to a set of job descriptions and role profiles - see Personnel management in Module 5.

It is important to stress that the plan must not become a goal in itself. The group should maintain an understanding that some improvements will always be possible and some changes are likely to be necessary.

### **Planning tools for strategic management**

In addition to the Logical Framework Analysis and the SWOT analysis which are appropriate in complex planning situations, there are various other tools which can be used to acquire information, decide upon alternatives and/or prepare implementation.

The choice of tool to be used depends on the issue being dealt with and frequently also with the stage of planning being considered. While some tools are only suitable for planning financial matters, others can be used specifically to plan responsibilities and allocation of physical inputs. Budgets, balance sheets, stock records, sales forecasts, and work process plans are examples of organisational

tools which can be used in financial as well as in physical planning procedures. They are the basic instruments to plan inputs (= resource utilisation) with and will often also entail expectations of physical outputs.

Economic and financial planning and reporting tools would include:

- profit and loss statements;
- investment analysis;
- source and application of funds statements;
- cash flows;
- (year end) balance sheets,
- cost calculations
- calculation of break-even points.

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

As planning proceeds, the need for information develops from the general to the specific. While a vision contains fairly general statements (the “what could be” type), a strategy document includes a more detailed description of results, both, in physical and in economic terms.

To finalise the preparation of management and activity plans, as well as complete feasibility studies and cost-benefit impact analysis, a SWOT analysis and studies based on a set of financial and economic tools may prove useful.

The choice of which of them is used will depend on the specific circumstances. When the aim of the study is to convince outsiders, such as an external funder, it might be useful to enquire as to their standard procedure and requirements.

The business plan needs to be a **reference document** for the organisation itself. It should help members, leaders, staff, funders and, in some cases, clients understand “what is expected to happen, and how”. Depending on the enterprise and its projected activities, the plan would include:

- activity plans and time schedules,
- market research report,
- break-even analysis,
- material and financial budgets,
- a forecast profit and loss statement,
- forecast source and application of funds statement,
- forecast balance sheets,
- forecast cash-flow,
- predicted results reports.

These documents can then be used to both **steer and monitor** implementation. On the one hand, they can help setting up the systems and responsibilities for recording data on what is going to happen and what is happening. On the other hand they specify which data staff needs to collect and examine (controlling) regularly in order to keep on track of plans or to adjust them (self-evaluation of staff).

A full and regular **reporting** of results, showing a comparison between what was supposed to be achieved and what has been achieved forms the basis for participative monitoring and evaluation as well as providing useful guidance for how activities could be continued.

This is usually done using accounting data, and by regularly preparing

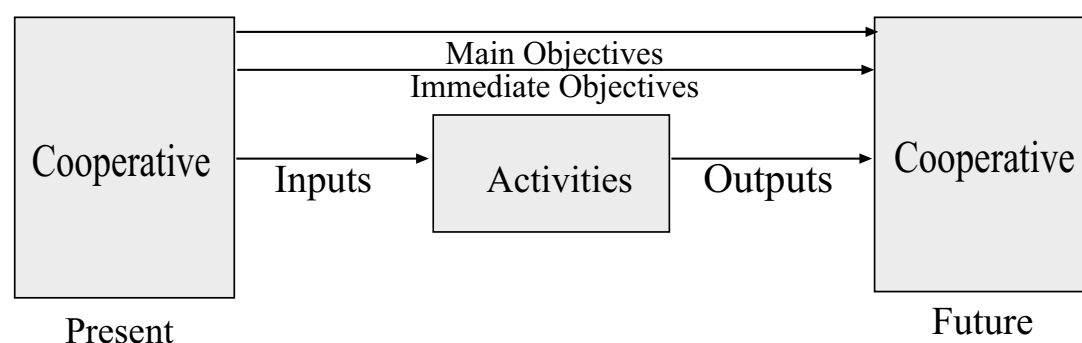
- activity reports;
- stock level and inventory reports;
- income and sales statements;
- profit and loss statements;
- budgetary variance reports;
- source and application of funds statements;
- revised short- or long-term sales forecasts and market predictions;
- balance sheets for the previous and current period;
- a forecast profit and loss account for next period;
- proposed expenditure budgets for next period;
- forecast cash flow for next period.

Reports on confirmed stock records (inventories), staffing, including current and envisaged levels, staff turn-over, absenteeism, training undertaken and envisaged, and social benefits provided help define a better picture of what is happening, how closely this matches initial plans and goals, and take better informed decisions.

## The Logical Framework

The Logical Framework is one of many tools which could help a planning exercise, providing guidance for transforming an idea into a well thought realistic plan.

The Logical Framework Method (Log-Frame) is an analytical tool for objectives-oriented planning and management. It is based on the concept that activities, input use and outputs are not the ultimate measures of success, but rather contributions to the realisation of the main and immediate objectives.



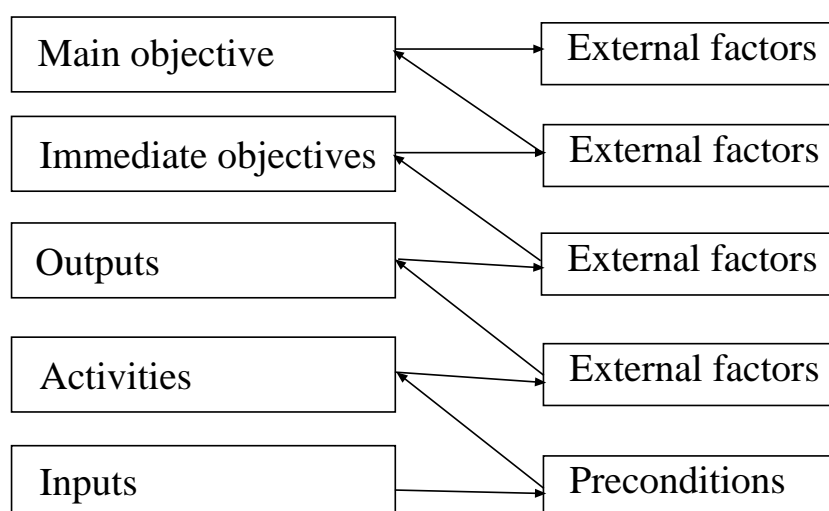
Based on NORAD 1992: 22

### **Rationale for using the Log-Frame approach**

The Log-Frame approach helps see cooperative development as a cause and effect sequence of events. These are described at the five levels depicted above: Main objective, immediate objectives, inputs, activities and outputs. Since at the stage of planning it is not clear whether any of these steps will ever happen, it can also be seen as the formulation of a hierarchy of hypotheses which will then be analysed. Such an approach helps identify the root causes of strategic problems.

In summary, the log-frame approach helps build up a logical sequence of events, in such a way that:

If inputs are available, then the activities will take place; if the activities take place, the outputs will be produced; if the outputs are produced, the immediate objectives will be achieved; and in the long run this will contribute to the fulfilment of the main objective.



The Log frame can also help to analyse external factors, the way in which they can influence the achievement of objectives and targets, and set up a procedure to monitor their developments. (for more details on this also see NORAD, p.8.).

### **Use of the Log-Frame**

In a cooperative the Log-frame approach could be used whenever there is a need for fundamental change of direction in its development - from the original idea to establish a cooperative, or from a major re-direction of activities, to the amalgamation with another cooperative or division, or even more radical changes such as questioning the appropriateness of the cooperative structure and perhaps leading to its dissolution.

A Log-Frame analysis includes a number of stages:

- Analysis of stakeholders, problems, objectives and alternatives and
- Design of activities (incl. input use and output creation), provisions for external fact setting of indicators for monitoring.

### **Analysis of stakeholder interests**

In the case of the cooperative, the analysis of stakeholders should look at the various actors involved in the cooperative activity either directly or indirectly. It should therefore include members, cooperative leaders and managers, but also include customers, capital providers (e.g., banks), local authorities, persons from secondary cooperatives or cooperative federations, etc. Depending on the particular issue analysed, the set of stakeholders would include different people.

The stakeholders analysis could be run in a workshop setting, with representatives of members, leaders and managers. Whether it is wise to include all the other actors involved in the analysis is a separate issue and would depend on the situation. Regardless of their active participation in the analysis, however, these stakeholders should all be identified and their motives, expectations and interests should therefore be analysed. If they are not physically present, individual participants in the workshop could be assigned to represent the positions of different groups during the working sessions.

Within the workshop, all parties involved (whether actively involved or only marginally affected) could be written down individually on cards, the cards hung up and clustered according to similarity of interests. A discussion should then take place as to who's interest should be given priority when proceeding to analyse the problems.

### **Problem analysis**

The problems can only be assessed on the basis of available information and understanding of main cause/effect relationships, creating a detailed overview of the current situation. No decisions as to possible solutions should be considered at this stage, as they would narrow the perspective, and thus the possibilities which could emerge later. Only real existing problems should be identified, not imagined or future ones. For this purpose a problem should rather be seen as a currently existing negative state rather than as the absence of a solution.

Each participant of the work session should write down one focal problem, i.e., describe what (s)he considers the central point of the overall problem.

**Example of how problem cards should be formulated:**

No Pesticides available	Crop is infested with pests
<b>Wrong</b> since presumptive	<b>Right</b> since mere observation

The workshop should then discuss each proposal and try to agree on one focal problem. If agreement cannot be reached, cards containing the problems could be arranged in terms of their relationships. A problem tree can develop from this discussion and, based on the results, could help identify a focal problem.

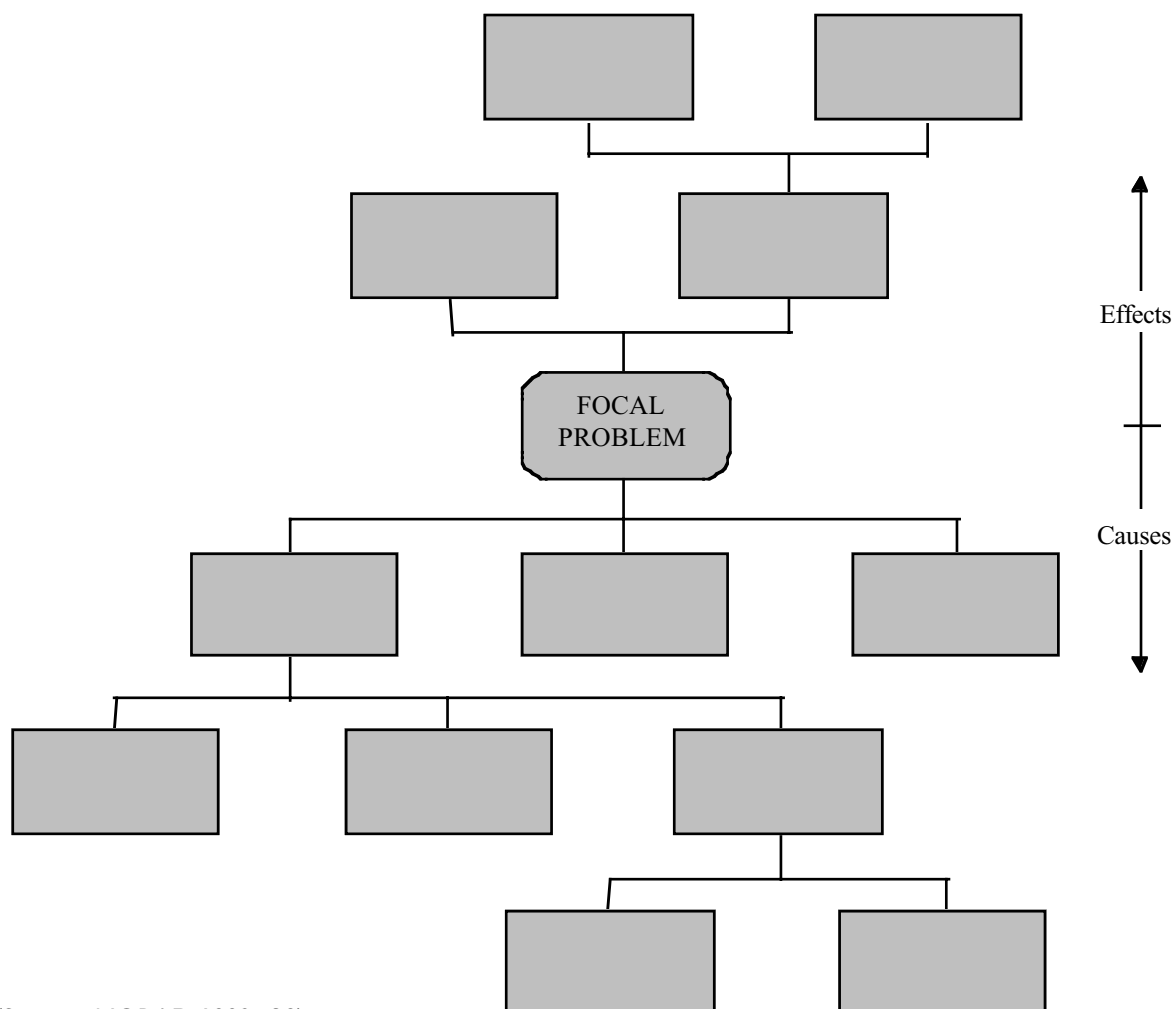
Brainstorming, role play, and other decision making aids are useful tools for assisting this discussion. To select the best decisions, the options are either awarding points to each option or continuing the discussion until an agreement is reached., working through one focal problem at the time. Whenever possible it is advisable to avoid formal voting to obtain a majority decision.

### Developing a problem tree

Take the focal problem as the centre card, and place the cards describing its main and direct *causes* in a horizontal line beneath it. The cards with substantial and direct *effects* should then be placed in a horizontal line above it. Causes and effects can then be moved vertically up or down in distance from the focal problem reflecting their relationship to the central problem. In such a way, a tree-like network develops, with one stem (the focal problem), branches and roots, twigs and roots:

#### Diagram: Developing the problem tree

The main and direct **causes** of the focal problem are underneath it  
The main and direct **effects** of the focal problem are placed above it  
Causes and effects are further developed along the same principle to form the **problem tree**



(Source: NORAD 1992: 38)



The problem analysis can be concluded when all participants are convinced that all essential information has been included in the network in order to explain the main cause and effect relationships characterising the problem.

### **Objectives analysis**

In the objectives analysis the problem tree is transformed into a tree of objectives (future solutions of the problems) and analysed. Starting from the top of the problem tree and moving downwards, all problems are rephrased into desirable conditions (positive statements). The focal problem is similarly transformed into an objective.

If the statements make no sense after being reworded from problems, write a replacement objective or leave problem unchanged. Check that the minor objectives listed are sufficient to achieve the more major ones at the next level. If not, add new minor objectives.

While problems were formulated as “If cause A, then effect B” the objectives now read “Means X in order to achieve Y”. Caution: A cause and effect relationship will not automatically become a means-end relationship. Sometimes additional means have to be introduced to reach the desired end.

Finally draw lines to indicate the means-end relationships in the objectives tree.

### **Alternatives analysis**

The purpose of the alternatives analysis is to identify possible alternative options, assess the feasibility and comparative advantages of each of them and agree upon one project strategy. Means-end branches in the objectives tree which could become activities or individual projects are at this stage identified and circled and constitute alternative options. Alternative options should be numbered or labelled, e.g., “production approach”, “income approach”, “training approach”, etc.

Referring to the results from the stakeholders analysis (step 1), the participants should then discuss the alternative options in the light of how they would affect each interest group. Financial instruments (as described later in this module) could also be used to compare and assess the different options.

All workshop participants should discuss the alternatives available, and agree on their respective total cost; their benefits to the various stakeholder-groups; their probability of achieving the agreed objectives and their social risk. Additional aspects to consider while evaluating the options include the appropriateness of technology and use of local resources, the institutional arrangements (capacity, capabilities, technical assistance etc.), as well as environmental effects. The planning team should assess the various options in relation to the different criteria and make rough assessments, e.g., high/low; +/-; extensive/limited.

Based on the result of the assessment the planning team should then be in a position to agree on one strategy.

### **Identify main programme or individual action elements**

Once the strategy has been chosen, the main elements of the programme should be taken from the objectives tree and transferred into the first column of the programme matrix (PM). Start at the top and work downwards, deciding on the main objective and one immediate objective at a time. If necessary reword the objectives to make them more accurate.

## Planning matrix

<p><b>1. DEVELOPMENT OBJECTIVE</b></p> <p>The higher-objective towards which the project is expected to</p> <p>(Mention target groups)</p>	<p><b>1. INDICATORS</b></p> <p>Measures (direct or indirect) to verify to what extent the development is fulfilled</p> <p>(Means of verification should be specified)</p>	<p><b>1. EXTERNAL FACTORS</b></p> <p>Important events, conditions or decisions necessary for sustaining objectives in the long run</p>
<p><b>2. IMMEDIATE OBJECTIVE</b></p> <p>The effect which is expected to be achieved as the result of the project</p> <p>(Mention target groups)</p>	<p><b>2. INDICATORS</b></p> <p>Measures (direct or indirect) to verify to what extent the immediate objective is fulfilled</p> <p>(Means of verification should be specified)</p>	<p><b>2. EXTERNAL FACTORS</b></p> <p>Important events, conditions or decisions outside the control of the project which must prevail for the development to be attained</p>
<p><b>3. OUTPUTS</b></p> <p>The results that the project should be able to guarantee</p> <p>(Mention target groups)</p>	<p><b>3. INDICATORS</b></p> <p>Measures (direct or indirect) which verify to what extent the outputs are produced</p> <p>(Means of verification should be specified)</p>	<p><b>3. EXTERNAL FACTORS</b></p> <p>Important events, conditions or decisions outside the control of the project management, necessary for achievement of immediate objective</p>
<p><b>4. ACTIVITIES</b></p> <p>The activities that have to be undertaken by the project in order to produce the outputs</p>	<p><b>5. INPUTS</b></p> <p>Goods and services necessary to undertake the activities</p>	<p><b>4. EXTERNAL FACTORS</b></p> <p>Important events, conditions or decisions outside the control of the project management, necessary for production of the outputs</p>

(Source: NORAD 1992:17)

Express outputs as targets which the cooperative managers should aim for within the course of ordinary cooperative business. Their cumulative effect should be sufficient to achieve the immediate objective. The immediate objective, however, will remain outside of management control. Activities are expressed as processes. Avoid detailing activities; indicate basic structure and strategy and leave the rest to the project managers. All outputs and each activity should be numbered such as to show how they relate to each other. Main inputs are expressed in terms of funds, personnel and goods.

### **External Factors or Assumptions**

External factors or assumptions are conditions, outside the project control, which must exist if the programme or activity is to succeed. For all activities, the question needs to be asked whether the activity is completely under the control of the cooperative or if there are outside factors outside the control which can prevent it being achieved.

For all planned activities, make sure that external factors are described in enough detail so that they can be monitored. Examples of such external factors could be:

- that the cooperative union will provide insurance cover
- that local institutions will collaborate in planning activities
- that changes in world prices can be accommodated within a given budget.

The significance of external factors should be assessed in order to indicate the chances of success. Go through the list of external factors and check their importance and likelihood of being true. External factors which are either not very important, or practically certain, should be eliminated.

If the participants determine that an external factor is both very important for the outcome, but not likely to occur, then it is a killing factor. If killing factors are found, the programme or activity proposal must either be changed to avoid losses or must be abandoned.

### **Indicators (Project Matrix or PM)**

Indicators are specified in the second column in the PM. They determine how we can measure how far the objectives have been achieved at different times. Measurements can be:

- Quantitative = how much, when, where,  
e.g., tractor hours at members' disposal, time and location of service delivery, etc.
- Qualitative = how well,  
e.g., farmers' getting relevant inputs, good service
- Behavioural,  
e.g., increased use of cool storage facilities, more participation in group events

Qualitative indicators should be made measurable as far as possible. Where it is not possible to use direct indicators they may need to be supplemented by indirect ones (proxies).

### **Example of direct and indirect indicators:**

PURPOSE	DIRECT INDICATOR	INDIRECT INDICATOR
Increased income of small farmers	Crop sales	Purchases made by typical consumers

It is preferable to use several indicators since single indicators seldom convey a comprehensive picture of change. According to NORAD, 1992 a good indicator is:

*Substantial*, i.e., it reflects an essential aspect of an objective in precise term.

*Independent*, at the different levels; since main and immediate objectives will be different, and each indicator is expected to reflect evidence of achievement, the same indicator cannot normally be used for more than one objective.

*Factual*. Each indicator should reflect fact rather than subjective impression. It should have the same meaning for programme supporters and informed sceptics.

*Plausible*, i.e., the changes recorded can be directly attributed to the programme or activity.

Based on *obtainable* data. Indicators should draw upon data that is readily available, or that can be collected with reasonable extra effort as part of the administration of the project.

The measure provided by indicators should be accurate enough to make the indicator objectively verifiable. An indicator is “objectively verifiable” when different persons using the same measuring process independently of one another obtain the same measurement.

In the early planning stages, indicators are just guiding values. These guiding values must be reviewed again when the programme becomes operational, and, where necessary, should be replaced by indicators specific to the programme or activity. An example on how to formulate appropriate indicators is given in the annex to this module.

### **Means of verification**

The next step is to check and specify the means of verification, i.e., make sure that when indicators are formulated the sources of information necessary to use them are specified:

- what information is to be made available
- in what form
- who should provide the information

In many cases it can be useful to add a column for “means of verification” to the PM.

Information on indicators, whether gathered within or outside the cooperative, must be accessible, reliable, simple, affordable and relevant, for the indicator to be meaningful.

## **Strengths, Weaknesses, Opportunities and Threats: SWOT analysis**

A SWOT analysis (Swanson & Myers, 1992 Chapter IV - Tools, p.IV-1) can help the cooperative gaining a better understanding of both internal issues and the external factors, allowing better decision making. It looks at the organisation from four different angles:

<b>Strengths</b>	internal characteristics such as skills and resources which, if mobilised or used more effectively, can benefit the organisation.
<b>Weaknesses</b>	internal characteristics which limit the potential of the organisation such as, for example, insufficient resources or skills
<b>Opportunities</b>	external factors which are expected to improve the organisation’s competitive position, and which should be fully exploited
<b>Threats</b>	external disadvantages which are expected to hinder the organisation’s planned progress.

It contributes to the process of transforming visions into plans by giving a summarised picture of the cooperative's internal and external potential to achieve organisational and/or programme objectives or operational goals. It also helps to focus on the cooperative's unique strengths and opportunities.

### **Using a SWOT analysis**

A SWOT analysis can be used in the planning of organisational development, highlighting the areas with the greatest potential for the cooperative. It can look at the organisation as a whole or focus more specifically on one programme/activity. It can serve as a starting point to assess and compare the feasibility of a range of potential programmes and activities. When used to choose between a range of potential programmes or activities it can replace more complicated and protracted Cost-Benefit-Analysis.

Apart from its direct results, the preparation of a SWOT analysis can itself prove a positive and worthwhile exercise. When conducted in a group, it helps all involved to share a common picture as to the co-op's chances for success and possibly critical influences or developments, therefore contributing to fostering a shared perspective of goals.

A SWOT analysis involves four main steps:

- Identification of strengths and weaknesses
- Identification of opportunities and threats
- Setting priorities
- Formulating strategy statements

### **SWOT Analysis – example**

<b>SYSTEM</b>	<b>STRENGTHS</b>	<b>WEAKNESSES</b>
<b>MARKETING</b>	1. Store is in a good location. 2. Our prices are competitive. 3. We have a steady & loyal following.	1. Lack a well-thought out Plan. 2. Store is overcrowded, so sales opportunities are lost. 3. Must draw from a very wide geographic area to generate sufficient sales.
	<b>OPPORTUNITIES</b>	<b>THREATS</b>
	1. New housing development to be built nearby in coming year. 2. Space opening up next door for possible expansion of co-op's space. 3. Economy is on the upswing.	1. Customer base starting to move out of our neighborhood. 2. Competitor putting in similar product line to ours. 3. Experienced Marketing manager leaving the co-op.

(Source: Walden; Myers 1992: IV 11)

### **Identification of strengths and weaknesses**

When working with a cooperative group, participants should be encouraged to highlight at least three relevant strengths and three relevant weaknesses. This can be done by brainstorming for example, followed by an exercise in priority ranking. Great care should be taken to listen to all views.

### **Identification of opportunities and threats**

Issues to analyse include:

- What external threats and opportunities does the organisation, the planned programme or activity face in the next two to three years?
- What external changes can you foresee which will significantly affect the activity, programme or organisation itself?

External factors include:

- Competitors' action
- Industrial trends
- Economic developments
- Demographic trends
- Technological and legislative changes

This assessment is often more difficult than the internal one since it involves anticipation of possible events and judgement of their likelihood, often with not much concrete information available and therefore building on what, at the most, remain well educated guesses. Carrying out this analysis as a team has the benefit of building on several people's opinions, ideas and perspectives.

### **Setting priorities**

The third step in the SWOT Analysis is to look at all the elements identified, and prioritise them. The group should select the three or four which appear most important for the immediate future.

Looking at the example outlined above, the priorities chosen might be:

- The co-op lacks a clear marketing plan (weakness)
- Space is opening up next door for possible store expansion (opportunity)
- Co-op's prices are competitive (strength)
- Experienced marketing manager is leaving the co-op (threat)

There is often a danger in overlooking strengths since they relate to aspects which are already going well. It can be assumed that they therefore do not need further consideration and can be neglected. On the contrary, it should be stressed that adequate consideration is given to them in setting priorities since one of the purposes of this exercise is to build on strengths.



## SECTION 6.2

# PLANNING RELATIONSHIPS AND ASSIGNING RESPONSIBILITIES



### Objectives of the section



By the end of the section, participants will be able to state the reasons and principles for assigning responsibilities within the cooperative.

### Key learning points



- Assigning responsibilities
- Who does what
- When to do what
- Who reports to whom
- Using circular charts and vertical organisational charts

### Teaching strategy



Start the session by asking participants for reasons why it is important to assign responsibilities and why it is necessary to do it at the planning stage.

Building on the results of the discussion, outline the key principles of assigning responsibilities and describe some of the planning tools which could be used (e.g. circular charts, vertical org. charts, personnel plan, bar chart plan)

Divide participants into groups and ask them to analyse an activity they are familiar with and prepare a personnel plan (Exercise 6.4.1). Ask them to consider how the responsibilities and roles relate to each other, and how far the various roles can run simultaneously. Once the groups have completed the exercise, reconvene into a plenary and ask a couple of groups to present their plan. Follow it with a discussion, using it as an opportunity to clarify doubts on the issues raised.

Divide participants into groups again and ask them to prepare a bar chart plan for an activity they are familiar with (Exercise 6.4.2), starting from the subdivision of activities and listing all the steps required to achieve the final output. Once the groups have completed the plan, reconvene into a plenary and ask one group to present their bar chart. Ask the other participants to comment on it and question it, helping the group to improve their plan.



## Reference information



### Assignments of responsibility - who does what?

There is a saying which goes:

*Everybody agreed that something needed to be done, anybody said somebody should do it and nobody did it.*

To ensure that actions are not only agreed upon but actually carried out, responsibilities need to be clearly assigned.

A list of responsibilities can be prepared by listing all activities necessary for the production of any output. These should include all the steps needed, e.g. deciding quantities of inputs required, purchasing inputs, distributing inputs to the production units, etc. Support activities such as marketing, administration and personnel should also be listed. Though other activities might become necessary once the programme starts and might therefore have to be added later, the list will be a useful guiding tool. An example of such a plan in bar-chart form is given in the annex.

In small cooperatives with largely honorary workers, a basic principle of assigning responsibilities should be negotiated and kept to. This could be a rotational principle, giving everyone a specific task to do once in a while. Or it could be a principle of delegation.

In larger cooperatives the division of responsibilities between paid staff members should be decided on the basis of competence, job descriptions and personal profiles. The division between honorary and paid work has been discussed at length in Modules 4 and 5. In both large and small organisations however, any competency gaps need to be noted, training needs assessed and a plan made as to accommodate training measures.

Matrix plans can be a clear and easily understandable way to record and present responsibilities and are used for work plans in many companies.

### Matrix Plans for assigning duties - an example

Task distribution Operation: .....				
Name			Date: .....	
Task				
Action Committee _____			Action leader _____	

Matrix plans can also be used for other purposes, such as, for instance, planning reporting and communication structures and to compare different combinations of input costs to output volumes (see cost calculation below).

## Timing of activities - When to do what?

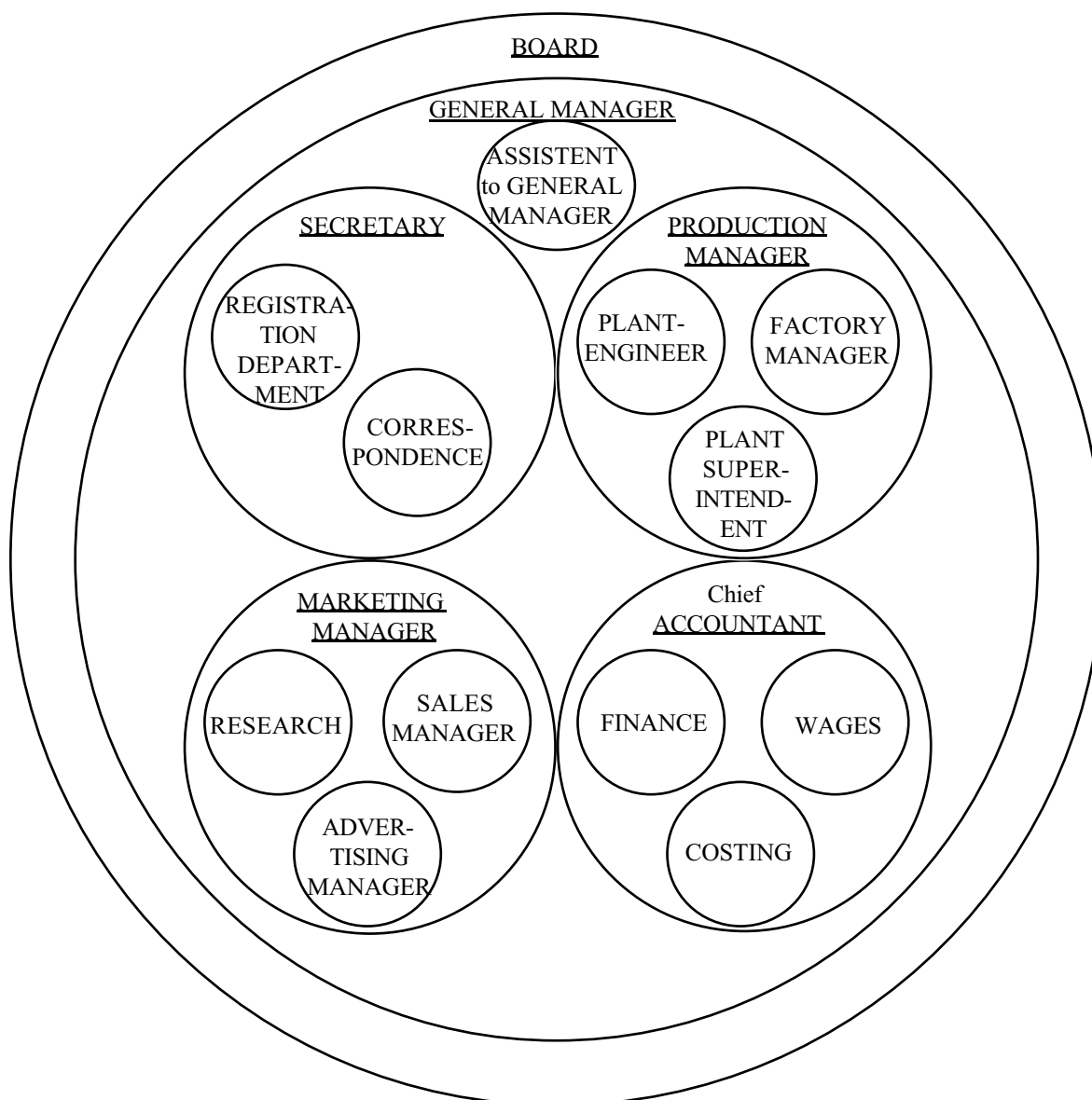
Once it has been established who does what, the “when” has to be defined. Plans must be made far enough in advance to get materials to the work site in time and not cause delays. Where purchases must be made and transport arranged, it is wise to allow for extra time should more they take longer than expected.

Early planning is even more crucial for members who are expected to contribute time and labour, than it is for paid staff. It helps them to budget their own time and be more effective and efficient.

Bar charts can be used to schedule tasks. The example given here was used to plan tasks to be done by various departments in various periods. The same tool can be used to assign times and responsibilities to individuals.

## Structural plans - Who reports to whom?

When an organisation plans to adopt new structures, it can be helpful to visualise relationships of different functional groups. One way of doing this is with circular charts.

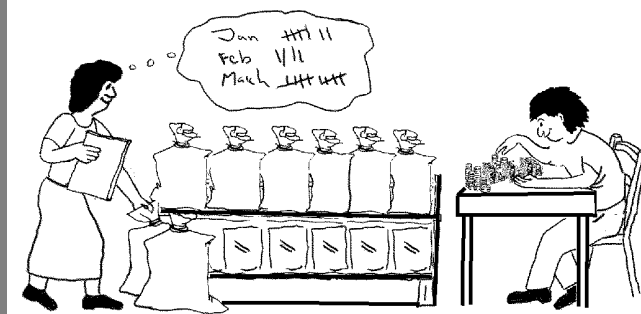


(Source: Hall 1979:47)



## SECTION 6.3

# PHYSICAL AND ECONOMIC PLANNING: STOCK INVENTORY, BUDGETING AND REPORTING



### Objectives of the section



By the end of the section, participants will be able to describe the main tools for physical and financial planning and to interpret their figures in order to plan cooperative activities for maximum efficiency and effectiveness.

### Key learning points



- Difference between stock and inventory planning
- Budgeting and cash flows
- Records to be kept regularly
- Managing liquidity, reserves and assets
- Determining optimum levels of production
- Interpreting accounting statement: profit and loss account and balance sheet

### Teaching strategy



Ask participants if any of them has any experience with inventory and stock planning. Ask if any of them has been involved in ordering material or in deciding levels of production. Ask what were the principles they followed, how they calculated the levels of both stocks and inventory. Use this as a starting point for the session. Building on the results of the initial discussion, briefly describe the main tools for stock and inventory planning, and the need to use them to ensure optimum use of the resources available.

Briefly outline the issues related to budgeting and cash flow relevant to the planning process. This session is based on the assumption that participants already have a basic understanding of the key financial and accounting statements and is therefore not aimed at describing the principles for preparing the statements.

Distribute a copy of the exercise 6.5.1 (Financial budget: Kei's Cooperative) and ask participants to analyse the statement and comment on the implication of such a budget for the annual cooperative plan.



## Reference information



### Inventory and stock planning

Although “inventory” refers to both unsold products and unprocessed raw materials or other inputs, “inventory management” usually refers to dealing with the first - the unsold products or outputs. The management of inputs or raw materials, such as seeds or fertiliser to be sold to farming members, is usually referred to as “stock-management”. More effective planning and management of both stocks and inventory can help co-ops reduce their cost of operation considerably.

Both inventory and stocks need to be kept secure, clean to avoid spoilage, and organised in a way which makes it easy to access them and count them.

Storage facilities represent a cost for the organisation and, if not owned, they involve both rental costs and transport costs. If the cooperative does not own them, it usually has to pay rent and may incur transport costs. The decision whether to invest in such facilities, as with all investments, should be based on a comparison of the cost of alternative options, and adjusted to provide for additional costs such as transport and higher losses.

Some losses in storage can occur through carelessness in keeping records of what and how much was put into the store, and of what and how much was taken out. Other losses may stem from deterioration through dampness, insects, rodents, excessive heat etc. Since inventory losses have immediate repercussions on the cooperative finances, the way records are kept, the physical state of the stocks should be checked regularly.

A cost of inventory and stocks which is often not calculated is that due to the capital tied up. To have too little of either outputs or inputs available will reduce the cooperative’s chances of increasing its income. Too much of either inventory or stocks, however, can be equally uneconomical, tying up capital in unproductive ways. Where the possibility exists of buying raw materials in bulk, the cost of tying up capital should be calculated using at least the interest rate the cooperative could get for depositing the same money in a bank. If there is a high rate of inflation, however, it might be advantageous to hold stocks somewhat longer and sell finished goods faster.

To determine what constitutes adequate stock and inventory levels requires some reasonably accurate estimates, which might be difficult until sufficient experience has been gathered. Factors to consider include:

- Estimate of sales and production per period
- Time to replenish stock by purchases (including transport times and (seasonal) availability or unavailability of certain goods)
- likelihood of losing sales when customer demand cannot be met immediately.

## Budgets and cash flows

### Budgets

Budgets represent a summary of input requirements over a certain period of time. Resource requirements for multi-year activities should be broken down by year or even shorter periods. Financial budgets estimate and balance expenditures and incomes against one other. Material budgets and time budgets basically do the same - only in volumes, quantities or time units such as hours, days or working weeks.

An example of a material budget could be the use of a contingent of water the cooperative may pump from the river for irrigation, animals and domestic use of members. It could look something like this:

	<b>Water available</b>
Contingent .....	15 000 m <sup>3</sup>
Own sources .....	3 000 m <sup>3</sup>
<i>Total water available</i> .....	<b>18 000 m<sup>3</sup></b>
	<b>Need for Water</b>
Domestic use .....	200 m <sup>3</sup>
Animals .....	6 000 m <sup>3</sup>
Irrigation .....	11 800 m <sup>3</sup>
<i>Total need for water</i> .....	<b>18 000 m<sup>3</sup></b>
<b>Surplus/Deficit</b> .....	<b>0 m<sup>3</sup></b>

A financial budget describes input and output in financial terms, and can show what funds are likely to be required for carrying out the activity in a specific period.

Periodic forecasts of sales, costs, returns and expenditure are the basis on which budgets are calculated. Budgets usually form part of the continuous planning process. There is usually one overall expenditure budget for the organisation as a whole, and several sub-budgets, either for sections of the organisation (sales department, stores, investments, head-office) or for sales, investments, production costs and fixed costs. All these budgets set targets for the enterprise and/or departments.

Departmental or activity budgets enable managers to monitor progress. Overall budgets serve the same purpose for members monitoring total enterprise progress. Some deviations are justified for any budget if the organisation wants to stay responsive and flexible. Justified deviations are those that come about because of possibilities of increasing profitability and long term stability rather than as a result of planning oversights or bad management of operations.

Examples of an annual financial budget and a wages and salaries budget can be found in the annex.

Expenditures and incomes may be added up for shorter periods (per week, per fortnight, per month) to see how they compare. Assumptions on how the estimates were arrived at should be noted for every item in the budget.

**A Budget variance report**

This includes the original (planning) budget figures and assumptions, accompanied by one column of figures and explanations, which represent the “actual” figures.

The headlines of such a budget variance report would thus read something like this:

<b>Budget variance report Example - Kei's cooperative</b>					
<b>March 19... to February 19...</b>					
<b>Item</b>	<b>original \$</b>	<b>Notes</b>	<b>actual\$</b>	<b>Notes</b>	<b>Variance</b>

## Cash Flows

In a cash flow statement, several columns of periodic expenditure (i.e. money going out of the business) and income (i.e. money coming into the business) are presented beside each other, and the running (bank plus cash) balance is brought in and carried forward from one column to the next. This allows managers to identify periods of time, when more expenses are incurred than income achieved, and hence when there will be a need for additional finance, such as an overdraft facility. Which length of period to choose for drafting a cash flow statement depends on the bank balance usually maintained and the frequency of significant changes in this bank balance. E.g. a small retail outlet might need a daily record, a manufacturing cooperative a weekly one and a cooperative holding consortium or company a monthly one. An example of a cash flow is given in the annex.

Items such as **depreciation** which, while important in the **balance sheet**, have no place in a cash-flow calculation. For that reason it is closer to the real bank balances than a forecast profit and loss statement (P&L) or balance sheet. On the other hand, the size of the numbers show turn-over and not profit. Also a cash flow can be designed for entirely different time periods than a P&L or a balance sheet. Its columns can represent days, weeks or months and the period for which a forecast calculation is done can be a year or two, although longer than that is probably not very realistic.

## Operating, record keeping and financial management systems

A great deal of the information needed to decide on distribution of surplus, allocation into reserves, further organisational development etc., must come from internal sources. In order to set new goals and make sound decisions, certain records need to be well kept. Good records - even simple ones - are also very useful when applying for loans. At the very least a good record must be kept of material, cash and labour contributions, of production outputs and of sales.

**Two rules** apply to all systems of record keeping, even the simplest:

- Responsibility for keeping records must be firmly assigned. Nothing spoils records more easily or more quickly than having several different people make entries without clear authority and responsibility to do so.
- All transactions must have some verification (voucher, signature), certifying that somebody has put his / her name behind that entry.

### **Records which should always be kept**

The minimum financial records should be:

- a cash book (containing all transactions with banks incl. loans etc.)
- a fixed assets register or inventory (assets entered at original purchase price, all repairs, depreciation and, perhaps, maintenance schedules)
- a staff wages and salaries record with signatures for cash payment
- a petty cash book and/or voucher system
- a controlled credit note system (in other words, a record of accounts receivable, which shows what individuals or enterprises owe the co-op with the appropriate documentation that allows the cooperative to claim for payment)



In order to be able to pay out member refunds, member accounts, too, should be kept. Ideally they should record all transactions members have with the cooperative. This might be an excessive work load though. As a minimum, however, there should, however, be members' capital account books which spell out the capital a member has invested in the cooperative, into which refunds and dividends can be credited and which serve to monitor whether members have paid up their shares . Where the ownership model of a cooperative is followed, the share of growth can be credited here, too. In addition, in cooperatives with savings and/or credit departments savings or credit records are essential .

### **Other requirements**

It is important to limit theft of either inputs or goods produced by installing:

- stock records associated with “goods received” notes and “delivery” notes, so that no invoice is paid out without the relevant goods received note. No stock must leave the enterprise without a “delivery note” being produced to generate an invoice, even though it may be a “no charge” invoice with both the goods received note and the delivery note being entered into the stock record system.
- a regular reconciliation of bank statements against cash book entries.
- an official order book so that no invoice received for supply of goods or services to the enterprise is paid unless an order number or copy of the order is provided by the supplier.
- an outward telephone call recording system with or without trunk barring on extensions or a lock system on individual telephone instruments
- a postage record book where postal expenditure is significant
- planned random physical stock checks

### **Using records to help implement good staff policy**

Since cooperatives usually place major emphasis on member and staff development, there also need to be some fundamental agreements on which just, equitable and fair personnel decisions can be based. These must be implemented through standing procedures designed to make personnel policy as transparent as possible. It is a good idea to have a written down personnel policy, set by the members, even if there are only few employees.

This policy should be further detailed by managers, and those guidelines should be available to all levels of staff. Where indicators are set (e.g., number of days of absence, before a staff member will be questioned or reprimanded) there should also be records kept which will allow for an objective assessment of the cooperative's personnel management. The details to be spelled out and/or recorded could include:

- Pay rates and production bonuses
- holiday or sickness leave of absence
- short leave of absence
- working hours and flexibility
- staff vacancies
- promotion prospects
- use of tobacco, drugs and alcohol “on the job”
- negative sanctions against theft
- negative sanctions against specified misconduct (e.g., smoking in no-smoking areas).

The incentives for overtime, loyalty etc., should also be recorded in writing (e.g., by excerpts from minutes of meetings), and should be made known to staff and members.

As a final point on personnel, the best form of communication in an enterprise is one which combines elements of sensitivity to human needs, aspirations and a regard for honesty, with an appropriate level of directness. Whatever form of operational system is devised, it may well be that, at least in organisations employing more than ten people, “management by walking around” presents a useful ancillary method. There can also be little doubt as to the value of regular and “formalised”, if informal, personal performance appraisals of those managed, by those that have the responsibility for managing.

## **Records needed to manage liquidity, reserves and cooperative assets**

### ***Cash-flow statements***

Cash flow statements are important tools to keep track of the balance between income, cash in hand and bank balance on the one side, and expenditure due on the other. The capital which is available at any one time over and above the moneys already committed in the cash flow, could be called the working capital. It is that money, which can be used at short notice to make use of good opportunities, e.g., special supply offers on raw materials or equipment; potentially profitable short term investments, or just kept in reserve for periods where expenses outgrow income. Contingencies for sudden increases in supplier prices, drops in product prices, lower than predicted sales or persons who received goods on credit and cannot pay back (so called bad debts), all those can cause situations where reserves are needed.

### ***How large should reserves be?***

It is important that any enterprise keeps sufficient liquidity (another term for uncommitted funds or capital) to meet unexpected needs at all times. Not having such resources and either having to borrow money at short notice and unfavourable conditions, or having to forego opportunities, raises the cost of production and lowers profit margins.

At the same time, having much money in reserve can also represent a cost, either because it is not earning any interest in the bank, or because in a situation of high price inflation, cash loses its value rapidly. Cooperative enterprises need to make careful decisions about how much money to have in reserve as working capital and how to handle it. They need a sufficient amount of ready cash, but not too much.

Since reserves are built up from surplus not distributed to members, their accumulation could also be a reason for major discontent among members. Without a thorough discussion of the use of surplus in advance, general agreement to re-invest or to build up a safety margin is much more difficult to reach at a later stage. By then, members might already have made plans as to how to use the money in their own enterprise, and will be disappointed.

It is thus a good idea to decide on the build up of reserves before operations start. The decision can be recorded in the by-laws or in minutes of a general meeting, but it should be well communicated to all members.

Members often decide to limit the growth of reserves in relation to the co-op’s turnover, or to keep annual contributions to reserves at a certain percentage of surplus reached. Linking the build-up of reserves to turnover might not always be possible, particularly when a cooperative grows very fast. On the other hand it represents a more entrepreneurial solution, because it means financial resources for using good opportunities will be available at short notice. In both

cases there should not be a fixed percentage in the by-laws, but rather a span or “up to” maximum or limit. To employ such a rule means that the distribution of the year end surplus regarding provisions for future investments and distribution of rewards to capital and management can be reconsidered each year.

Reserve funds should be treated as carefully as bank loans. They represent members’ own funds set aside for a special purpose. Even if there is no actual sharing of reserves, nominally every member has a right to be part of the usage decisions and, should reserves be used to pay for the establishment of new services, for training or social affairs, the members ought to benefit.

The above applies to the common use of cooperative assets too. Members often tend to use cooperative machinery with less care and consideration than they would their own. Rules which ascertain careful use of such property are important. Careful budget-like plans should be drawn up for the use of any asset (particularly machinery, rooms, storage etc.) if it is to be used by different people. These plans need to make provision for maintenance, cleaning, transport and inspection times. Bar charts, such as those used to assign timing to certain activities (see annex), can also be used to plan use of machinery or equipment carefully. Funds must also be set aside to repair, and eventually, to replace any machinery or equipment.

## **Economic planning and reporting tools**

### ***Calculating optimal production volumes and costs***

The cost of a particular operation method (e.g., with personally owned or hired tractor), of a particular product or service produced by the co-op, can often be decisive in determining whether to go ahead with the production at all.

For sales to be profitable, all costs of production (variable and fixed) must be covered by the sales price. Because the fixed cost per unit sold depends on the volume produced, costs covered differ with both price per unit and volume sold. Possible combinations of prices and volumes which cover costs are called **break-even points**.

### ***Calculating break-even points***

If the seller can determine whatever reasonable price he wants, and the costs of production are fixed, the break-even point price is calculated by dividing the total cost of production by the number of units produced and sold.

If on the other hand, the price is fixed - as is often the case with agricultural produce - the break-even level of production is calculated by dividing total costs of production by the price per unit. This kind of calculation will usually have been done as part of the previous feasibility analysis, and it is used to plan the enterprise activities.

### ***Determining the best production volume***

Another way of influencing the production costs of a product is to change the operating method and to incur different fixed costs. Since there are usually certain fixed production costs that get spread across all units produced (for machinery for example), the cost of production per unit goes down as the scale of production increases (**economies of scale**).

There can be counter-balancing diseconomies of scale if the costs of production rise, for example, due to the need to hire specialists to manage a larger operation or to purchase additional capital equipment (trucks, pumps etc.) when existing equipment is already being used to its fullest extent. By analysing the expenses and income for alternative levels of production, the level which yields the greatest net benefit (revenue minus expenses) can be found.

## Profit and Loss Statements (P&L)

A profit and loss statement shows the operating profit or loss that the enterprise has made over a certain period. This is prepared by matching revenues obtained over the period against the expenses which occurred to generate them. A P&L for a trading cooperative buying, repackaging and selling seed could be something like:

<b>Profit and loss statement</b>			
	\$		\$
<b>Sales:</b> 200 small bags of seed			<b>200</b>
<b>Less:</b> Cost of those sales, seed	120		
" " " " bags	<u>20</u>		
<b>Total direct costs</b>	<b>140</b>		
<b>Gross profit margin</b> (200-140)			<b>60</b>
<b>Less:</b> Other costs: Petrol	5		
Wages	4		
Lighting	2		
Rent	1		
Wages	<u>14</u>		
<b>Total other costs</b>	<b>26</b>		
<b>Net profit margin</b> (60-26)			<b>34</b>

A provisional estimated P&L could be calculated for different alternative courses of action and used to determine which alternative would be more profitable for the enterprise. An example of a quick comparison of profits at different levels of production for the seed selling cooperative:

<b>Comparison of profits at different levels of sales</b>			
<b>Gross Margin Relationships</b>			
<b>Unit sales</b>	400	600	800
<b>Sales</b> at 85c per unit	\$ 170	\$ 255	\$ 340
<b>Bulk sugar cost</b>			
(400 bags = \$120)	\$ 120	\$ 180	\$ 240
<b>Small paper bag cost</b>			
(400 = \$ 20)	\$ 20	\$ 30	\$ 40
<b>Gross Margin</b>	\$ 30	\$ 45	\$ 60

Note: Agricultural marketing cooperatives, in particular, need to take into account seasonal price fluctuations in estimating costs and potential profits. The price that is paid for commodities just after harvest is usually lower than later or earlier in the year.

## Sensitivity analysis

The optimal level of profitability of a service or product can be assessed by calculating it under various different scenarios, and particularly those which would have a negative impact on total revenues and production costs. Possible options to consider include:

- volume of sales to be 10, 20 or 30% lower than originally predicted;
- sales price to be 10, 20, 30% lower;
- 10,20, 30% increase in raw materials cost;
- delayed or partial availability of certain crucial inputs (labour shortage, fertiliser shortage etc.);
- crop losses (insects, weather, fire etc.).

Analysing the different impacts will show the key areas of vulnerability and consider the safety measures (insurance, regular controls, early warning systems etc.) to set in place in order to minimise negative effects.

For more detail on sensitivity analysis see FAO Group Enterprise management p.33

## Source and Application of Funds and the Balance Sheet

### **Source and Application of Funds Statement**

One of the most useful general purpose documents that a cooperative can prepare is one that gives a broad picture of what money came into the organisation and from where, combined with a picture of what that money was used for and where it went. This **source and application of funds statement (SAF)** can be used *to report* on what *has* happened or as *a forecast* of what *will* happen.

One of the more important sources of funds into most businesses is that represented by sales of goods or services. There are exceptions to this, for example, banks, credit unions or saving organisations take money into their business on deposit.

If we consider sales as sources of funds, we also have to treat all the direct costs of getting those sales as an application of funds. Sources of funds will have to be spelled out in more detail when the financial statement has to form the base for discussion for example at an annual meeting.

### **As a planning document**

Where the gross margin is relatively stable and predictable, and for the purpose of internal planning, it is often only necessary to show profit as the source of funds. Details of the expenditure on costs would be shown as an *application of funds*. This approach implies accepting that, at least at a planning stage, the cost of production and the value of the sales made do not need to be analysed further.

If the statement is prepared for the purpose of examining the capital structure of a business, the source of funds can be the profit or trading surplus for the year. In this case the SAF becomes more similar to the traditional *balance sheet*. The sources of funds would then include members' contributions, grants, loans, gross margins as well as stocks, inventories and assets. Another source of funds are the creditors (business creditors, members' contributions due and not yet paid). In terms of applications we need to list the indirect costs including overhead costs, prepaid bills (suppliers credit notes) and debtors (people owing to the cooperative).

## A model forecast SAF

The actual presentation of the statement and its layout can vary according to its use. The most common form is the one represented in the box below:

	<b>Source of Funds</b>
Paid up members' share-capital	2340
Profit	9780
Bank loan	500
Bank overdraft	134
Creditors to be paid	40
Current liability(tax to be paid)	<u>1017</u>
	<b><u>13811</u></b>
	<b>Application of Funds</b>
Purchase of fixed assets	3047
Stock at cost	653
Loan repayment	500
Cash in bank and hand	7522
Trade debtors	89
Members' shares not paid up	<u>2000</u>
	<b><u>13811</u></b>

The aspect to notice is that the two totals are the same. *They balance*. This is because the two columns refer to the same amount, looking at it both as a source and as an application (“*money came from*” and “*money went into*”) If they *don't* balance, the statement will have to be checked since it means that some figures have been left out or are incorrect.

### As a monitoring document

Comparing SAFs from different years it is possible to see whether the capital “owned” and the surplus earned by the cooperative has grown or not. A SAF also shows who owns what part of the enterprise and how much of the member pledges have been paid up.

Both are important indicators for sustainability. A cooperative, whose members do not own a certain proportion of the business (i.e. hold paid up shares to a given value), is more dependant on banks and market prices, and is therefore much more vulnerable. The percentage of the cooperative which it is desirable for the members to own depends on the type of cooperative, and need to be seen against market stability.

### Stocks, inventories and assets

The next measurement to review is the stocks, inventories and assets. Fixed assets are a stabilising factor. Liquid assets, i.e., cash in hand or in the bank, represent the possibility of reacting quickly to good or bad circumstances. If liquid assets are too low for example, essential resources may need to be sold to pay off debtors. Also it will be more difficult to invest in opportunities or purchase at low prices at short notice, if liquid assets are too low.

In most countries the convention is that stocks should be valued at cost or selling prices, whichever is the lower. Stock levels can be valued at prices only if there is a certain market for them. If the market price is lower than the cost, this means a loss. It is then usually not only safer, but essential, to give them lower than market values, because in the case of emergency sales, e.g., in case of insolvency, prices are unlikely to reach ordinary market prices. Their valuation again depends to a large degree on how volatile the relevant product market is.

The real clue to the health of the business comes from looking at the way in which *money owed to the business* comes in. If too many **members** do not pay up their shares, their level of commitment to the cooperative is questionable (or perhaps the objectives of the cooperative itself needs to be questioned, if they do not satisfy member needs). The **debtors** of a business, those that owe *it* money, very often deliberately delay payment of bills, so that they can use the money in their own business.

Up to a certain level, preferably agreed in advance with the member or customer, and where and when the cooperative can afford it, this is normal and accepted practice. Most businesses who are able to do so extend some level of credit on purchases. It makes them attractive to their trade partners. As a rule this remains satisfactory as long as sales and outstanding debts increase by roughly the same proportion or in the same relationship.

However, if profits have only increased marginally, either sales have also increased little or the profitability of the business has fallen recently. In such circumstances an increase in debtors would suggest inefficient management. Certainly, banks do not feel comfortable with lending money to enterprises that are run inefficiently. Falling profitability does not make them any more comfortable.

### **Balance sheet**

A balance sheet is a statement showing the net worth of the enterprise. It compares liabilities and assets. It is very similar to, though more widely used than the source and application of funds statement that we have just looked at.

Instead of the numbers being written in columns down the page with their appropriate headings above them, a balance sheet shows liabilities and assets in two columns opposite each other or across the page. A balance sheet is like an instant photograph of the financial position of the business, and, like a photograph, it can be taken at any time. In theory it can be prepared as each sale is made or as each item is bought in for stock or as a fixed assets. All the rules we discussed in terms of valuing stock and inventory in terms of creditors and debtors etc., equally hold true for the balance sheet. Drawing up a balance sheet, apart from the lay out, is in no way different to that of a source and application of fund statement. If it is done for a business plan it is usually called a “forecast” or “projected Balance sheet”.

An example of a balance sheet can be seen in the annex to this module.

# ANNEX MODULE 6

## Exercise 6.4.1

### Personnel plan - assigning responsibilities

#### Personnel Plan

determines, who is engaged in the activity when

Activity:..... PERSONNEL PLAN Date:.....												
Name	Week											
	21	22	23	24	25	26	27	28	29	30	31	
Mr Jones	■		■		■		■		■		■	
Mrs Smith	■				■				■			
Miss Meyer	■											
Mr. Hopkins	■											

Task: Complete a personnel plan for an activity with which you are familiar and which involves at least 4 people. Select an activity within a cooperative you are familiar with. Consider how the responsibilities and roles relate to each other, and how far the various roles can run simultaneously.





## Exercise 6.5.1

### Financial Budget: Kei's Cooperative

Financial Budget: Kei's Cooperative		March 19... to February 19...
Item	\$	Notes
<b>Income</b>		
Sales income		48000 100 units per week x 48 working weeks
Allowance for bad debt	(1200)	2 _ % of sales income
<b>Total income</b>	<b>46800</b>	
<b>Expenditure</b>		
Materials	9600	20% of total sales
Wages	23192	4 people x \$100 gross per week x 52 weeks + 11,5% employers NI
Rent, rates and water	2500	Rent \$1040, rates \$1400, water \$60
Heat, light and power	240	\$60 average per quarter
Building maintenance	240	Estimate for the year
Machine maintenance	500	Annual contract for maintenance
Postage and stationary	120	Estimated \$10 per month
Printing	100	Estimated
Telephone	400	Estimated \$100 per quarter
Insurance	300	\$200 for employers liability etc., \$100 for property
Office sundry costs	480	Allowance for \$10 weekly x 48 weeks
Transport running costs	1620	Tax \$100, insurance \$300, repairs %500, fuel %720
Advertising	240	\$20 per month average
Travel / entertainment	360	\$30 per month average
Bank charges	70	
Bank interest	1200	15% on \$ 3000
Auditing	500	Estimate
<b>Total expenditure</b>	<b>41662</b>	
<b>Surplus/deficit</b>	<b>5138</b>	

Task: Analyse the above statement and comment on the implications of such a budget for the annual cooperative plan.

**Exercise 6.5.2**

(Source: adapted from Allen/Göler von Ravensburg 1994: 121)

SHANNONS SHOES CO-OPERATIVE			
Balance sheet as at 31st December 1996 (in \$)			
Liabilities		Assets	
Trade Creditors	28 194	Current	
Mortgage loan	52 431	Cash in Bank	nil
Bank overdraft	18 986	Cash in hand	8 740
	99 611	Petty cash balance	34
Shareholder's funds		Customer accounts	102 349
Capital invested	218 700	Employee accounts	864
Add profit	84 793	Other accounts	1 090
		Prepaid expenses (Licenses, insurance paid in advance)	547
			113 624
		Stock (at cost or market value whichever is lower)	
		Finished products	74 605
		Work in progress	36 724
		Raw materials	32 413
		Small goods	2 054
		Total current assets	145 796
		Fixed assets	
		Land at cost	7 800
		Buildings at cost	64 250
		Plant, machines at cost	26 349
		Vehicles at cost	62 678
		Less: depreciation	17 393
		Total fixed assets	143 684
Total liabilities	403 104	Total assets	403 104

Task: discuss the above balance sheet in groups, trying to interpret the figures and extract the information required for planning.

## Example of a Wages and salaries budget

<b>Shannons Shoes cooperative - Wages and Salaries Budget 19... (\$'000)</b>						
	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>June</b>
						<b>Manufacturing</b>
Management salaries	4,4	6,3	6,3	6,3		
Supervisor's salaries	5,2	5,2	5,2	5,2		
Operator's wages	8,4	10,6	10,6	10,6	10,6	10,6
Part-time workers' wages	2,2	2,2	2,2	2,2	2,2	2,2
Temporary workers wages	-	-	-	-	-	-
Stores personnel	2,6	2,6	2,6	2,6	2,6	2,6
Delivery personnel	1,8	1,8	1,8	1,8	1,8	1,8
						<b>Administration</b>
Accounts salaries	2,4	2,4	2,4	2,4	2,4	2,4
Cleaning staff wages	0,8	0,8	0,8	0,8	0,8	0,8
Security staff wages	1,1	1,1	1,1	1,1	1,1	1,1
Management salaries	3,8	3,8	3,8	3,8	3,8	3,8
						<b>Promotion</b>
Sales staff salaries	2,6	2,6	2,6	2,6	2,6	2,6
Sales staff bonus payments			3,6			1,4
Marketing staff salaries	3,3	3,3	3,3	3,3	3,3	3,3
<b>Total wages and salaries</b>	<b>38,6</b>	<b>42,7</b>	<b>46,3</b>	<b>42,7</b>	<b>42,7</b>	<b>44,1</b>

Notes: New wage agreement takes effect as of 1 July. New Works Manager employed as of 1 February. (It is a convention to abbreviate numbers over 1000 to decimals. Thus 51600 becomes 51,6.

But this must be shown at the top of the form as it is here (\$'000) - Thousands of \$)

# **MODULE 7**

## **PARTICIPATORY APPRAISAL MONITORING AND EVALUATION**



# MODULE 7: PARTICIPATORY APPRAISAL, MONITORING AND EVALUATION



## Introduction

Participatory appraisal and participatory monitoring and evaluation are essential to the efficient operation of the cooperative, ensuring that members concerns are met and that the cooperative is fulfilling its purpose and reason for existence. Without effective participatory appraisal, plans are unlikely to meet members needs. Without participatory monitoring and evaluation, members will not be closely involved with efforts to improve and develop the cooperative.

### Objectives of the module



By the end of the module, participants will be able to use a range of participatory appraisal, monitoring and evaluation methods

### Key learning points



- the importance of the participatory approach
- participatory appraisal
- participatory monitoring
- participatory evaluation

### Teaching strategy



Following a brief introduction to the importance of a participatory approach to appraisal, monitoring and evaluation, conduct the following exercise on semi structured interviews. If possible video tape the session for discussion afterwards.

### 1. Role-play of good and bad interviews (30-40 minutes)

(Adapted from Pretty et al. 1995)

This can generate a discussion on the merits of adopting good interviewing technique and summarise the main good and bad elements of semi-structured interviewing.

#### Instructions:

Divide the participants into groups of 4 or 5 people.

Ask half of the sub-groups to develop a 'bad' interview sketch and half to develop a 'good' interview sketch.






After 15 minutes preparation, ask the 'bad' interview role-plays to present their sketch first.

After the 'bad' interview, ask the audience if there were still any good points. After the 'good' interview ask if there were any bad points.

Together, make a list of do's and don'ts for the type of questions to ask in semi structured interviews.

The role-play groups can concentrate on different types of interview. For instance, one group can act out an individual interview, another, a group interview etc. In the discussion afterwards, highlight the key points raised by the role-plays.

- 2 In small groups, use the preference ranking and matrix scoring exercises given in the Annex to module 2. When the groups have completed the exercises, ask them to present the results to the plenary for discussion.
- 3 Conduct the training evaluation exercise below by drawing the chart on a flipchart and asking participants to put a mark in the boxes as they see fit. Discuss the results and the usefulness of this as an evaluation exercise.

					
	very well	well	OK	not so well	badly
discussion in small groups					
role-playing					
warm ups					
handouts					
etc.					

## Reference information



### The importance of a participatory approach to cooperative development

Participation, not only of members but also to a lesser extent, all those affected by the activities of the cooperative is vitally important for effective operations. The following example demonstrates the disastrous results when the people concerned are not involved in the process of setting up a cooperative.

In a West African country, groups of fishermen were asked to organise themselves into fishery production cooperatives. They were promised substantial financial support and new technological equipment. The parliamentary representative of the coastal region had agreed upon a promotion programme with a foreign sponsor organisation. This envisaged considerable medium- and long-term loans for the extension of the sea-fishery. Appropriate construction and supply orders were placed immediately. In the beginning the resources of the project were administered through a representative of the European sponsor organisation.

After the first two diesel-powered trawlers were commissioned through the first fishery cooperative to be established, there were considerable difficulties in marketing. The fish landed did not meet the consumption habits of the local population. Moreover, local trade was made impossible by the fact that, according to a long-established tradition, fish-trading was exclusively in the hands of 'mammy-traders' (female merchants). Their union had not participated in the promotion project. Catches were considerable, but could not be disposed of wholesale, because there were no cold-storage plants or refrigerated trucks.

A large part of the catch perished as a result, while on the other hand, considerable business costs were incurred. Owing to their bad experience some members of the fishing cooperative withdrew. Annual payments for redemption and servicing of loans could therefore not be paid by the cooperative to the sponsor organisation. It was soon realised that the fishing cooperative had to be dissolved with losses. (adapted from Dülfer 1981: 62)

The project could not succeed without participatory planning including not only the people involved in fishing, but also the people of the community (as customers). The lack of participation was a major (though not the only) cause for the failure of the project.

## Appraisal, monitoring and evaluation

Informally, appraisal, monitoring and evaluation are continually carried out in all spheres of life without people consciously knowing it. For example:

***"This is really excellent! I don't think I've ever eaten such a good fish before!"***

This is an informal evaluation of a meal, assessing its value to the person eating it. It is a subjective assessment only, based only on one person's opinion, but nevertheless is a simple form of evaluation.

More formally, evaluation is *'a process which attempts to determine systematically and objectively as possible, the relevance, effectiveness and impact of activities in the light of their objectives i.e. their aims and purposes'* (UN joint inspection unit as quoted in the FAO trainers guide to Evaluation.)

Participatory appraisal, monitoring and evaluation is an ongoing process which is not restricted to any particular phase in cooperative development.



There are three stages to evaluation each called by a number of different names.

- **Appraisal or evaluation for planning** (also called prefeasibility studies, ex-ante evaluation and needs assessment). This provides information on which planning decisions can be made. Prefeasibility studies provide planners and decision makers with the information needed to decide on the feasibility of one or more proposals. In the case of deciding whether a cooperative, or another form of organisation, would be best suited to meet the interests of a group, this would largely mean comparing the expected outcome against objectives declared by the prospective cooperative founders. The involvement of all people concerned in the prospective activity of the cooperative organisation is vitally important. This is clearly demonstrated by our fishery cooperative example described in the introductory section. If all people had been involved in the planning phase, the outcome could have been very different.
- **Monitoring and process evaluation.** This provides information on whether the plan is working and helps in making decisions about the direction and focus of the activities. It refers to the systematic observation, documentation and assessment of ongoing activities and external developments (e.g. changes in market prices, resource materials etc.) *Monitoring* means the observation and collection of data during the activities for use during process evaluation
- **Impact assessment or terminal evaluation** (also called ex-post evaluation). This refers to the assessment of the results after completion of an activity. The main purpose here is to determine whether the objectives have been met and if not, to identify where improvements could be made in the future. The clearer the objectives were in the first place, the easier this is to determine. Ideally, there should be two parts to the terminal evaluation: one at the end of the investment period and a second one at a later date (e.g., five or ten years later) since the result of investments, particularly in human resources development, cannot necessarily be assessed on a short-term basis.

The size and complexity of monitoring and evaluation systems should relate to size and complexity of the organisation or investment. A small vegetable marketing cooperative in West Africa, for example, will need much less complex evaluation procedures than will a 2,000 person agricultural marketing cooperative in Eastern Europe. Different aspects will also need to be emphasised in different phases of the life-cycle of an investment or activity.

Activities in the context of appraisal, monitoring and evaluation refer to any kind of strategically planned change, investment or production activities.

Assessment of training and other needs in the cooperative, together with the continuous monitoring of activities allow the organisation to assess their effectiveness in working towards declared objectives and results. This should form the basis for management decisions regarding the cooperative activities. Data collected and assessed in appraisal, monitoring and evaluation is useful to members, management and leaders, as well as external supporting agents in their processes of strategic decision-making. Appraisal, Monitoring and Evaluation can be undertaken both from within an organisation or by outsiders.

## Participatory Appraisal

In a small cooperative, it can be relatively easy to find out from regular meetings and informal discussions, what the members needs and wishes are, and their feelings about the operations of the cooperative. However, in a larger organisation, this is not so easy and participative appraisal may be needed to ensure that members concerns are being met - as opposed to concerns assumed by cooperative leaders or outsiders.

The main areas where appraisal is needed are:

- Assessment of the economic and social viability of establishing a cooperative organisation. Who wants to participate? What are their motives? Are there leaders sufficiently capable of management? What can (potential) members contribute? What are the input and supply markets like etc.?
- Needs assessments and monitoring and evaluation of on-going activities.
- Needs assessments when the situation has changed for example, when current activities are seen to be ineffective, or when the political and market situation has changed and new activities have to be envisaged. They can also be useful when new visions are sought for, or if there are conflicts either within the cooperative or between a cooperative and its social or institutional environment.

**Participatory appraisals (PA)** are particularly suitable to cooperative development, because they emphasise the active roles of the people (members) in the needs assessment process, as opposed to traditional methods such as surveys. These methods are used to assess group and community resources and priorities in the field. Participatory appraisal can be a complex process and in this manual, only a short introduction to PA methodology and practice is given. See references for further information.

### ***Advantages of participatory appraisals***

As well as being more suited to the democratic ideals of cooperatives, participatory appraisal can often be more efficient and cost-effective than conventional research. Often trends, scores or ranking are all that is required to assess priorities, rather than the absolute measurements of baseline surveys and similar techniques. PA methods do not insist on measuring when comparing is enough.

A central objective of PA is to understand the range of views that different groups and individuals have of situations, leading them to different decisions and actions. For example women's views of any real-world events often differ from men's. Landless labourers have a different view to those of landowners. Chiefs and religious leaders have different views to those of the common people. Similarly, everyone and every sub-group has a particular range of knowledge and experience - and of problems and solutions. **Everyone is different and important.**

### ***How Participatory Appraisal (PA) works***

The localities that are selected for PAs should normally be in an area which can be regarded as representative of the whole cooperative. At times, they can also be useful to help to resolve problems of co-operation or conflicts.

PAs can be initiated by teams with members from a range of institutions and/or cooperative staff and members, and conducted in joint analysis and interaction with local people - ideally, the whole community or cooperative (sub-) group in question. The team members help to identify and to prioritise problems - largely by visual techniques - and appraise strategies for solving them. PAs are often preceded by a training workshop where the team members get to know one another well.

However, PA is not just about local people informing outsiders, but also for people's own analysis of their conditions. As with participatory training sessions, PA is a mutual process of learning. The role of the external 'experts' is best thought of as one helping people carry out their own study and so opening new perspectives on their own situation and problem-solving. In terms of trainers' roles they act the roles of *facilitator* and *animator*.

The participatory process leads to debate about change, and debate changes the perceptions of

the participants and their readiness to contemplate action. The process can motivate people to take action.

### ***Participatory appraisal methods useful to the cooperative context***

Participatory appraisals provide a range of methods to gather information among cooperative members in the field and to help in decision-making processes during meetings.

There are four basic groups of methods:

- semi-structured interviewing,
- group discussion,
- diagramming, and
- ranking and scoring methods.

### **Semi-structured interviews**

Standardised interviews have been found to be of little value to appraisal, monitoring and evaluation, as they contain too many preconceived notions on the part of the interviewer and are prone to misunderstandings. Semi-structured interviewing can often yield better results. However, it is a difficult art to master, as many factors may render the answers given useless, such as context of the interview, interviewees expectations, interviewer's prejudice or social status, misunderstandings based on different codes, etc.

Views and opinions, experiences and knowledge of cooperative members can be assessed by visiting them at home or at their work places. Cooperative trainers and promoters can travel around and interview a sample of households, However, great care has to be taken in interviewing in order to avoid mistakes that can render interview results useless. Sensitive interviewing involves perceptive listening and careful observation. Interview situations may create feelings of suspicion, fear or even hostility in the people.

Semi-structured interviews (SSI) appear informal and conversational. However, they deal with predetermined topics through open-ended and non-directive questions. SSIs concentrate not only on what is asked, but also on the context in which the interview takes place and on the influence the interviewer has on the situation. Setting, timing, body language, biases are taken into account. Interviewees can also pose questions to the interviewer. SSI involves cross-checking and a high degree of self-reflection on the part of the interviewer.

*A systematic walk ("transect")* is another type of SSI, coupled with more observation. This method is suited to situations where small, locally-based cooperatives are involved. You may need to have some information about the relationship between a cooperative and its social or ecological environment. By taking a systematic walk through a village and the surroundings, the village structure and ecological problems can be assessed preliminarily. It is important to ask one's companions from the village and the people one meets on the way why people do what they do. Listening is more important than talking. Here, too, the interviewer needs to be sensitive to the aspects of SSI mentioned above.

### ***Group discussions***

Group discussions in the field are another method to assess the range of opinions on a certain topic. They provide a chance to learn about the relationships or tensions that might exist between cooperatives and their social environment. As in a training situation, one has to make sure that everybody participates. This is easier to do if the group is split into subgroups.

The following methods are applicable both in the field and in workshops.

## 1. *Diagramming*

Diagrams are pictorial representations of daily routines, seasonal calendars, historical profiles, impact, social and institutional relationships. They can be useful both for situation analysis and to illustrate cooperative visions.

In workshop settings, paper and pens are used for the diagrams. In the field diagrams are mostly made using locally available materials such as sticks, stones, seeds, powders, by drawing on the ground etc. to represent agro-ecological zones, watersheds, land-tenure, land-use, health, wealth, mobility etc.

Diagrams drawn by people reveal something about the people who construct them as well as about the area in question: women, for example, may emphasise the fields on which they grow the crops for cooperative sale by making them large on the map. Men may emphasise the lorries and collection points for transporting the products.

These diagrams, e.g., resource maps and social maps, should be prepared by different groups of people (young/old, rich/poor, men/women, etc.), whose results are then compared and discussed by people in different settings.

Literacy skills are not necessary for the construction of complex diagrams, as those who cannot read are usually used to interpret complex arrangements of symbols (“visually literate”).

Non-literates are often politically weaker and poorer. There have been many cases where involvement of such groups by diagramming has given them a chance to publicly participate in analysis and discussion for the first time. Often professionals have been impressed by the results - they had not realised that non-literate people ‘knew so much’.

Examples and exercises of diagramming are given in the annex to Module 2.

## 2. *Ranking and Scoring*

If you want to explore people’s perceptions, to know their criteria and understand their choices regarding any subject of interest ranking and scoring methods are very useful both in the workshop context and in the field. They can illustrate to both the outside promoter and local actors how radically different each group’s perceptions and beliefs can be, and what similarities exist.

In a workshop setting, these methods can help to illustrate the diverse ranges of perceptions of the trainees themselves. Different people - old/young, women/men, local cooperative members/managers - all have different criteria for making decisions and judgements about the choice of activities, management of resources, technologies, the value of government services, etc. and the range of these views can be illustrated through these methods.

**Ranking** just establishes the general preference of participants for a certain item belonging to a topic selected by the participants, e.g., a choice of various cooperative activities, of crops to grow, of inputs to buy etc., in terms of “most favourable” to “least favourable”. The criteria for the choices, however, are not made explicit.

Ranking can be done individually, at household level or in groups in order to identify the different preferences of different age, gender, ethnic, social or economic groups. It can also be used to find a consensus about the priority goals of a cooperative, particularly as a basis for the planning of development activities.

**Scoring** is more specific as it bases the final ranking of items on the scores given to specific criteria. These criteria have to be discussed and agreed upon by all participants before the scoring starts.

Matrix scoring is a tool for comparing favourable and unfavourable key characteristics or advantages and disadvantages of different items in a group of comparable items, e.g. fertilisers, plant varieties. It is useful to show participants how they can discover different perceptions about advantages and disadvantages of a particular issue amongst individuals or among different social groups in a cooperative. Matrices set up by different individuals or sub-groups can be used to promote debate and provide a basis for discussing alternatives.

A range of ranking and scoring exercises and examples are given in the annex to Module 2.

## Perceptions and attitudes

The outcome of participatory appraisal methods will depend on the attitude of the people employing the methods. For example, if users of participatory methods are not conscious of gender differences within a community or a cooperative, then it is highly probable that the analysis will not deal with such issues. Likewise, if they are not aware of local power differences, then these are likely to be overlooked in the findings.

Cooperative trainers, promoters or managers are often used to believing that they have the 'correct' message to teach. PA techniques can help to show that they need to learn what it is that people need before making suggestions. Subgroups of members may have to accept the fact that other groups have their own good reasons for not co-operating, and that solutions can best be found by compromise or consensus.

**It is important to ensure that workshop participants think carefully about their own attitudes and behaviour before they begin field activities.**

## 2 Participatory monitoring

**Participatory monitoring** involves the members of a cooperative measuring, recording, collecting, processing and communicating information to assist the cooperative managers and group members/leaders in decision-making. It entails keeping regular records of group decisions, actions, finances, external factors and checking that actions are taken according to plan. It is thus a continuous feedback system continuing throughout the existence of an organisation, and involves the overseeing or periodic review of each activity at every level in order to :

- see what has been achieved
- measure progress
- processes
- identify strengths and weaknesses
- find out if an activity was effective (and why)
- find out the impacts (social, economic etc.) of actions, efforts, special tasks etc.
- collect information to improve planning and management
- share experience in order to help others
- improve the planning for new activities
- transparency
- ensure that members' needs and wishes are adequately represented (partly adapted from DSE 1994: 169)

It is not always easy to decide what activities and results should be measured. It is easier to monitor achievements against fixed time-schedules, economic and financial targets, such as profits, liquidity and turn-over, than it is to monitor organisational development or the quality of change.

Similarly, the promotion of members in terms of savings on input purchases, marketing gains, increase in income and the reimbursement on patronage, can be monitored relatively easily and compared to objectives set. Promotion through training, social integration and other qualitative improvements are much more difficult to assess. However, they play a decisive role in member satisfaction and participation, and so also need to be monitored as far as possible.

### 3 Participatory evaluation

**Participatory evaluation** is the systematic analysis by the cooperative managers and other members together, in order to assess how well the objectives set have been achieved and to enable them to adjust or redefine objectives, reorganise institutional arrangements or re-deploy resources as necessary.

Participatory evaluation - as well as participatory monitoring - serves a dual purpose:

- It is a management tool which enables cooperative members and leaders to improve their efficiency and effectiveness.
- It is also a participant-centred educational process, in which participants reflect critically on their own actions, programmes, organisation, aims and leadership of their cooperative organisation.

In this way the members increase awareness and understanding of the various factors which affect them. At the same time they also increase their control over the cooperative processes.

Whereas traditional monitoring and evaluation are initiated from the top, carried out for the members, and the results used by the managers and leaders alone, participatory evaluation results belong to the members of cooperatives. Participatory evaluation is self-help oriented and an effective means of increasing self-reliance while increasing members' control over 'their' organisation.

***Participatory evaluation requires the involvement of members in:***

- deciding what areas to monitor and evaluate
- selecting indicators against which to measure, assess or show progress
- deciding how to collect the data
- deciding how to use and present the data
- analysing the results

As a general rule the following appeal ought to be kept in mind:

*Self-help procedures and structures should not be introduced to people as ready-made prescriptions. They must be developed, implemented, monitored and evaluated by the participants in a process of learning from the bottom up. This is one of the most important principles in the sphere of cooperative policy (Dülfer 1981: 53).*

Since cooperatives are member-centred organisations, all members concerned, or their representatives, should be involved in the preparation and implementation of new plans. In the same way changes to activities to fit new constraints should not be left to the managers alone.

Participatory monitoring and evaluation promotes self-determined decisions and actions and as such should be the main form of monitoring and evaluation. There may also be a legal requirement for external audits, or external facilitators or promoters may be called in for special purposes but these should be in addition to rather than replacing the basic principle of autonomous participatory monitoring and evaluation.

Expectations from monitoring and evaluation can sometimes be very high. Members expect participatory monitoring and evaluation to be able to show clearly whether success has been achieved, why a certain activity has failed etc. Often though, it is not easy to obtain or show clear evidence of success. In fact, it is sometimes easier to show failure. One of the reasons why it is difficult to show success or failure, is that success or failure can mean different things to different people. For example, what might be regarded as failure at one time, can be regarded later as a (partial) success. Investments in storage facilities might initially seem to be of little use, because the storage capacities are underused by the members. Only after a certain period of time or after the introduction of a new crop might they meet with more acceptance, and thus turn out to be a useful investment.

#### 4 Controlling (see also Module 5.3)

From the discussion above, it can be seen that there is no clear borderline between monitoring and evaluation. If monitoring and process evaluation are conducted systematically throughout activities, impact evaluation is largely a matter of summarising the results of this process and comparing the results with the original objectives on a six monthly or yearly basis, or at the conclusion of particular activities.

The term **controlling** refers to a very distinct area in cooperative management. It means the continuous assessment and control of economic and financial factors as a basis for operational decisions, e.g., changes in production, service provisions, staffing, investment expenditures, marketing etc.

Those responsible for operations need to communicate their findings to the members through regular reports outlining the financial situation of the cooperative enterprise.

In larger cooperatives, such controlling processes and procedures are often carried out by an operational unit. Details of such operations are given in module 5.3). In this module we are rather concerned with the more general monitoring and evaluation activities with which all members or member representatives should actively participate in determining the progress and development of their cooperative.

##### *Preconditions for PME*

The essential element of participative monitoring and evaluation is that everyone understands, supports and is willing to join actively in the process. This is rarely a problem in the case of small and cohesive homogeneous groups. Problems of active and effective member participation are more common in large cooperative organisations with relatively extended and heterogeneous member-groups. The internal atmosphere or relations between members, the effectiveness of communications and the group size are the three main aspects which most affect member participation.

A relaxed atmosphere, where all members have the feeling of being accepted and respected by all parties concerned and nobody is, or feels discriminated against, is a prerequisite for “mutual loyalty”. Feelings of mutual loyalty are a precondition for securing the operational efficiency of a common enterprise from the very beginning.

## Aspects to be monitored and evaluated

Generally there are three areas where monitoring and evaluation are useful.

- member-orientation
- operational efficiency
- developmental efficiency.

### *Member-orientation*

The realisation and promotion of members' objectives must be the guiding principles of all cooperative activities. The main criteria to judge the level of efficiency of the cooperative should therefore be whether it brings about the greatest advantages for the members.

Within this perspective, a cooperative enterprise which makes high profit, but which does not satisfactorily fulfil the members' operational needs, cannot be considered efficient. There will however be situations in which, in order to safeguard the long term viability of the cooperative, the operational unit may need to take decisions which do not comply with the members' interests. In these cases the cooperative leaders should inform the members, and explain the economic need of such decisions.

Long-term successes can be achieved only if a relatively high level of member-orientation is practised alongside operational and development efficiency.

To ensure a high level of member-orientation, attention should be given to setting up a monitoring and evaluation system which enables member participation on all levels.

However, the degree of participation of members in "their" cooperative organisation is, and remains, the "real" evaluation method through which to judge the success or failure of cooperative activities.

### *Different levels of member-orientation*

In the early period of cooperative history in Europe the structure of cooperatives was very simple. Cooperative establishments - usually referred to as traditional cooperatives (see Dülfer) - were units of the member businesses (mostly farms) charged with special functions such as for instance the procurement of farm inputs.

This type of organisation is still found where cooperatives emerge through members' own initiative and when the cooperative is in the initial stages of its development as a business. Its services are primarily member-oriented with the operational unit - if there is one at all - reacting directly to the wishes of the members.

At other extreme of complexity there are market-linkage cooperatives (see Dülfer), usually including credit, consumption, housing and trading cooperatives. In this type of cooperative the operational unit also operates with non-members, therefore not depending solely on the frequencies with which members use its services. Members themselves may also have contracts with the executive unit's competitors. This structure can hardly be distinguished from normal market relationships, where business aspects have the highest priority. Here management usually acts only in accordance with members' interests when these comply with market needs.

### *Operational efficiency*

This term refers to the main task of the operational unit of any cooperative, that is, the strengthening of its economic position. If a cooperative does not offer attractive member-oriented services, people will see little sense in joining or remaining in a cooperative. Social objectives can usually



only be effectively pursued if the cooperative is firstly economically efficient (since the main purpose of a cooperative is not as a social club).

The following aspects should be treated in detail in the annual report:

- the development of turnover
- productivity and yields
- cost coverage of activities/divisions
- factors influencing the production of services
- the general market situation and
- all further factors which influence the efficiency of the cooperative enterprise.

The annual report should be supplemented with a promotional report covering such basic areas as:

- service utilisation by members
- member-capital development
- member participation in work groups etc.

The reports must be made widely available to all members. In order to give illiterate members or those who are less familiar with business accounts, a chance to participate in meetings, a verbal summary should be given during the meeting.

All reports should be:

- clear and understandable
- complete
- accurate
- impartial

Regular meetings and the publication of newsletters or other media are other ways to keep members informed about the economic position of their organisation.

### ***Development efficiency***

This term refers to the influence which cooperative organisations have on the socio-economic situation in a community. While cooperatives should not be seen as an instrument of government policy if they are to be effective, nevertheless, their effect on development issues can influence government decisions about granting subsidies, credit programs, application of measures of capital supply or consulting and training.

The evaluation of a cooperative's contribution to the development of a community is linked to the distinctive development policy of that country, which can usually be summed up in the following structural objectives:

- improvement of health
- improvement of technical infrastructure
- improvement of production structures

These objectives are closely connected to such income goals as:

- raising of per capita income
- improving the distribution of income
- raising the income of the public sector
- obtaining foreign currency for the import of technical equipment etc.

### ***The relationship between member orientation and operational efficiency***

Ideally member goals and the aims of the operational unit of a cooperative are identical. This is, however, often not the case. Economic constraints may lead to decisions by management which do not comply with the priorities of members. Higher fees for transport services provided by a cooperative may be necessary for the economic functioning of the cooperative enterprise, but members would obviously rather pay lower prices.

Similarly, if a cooperative enterprise realises profitable businesses which do not benefit the members, or provides services through which only few members benefit, or concentrates its efforts on the interests of non-members, it may be operationally efficient, but not meeting the concerns of the members.

The special relationship between members and their cooperative however does have advantages from which both member efficiency and operational efficiency, can profit. If the operational unit of a cooperative succeeds in operating primarily on behalf of members' needs, the members will usually react by providing even more inputs in terms of resources and/or manpower. This will be a good basis for further operational success.

Ideally the information flow between ordinary members and managers is very close. Considering the fact that members are also customers there are little or no costs for advertising.

### ***The relationship between developmental and operational efficiency***

High operational efficiency does not necessarily lead to high development efficiency, because the objectives of the former are not necessarily the same as the latter.

For example, members of a farmers cooperative might want to continue with their subsistence production because marketing channels are still inadequate and prices not high enough to allow the purchase of foodstuffs and seed before the next harvest. Development policy, on the other hand, might give priority to a speedy adaptation to production for the market.

Similarly, the farmers in a cooperative might want to concentrate on raising production of crops known to them, while the aim of agrarian policy is to promote diversification. If the services of the executive unit of the cooperative are strongly oriented to the needs of members, the goals of government will not be put into practice (Dülfer 1981: 95).

## **Setting up a participatory monitoring and evaluation (PME) system**

This section deals with practical aspects concerning the setting up of a PME-system. It should be seen as a guideline to provide overall orientation. Every individual PME system, however, should be based on a thorough analysis of the conditions and potentials and adapted to the special tasks, services, interests, strategies of the particular cooperative organisation

In every cooperative there should be a structure which can ensure that effective and ultimate control remains in the hands of the members. Under most national cooperative's legislation, the members' meeting will normally be vested with certain powers to exercise on behalf of the members. These usually include the following:

- the drawing up of and subsequent changes to the by-laws
- the general policy for conducting business by the cooperative
- the election/appointment/dismissal of the Board of Directors and other boards and committees
- approval of the operational plan, the estimate of revenue, the adoption of the balance sheet, the general conduct of business and management (adapted from Hanel 1992: 92)

In most countries some system of external auditing is prescribed by law. This, however, should not replace internal control mechanisms since such reports are usually difficult to read and too infrequent to be useful for active participation by members in the control of their enterprise.

External audits also often contain insufficient information. They may confine themselves to the assessment of the economic development or, even just whether the accounts are formally correct. Usually they neither inquire whether members are indeed being promoted effectively and efficiently, nor do they consider the future prospects of the cooperative.

Any PME-system depends on the organisational structure of the cooperative. In small organisations, where there is no professional staff and the work is done exclusively by the members, there is normally no real PME-system. This does, however, not mean that no monitoring and evaluation is done. But often these activities are undertaken in a relatively unsystematic way and members call their monitoring and evaluation activities by a different name.

However, with larger multi-functional cooperative organisations with a variety of interests, well-planned and organised PME-structures need to be institutionalised.

One way of doing this without overburdening management, is to establish one or more special PME work-groups (if necessary, in very large organisations, co-ordinated by a steering group). These work groups should each concentrate upon specific aspects of the development process and, within a given set of guidelines, should deal with changes that are needed in this field. Their task is to push forward the development process agreed to by members and to make sure that operational plans for implementation are in line with member promotion. They should be able to call on management staff for background information and explanation.

If there is a steering group it should function as a co-ordinator and progress chaser, draw the findings of work groups together, motivate them to solve possible contradictory points of view and have direct access to the Board. In this case, the steering committee should include one person from each of the work groups to make communication easier and faster. The work group members should be elected or appointed by a members' meeting. At any one time (perhaps on a rotational basis) there should be somebody assigned the responsibility to report on progress to the membership in general.

None of the groups need, strictly speaking, to be representative of the entire membership. But they should be made up of people who know enough about the various key activities of the cooperative. Their standing should be such that their recommendations are taken seriously by the managers and elected leaders alike.

### ***Participants in PME***

All parties involved (or in more practical terms, representatives from all parties) need to be included as participants in PME. When it comes to deciding which members should be selected for PME purposes and receive training to be able to pursue this task effectively, the cooperative members should decide collectively who among their co-members seem best suited for this task. This would ensure that people are chosen who are accepted, trusted and considered to be qualified by their member colleagues. The criteria which qualify a person for efficient PME-activities should be discussed and agreed upon beforehand. Attention must be paid that there is no over- or under-representation of certain groups of members, for example, the less articulate. A further important criterion is that all people representing a certain member-group are self-confident enough to bring forward and defend their group interests. Sometimes problems with dominating "dictatorial" members occur, who tend to emphasise their interests, while ignoring or degrading the legitimate needs of other groups.

However no one should be forced into PME activities, participation in PME groups should be voluntary.

In some cooperatives the members contribute to the costs of training the persons they have selected from their own financial resources. The selection of members to be trained in monitoring and evaluation techniques then becomes an investment decision, and the expectation is that the result of the PME would be transparent information.

Since the cost of a PME exercise increases the more people are involved, it will need to be decided what scale of exercise is needed and whether the necessary skills and expertise are already available within the cooperative or if outside help is needed.

Especially in bigger cooperatives there is often initially substantial participation of outsiders in PME-groups. Whether the cooperative members succeed in taking charge for the process when there is significant outsider participation, depends a lot on the attitudes and behaviour of the outside trainers or facilitators.

It is fundamentally important that the members who form a PME-group within their cooperative consider themselves to be a real team. In teamwork the following aspects have to be followed:

- each person should understand the problem or task and its relevance for cooperative efficiency
- each person needs to understand how to contribute towards the solution of the problem or task
- each person should be aware of the potentials of the contributions made by the other team members
- teams that work together cooperatively are likely to be more effective than those that do not (DSE 1994: 113)

## PME methods and techniques

The methods used to practice PME do not come naturally, they must be learned. As a general rule the approach should be that all participants (and the trainer(s) in cases where external aid is necessary) aim at developing practical methods and actions to be undertaken together.

Formal monitoring and evaluation methods such as cost-benefit analysis (CBA) can be used for evaluation of quantifiable facts, where a comparison between values planned and those obtained is relatively easy. However, quantitative improvements also lead to social impacts. The pros and cons of such impacts cannot easily be assessed using such business analysis tools. The quality of training courses, or member satisfaction with cooperative services for example, cannot be simply expressed financially.

A widely used PME method is the semi-structured interview. Contrary to formal interviews, which generally use pre-established questionnaires, the semi-structured interview starts off with a “checklist” of issues that the interviewer wishes to address. Some people prefer to have quite detailed checklists, so that they do not forget what they want to ask; others feel comfortable noting only very broad outlines and then formulating the questions as they go along. Interviewers have to be careful to leave enough room to pursue any relevant subjects that are brought up by the members interviewed.

In the agricultural context another useful method is, for example, the ‘participative walk about’ (see above) where members discuss issues of importance to them whilst walking together with the evaluator through their local area. Other methods of collecting evaluation information include letters to the editor in cooperative magazines and complaints/suggestions boxes or grievance reports.

The evaluation methods to be used will to some extent depend on the goals or objectives.

The objectives help define which information is needed. If objectives are clearly defined they help orient monitoring and evaluation processes and make it more likely that useful results will be obtained.

It may help to think of PME procedures as a sort of research work which can be compared to a kind of puzzle. Each time a piece of information is collected, another piece of the puzzle is obtained. The objectives are like the frame or the border of the puzzle. It is necessary to collect information that will fit inside the borders which have been established by the objectives.

There are two dangers in setting objectives that can be illustrated by this example. The first danger is setting objectives that are too broad. In this case the frame is large. Even if a lot of information is collected, it is likely to be scattered, with one piece here and one piece there. In the long run there will be so many blank areas remaining that it will be hard to make any sense of the picture and to see the significance of the information collected. At the other extreme there is the danger of setting objectives that are too narrow. In this case the frame is very small and while it is easy to get enough information to fill in the whole frame, the picture may be too small to make much sense, though, and the most interesting information may fall outside the frame (adapted from FAO 1994a: 14).

## Objectives

Any situation or state to be reached by means of activity aimed consciously at bringing it about through the use of resources counts as an objective (Dülfer 1981: 73).

From what has been said so far it can be seen that profit is only one objective. Other objectives such as food security, water-rights, protection of natural resources etc., may assume a higher value for members than maximising profits.

In the context of cooperative organisations one usually distinguishes between 'material' and 'formal' objectives. **Material objectives** are production results which can be measured on the basis of definite units (number of items, tons or cubic meters of produce etc.). **Formal objectives** denote states only indirectly measurable, for example members' satisfaction with the services provided by their cooperative. Special indicators are needed to assess their progress or development.

A further distinction must be made with regard to objectives. When two objectives are related to each other in such a way that achieving one also helps achieve the other, they are called **complementary objectives**. Cooperative effectiveness is strengthened when operational aims comply with member goals. In the opposite case, where achieving one objective prevents or hinders the achievement of another, these are called **competing objectives**. It goes without saying that cooperatives should always try to concentrate on activities which are based on complementary objectives.

There may be several different sets of objectives connected within a cooperative:

- the individual objectives of each member
- the objectives of the cooperative group and/or sub-groups
- the operational objectives of the operational unit
- the personal objectives of the manager
- the objectives of employees and workers (Dülfer 1981: 89).

## Identifying objectives

Directly asking members about their needs, wishes and objectives and what they see as the objectives of the cooperative is usually the first step to arrive at a clear picture of the existing range of objectives.

Group objectives are arrived at through a variety of methods, including vision building, SWOT analysis (Strengths, Weaknesses, Opportunities and Threats), Log frame analysis and brainstorming.

First, individual goals should be ranked in order of priority. Working in subgroups, group-members should then combine the goals to arrive at a list of group objectives. They should then prioritise them according to their importance and/or urgency.

Such exercises however, do not always reveal the needs and objectives of the members of the cooperatives and scenario or vision building exercises can be useful where people do not have a clear idea of their goals and objectives. If, despite this no clear objectives are articulated, there may be reasons which are preventing members from giving their ideas or freely discussing their wishes.

Social taboos, the relationship between interviewer and the person interviewed, interviewing techniques etc. can all affect the results of goal investigations. Underlying expectations which the individual member attaches to his or her participation in the cooperative organisation, can sometimes be detected through discussion of weaknesses or threats in the cooperative.

## Indicators

Indicators - generally speaking - are the standards against which to measure change. In the context of cooperative enterprises indicators are those variables which are used as tools for monitoring and evaluation. They provide a standard against which to measure, assess or show progress or negative developments.

The choice of an indicator depends on the nature of the objective and the kind of evaluation. If increased agricultural production was the main goal of a farmers' cooperative then the yields per hectare or production per unit are suitable indicators. In pre-feasibility evaluations it is possible to state such expected impacts which can be:

- illustrated by concrete examples
- observed
- described or even quantified.

Normally it is relatively easy to find economic indicators to measure economic growth. Some examples of typical economic indicators are given below:

objective	indicator
mechanisation	number of new machinery
economic improvement	increased income levels
less poverty	number above/below poverty line

Social change and its impact also need to be monitored and evaluated. Social indicators are thus needed to measure such change. Satisfaction of members with their cooperative services is often not as easily quantifiable as economic factors. Indicators which are needed in such cases are not as clear cut as economic indicator. In the examples below, the indicators are of limited value in measuring progress toward the stated objectives:

<u>objective</u>	<u>indicator</u>
better flow of information	attendance at meetings, open criticism within cooperative.
gender equality	proportion of women in educational programs
improved training of members	number of participants in training courses

The given indicators raise the question as to whether qualitative results can be measured with quantitative instruments. The number of participants does not say anything about the quality of training measures, or whether the training received is applied. It may be that members participate in courses because they feel that they should do so in order to avoid trouble, or they might fear disadvantages if they do not.

This is in line with experiences in different countries, where the constant number of members of cooperatives were interpreted as an indicator of members' satisfaction with their cooperative services. This proved to be false. Many quite dissatisfied members stayed in the cooperative due to lack of alternatives.

As a general rule we can say that indicators have to be:

- valid
- reliable
- relevant
- sensitive
- specific
- cost-effective
- timely

The following example gives an insight into the complexity of finding adequate indicators for social objectives:

A cotton marketing cooperative in an East African country is supposed to be serviced by a European sponsor in the context of bilateral collaboration, through a project of the order of 50,000 dollars. The initial situation is characterised by the following features: there are 100 members in the cooperative. The area sown with cotton amounts to 1 ha per member. Cultivation methods are traditional, i.e., with simple hand-tools and without irrigation. The yield amounts to 500 kg per ha per year. The cooperative has no warehouse at its disposal, with the result that there is a loss (due to theft, insects, bad weather, etc.) of 20% of the cotton harvested. Usually they are able to realise an annual surplus of 30,000 dollars.

The following alternative proposals are to be evaluated in order to decide which project should be given priority:

- the purchase of two tractors
- the building of a storehouse
- the construction of an irrigation system

(example taken from Dülfer 1981: 36).

Evaluation of the proposals cannot be made solely on grounds of profitability. The members of the cooperative would also need to discuss the qualitative changes which would be brought about by the different projects, for example, the social impact of using common tractors, access to the storehouse, long-term impacts of irrigation-cultivation, responsibilities for maintenance of irrigation facilities etc. Comparing the three proposals means comparing the likely social as well as the technical and economic impact. Deciding what can be measured and used as indicators of change from the current situation to the situation after introduction of the three proposals can be a difficult process.

Involving as many members as possible in deciding what will be used as indicators of progress towards social objectives can help with member identification with the goals and motivation toward achieving them.

Some groups begin selection of indicators by brainstorming (see training methods).

Such a procedure can be time-consuming, as all participatory measures are, but the result will be a thorough discussion and agreement between members. Also, the more members become used to these methods, the quicker and more efficiently they can use them.

### ***Organising the collection of data***

After the evaluation committee or PME-group has been established and the objectives and indicators are decided upon the next steps consist of:

- deciding which information needs to be gathered
- deciding on the techniques of data collection
- assessing available skills and resources
- assigning tasks in data collection
- providing for resources which are not at hand
- establishing a time frame (taking into consideration such influencing factors as seasonal constraints, religious holidays, evaluation date etc.)
- deciding with whom or where to start (preferably people with whom there is an easy-going relationship)

An efficient means for the collection of current data is to develop a task monitoring sheet, which should include specific tasks and deadlines for the groups to maintain.

### ***Data Analysis***

After collection, the information has to be measured against the indicators.

A practical way to do this may be to begin organising the collected information by objectives. It helps to take several large sheets of paper and write each objective on the top of a sheet.

Another sheet can be used to note any contradictions or omissions in the data that are noticed.

On completion, the whole group should discuss the most important findings under each objective.

### ***Distributing the findings***

The most common form of data distribution is the written presentation in reports, which should also be summarised during meetings. The annual report, the promotion report, reports of evaluation or other work groups, should provide a clear picture of the current situation of the cooperative.





# **MODULE 8**

# **ACCOUNTING**



# Module 8: ACCOUNTING

## Introduction



This module will discuss accounting as a function of a cooperative. The module is intended for managers of cooperatives, who do not need to be accountants, but whose understanding of the accounting function is vital for allocating resources and organizing it. Managers may not need to produce a balance sheet but they do need to appreciate that accounting requires resources and will produce information that is valuable for the organization and its management.

## Objectives of the section



By the end of the module, participants will be able to

- Discuss the main reasons for accounting.
- Setup the accounting function of the cooperative.
- Know what the accountant does and what information can be produced in accounting.

## Key learning points



- Accounting – is it worth the effort?
- What is done in accounting?
- Setting up the system - should we get a computer?
- Controls – do we keep our valuables intact?
- Management information – can we improve our business?
- Do the members need to know?

## Teaching strategy

- I. Introduce terms below and ask participants to rank what type of information they would like to know about the business of the cooperative.

### Profitability

Is the cooperative successful in its activities or is the effort useless?



# Reference information

## I. Why keep accounts?

Members elect the Board of an emerging farmers' group or cooperative normally from their representatives, who are also farmers and not professional business managers. The Board members may not know their responsibilities or how to read and use the accounting reports in decision making. The Board may not appreciate the entire function, but may see it only as a requirement of the government and therefore may not want to spend money to set up the function. Why do firms and cooperatives have accounting and record keeping? Is it necessary? What are the reasons for it?

### **Reason I: "Handling other people's money" requires trust**

All the members own **together** the property of the cooperative (its buildings, machinery, vehicles, furniture, stocks, money in the bank account, etc.) No member can **alone** claim to be the owner of the property of the cooperative. Therefore, the cooperative business, like any other organization that handles "other people's money", has to be managed according to specific rules and decisions that members together have agreed to.

Members invest their money in the cooperative, but do not do so lightheartedly. They do not want to lose their money, but are worried that their money will be lost. All the members, however, cannot be involved in the day-to-day supervision and control of the use of their money in the business of the cooperative. The members, therefore, elect some of the trusted members to a Board as their representatives to handle their money properly.

All organizations such as banks and large corporations, which handle "other people's money," need to be very careful not to lose it. They need to convince their members/shareholders that their money is intact. Short of this, rumours may spread among the membership indicating that something is wrong and the end result is very often a drastic fall in trust towards the management and its downfall either by dismissal or bankruptcy of the organization.

Members need to be sure that their money is safe in the cooperative's hands and not lost.



It is the duty of the Board to provide convincing evidence that the members' money is intact in the cooperative.

**Question 1**

How can the board and management **convince members** that it has handled their money well?

**Answer**

By truthful and timely reporting of the facts.

**Question 2**

How will the board and management make sure that the money in the business of the cooperative is not lost?

**Answer**

By monitoring the money and other property in the business and producing true reports.

**Question 3**

How can the board and management produce and report these facts?

**Answer**

By organizing the recording and keeping books of the money and other property of the cooperative and producing reports based on the recorded evidence (true facts). These records and reports need to be inspected by an independent party (auditor), who gives a statement that the records and reports are true.

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**Reason 2 : Members give their mandate to the Board, but require accountability**

*The budget is a mandate of the Board to manage the cooperative.*

All members cannot personally be involved in the management decisionmaking of the cooperative. Members elect only a few of their trusted leaders to the Board to manage the business of the cooperative. Members do not, however, give a free hand to the Board to manage the cooperative as they wish. Members need to know in advance how the cooperative will be managed. For this purpose, the Board presents a proposal for the annual budget to the members at an Annual General Meeting. Members must vote to approve or reject the budget proposal of the Board. If members approve it, they have at the same time given the Board a mandate to manage the business on behalf of the members according to the approved budget.

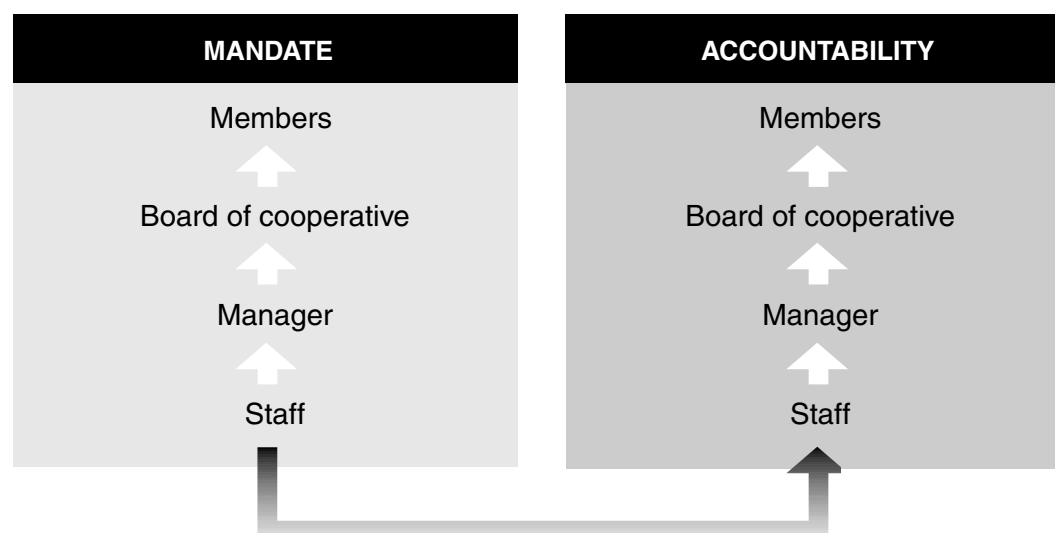
*The Board delegates duties to the manager and staff.*

In most cases, the Board will not be involved in the day-to-day decision making of the business of the cooperative, but will delegate some of its powers in an agreed way (performance standards and job description) to a professional manager. The manager may have powers to hire staff to operate the various functions of the cooperative in an agreed way (performance standards and job description). When powers are delegated, there must be management control to make sure that the delegated powers have been used in accordance with the mandate given. If this is not done, the superior will lose his/her management authority and the subordinate will act according to his/her own will. The employed member of the staff is responsible (accountable) to the manager to show that he/she has done the work properly. The manager is accountable to the Board to show that he/she has managed the cooperative properly, according to the mandate given.

At the end of the financial year or more frequently, the Board is accountable (responsible) to show to the members that it has managed the affairs of the cooperative according to the mandate given. This can only be done by showing what the actual result of the cooperative is at the end of the year compared to

the budget. After the Board has given its Annual Report (accounting to the members), the members will discuss and vote whether the Board's management can be accepted.

### Illustration of the relationship between mandate and accountability



#### Reason 3: Board needs information to manage the cooperative

The Board cannot delegate all the decision-making powers to the manager and just sit back and relax until the end of the year expecting that the cooperative will be managed properly. The Board needs **be in control** and make sure that:

- the cooperative operates according to the Board's guidelines; and
- progress of economic activities is in line with annual budgeted result.

Management control is continuous work and does not take place only at the end of the year. The most reliable method of receiving true information for management control is from accounting, where all the important financial information of the business is recorded continuously.

Payment authorization by the Board is an important day-to-day activity and an important financial control, by which a selected Board member approves all payments made by the cooperative. The main reason for the control of payments is to make sure that the manager and staff have acted within their powers.

Month-end controls by the Board include the verification of the property of the cooperative, especially cash and stocks to ascertain that true values are given in the financial reports.

Accounting is a management information system, which can provide the actual results of the business and compare it to the budget (Board's mandate). The Board will have monthly and/or quarterly meetings to discuss the progress of business activities, where the accountant or manager will present the results of the period and the Board will:

- Discuss and evaluate progress compared with the budget to ascertain if the year-end result, which was promised to the members (mandate), can be reached.
- Plan and decide on corrective action if progress is not as desired. If loss is expected, plans need to be made for the business income to increase or otherwise costs have to be reduced.
- The Board will make important decisions in its meetings to correct the course of business and steer the organization in the right direction. Minutes of the meetings will hold a record of the financial results and decisions made by the Board for implementation by the manager and staff of the cooperative.

#### **Reason 4: The law requires the Board to provide proper information to members**

Transparency means adequate and truthful disclosure of information of the business and financial status of the cooperative, which can be understood by the member-owners. All members of the cooperative have the right to know what has been done with their joint property and if it has been well managed or misused.

Unfortunately, member-owners of cooperatives in many cases do not know their rights and are often at the mercy of bad managers and dishonest Boards that do not provide adequate and true information of the business results. Annual reports may be delayed and mismanagement may be hidden behind complicated wording or accounts jargon. Written reports may not be provided to the members, but read aloud in big meetings in a language not well understood by the members. Member education and training of Board members and managers is needed to create awareness so that information is provided to the members in a proper way:

- Members must know their rights to discipline a Board that does not honour members' rights for accountability and transparency and remove it from office. Members can reward a Board that manages its duties well by payment of a honorarium at the end of the year, if there is a surplus.
- The Board must understand its responsibility to manage the members' joint property well and to provide transparent information about its management.

In most countries, the Cooperative Act governs the business of cooperatives, protects the rights of the members and sets the basic requirements for the cooperative accounting function. According to the law, a registered cooperative must keep proper books of its business transactions. The Act normally states that the Board is responsible within a specified time to produce truthful (audited) evidence to the members of the way it has managed the cooperative. There is no other legal way to explain how the members' property has been used than to maintain proper books of accounts of the business and property of the cooperative.

## **II. How to set up accounting?**

It is the duty of the Board to provide enough resources for accounting to function properly in a cooperative. The Board can evaluate and decide between several alternatives for these arrangements depending on the size of the cooperative, information needed from accounting and the legal requirements in the country.



## A. Facilities for accounting have to be provided

The Board needs to provide the **basic tools and facilities in full** for the work. To obtain good performance from the accounting function, the Board must ensure that:

- the cooperative has appointed a bookkeeper with a clear job description so that the bookkeeper knows who will provide the basic documents to him/her for processing and what is expected of the bookkeepers' work;
- the bookkeeper has been trained to provide the expected result;
- a fair compensation is paid for bookkeeping work;
- all the required facilities (calculator, proper stationery, desk, chair, files) are available in the office of the cooperative;
- the bookkeeper/accountant is not alone responsible for good accounting. It is the duty of the Board to ensure that work in the organization is planned so that the bookkeeper will receive all required documents and information of the business transactions;
- the work of the bookkeeper/accountant is supervised and the management will ensure that the bookkeeper provides the required reports timely.

Anything short of the above will frustrate both the accountant and ultimately the Board, because the required work is not done.

### Choice of an accountant

The cooperative has several choices in the appointment of an accountant:

- Professional accountant, full time or part time
- Own employee, trained accountant, full time or part time
- Accounting by a service bureau or a cooperative union bookkeeping section

A full time trained professional accountant working in the office of the cooperative will provide the best quality results under the Board's supervision. A decision to employ such an accountant will depend on the volume of work and resources available and is the recommended solution for cooperatives with many activities and a large volume of transactions.

If there are only a few transactions and limited resources, start-up businesses may consider appointing a professional accountant to work for the cooperative part time. Such persons can be schoolteachers in the area, or an accountant at the local telephone department or government office, who can be paid to do the bookkeeping work of the cooperative. If such a person cannot be found, the cooperative should have a person trained to become a full time or part time accountant. Assistance can normally be sought from the Cooperative Development Department of the government for such training.

An option to be considered is also to have the work done by a professional accounting bureau in town; or the cooperative union may provide such accounting service to its member cooperatives. In most cases, professional accounting bureaus use computers and may provide good accounting reports at an affordable cost.

In all cases, it is important to agree that the accountant<sup>1</sup> is available at Board meetings to explain the financial reports in detail to the Board and to provide advice on financial matters.

<sup>1</sup> Bookkeeping and accountant/accounting are used to mean the same thing, a person who keeps the books and prepares the financial reports from accounting.

## B. Vouchers are evidence

### A voucher for each transaction

The first principle is that **no money is received or spent without written evidence on paper (voucher)**. A voucher is the evidence of a business transaction, purchase of goods, selling of goods or services, banking of money and withdrawal of money from the bank. If all the vouchers are not available, it is difficult to keep even the simplest records of income and expenses.

Vouchers are evidence that the **transactions are true and correct**.  
They are the basis for accounting reports.

### Income voucher

An income voucher will explain when and who paid the money and why the money was received. This stationery can be specially printed for the cooperative, which is expensive, or bought from a bookstore. To save money, the name of the cooperative can be written or stamped on the voucher.

Tombo Farmers' Cooperative Ltd  
P.O. Box 2364, Malakela  
Tel. 051-1485

Cash Receipt No. 5682      Date 20.04.2000

Received from *Charles Banda*  
The sum of dollar *Ten Only*  
In payment of *Share contributions - One share*

CASH / CHEQUE  
NO  
Received by  
*Toba Mikakwela*

\$ 100

### Payment voucher

A payment voucher will explain when and to whom the money was paid and why. It must be written for each payment made. Attach all supporting documents to the voucher by stapling.

Tombo Farmers' Cooperative Ltd  
P.O. Box 2364, Malakela  
Tel. 051-1485

Payment voucher No. 82      Date 21.04.2000

Paid to *Watrac Transport*  
The sum of dollar *Four Thousand Eight Hundred Only*  
In payment of *Transport of shop goods from Katsimba*

CASH / CHEQUE  
NO 0077  
Payment authorized by  
*Toba Mikakwela*

S 4 800=

### **Other vouchers**

There may be cases when no voucher is obtained; for example, in the banking of money, when the bank enters the deposited amount in a passbook. In such cases, the treasurer will prepare a voucher referring to the passbook, where further evidence of the deposit is given.

### **Board's control of payments**

Payment authorization is an important control function of the Board. The Board will select one of the Board members (and an alternate) to control payments made by the cooperative on a daily basis. This Board member inspects all the supporting documents for the payment, asks questions about the reason for the payment, confirms that the purchase is correct and genuine and that the manager and staff have acted correctly within their powers. If satisfied, the Board member approves the payment to be made and signs the cheque together with the manager. This function of the Board gives a signal to the manager and staff that the Board manages the cooperative and that the Board knows in detail the business of the cooperative. This will support the Board's management authority.

## **C. Methods of accounting**

The Board will decide how the accounts are to be managed. This depends on the resources available, appreciation and allocation of resources to accounting as a function, and access to computer facilities.

Records of the cooperative may be kept in many ways:

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<b>Simple manual recording</b>	Only for small, start-up businesses without funds to employ a trained bookkeeper. Instead, a voluntary, untrained person records the transactions.
<b>Double entry manual bookkeeping</b>	For growing businesses with a trained bookkeeper, but no access to computer.
<b>Computer accounting</b>	Recommended for all growing and well-established businesses with access to a computer and trained bookkeeper.

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A type of simple recording is presented below for groups that have no trained bookkeeper. It is necessary to secure at least a reasonable minimum standard of records from which a government officer or auditor can prepare year-end statements later. Double entry manual bookkeeping is good accounting practise even for large cooperatives, but manual accounting is becoming increasingly outdated with the introduction of affordable computers and integrated accounting packages. Computer bookkeeping is today's solution for accounting in cooperatives.

## D. Simple recording – minimum requirement

Often new cooperatives are very small and do not have much money to pay salaries and buy stationery. If the legal requirements in the country are relaxed for emerging groups, the cooperative may be allowed to operate only simple recording. Accounting should then be completed at the end of the year with the help of a government officer or an auditor. If this arrangement is possible, an honorary treasurer of the cooperative, who can read, write and do arithmetic calculations, is able to manage the work.

### How to fill in the cash and bankbook

Simple recording is daily recording of income and expenses as they occur. The bookkeeper lists the day's transactions by inserting the date, voucher number and a short explanation of the transaction the money involved in either deposit (In), or withdrawal (Out), and calculates a new balance.

### CASH AND BANKBOOK OF WABOER CONSUMER COOPERATIVE

Date	Voucher No.	Narration	Cash			Bank		
			In	Out	Balance	In	Out	Balance
1.1.00	1	Op. balance	500.00		500.00	2 000.00		2 000.00
4.1.00	2	Shop sales	325.15		825.15			
5.1.00	3	Cash to bank		400.00	425.15	400.00		2 400.00
8.1.00	4	Bought for shop					1 000.00	1 400.00
9.1.00	5	Shop sales	250.50		675.65			
9.1.00	6	Cash to bank		400.00	275.65	400.00		1 800.00

Cashbooks are available from a stationery shop. The balance column is useful because it shows the balance of available cash with the treasurer and cash at the bank every day. If you do not find a book with the above ruling, you can buy a bound ledger book and make the rulings yourself.

### Month-end procedures

At the end of the month, the Board verifies that the balances of cash and bank are true and correct in the accounts of the cooperative. This is done by:

- physically counting all the cash of the cooperative and preparing a written and signed certificate of the cash found;
- asking the bank to provide a bank statement monthly and comparing the bank balance in the books of the cooperative with the bank statement;
- if the cooperative has stocks, counting their value (at purchase prices) at the end of the month and preparing a written certificate of the true value.

Cash and stocks need to be counted at the end of the month after the close of business or the following morning before the opening of business.

By counting the value of the property of the cooperative, the Board will have:

- confirmed, in person, that the members' property is not lost and shown that the Board is actively interested in the safeguarding of the members' property;
- obtained evidence of the true value of the cooperative and information for an estimate of the surplus and loss of the cooperative for the month.

### Estimate of surplus and loss

We can make an estimate of the business result of a cooperative, which has a single activity (such as a consumer shop). We compare the value of the shop at the end of the previous month and its value at the end of the present month to know if the value has increased or decreased.

### Estimate of Waboer cooperative shop for the month of February

Property	End of February 2000	End of January 2000	Increase or decrease
Cash	200	200	0
Bank	7 200	5 250	1 950
Stocks	19 200	18 230	970
Furniture	400	500	-100
Shop building	20 000	20 000	0
<b>Total</b>	<b>47 000</b>	<b>44 180</b>	<b>2 820</b>

This report will give the Board a rough picture of its progress and show where the additional surplus money was placed at the end of the month. The total property of the shop was 47 000 at the end of February and 44 180 at the end of January, which means that the value to the shop has improved by 2 820. The breakdown of the shop value is given (in columns for end of February and end of January). The increase/decrease column will show, which property item has increased or decreased.

### III. Double entry bookkeeping

Bookkeeping (and accounting) is the recording and processing of all relevant information of the business activities of a cooperative in a systematic way to be able:

- to arrive at the financial result of the accounting period (income statement);
- to give a fair and true view of its financial standing at the end of the period (balance sheet).

Double entry accounting can record income and expenditures and report the resulting changes in the property **in one complete system**. The system control (trial balance) makes sure that the reports are as correct as possible. It is difficult to manage double entry accounting without training. Normally, the government will provide such training annually for bookkeepers of emerging cooperatives.

### A. What does the accountant do?

The accountant follows the rules of the “double entry game” in recording and calculating the result of the cooperative. Many different manual accounting systems have been invented for various types of businesses and manufacturing and preferred systems vary from one country to another.

In the following, we will learn a few rules of the game, but we will pay more attention to the overall process. The main feature in the system presented is the Record book, which holds the current month’s transactions in one book from which the balances are transferred to the ledger. The ledger holds the accumulated balances of transactions from the beginning of the year. Previous months’ balances and the current month’s account balances are added together in the ledger and balances are transferred to a worksheet for the preparation of an income statement and balance sheet.

### B. Structure of a transaction account

An account has two sides: debit (abbreviation Dr.) and credit (abbreviation Cr.). Debit is always on the left hand side of the account and credit on the right hand side. In double entry bookkeeping, one transaction always involves two or more accounts. The same amount is entered both in the debit of one account and in the credit of another account. A transaction takes place between an account which receives or gives out money and an account which gives information of the source (or reason for the transaction).

T-accounts (which are in the form of a letter T) describe the transaction account well (with its debit side on the left and the credit side on the right). T-accounts are often used in training to demonstrate double entries.

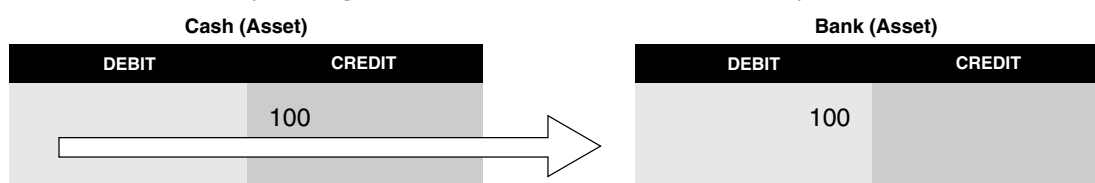
### Entering transactions in the books

Let us see by using T-accounts what the bookkeeper does to follow the rules of the game.

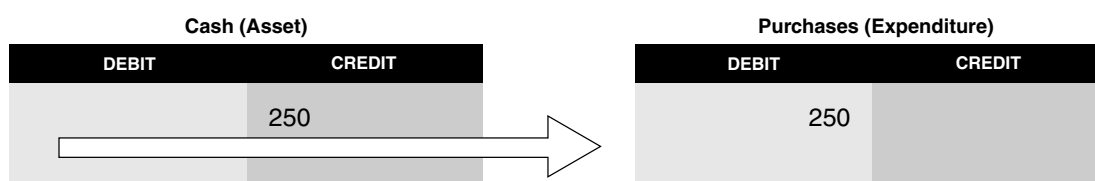
1. When member Ms Mukuruka buys \$10 worth of goods from the coop shop, this is a business transaction. The cooperative has two accounts involved in the transaction: Cash and Sales accounts. Cash account receives the money and Sales account gives the reason for the transaction. **Cash received** is always entered in the **debit** of the cash account. Sales are recorded in opposite side (credit) of the sales account.



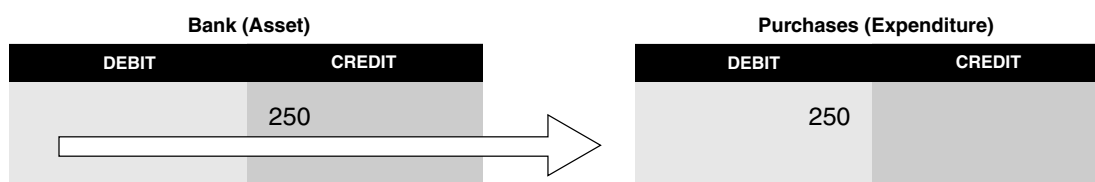
2. **Cash given out** is always recorded in the **credit** side of the cash account. If the treasurer takes \$100 in cash to the bank, it is recorded in the opposite side (debit) of the bank account (which gives the reason for the transaction).



3. If \$250 in cash is used for the purchase of goods for the shop, the **cash given out** is recorded in the **credit** side of the cash account and in the opposite side (debit) of the purchases account (which gives the reason for the transaction).



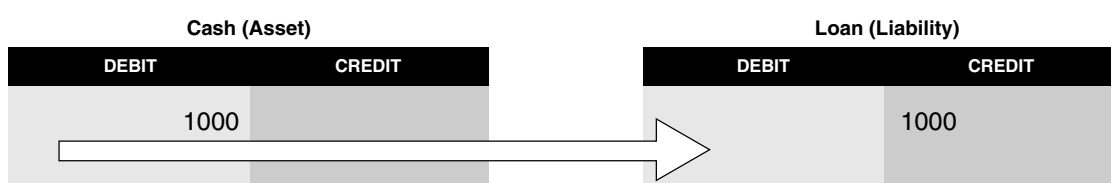
4. If \$35 in cash is used from the bank for payment of salaries of the shop, the **cash given out** is recorded in the **credit** side of the bank account and in the opposite side (debit) of the salaries account (which gives the reason for the transaction).



### Understanding money received and paid out

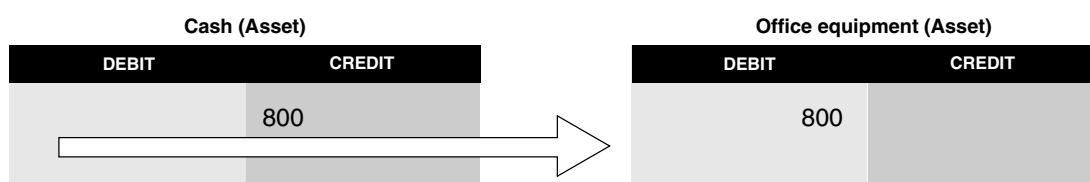
Income is money received in the business by selling goods or services. Not all **money received** is, however, income. Some monies may have to be paid back because they do not belong to the cooperative. A loan is not income but a liability. This distinction needs to be clear in accounting so that we do not accidentally distribute a wrong surplus to the members. Sales income is included in the income statement, but a loan is a liability in the balance sheet.

5. In example 1 (income), we recorded the cash where it was placed (in the cash box) and to Sales income, which was the source of the money. However, when we receive cash \$1000 as a loan from the Coop Bank, we record its source as a loan (below).



**Expenditure** is money spent (costs) incurred in the business to obtain income by selling goods or services. Not all **money paid out** from cash or bank is expenditure. Money may have also been paid out for **investments** (construction of a shop building, purchase of furniture, a computer or a vehicle), which are long-term property and not directly bought to be re-sold again in the business. Expenditure is deducted in accounting in the income statement from sales income to arrive at the surplus or loss of the business during a period (month or year). Costs for an investment are included in the assets (property) in the balance sheet.

6. In example 3 (expenditure), we recorded the cash where it came from (from the cash box) and to Purchases, which was the reason for the cost. Compare this to a situation, where we pay out cash \$800 to buy a computer. We record the paid out money in the credit side of cash (where the money came from) and the reason for the cost as an investment in the opposite side (debit) of the office equipment account.



### Individual accounts and account categories

The purpose of an individual account in bookkeeping is to collect information of one type of business transaction and summarize it. The information should be as “clean” as possible so that by looking at the title of the account, the reader knows what type of income or expenditure is collected under an individual account. For example, an expenditure account called “Water” would contain information about expenditure for water consumption only. However, this is not possible for all types of transactions in manual bookkeeping because it would result in a very large number of individual accounts. Therefore, some accounts of minor importance have to be “mixed accounts”, where information of miscellaneous transactions is collected. These may have titles such as **other** staff expenditure, **other** shop expenses, etc.

Information in the individual accounts is summarized by account category. Income accounts and expenditure accounts are presented in the income statement for the calculation of surplus or loss. Asset accounts and liability accounts are presented in the balance sheet for the calculation of the financial status.

### INCOME STATEMENT

How much and why was money received in the business from which surplus could be paid to members?

#### Income accounts

- Member sales
- Non-member sales

How much and why was money paid out? Expenditure is deducted from income before surplus can be paid to the members.

#### Expenditure accounts

- Purchases of goods for the shop
- Staff salaries
- Water and electricity
- Telephone

### BALANCE SHEET

What are the debts that the cooperative owes and who are the lenders?

#### Asset accounts

- Cash
- Bank
- Debtors
- Land and buildings
- Furniture
- Vehicles

What is the property of the cooperative? Where is it placed or invested?

#### Liability accounts

- Creditors
- Loans
- Share capital (equity)



### Bookkeeping entries according to account category

Accounts	Dr.	Cr.
Income	▲	■
Expenditure	■	▲
Assets	■	▲
Liabilities (incl. Equity)	▲	■

The above table gives the double entry rules by account category. For example, an increase of income (■) is entered in the credit of an income account and a decrease of income (▲) in the debit of the income account.

### Accounting process

The accounting process is the collecting of information of the business and measuring its periodical result and current financial situation, which involves several stages. This process is summarized below.

#### Stage 1: Opening Balances

Transfer all the closing balances of the balance sheet of the previous financial year to the ledger. Make sure that debits are equal to credits.

#### Stage 2: Transaction vouchers

Prepare a voucher for each transaction. Number them and file them in transaction number order.

#### Stage 3: Record book

Transfer opening balances of cash and bank from the ledger to the Record book. Continue by listing all transactions daily in voucher order in the Record book. Close the Record book by calculating the balances in each account.

#### Stage 4: Ledger

Transfer account balances from the Record book to the ledger at the end of the month. Calculate accumulated balances in the ledger.

#### Stage 5: Worksheet (including income statement and balance sheet)

Transfer accumulated account balances from the ledger to the worksheet. Prepare a trial balance to ensure that debits equal credits and make the necessary adjusting entries. Balance adjusted trial balance. Calculate income statement and balance sheet and determine surplus or loss using the worksheet.

#### Stage 6: Financial reports to Board and management

Transfer income statement and balance sheet from worksheet to report formats, insert budgeted results for comparison in the income statement and last year's (same period) assets and liabilities in the balance sheet for comparison and calculate variance.

## C. Record book

A multi-column analysis Record book, also called a combined cash journal, is used to enter transactions in chronological order by double entry. The Record book includes **all accounts** of the cooperative. Record books available in stationery shops may contain up to 27 columns, which is sufficient to establish a large number of accounts.

A main advantage of the Record book is that all entries of the month are recorded in one book, which is then easy to balance. A disadvantage is that the Record book, which consists of many columns, may be wide and difficult to handle. Entering many small expense vouchers separately in the book will waste stationery. Waste of space can be minimized by preparing summary vouchers of small repetitive expenses incurred. For example, when seven Board members receive a transport allowance of \$2.50 to come to a meeting, it is not necessary to enter seven times \$2.50 below each other in the Record book. Using all the payment vouchers as supporting documents, a summary voucher for  $7 \times \$2.50 = \$17.50$  may be prepared and entered only once in the Record book.

### Which accounts should be established in the Record book?

The chart of accounts (list of all accounts used) should be designed so that information collected by the accounts is relevant to management decision making and financial control. The main accounts such as cash and bank, member and non-member sales, and purchases should be clean (only one type of transaction entered). Information of minor interest can be collected in mixed accounts such as “other shop expenses”. Columns should be established for the main accounts and, if space allows, for some of the minor accounts, while accounts with only one or two entries per month can be established under the sundry accounts column.

How many main accounts are maintained will depend on the activities of the organization, which will also determine the bookkeeping system to be used. When the cooperative grows to having major business activities, which need to be accounted for in detail, it is time to consider computer accounting. Wasaku Farmers’ Cooperative, in the example below, has three activities: a shop for re-sale of consumer goods and farm inputs, seasonal produce (maize) marketing and an administration activity. The chart of accounts is shown below.

### Chart of accounts of Wasaku Farmers’ Cooperative

#### INCOME STATEMENT

Expenditure accounts	Income accounts
<b>Shop</b>	<b>Shop</b>
<ul style="list-style-type: none"> <li>● Purchases</li> <li>● Other purchase cost</li> <li>● Staff expenses</li> <li>● Other expenses</li> </ul>	<ul style="list-style-type: none"> <li>● Member sales</li> <li>● Non-member sales</li> </ul>
<b>Produce marketing</b>	<b>Produce marketing</b>
<ul style="list-style-type: none"> <li>● Maize buying</li> <li>● Other expenses</li> </ul>	<ul style="list-style-type: none"> <li>● Maize sales</li> </ul>
<b>Administration</b>	<b>Administration</b>
Other expenditure	<ul style="list-style-type: none"> <li>● Entrance fees</li> </ul>

## BALANCE SHEET

Asset accounts	Liability accounts
<input type="checkbox"/> Cash	<input type="checkbox"/> Creditors
<input type="checkbox"/> Bank	<input type="checkbox"/> Loans
<input type="checkbox"/> Debtors	<input type="checkbox"/> Share capital (equity)
<input type="checkbox"/> Stock of shop	
<input type="checkbox"/> Fixed assets	

### Opening of the Record book

Transfer closing balances of **cash and bank** of the previous accounting period from the ledger to the Record book in their respective columns as opening balances of the current month. All other accounts have a zero opening balance at the beginning of the month.

### Transactions

1. Each entry in the Record book will refer to a primary document (voucher). Issue a running number to each of the primary documents (by writing the number on the document with a marker pen). Running numbers are given to the vouchers in the same chronological order as they are entered into the Record book. The running numbers start from 1 and continue in consecutive order until the last voucher entered.
2. File the primary documents in the running number order into a box file.
3. Insert all available relevant documents of the month's bookkeeping in the same file such as bank statements, notes to adjusting entries, worksheets, copies of income statement and balance sheet, etc. Separate the documents by accounting periods (months) in the file by dividers.

The **current month's transactions** are processed in the Record book.

All transactions are entered according to the double entry system i.e. the same amount is entered both into the debit side of one account and into the credit side of another account. Although all accounts have both the debit and credit columns, due to practical purposes of saving space, most accounts in the Record book are presented with only one column. In this case, the column used is the most commonly used side (either debit or credit) of the account.

- Cash and bank accounts have both a debit and a credit column.
- For income accounts, the credit column (increase of income) is shown.
- For expenditure accounts, the debit column (increase of expenditure) is shown.
- If there are vacant columns, some additional asset and liability accounts may be included.
- All accounts, which do not fit into the columns are entered into sundry accounts, which is presented with both debit and credit columns.

### Uncommon entry

An example of an uncommon transaction is a return of goods sold and a refund of the sales value to the customer. This is entered as a credit in the cash account and debit into the sales account. As the sales account is presented in the Record book only with a credit column, the refund is marked as minus e.g. -500 or by using brackets (500) = minus 500 into the sales account and deducted from the addition in the total of the column.

### Monthly closing of the Record book

The Record book is closed monthly. Calculate totals of all columns and prepare a debit-credit check (example below). Cash and bank accounts are closed differently from all other accounts, because opening balances were brought in from the previous period to help in day-to-day follow-up of cash and bank balances. These opening balances of cash and bank have to be deducted from the account totals to be able to transfer only the transactions of the month to the respective account in the ledger.

### Debit-credit check

Confirm that debits and credit inserted as double entry in the Record book agree as below.

<b>DEBIT-CREDIT CHECK</b>		
<b>April, 2000 Account</b>	<b>Dr.</b>	<b>Cr.</b>
Cash	48 724.60	45 726.50
Bank	18 000.00	12 960.60
Shop: member sales		25 006.25
Shop: Non-member sales		12 250.10
Shop: Purchases	35 222.50	
Shop: Other purchase costs	785.00	
Shop: Staff expenses	1 825.00	
Shop: Other shop expenses	562.50	
Maize: Sales		6 250.00
Maize: Buying	5 000.00	
Maize: Other costs	550.00	
Administration: Entrance fees		1 000.00
Administration: Other costs	723.85	
Sundry accounts: Wasagra	1 000.00	
Sundry accounts: Mr Ruka		5 000.00
Sundry accounts: Washi FC	2 800.00	
Sundry accounts: Share capital		7 000.00
<b>Total</b>	<b>115 193.45</b>	<b>115 193.45</b>

After confirming the correctness of entries by debit-credit check, transfer the totals to the respective ledger accounts. Entries to sundry accounts in the Record book are transferred individually to the ledger accounts.

### D. Ledger

The ledger is normally a bound book or a loose leaf card ledger, where a separate page is given for each account in the bookkeeping system of the cooperative. Each ledger account is numbered and named. Establish the ledger accounts in the same order as the chart of accounts starting with income and expenditure accounts for activity 1, then activity 2 and so on followed by asset accounts and liability accounts as the last section of the ledger. This will assist in transferring the balances later in a logical order to the worksheet.

The principal purpose of a ledger is to record the month-end balances of each account from the Record book and assist in the calculation of the accumulated balances of the accounts.

RECORD BOOK																			
Wasaku Farmers Cooperative Ltd		Voucher number	Cash		Bank		Member sales	Nonmem sales	Pur- chases	Other pur- chase cost	Shop staff expenses	Other shop expenses	Maize sales	Maize buying	Maize other cost	Adm. Entr. fee	Adm. Oth.co- st	Sundry accounts	
April 2000	Details of transaction		Dr.	Cr.	Dr.	Cr.	Cr.	Cr.	Dr.	Dr.	Dr.	Dr.	Cr.	Dr.	Dr.	Cr.	Dr.	Dr.	Cr.
1.4	Opening balance	b/f	3 199.40		11 853.20														
1.4	Purchase of goods for stores	1		1 500.50				1 500.50											
3.4	Committee transport	2		63.25													63.25		
3.4	Share capital contribution	3		7 000.00														Share capital	7 000.00
4.4	Administration staff uniform	4				146.15											146.15		
5.4	Bank charges	5				25.45											25.45		
6.4	Cash to bank	6		3 000.00		3 000.00													
8.4	Cash sales (1-8/4/00)	7		5 981.55			4 480.70										1 500.85		
8.4	Purchase of inventory for stores	8						12 000.00											
8.4	Transport of inventory from Wakati	9		727.00					727.00										
8.4	Subsistence allowance to buyer	10		58.00					58.00										
10.4	Cash sales (9/4/00)	11		4 283.65			3 083.00										1 200.65		
10.4	Paid creditor Wasagra	12		1 000.00														1 000.00	Wasagra
10.4	Returned purchases	13		10.00				-10.00											
12.4	Telephone expenses	14				420.00					420.00								
12.4	Stationery	15				142.50					142.50								
12.4	Credit purchase of goods for stores	16						5 000.00										M/- Ruka	5,000.00
12.4	Returned sales	17		8.25			-8.25												
12.4	Credit sale to Washi FC	18																2 800.00	Washi FC
16.4	Social security contribution	19		150.80						150.80									
23.4	Cash sales (1-5-23/04/00)	20		12 325.50			8 250.30										4 075.20		
23.4	Purchase of goods for stores	21			16 732.00			16 732.00											
25.4	Purchase of maize from members	22			5 000.00								5 000.00						
26.4	Maize sales	23		6 250.00								6 250.00							
26.4	Transport of maize to buyer	24			500.00								500.00						
26.4	Maize: watchmen's salary	25			50.00								50.00						
30.4	Members meeting expenses	26			120.00													120.00	
30.4	Entrance fees 10 new members	27		1 000.00												1 000.00			
30.4	Repairs to office building	28				389.00												389.00	
30.4	Cash sales (24-30/04/00)	29		11 873.90			9 200.50										2 673.40		
30.4	Cash sales (24-30/04/00)	30			1 674.20														
30.4	Salaries of shop attendants	30			15 000.00														
30.4	Cash to bank	31		15 000.00															
30.4	less cash/bank opening balances	-		-3 199.40		-11 853.20													
c/f	Totals to ledger		48 724.60	45 726.50	18 000.00	12 960.60	25 000.25	12 250.10	35 222.50	785.00	1 825.00	562.50	6 250.00	5 000.00	550.00	1 000.00	723.95	3 800.00	12 000.00
	ledger account no.		20	20	21	21	1	2	3	4	5	6	7	8	9	10	11		

The ledger maintains the monthly balances of all accounts **from the beginning of the year.**

### Opening of the ledger

In the beginning of the year, all account balances from the previous year's balance sheet are entered as opening balances in the respective accounts in the ledger.

### Transactions

At month-end, all monthly totals (both debit and credit columns) of each account in the Record book are entered into the respective ledger account. A reference is made in the Record book to the account number in the ledger to which the amount is transferred. In the ledger account, a reference is made to the location of the respective amount in the Record book.

### Month-end procedures

Calculate accumulated balances for each account and transfer them from the ledger to the worksheet.

Example: Some ledger accounts of WASAKU FARMERS' COOPERATIVE

Account Name: Shop-Member sales					
	Description	Ref. No.	Dr	Cr	Balance
30.4.2000	From Record book	1		25 006.25	-25 006.25

Ledger Acc. No. 2		Account Name: Non-member sales			
	Description	Ref. No.	Dr	Cr	Balance
30.4.2000	From Record book	1		12 250.10	-12 250.10

Ledger Acc. No. 3		Account Name: Shop-Purchases			
	Description	Ref. No.	Dr	Cr	Balance
	From Record book	1	35 222.50		35 222.50

Ledger Acc. No. 4		Account Name: Shop-Other purchase cost			
Date	Description	Ref. No.	Dr	Cr	Balance
30.4.2000	From Record book	1	785.00		785.00

Ledger Acc. <b>No. 5</b>		Account Name: Shop-Staff expenses			
Date	Description	Ref. No.	Dr	Cr	Balance
30.4.2000	From Record book	1	1 825.00		1 825.00

Ledger Acc. <b>No. 6</b>		Account Name: Shop-Other expenses			
Date	Description	Ref. No.	Dr	Cr	Balance
30.4.2000	From Record book	1	562.50		562.50

Ledger Acc. <b>No. 20</b>		Account Name: Shop-Other expenses			
	Description	Ref. No.	Dr	Cr	Balance
1.4.2000	Opening balance	b/f	3 199.40		3 199.40
30.4.2000	From Record book	1	48 724.60	45 726.50	6 197.50

Ledger Acc. <b>No. 21</b>		Account Name: <b>Bank</b>			
Date	Description	Ref. No.	Dr	Cr	Balance
1.4.2000	Opening balance	b/f	11 853.20		11 853.20
30.4.2000	From Record book	1	18 000.00	12 960.60	16 892.60

	Description	Ref. No.	Dr	Cr	Balance
1.4.2000	Opening balance	b/f	37 262.10		37 262.10

Date	Description	Ref. No.	Dr	Cr	Balance
1.4.2000	Opening balance	b/f	19 435.50		19 435.50

	Description	Ref. No.	Dr	Cr	Balance
1.4.2000	Opening balance	b/f	2 800.00		2 800.00

	Description	Ref. No.	Dr	Cr	Balance
1.4.2000	Opening balance	b/f	20 000.00		20 000.00

Account Name: Creditors/Wasagra					
	Description	Ref. No.	Dr	Cr	Balance
1.4.2000	Opening balance	b/f		25 750.20	-25 750.20
30.4.2000	From Record book	1	1 000.00		-24 750.20

Ledger Acc. No. 51		Account Name: Creditors/Mr Ruka			
Date	Description	Ref. No.	Dr	Cr	Balance
30.4.2000	From Record book	1		5 000.00	-5 000.00

Account Name: Share capital					
	Description	Ref. No.	Dr	Cr	Balance
	Opening balance	b/f		66 000.00	-66 000.00
	From Record book	1		7 000.00	-73 000.00

## E. Worksheet including trial balance

A worksheet is a tool for the closing of the books of the cooperative. It includes columns for trial balance, adjustments, and adjusted trial balance and allows for an easy calculation of the income statement as well as the balance sheet. It is advisable to start by listing the income accounts followed by expenditure accounts (in the same order as in the income and expenditure statement), continued by asset accounts and listing of liability accounts last (as in the balance sheet). This will make the calculations and understanding of the worksheet easier.

### **Trial balance column**

Transfer balances from the ledger accounts to their respective debit and credit columns in the trial balance. The totals of debit and credit columns in the trial balance have to be equal for the trial balance to agree. If the trial balance does not agree, check the entries and calculations again to find the mistake made and correct it.

### **Adjustments column**

The adjustment column is for adjusting the income and expenditure of the cooperative to the correct result taking into consideration at least the cost of sales and depreciation. When making adjustments in the worksheet, these do not appear in the Record book or ledger and they therefore do not have to be reversed when a new accounting period starts. Only major adjustments should be made for an interim income statement within a financial year.



Adjustments can also be made for prepayments and accrued expenses if they are significant. At year-end, all the necessary adjustments have to be made before the distribution of surplus.

Adjustments are entered by double entry in both debit and credit columns in the respective accounts. Totals of both columns are added. The total of the debit column should be equal to the total of the credit column.

**Adjustment for cost of goods sold**

Cost of goods sold is calculated to ascertain the value of goods sold during the period, which is deducted from the sales income to arrive at the gross surplus.

Cost of goods calculation is necessary in all activities that carry stocks at the beginning or end of the accounting period. These are activities such as a retail shop, produce marketing, etc.

The value of stock items is taken at purchase cost or market price whichever is less.

**Example:** Cost of goods is calculated as follows:

1	+ Opening stock	37 262.10
2.	+ Purchases	35 222.50
3.	+ Other purchase cost	785.00
4.	- Closing stock	39 001.50
	<hr/>	
	= Cost of goods sold	34 268.10

**Adjustment for depreciation**

The property of the cooperative, especially motor vehicles, deteriorates during use and loses value constantly. Depreciation is an expenditure adjustment, which reflects wear and tear of the property of the cooperative, although nothing more may have been paid in cash to compensate for the deterioration in its value.

If the loss of value of fixed assets were not (in adjustments) deducted from income, there would be a danger that the surplus distributed to the members would be too high. An expense adjustment is inserted in the worksheet to reflect the fair result of the cooperative. Note, however, that the adjustment is only a bookkeeping entry, which increases expenditures and reduces surplus available for distribution. Cash money has not been touched by the adjustment. If the cooperative intends to save money for a replacement of an asset, this money needs to be deposited in a separate bank account.

The value of depreciation is calculated on the basis of the value of a fixed asset (for example, a motor vehicle) divided by its useful lifetime. If a motor vehicle costs \$120 000 when bought and its estimated lifetime is six years, the annual depreciation is \$20 000 and the monthly depreciation is \$1 667.

**Adjusted trial balance column**

The adjusted trial balance is a summary of the trial balance and adjustments. Calculate the net balance of debits and credits in each of the accounts presented in the column. Calculate the total debits and credits in the column and insert totals. Check that the total of debits agrees with the total of credits.

**Income statement column**

The income statement column of the worksheet is the summary of all income and expenditure accounts for the calculation of surplus/loss. Transfer all balances of income accounts (normally with credit balances) into the income statement column (normally to the credit side). Transfer all balances of expenditure accounts (normally with debit balances) into the income statement column (normally to the debit side). Calculate surplus or loss. Calculate total debits and total credits. Check that these totals are equal.

**How to calculate surplus/loss?**

Calculate the total debits and the total credits in the income statement column of the worksheet. The total debits and the total of credits are not normally equal. Calculate the difference of the two totals. Surplus/loss is the difference (balancing amount) in the income statement column of the worksheet.

**SURPLUS** If the total of credits (**income**) is **bigger** than the total of debits (expenditure side), the balancing amount is a **surplus**. The balancing figure will be inserted in the debit side to allow the totals of debits and credits of the income statement to agree.

**LOSS** If the total of debits (**expenditure side**) is **bigger** than the total of credits, the balancing amount is a **loss**. The balancing figure will be inserted in the credit side to allow the totals of debits and credits of the income statement to agree.

The first illustration below describes a situation where the total of credits (income) in the income statement is bigger than the total of debits (expenditure) and therefore the balancing amount is surplus. In the second income statement, total expenses are bigger than total income and therefore the balancing amount is a loss.

INCOME STATEMENT (SURPLUS)	
Dr. Expenses	Cr. Incomes
Total expenses 450	Total income 500
Surplus 50	
<b>500</b>	<b>500</b>

INCOME STATEMENT (LOSS)	
Dr. Expenses	Cr. Incomes
Total expenses 800	Total income 500
	Surplus 50
<b>800</b>	<b>800</b>

**Balance sheet column**

The balance sheet column is a summary of all the assets and liabilities and provides information about the financial status of the cooperative at the end of the month.

Transfer asset and liability accounts from the adjusted trial balance to the balance sheet column in the respective debit or credit side as in the adjusted trial balance. Assets are normally in the debit side and liabilities in the credit side.

Transfer surplus from income and expenditure to the credit side of the balance sheet. Transfer loss to the debit side of the balance sheet.

Calculate total debits and total credits. Check that these totals are equal. If not, check calculations and transfers of amounts.

**WORKSHEET****WASAKU FARMERS' COOP Trial balance Adjustments Adjusted trial balance Income statement Balance sheet**

April 2000	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Shop: Member sales		25 006.25		25 006.25		25 006.25		
Non-member sales		12 250.10		12 250.10		12 250.10		
Purchases	35 222.50		38 047.10	39 001.50	34 268.10	34 268.10		
Other purchase costs	785.00			785.00				
Staff expenses	1 825.00			1 825.00	1 825.00			
Other shop expenses	562.50			562.50	562.50			
Maize: sales		6 250.00		6 250.00		6 250.00		
Purchases	5 000.00			5 000.00		5 000.00		
Other costs	550.00			550.00		550.00		
Administration: Entrance fee		1 000.00		1 000.00		1 000.00		
Other expenses	723.85			723.85	723.85			
Assets: Cash	6 197.50			6 197.50		6 197.50		
Bank	16 892.60			16 892.60		16 892.60		
Op. stock of shop	37 262.10			37 262.10				
Debtors/Wadakawa FC	19 435.50			19 435.50		19 435.50		
Debtors/Washi FC	2 800.00			2 800.00		2 800.00		
Fixed assets	20 000.00			20 000.00		20 000.00		
Liabilities: Creditors/Wasagra		24 750.20		24 750.20		24 750.20		
Creditors/Mr. Ruka		5 000.00		5 000.00		5 000.00		
Share capital		73 000.00		73 000.00		73 000.00		
<b>Adjustments:</b>								
a) Depreciation expenses			125.00	125.00	125.00		125.00	
Provision for depreciation				125.00		125.00		
Cost of goods entries:								
b) Opening stock to Dr: purchases								
Other purchase cost to Dr: purchases								
Closing stock to Cr: Purchases			39 001.50	39 001.50		39 001.50		
<b>Surplus/loss</b>					1 451.90		1 451.90	
<b>Total</b>	147 256.55	147 256.55	77 173.60	77 173.60	147 381.55	147 381.55	44 506.35	104 327.10

Cost of goods calculation  
+ Opening stock  
+ Purchases 37 262.10 to purchases  
+ Other purchase costs 35 222.50  
- Closing stock 785.00 to purchases  
= cost of goods sold 39 001.50 to balance sheet  
34 268.10 to Income statement

## IV. Financial reports

### A. Preparation of an income statement

Information for the income statement report is transferred from the worksheet and budget to the report format. The report format includes columns for:

- Accumulated incomes and expenses (A) and
- Budgeted incomes and expenses (B)
- Variance (V), which is calculated as  $A - B = V$

Example:

**Wasaku Farmers Cooperative**  
**Income statement**  
**1 April 2000 – 30 April 2000**

Shop	Actual	Budget	Variance
<b>Shop</b>			
Income			
Member sales	25 006.25	20 000	5 006
Non-member sales	12 250.10	8 000	4 250
<b>Total sales</b>	<b>37 256.35</b>	<b>28 000</b>	<b>9 256</b>
Less cost of goods sold	-34 268.10	-26 100	-8 168
<b>Gross surplus</b>	<b>2 988.25</b>	<b>1 900</b>	<b>1 088</b>
Operating expenses			
Staff expenses	-1 825.00	-1 700	-125
Depreciation	-125.00	-125	0
Other expenses	-562.50	0	-563
<b>Total operating expenses</b>	<b>-2 512.50</b>	<b>-1 825</b>	<b>-688</b>
<b>Net surplus</b>	<b>475.75</b>	<b>75</b>	<b>401</b>
<b>Produce marketing</b>			
Income			
<b>Maize sales</b>	<b>6 250.00</b>	<b>5 000</b>	<b>1 250</b>
Less member payments	-5 000.00	-4 800	-200
<b>Gross surplus</b>	<b>1 250.00</b>	<b>200</b>	<b>1 050</b>
Operating expenses			
Other costs	-550.00	-200	-350
<b>Net surplus</b>	<b>700.00</b>	<b>0</b>	<b>700</b>
<b>Administration</b>			
Income			
Net contributions from activities			
Shop	475.75	75	401
Produce marketing	700.00	0	700
Entrance fees	1 000.00	500	500
<b>Total income</b>	<b>21 75.75</b>	<b>575</b>	<b>1 601</b>
Operating costs			
Other expenses	-723.85	-500	-224
<b>Net surplus</b>	<b>1 451.90</b>	<b>75</b>	<b>1 377</b>

If the cooperative has several activities, an income statement report is prepared separately for each of the activities. Surplus/loss of the business activity can be transferred as a net contribution of the activity to Administration as its income. The bottom line of the Administration activity then gives the combined surplus/loss of the whole cooperative.

## B. Preparation of a balance sheet

Information for the balance sheet is transferred from the worksheet and last year's month-end balance sheet. Assets and liabilities are transferred to the balance sheet format. Note that as in the income statement, actual amounts can be reported by giving two decimals, while comparative figures can be rounded off.

Example:

<b>Wasaku Farmers Cooperative</b>			
<b>Balance sheet</b>			
<b>as of 30 April, 2000</b>	<b>30.4.2000</b>	<b>30.4.1999</b>	<b>Variance</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash	6 197.50	15 682	-9 485
Bank	16 892.60	18 487	-1 594
Debtors	22 235.50	20 111	2 125
Stock	39 001.50	30 567	8 435
<b>Total current assets</b>	<b>84 327.10</b>	<b>84 847</b>	<b>-520</b>
<b>Fixed assets</b>			
Shop building	20 000.00	0	20 000
less provision for depreciation	-125.00	0	-125
<b>Net fixed assets</b>	<b>19 875.00</b>	<b>0</b>	<b>19 875</b>
<b>Total assets</b>	<b>104 202.10</b>	<b>84 847</b>	<b>19 355</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Creditors	29 750.20	3 003	26 747
<b>Total current liabilities</b>	<b>29 750.20</b>	<b>3 003</b>	<b>26 747</b>
<b>Share capital</b>			
Members' share capital	73 000.00	70 000	3 000
Surplus/loss	1 451.90	-2 156	3 608
<b>Total long term liabilities</b>	<b>74 451.90</b>	<b>67 844</b>	<b>6 608</b>
<b>Total liabilities</b>	<b>104 202.10</b>	<b>70 847</b>	<b>33 355</b>

## V. **Analysing financial statements**

### **Income statement**

The income statement gives detailed information about the **income and expenditure** of the cooperative's activities during **a given period**. It is necessary for the management to know the actual results and to compare them to the budgeted results in the income statement to know if operations are going as well as had been planned.

Management can monitor the effects of its decision making by analysing the income statement and balance sheet. Management will get information about what was successful in the operations and the type of problems that have been encountered. This will give information for additional investigation and when the cause of a problem is known, decisions can be made to intervene in the problem area. Problems have a tendency to escalate if left alone and, therefore, it is good to monitor the "financial health" of the cooperative frequently and to act quickly to solve the problems.

The monthly income statement report should provide information of the actual and the budgeted results as well as their variance to the management. Financial reports should be made in writing and provided to the Board members for study before the monthly meeting. The accountant should be present at the Board meeting to answer Board members' questions in detail.

### **Sales – growth indicator**

Sales give the total value of money collected during the period by selling goods and services. It is an indicator of the attractiveness of the service provided to the customers. If sales are growing, the cooperative is giving better and better service to its members. Sales can be compared both to the budgeted sales and last year's sales of the same period to know if growth has been adequate.

If sales have not grown as expected, you may ask for the reasons, which may lead to other investigations: Are our prices not right? What is the reason that some of the members go to our competitors? Is our assortment not attractive? Is the service not good?

### **Cost of goods sold**

Cost of goods sold is the value of goods (at cost prices) that have been sold. It is important that stocktaking is performed correctly under the supervision of the Board to arrive at a true cost. Cost of goods sold also include the value of goods that have left the ownership of the cooperative without payment (theft, spoilage and breakage).

### **Gross surplus – profitability indicator**

Gross surplus is the ability of the cooperative to sell goods and services at a value that is in excess of the cost of the sold goods and services.

<b>Gross surplus in \$</b>	= Sales less cost of goods sold
<b>Gross surplus in %</b>	= Gross surplus x 100 divided by sales income

The cooperative sets the selling prices of its goods and services. This price should cover both the direct cost of the goods and contribute to cover the operational costs of the shop and leave a surplus for the activity. Therefore, a margin for operational expenses and surplus is added to the purchase cost of the goods when setting its sales price.

Gross surplus is the total dollar value of this margin in the goods that have been sold during the period. If the actual gross surplus is negative (gross loss) or there is an unexpected variation in the gross surplus percentage, there is a reason to investigate if goods have leaked out of the shop without payment.

If the gross surplus in percentage is 10%, this means that we have received \$10 for every \$100 sold to cover the operating costs and for net surplus.

### Operating costs

Operating costs are salaries, rents, insurance and other expenses, which are necessary for the day-to-day operations of the activity. As price setting of goods is based largely on market prices, the profitability of the activity often depends on how much operating costs are loaded on the activity.

Control of actual operating expenses is important for the sustained operations of the activity. If the average gross surplus of a shop is \$600 per month, its operating expenses have to be less than \$600 or the activity makes a net loss.

### Net surplus – the bottom line

Net surplus is the ability of the activity to add value in excess of all costs involved in operating the activity. Net surplus is money remaining after all expenses have been paid. If the net surplus is negative (net loss), sales income cannot (at the given gross surplus margin) support the operating costs, which have to be reduced.

<b>Net surplus in \$</b>	= Gross surplus less operating costs
<b>Net surplus in %</b>	= Net surplus x 100 divided by sales income

Net surplus percentage gives the net surplus in dollars for every 100 dollars of sales income. If the net surplus is 2%, the activity has generated two dollars net surplus for every 100 dollars sold. This gives the safety margin of the activity, which shows how much more expenses can be sustained before suffering a loss.

The Board of Wasaku Farmers' Cooperative meets monthly to analyse their financial statements with the help of the accountant. Members are free to question unclear issues in the statements, discuss progress compared with the budget, evaluate how their ideas have worked in practice, what strengths and weaknesses their business activities have and plan future improvements.

Shop	Actual	Budget	Variance
Income			
Member sales	25 006.25	20 000	5 006
Non-member sales	12 250.10	8 000	4 250
<b>Total sales</b>	<b>37 256.35</b>	<b>28 000</b>	<b>9 256</b>



Growth of sales proves that we are providing a good service. Total sales were \$ 5 000, (25%) higher than budgeted. Both the member and non-member sales have increased well. Non-member sales are 35% higher than we had estimated. The main attractions are cooking oil and sugar, which we repack into smaller and affordable quantities. It was a good idea as members and non-members like the convenient packing size. Should we start promoting membership better to the non-member customers so that they could also benefit from the 5% member discount? They seem to like the service, why should they not join?

### Shop

	<b>Actual</b>	<b>Budget</b>	<b>Variance</b>
Cost of goods sold	-34 268,10	-26 100	-8 168
	-34 268.10	-26 100	-8 168
	-26 100	-8 168	
	-26 100	-8 168	

Cost of goods sold is higher and corresponds well to the higher than estimated sales. We have no alarming leakage problems like last year when some sugar was spoiled by rain. The new coop cat is also doing its job. There is no rodent damage in the maize flour.

<b>Shop</b>	<b>Actual</b>	<b>Budget</b>	<b>Variance</b>
<b>Gross surplus</b>	<b>2 988.25</b>	<b>1 900</b>	<b>1 088</b>

Gross surplus was almost 3 000, a record monthly surplus, 1 000 dollars better than we estimated! The gross margin is still low, 8% of the total sales, but 1% better than we estimated. We are now making eight dollars for every 100 dollars sold instead of the budgeted seven dollars. This improvement is because we started this month to repack the bulk sugar and cooking oil, which we sell at a little bit better margin. It is good that we have honest staff so that there is no leakage.

<b>Shop</b>	<b>Actual</b>	<b>Budget</b>	<b>Variance</b>
Operating expenses			
Staff expenses	-1 825,00	-1 700	-125
Depreciation	-125.00	-125	0
Other expenses	-562.50	0	-563
<b>Total operating expenses</b>	<b>-2 512.50</b>	<b>-1 825</b>	<b>-688</b>

We have usually been able to estimate our operating expenses quite accurately because they do not change much. Now we have a major change in Other expenses, 560 more than we estimated. What expenses are these? The main reason is telephone calls in the amount of \$ 400. OK, we have a telephone now, which we did not plan for in the estimate, but these costs have to be controlled and private calls have to be paid by the caller. The manager must keep a call register so that we do not lose money.

Shop	Actual	Budget	Variance
<b>Net surplus</b>	<b>475.75</b>	<b>75</b>	<b>401</b>

We already know that our total sales are higher than estimated and the gross margin was better. The operating costs are almost the same as estimated except for the telephone costs. Did we lose all the good shop result in telephone costs? No, the net surplus is still almost 500. We were very cautious in budgeting because the shop is still new. The net surplus percent is 1%, which means that we get only one dollar of net surplus for every 100 dollars sold. Our safety margin is very low and we have to be vigilant about unexpected operating costs. The shop cannot sustain salary increases or other costs, but if we can continue like this for the rest of the year, we may get a little surplus and perhaps give the members a small patronage bonus.

The Board will analyse all activities. Here, we will include the review only of the Administration activity.

Administration	Actual	Budget	Variance
Income			
Net contributions from activities			
Shop	475.75	75	401
Produce marketing	700.00	0	700
Entrance fees	1 000.00	500	500
<b>Total income</b>	<b>2 175.60</b>	<b>575</b>	<b>1 601</b>
Operating costs			
Other expenses	-723.85	-500	-224
<b>Net surplus</b>	<b>1 451.90</b>	<b>75</b>	<b>1 377</b>

The bottomline for all the activities of our cooperative is calculated after the expenses of the administration have been deducted. Expenses of the administration are higher than we estimated. We must look into cost reductions there. Net surplus of the cooperative is 1 451.90, which is 1 377 better than we estimated. After last year's loss, we promised the members that we would turn the boat upstream and make a surplus. We are on the way but there are still 11 months left before the year is over. This month's surplus is a cushion for any unexpected surprises during the year. The shop did very well and so did maize marketing, which we started as a trial service and estimated to make a zero surplus. Entrance fees are higher than we had planned. Members are joining. Our services are appreciated. Let us continue at least like this in the coming month and thank the manager and staff for the good work done.

## Balance sheet

The purpose of the balance sheet is to tell where the money of the cooperative is placed and from where it was received. The financial situation changes with every transaction and therefore it should be noted that the balance sheet shows the financial situation of the cooperative **on a certain date**, which is mentioned in the balance sheet. It may not be very useful to assess very old information as the situation may have changed considerably. Therefore, it is good to have access to fresh reports soon after the month is over.

The main principle of a balance sheet is that total assets and total liabilities are always equally heavy and will balance. Assets will tell where the property of the cooperative is and liabilities will tell where the money was received.

## Assets

Assets give information of all the property of the cooperative and its value. Assets are money in the cash box, money in the bank, land, buildings, tools, machinery, furniture, and motor vehicles, stock of the shop, etc. Assets are divided into two categories, current assets and fixed assets.

### Current assets

Property, which has been bought for trading purposes such as stock in the shop and other property, which will circulate quickly such as cash and money owed to the cooperative by its trade customers.

### Fixed assets

Investment property, which has been tied in the long term to support the business activities of the cooperative such as furniture, machinery, vehicles, buildings and land.

## Liabilities

Liabilities will show all debts, loans and monies, which have been used to finance the assets of the cooperative. Liabilities are divided into three categories, current liabilities, long-term liabilities and share capital (members' equity) mainly for evaluating whether the cooperative can pay its debts in time.

### Current liabilities

Circulating trade finance (short-term debts) of the cooperative, which is expected to remain with the cooperative for less than one year.

### Long-term liabilities

Investment finance with a repayment period of more than one year. Medium term loans of 1-3 years are sometimes given separately.

### Share capital (Members' equity, members' funds)

Money belonging to the members. There can be several types of funds under this category. Some of the funds have been contributed directly by the members such as share capital. Some of the funds have been generated by the operations of the cooperative such as indivisible reserves and surplus/and loss.

## A. Assessing the financial strength of the cooperative

Good financial strategy is to:

- ensure that short-term and long-term funds are adequate to meet the debts and loans so that there is no danger to go into financial crisis and bankruptcy;
- ensure that the circulation of working capital is efficient;
- plan wise investments and develop capital structure.

A balance sheet reveals important information about the strengths and weaknesses of the financial position of the cooperative:

- How strong are we? Can we pay our immediate debts as they fall due and maintain the good relationship with our suppliers?
- Can we pay our investment loans or will the bank to take over our property?
- Is the financial position better or worse than last year? How much is my stake worth in the cooperative and has it improved?
- What are our strengths and weaknesses and what should we do to make our cooperative stronger?

Most ratios/measures have to be monitored over time to compare their development. They are alarm signals pointing at problems, which have to be further looked into to understand the problem and find a solution.

### Short-term liquidity

Money in the current assets of the cooperative is essential to finance the daily business activities. The more active money circulates from purchases to sales income, the better the ability of the cooperative is to operate its business and generate income. Provision of sufficient working capital is essential for successful business.

Liquidity is the ability to pay the short-term debts, which are in the fast circulating current liabilities of less than one year's repayment period. Liquidity is measured by comparing current assets (liquid funds) to current liabilities (short-term debts). Cash and money in the bank are the truly liquid funds. These funds can be released immediately in case a creditor requires payment. Debtors and stocks are less liquid forms of property (assets).

$$\text{Net working capital in \$} = \text{Current assets less current liabilities}$$

This calculation gives the difference between short-term availability of funds and short-term payment commitments. Net working capital should be positive.

$$\text{Quick (acid) ratio} = \frac{\text{Current assets (less stocks)}}{\text{divided by current liabilities}}$$

Quick ratio takes only the "immediately" available funds (cash, bank and debtors) to assess the ability to pay the creditors quickly. A sign of good liquidity is that the quick assets are at least equal to current liabilities.

Large working capital does not help to generate business if the money does not circulate. Good management will control that the quality of working capital is excellent and circulates quickly. Circulation of funds can stall especially in stock and debtors, which are problem areas for working capital management. When the circulation of working capital slows down, there are less and less truly liquid funds to buy new fast moving stocks. A vicious circle may appear when customers find that the assortment has deteriorated and move away, sales decline, but there are no funds to improve the assortment anymore. Then the creditors will start demanding immediate payment and the cooperative is in a serious financial crisis. Good management of working capital requires the Board to:

- actively participate in stocktaking, inquire and confirm if there is “dead” or slow moving stock and decide on how this stock should be disposed of so that the quality of working capital improves;
- prepare clear guidelines for allowing sales on credit and monitor debt collection, if credit sales are necessary.

### **Long-term capital structure**

Members form cooperatives to improve their standard of living. The cooperative is expected to provide various services, which all require investments in storage, processing, transport and other facilities. Investments can provide better processing quality, improved market access and ultimately a higher standard of living for the members. To succeed, the Board needs to develop viable business plans for investments, which can gradually develop the services and the competitive position of the cooperative in business. This is not possible without capital.

Long-term own capital (members’ funds, members’ share capital, equity) is the foundation on which a successful cooperative can be built. No individual member could alone afford heavy investments, but the small investment funds of a member can become an important source of funds when all members agree to invest. Members may be poor, but willing and able to contribute from their funds for good development, if:

- the Board and management are open and trustworthy;
- investment plans are presented clearly and understood;
- members can discuss the proposal openly and decide democratically;
- members will benefit from the investment.

Own capital should develop gradually at least at the same pace as investments are made for improvement of services. While loan funds can be used to finance part of an investment, the banks will not provide loans without a sufficiently strong own capital base proven by the cooperative (collateral) and an own contribution of 10-50% towards the investment. The Board should improve the capital base and investment capacity of the cooperative and seek additional contributions from members. The board should:

- develop investments with good participation of the members so that members know the benefits and are willing to contribute additional capital for each investment;
- respect members’ investments in the cooperative; provide share certificates for the capital and inform the members of their rights to get their investment paid back and pay, in agreed time, withdrawing members;
- consider the payment of interest on share capital invested by the members;

- inform the members actively of the capital needs of the cooperative and prepare campaigns for additional member contributions and promotions for new members;
- ensure that all members contribute fairly to the investments by, for example, revising the minimum limit of a member's share capital annually;
- provide genuine member benefits (which are not enjoyed by non-members);
- develop indivisible reserves from the surplus of non-member business;
- manage the on-going business so that it is always profitable and so that the budgeted result will be reached;
- retain part of the surplus as indivisible reserves, but distribute part of the surplus to members as patronage bonus.

The effects of member contributions are positive, in that:

- Member share contributions will increase the own long-term funds (net worth) of the co-operative by interest free funds.
- Sufficient own long-term funds and corresponding assets will improve the credit-worthiness of the cooperative when it applies additional loan financing from a bank.
- Loan applications are more likely to be approved if the proportion of own financing compared to external financing of a proposed investment is reasonable, which reduces risk from the bank's point of view.
- Member contributions towards a proposed investment indicate acceptance of the project and trust in the management of the cooperative.

The capital structure of the cooperative shown by the balance sheet gives an indication of the strength or weakness of the cooperative.

## Solvency

The financial strength of the cooperative depends on how its assets (property) are financed, which is shown by the liabilities. Liabilities are divided into financing by external lenders and financing by members' funds (share capital, reserves and accumulated surplus). Financial strength improves with increased member financing of the cooperative's assets.

$$\text{Solvency in \%} = \frac{\text{Members' funds (share capital + reserves + surplus)} \times 100}{\text{Total liabilities (total financing)}}$$

If member financing is less than 40% of the total capital, the cooperative has a weak capital structure. A weak cooperative is unable to improve the share of member financing and is typically financed by short-term capital (creditors and overdraft). If share capital members' funds decrease to less than 15%, the cooperative or any other type of organization is dangerously close to bankruptcy.

## Indebtedness

Indebtedness is the opposite of solvency and describes how much of the total capital of the cooperative consists of debt payable to creditors and banks. Indebtedness can be calculated as a percentage ratio.

$$\text{Indebtedness in \%} = \frac{\text{Total liabilities less members' funds} \times 100}{\text{Total liabilities (total financing)}}$$

High indebtedness is a sign of a weak capital structure. If external financing is more than 60% of the total financing, lenders own a larger stake of the assets of the cooperative than members and, therefore, the cooperative has a weak capital structure. If external financing increases to 85% of the total financing of assets, the cooperative is dangerously close to bankruptcy.

## B. Value of the cooperative

Net worth shows the cash value of the cooperative to its members. It is normally already calculated in the balance sheet for the day indicated in the balance sheet. Net worth is equal to owners' equity = members' funds (share capital + reserves + accumulated surplus) and gives the share of member financing of the assets of the cooperative.

$$\text{Net worth in \$} = \text{Equity (members' funds)} = \text{Share capital} + \text{reserves} + \text{accumulated surplus.}$$

Net worth is the dollar value received by the members in a liquidation of the co-operative on the day of the balance sheet. Assets are sold and debts to external financiers are paid. The rest (net worth) is paid to the members. The net worth depends on the correct valuation of the assets (total assets and total liabilities need to balance in the balance sheet). Therefore, the true net worth is only known after the assets have been sold. Net worth is an indicator of financial strength, which is easily understood by the members.

### Net worth per member

Dividing the net worth by the number of members gives a dollar value of the cooperative to each member. This indicator gives an individual member a concrete yardstick and target for improvement of the financial strength of the cooperative.

$$\text{Net worth in \$ per member} = \frac{\text{Equity (members' funds)}}{\text{Average number of members}}$$

Net worth per member shows the dollar value of the member's investments in the cooperative. The member would receive the money in a liquidation of the cooperative on the day of the balance sheet. Again the true net worth depends on the correct valuation (market value) of the assets.

The Board of Wasaku Farmers' Cooperative will assess its financial situation thoroughly.

Balance sheet	30.4.2000	30.4.1999	Variance
<b>Total assets</b>	<b>104 202.10</b>	<b>84 847</b>	<b>19 355</b>

Our total property is 100 000 now at the end of April. It has increased by 20 000 from last April, which is good, but we have to look in more detail to know what has happened during the past month.

Balance sheet	30.4.2000	30.4.1999	Variance
<b>Current assets</b>			
Cash	6 197.50	15 682	-9 485
Bank	16 892.60	18 487	-1 594
Debtors	22 235.50	20 111	2 125
Stock	39 001.50	30 567	8 435
<b>Total current assets</b>	<b>84 327.10</b>	<b>84 847</b>	<b>-520</b>

Our property in the fast circulating current assets has not increased. Stocks in the shop are worth 39 000 and we have given more goods out to other cooperatives on credit. They owe us 22 000. We have taken money from cash and bank in the amount of 11 000 to finance the increased debtors and stock. Are these debtors also paying? We need the money and if we do not collect, the surplus that we made in the shop will be very easily lost. When was the oldest unpaid invoice issued and to whom? We need to follow-up to collect the money.

Balance sheet	30.4.2000	30.4.1999	Variance
Fixed assets			
Shop building	20 000.00	0	20 000
Less provision for depreciation	-125.00	0	-125
<b>Net fixed assets</b>	<b>19 875.00</b>	<b>0</b>	<b>19 875</b>

We had no fixed assets or other investments this time last year. Now that we bought the shop premises, we do not have to pay rent anymore. The operating costs are lower. It will take about three years for us to save the investment cost. It was a good investment.

Balance sheet	30.4.2000	30.4.1999	Variance
<b>Total liabilities</b>	<b>104 202.10</b>	<b>70 847</b>	<b>33 355</b>

Our total financing (liabilities) is the same as our property (assets). Let us look into the financing in more detail.

Balance sheet	30.4.2000	30.4.1999	Variance
Current liabilities			
Creditors	29 750.20	3 003	26 747
<b>Total current liabilities</b>	<b>29 750.20</b>	<b>3 003</b>	<b>26 747</b>

The short-term debts of the business have increased. Have we paid our debts when they fall due? What is the oldest unpaid invoice? We need to give a solid picture of our ability to clear our commitments to our suppliers.

Balance sheet	30.4.2000	30.4.1999	Variance
<b>Share capital</b>			
Members' share capital	73 000.00	70 000	3 000
Surplus/loss	1 451.90	-2 156	3 608
<b>Total long term liabilities</b>	<b>74 451.90</b>	<b>67 844</b>	<b>6 608</b>

Our own (members') capital has increased well by 6 608 from the previous year and our total own capital is 74 452.

Net working capital	30.4.2000	30.4.1999	Variance
Total current assets	84 327.10	84 847	-520
Less Total current liabilities	29 750.20	3 003	26 747
<b>Net working capital</b>	<b>54 576.90</b>	<b>81 844</b>	<b>-27 267</b>



Net working capital is down by almost 30 000, which is a major change. Our current assets are almost the same, but current liabilities have jumped from 3 000 last year to 30 000 this year. Are we going bankrupt? Let us look at the quick ratio before jumping into conclusions.

<b>Quick ratio</b>	<b>30.4.2000</b>	<b>30.4.1999</b>
Total current assets	45 325.60	54 280
Total current liabilities	29 750.20	3 003
<b>Quick ratio</b>	<b>1.5</b>	<b>18.1</b>

OK, this shows that our ability to pay the short-term debts is still good. Last year it was actually extremely good before we bought the shop premises and the money came from our working capital. Let us confirm now from the balance sheet what we have and what we owe. It looks like we would not be able to pay the big creditor Wasagra with our money held in cash and bank, which means that we depend on their patience. We have to clear some of this debt. Because debtors and stock have increased, we have to make sure that the circulation is good and release money to pay Wasagra's invoices in due time.

<b>Solvency</b>	<b>30.4.2000</b>	<b>30.4.1999</b>
Total members' funds	74 451.90	67 844
Total liabilities	104 202.10	70 847
<b>Solvency %</b>	<b>71%</b>	<b>96%</b>

<b>Indebtedness</b>	<b>30.4.2000</b>	<b>30.4.1999</b>
Total external financing	<b>29 750.20</b>	3 003
Total liabilities	104 202.10	70 847
<b>Indebtedness %</b>	<b>29%</b>	<b>4%</b>

The overall financial position has declined, from when member financing of the assets was 96% to this year's 71%. We are still solid in our financing. Indebtedness shows the same picture. Our external financing was 4% of our assets last year, but it has increased to 29%. This is because we have actually financed the purchase of the shop premises from our short-term funds, which should not have been the case. Members should have contributed more to it. However, the timing was not conducive then. We had just finished last year with a loss and could only promise something better. The financial position is not alarming, new members are joining now and our member capital is increasing. We will improve our capital.

<b>Net worth in %</b>	<b>30.4.2000</b>	<b>30.4.1999</b>	<b>Variance</b>
Members' funds = Net worth	74 451.90	67 844	<b>6 608</b>

The net worth of the cooperative has increased by 6 608, which is the amount that members have invested more in our cooperative. We should in the future have a better strategy to finance investments like the shop premises. Funds should come from long-term financing,

members' funds (share capital, reserves and surplus) and maybe a small loan. Otherwise, we will have a problem next time that we invest by using working capital. We will build up reserves gradually starting with some funds from this year's surplus and ask members to contribute for the next investment. We need to make the investment plans very clear to the members, discuss with them and see if they agree.

<b>Net worth per member</b>	<b>30.4.2000</b>	<b>30.4.1999</b>	<b>Variance</b>
Members' funds = Net worth	74 451.90	67 844	<b>6 608</b>
Average number of members	166	117	<b>49</b>
<b>Net worth per member</b>	<b>449</b>	<b>580</b>	<b>-131</b>

The growth of membership has been good after a slow year from 1998 to 1999, when our cooperative made losses and we had little to show the members. The number of members increased from 105 to 129. After we improved operations, new members have joined and we have 203 members as of the end of April. The average number has increased by 49 from last year.

The net worth of the cooperative has increased, but the number of members has increased even more. Our net worth per member has decreased by 131 from 449 to 580. What does it mean? It means that old members had invested on average 580, but new members have invested much less. Therefore, the money that all members would get if we were to liquidate has been reduced to 449. This is a serious problem. The idea is surely that the investments per member into increasing their standard of living would be higher and higher every year. What can we do to rectify this? The old members will not like "free riding" new members, who get the services without paying their fair share. We have not been active enough to promote members' capital formation even in the purchase of the shop premises. We will have to make an entirely new plan on member capital and discuss it thoroughly with the members. Members should be happy to see their net worth growing in our cooperative.

## **VI. Computer information systems**

It is time to consider upgrading the accounting system from Record book at the latest when

- the number of transactions grows and accounting by using the Record book becomes cumbersome;
- activities become more diversified;
- credit sales increase and business creditors are many;
- management needs information on the day-to-day account balances and up-to-date financial position.

More sophisticated manual systems, which were created to cater for large amounts of transactions, are available but have become outdated with the introduction of computerized accounting. Computer accounting is not only for the rich and powerful, but is today's solution for accounting. Most businesses, even the very small ones, use computers for accounting and even emerging cooperatives should do so as soon as possible.

## **A. Requirements for computer accounting**

The basic requirements to consider in changing to computer accounting are

- **Electricity**  
Rural areas do not often have an electricity supply, but electricity is usually available in the nearest town. Computer accounting services may be offered in town by an accounting bureau that could enter the transactions and provide printed financial reports monthly for the cooperative.
- **Trained accountant**  
The accounting programmes use the same principles of processing accounts as the manual systems. Therefore, a trained accountant who knows the double entry rules is required to manage the entry of transactions into the accounting programme. The accountant will also need training in operating the accounting programme. Software companies who sell the accounting programme normally offer training (at an additional cost). The programmes are normally easy to learn in a short time and do not require special basic skills other than knowledge of double entry accounting. However, accountants who know computer accounting are specialized staff, normally in high demand. Therefore, contingency plans have to be made for the training of reserve staff in case the trained accountant resigns. On-the-job training of the other accounting staff needs to be organized so that a reserve is available to use the programme at any time.
- **Accounting programme**  
Accounting programmes are available off-the-shelf from software companies approximately at a price of a new tire. These types of accounting programmes are powerful enough to handle the accounting of a large company with several different departments and numerous activity, debtor and creditor accounts. Some accounting programmes are available free of charge from the Internet, but no training or back-up support is then provided.
- **Computer and printer**  
The accounting programmes do not require a large amount of memory and, therefore, computer accounting can be processed normally in any computer that can operate a Windows operating system. The computer does not have to be the most expensive and modern model available in the market, but the same computer that is used for correspondence can also manage the accounting work. A normal printer is required for printing of the financial statements and accounting reports.

## **B. What are the advantages of computer accounting?**

After the initial double entry into an account in the computer, the accounting programme will automatically manage the rest of the work (which was required in manual bookkeeping) and produce income statements and balance sheets instantly.

Benefits of computer accounting are:

- Computer accounting is faster than manual accounting.

- Financial reports can be printed instantly even after each data entry and, therefore, management information is up-to-date all the time.
- Accounting programmes can handle a very large amount of transactions. Even a simple accounting programme can handle all the activities of a large cooperative.
- Accounting programmes have routine methods of input (which will assist the bookkeeper to enter transactions in a correct way and result in fewer errors).
- It is easier to reconcile creditors and debtors because of clear and quick statements of transactions.
- Up-to-date stock records including stock value are available at all times.
- Trial balance is available after every transaction.
- Income statement by department and the entire cooperative is available after every transaction.
- A balance sheet for the whole cooperative is available after every transaction.
- Confirmed audit trail is demonstrated for each transaction for the auditors.
- Various results from the financial statements can be illustrated by using spreadsheet charts, and financial statements are, therefore, easier to understand.

### **C. Computers improve efficiency and competitiveness**

Competitors in all business sectors use computer accounting as an essential source of business information. Obtaining summarized information from the computer is easy and up-to-date, which increases its usefulness for the manager in the day-to-day business. Producing the same reports by manual systems is so time consuming that management has had no other option but to have the bank balance as the only means to assess the financial situation. With computer accounting, management will have much more detailed information of profitability and the financial status every morning, if so desired. This allows the management to make informed decisions based on facts.

Computers are faster than manual systems and, therefore, less accounting staff is required to manage a large number of transactions. This will result in cost savings, which will pay back the initial investment in computer accounting in a short time.

Computers are increasingly used as day-to-day tools by management for better information, efficiency and competitiveness. An example is the point-of-sale system, which is extensively used in retail trade. When a sale is entered into a computer at the cashier's counter from bar codes, management will receive instant summaries on product category, shelf and area sales, stock value, etc., which allows for much more detailed planning of a profitable assortment and stock levels. New computer applications for business are introduced frequently such as e-business, which may offer cooperatives new methods of doing business. It is important to develop computerization in cooperatives to stay abreast with competition in the use of information technology.

# **EXAMPLE TRAINING COURSE SCHEDULE**

## **FOR COOPERATIVE DEVELOPMENT TRAINING**





# Module 1: Understanding cooperatives

## Objective:

- 1 By the end of section 1, participants will be able to state the main characteristics of co-operatives and the difference between them and other types of business organisation and the main conditions needed to create a cooperative.
- 2 By the end of section 2, participants will be able to analyse a request to form a cooperative and draft outline statutes

## Equipment needed:

Chalkboard, whiteboard, flipchart or OHP

## Day 1 (a.m.)

Time	Topic	Method	Materials	Trainer	Comments
0900 - 1030	1.1 What is a cooperative?	Discussion in small groups and then plenary	Handouts of reference materials		
1100 - 1300	1.2 Forming a marketing cooperative	Case study (in small groups) and discussion	Handouts of reference materials and case study		

# Module 2: Participation, learning and training

## Objective:

- 1 By the end of section 1, participants will be able to state the reasons why participation is so important for cooperatives and what the constraints are in increasing the levels of participation.
- 2 By the end of section 2, participants will be familiar with a number of different training methods and be able to plan a short training course

## Equipment needed:

Chalkboard, whiteboard, flipchart or OHP, One or two Pinboards or a wall where small cards or sheets of paper can be fixed with pins or glue.

Enough small cards for each participant to be given several

A thick pen for writing for each participant.

Video camera and playback unit (if possible) - for day 3

## Day 1 (p.m.)

Time	Topic	Method	Materials	Trainer	Comments
1400 - 1500	2.1 Participation in cooperatives	Exercise 1: what does participation mean.	Reference material handout Cards and pens		
1530 - 1700		Exercise 2: Levels of participation			



Day 2

Time	Topic	Method	Materials	Trainer	Comments
0900 - 0915	2.2 Training in cooperatives	Warm up exercise	Depending on exercise		
0915-1300		Exercise 1: Prepare skills training session	video recording and playback		Duration depends on group size
1400 - 1700		Exercise 2: Prepare one day training course	Flipcharts, and other commonly available teaching equipment		

# Module 3: Communication

## Objective:

- 1 After completing section 1, participants will be able to describe what is meant by effective communications in the co-operative context and be able to use a number of techniques to help overcome conflicts in co-operative training.
- 2 At the end of section 2, participants will be able to describe the main issues of external relations of the co-operative and will be able to plan public relations activities

## Equipment needed:

Chalkboard, whiteboard, flipchart or OHP, cards and pens

## Day 3

Time	Topic	Method	Materials	Trainer	Comments
0900 - 1030	3.1 Internal communication	Exercise 1: Problems in communication	Reference material handout		
1100 - 1300		Exercise 2: Communication maps and barriers	cards and pens		
1400 - 1700	3.2 External communication	Debate	Reference material handout		

**Day 4**

<b>Time</b>	<b>Topic</b>	<b>Method</b>	<b>Materials</b>	<b>Trainer</b>	<b>Comments</b>
<b>0900 - 1030</b>	3.2 External communication (continued)	Exercise 2: Negotiating - role play			
<b>1100 - 1300</b>		Exercise 3: Plan a PR campaign	Flipchart papers and pens		
<b>1400 - 1700</b>		Presentation of plans and discussion			

# Module 4: Organisational development

## **Objective:**

- 1 After completing section 1, participants will be able to:
  - state the aims of cooperative organisational development,
  - describe why it is important to have a vision and
  - describe how to develop a vision statement.
- 2 By the end of section 2, participants will be able to:
  - Describe the role of norms and structures in organisational development
  - Outline the reasons for promoting cooperatives groups and entrepreneurship

## **Equipment needed:**

Chalkboard, whiteboard, flipchart or OHP, cards and pens

**Day 5**

<b>Time</b>	<b>Topic</b>	<b>Method</b>	<b>Materials</b>	<b>Trainer</b>	<b>Comments</b>
<b>0900 - 1030</b>	4.1 Organisational development and the vision statement	1 Discussion of participants experiences of organisational change. Introduce aims and principles of OD	Reference materials as handout		
<b>1100 - 1300</b>		2 Introduce main approaches to OD Small groups discussion to analyse advantages and disadvantages of each approach			
<b>1400 - 1700</b>		3 Introduce concept of shared vision and discuss case study in small groups	Case study on orange production		

**Day 6 (a.m.)**

<b>Time</b>	<b>Topic</b>	<b>Method</b>	<b>Materials</b>	<b>Trainer</b>	<b>Comments</b>
<b>0900 - 1030</b>	4.2 Norms, structures and entrepreneurship	Introduce explicit and implicit norms. Participants write down norms in their cooperatives. Discussion	Reference materials as handout		
<b>1100 - 1300</b>		Discussion on structures which help member control (using diagram 4.1) Discussion on motivation and entrepreneurship (see notes in module)			

# Module 5: Cooperative management

## **Objective:**

- 1 By the end of section 1, participants will be able to outline the key management issues involved in running a cooperative and to identify the management implications which differentiate the running of a cooperative from other types of organisation
- 2 By the end of section 2, participants will be able to
  - outline the key differences of management functions which distinguish the cooperative business from a commercial company
  - state the main differences in the various sources of cooperative finance and the ways to promote the best balance
  - outline the key personnel management issues relative to the type of cooperative they come from
- 3 By the end of section 3 participants should be able to:
  - describe the characteristics of rural service cooperatives
  - state the functions of marketing, supply and credit cooperatives
  - outline the main factors influencing their management
- 4 By the end of section 4, participants will be able to describe the reasons for diversifying the business and the advantages and disadvantages of partnerships, mergers, and federations

## **Equipment needed:**

Chalkboard, whiteboard, flipchart or OHP, cards and pens

**Day 6 (p.m.)**

<b>Time</b>	<b>Topic</b>	<b>Method</b>	<b>Materials</b>	<b>Trainer</b>	<b>Comments</b>
<b>1400 - 1530</b>	5.1 Managing the Cooperative group	Small group discussion on the role of leadership and how to develop leadership ability. Discuss results in plenary	Reference materials as handout		
<b>1600 - 1700</b>	Roles functions and activities of the board	Plenary discussion based on Box 5.1 The roles and functions of the board	Box 5.1 as an OHP or flipchart		



Time	Topic	Method	Materials	Trainer	Comments
0900 - 1030	5.1 (continued) Developing and maintaining member motivation	Plenary discussion. Introduce issues related to promotion of member economies			
1100 - 1300	5.2 Managing the Cooperative enterprise	small group discussion on the differences between cooperative and commercial management	Reference materials as handout		
1400 - 1515		Introduce and discuss the main sources of capital finance			
1530 - 1700		Small group discussions on key issues in financial planning and key issues in personnel management - plenary presentation of the two group discussions			

Time	Topic	Method	Materials	Trainer	Comments
0900 - 1300	5.3 Management of services to support members' production	Plenary discussion on service cooperatives. Small group discussion on supply management			
1400 - 1700	5.4 Diversification, growth and collaboration	Three groups to discuss diversification; partnerships and mergers; and federations. Prepare case studies in their groups. Present and discuss case studies prepared	Reference materials as handout		

# Module 6: Tools for planning and organising Cooperative activities

## **Objective:**

- 1 By the end of section 1, participants will be able to:
  - state the key planning actions which form the core of strategic co-operative management
  - prepare a simple log-frame, from designing a problem tree to drafting a planning matrix, identifying assumptions and defining indicators and means of verification
  - carry out a SWOT analysis and apply it to the co-operative situation
- 2 By the end of the section, participants will be able to state the reasons and principles for assigning responsibilities within the co-operative
- 3 By the end of the section, participants will be able to describe the main tools for physical and financial planning and to interpret their figures in order to plan co-operative activities for maximum efficiency and effectiveness.

## **Equipment needed:**

Chalkboard, whiteboard, flipchart or OHP, cards and pens

Time	Topic	Method	Materials	Trainer	Comments
0900 - 1030	6.1 From visions to action plans	Small group discussion to identify processes and steps in planning activities. Discuss results in plenary Outline key planning steps In same groups, relate their activities to the five planning steps	Reference materials as handout		
1100 - 1300		Exercise 2: Log frames - problem tree analysis, objectives tree, assumptions, indicators and means of verification			
1400 - 1515		Exercise 3 SWOT analysis			
1530 - 1700	6.2 Planning relationships and assigning responsibilities	Exercise: Analyse a familiar activity and prepare a personnel plan (6.4.1)	Reference materials as handout		

**Day 10 (a.m.)**

<b>Time</b>	<b>Topic</b>	<b>Method</b>	<b>Materials</b>	<b>Trainer</b>	<b>Comments</b>
<b>0900 - 1030</b>	6.2 (continued) Planning relationships and assigning responsibilities	Exercise: Analyse a familiar activity and prepare a bar chart plan of activities (6.4.2)			
<b>1100 - 1300</b>	6.3 Physical and economic planning	Describe the main tools of stock and inventory planning, budgeting and cash flow. Exercise 6.5.1 Kei' cooperative. Exercise 6.5.2 Balance sheet (Shannon's shoes)	Reference materials as handout. Copies of the exercises		

## Module 7: Participatory appraisal, monitoring and evaluation

### Objective:

By the end of the module, participants will be able to use a range of participatory appraisal, monitoring and evaluation methods

### Equipment needed:

Chalkboard, whiteboard, flipchart or OHP, cards and pens, Video recording and playback equipment if possible

### Day 10 (p.m.)

Time	Topic	Method	Materials	Trainer	Comments
1400 - 1515	Appraisal, monitoring and evaluation	Exercise on semi structured interviews	Reference materials as handout		
1530 - 1700		Exercises on preference ranking and matrix scoring (module 2 annex)	Exercises		

Day 11

<b>Time</b>	<b>Topic</b>	<b>Method</b>	<b>Materials</b>	<b>Trainer</b>	<b>Comments</b>
<b>0900 - 1030</b>	Appraisal, monitoring and evaluation	Training evaluation exercise			
<b>1100-1230</b>	Summary and conclusions	Participants summarise each session. Closing speeches and certificates			

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**Films**

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