

THE NEW MECHANISM FOR PERFORMANCE EVALUATION OF THE CO-OPERATIVES

A. Chamaru De Alwis

Faculty of Management and Economics, Tomas Bata University, Czech Republic
dealwisac@gmail.com

Abstract:

Co-operatives are exceptional type of organization because of their purpose for existence. They are running business based on predetermined norms called “Co-operative value and principles”. In point of fact, if they depart from this so-called value system, there is no co-operative continuation hereafter. One of the special features behind this body is the owner (member) plays dual role with it, as an owner and the foremost customer segment. Because of those surroundings they cannot construct profit maximization as an organizational objective. But really, they have to earn some profits for the survival and long term advancement of the unit. Because of this foundation and special purpose for existence, they can be recognizing as “Co-operative business” by combing the purpose of the entity and its operation. Thus performance of this special entity must be measured through unique mechanism appropriate to the specialty. This article suggests new mechanism for the performance evaluation named “Co-operative performance matrix” by combining business and co-operative value performances.

Keywords: co-operatives, values, principles, financial performance, value performances.

1. INTRODUCTION

A co-operative is a business entity formed by a set of individuals who have a common goal or interest. As per the Weston (2010) “As such, forming a co-operative can be a good choice when a group of people acting together can accomplish a goal that could not be accomplished by individual members acting on their own”.

Primary objective of co-operatives is to provide goods and services to its members (owners) of the co-operative. In addition to that

...to assist to increased income and savings, investments, productivity, and purchasing power and promote among them equitable distribution of net surplus through maximum utilization of economics of scale, cost-sharing and risk-sharing without, however, conducting the affairs of the Co-operative for eleemosynary or charitable purposes (FAO Regional Office for Asia and the Pacific, 1998).

A co-operative expects to provide maximum economic benefits to its members and circulate co-operative practices and new ideas in business and management. Different co-operatives develop their specific objectives based on the reasons of existence. Some co-operatives have multiple objectives for member's i.e. MPCS Sri Lanka is running different type of business like retail and wholesale, transport, banking and etc while others are more specialized i.e milk producer's co-operatives in Sri Lanka. A co-operative or “co-op” is a business entity formed by a set of individuals who have a common goal or interest. Their main objective is running some business activity for the assist their members to trouble-free their life and enhance their standard of living. Thus, this entity can not to be worked for the maximization of the profit or wealth of the organization. They have to generate some profit just only for the improving the service as well as survival of the organization. The co-operatives have to run their business under the framework has been developed by members with the initiation of the society. In other words, they have to work without deviation co-operative values and principles. If they depart those, hereafter, there is no Co-operative existence there.

Actually, under this environment, co-operative owners play dual role as an owners and customers. Thus co-operatives can not to be recognized as investor-oriented organization (Weston, 2002). The benefits of a co-operative are not distributed according to the amount of investment or percentage of stock owned. The members of a co-operative provide the financing to support the co-operative's operations and receive benefits in proportion to their use or patronage of the co-operative. The members' main obligation is to use the services of the co-operative, and the success of the co-operative is tied to the members' patronage. Co-operatives also differ from other business entities in their management. Co-operative members typically have one vote. This one vote per member ensures the principle of democratic control. Control of the co-operative is exercised through adoption of governing documents (i.e. articles of incorporation and bylaws), and election of directors. The directors then set the basic operating policies according to the philosophy of the membership.

By summarization those factors, co-operatives are running business on the foundation of co-operative values and principles for the betterment of member (owner customer). Therefore this entity cannot be recognized as business entity, better to recognize as special unit named “Co-operative business”.

There are number of performance evaluation tools can be seen with the profit oriented organizations. Most of these techniques directly related with the financial performance of the

organizations. Profitability and management efficiency indicators are mostly used among those. Net Profit, Return on Investment (ROI), Return on Assets (ROA), and Earning per Share (EPS) are some common examples for the profitability indicators. Effective use of capital, Management stability and efficiency of operations are other most popular measurements to measure management efficiency. But the problem is whether those are suitable to measure co-operative performance. Because co-operatives are different up to some extent from this profit oriented organizations. That means, co-operatives almost not differ from other business organizations. They are doing business, but their objectives have some unique differences from other organizations. Because of that background, they don't run for maximizing profit to maintain co-operative identity when they perform day to day activities. In other words, they have to work without divergence from co-operative value and principles. If they do not concern co-operative identify, hereafter, the co-operative cannot seen their because of their registration under co-operative law, not the real practice. These form a bridge between values and the overall performance of the co-operative, important and crucial functions help to make the development process for both the effective satisfaction of the material need of the members and overall performance of the principles are long term values (Book, 1989). Under this background, an argument can be raised, when it is going to measure performance through the instrument that are used by business organizations, is not providing real picture of this unique entity. Under this specific environment, the research objective of the study is to develop unique instrument to measure and categorized co-operatives based on their performances

2. LITERATURE REVIEW

The co-operative movement has a deep and distinguished history (ICA, 1996) and during this long last history a larger number of institutions, organisations, ideologists, authors and co-operative founders have defined co-operatives in different ways and there is no universally accepted definition (Book, 1992). Therefore here, this article is going to use the definitions given by International Co-operative Association (ICA) who is the independent, non-governmental association which unites, represents and serves co-operatives worldwide, identified co-operative values and principles in 1996. According to them

"Co-operative is an association of persons, who have voluntarily joined together to achieve a common end through the formation of a democratically-controlled organisation, making equitable contributions to the capital required and accepting a fair share of the risks and benefits of the undertaking in which the members actively participate" (ICA, 1996).

Above definition shows the most significant features of co-operatives very clearly. It shoes purpose of existence of the co-operative is to serve the needs of the members who ultimately own and control it. In simple terms a co-operative has the prime task of providing benefits to its members in their capacity as users of its service. Values provide the basis for the enunciation of principles, since principles are guidelines for operationalisation of activities (Taimni, 1989), long-term guideline for the co-operative practice and performance (Book, 1989). "Basic co-operative values can be identified as general norms of co-operators; co-operative leaders and co-operative staff should share these help to determine their way of thinking and acting. These are co-operators' statement of what they think is the right thing to do" (Hoyt, 1996). Book (1992) identified "values as general framework to practise in order to make the organisation viable" and Hoyt (1996) father described it as a "mode describe co-operatives appreciate ethical behaviour". According Arias (2000) "values have accounted for

much of the success and growth of the co-operative movement". Book (1992) identified value as an influential factor to create on co-operative culture. As per his wards values ... it is obvious that many co-operative organisations are characterized by an organisational culture that more or less reflects them. It is very difficult to estimate the importance of a living "co-operative culture", but it most probably belongs to the basic success criteria.

According to ICA (1996)

... Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others (ICA,1996).

ICA (1996) identifies six values as traditional values as self-help, responsibility, democracy, equality, equity and solidarity. "Self-help" is based on the belief that all people can and should strive to control their own destiny. "Self-responsibility" means that members assume responsibility for their co-operative, for its establishment and its continuing vitality. Further, members have the responsibility of promoting their co-operative among their families, friends and acquaintances. Finally, self-responsibility means that members are responsible for ensuring that their co-operative remains independent from other public or private organisations.

Parnell (1994) describe democracy as a

"... more than simply casting a vote when it is time for elections to committees and the board. "Hands-on" democracy should include the opportunity to participate in a two-way communications process; with members expressing views on how the business ought to be run for their own benefit and being kept informed about what is happening within their business."

Under the value of equality describes equal rights and opportunities for people to participate democratically, use of society's resources and foster mutuality, understanding and solidarity (Hoyt, 1996). Hoyt (1996) describe equity as "Within the co-operative, rewards for active membership in the co-operative will be distributed equitably, be it through patronage dividends, allocations to capital reserves, increases in services or reductions in charges". Solidarity expresses the strength in mutual self-help and collective responsibility for the well-being of its members (Hoyt, 1996).

In addition to that traditional values, the values statement of the ICA (1996) also describes four numbers of values of personal and ethical behaviour that co-operators actualize in their enterprises. They have encouraged conducting all the co-operative activities based on honesty, openness, social responsibility and caring for others.

Co-operative Principles are guidelines for how to put ideas and values into practice with day to day operations. As ICA (1996) "principles are not a stale list to be reviewed periodically and ritualistically; they are empowering frameworks through which co-operatives can grasp the future." Further ICA (1996) describe co-operative principles as

... The co-operative principles cumulatively are the life blood of the movement. Derived from the values that have infused the movement from its beginnings, they shape the structures and determine the attitudes that provide the movement's distinctive perspectives. They are the guidelines through which co-operators strive to develop their co-operative organisations. They are inherently practical

principles, fashioned as much by generations of experience as by philosophical thought. They are, consequently, elastic, applicable with different degrees of detail to different kinds of co-operatives in different kinds of situations. Above all, they require co-operators to make decisions: for example, as to the nature of the democracy of their institutions, the roles of different stakeholders, and the allocation of surpluses that are created. They are the essential qualities that make co-operators effective, co-operatives distinct, and the co-operative movement valuable.

The ICA (1996) has recognized seven numbers of co-operative principles as guidelines by which co-operatives put their values into practice.

3. NEW MECHANISM FOR CO-OPERATIVE PERFORMANCES

Authors, suggest using two main indicators to measure co-operative performances. That is co-operative business performance and co-operative value/principle performances. Cooperatives are doing business (without profit maximization objective); thus it should be measured its business performances to get understand their efficiency of the operations. But actually, at the same time co-operative has to protect co-operative identity. In other wards they have work according to co-operative philosophy. Therefore it should be evaluated co-operative value/principle practices with day to day operations, because it brings understanding whether they are working with protecting co-operative identity or not. Actually, to be a real co-operative, it has to directed to achieve these two performance criteria at the same time (Davis, 1997).

If they achieve co-operative value performances without considering business performances, it is not a successful organisation in co-operative view (“Pure value oriented”), because then they cannot fulfil members’ economical expectations and co-operative will struggle for the survival in the market. If they achieve economic performance without considering value practices, it will be become another profit-oriented organisation (“Pure Business Organization”). If the co-operative performs value practices as well as business activities successfully, then it will become an effective co-operative in this market environment. If they do not achieve these two performances, it is an “Absolutely Failed” society. Therefore, co-operative must be successful in two different perspectives, business performance as well as co-operative value performances. Then it can be “Co-operative Business” organization.

3.1. Develop new instrument to measure co-operative performance

Based on the co-operative identify and the specialty of the entity it should be evaluated through business performance indicators as well as co-operative value performances.

Business Performance

Even though there are many criticisms ageist, many researchers prefers to use financial measures to summarize outcomes of economic and other events and transactions already taken place in an organization whatever business they are in.

To develop this instrument, it has been taken into account two main key performance indicators as profitability and management efficiency. Here ROI is used to evaluate profitability and management efficiency is measured through three indicators: effective use of capital, management stability and efficiency of operations.

Table 1: Business performance indicators

	Variable	Indicator	Measurement
Business Performance	Profitability	Profitability	Average Net Profit
	Management efficiency	Effective use of capital	Inventory Turnover
		Management stability	Current Ratio (CR)
		Efficiency of operations	Return on Assets

Based on the business performance, it has been divided co-operatives into two segments as co-operatives with high and low business performances. For that this research suggests to the methodology shown in table number 2.

Table 2: Method of calculating the level of business performances

	Variable	Indicator	Measurement
Business Performance	Profitability	Profitability	Average Net Profit Profit – 5 marks Loss – 0 marks
	Management efficiency	Effective use of capital	Inventory Turnover (ST) More than 3 – 5 marks Less than 3 – 0 marks
		Management stability	Current Ratio (CR) More than 2 – 5 marks Less than 2 – 0 makers
		Efficiency of operations	Net Profit Average/ Assets Employed (NPA/E) More than 5% - 5 marks Less than 5% - 0 marks
		$\frac{(ST + CR + NPA/E)}{3}$ (More than 5.0 = 5 Marks , Less than 5.0 = 0 Marks)	
Business Performance = More than 10.0 = High , Less than 10.0 = Low			

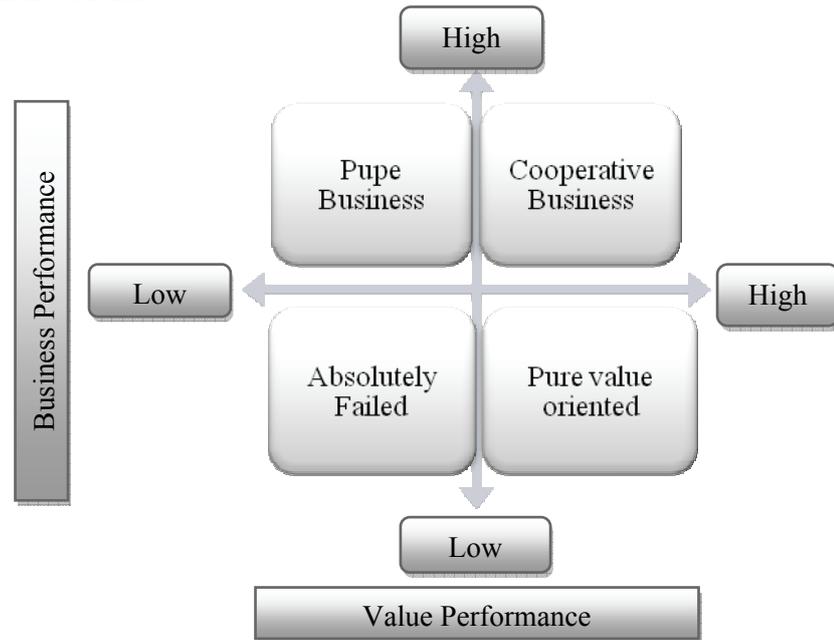
Co-operative value performance

Co-operative value performance can be measured through the actions and programs implemented by considering co-operative values practise in day-to-day operations (Davis, 1997). For this purpose researcher used set of statements arranged with likert scale method (appendix number 1). Biased on the results it was divided into two segments as low performance and high performance.

3.2. Different type of Co-operatives as the new Performance Matrix

As illustrate in the figure number 1 the co-operatives can be divided in to four clusters based on business and co-operative value/principle performances.

Figure 1: Co-operative Performance Matrix



– *Pure Business*

They have utilized the capital properly and the management stability of the organization and efficiency of operations are at an expected level. Under the criteria's used to measure business performance, they have recorded very successful level, but their value/principles performance is below the expected level. In other words they have destroyed co-operative identity. So these co-operatives cannot be considered as a co-operative, it is just another business organization.

– *Pure Value oriented*

They practise co-operative values and principles with day-to-day operations. Therefore under value/principle performances, they have become successful, but they have failed as a business organisation, because they have recorded poor level of business performance. They are running at a loss and management stability, efficiency of operations and efficient use of capital are below the expected level. Under that background they can not to be fulfilling members requirements as they expect. So they can not be identified as successful co-operative.

– *Absolutely failed*

They have failed in these two performance perspectives. Their co-operative value practices and business performances are below the expected level. They do not have practice co-operative value / principles with day to day operations and are running at a loss and management stability, efficiency of operations and efficient use of capital is below the expected level. Under this background they have destroyed co-operative identity and capability to survive in the market as successful business unit.

– *Co-operative Business*

This is the expected form of body with the co-operatives. Under this, they are running their business successfully without deviating from co-operative value/ principles. In other wards they have survive in the market with their special identity.

The special features can be identified with this business are:

- Co-operative is running at a profit.
- They have utilized their capital effectively.
- Their management stability and efficiency of operations are in successful level.
- They are practising co-operative values/ principles with in day-to-day operations.

4. CONCLUSION

A Co-operative is a unique business entity that may be most comparable to a corporation with democratic control. Another unique characteristic of Co-operatives is that the owners of the Co-operative are also its principal customers of the entity. Because of that, Co-operative cannot work for the profit maximization. Not only that, they have work within the framework of Co-operative values and principles that have been established with initiation of the business. Because of this background, co-operative can be recognising as special body as Co-operative business. Under this article, main objective is to develop new mechanism for evaluation Co-operative performance to match with their unique background. For that, researcher has developed new matrix, named “Co-operative performance matrix” by considering business performance and value performance by taking main perspectives. By using this matrix, Co-operative can be categorized in to for groups as “Pure Business”, “Absently failed”, “Pure value oriented” and “Co-operative Business”. The Co-operatives who have success in both perspectives can be categorized as co-operative business.

REFERENCE LIST

1. Arias, O. (2000). *Co-operative Values in the Twenty-first Century*. Rio de Janeiro, Brazil.
2. Böök, S. A. (1989). Co-operative values, principles and identity before the turn of the century. ICA, New Delhi.
3. Böök, S. A. (1992). Co-operative values in changing world. In review of International Co-operation . ICA , New Delhi.
4. Davis, P. (1997). Co-operative identity and co-operative management. Report of the Special Workshop on ICA Co-operative, Identity Statement - From Theory to Practise, 17-21 Aug, ,Jaipur, India, 32–41.
5. FAO Regional Office for Asia and the Pacific. (1998). A Study of Co-operative Legislations in Selected Asian and Pacific Countries. FAO RAP Publication: 1998/30, p. 15
6. Hoyt, A. (1996). *Co-operative Principles Updated*. Co-operative Grocer, January / February Athens.
7. International Co-operative Alliance - ICA. (1996). Report of the ICA committee on co-operative principles, Recommendations concerning the role of co-operatives in the economic and social development of developing countries. ILO, Geneva.
8. Parnell, E. (1994). Co-operative Democracy in the CWS , Co-operative Democracy in the CWS, Retrieved from <http://www.uwcc.wisc.edu/icic/orgs/ica/pubs/review/vol-87-2/cws.html>
9. Rajaguru, R. B. (1996). *Survival in the open market , A critical study on the Co-operative Movement of Sri Lanka within the Market Economy*, ICA.
10. Taimni, K. K. (1993). *Co-operative Development : The Next Phase*. ICA, New Delhi.
11. Weston, M. J. (2010). Co-operatives and Small Business, Small Business law articles Retrieved from <http://www.simplicitylaw.com/law-articles/Co-operatives-and-small-business>