

**SWP 26/91 COOPERATIVES AND OTHER GROUP ENTERPRISES:
WHAT ARE THE CRITICAL FACTORS FOR SUCCESS?
A SURVEY OF INFORMED OPINION**

**PROFESSOR MALCOLM HARPER
Enterprise Development Centre
Cranfield School of Management
Cranfield Institute of Technology
Cranfield
Bedford MK43 0AL**

(Tel: 0234 751122)

Copyright: Harper, 1991

CO-OPERATIVES AND OTHER GROUP ENTERPRISES

WHAT ARE THE CRITICAL FACTORS FOR SUCCESS?

A SURVEY OF INFORMED OPINION

INTRODUCTION

Co-operatives have a bad "track record" just about everywhere. Governments and other development agencies have vigorously and expensively promoted them, in the industrialised countries and the so-called "developing" countries, but the results have more often than not been disappointing. Nobody denies that many if not the majority of individual enterprises fail, but the failure rate of group enterprises, particularly formal co-operatives, seems to be higher, and the sums of money spent on them often appear to have been totally wasted.

As a result of this apparently dismal record, there has in some places been a reaction against the whole concept of group enterprise, and there may be a risk that "the baby may be thrown out with the pathway". There are large numbers of successful group enterprises, including formally constituted co-operatives, and this form of organisation clearly has a great deal to commend it, not only in theory but also in practice, in the right circumstances.

The Enterprise Development Centre at Cranfield School of Management in England, in collaboration with the Centre for Development Research and Training (CENDERET) at the Xavier Institute of Management in Bhubaneswar, Orissa State of India, and with the support of the Overseas Development Administration, is undertaking an enquiry in an attempt to look more systematically at the whole problem, and if possible, to identify some critical factors which seem generally to be associated with success. Clearly there can be no hard and fast prescriptions, since the fortunes of any institution must depend to an extent on the particular circumstances, but it may be possible at least to identify some critical issues, for those attempting to start or manage group enterprises, and for those trying to assist them in any way, in order marginally to reduce the risk of failure.

METHODOLOGY

The first stage of the enquiry was to develop a manageable list of factors which were generally felt to be important. These were collected from the literature and through conversations and correspondence with informed authorities. An attempt was made to exclude factors which are common to any enterprise, such as the existence of a market for the products or services offered, sufficient capital and so on, since these are well-accepted and widely recognised as being necessary for any enterprise to succeed. We also tried to express the factors in the form of "issues", on which informed commentators could take opposing views, since the objective is not to identify the obvious but to throw some light on the more contentious issues, which are often the subject more of prejudice than of informed judgement.

After some initial pilot testing, we evolved the questionnaire which is reproduced (with a summary of the results of its first section) in the next section of this paper. This instrument attempts to elicit the respondents' views on each issue, and their opinions as to which are the most important. The opposing views are expressed so as to appear equally valid, in order to avoid influencing undecided respondents to opt for one or other view. We also

hope that we successfully concealed our own prejudices, which are admittedly quite strong on some of the issues; part of the purpose of the whole enquiry is to put our own (and others') views to a more rigorous test than has previously been possible. The questionnaire was also constructed in such a way that respondents are encouraged to state their position on each issue before trying to decide which are the most important.

The questionnaire was sent to a number of named individuals and institutions in the United Kingdom and in India, and to some people from other "developing countries" who were studying at Cranfield in 1990. It was also widely circulated in India through the good offices of the ILO MATCOM Project Liaison Officer, who arranged to have it distributed with the "News and Views" newsletter which is published by the National Co-operative Union of India.

A total of 128 replies were received; the response from the British and the Indian institutions which were mailed direct was around 80 per cent, and it is reasonably safe to assume that those who responded did so because they are interested to contribute and to share their views; the response may be "skewed" towards the more thoughtful and interested members of the population, but that is no bad thing.

The respondents can be classified as follows:

Indian co-operatives, federations and apex-level bodies	32
Indian co-operative training institutions, NGOs and others involved in assisting co-operatives and group enterprises	35
Participants in 1990 Cranfield courses from developing countries, who are involved in assisting co-operatives and group enterprises	19
British based third world assistance agencies, which are involved in assisting co-operatives and group enterprises	24
British co-operative assistance agencies, which work with British co-operatives	18
Total responses	128

The Cranfield course participants responded to the questionnaire before they had attended any sessions on co-operatives, so that their views were unaffected by any particular set of opinions. In the group of Indian co-operatives and related bodies, dairy co-operatives are somewhat over-represented, but since these are generally considered to be among the more successful societies, this bias can only improve the value of the responses.

About one quarter of the respondents omitted to fill in the second part of the questionnaire, which asked them to indicate the two most important factors; some wrote to explain this, giving useful comments on the choice of factors and the vital importance of judging each situation on its merits, while others may simply have been too exhausted after thinking through their responses to the preceding part! Very few respondents, apart from those who contributed to the pilot study, and whose suggestions were taken into account in the final design of the questionnaire, took up the invitation to suggest other critical factors in addition to the eleven which were given.

The main objective of this first part of the enquiry is to identify what are the factors which are generally agreed to be critical, and to identify issues where informed opinion appears to be more evenly divided. This will help to set the agenda for the second more fundamental part of the study, which will involve looking closely at the history and present condition of

a number of successful co-operatives and other group enterprises, in order to validate or invalidate the views obtained from the respondents to the questionnaire.

It may nevertheless be useful to share a summary of the results of this survey at this stage, both in order to acknowledge the assistance provided by those who responded and perhaps to generate some useful discussion on the various issues which have been investigated. It is important to stress that the results represent the views of a number of different people, all with practical experience of working with group enterprise, so that they are clearly of some interest; they have not at this stage, however, been confirmed or otherwise by reference to actual co-operatives or other group enterprise.

RESULTS

Figure 1 on the following two pages reproduces the questionnaire, and also contains the results to the first section, expressed as percentages of the total sample whose responses fell to the left, the right or on the centre of the lines representing the continuum of views on each of the eleven issues. For the purposes of this figure, we have aggregated all the responses on each side of the centre, since this simplification does not materially alter the results, except in the few cases mentioned later. We have not shown separately the responses from the different groups of respondents, since the numbers in each group are small, and our purpose at this stage is to include as wide an array of views as possible.

 Insert FIG 1 Here

Every reader will find different items of interest in these results, but it may be useful to point out those issues where there was more unanimity of opinion, and those where the answers were more evenly divided.

Issues with more Unanimity

The issue on which there was the greatest unanimity, by a large margin, was that of political affiliation; a large majority of the respondents believed that "groups should avoid being linked to any particular political group". This is unsurprising, given the sad history of political manipulation of co-operatives in India, the United Kingdom and elsewhere. It is perhaps remarkable that even seven per cent of the respondents still hold to the contrary view.

The issue with the second highest degree of unanimity was that relating to the number of activities a group should attempt to cover at its inception. Most respondents agreed that "on formation, groups should focus on one activity only, to ensure manageability". It is interesting that only about half as many believed that groups should remain single-purpose once they were established; the consensus seems to be that they should aim at the maximum simplicity at the start, but that multi-purpose co-operatives, of which there are many successful examples in India, are an appropriate subsequent development.

The third most unanimous view was that groups should include members with different skills and abilities, but there was also a significant majority in favour or at least neutral on the issue of homogeneity of background. This illustrates the all-too-common problem of securing a range of skills without prejudicing the homogeneity of the group. The two goals are at least to an extent incompatible.

More than half the respondents were against continuing subsidies, agreeing that "groups should survive on their own, like any other businesses", and a similar number believed that

groups should also start on their own. There was also substantially greater support for strict rules and procedures for established groups, rather than flexibility, and for the view that groups' objectives should include social and community goals rather than purely financial ones. The number of respondents strongly supporting this view was well over twice the number strongly supporting the "income only" opinion.

Issues with more Diversity

We have already referred to the divergence of views on the first issues in the questionnaire, that of the homogeneity or otherwise of group members. The issue on which there was the least agreement, however, was that of the flexibility or otherwise of the initial structure. There was a marginal preference for "clearly stated rules" rather than "starting flexibly", but in general, respondents seem to be uncertain on the desirable degree of structure at the inception of a group, while there is more agreement on the greater need for structure at a later stage.

The vexed issue of leadership and participation was also one on which views were fairly well divided, although there was rather more support for "one person whom all acknowledge as the leader" than for more diffused decision making and the rotation of positions of authority. The numbers taking the strong view on each side of this line were about equal, with around a quarter of all respondents marking each end of the line representing this issue.

"Hard" versus "Soft"

In a very broad sense, all the issues with the exception of the first four can loosely be characterised as illustrating one aspect of the more general issue of "hard" versus "soft" or "business" versus "social". Someone who regards co-operatives and group enterprises primarily as businesses might be expected to be against political affiliations and subsidies or other assistance, and in favour of individual leadership and a firm structure, whilst someone who takes a more "social" view might be expected to hold the opposite opinions on these issues. Some readers may disagree, perhaps even quite strongly, with these characterisations, but it may be of interest to aggregate the preferences on each side of this perhaps illusory divide, to see where the majority fall, and how strongly.

If we add up the numbers of those supporting each of these views on each issue, and those who expressed a neutral position, we come to the following result:

"Hard Business" view	Neutral	"Soft, Social" view
358	128	214

This suggests a rather strong preference for the "harder" set of opinions as a whole, even though a substantial majority chose the more social and community oriented option on the final issue regarding objectives. This may imply that many people want to "have their cake and eat it", in that they aim for totally business-like enterprises which nevertheless achieve social and community objectives, but readers who accept the assumptions underlying this classification of the opinions expressed should draw their own conclusions as to the causes of this set of preferences, and its likely impact on co-operative development in the future.

Ranking by Importance

We have already mentioned that around a quarter of the respondents chose not to complete the second part of the questionnaire, in which they were asked to nominate the two most important of the eleven issues on which they had expressed their opinions.

A number of respondents who did complete this part of the questionnaire chose issues on which their views were neutral, presumably because they felt that the right decision on that

issue depended on the individual circumstances of each case, but that it was nevertheless a critically important decision. The total numbers of respondents nominating each of the issues as "most important" and "second most important" were as follows:

<u>Issue</u>	<u>Most Important</u>	<u>2nd Most Important</u>
Homogeneity or variety of Members	7	11
Similar or Different Skills	2	4
Start with Many Activities or One	4	9
Diversified or Single-Function	4	3
Political or Apolitical	3	9
Start on Their Own or Assisted	6	9
Subsidy and Assistance or Not	6	7
Participation or Individual Leader	29	18
Loose or Tight at the Start	6	3
Structure or Flexibility	1	10
Social or Income Only Objectives	28	15

The numbers who considered a particular issue important and who also took a strong view on that issue may be more significant; the following table gives the numbers who marked the extreme left or right ends on given issues, and also selected that issue as being the most or the second most important;

Numbers ranking as 1st or 2nd in importance		<u>Issue</u>	Numbers ranking as 1st or 2nd in importance	
2	Homogeneous	<u>Membership</u>	Varied	0
1	Similar	<u>Skills</u>	Different	2
0	Many	<u>Activities at Start</u>	One	4
3	Diversified	<u>Functions</u>	Single	1
0	Close	<u>Political Links</u>	None	9
6	Maximum	<u>Assistance at Start</u>	None	7
0	Needed	<u>Subsidy once Established</u>	Not needed	0
10	Group	<u>Leadership</u>	Individual	15
8	Tight	<u>Structure at Start</u>	Loose	0
0	Strict	<u>Structure</u>	Flexible	0
15	Comprehensive	<u>Objectives</u>	Income only	13

It is interesting that the issues which significant numbers of respondents both thought to be particularly important and on which they took a strong view were also those on which opinion was rather equally divided. This divergence of opinion suggests that many of the issues which people working in this field agree to be the most important are also those on which they have widely differing views.

CONCLUSIONS

The objective of this survey of informed opinion is primarily to provide a basis for subsequent field enquiries which is more soundly based than the writer's own prejudices and the conflicting views expressed in the extensive but generally anecdotal rather than analytical literature. It is certainly not suggested that the above findings represent any more than the views of 128 people, and they are presented more because they add to debate than because they are in any sense definitive.

These results can be used, however, to provide working hypotheses for the subsequent field studies of individual successful co-operatives or other group enterprises. These have yet to be developed in detail, but they may be expected to be more or less as follows:

1. The two most critical factors for the success of co-operatives and other group enterprises are the two choices between individual leadership and group decision-making and between broad social objectives and narrower income generating objectives.
2. It is important to make a clear decision on each of these two issues, in any given situation, and individual leadership and broader social and community objectives are more likely to be associated with success than are the alternative choices.
3. The remaining issues covered in the questionnaire, with the possible exceptions of those between members with similar or different skills, multi- or single function, and the tightness or looseness of the rules at the start, are also important, and the following choices are rather more likely to be associated with success:
 - Membership with similar background
 - Start with only one activity
 - Avoid political links
 - Start and continue without subsidy
 - Strict rules and procedures

These are at best tentative statements, and readers may disagree either with the methodology or the writer's interpretation of the results. A number of other methodological problems also remain, such as that of defining "success" (which in itself may be said to beg some of the issues posed in the questionnaire) and that of clearly identifying the degree to which the co-operatives which are the subject of the study do or do not conform to the hypothetical "model" of success which has thus far been tentatively evolved.

It is important yet again to stress that it would be folly to attempt to prescribe any universal rules or even guidelines, or to claim that certain choices would certainly or even probably lead to "success", however that may be defined. Nevertheless, it is hoped that the eventual conclusions of this whole enquiry, and even these initial results from the survey of informed opinion, may add a little more rigour to the debate on co-operative and group enterprise, and marginally increase the chances of survival and decrease the amount of funds and effort wasted on mis-directed assistance.

Most importantly, perhaps, we should recognise that these decisions, and the ultimate responsibility for success or failure, and indeed for defining what success and failure are, rest not with outside advisers or trainers, or even with the staff of apex level institutions and federations, but with the members themselves, who will have to pay the penalty of failure, and who, we hope, will enjoy the benefits of success.

Acknowledgements

I should like to acknowledge the support of the Economic and Social Division of the British Overseas Development Administration, the New Delhi office of the Ford Foundation and the Centre for Development Research and Training (CENDERET) at the Xavier Institute of Management, Bhubaneswar. I am also most grateful to all the respondents for sharing their expertise by completing the questionnaire.

Malcolm Harper, Bhubaneswar,
February 1991

FIGURE I

ENTERPRISE DEVELOPMENT CENTRE



CO-OPERATIVES AND OTHER GROUP ENTERPRISES
CRITICAL FACTORS

Below you will see eleven pairs of contrasting statements, labelled A to K, about co-operatives and other forms of group enterprise; please make a mark on the line between each of the pairs, according to which of the two you agree with, and how strongly. If you agree strongly with the left hand statement, put a mark at the left hand end of the line, if you agree but are not quite so sure, put a mark between the middle and the left hand end, and if you cannot decide between the two, put a mark in the middle, at the point "m". Similarly, if you agree strongly or not so strongly with the right hand statement.

	<u>A Homogeneity or Variety</u>			
All the group members should be of similar background and experience, to ensure homogeneity.	46%	16%	38%	The group should include members with different backgrounds and experiences.
	_____m_____			
	<u>B Similar or Different Skills</u>			
All the group members should have similar skills and abilities.	19%	20%	61%	The group should include members with different skills and abilities
	_____m_____			
	<u>C Start with many activities or one</u>			
On formation, the group's activities should cover many aspects of members' lives, such as work, credit, housing etc.	18%	13%	69%	On formation, groups should focus on one activity only, to ensure manageability.
	_____m_____			
	<u>D Diversified or single-function</u>			
Once established, a group should extend into many activities.	50%	21%	29%	Groups should stick to one activity.
	_____m_____			

Please turn over/

E Political or Apolitical
 Groups should have close links with political bodies, to ensure acceptance and security. 7% 16% 77%
 Groups should avoid being linked to any particular political group.

F Start on their own or assisted
 Groups need as much outside assistance as possible to help them start. 28% 23% 49%
 Groups must start on their own: this is the best test of viability.

G Subsidy and Assistance or Not
 Once established, groups need to have support and protection. 27% 16% 57%
 Groups should survive on their own, like any other businesses.

H Participation or Leadership
 As many decisions as possible should be made by all members, and any necessary positions of authority should be regularly rotated. 36% 17% 47%
 Leadership is vital; every group must have one person whom all acknowledge as the leader.

I Loose or Tight at the Start
 From the beginning, a new group must have clearly stated rules to avoid confusion. 44% 17% 39%
 A group must start flexibly, in order to allow it to develop naturally.

J Structure or Flexibility
 Once it is established, a group must have strict rules and procedures as a basis for survival and growth. 54% 22% 24%
 Groups need to be flexible and unstructured in order to evolve as circumstances change.

K Ideology or Business
 A Group's objectives must go beyond income, and include social and community goals if it is to survive. 53% 17% 30%
 Group enterprises can survive only if their members regard them purely as a way of increasing their incomes.

When you have done this, please note below which of the eleven factors you believe to be the most important one, and which you believe to be the second most important; use the initials A to K to save space.

The Most Important A/B/C/D/E/F/G/H/I/J/K

The Second Most Important A/B/C/D/E/F/G/H/I/J/K

Please note on a separate sheet of paper any other factors relating to group enterprise which you believe are equally or more important than issues A to K, apart from the normal aspects of any business such as good management, the market, or basic viability. Many thanks.

Your name and address.....

Please return to:
 Malcolm Harper,
 Xavier Institute of Management,
 Bhubaneswar 751013,
 Orissa State. India.