A reality check

Worker co-ops in South Africa

Past *Labour Bulletins* have carried articles on the benefits of worker co-ops. **Kate Philip** takes a sober look at whether such co-ops have a viable role to play in mass job creation in South Africa.

"Faced with massive economic restructuring and unemployment or underemployment, millions of South Africans are discovering the potential of the workers co-operative, a collective entrepreneur model (rather than that of an individual entrepreneur) that provides decent and sustainable employment and a democratic workplace."

This is how the National Co-operative Association of South Africa (Ncasa) introduced their 2002 baseline study on co-ops. It is this vision of co-ops that has made them seem such an attractive way to create jobs, and why labour has been at the forefront in supporting them.

But the picture on the ground is bleak. In Ncasa's baseline study, 40% of co-op respondents reported that their co-ops generated no income for members at all. From those co-ops that did report income figures, Ncasa estimated that the average co-op member was earning R1 600 a year – or R133 a month.

A more recent study done in 2005 by the Co-operative and Policy Alternatives Centre (Copac) on co-ops in Gauteng found that 77.1% of the co-ops surveyed did not pay wages to members, and 71.1% reported that the co-op had generated no surpluses.

These figures are particularly disturbing because co-ops in Gauteng are relatively close to support services, and because the skills profile in these co-ops is relatively high: 59% of members had completed grades 10, 11 or 12, and 16.8% had university degrees; 61.4% had prior administration experience and 51.8% had prior management experience.

Despite high expectations, worker co-ops in South Africa do not actually have a good track record in creating decent and sustainable employment. The Copac study asks whether co-ops are instead acting as "a pushback into poverty." It's time to take these figures seriously, and consider what they mean for the role of co-ops as a key part of a job creation strategy. But first, it's necessary to understand some of the specific challenges co-ops face.

CHALLENGES CO-OPS FACE

Much has been written about the constraints faced by co-ops, many of which they share with other forms of start-up businesses. These include access to capital, credit, skills and market share. All are important but there are also some specific problems that confront worker co-ops.

When co-ops are set up as job creation projects, they try to create as many jobs as possible by taking in lots of members. They also often choose to produce goods that they can sell in their own community. Often, however, there is a mismatch between the scale of output needed to support all the members in the co-op, and the buying capacity of the local market they are targeting.

Here is an example of a typical sewing co-op.

There are 20 people in the project. They aim to earn R500 a month which means the project must pay R10 000 a month in wages. Let's say wages are 25% of the cost of the dresses they make, with materials and other costs making up the rest of the costs.

This means they must sell dresses worth R40 000 every month just to break even and pay themselves R500 each. At R100 per dress, they must sell 400 dresses a month.

If the co-op cannot sell enough locally, it will have to break into external markets. While this can certainly be done, it brings the co-op into more direct competition with other producers, and typically requires higher levels of formality, productivity and quality as well as higher levels of management skill.

MANAGEMENT AND DEMOCRACY

Managing a business involves a complex set of skills. These include financial planning, production planning, and marketing. Getting this right is a challenge in all businesses, but in co-ops, it is harder.

A conventional business may need only one competent manager to run the business. In a co-op, however, key business decisions are made democratically. This means that all members must have the management expertise needed to contribute to good business decisions at whatever level they participate. Even where skilled functions are delegated to skilled managers, the Board of the co-op has to be able to hold such managers accountable.

Desirable as this kind of democratic control of the co-op may be, it is certainly harder to run a business this way, and it means that co-ops require a greater depth and breadth of management skills than other forms of enterprise.

DIFFICULTIES IN DELEGATING

Many co-ops delegate management to skilled managers, chosen from amongst the members or appointed from outside the co-op. In Mondragon in Spain and in the Italian worker co-ops, for example, workers meet once a year at an AGM to elect a board, which appoints a manager. This manager then has the authority to manage the co-op, within the framework of an agreed business plan, and reports to the Board rather than to a general meeting of workers – until the next AGM.

In South Africa, there has been a clear preference for more direct forms of democracy than this. The challenge is to find forms that work.

In the early 1990s, an analysis of problems in NUM's network of 30 co-ops for ex-miners showed that even though workers had elected management committees within the co-op, they were often reluctant to delegate any real managerial authority to them. In particular, workers were reluctant to accept the authority of such managers to allocate labour in the co-op, or to make purchases with co-op money, even where these decisions were within the framework of an agreed budget and business plan. As a result, managers had limited authority to make even basic management decisions, to the detriment of productivity in the co-ops.

Between these two extremes, co-ops have tried many different strategies to structure democratic participation and control in ways that are compatible with effective management. While some co-ops have succeeded, this is often a source of conflict. Such conflicts are typically over how decisions are made, how work is allocated, how discipline is asserted and how money is spent. Coupled with all the other significant challenges that co-ops face, such conflicts can contribute to a downward spiral of economic performance that may leave the co-op with no money in the bank.

PROBLEMS IN DEFINING OWNERSHIP

The co-op ideal is that co-op members are not only paid for their labour, but share in the profits of the business also. Yet too often, co-ops are not even able to cover the costs of labour.

This is sometimes justified on the basis that members own the co-op, and are contributing 'sweat equity' to build the value of their asset. In practice, however, the ownership of co-ops is often ambiguous in South Africa, because it is common practice to set up co-ops on terms that make the co-op owned by 'the community'. This is because donors and government can't just hand out public funds to create private assets, but it creates all kinds of unintended consequences.

There are many problems defining what such ownership means in practise. It is often unclear whether a co-op can sell equipment that has been donated to it, and if the co-op uses income it has generated to buy new equipment – who owns that equipment? What scope does 'the community' have to influence decisions on the use of assets in the co-op? Lack of clarity on these issues creates disincentives for co-op members to re-invest in the co-op, because their ability to access the benefits of capital growth in the co-op is obscure.

KILLING TWO BIRDS WITH ONE STONE

Support for worker co-ops is based on the assumption that they can achieve two key goals at once. They can create jobs, at the same time as building new forms of democracy in the workplace. The problem is that in trying to achieve this, we really do seem to be killing two birds with one stone when we actually want both birds to fly.

Worker co-ops can succeed, but they are complex enterprises. In South Africa, they are still relatively unfamiliar, and need high levels of business management skill, organisational experience and leadership and it's still hard to make them work, as the Gauteng figures show. The fact that it is hard does not mean it is not worth doing, but it does mean that worker co-ops do not provide an easy entry point into the economy for unskilled unemployed people. They are therefore not a good vehicle for a strategy of mass job creation.

In trying to make them play a job creation role, their potential to pioneer more democratic forms of work organisation and ownership is being placed at risk. Instead, the development of worker co-ops needs to be spearheaded by workers in well-organised, viable sectors of the economy, where the skills and market share are in place, and where high-quality technical support and finance is more readily available. In this context, the focus would be on building new forms of ownership and democracy in the workplace, as part of broad based empowerment, rather than trying to create new jobs. This task is important in its own right.

How, then, can jobs be created?

That's not a question this article can answer. However, as part of such a discussion, it is worth flagging the need to revisit the role other forms of co-op could play in wider strategies for economic development. These co-ops have not attracted as much attention in South Africa because they are not seen as vehicles for direct job creation, nor do they promote worker control. However, in many parts of the world, they are the back-bone of co-op movements, with a strong track record in reducing costs and enhancing returns to poor producers, consumers and workers, through transport co-ops, input supply co-ops, agricultural marketing co-ops, credit unions and consumer co-ops, to name a few. LB

Kate Philip ran NUM's Co-op Unit, which set up 30 worker co-ops in South Africa, Lesotho and Swaziland to create jobs for workers dismissed after the 1987 mineworkers strike. In the mid 1990s, NUM moved away from focusing on co-ops to explore other job creation strategies. Philip has recently submitted her PhD which reflects on lessons from these different approaches.

How are worker co-ops different from other co-ops?

In worker co-ops, the members own the co-op, and are also workers in the co-op. Worker co-ops are democratically controlled by their members.

In other forms of co-op, such as consumer co-ops, credit unions, and agricultural marketing co-ops, the members own and control the co-op and use its services but they do not usually work in the co-op. So, for example, dairy co-ops in India have over 6 million members. These members are farmers who sell their milk to the dairy, and share in its profits, but they don't work for the dairy. The dairy employs workers in a conventional employment relationship.

In South Africa, these forms of 'user' co-ops have not attracted the same level of policy support as worker co-ops. This is because building democracy in production has been seen as an important aim, and because worker co-ops are expected to create jobs.

However, all over the world, building successful worker co-ops is recognised as posing particular challenges, and other forms of co-ops have tended to be more successful.

If you want to read recent articles on worker co-ops see SA Labour Bulletin Aug/Sept 2006 Vol 30.3 and Oct/Nov 2006 Vol 30.4