

Obligations and Objectives of Co-operative Organisation

Integrated Approach in their Management by Objectives

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In this article Mr. A.H. Gamage, a senior officer of the Sri Lanka Administrative Service traces the origins of the modern Co-operative Movement. He also elaborates the objectives and functions of a modern day Co-operative Society as an enterprise. Mr. Gamage who has obtained high academic qualifications in disciplines such as law and economics plays a proactive role in revitalizing and reorganizing the Co-operative Movement in Sri Lanka in his capacity as the Secretary to the ministry of Co-operatives and Co-operative Development.

HISTORICAL PERSPECTIVE

In early human societies people learned to co-operate and work together in order to ensure success in hunting, fishing, gathering foods, building shelter, and meeting their individual and group needs. Historians have found evidence of co-operation among people in early Greece, Egypt, Rome and Babylon, as well among Native American and African tribes, and between many other groups. The agricultural practices of the ancient world would have been virtually impossible without mutual co-operation among farmers. They relied on one another to defend land, harvest crops, build barns and storage buildings, and to share equipment. These examples of informal co-operation – of working together – were the precursors to the co-operative form of business.

The First Co-operatives – The earliest formal co-operative systems appeared in Europe in the later part of 18th century at a time when the Industrial Revolution was in full swing. As large number of people moved from farms into the growing cities in search of lucrative employment in the expanding industrial sector, they had to rely on stores for the food requirements of their families because they could no longer grow their own food. Working class people had very little control over the quality of their food or living conditions. Those with money gained more and more power over the poor. Early co-ops were set up as a way to protect the interests of the less powerful members of society – workers, consumers, farmers and producers.

In England, consumers were frustrated by the abuses of storeowners, many of who adulterated products to increase their profits. In many cases, workers' wages were paid in company "chits" – credit that could only be used at the company's stores. The average consumer had very few choices and little

control. Groups of these people began experimenting with various methods of providing for their needs themselves. They decided to pool their money and make bulk purchases. They purchased goods from a wholesale dealer and divided them equally among themselves. They were surprised at the savings and higher quality of products they were able to obtain.

The Rochdale Equitable Pioneers of Co-operative Societies – In 1843, workers in the textile mills of Rochdale, England went on strike. When the strike failed, the mill workers began to look for other ways to improve their lives. Instead of calling for another strike or asking charitable groups for help, some of these people decided to take control of one of the most immediate and pressing areas of their lives. They believed they needed their own food store as an alternative to the company store and the Rochdale Equitable Pioneers Society was founded with the involvement of twenty eight persons.

After saving money for over a year, these pioneers opened their co-op store on a cold December evening in 1844. Although the founders agreed to sell just butter, sugar, flour and oatmeal, they also offered tallow candles for the sale that night. They were forced to buy candles because the gas company refused to supply gas for their premises. They brought candles in bulk and sold unused candles to their members.

The Rochdale Pioneers weren't the first group that experimented with the idea of co-operatives but they were the first to make Co-operative Society succeed and endure. In order to avoid the mistakes made by earlier co-op societies and to help others, they developed a list of operating principles governing their organization. These formed the basis for what are now known as the co-operative principles. Rochdale is still considered the birthplace of the modern co-operative movement.

CO-OPERATIVE MOVEMENTS IN SRI LANKA

The origin of the Co-operative movement in Sri Lanka could be traced to the formation of the first Co-operative Society in 1906 – the Dumbara Co-operative Credit Society. The first Co-operative law was enacted in 1911. This Act made provisions for the registration of only credit societies, but subsequent amendments made it possible for the establishment of other types of societies as well as secondary and tertiary institutions. In 1930 the Department of Co-operative Development was established. The Movement developed gradually under sponsorship and it was felt that an organization at the apex level was required for expression of collective views on matters of co-operative policy, education, training and extension and publicity. With this in view the Co-operative Federation of Ceylon was established in 1955.

Obligations

With regard to the obligations of co-operatives, the documents such as the ICA declaration of the identity of co-operatives (Manchester 1995) and its subsequent background notes of the declaration assume importance. The Manchester declaration of 1995 has identified values and principles of co-operatives. Accordingly, we can identify nine values and seven principles of the co-operative societies.

The values: self-help, self, responsible, democratic, equality, justice, co-operation, honesty, transparency and social obligation and caring for others.

The principles: Voluntary and open membership, Democratic Management, Participating in the economic needs of the members, Independence and Sovereignty, Education Training and Information, Co-operation and Co-operatives and Community Welfare. In a sense these values and principles are themselves can be considered as the obligations of the co-operatives.

Self-help – Self-help is based on the views of the peoples and depends on the belief of their lives. But the co-operative movement believes

that the development process depends on the co-operation of the people. Individual achievement is limited and the achievement becomes greater when there is co-operation among the people.

Self responsibility - It is the responsibility of the membership to organize awareness programmes in the co-operative movement and its importance.

Democracy - Democracy in the co-operatives means liberty of joining in the co-operative societies or leaving the societies at members' wish and also liberty to express their own views.

Equality - The achievement of the objectives of the co-operative movement depends on its membership. Its main aim is to highlight the difference between the private companies and the co-operative movement where human values are considered. In all respects the members of co-operatives are treated equally. But in actual practice it has become a challenge to maintain this equal treatment as far as large societies are concerned.

Justice - In a co-operative it is a challenge to maintain justice continuously. Primarily it depends on how the membership is treated. Also it depends on how the profits are divided according to the participation of the membership.

Co-operation - Co-operation is the main theme of the co-operatives. Co-operatives by itself mean co-operation. Without co-operation there are no co-operatives.

Honesty - In the nineteenth century the Rochdale pioneers dedicated themselves to the Co-operative movement by ensuring accurate weight, high quality and reasonable prices of the foods sold in their stores.

Transparency - Due to the transparency in the management and the dedication for innovations it became very popular in the business circles. Moreover because of the honesty and the integrity in the distribution of profit and loss it became known worldwide.

Social Responsibility

Principles - In the ICA declaration seven principles of co-operatives are mentioned and these principles can also be considered as the obligations of the co-operative societies.

Voluntary and Open Membership - Co-operative society is a voluntary organization

which is open to all those who are willing to take over social obligations regardless of their sex, race or social status, and those who make use of its services.

Democratic Management - A co-operative society is a democratic organization which is managed by its members. The members are actively involved in deliberation and implementation of the policies decided upon by them. The elected representatives of the society would be responsible for the entire membership. All members of the Primary Co-operative Societies would have equal rights (one vote per member).

Participating in the Economic needs of the members - The members who have invested an equal amount as capital investment in the society manage it in a democratic manner. A portion of the invested capital becomes a common asset of the society. A dividend is paid for the amount invested by an individual to become a member in the society, in proportion to his/her investment. The members reserve the balance of the capital to be invested on one or some of the following: Creating groups or branches composing of units which cannot be split; to share profits in proportion to the turnover of the business carried out; to assist in other activities approved by the membership.

Independence and Sovereignty - Co-operative societies are inter-dependent organizations which are managed and administered by its own members collectively. In the event, it enters into an agreement with the Government or any other organization or institution such contracts should guarantee that democratic rights of its members and the independence of the society.

Education, Training and Information - Necessary training should be provided in order to achieve the optimum output from the managers and the elected representatives of the general membership. In this context, the education provided to the general public, especially youth and the community leaders to create an awareness also assures importance.

Co-operation among Co-operatives - By working together at Provincial, National, Regional and international levels, co-operatives will provide more fruitful services to its clients while strengthening the co-operative movement.

Community Welfare - While paying heed to the members' needs and expectations, co-operatives endeavour to provide sustainable development to the community at large as well.

Objectives - When we talk about objectives of the co-operatives we have to go for the definition expressed by the above declaration. It says a

co-operative is an organization where a group of individuals of a democratic society join together to uplift their social, economical and cultural needs.

TYPES OF CO-OPERATIVES FORMED ACCORDING TO THE DIFFERENT OBJECTIVES

There are different types of co-operatives and every co-operative has its own obligations and objectives. It is important to realize that all different types of co-operatives are more important and bigger in certain phases than others. For example, if agriculture is declining, the producer co-operatives will decline. If the economy is growing, the consumer co-operatives will grow.

Consumer Co-operatives - A consumer co-operative is a purchasing organization, usually retail in nature, that is formed by a group for the benefit of the consumer. Consumer co-operatives are guided by the principle that the process of producing and distributing goods and services shouldn't be controlled by major corporations with the goal of maximizing profit. Instead, they should be owned, controlled and directed by the consumer to supply his or her economic needs. Members benefit by gaining access to quality goods and services. By acting together, members have an economy of size and increase their bargaining power. Members also share the earnings. When the organization generates profits, members receive earnings based on their level of involvement with the co-operative.

Worker Co-operative - A worker-owned co-operative is an organization owned and operated by the workers or staff of a work place. Ownership is primarily offered through employee stock ownership plans, which empower workers to have a stake in the success of the business. Employee-owned companies are "fast companies". They are usually well managed, encourage innovation and achieve high levels of productivity. That's the reason that this type of business is being adopted so regularly throughout the United States and around the World.

Producer Co-operative - Owned and operated by producers working either separately or as a group, a producer co-operative is an organization formed to offer its members expanded marketing capabilities and production efficacy. After allowing for the expenses of operation and funds allocated for expansion or serves, it operates on a cost basis for the mutual benefit of its members and stockholders, as producer or patrons.

Business Owned Co-operatives -

A business-owned co-operative is an organization owned by a group of businessmen for their mutual benefit. These business co-operatives forming an alliance with each other to purchase goods and services at a total cost that is substantially less than the costs that would be incurred by individual businesses acting alone. By purchasing co-operatively, their buying activity becomes more efficient. They also save through lower administrative costs and guaranteed levels of business with vendors and suppliers. The member businesses that belong to the co-op agree to pay set fees, participate in governing the co-op and use its services. A business – owned co-op has a democratically-elected Board of Directors to oversee policies and operations and hire management personnel, who in turn hire staff and implement the Board's policies. Business-owned co-operatives are common in the telecommunications and electric utility industries.

CO-OPERATIVE MOVEMENTS IN SRI LANKA TODAY

According to the recommendations of the Royal Commission appointed in 1960 to look into Co-operative movement, Primary Consumer Societies and Fisheries Societies were amalgamated into economically viable larger units in 1968. Since then they have been emerged as Multi-Purpose Co-operative Societies. The then Government re-enacted the Co-operative law in 1972 so as to make the co-operative movement follow the new development thoughts of that period.

With the 13th amendment to the Constitution the activities of the Co-operative Movement were decentralized and the Provincial Council Act no. 42 of 1987 resulted in a devolution of power to Provincial Council. Again in 2000, a Presidential Commission was appointed to look into matters with regard to the co-operative movement and present recommendations. We are in the process of implement the recommendations of that Commission.

The co-operative movement in Sri Lanka remains relatively large, the relevant statistics are given below:

- No. of Co-operative Societies of different categories – 11,234
- Individual Membership – 5.6 million
- No. of Co-operative Employees – 43,000

FORMULATING OBJECTIVES WITHIN THE FRAMEWORK OF CONCEPT OF MANAGEMENT BY OBJECTIVES

We have to set in objectives according to the enterprise which we think of. It might be changed according to the enterprise and also in the situation where it functions. Similarly co-operative societies should have objectives so as to run them as enterprises. When we formulate objectives we cannot lose sight of the country's principle objectives formulated by incumbent governments. For example, in the context of the Millennium Declaration in 2000, we cannot formulate any objectives against these Millennium Goals. Similarly all the co-operatives have to consider the country profile. In Sri Lanka we consider the co-operatives as the third force of economic development.

We can borrow the thoughts expressed by Peter F. Drucker as the objectives of co-operatives considering they are enterprises. Accordingly there are eight objectives:

Market Standing - Market Standing has to be measured against the market potential and against the performance of suppliers competing products or services – whether competition is direct or indirect. We do not care what share of the market we have as long as our sales go up. It sound plausible enough but volume of sales tells little about performance. These thoughts are very valid in terms of co-operative societies.

Innovation – There are two kinds of innovations in every enterprises, innovation in products or services and innovation in the various skills and activities needed to supply them. Innovation may arise out of the needs of market and customer or it may come out of the work on the advancement of skills and knowledge carried out in the schools and the laboratories by researchers, writers, thinkers and practitioners. In terms of co-operatives fortunately we have lot of thoughts in this regard. I would like to mention some innovations for a co-operative society:

1. New products or services that are needed to attain market objectives.
2. New products or services that will be needed because of technological changes that may make present products obsolete.
3. Product improvements needed both to attain market objectives and to anticipate expected technological changes.

4. New processes and improvements to satisfy market goals – for instance, manufacturing improvements to make possible the attainment of pricing objectives.

5. Innovations and improvements in all major areas of activity – in accounting or design, office management or labour relations – so as to keep up with the advances in knowledge and skill.

Productivity – A productivity measurement is the only yardstick that can actually gauge the competent of management and allow comparison between management of different units within the enterprise. Productivity includes all the efforts the enterprise contributes and excluded everything it does not control.

Regarding the co-operative societies productivity is very essential as the yardstick of gauging the output. Because it shows how well resources are utilized and how much they yield.

Physical and Financial Resources – What resource objectives are needed and how progress towards them is to be measured differs from each individual enterprise objectives. The planning for an adequate supply of physical and financial resources is primarily a management job. The carrying out of these plans is mainly the job of financial specialist. Physical and financial resources are too important to be left out of consideration. Any enterprise handling physical goods must be able to obtain physical resources, must be sure of its supply physical facilities i.e physical facilities, plants, machine, office. Again enterprises need financial resources. It is called investment. It may be more important even than marketing or innovation.

Profitability – In an enterprise profits serves three purposes. It measures the net effectiveness and sound of business efforts. It is the risk premium that covers the cost of staying in business. It insures the supply of future capital for innovation and expansion either directly by providing the means of self financing out of retained earnings or indirectly through providing sufficient inducement for new outside capital in the form in which suited of the enterprises objectives. None of these three functions of profit has anything to do with the economist's maximization of profit. All the three are need of minimum concepts; the minimum of profit needed for the survival and prosperity of the enterprises. A profitability objective therefore

measures not the maximum profit the business can produce but the minimum it must produce.

Manager Performance and Development

An enterprise to stay in business and remain profitable needs goals in respect of the direction of its managers by objectives and self control. And once the goals are clear it can always be determined whether they are being attained or not. The management of each particular enterprise can decide what the objective of the area public responsibility should be. Objectives in this area while extremely tangible have to be set according to the social and political conditions which affect each individual enterprises and are affected by it and on the basis of the belief of each management.

Worker Performance and attitude

Objectives in this area are also tangible. But it operates largely by superstition, omens and slogans rather than by knowledge. In this regard its objectives for union relations also should be included.

Public responsibility – An enterprise should consider public responsibility as their objectives. Because their clients are the public. If the public is not responding very well to the enterprise they cannot achieve their other objectives. Specially from the co-operative point of view it is very essential because co-operatives are the enterprises owned by members of the society, i.e. the public.

In respect of co-operative societies all these objectives can be formulated as objectives of co-operatives. Whatever the objectives we formulate are not very important if we cannot reach to it. In modern society there is a concept called management by objectives it is very important even for the co-operative societies. Management by objective requires major efforts and special instruments. In the business enterprise managers are not automatically directed toward a common goal. On the contrary, business, by its very nature, contains three powerful factors of misdirection: in the specialized work of most managers; in the hierarchical structure of management; and in the differences in vision and work and the resultant insulation of various levels of management.

CO-OPERATIVE SECTOR : PROPOSED PROGRAMME FOR 2007

Implementation of the Pilot Project on revitalizing the Co-operative system under the Village Awakening envisaged in the Mahinda Chintanaya

Some of the aims of this project are invigorating the Co-operative Movement and upgrade Co-operative to the status of growth Centres to supply goods to consumers at reasonable price, marketing of villagers' produce and supply of agricultural inputs at subsidized price. For this purpose new Co-operatives are opened and existing ones are strengthened to achieve the above aims.

The project is intended to be implemented over a period of three years and 100 villages are to be taken up in 2007.

Establishment of small-scale super shops. (Mini Super Markets)

This project is intended to be implemented in 10 Co-op shops in 2007. It is expected to provide technical advice and financial assistance to design these shops so that they could attract consumers and be able to compete with the private sector.

Vitalizing Co-operative Women

The proposed project will be implemented in 8 selected villages at provincial level with a view to uplift the social and economic condition of women.

Strengthening Co-operative activities in the North and East.

This Project to be implemented in the North and East is aimed at raising the economic condition of Co-operative people in those areas with several programs and promote Co-operative Societies. It is envisaged to procure an X-ray apparatus and other needs for the Co-operative Hospital at Wellwest in the Jaffna Peninsula and provide transport facilities, technical assistance, financial assistance and information to District Co-operative Unions.

Modernization of Co-operative Societies and starting new societies based on agriculture.

It is expected to open 5 Co-operative Societies based on agro-produce. Several aims are to be achieved –

- Revitalizing defunct Co-operative Societies.
- Introducing and popularizing the value added methods among Co-operative members.
- Arranging the market.

Establishment of a Co-operative research and Development Unit

This Unit is to be established with a view to uplift the Co-operative Movement by gathering local

and foreign information on Co-operative Movement and circumventing the existing debilities.

The Project envisages to collect all data in the field of Co-operative and inspire the Co-operative Movement to compete with other enterprises.

Implementation of the National Co-operative Policy

This Project envisages to introduce new legislation for development of Co-operative enterprises and operate the following three bodies proposed in the Report of the Presidential Commission on Co-operatives:

- Co-operative Tribunal
- Co-operative Bank
- Co-operative Enterprises Development Board

Implementation of the South Asia Co-operative Solidarity Programme

This Project is aimed at exchanging experiences, knowledge and technology of the South Asian Co-operative Community and seek active membership in the S.A. Co-operative Union. Thereby it is expected to build up a Coordination system to introduce the produce of Co-operative members directly to the International market.

Reorganizing of Co-operative Societies, which are defunct or suffering losses

Such societies will be selected out of all multi-purpose Co-operative Societies and the cause for such situation will be investigated. Thereafter such societies will be reorganized to stand as establishments capable of fulfilling the consumer needs as well as enterprises requirements of members.

CONCLUSION

As explained earlier, co-operative societies were evolved more than 150 years ago. In Sri Lanka as far as the Co-operative movements is concerned we have a century old history. The social and economic situation in which the co-operative societies were evolved, have been entirely changed now. Those days it was an institution remained limited to the members. But in modern society it should be developed as not only a co-operative society but also as an enterprise. ■