

Readings in Cooperative Management

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INTERNATIONAL COOPERATIVE ALLIANCE

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**REGIONAL OFFICE & EDUCATION CENTRE FOR SOUTH-EAST ASIA
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Foreword

The importance of providing adequate and proper training to the managerial staff is being increasingly appreciated by cooperatives. The cooperative training institutions in most of the countries of the region are endeavouring to strengthen their facilities for management training.

The ICA Regional Office and Education Centre for South-East Asia also has been giving due attention to the subject of cooperative management in its educational programmes. Several Regional Seminars have been held by it on different aspects of cooperative management.

The present publication contains papers on the subject of cooperative management. Most of them are papers that have been presented at these seminars. Among the other contributions included here is the valedictory address delivered by the late Professor D.R. Gadgil to the Sixth Indian Cooperative Congress in 1971.

My thanks are due to all those who have contributed these papers and to Dr. A.U. Shaikh, former Director of the Vaikunth Mehta National Institute of Cooperative Management, Poona, India, for editing this book.

It is hoped that the papers included in the book will be found useful to the cooperatives in the Region.

NEW DELHI
January 1977.

P.E. WEERAMAN
ICA REGIONAL DIRECTOR
FOR SOUTH-EAST ASIA.

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Indian Cooperative Movement—A Mixed Experience

A.U. Shaikh

Pandit Jawaharlal Nehru and the founding fathers of our constitution conceived of Indian Polity flourishing entirely in an atmosphere of democratic freedom. This implied considerable scope for social and economic self-improvement as well as political and organisational self-government. Panditji put it beautifully when he observed that he saw democracy moving on its Royal road without let or hindrance on the chariot wheels of Panchayati Raj and Cooperatives. Gandhiji even went to the extent of advising for the dissolution of the Indian National Congress so that freedom may reign supreme, free from the shackles of political, social or economic vested interests. These are considered as day dreams of starry-eyed idealists. We Indians are past masters in resurrecting or burying saints and sadhus for our own ends—but only as and when it suits us. Even the sacred words of our constitution are made to bear different interpretations. No wonder, a costly judicial profession as well as dilatory and top heavy judicial system have proliferated.

Being microcosms of the macrocosm which is the State, cooperatives naturally display the same strength and short-coming as all other democratic and social institutions of ours display. The qualities of their defects and the defects of their qualities are similar. They may differ in degree but not in genre—like the Original Sin. They, however, get highlighted when they begin to make tall claims or reach out to the stars. We must all concede that they have no doubt to function within the constraints of our constitution and the general law of the land. They are cribbed, cabined and confined within the inhibitions of our situation as well as of their own bylaws. They cater to homogeneous groups of people with enlightened self-interest but the group is not

all that homogeneous or altruistic. This claim to altruism is also advanced by public and private business houses and companies. They too observe certain discipline, pay taxes with legal evasions, and they do get some special concessions like development rebates or participating capital but no management subsidy etc., as cooperative societies often do. Though special pleading on behalf of cooperatives, does not always cut ice, they do get some monopoly share or favoured treatment in their business. However much politicians and even entrenched cooperative leadership may say that the cooperative movement has to be depoliticised and/or made self-reliant and pure, it is not easy for anyone to pass a self-denying ordinance. State interference in cooperative working has been justified in the interest of overall social good and stability of the state. In an avowedly welfare state which has unfurled the flag of Growth with Justice, State action is perhaps called for in the interest of the last man and weaker and exploited sections of society. Being business organizations, cooperatives have to subscribe to State directions regarding business practices which affect the common man. This is perhaps inevitable when a tradition-ridden society based on the four Varnas and exploitative and conflicting class and communal structure has to be rewelded and integrated or made to work harmoniously for achieving the common good. In an open society both preferences and exclusions must need be tabooed.

The difference between cooperation in India, rather in Asia and the western countries from whom we adopted or adapted the movement arises perhaps from the fact that the former had secured The Magna Carta centuries ago and set up the statue of liberty ahead of us. They also utilised their colonial power or industrial advance to secure advantages to themselves under what was known as Imperial preferences. This enabled them to practice a peculiar business morality at home and abroad with double standards. They could therefore indulge in free enterprise and cooperative self-sufficiency within the grooves of democratic norms of national and individual behaviour and codes of conduct for home consumption. Subjected to fierce competition too they had to prove their worthwhileness both to their

members and their clients. The totalitarian communist countries on the other hand have controlled totally co-operatives and commoners.

Cooperatives on the Indian continent or in non-Chinese Asia, however, were planted or rather transplanted by foreign and mostly bureaucratic and colonial hands or by local founding fathers who were mostly untrained or only partially trained in western ways of business and democratic management. Even enthusiastic registrars of cooperative societies of foreign origin, had to curb their enthusiasm for democratic decentralisation due to internal Indian hiatus between the rural and urban, the literate and illiterate, the advanced and backward classes of our people. The exploitative and tragic imbalances in our socio-economic and ecological conditions took their own toll. Indian co-operatives also fell between two stools due to the State's *laissez-faire* policies and the Indian class and caste structure. Therefore, in spite of its yearly slogans of deofficialisation the Movement for its very growth and sustenance began to lean heavily more and more on the State and what is worse, on petty officialdom for political, administrative and financial support and special treatment. Naturally, its effort for attaining self-reliance, self-supervision and self-regulation achieved limited success. When the Movement began to cast its net wider for bigger business spoils, sectoral monopolies and plan priorities, it caught a Tartar. Both society and the State including the warring political parties and the big business fish or private enterprises began to cast covetous and constraining eyes on it as it grew into importance. Some politicians of course believe that if you are not with them you are against them, and to business competitors all is fair in love and war. Societies therefore came to be pulled in all directions and many of them had to pull other people's chestnuts out of the fire.

Moreover, the welfare State and every state, whether democratic, monarchical, totalitarian or dictatorial, claims to be a welfare State aspiring to achieve the largest good of the largest numbers, felt the urges for bigger national development effort. It was spurred into action to secure egalitarian justice by breaking the chains of a tradition-

ridden society. It had and has no patience with cooperative snail's pace or imbalanced development. This phenomenon has pervaded the whole developing world for years.

The jargons of a mixed economy, free enterprise, even the independent judiciary and fourth estate or non-committed steelframe of the civil service began to be adjured but slowly, too slowly, though they were weighed in the balance and found wanting. These institutions including free and fair election machinery—in fact all our value system on which not only cooperative but sovereign, democratic socialistic facade and superstructure is supposed to be resting have begun to be seriously questioned. They are questioned, perhaps justifiably for the cooperatives as well as many other institutions and instruments of democracy have not lived up to their principles. The open society, the non-corruptible and efficient professional self-management promised by cooperatives as well as monopoly houses of free enterprise and other democratic framework seem to have gone with the wind of self-aggrandisement and self-perpetuation which qualities seems to have been instilled in our nature and in traditional Indian, and more or less, in all Asian societies. On the other hand, we allowed ourselves willingly to be caught in the trammels of *laissez faire* policies as our desire for social change and economic betterment are governed by fatalistic and/or lotus-eating attitudes. Just as administrators have driven administration away from the administered, businessmen have driven businessmen out of business, and cooperators have run cooperatives out of cooperation. This was inevitable, since, as Gunnar Myrdal has noted in his Asian Drama, both our value systems and our implementing machinery are perhaps mostly governed by double standards.

The State therefore feels it incumbent on it to break the vicious circle and plan for quicker pace of development. Even the Reserve Bank of India, its subsidiaries, the commercial banks and State Cooperative Banks which are supposed to help commoners and Cooperatives to grow are sometimes screwing, twisting and reshaping them without rhyme or reason. At one time it is the large-size society for which competent and convenient multipurpose self-run village

societies nearer home of members must be guillotined; at another time is a small—All-purpose Farmers Society which must dole out long-medium and short-term finance but which at the same time cannot undertake processing or marketing, that is in fashion. A larger coverage of cases and of weaker sections of society must be shown on paper and hence inadequate down-to-earth financing of individual entrepreneurs must be resorted to without any knowledge of community development techniques. These pseudo bankers kill the goose that lays the golden egg. He who pays the piper calls the tune and this is true of cooperative bankers as well as outside agencies like the Reserve Bank of India or commercial banks or even the World Bank who break or bend the cooperative frame. Cooperators must therefore know that they must first of all cut their coat according to the cloth and move on their own steam and strength to prove their social and economic competence and utility to the State and to society at large. They must free themselves of financial crutches as soon as possible. Cooperatives must even set up a separate national cooperative bank of their own. As it is, they are too dependent on others and circumscribed in their free-will. No wonder instead of their federations, middle-manship in cooperative structure is coming to be reposed in state creatures such as the National Cooperative Development Corporation or other state corporations, or even international marketing companies which have few cooperative elements in them.

This being the case, the cooperative leadership itself must do some self-retrospection as the law merely reflects their weaknesses and excesses and state of international bodies ride rough-shed over them. Having bartered their freedom for a mess of pottage they cannot grumble at the governmental or auditors' regulations, restraining them from boarding it over from air-conditioned office chambers or executive suites of five-star hotels which they have come to occupy with business expansion and monopoly holds on consumers, producers, and labourers in various sectors like cooperative sugar or spinning mills or distilleries and what not. Can they honestly say that cooperative elections are free and fair? Have they observed themselves the trustee-

ship ideals which the Father of the Nation, Mahatma Gandhi earnestly advised them to take to heart and practice? Have they not made societies a closed circuit? Have they not gone round in musical chairs and celebrated the jubilees of their insipid reign along with the cooperative institutions they presided over to no purpose over the years? Did they encourage and let in fresh blood and fresh air of modern management or egalitarian ideals? Did they willingly promote their labourers or professional managers into the Boards of Directors or did they drive a slave-trade and introduce all the corrupt practices in personnel management so that open merit and fair selection and promotion of staff or fair election of office bearers had the least chance. And how many of them indulged in side trade under the name of their cooperative organizations, for feathering their personal, party or political nest? We are all supposed to cater to national integration and practice no communal or class bias but we have seen people brazen-facedly getting away with it in a much-advertised secular, democratic State and nobody asks any question except to those weaker sections and minorities who are most ill-treated and exploited and excluded from cooperatives or allowed to stew in their own cooperative society juice like backward class housing or farming societies. The latter are even harangued for their low production and poor productivity and inefficient management or non-viability without ever giving them appropriate organisational, technological or financial support or training in the requisite skills. Cooperators even twist and turn the Registrars' paraphernalia and also cooperative courts and collectors' election organisation into a handmaid of vested interests and thus the cooperative membership at large is reduced to the status of dumb-driven cattle. Education of this membership whose interests we claim to promote and professionalisation of management are neglected. Cooperative union chairmen are either denied the wherewithal of trained peripetatic teachers and teaching aids or are so selected, and elected that some of them only run from district to district or village to village to blow their own trumpet or draw fat travelling allowance bills. Denial of subscription to the Cooperative Unions is achiev-

ed indirectly by showing societies in loss or by starting a system of camouflaged accounting to deny education fund to Unions as well as dividend on Government Share capital. By showing no profits and absorbing all benefits indirectly and through clever accounting both the participating state and organisational dependents receive no dividends or contributions like education fund. Master weavers who have caught hold of cooperative spinning mills or kulak kings of sugar cooperative societies, who have manoeuvred against tenancy laws and consumers' prices have thus attained monopoly status with cooperative instrumentation. While being apparently successful cooperative management is but a mixed experience in India and the Asian region generally.

If such abnormal and questionable tactics become the rule than the exception, the State and Society begin to call names to the Movement and bridle it sooner or later. Are we then justified in complaining about State interference or irksome rules of audit and supervision, or can we call names to the parallel evil of State Corporations which are set up sometimes to escape administrative, financial and legislative accountability with ministers or others presiding over them as chairmen and treating them as pocket burroughs.

While therefore, rightfully asking the State to allow the movement a free hand, they must learn and instil self-discipline in themselves. Their working methods must subscribe to business management standards. They must also be self-reliant as far as possible and enforce self-regulation and self-supervision. They must take their general bodies and professional managers into confidence. Even *inter se* the cooperative sectoral and federal organizations must show greater give and take and secure counsel together for mutual improvement and internally arrange for efficient self-supervisions and self-regulation as well as continuous training of their staff. Without this it would all be a forcible feeble affair and they would not be able to stand outside competition or criticism. There would also be neither planned national growth in it nor distributive justice, two stars to which cooperatives and cooperators must hitch their

wagon. Even the cooperative educational and training complex should be independent of banking bosses and external bossism to secure its academic excellence and professional rectitude.

Referring to the cooperative movement. Mr. Gajendragadkar, former Chief Justice of India recently observed: "It had been built up in India from the top and not from the bottom of the society—masses and workers—as is the case with some foreign countries. Inevitably this difference in the origin of cooperation had an impact on the whole structure of the Indian cooperative movement".

He thought that law and administration was not an end but means of development and instrument of change by which the democratic State attained success or failure.

He said the instrument of change assumed special importance as it implemented policies aimed at achieving social, political and economic objectives of the community. "Many of our social and economic ills can be solved by strengthening the cooperative movement in the country", he added. All this implies community participation which depends on education of cooperative membership from the grassroots.

He recommended an era of *anushasan* in the cooperative sector. The movement, on which depended the future of Indian economy, today suffered from cynicism, frustration, character assassination and lack of ethos.

In the absence of a sense of social service and an atmosphere of ethos, all talk of revolutionary ideas and making the movement an instrument of social and economic change, would be mere words and words, he said.

Opposing the present proviso of nominated members to sit on the boards of cooperative institutions, Mr. Gajendragadkar said that top cooperators should lay down some guidelines to the Government for determining the selection of "worthy" nominators.

Those who failed to win the confidence of the people and lost the election or those denied party tickets should not, as a matter of principle, be considered for appointment on any cooperative body.

While therefore pin-pointing excesses and mistakes on the part of the State in legislating for cooperatives or administer-

ing them, we must see to it that the image of cooperators, cooperatives and cooperation improves. We must set our house in order and swear by honest, efficient, modern management. We must also beware of politicians who kick the ladder after rising to political power through cooperatives. So also we must beware of free enterprise managers who have no faith in cooperation. We must, finally, caution all concerned that individual and social equity, betterment and satisfaction can only be secured if politicians learn to depoliticise the movement, if cooperators learn to cooperate better amongst themselves as well as with professional managers and if the last man is educated and enabled to learn and yearn to come into his own sovereign, socialistic democracy and Cooperative Commonwealth.

State Administrative Apparatus and Cooperative Management

Jurgen von Mural

A critical analysis of the present situation of the cooperative movements in the Asian region reveals that—with some exceptions—in most countries cooperative societies have not yet reached the stage where they are contributing on a large scale to the improvement of the social and economic conditions of small producers and consumers. This does not imply that cooperatives have failed on the whole but one has to realise that they are still far from being independent and self-supporting movements involving also the less privileged classes of society such as agricultural workers, tenants, small peasant farmers and fishermen who form the majority of the population in the region. Similarly in urban areas cooperatives have not been able to achieve a break-through in organising the cheap supply of consumer goods, housing, services etc., for low income groups.

The reasons for the somewhat slow progress cooperatives have made in a number of Asian countries where such institutions exist now since over a half a century are well known. There is no need to elaborate on this point further. However, it is obvious that the problem on which I have been asked to present a paper is a crucial one for the long-term development of cooperative societies. There are two elements involved: first, the legal framework in which cooperatives exist and operate, and second, the problems connected with the management of cooperative societies. It is my aim to show how these two elements are interlinked and what are the effects they have on each other. I shall try to do so on the basis of some general observations and illustrate those effects with some examples from countries of the region. It is generally agreed that the question of management is perhaps the most important single factor which decides about failure or success of cooperatives. On the other hand

it must be realised that an adequate cooperative legislation and its full application can help in building and improving effective cooperative systems.

Cooperatives as legal entities need for their successful development a sound basis which provides a framework for their operations and at the same time serves as a guarantee for their protection. Now-a-days practically all countries in the region have made legal provisions for the registration of cooperatives. One of the few exceptions is Laos but also there a cooperative law is presently under preparation. Usually a special cooperative law or ordinance is enacted but in New Zealand, for example, cooperatives are simply registered under the Companies Act and it is for the members to draw up their own articles of association including as many safeguards for cooperative principles as they feel to be necessary. It is obvious that this procedure has several disadvantages: uncooperative practices may be introduced in ignorance or by interested parties; there is little or no supervision of the conduct of the society; cooperatives being legally indistinguishable from other companies, receive no fiscal or other encouragement. It is therefore understandable that already at an early stage of the development of cooperatives governments have initiated cooperative legislation. While this has generally been welcomed by cooperators the fact should not be overlooked that laws could be enacted which would restrict such associations in their activities and regulate them to an extent that essential characteristics of cooperatives as self-help institutions with the right to self-administration would be lost.

Before the effects of cooperative laws and regulations on the management of cooperatives can be analysed it is necessary to review briefly the origin of cooperative legislation in Asia because this has had and still has a strong influence on the problems we are discussing here. It is well known that cooperatives in their modern form are not a new development in Asia but that the first societies date back to the end of the last century when they have usually been introduced by colonial powers. Unlike the development in Europe where cooperatives had existed and operated already for certain periods of time before a cooperative legislation was enacted

in some of the Asian countries the cooperative legislation stood at the beginning of the cooperative development *i.e.*, first a law was promulgated and only subsequently cooperatives were formed and started operation. In some cases where no specific legislation existed cooperatives were first registered under laws on associations or similar laws. The first Indian cooperative legislation of 1904 which was instituted by the British colonial regime and which was modelled largely on the English Friendly Societies Act served later as a model also for many other countries in Asia such as Burma, the then Malaya, Ceylon, etc.

One of the principal concerns of the early promoters of cooperatives in most Asian countries was the increasing indebtedness of the small farmers and agriculturists and their inability to obtain loans. Thus the purpose for establishing cooperatives was originally to find an organisational basis for the provisions of loans and credits. In the Raiffeisen cooperatives in Germany existed already associations which served exactly these purposes and therefore, most of the early cooperatives in Asia, but particularly in countries under British rule, were restricted to credit and formed along the lines of these Raiffeisen societies. This is also true for Thailand where until the mid-1930's only credit cooperatives existed although the law of 1928 authorised the responsible Minister to decide which types and forms could be registered. In India the 1904 law expressly restricted the activities of the cooperatives governed by this law to credit although it was the announced aim of the Government of India "to lay down the general outlines and to leave the details to be filled in gradually, on lines which the experience of failure or success and the natural development of institutions may indicate as best suited to each part of the country".¹ Subsequently the original law was changed several times, the first time already in 1912. In general it can be said that this approach would seem to be the most appropriate when it is attempted to introduce a social and economic institution, such as cooperatives, which has been.

1. Calvert, Hubert, *The Law and Principles of Cooperative* (Calcutta, and Simla, 1926) p. 3.

developed in countries with completely different political, socio-economic and cultural environment. In fact it can be said that sometimes inflexible approach of copying and transferring successful institutions including their legal basis to countries with different conditions was one of the main reasons for the slow development which can be observed in the field of cooperatives in most Asian countries. Since it is not intended to give here a synthesis of the development of the cooperative law in Asia, it will be sufficient to state that in most countries the original laws have been changed in the past to adapt them better to the prevailing conditions. Recent examples are the cooperative laws of Indonesia, Thailand and others. Generally spoken the cooperative laws in force in the Asian countries should by and large provide a reasonably good basis for the further development of the respective cooperative movements. However, this does not exclude that in specific matters provisions of these laws will have to be altered in order to improve the legal conditions in which the cooperative societies and the whole structure of the national cooperative movement have to develop.

The particularities of cooperative management

In order to be able to identify the particular points of relevance in the context of the subject of this paper it is necessary to deal briefly with some of the particularities of the management of cooperative societies, which result from the distinct features of a cooperative society, as a combination of two organisational entities: a business enterprise on the one hand and a social institution or association of persons who unite to use the services provided by the business enterprises on the other.

In general terms "management" can be defined as the art and science of organising and directing the resources of an enterprise towards the achievement of its objectives. While this definition is valid for both cooperative and non-cooperative enterprises, it is the responsibility of cooperative management to aim at success in both aspects *i.e.* for the cooperative as a business enterprise and as an association servicing its

members. The management functions of planning, organising, directing and control have to be performed in such a way that a fair balance between these two, under certain conditions, competing objectives is achieved. In contrast to private enterprises in which the management functions are usually entrusted to a team of top executives who are responsible to the owners or shareholders of the undertaking, the specific nature and the democratic structure of cooperatives require a different set-up of which employed executives constitute only a part. In a cooperative the management structure, as a whole, consists of the following components:

- the general membership
- the elected boards or committees and
- the (usually employed) managers.

The fact that a cooperative is controlled by the general meeting of members who are all entitled to attend and each of whom holds one vote regardless of his share capital constitutes a safeguard to the service orientation of the cooperative, which is based on the principle that the cooperative business enterprise renders services to all members under their control and with their active participation. Failure to observe this principle—be it through limiting control and active involvement of members, through rendering services to a limited number of members only, through placing the commercial interests of the cooperative business above or even against the interests of the members—can be considered as a failure of the social institution. Since it is very difficult for the general assembly of members to be involved in the actual management of their society nearly all cooperative laws and/or rules entrust a special board or committee composed of elected members with the management of the affairs of the society. To a varying degree these boards delegate certain of their powers to individual members or employed personnel such as managers, secretaries, accountants, etc., who remain however under the policy guidance of the elected board. The extent of this delegation of power depends in practice very much

on the nature of the cooperative enterprise and the personalities involved. A competent manager who enjoys the full confidence of the board will naturally assume more freedom of action than a secretary who is used only to act on precise instructions of his board.

In industrialised countries where cooperatives have often developed into huge and complex business undertakings with a number of different enterprises there has been a definite trend to transfer more and more responsibility into the hands of employed managerial staff. "While this process has sometimes a beneficial effect on the business efficiency of cooperative enterprises, it can constitute a considerable problem and a danger to their existence as service-oriented social institutions".² In such cases the general membership and in particular the board of directors will have to exercise their legitimate rights and correct such developments. Since many laws entrust certain government agencies with supervisory powers this can be a further guarantee that the character of cooperatives be maintained. On the other hand many of the effects of the cooperative legislation on the actual management of cooperatives derive exactly from these provisions in laws and regulations instituting such government services, mostly headed by Registrars or Directors of Cooperative Departments who are frequently entitled by law to interfere in internal matters of cooperatives.

Cooperative legislation and management

As already mentioned above the development of cooperatives in Asia has originally been influenced in one way or the other by earlier examples from European countries. This does not apply only to the legal provisions but also to the whole concept of cooperation, and its structure as for example the initial acceptance of particular cooperative concepts like the small credit cooperative with unlimited liability along the Raiffeisen lines. Especially the latter influenced in a number of countries the further develop-

2. H. Watzlawick, Aspects of Cooperative Management in: Management and Productivity (ILO) No. 36, 1971/1, Geneva, p. 49.

ment of the cooperative movement and was largely responsible for the cooperatives concentration on credit activities. There is no doubt that this development had also an important influence on the question of cooperative management because honorary service in the managing committee was one of the principles of these societies.

An analysis of the present cooperative laws in Asia shows that they contain very few provisions concerning the actual management of cooperative societies. Usually the laws are rather formalistic and confine themselves to lay down the procedures of formation, registration, auditing, liquidation and supervision by Government services. While practically all laws refer to the supreme authority of the annual membership assembly and its elected organ, *viz.* the board of directors as managing body, only a few laws spell out the specific responsibilities, rights and duties of the managing committee. The fact that cooperatives can employ a professional management is rarely mentioned. This approach would suggest that the effects of cooperative laws on management questions are negligible and that it is left to the individual society to organise its management according to its own needs and requirements. Actually this is the method adopted in most European countries whose laws provide only for the framework within which the societies are free to operate in accordance with the bylaws they give themselves.

Although cooperative laws are the basic legal document governing the functioning of registered cooperative societies, most laws provide additionally for special rules to be issued by the government for the purpose of carrying out or giving effect to the principles and provisions of the law.³ In practice the rules are usually the instrument through which the responsible government departments or ministries can influence the organisation and the management of cooperative societies and they are therefore in the frame-

3. Unfortunately the nomenclature used in the different cooperative laws is not uniform. While in most cases the term 'Rules' is used as the term for departmental regulations some laws such as the Cooperative Societies Ordinance 1965 of Papua/New Guinea define 'rules' as the rules of a society which are otherwise called by-laws.

work of the present paper probably more important than the laws themselves. In the following the different nature of possible effect of cooperative legislation on management question will be discussed.

(a) *Planning of Cooperatives*

An important point which however is not directly included in the subject of this paper concerns the planning of cooperatives. Cooperative laws and regulations usually do not stipulate how cooperatives should come into existence and are being planned. Yet this question is from the management point of view of primary importance since a society which is for economic and social reasons not viable should not be organised and will create constant management problems when nevertheless established. While in Europe, cooperatives are usually formed on the initiative of individuals or existing cooperative unions and federations in many Asian countries cooperative development is actively promoted by the government and its responsible services. This has, in the past, frequently led to campaigns for the mass creation of cooperatives which subsequently were facing difficult economic problems. Although the government leadership in developing cooperatives has to be acknowledged such procedures have to be avoided since they result nearly inevitably in an attitude of the members and potential members to look at the cooperatives not as their own institutions but as a government institution for them. Without prior and continuous education and training, it cannot be expected that cooperatives can develop their own management which is able to handle the societies' affairs. In Thailand, for example, where a few years ago about 10,000 small credit societies existed which had an average membership of 17, departmental officers had after years of existence still to handle even the simplest affairs of these societies.

(b) *Formation and Registration of Cooperatives*

The formalities of the constitution and registration of cooperative societies are practically in all laws dealt with in great detail. As in the case of the planning of cooperatives

already with the registration of a society, a number of matters are being decided which have a significant impact on the later management even before the society starts its operations. One of the conditions for registration is usually that the by-laws have to be submitted to the Registrar. These by-laws, however, can in most cases, not be drawn up by the applicants themselves but they have to use standardised by-laws which are issued by government agencies. Most laws give the authority to the Registrar whether a society should be registered or not. In general it can be said that the institution of the Registrar has been changed from a pure registering office to a policy-making authority which influences strongly the further development of the cooperative movements. In this connection, the question of liability of members has in the past played an important role. Although most laws allow today the registration of societies with limited and unlimited liability in many countries, credit societies had to be of the first type for being registered and able to obtain government loans.

(c) *Effects on Membership*

The actual and potential size and composition of a society's membership is a decisive factor for its management. The laws and regulations in question as a rule do not contain any unjust restrictions on membership, they define normally the qualifications required to become a member of a society and define the minimum number of members which varies between 7 and 20. In some laws provisions are made which entitle the competent authority to specify the occupations of members of a given society. In some instances, there are additional laws which compel beneficiaries of certain government schemes such as agrarian reforms, special credit schemes, land settlements to become members of a cooperative society. Such stipulations do not seem to be contradictory to the principle of voluntary and open membership. The essential rights of the membership assembly as highest authority of a cooperative are in no case by law expressly put out of force but certain provisions of laws limit its full application by transferring the right to certain decisions to government officials.

(d) *Managing Committee*

By looking at the provisions and stipulations of cooperative laws relating to the election, composition, rights and obligations and dissolution of the boards of directors or managing committees any direct effects of the cooperative legislation on the management can be studied best. All laws prescribe the formation of a board of directors elected by the members' assembly which is in charge of managing the societies' affairs. While the number of members and the duration of their office terms vary from country to country, all laws recognise the absolute power of these elected bodies and only a few refer to direct ways of influencing their composition and decisions. Some laws as for example that of Thailand provide for the dismissal of the entire committee of management or of individual members in certain cases and give the authority to the Registrar to appoint Interim Committees or replacements of dismissed committee members. It is a generally accepted practice that only a member of a society is eligible for becoming a member of the committee but the Indonesian law allows also the election of up to one-third non-members, into the committee. While through this provision, it might be possible to elect capable outsiders into the management committee there is also the danger that the decisions of the committees are unduly influenced by vested interests. Hardly any law forbids the election of government cooperative officers (who are members of a particular society) into the boards. Notwithstanding the right of every person to be elected into a cooperative's board, this may lead to the fact that cooperatives are managed by officers who are on the other hand under direct order of the administration. Even further goes the practice to nominate directly directors of cooperatives as possible under some rules and regulations. While this may be appropriate in countries where the State is subscribing into the share-capital of specific types of societies, it should be avoided as a generally accepted principle since it often results in an undue "officialisation" of the cooperative movement and hinders the development of cooperative managerial personnel. In recognition of this only recently

the Government of Bangladesh has put an end to this practice. In India where Registrars are also entitled to nominate directors, discussions are going on to limit such restrictive provisions and to examine the factors inhibiting self-regulation in the cooperative movement and to suggest appropriate remedies.⁴

(e) *Effects on Business and Financial Transactions*

Since the final reason of establishing a cooperative society is to support and improve the members' individual economic situation through mutual self-help, each cooperative should in principle only be restricted by law in its business transactions so as to safeguard the cooperative character, to protect the interests of third parties and to prevent the misappropriation of public funds etc. In the case of developing countries where most of the cooperative members are uneducated and often not able to exercise enough control over their own societies certain additional safeguards have to be instituted so to protect also the interest of all members against mis-management, preferential treatment of certain groups of members and just defraud. As regards the business of cooperatives one has to distinguish between two types of cooperative laws namely universal laws and laws for specific types of cooperatives. While the former must by nature be rather general, the latter usually define more precisely the purpose of those societies governed by these laws. Here in Asia, the general laws are predominant, although there are special laws for certain types of societies. In this connection, one has to remember that also other than cooperative laws regulate economic activities of companies, associations and also cooperatives. The usual minimum regulations to be found in cooperative laws concern share capital, reserves, distribution of net surplus, and sometimes a general description of the activities a cooperative can undertake. The rules contain mostly more detailed provisions, for example in determining exactly the ways

4. See: N.M. Belsare, Trends in Cooperative Legislation since Independence in: Cooperative Information Bulletin, Vol. 7, No. 3, Oct. 1972, Vaikunth Mehta National Institute of Cooperative Management, Poona.

how a cooperative can invest its funds. Such regulations affect already to a great extent the management decisions and interfere with internal affairs of a society. Also here the protection of the members and creditors of a society has been the reason for introducing such regulations particularly since most of the cooperatives in Asia have insufficient own funds and depend largely on loans from governments and other outside sources. Especially in the credit and loan activities regulations are rather strict. The Thai law stipulates for example that the Registrar has to approve the amounts of money borrowed by a society. Very often banking institutions giving loans to the cooperative sector are under the direct control of the government and issue detailed instructions as to the purposes for which the funds they lend out to cooperatives can be used. This, in combination with regulations on interest rates, leaves in fact not much freedom to the management. In the supply and marketing sectors the situation is not very different although the laws rarely mention these activities at all. In countries where the State is itself economically active through state-owned companies, export and import monopolies etc., cooperatives naturally have to comply with the rules set for these activities. However, such regulations are not necessarily detrimental to the cooperatives, on the contrary, often cooperatives enjoy special privileges such as preferential prices and import licences, monopolies for dealing with certain goods and/or service in addition to tax exemptions or reductions as we find them in most cooperative legislations. In view of this and of the fact that cooperatives are often called to support and execute specific government schemes such as price supporting measures and distribution of rationed goods, cooperative managements are usually not as free in their business decision as the management of private enterprises. Another important point is that the majority of the Asian cooperatives are active in the field of agriculture which itself is regulated to a certain extent and benefits also from certain protective measures administered by the government.

(f) *Federation and Amalgamation of Societies*

Provisions on the right of cooperatives to federate and amalgamate are important from the managerial aspect. Nearly all laws include specific regulations concerning these questions. As a rule, it is left to the societies themselves to apply for amalgamation or federation, the law only stipulates the minimum number of societies necessary to form a federation, for example. It is of great importance that the procedures for forming a federation or amalgamating two or more societies are simple, since from many points of view, such steps can be beneficial for the development of the individual society as well as for the cooperative movement as a whole. Very often the initiative to form federations to support the economic activities of primary cooperatives or to create bigger societies through amalgamation comes from the responsible government services which issue special policy regulations. The concurrence of the societies is then more or less a formality. In Thailand, the number of primary societies was reduced in the last few years from 10,000 to about 400 through amalgamation into large-size societies. That this could only be achieved by means of a deliberate policy is obvious. It should be stressed here only that laws must in any case provide for federations since such secondary or national bodies can eventually take over certain functions which are often handled by government services. Managerial decisions concerning for instance export marketing, production and processing which are difficult to be made by the management of small primary societies, can then be referred to bodies with professional management.

(g) *Accounting Control and Auditing*

Proper accounting is indispensable for managing a society's affairs, and control and auditing are among the most essential management functions since they are the basis for any business planning and evaluation. While accounting and internal control are functions to be undertaken by the society's management itself, all cooperative laws provide for external auditing. In well developed movements with

unions and federations, these do the auditing normally on their own responsibility. The cooperative laws of the countries of the region however entrust the Registrar as the responsible government service with this task. The Registrar may either undertake the auditing with the help of his own staff or appoint external auditors. In addition to audit which is a periodical exercise most laws and regulations also empower the Registrar to inspect and supervise cooperative societies. There can be no doubt that these three instruments provide the Registrar with powerful means to control the societies under his jurisdiction. In practice, however, it happens quite frequently that the Registrar is unable to discharge all these functions fully and regularly for want of well-trained staff. In many instances, where the greater part of the small agricultural cooperatives have no trained staff of their own, the accounts remain unwritten and thus auditors have to spend much of their time to draw up the accounts they are expected to audit. This is a very unsatisfactory situation and underlines the importance of cooperative education and training. The provisions of the Indonesian cooperative law which compels cooperatives to elect a board of audit in each society as an independent and distinct body from the managing committee is certainly a measure which helps to make members aware of the need for regular auditing and to make them familiar with the techniques of auditing. The right of the Registrar to control and audit the cooperative societies is certainly one of the most important instruments the law gives to government services concerning cooperatives. The justification for giving the department ultimate responsibility for audit lies in the fact that the cooperative movement has usually been introduced and is still in many ways, also financially, supported by the government, which must be regularly informed of its progress and shortcomings. It is immaterial, from the legal point of view, whether the actual work is done by departmental staff, professional auditors or the staff of authorised cooperative federations. The drawbacks of the system are not, as critics have sometimes suggested, that it hampers the freedom of the cooperative movement. Officials of cooperative departments in most cases are only

too pleased to find that a society can stand on its own feet and requires little or no attention. It is rather that the existence of an elaborate system of government assistance tends to encourage the formation of a large number of cooperatives by people who may not fully understand what they are doing and would probably be incapable of running a society unaided. It is not surprising that a number of cooperatives formed in this way never manage to become fully self-sufficient and self-growing under a system of a paternalistic cooperative bureaucracy. On the other hand, many do successfully make the transition to independence and even those which have not been able to do so contribute to relieve poverty and arouse interest among people who could not have been helped in any other way.

(h) *State and Cooperatives*

In spite of the fact that the cooperative law stipulates the state control of cooperatives and defines the nature of the relationship between governments and cooperatives, the influence of governments on the development of cooperatives and their management is usually greater than the actual text of the laws would suggest. The departmental rules and regulations often specify in a more detailed manner the competence and responsibilities of government services vis-a-vis cooperatives. Many questions concerning cooperatives are also dealt with by special decrees and regulations. In this connection, it might be interesting to quote Art. 37 and 38 of the Indonesian law:

“It shall be competent for the Government to render guidance, inspection, protection and facilities in favour of the Cooperatives and enable the cooperative movement in the materialization of the requirements of Article 33 of the Constitution and its explanatory memorandum.

Article 38

- (1) In pursuance of Article 37, and without curtailing the rights and duties of the cooperatives and without effect on their independence, the Government shall promulgate regulations to formulate and carry out

a policy on developing, guidance, rendering facilities, protection and inspection of all activities of the co-operatives.

- (2) The Minister shall appoint the Administrator and stipulate the limit of competence of the latter in empowering him with the task of development, guidance and inspection."

In practice it depends much on the attitude of the government how such rather general provisions are interpreted and used. It is quite understandable that in countries with planned economies cooperatives cannot be left outside the planning process but have to be developed in conformity with the sectoral plans. Among others this is one of the reasons why governments take particular interest in the cooperative movement. Unfortunately this interest leads sometimes to a paternalistic and bureaucratic policy towards cooperatives but on the other hand this is often the consequence of massive help and assistance. The fact that in practice all too often many management decisions of cooperatives are taken on the initiative and/or in consultation with government officers cannot be solely explained by the latter's wish to dominate the societies, but also by the fact that management committees often do not have the knowledge and experience to cope with all problems themselves. Furthermore it has been proved that without sufficient control vested interests are using cooperatives for their own purposes. Particularly the weaker sections of the rural population, for whom much of the assistance is intended, have to be protected and measures have to be taken that they are adequately represented in the societies. A completely liberal cooperative law without government control, is certainly not appropriate under conditions which are characterised by inequality in knowledge, property and land.

In India, for example, the recognition of this problem has resulted in a policy under which certain amendments of various State Cooperative Acts have been instituted which provide for the exclusion of money-lenders and middlemen from membership of cooperatives, restrictions

on holding of offices for more than two consecutive terms, regulations of loans issued to office-bearers and even the reservation of seats for weaker sections in the management of societies.

From the issues raised herein it becomes clear that many effects on the management of cooperative societies originate not only from the codified legislation but depend also on policy decisions and the government's general attitude towards cooperatives. There are also cases where certain government measures are not any more covered by existing laws. To avoid misuse of the officials' power, it would therefore be useful to entrust independent courts or neutral tribunals to decide on controversial matters instead of leaving final decisions always to the administration as many laws do. The final conclusion one can draw is that any undue restrictions and legal provisions limiting the free development of cooperatives on the basis of self-determination and administration can best be overcome by a well-educated membership and trained office-bearers and staff. To concentrate on assisting cooperatives in this task should be one of the primary concerns of governments in their cooperative policy. In this connection, I should like to draw the attention to the respective part of the "Recommendation concerning the Role of Cooperatives in the Economic and Social Development of Developing Countries" of the 50th Session of the International Labour Conference in 1966. This document also provides recommendations on methods of implementation of policy regarding cooperatives including those on legislation and forms of aid to cooperatives. The recommendation stresses the fact that any special help and assistance should not entail any obligations contrary to the independence or interests of cooperatives, and should be designed to encourage rather than replace the initiative and effort of the members of cooperatives.

Effects of Cooperative Law and Regulations on Cooperative Management

K. S. Bawa

The history of cooperative legislation begins with the Industrial and Provident Societies' Act passed by the British Parliament in 1852. It has been estimated that, during the century following the first cooperative legislation, the world cooperative movement witnessed over 4,000 cooperative laws, orders and decrees in about 200 countries. The rate of growth of cooperative legislation has been particularly rapid since 1930, and in countries like India, major amendments have been incorporated in the cooperative laws since 1950. This progressive increase in the volume of cooperative legislation reflects the growing interest of the State in co-operative activities. This in a way is a recognition of the success and expansion of the cooperative movement and realization of its potential for economic development. In course of time, the State tended to exert a strong influence on the direction and even working of the cooperatives. Some regard this trend as a serious challenge to the concept of internal democracy and autonomy of the cooperatives. The subject under discussion here covers this specific aspect of the impact of cooperative legislation on the democratic content in the management of the cooperatives. This, it is needless for me to add, is a sensitive area which has to be considered against the background of the evolution of the cooperative legislation and role of the cooperative movement in a country's economic planning and development programmes. Being familiar with the administration of cooperative law in India and closely associated with different aspects of development of the cooperative movement in that country for more than a decade, my paper is based largely on the experience drawn from the Indian cooperative movement. I, however, had the opportunity of studying the Polish Cooperative Movement in 1963 and the agricultural

cooperatives of Japan in 1971. I also made a brief study of rural development with special reference to cooperatives in the Philippines in August, 1971. In June 1972, I participated in the National Seminar on "the Needs of the Cooperative Movement of Bangladesh". I also had the opportunity of studying the agricultural credit and rural cooperative structure of Iraq and rural and consumers cooperatives in German Democratic Republic in 1974.

Need for and evolution of cooperative legislation

A cooperative combines in itself three basic features, which distinguish it from other forms of economic organization; a cooperative is a voluntary association of persons; it is an economic organization informed with a social purpose and not motivated merely by entrepreneurial profit; and it is a democratic organization owned and controlled by those utilising its services. I would like to emphasise the non-exploitative nature of the cooperative organisations. These special features underlying cooperative organizations have necessitated separate legislation for them. The society of the Rochdale Equitable Pioneers in England which marked the beginning of modern cooperative movement, was, we are told, registered under the Friendly Societies Act of 1793. The cooperatives organised on the model of Rochdale Pioneers however differed from the friendly societies both in their objectives as also in their style of operation. Friendly societies were in the nature of charitable or welfare organisations whereas cooperatives were business institutions intended to impart economic strength to weak individuals through self-help and mutual help. In recognition of the need for a separate legal form to suit the economic postulates of the cooperatives, the Industrial and Provident Societies Act was enacted by the British Parliament in 1852. Most countries now have special legislation for cooperatives. As observed by Dr. Valko, "It is significant that countries with well-developed and economically sound cooperatives also have a suitable cooperative legislation."

Cooperative legislation in South-Asian countries was patterned on the model of the British system. I understand that the first cooperative legislation in Japan and Thailand

was influenced by the German model. The law governing the non-agricultural cooperatives in the Philippines, I believe, is on the British pattern, whereas the legislation relating to agricultural cooperatives shows some influence of American system.

Role of cooperatives in national economy with particular reference to India

The evolution and development of the cooperative movements in various countries has been on different patterns and scales. The role assumed or assigned to them differs from country to country. There is a fairly large variety. However, at the risk of over simplification, I would place the cooperative movements in the world in three categories: In the first category, I would include the cooperatives of the western countries. The second category relates to cooperatives in the East European countries. In the third category would come the cooperative movements of the developing countries like India.

In the western world, the cooperative movement grew more or less spontaneously and their growth and development was mainly the result of internal momentum. It may, however, be mentioned that even in these countries governmental assistance was made available. For example, most of the initial stock of the federal land banks in the United States was subscribed by the US Government. Peak amount of capital held by the US Government in these banks was US \$314 million, all of which have since been retired by the cooperatives. It is reported that in Germany, the state can participate in the share capital of a cooperative central bank upto 50% of its total stock. In Sweden, housing cooperatives can get state loans upto 95%. The Agricultural Bill, 1966 of the United Kingdom provides for making grants for the development of cooperation in marketing and production. The main emphasis however remained on self-growth.

In the East European countries, on the other hand, cooperatives have been designed as instruments of national economic organisation. The cooperatives are almost

completely attuned to the needs and dictates of the national planning machinery.

In the developing countries like India, cooperatives started as a measure to combat the problem of rural indebtedness. Its scope and complexion has however vastly increased after achievement of independence by the various countries. The cooperatives have since been recognised by the state as a useful and potentially capable instrument for achievement of economic and social objectives. They also provided opportunity for decentralization of economic power. Thus, the State began to have a very close and keen interest in the development of the cooperative movement, its direction and pace of expansion. For example, in India, the cooperative programmes were made an integral part of development envisaged by the planners of the country. The objectives in the cooperative sector in the Fifth Five Year Plan are broadly the following:

- (i) Strengthening of the network of agricultural cooperatives in aid of sustained agricultural development;
- (ii) Building up of a viable consumer cooperative movement; and
- (iii) Restructuring and reorienting the cooperative so as to shift the focus of their activities increasingly in favour of small and marginal farmers and underprivileged sections of the community.

The State interest for cooperatives, I would like to add, is not a special characteristic of the Indian situation. In 1964, the ILO sent out a questionnaire to elicit the views of various national governments on the role of cooperatives in the economic and social development of developing countries. One of the questions was "Do you consider that in developing countries the establishment and growth of cooperatives should be regarded as an important instrument for economic and social development?" Sixty-nine national governments, which answered this question, considered that the establishment and growth of cooperatives should be regarded as an important instrument (a major

or even a preponderant one in the opinion of certain governments) for the economic and social development of the countries concerned. In 1966, the ILO recommended that the governments of developing countries should formulate and carry out a policy, integrated in development plans under which cooperatives receive aid and encouragement, without affecting their independence, and that existing cooperatives should be associated with the formulation and, where possible, application of policies.

Cooperatives are now recognised as a distinct and important factor for the purpose of planning and implementation of economic programmes in certain specified fields. This recognition, I should add, has not been thrust on the cooperatives. The Indian cooperative movement and the cooperative leadership have been equally anxious that cooperatives should have a crucial role in the programmes of nation building. In fact, cooperatives are associated with the process of planning in the country. When the cooperatives thus become willing partners in the programme of economic development initiated by the Government, the tempo of cooperative activities has necessarily to keep pace with the expectations of the planners. When the country is impatient for rapid economic progress, cooperatives are naturally hustled and the pace of expansion of their activities gets forced. The pattern of cooperative development in such a situation becomes entirely different from the classical Western voluntaristic model.

Where no aspect of social and economic life is left entirely untouched by a modern state, it would be unrealistic to think of isolating cooperatives entirely from state activities. It has been said that the worst a state could do to a cooperative movement is to ignore it. The State's assistance to, or association with, cooperatives varies in degree or intensity from country to country. The legislative support to cooperatives is a recognition of the desirability of promoting cooperatives and is indicative of the State's intention to create conditions for the growth of the movement. Most of the countries, as I mentioned earlier, have created necessary legal base to facilitate the operations of cooperatives. Many states have gone beyond mere legislative

support. State's assistance to cooperatives could be broadly classified into the following categories:

- (a) Enactment of special legislation for cooperatives.
- (b) Direct state financial assistance to cooperatives either as loan or as share capital or as subsidy.
- (c) State can provide indirect financial assistance to cooperatives. To facilitate raising of funds from banks and other institutions, the state provides guarantee to the creditors. For example, in India the debentures floated by the cooperative land development banks are guaranteed by the government. Similarly, the loans granted by the Industrial Finance Corporation to cooperative sugar factories are also guaranteed by the government.
- (d) Cooperatives in many countries get preferred treatment in the matter of taxation.
- (e) State may provide policy support and preferential treatment to cooperatives in the economic sector. The Industrial Policy Resolution, 1956, of India declared that the principle of cooperation should be applied wherever possible and a steadily increasing proportion of the activities of the private sector developed along cooperative lines. In the matter of licensing of new units in sugar industry, a positive preference is shown in India to cooperatives.
- (f) The state sets up its own machinery to provide guidance, assistance and counsel to the cooperative movement and also to exercise supervision over the cooperatives with a view, mainly, to attract public confidence in the cooperatives. The head of the machinery is generally called the Registrar of Cooperative Societies.

We have discussed the different roles assigned to the cooperative movements in various countries, their relationship with the State and the guidance and assistance received from the latter. The legislation in each country has, therefore, to be designed to suit the particular situation. For example, one of the State Cooperative Societies Acts in

India lays down that it shall be the duty of the Government to encourage and promote the cooperative movement in the State and take such steps in that direction as may be necessary." The legislation in turn reflects the expanding area of state's influence over the style of operations of cooperatives and has a bearing on the cooperative management.

Cooperative Legislation in India

The first cooperative legislation introduced in India in 1904 was called the Cooperative Credit Societies Act, which provided for the organization of only primary credit societies—urban and rural. Societies organised for purposes other than credit, did not have legal recognition under that Act. Nor did it envisage organisation of federations of cooperative societies. The Cooperative Societies Act of 1912 enacted by the then Government of India remedied the situation. The 1904 and 1912 Acts were applicable to the whole of the then British India. Consequent on certain political reforms in 1919, each province of India was empowered to enact its own cooperative legislation. The Bombay Cooperative Societies Act of 1925 was the first in the series of enactments by the States.

In terms of the Constitution of India, "Cooperative Societies" continues to be a state subject. Every state has its own cooperative law. The Cooperative Societies Act is passed by the State Legislature. In pursuance of the Act, rules are framed by the government and these rules also have to be placed before the Legislature which, if it considers it necessary, can modify or annul the same. Besides the Acts and Rules, every society should have its own byelaws which are to be in conformity with the Act and the Rules and which are to be registered by the Registrar. In addition to these, the general laws of the country in respect of matters not covered by Act are also applicable to cooperatives.

A recent cooperative development in India is the emergence of national cooperative federations for various types of cooperative activities. The membership of these federations extends to more than one state in the Indian Union.

There are also other cooperatives like Railwaymen's Co-operative etc. whose membership is drawn from more than one State. According to the Indian Constitution, cooperative societies with objects, that is, membership, extending beyond one state come under the jurisdiction of the Central Parliament. Such multi-state societies are at present governed by a Central Act called the Multi-Unit Cooperative Societies Act, 1942. The present Act is only an enabling legislation for the incorporation, regulation and winding up of such societies. According to it, a multi-state society is governed by the law of the state where its principal place of business is located. The Government of India are now contemplating a comprehensive central law for multi-state societies.

The All-India Cooperative Societies Act of 1912 set the pattern for all subsequent cooperative legislation in India, down to the present day. The authors of 1912 Act, it is said, had the model of the British law before them. Perhaps for this reason, Margaret Digby and SurrIDGE refer to the "Classical British-Indian Pattern". It will be of interest to note the observation made by a Study Team sent by the Government of India to Israel in 1959 that, the Cooperative Societies Ordinance issued in Israel in 1920 and also in 1930 were modelled on the Indian Cooperative Societies Act, 1912 and the Bombay Cooperative Societies Act, 1925 respectively.

Recent changes in cooperative legislation in India reflect the changes in the movement itself. These changes were triggered off by the Rural Credit Survey Committee Report, 1954, which constituted a major land-mark in the history of the cooperative movement in India. Referring to the role of the state, the Committee observed that the cooperatives were over-administered and under-financed. A major recommendation of this Committee was that the state should participate in the share capital of various types of cooperatives at different levels to provide initial momentum and strength to them. The natural corollary to the principle of state partnership was share in management of those cooperatives. State partnership and participation necessitated amendment to state cooperative laws in the country. To

facilitate the legislative process, the Government of India, appointed a Committee on Cooperative Law in 1956. This Committee prepared a Model Cooperative Societies Bill, Model Rules and Model Byelaws of important types of cooperative societies. Since 1960, most of the states in the Indian Union have either amended their cooperative laws or enacted new laws broadly on the model prepared by the Law Committee. Practically, all the state cooperative laws follow the same pattern with variations in certain details.

The broad structure of Cooperative Societies Acts in India covers :

- (a) Registrar and registration of societies.
- (b) Members and their rights and liabilities.
- (c) Privileges of cooperative societies.
- (d) Management of cooperatives.
- (e) Properties and funds of cooperative societies
- (f) Audit, enquiry and inspection.
- (g) Settlement of disputes.
- (h) Dissolution of societies.
- (i) Execution of awards, decrees, orders and decisions.
- (j) Appeals and revision.
- (k) Miscellaneous.
- (l) Rule making powers.

I shall now deal with the impact of cooperative legislation, the autonomy and management of cooperatives in India.

The Institution of Registrar

The role assigned to the Registrar under the Cooperative Societies Act has a direct bearing on the autonomy of cooperatives. The institution of Registrar is a legacy from the British. Under the British law, however, the Registrar is neutral in the internal affairs of the cooperatives. But in India, the office of the Registrar carries with it heavy responsibility for the sound development of the movement. He is not neutral in the internal affairs of cooperatives.

Calvert describes the Registrar as the very foundation of the movement. Virtually, to a cooperative, he is omnipresent. Perhaps, there is no single phase in the life of a cooperative which could elude his attention. Considering the span of his jurisdiction over cooperatives, he is called the trinity, of cooperation—some consider him as creator, protector and destroyer, and some others, as friend, philosopher and guide.

We have to differentiate between certain functions of the Registrar which do not impinge on the internal affairs of a cooperative and others where the Registrar has to deal with the internal management of the society also. There is yet another category where the Registrar functions as a judiciary, deciding disputes arising in the working of a cooperative. The first category includes the functions of registration of a cooperative or the cancellation of its registration, which necessarily have to be performed by a statutory authority like the Registrar. The second category includes functions like audit, inspection, enquiry, surcharge and supersession. Compulsory audit and inspection of a cooperative by the Registrar, are designed to give the members of a cooperative as also the public, confidence in the cooperative, to protect the interest of the members and to ensure that the business of the society is conducted on sound lines and proper accounts are maintained.

An enquiry into the constitution, working and financial condition of a society can be instituted by the Registrar on his own accord or on the application of a certain percentage of members or the Board of Directors. This right to conduct an enquiry, Calvert points out, is important for the maintenance of the principle of equitable association, for, it gives the minority of members the right to learn what is being done by the Committee elected by the majority. The Registrar has also power to surcharge persons responsible for gross misapplication of funds of a society after an enquiry has been held and after the persons concerned have been given a reasonable opportunity of being heard. The Registrar has also power to supersede the Board of Management of a society. I will refer to its implications later.

Various powers of the Registrar referred to, were incor-

porated in the Co-operative Societies Acts in India even before 1950. Since 1958, certain important amendments have been incorporated which, on the one hand seek to circumscribe the absolute authority of the Registrar and on the other, seek to invest him with more powers. There are three important provisions in the first category. The first is that many of the Cooperative Societies Acts now lay down a time limit ranging from 2-6 months for dealing with an application for registration of a cooperative society by the Registrar. The second is that some of the State Co-operative Societies Acts provide for delegation of powers of the Registrar to federal societies. The third provision relates to the constitution to tribunals in many states to hear appeals against decisions of the Registrar and others given under the Act. The second category of amendments that tend to extend the power of Registrar relates mainly to two provisions. One is the power of Registrar to compulsorily amend the byelaws of the society and the second is the power to direct amalgamation or division of societies. These provisions have been incorporated in many State Acts as a practical expedient to deal with isolated instances. The provision relating to compulsory amalgamation of societies is primarily meant to facilitate rationalisation of the structure of primary agricultural credit societies according to an accepted plan of development. This type of a provision illustrates how planning of the development of cooperatives which is desirable and necessary in a given situation could tend to violate the democratic principles governing cooperatives.

Before I conclude my observations on the powers of the Registrar, I should like to refer to another development which relates to political structure in the country and which could tend to dilute the absolute authority of the Registrar. In a Parliamentary system of government based on universal adult franchise, the executive authority is accountable to the people through their elected representatives in the legislature. The real executive of a State government is the Council of Ministers headed by a Chief Minister. The policy and programme relating to cooperative development is decided by the government and the Registrar himself becomes an

instrument of the government for implementing such policies and programmes. Some of the State Cooperative Societies Acts provide for constitution of State cooperative councils with officials and representatives of the movements as members to advise the State Government on cooperative policy, programmes and legislation. Such forums do help in establishing a proper working relationship between the movement and the government.

I shall now deal with the basic concept of management in cooperatives and also with some of the important provisions incorporated in cooperative laws in India in recent years, which have a bearing on the internal management of cooperatives.

Management by elected office-bearers

The various State Cooperative Societies Acts conceive of a committee of management to whom the management of the affairs of a society is entrusted. This committee is elected by the general body. It is pertinent to note that the term used is "committee of management" and not "board of directors". The deliberate choice of the term "Committee of Management" has historical reasons. It may be recalled that, when the primary agricultural credit societies were first organised, they depended mainly on the honorary services of the "elected lay management" and the law therefore recognised the situation. The president, the secretary and other elected office-bearers were expected to serve the society. All the business decisions regarding grant of loans etc., were taken by them. The byelaws vested day-to-day administration entirely with the committee of management, its president etc. This system of management was perhaps well suited to the small primary agricultural credit societies. In the course of several decades, significant structural changes have taken place in the movement. The emphasis is now on bigger and economically viable primary credit societies. Large financing, business and manufacturing cooperative organisations have come up in the country. National federations have been organised for different sectors of the cooperative movement. With all these changes in the

structure and dimensions and complexity in the nature of operation of cooperatives, the old concept of administration of a society by its committee of management has not altered correspondingly. There seems to be reluctance on the part of cooperative leaders to part with their control over day-to-day management. This has led to various consequences. Firstly, the committee of management, when involved in details of day-to-day administration, has tended to neglect its policy and planning functions. Secondly, deep involvement in the business of the society has tended to generate vested interest. Finally, the system has inhibited the growth of professional management which is so crucial to the success of the cooperatives in the modern world.

The elected office bearers, engrossed in the day-to-day working of the cooperatives have naturally neglected their policy and planning functions. These functions were, therefore, assumed by the government and other financing and developmental organisations set up by the government in the public sector and the cooperatives were generally content to allow this to happen. However, the country's planners do consult the cooperative leadership while formulating plans and important policies. It is also encouraging to note that, in recent years, some of the national cooperative federations have started taking interest in policy and planning matters.

The involvement of the elected office bearers in day-to-day working of the cooperatives also resulted in the acquisition of vested interests. They became involved in sanction of loans, making purchases and other trading activities. There was a tendency to office bearers being re-elected term after term. It was alleged by some that elections were manipulated. The worst symptoms appeared in case of certain credit societies where the directors themselves became defaulters, and brought the society to a stage of dormancy. This problem was considered by the Conference of Chief Ministers and State Ministers of Cooperation held in 1968. This conference recommended the following important legislative measures:

- (a) Exclusion of moneylenders etc. from becoming members of cooperatives.

- (b) Reservation of seats on the board of management of the cooperatives for weaker sections.
- (c) Restriction on holding office for more than the prescribed terms.
- (d) Restriction on holding office simultaneously in a number of institutions.
- (e) Regular election by an independent authority.
- (f) Regulation of loan to office bearers

The recommendations of 1968 Conference have been incorporated in the various State Cooperative Societies Acts. The maximum period for holding office in a cooperative has generally been fixed at two terms of 3 years each, and the number of societies in which a person could be a member of a committee on management varies from two to five. These two provisions have evoked considerable criticism within the country. Theoretically, such restriction sounds a negation of the voluntarism and democratic principles governing cooperatives. A serious disadvantage of such legislation could be that the movement may lose the services of some of its most dedicated leaders who grow with the cooperatives and help to build them up. After all, leadership cannot be made to order through legislation. An advantage of such a legislation could be the induction of new blood in the management of societies in which the old guards might have developed certain vested interests.

Supersession

The Registrar's powers of supersession of the committee of management should be considered in the above context. If the day-to-day working had been left to a professional management, the Board of Management could be expected to set right the wrong decisions and acts, if any. On the other hand, if day-to-day management remains with the committee of management, which is the general rule, and if a committee persistently takes wrong decisions or otherwise mis-manages the affairs of the society, no internal remedy is available. In these circumstances, it becomes necessary for the Registrar to intervene and supersede the management committee.

Such a provision is certainly not unique in India. Cooperative Societies Act in Canada also provides for supersession of the management of cooperatives.

Government Nomination

As I mentioned earlier, as a corollary to the principle of state partnership in cooperatives, the system of state participation in the management of cooperatives has been accepted. The Indian Cooperative Congress which articulates the views of the cooperative movement accepted, in its session in 1955, the concept of state partnership and participation in cooperatives. The Congress decided that a state should be allotted not more than one-third of the total seats of the Board of Directors of Cooperatives to whose share capital it has made contribution. Later, this principle of state participation in management was extended to cooperatives to which the state had given financial assistance in the form of loans or guarantees. There is a criticism that state participation vitiates cooperative character. In this connection, I would like to refer to a significant observation made by the ICA Commission on Cooperative Principles, which was presided over by the eminent Indian cooperator, late Prof. D. G. Karve :

“It can scarcely be contested that without the support of generous amount of government finance the development of cooperative in the newly-liberated countries will be painfully slow and uncertain. But if governments provide or guarantee large loans or take out large holdings of share capital, they will insist on checking the use which is made of public money and on satisfying themselves that proper technical advice is being taken and due financial prudence exercised. . . This has resulted in declaring office bearers in cooperatives as public servants and making corrupt practices in cooperatives as cognizable offences under the penal laws of the country”.

There has been some criticism about the procedure of nomination by government. A view is that there is likely to

be more politics in nomination than in election. The conference of State Ministers of Cooperation held in 1970, therefore, recommended :

“Nomination by the State Government should generally be avoided. Where this is necessary or expedient such power should be exercised with caution and in accordance with a predetermined criteria. Generally, experts in different fields and officers with requisite background and experience should alone be nominated as Government Directors.”

Some states such as Maharashtra, have taken a self-denying attitude and decided to refrain from nominating Government representatives on boards of societies.

There is another interesting development, I should like to refer to. There are some national cooperative federations where there is no state partnership in their capital. Even so, the byelaws of these federations provide for Central Government's representation on their management. This exemplifies the growing voluntary collaboration between the government and the cooperative sector. In these cases, the cooperatives themselves have sought to have the nominees of the various departments of the Central Government on their Boards so that their guidance and help is available to them. Such voluntary collaboration is left to be determined by the byelaws of individual cooperatives.

Some of the State Cooperative Societies Acts provide for nomination by government of the chairman of a cooperative in certain circumstances and a few State Cooperative Societies Acts empower the government nominees to veto the majority decision. The desirability of such provisions was examined recently by an Expert Committee on Multi-State Cooperative Societies Act appointed by the Government of India. This Committee, in its Report submitted in 1972, expressed the view that nomination of the chairman of a cooperative by the government overstretches the principle of state association with cooperatives and could lead to direct interference by the government in the administration of the cooperatives. The Committee added that in a

democratic administration, power of veto to an individual to over-rule a majority decision is anachronistic.

Professional Management

The greatest weakness of the cooperative movement in India today is non-emergence of proper professional management. Cooperatives are essentially business organisations. The fulfilment of their economic and social objectives is mainly dependent upon the efficiency of the management. Unfortunately, this important aspect of competent management has been ignored for too long. The first task is to demarcate the proper functions of the elected office bearers and the professional management, which should be appropriately styled as Board of Directors, the Board's function should be to decide on the policy and to see that the affairs of the society are efficiently and honestly conducted in accordance with the policy laid down. The Board must appoint the Chief Executive of the society and should have the right to hire and fire him. It must decide the main lines of business of a society. It should decide on the investment of capital, price policy etc. But subject to these decisions, it should leave to the Chief Executive the task of managing the affairs of the society. Until the elected office bearers realise their proper role, the cooperatives perhaps cannot be efficiently managed in the competitive modern world. The result of the present policies and practices has been that there is a big vacuum in the top professional management positions in the cooperatives. This is sought to be filled up by induction of deputationists from government departments. Though the result would vary from individual to individual, the system has not worked satisfactorily. A somewhat belated decision has been taken to form cadres of cooperative employees for different levels and different types of societies. There is a certain amount of lack of enthusiasm on the part of the elected office bearers to this idea. Certain legislative measures are being taken to facilitate the establishment of such cadres. Side-by-side it will be necessary to design proper procedures of recruitment and arrange for training of the personnel.

Representation for weaker sections

In recent years, there is a growing emphasis on the role of the cooperatives to service the weaker sections. There is a general provision in many State Cooperative Societies Acts for open membership in cooperatives so that members of the weaker sections cannot be kept out. As this step was not considered adequate, it has recently been decided to reserve a certain percentage of the seats on the committee of management to be filled up by representatives of the weaker sections.

Summing up

I have indicated, in broad detail, the salient provisions in the cooperative laws in India which have a bearing on the internal management of cooperatives. An orthodox co-operator might describe some of these provisions as a travesty of cooperative principles. Before we consider as to what extent the provisions of cooperative law tend to dilute the autonomy and undermine the initiative of cooperatives, a distinction has to be drawn between two types of legal provisions : which sets down certain restrictive norms relating to management and which is applicable to all cooperatives, and another which clothes the executive authority with large powers to interfere in the functioning of cooperatives. Provisions regarding government nomination, restriction on persons continuing in office for a long time in a society, or holding office simultaneously in a number of institutions, reservation of seats on the board of management of cooperatives, fall in the first category. I have dealt with, at length, the principle of state partnership and participation. I have also explained the socio-economic background for other legislative provisions. There is no doubt that these features of legislation do constitute an encroachment on the sovereignty of cooperatives. I should, however, hasten to add that basic objective of these provisions was not to interfere in the management of the cooperatives, but to help cooperatives to emerge as economically viable units and to broad-base their internal management.

The second category of excessive powers to executive authority relates to the provisions which empower the Registrar to compulsorily amalgamate societies, direct a society to amend its byelaws, supersede the management of society etc. These are all enabling provisions in the law which are to be invoked in extraordinary circumstances. It has been said that much of the criticism that is directed towards the rigidity of cooperative law or concentration of authority in the Registrar really applies to the manner in which the law is administered or the procedure followed by the cooperative department. It is thus the style of operation of the Registrar and his organisation that determines the nature of interference in the internal affairs of cooperatives. In this connection, I would like to refer to the views expressed by a revered leader of the Indian cooperative movement, late Mr. V. L. Mehta, after whom our National Institute of Cooperative Management has been named. He observed :

“To the extent that control is exercised under the provisions of the Cooperative Law or other laws, it cannot be deemed interference. Under the Cooperative Law responsibility for administering the law is vested in the Registrar of Cooperative Societies and to enable him to discharge such responsibility wide powers are vested in him. He is expected to exercise these powers without fear or favour, subject to appeal; and the control that he then exercises cannot be looked upon as interference. Nevertheless, if the popular character of the cooperative movement is to be respected, the provisions of the law should not be such as denote interference with its working. . . . The law should not contain any provisions which tantamounts to conferring on the Registrar such authority to interfere with the internal administration of a society.”

However, when we consider the practical aspects of administration of cooperative law, I would like to enter a caveat. As long as the Registrar acts absolutely objectively, the exercise of powers by him cannot be called interference;

on the contrary, it may be in the interest of the society itself. But, in a political democracy, there is a potential risk that the decision of the Registrar may be influenced by the political leadership, particularly when the leadership in a cooperative belongs to a denomination different from that of the ruling party. In such a situation, state association becomes a double-edged weapon, and cooperative law, a convenient and effective tool for the political authority of government to arbitrarily interfere in the management of cooperatives.

State interference in cooperatives could be avoided if there is a proper understanding between the cooperative leadership on the one hand and the Registrar and the political leadership of the ruling party on the other. The real answer to this problem, however, lies in cooperatives becoming self-reliant and self-regulatory. As observed by late Prof. Gadgil, an eminent cooperator and economist, who was also chief of the Indian Planning Commission : "In actual experience cooperatives as agency of planned development have proved more successful in states where they are more self-reliant." In fact, in some states cooperative leadership does influence the state's policies. There are instances where, at the national level, the national cooperative federations do help mould the national policies in certain matters like expansion of sugar industry, long-term credit for agriculture, etc.

Self-reliance and self-regulation of the movement is the effective solution to the problem of possible state interference in cooperatives. Firstly, cooperative leadership should actively promote and encourage professional management in cooperatives. Secondly, the federal organisations have to guide their lower tier organisations and also exercise constructive supervisions over them. The provisions incorporated in law for delegating the powers of the Registrar to federal institutions could then be acted upon.

In conclusion, I should add that judged by the results, the Indian experience of state association with cooperatives has proved productive and useful. During the last 25 years, the cooperative movement in India witnessed substantial transformation in terms of its organisational structure,

diversification of its activities as also in the overall dimensions of operations. To illustrate, the total number of co-operatives increased from 180,000 in 1950-51 to 320,000 in 1971-72; the membership of the societies during the same period increased from 13.7 million to 61 million, share capital from Rs. 450 million to Rs. 9440 million, and the total working capital from Rs. 2700 million to Rs. 76,950 million. The various legislative provisions referred to earlier, have not inhibited the growth of the movement for the benefit of the common man. This exemplifies that through state association and legislation, cooperation has not become, as some one described, a manual of procedure to be used by the Registrar or a mine-house of power to be missed by the politician. Cooperatives in India have indeed, in recent years, made a significant contribution to the new strategy of agricultural development in the country. As the ICA Commission on Cooperative Principles rightly emphasized that the present rate of economic evaluation does not leave much time for the cooperative movement to demonstrate the values of its principles and methods, for the world will judge the success of cooperation by its contribution to raising the level of human-beings as quickly as possible.

The Need of Planning for an Autonomous Cooperative Set-Up

P. E. Weeraman

While recognising “the need of planning for a cooperative set-up” one must clear the decks to ensure its autonomy. Obviously one must plan for correcting any uncooperative position that obtains at present in the cooperative movement before planning for its further development. Hence the question arises whether there is a need of planning for correcting the present position. The need would not be there if there is nothing uncooperative in the present situation. If there is anything uncooperative in the present situation then there is a need of planning for an autonomous cooperative set-up. I have accepted the task of showing that there is a need of planning for a cooperative set-up and particularly to ensure its autonomy. This attempt should not be taken as any criticism of the Indian Movement to the exclusion of the other national cooperative movements of our part of the world. I do not refer to them merely because such references would be irrelevant and immaterial to this discussion. The cooperative movement of India as the oldest and the largest of the national cooperative movements of the South-East Asian Region has set the pace for the other movements. Therefore, there would not be much point in referring to these movements which have followed by and large, the Indian pattern. In fact India has, in this respect, a special responsibility to plan for cooperative development in an exemplary manner. Such an exercise is as large as it is invaluable.

India has now had a cooperative movement for nearly seventy years, taking into account the cooperative societies started in Baroda even before the 1904 Act of Lord Curzon, the then Viceroy of India. But it was only the other day that the Prime Minister of India said at the sixth Indian Cooperative Congress (May 1971) that “the community as a whole

does not appear to have gained greater confidence in it (the cooperative movement)" and wondered "why this should be so". It is necessary for the cooperative movement to gain the confidence of the community as a whole, for, as said by Fauquet, Cooperation substitutes the notion of organised service in the interests of the whole community for that of struggle for profit and domination. In India as well as in all other countries ruled by the British, the Movement was fostered from the top by the government and the reins were in the hands of the Registrar. This prompted Strickland to call the Indian Movement a Registrar's Movement. However, until the World War, the cooperatives enjoyed a fair amount of autonomy. The value of cooperatives functioning as agents of the government was quickly seen and the services of the cooperatives as agents were availed of by the government when the War threw up questions of proper distribution and adequate procurement. As stated by Professor Gadgil on International Cooperative Day, 1970, at the ICA Regional Office, there were "keen debates among cooperative leaders in India as to whether cooperators should offer their organisations as agencies or instruments for planned development operations". He said: "The basic objection was quite clear. It was that you gave up your voluntary character if you became, with whatever safeguards, an instrument of governmental policy. In a number of respects the purely voluntary character of the Cooperative Movement was necessarily lost".

Referring to the reorganisation of the credit movement and the banking structure he commented that "this involved a fair amount of re-organisation which was alien to cooperative principles, but was a re-organisation which we accepted not as arising out of any immediate problem of the cooperative movement but as arising out of the acceptance of the obligation to subserve the government aim. In this I identify the government aim as a popular aim or a highly desirable aim".

Once the position of agent was accepted, the increase of the Registrar's powers was an unavoidable corollary. The powers to nominate office-bearers and directors, to supersede committees, and even to impose bylaws followed slowly

but surely. The obligation now imposed on the cooperative societies which became agents of the government was that of functioning as good agents of the government. The cooperative element was limited to saving for the cooperative the little margin of profit left from the commission received from the government for discharging the functions of the agency. The people who formed themselves into a cooperative to be stronger collectively than they were individually, *vis-a-vis* the trader, the money-lender and the government, were now once again reverted to their original position of having to fend for themselves. When they dealt with their society they were now dealing with the government's agent, and no longer with their own agent. Under these circumstances there is little wonder that the people have not been really involved in the cooperatives. The cooperative is now to them only a facility to be availed of when necessary, similar to a train being used only when a journey has to be made. The society, like the train, is the concern of the State.

Cooperation is a *sine qua non* for the social and economic betterment of the people, especially those of the developing countries. Therefore, the Cooperative Movement of India has a key role to play in the task of national development. The cooperative movement is strongest at the very place where any government is weakest *viz.* the village. The support of a true Cooperative Movement at the village level will therefore be of inestimable value to the government in the implementation of schemes of national development, where popular participation is necessary.

Cooperatives have to be more than mere agents of the government if the support of the cooperatives is to be real and meaningful to the government. In fact if the cooperatives function only as agents of the government they get identified with the government with the result that the people lose sight of the need of being involved in the work of their cooperatives if the cooperatives are to render them satisfactory service. Without a sense of real involvement the people will not exercise that eternal vigilance which alone will ensure a high standard of service from the cooperatives. This real involvement will come about only when the co-

operatives are truly voluntary and autonomous bodies acting as free and willing partners of the State in the great task of national development. To bring about this real involvement of the people in the Cooperative Movement much re-thinking has to be done by cooperative leaders as well as governmental authorities especially on their respective roles.

This question of agency therefore calls for a satisfactory solution if cooperatives are to be free and autonomous bodies solving the economic problems of their members. The solution of the economic problems of the members is a service which benefits not only the members but also the public in general, for any headway made by the cooperative movement benefits the entire community. Therefore this question is one of public importance.

Prof. Gadgil in his memorable speech said : “Finally, you get back to the old question, the question as to whether it is really worth our while as cooperators to accept this role. You will see that it is a very difficult and delicate question to answer. As I said, it is quite obvious that you lose your power in certain ways, you accept certain obligations, you accept the supervision of outside authority, You do all this.”

“Why do you do this at all? Because you feel that in the under-developed conditions of your country, acceptance of these restraints will help you to make progress in cooperative organisations all over the area much more quickly and you will be able to achieve a more satisfactory build-up of the cooperatives than you would if you were left only in the purely voluntary state. Because the difficulties ahead are so great, you accept, this alternative. Now, it is anybody’s judgement as to whether given these alternatives you can achieve the objective. I believe there are some States in India which can prove that the decisions that some of us took 15 or 20 years ago to accept government assistance and to accept the character of a government agency were not wrong. Equally, there are other States which seem to prove that it has not helped. Now, whether in those areas where it has not helped, it is because the basic conditions are unfavourable or whether it is because of some other

reasons is a matter which I cannot really talk about. I would not be dogmatic. I would not even go so far as to say that, though this is a decision in which I was personally involved, it was always right or the right answer. I would say that this is a matter for judgement."

"You have to see what the basic cooperative values are and have to decide whether these basic cooperative values have been realised, whether they have been fully realised or whether only to some extent and also whether you would have been possibly worse off, with your whole state of organisation weaker, more disjointed and the cooperative spirit less in evidence than if you had acted otherwise. This is a large question on which history may give a judgement which is more authoritative than the sort of biased judgements that we, who have been involved in the process, can give today." That was Professor Gadgil's view.

It is mainly the government's need of having cooperatives as its agents that has motivated uncooperative legislation such as the nomination of directors and the imposition of bylaws by the Registrar. All this legislation stems from the desire to have even a nominal cooperative functioning, so that it can operate as the government's agent. The reason is not far to seek. The traders cannot be expected to function satisfactorily as agents. Purchasing directly through its own purchasing centres will entail much additional costs to the government not to speak of the positive inability to get better service than from the cooperatives. The cooperative society is the most satisfactory and the most manageable organisation for doing this work. Hence the desire to have a cooperative functioning as the agent of the government, even if the voluntary and autonomous character of the cooperative has to be impaired for the purpose. Whether the agent be truly cooperative or not does not affect his usefulness as an agent. Lack of efficiency on the part of the agent will affect his usefulness. So there is legal power given to the Registrar to nominate officers and committees and even impose bylaws on the cooperatives for the purpose of ensuring the due performance of the agency functions. So instead of liquidating cooperatives which cannot function satisfactorily, the Registrar gives the necessary oxygen to

keep them alive for the purpose of functioning as the agents of the government. Instead of taking an unroadworthy car off the road, driver and petrol are put in and the car is run in the name of the owner by the nominees of the Registrar. Sometimes, adding insult to injury, as it were, these nominations and supersessions as the reports go, are made for political reasons. The report may be wrong but the general impression on the public mind remains that nominations made by a government are politically motivated.

The Minister of Agriculture of the Government of India in his inaugural address at the ICA Seminar on "Personnel Management in Cooperatives" (September 1971) said : One thing which worries me is somewhat fundamental. Why is it that the cooperative movement in many parts of my country is very unevenly developed and why adequate rural leadership is not thrown up by the cooperative movement? Is it because of lack of patronage from the Government or because the economic system requires greater transformation? Or, is it because those who have control over the cooperative societies have such a strangle-hold on them that they would not permit younger leadership to come up?"

My humble submission is that the younger generation are not interested in an organisation in which they cannot play a part which can give them a sense of personal satisfaction. The real management, control and leadership vests in the Registrar. Nothing of consequence can be done without his approval. Thus the cooperatives are government concerns in the minds of especially the younger generation. Having no scope for independent action, the younger leadership is not interested in the management of the cooperatives.

If, under the present circumstances, the cooperatives must function as agents, let it be that only true cooperatives can do so. Let not the voluntary and autonomous character of the movement be obliterated by the Registrar pumping life into cooperatives that can run no longer on their own.

If societies managed by the State are all that is desired at this stage, by all means let it be so but I would plead that

everything good should not be called "cooperative". It is enough if everything cooperative is good. The danger in having agencies of the government masquerading as cooperatives is that the true cooperative concept will be lost, in course of time. It was only the other day that the manager of a big cooperative federation enunciated the principle that the function of a cooperative is to be a good agent of the State and no more—and this he did to an international audience ! This way lies the end of the movement. Therefore I would submit that only cooperatives which can run on their own should be allowed to function and that the expediency of having cooperatives as agents of the State should not be a bar to liquidating cooperatives which have lost the capacity to run on their own. The Registrar's powers to nominate directors, supersede committees and impose bylaws should be revoked. If those powers are required for the purpose of applying temporary remedies which are indicated for societies which have potential for doing well if only a particular situation were resolved, then the powers should be exercisable only on the request of the society concerned. The law should give the Registrar power to nominate directors only on the request of the society concerned, and the bylaws should provide a corresponding power to the society to request the Registrar accordingly. Any absolute power vested in the Registrar to nominate directors nullifies the principle of democratic control.

Often, the nomination of directors is made on the ground that the government has lent money to a society. Then the law should provide for such nomination only when a loan has been obtained on the condition that the government would be entitled to nominate directors. There should be a voluntary acceptance of this condition. Supersession of a committee without the consent of the general body is indefensible. If the society does not want it, it would be better to liquidate a bad society than to impose an unwanted committee on it.

The government's purchasing of shares in cooperatives is another reason often given for nominating directors. A cooperative society's membership is open only to those who can make use of its services. Therefore the government

is not eligible to become a shareholder in a cooperative. If it be said that the government joins a cooperative to obtain the services of the society for procurement, etc., then the government should abide by the decisions of the society's general body in regard to all matters pertaining to such procurement. There should be no need for the society to be an agent of the government. This is clearly an inroad into cooperative territory. What is more, even if government's subscription of share capital has increased the credit-worthiness of such cooperatives, which I doubt very much, I submit that cooperatives cannot afford to adopt the policy of the end justifying the means. These cooperatives which have the State governments as their members are no longer non-governmental organisations. Therefore, the power vested in the government to buy shares in cooperatives should be revoked if we are to have a truly cooperative set-up.

All these powers of the Registrar militate against the growth of leadership in cooperatives. As long as the Registrar is vested with these powers of controlling, directing and managing the cooperatives, directly or indirectly, the Registrar remains the *de facto* leader. Real leadership will not develop when there is no scope for such. It is only the second rate leadership that will emerge, the leadership that is satisfied with allowing the Registrar to do the thinking. That is why very few national leaders have held office in cooperatives, if they did they would have felt frustrated.

On the other hand let us see what good this *de facto* leadership of the Registrar has done to the movement. The Registrars are foremost in decrying the very movements which they have managed, directed and controlled these sixty odd years. If in spite of these powers the Registrars have not been able to develop a better movement and better leadership, is it not correct to infer that these powers have been of no avail for developing the movement? I speak as one who has exercised the powers of the Registrar, first under delegated authority and then directly, for twenty-five years, in Sri Lanka. It is these very powers that have lulled the members of cooperatives into complacency, quite sure

as they are that the Registrar would do the needful. Why should they take on the task of correction, risking private friendship and even courting revenge, when the Registrar is there to exercise his powers? If these powers of the Registrar did not exist the members would have been more vigilant and assertive. Today it is not their headache, for there is a government officer to pull the chestnuts out of the fire. So we have to conclude that the main cause of the lack of leadership is the *de facto* leadership vested in the Registrar by the law, paradoxical as it may seem.

The British did not give India and their other territories the law which they had for their own cooperative movement, the Industrial and Provident Societies Act of 1852, the oldest cooperative law in the world. Under that law the Registrar is a neutral. To us they gave a law whereby the principle of democratic control was vitiated *ab initio*, thus leaving little scope to the elected leaders for independent action.

The British government vested the Registrar with certain powers because they wanted to retain real control over the Cooperatives. The possibility of a real cooperative movement developing with a corresponding growth of real leadership from the village to the national level that would have supported the freedom movement, was ever before their minds. But a free and independent India can afford to have laws that will help the growth of a real cooperative movement.

Prof. Gadgil, the foremost mentor of the Indian Movement of his day, declared that "autonomy is important and essential for the growth of the cooperative movement. Its quality will depend upon the extent of autonomy which the people enjoy. If the government has no faith in the people and if people cannot be given a free hand, cooperatives should not be organised and it would be better in that situation to have public sector undertakings rather than cooperatives. If people are not trusted, trustworthy people will not come up."

Dr. Mauritz Bonow, President of the International Co-operative Alliance, speaking at the Tenth Anniversary of

the ICA Regional Office for South-East Asia, in New Delhi in February 1971, said as follows :

“The developing countries, quite naturally, want to make rapid social and economic progress. As a result, in many countries plans for economic development have been drawn up. We have with us Prof. Gadgil who is the Vice-Chairman of the exceedingly important Indian Planning Commission. When one is concerned with overall social and economic development, it is perhaps inevitable that in one’s enthusiasm to achieve the desired rate of economic growth voluntary organisations like the cooperatives are brought within the framework of economic plans. I am aware that this situation sometimes gives rise to problems. When financial assistance is extended by the State, it is inevitable that some control would result. Such funds come from the national exchequer and the government is responsible to the people through the parliament to ensure that the funds are duly accounted for. I am aware that a number of new and very significant activities, not the least in the field of cooperative credit, have been generated as a result of this approach. However, it is, I think, absolutely essential that the long-term objective of making the cooperative movement an independent and autonomous one is kept constantly in mind. We would have mistaken the casket for the gem if we were to perpetuate an arrangement whereby the initiative and the democratic character of the cooperative movement would be impaired. In the ultimate analysis, it is the vitality of the people of a country which determines progress. Legislation, especially cooperative legislation, should provide the framework within which people’s capacity to bring about the desired change is enhanced. If the net result of legislation is to thwart this tendency, I am afraid, we would have done more harm than good. The pace of social change in a number of developing countries, including India, has quickened during the past two decades and cooperative legislation should have, among others, the function of smoothing the tensions which inevitably arise in a phase of rapid social change.”

In the light of the above I submit that the first step we should take in planning for cooperative development is to

plan for the gradual removal of all laws and arrangements which prevent the growth of a voluntary and autonomous cooperative movement.

I say that we should plan for the gradual removal of these powers for they cannot be removed all of a sudden. On the one hand there is the government's need of co-operative agencies and on the other hand the cooperators themselves must have a long enough period within which they could equip themselves to take full charge of their co-operatives. All these years the elected leaders have looked up to the Registrar for guidance. They must gradually take over the entire responsibility. Even now the responsibility for failure is laid at their door although much of it should really be laid at the door of the Registrar. This responsibility will surely be theirs when the elected leaders are fully responsible for decision-making. There is no need to fear failure, for when the Registrar has no hand in decision-making and the societies have the full power to fix their borrowing and lending limits, to waive dues etc., the sense of responsibility of the cooperative leaders will grow. So there should be a plan of withdrawal by government from its present position of manager and controller to that of only promoter and adviser and still later to that of a neutral. The societies could be classified and the societies which have done good work could be exempted from having to obtain the Registrar's approval for borrowing etc. At the same time, the Registrar should not exercise his powers of nominating directors or imposing bylaws in respect of these societies. I am not attempting to give a plan of withdrawal here but only giving examples of what might be done by way of government's withdrawing from its present position slowly but surely, so that within about twenty years, at the most, the movement would be truly voluntary and autonomous.

Another facet of this withdrawal is that cooperatives should cease to have monopolies. Monopolies are the surest disincentives to efficiency. Cooperatives have been lulled into a feeling of security by being given special treatment. There should be a need for cooperatives to compete with others and win by sheer merit. Cooperatives should not be

excluded from the right to agencies but these agencies should not be available only to cooperatives. The only monopolies that cooperatives should have are those that come to them from membership loyalty and the free and willing preference for them shown by their customers. Any preferential treatment from above will only help to undermine the efficiency and the very character of the cooperative.

There is another line in which the government should withdraw if there is to be real cooperative development. I refer to the present practice of deputing government officials to man the higher posts of the cooperatives. Today several members of the Indian Administrative Service (IAS) and the Cooperative Services of the States are functioning as executives of the cooperatives—as Managing Directors, General Managers, and even in lesser capacities. By the time an officer has begun to be really useful, he is due for transfer back to his service. Then another comes on deputation and the same thing happens. In this way, the cooperatives will never have top executives of their own, from whose experience the cooperatives will profit in course of time. The cooperatives continue to be the training-ground of government administrators whilst the cooperatives themselves remain where they were, dependent as ever on the government for the supply of the managerial personnel required by them. The deputation of government officers to cooperatives decreases their value as people's organisations.

On this question I can do no better than quote again from the inaugural address of the Union Minister of Agriculture at the ICA Seminar mentioned earlier.

He said : “I must however frankly admit that the cooperative movement to succeed must build up on its own resources and ability to train up its own persons. The policy of deputations which has been frowned at the other public sector undertakings is still less worthy and reasonable in the cooperative sector. Firstly such people in many cases are not likely to be imbued with the cooperative ideal. They would be able to play the Government machinery against the Cooperatives and, with no personal stakes in

the movement, they are likely to distort its functioning and image. In any case, it would be necessary—until the cooperative cadre is separately built up—to allow the cooperative leadership to have full control over its employees and the present half-way house is doing good to no one.”

If there is no way out of it due to the inability of the cooperatives to offer high enough salaries to attract men of calibre from outside the public service, then the government officials who are deputed to serve in cooperatives should be formed into a special service so that the experience and expertise they acquire by serving in cooperatives is not lost to the Movement. This should not however be a permanent solution, for the Movement must have its own employees serving in the topmost posts when it can afford the high salaries that are demanded.

I believe that before we plan for the development of the Cooperative Movement, we must plan for correcting the deficiencies of the present. The cooperative set-up must first be made truly cooperative. I have not made these submissions in the belief that they are the real answers. I have put down my thoughts merely to illustrate the need there exists today of planning for a truly autonomous cooperative set-up, as a pre-requisite to planning for the development of the existing cooperative movement. What the techniques of this planning should be will, I believe, be our prime concern for the coming years.

The Cooperative System : A Look at the Future

Prof. D. R. Gadgil

I shall be brief but in my brief address what I intend doing is to generally take a view of the position in which cooperative organisations in India find themselves and consider some of the fundamental malices from which we are suffering. If you look at the last few years' history there are quite a number of what may be called bright spots. One of the most important of the recent developments is the very rapid progress that land development banks have made in the country, which is something, a decade ago, we would not have thought as possible. And that progress has been so important that financing through Co-operative Institution and through the Agriculture Refinance Corporation, this has been incorporated as an important financial aspect in the plan itself. That the plan takes note of in an important way of the resources that can be raised and developments that can be supported and conducted by the cooperative sector is, I think, a very important development on which we should be congratulating ourselves.

There are a few other bright spots. The processing factories such as sugar have made fairly good progress; there is fairly good progress in storage and in one, two or three States we have registered a really good organisational performance in terms of procurement of foodgrains for the State. Now these are some really important aspects of our recent history to which we could point as our successes. At the same time it would not do if we ignore the fact that these successes are balanced by a number of failures and that in some respects these failures affect our present position to a considerable extent.

One of the important aspects to which I would refer in this context is the rapid increase of the overdue position in our credit movement. Now this is a symptom which

everybody has been talking about and about which analysis differs. Whatever you analyse as to the basic cause of it, the fact remains that this over-due position has become a great strain on the movement during the last two or three years and that it has given considerable ground for a general detraction of the movement. The programme of credit given by nationalised banks has gained a momentum which it would not have gained but for this. It may also be that in general our progress has not been remarkable in those areas and in those States in which we had lagged behind earlier. That is if there was uneven coverage 10 years ago of the movement in India there has been no considerable reduction in the unevenness of that coverage. Now this is again a measure of our failure, as we would realise when we consider such aspects as Government policy or public opinion. If we make a claim for being a national agency for development that claim has to be sustained by performance over at least a major part of the country.

And if it is seen that over a number of states we continue to be unable to perform, then our claims naturally do not receive credence. Now this is an aspect of our performance non-progression in coverage, possibly also not a great deal of progress in efficiency, especially if you look at some new aspects of the movement which should have done better, such as the consumers.

If you look at these and then look at, what bothers me next, the attitude of government and public opinion about cooperation, then we see that we are in a difficult position. All of you have been discussing legislation about vested interests that has been introduced by States, and by most of them, passed also. What bothers me about that legislation is not so much the particular form it has taken or some of the consequences on the operation of cooperative organisations. What bothers me about that legislation is this : that it is symptomatic of a lack of understanding on the part of the public as to what we can do and what we stand for. That such legislation should have been undertaken on the basis of some general sweeping charges and adopted readily in many State legislatures, I think is a symptom that there is something wrong I mean, we have not been able to put

across our case. That is quite obvious. And, particularly, if you look at it a little more minutely, you will find that in recent years there is another trend which is equally disturbing, which is for a number of governments to take extraordinary powers under legislation or under ordinance or under rules such as would lead to supersession of the older bodies. And, in extreme cases, we get back to almost the old position of the Thirties when it was possible for external observers to say that the Indian cooperative movement was a registrar's movement. We find in a number of States, registrars or officials heading important organisations. This retrogression in the attitude of Government and in the approach of Government is another very important point.

Now, if one analyses the situation in that way and one feels that it is disturbing, a little analysis further as to why it should be so appears necessary. I would put forward not as a result of very deep thought but as a result of some consideration of the matter, a few points for your suggestion, for your consideration. In the first instance, I believe it is extremely important for cooperative leaders to be introspective and to look at the mutual relations between cooperative leadership and political leadership, and cooperation and politics, because this is a very basic question. This is the crux of the question.

This is important because the position of Indian Co-operation is such that without a certain amount of government support, it cannot make rapid progress. At the same time if you want to build up, as all of us are anxious to build up, an autonomous system of cooperative activities, it is extremely important that government appreciates the national importance of building up of such an autonomous system. It is only when government appreciates the fact that a cooperative system is a national need. And that secondly such a system can grow only if it is given a fair measure of autonomy, only if these two are accepted can we progress in the right direction. Today this is not happening.

We have all kinds of cries. We have had the cry of de-officialisation for quite some decades. But you know that

de-officialisation has not progressed in a number of States. You also know that in a number of States the officer is coming back as the controller. Now this happens, I put it to you, (I am not going to be very popular by making the suggestion), that this happens to a very considerable extent because of cooperative leaders themselves. Let me make it quite clear. After 20 years of independence, it is still the Registrar or his Department that is dominant over us. If the Governments, the popular governments, recognise, this as bad, they can change the law and rules any day. That they are not changing it is then due to the politicians themselves. If you look at it really closely, a large number of cooperative leaders have been members of cabinets in most States during the past two decades. We cannot, therefore, as cooperators absolve ourselves of this responsibility. This is important because if you really think that there should be de-officialisation, there should be what has been described by another term that has been coined "depoliticisation" taking politics out. I am not in favour of talking that a political worker has as much legitimate a right to be in the cooperative organisations as any other workers from any other vocations. What I would think in this connection is that when the political worker is inside an organisation, he should look at the organisation as a member, as an operator from within and not externally as member of a political party. As long as that happens, the political workers' contributions are a number of times extremely valuable. But the moment other things come in, evil begins. This is where my own fear is that it is not so much the official but rather the cooperative leaders themselves who are responsible for the present situation, for example, I suppose all of us know instances where cooperative leaders in order to sustain their own positions in organisations seek political support externally. That sort of things I take it has happened and happens, also personnel political advancement is sought. On the other hand, the moment the cooperative organisations grow and become focus of some kind of economic or other power it becomes an obvious matter for the politician to consider bringing that focus under his control. It is natural for the politician to see that all focus of power are

more or less controlled. This is a natural desire on his part; now here the fundamental question is what is the possibility of emergence of a little self-discipline on both parts. It is possible that cooperative leaders will be a little more disciplined and not seek external political support, and that we could convince the politician that he also be a little more disciplined in relation to interference with cooperative organisations and their day-to-day operations. This is an extremely important point and this is a point which I gave myself quite a lot of time to think over before I decide to put it before you. This is something which has got to be said and it is perhaps only a retired man like me that can say it.

Take another aspect of recent government policy. Sometimes you get some conflicting objectives. I have known some States where the Ministry has been extremely keen on agricultural production programme, it has thought that the agricultural production programme requires that everybody should be financed and that finance and fertilisers be supplied to everybody forgetting whether the man was creditworthy or not, whether he had proved his status as a proper member of a society or not, whether he had defaulted on a large-scale, or not, he should still be supplied with credit, with supplies and so on. This I consider to be rather a short-term view of production programme which has prevailed for the time being; it has meant in a number of States where the credit system was fairly well operative and fairly strongly entrenched, a collapse of the system with overdues mounting very rapidly. Because it was quite obvious that the moment you say that defaulters will be supplied whatever they do, the number of defaulters very naturally increases because repayment is not something that comes, so to say, automatically to us. This kind of difficulty is the creation of short term government policy. Then there are a number of other directions in which this is happening. What was said just now after I came here, in the discussion regarding the activities of corporations like the Agro-Industries Corporation symbolised the same sort of thing. There are a number of short term aims that the State Governments put before themselves. Government says it

will do this through giving some taccavi, it will do this through routing it through, what are considered to be, more flexible and pliable agencies than the cooperatives. All these are ways of finding short run measures. Let us be perfectly clear about it, let us not deny the fact that keeping to the proper cooperative operations, insisting on cooperative discipline, may mean dilatoriness in some respects but that such dilatoriness affects a set of people on the margin is preferable to giving up the discipline. Now it does very often happen that an apparent short-cut and bypassing the cooperative system or undermining its discipline, have an attraction to Government officers or to a Ministry and without really going deeply into matter a decision is taken and such decisions are taken largely because, as yet, in this country we have not been able to establish forums where we could say that Government comes together with cooperators, consults cooperators, and take policy decisions only after such consultation. This idea that anything that affects considerably cooperative discipline or pattern of cooperative operation should not be attempted without at least consulting the cooperators, this notion, I am afraid is not really accepted.

Take only as a last instance the whole policy post-nationalisation of banks. Now here let me say quite frankly that I have myself been partly responsible for bringing in nationalised banks in finance of cooperative societies under certain reservations and under certain conditions. What is called the multi-agency approach, I think, it is impossible to deny or entirely to shut out. As long as in the matter of coverage of area we are as patchy as we are today, it is impossible to sustain the point of view that only cooperatives shall be the credit agencies in the rural areas. Therefore, multi-agency is inevitable in given circumstances. There are a number of us who in various Committees have given attention carefully to the question of how the relationship between the nationalised banks and cooperatives really be defined so that the future growth of the cooperative movement is not jeopardised. What appears to me important is that whenever you are doing that you should not lose sight of the long-term objective. I am afraid during the last two

years since we have had nationalisation policy has not yet been fully articulated, as in my opinion, it should have been. It is a question of long-term policy. Some of you will remember that some years ago a Reserve Bank Committee suggested the setting up of the Agricultural Credit Corporation in some states. Now when that was suggested it was suggested as a dual measure which while immediately supplying credit over large areas would not last for more than 10 years during which a number of steps would be taken so that cooperative development acquires a firm base. Now after the coming in of nationalised banks we see no declaration on the part of Government which would in this particular manner protect future cooperative development. I am insisting on this point because we cannot go far until we have a clear declaration of objectives by Government. After all we talk of cooperation not merely in the credit field and the cooperative credit system even is not thought of merely as a device for supply of finance to farmers. Let us be quite clear that the cooperative credit and banking organisation is one part of a large cooperative system and when we are thinking in terms of cooperatives, we are advocating it, we are advocating something which build up local communities. Now this is something which a nationalised bank can never do. There are a number of reasons. I shall not go into details, some of the obvious limitations on the operations of banks arise out of the cost, the area coverage, the extent to which more accounts can be handled by nationalised banks—I am not going into that. I raise the fundamental question. However efficient the nationalised bank may be, however far it may go, it does not build-up a series of socio-economic organisations at the local level into a tier of federal authorities, this is the system which one wants really to bring into being. This is not merely in one sector but in the entire rural economy. Such a build-up of the cooperative system is and must be in our opinion the ultimate idea. I may emphasise that nobody has yet put forward a worthwhile viable alternative to this idea. Therefore, whatever the temporary steps that Government takes, on the situation is for the time being, it must not do anything at all which looks as if it is ignoring this long-term objective.

Are we, that is what bothers me, as cooperators, looking at all these problems in this fundamental way and pressing our point of view on the Government as we should. Or, are we, and that is what bothers me, really too circumscribed, all the time operating on the external and dependent, not being self-reliant enough.

This non-self-reliance of the cooperatives even when we make certain strides is one, to my mind, of our greatest weaknesses, I often find that in even a cooperative sugar factory that does well the directors think that it is a great thing that they have gained if they get a subsidy from Government. I think, at this stage, the attitude of cooperatives should be the other way round. We have to realise the fact which I am afraid has not been generally realised that we are a desperately poor country and that our problems are extremely complicated. And that subsidisation and external help can be available only to the weakest amongst us, that all others, except the weakest class *i.e.* must stand on their own feet. This attitude of non-self-reliance is the great bane in our development. It takes place everywhere. The State Government looks to the Central Government for finance, more and more finance, all the time. These problems "it says should be solved by the Central Government." The Zilla Parishads look to the State Government in the same way; and the cooperatives look to the Government for subsidies. Now as long as we are in that attitude, in that frame of mind, it becomes very difficult for us to dig in our toes and take a firm position and unless we dig in our toes and take a firm position, the future of cooperation is not going to be very bright. Now this is something I should like to impress on you which has essentially to do with our leaders. Our leadership is yet external. It is only in some areas where it has been successful that from the grass-roots onwards the leadership has been built up and there is inter-change and there is contact at all levels. Wherever that is so, the movement is fairly healthy; where the government respects the cooperators and allows them large autonomy, the movement is fairly well. Where the cooperators are largely self-reliant, it is fairly healthy. But where you have no grass-roots leadership coming up,

where you have only the urban and other elements looking to the superstructure, it looks as if it is a good superstructure but if it has no proper base, this must count as our weakness. The weakest link in our cooperation are the urban links. The urban consumer cooperative movement is about the weakest and most dependent on external aid and as a matter of fact really largely initiated by government effort, and urban primary cooperative banks are confined only to a few centres in the country. It is clear that our urban people are not cooperative minded. So it is necessary from the rural areas for the leadership to emerge and to take hold of this movement in a self-reliant manner. That, I think, is important. And how to build this up and how we shall be able to impress on government that it is a movement which is autonomous, self-reliant and firmly based on the ground that alone can be the saviour of this country, how we can impress on the government this together with some of the problems to which I have drawn your attention.

Cooperative Efficiency Criteria

Ernesto V. Santos

In evaluating the subject that has been assigned to me for discussion, I must admit that I have encountered considerable difficulties in setting definite criteria. There are two main reasons for this difficulty.

First, the dependency of attainable efficiency on the realistic analysis of what the members of any given cooperative expect of their cooperative implies, first of all, the proper evaluation and definition of the objectives of the cooperatives. Unless the aspirations and the needs of the members are reflected in the goals of the cooperative, it is not possible to attain efficiency and control of business performance.

Secondly, the degree of attainability of objectives differs among cooperatives when the educational, social, economic and political level of the members of the community to be served by the cooperative are considered.

The different types of cooperatives, their different objectives, the different aspirations of the members, and the differences in resources that can be mobilized to attain the objectives makes the question of efficiency a highly relative problem.

Nevertheless, certain general criteria can be considered in an attempt to measure performance of cooperatives.

Before setting the criteria, we have to assume that the membership of a given cooperative is sufficiently oriented to the principle of cooperative business. They should be able to elect among themselves members of the Board who would at least administer the harnessing of competent and reliable personnel that will man their management and staff. The key to success or failure of a cooperative, as we all know, is competent management.

The performance of the cooperative in the functional areas of Management, Finance, Marketing and Account-

ing, may be generally construed as management criteria in measuring efficiency.

I. Management

1.0 Planning

Management must be able to evaluate cooperative objectives by taking into consideration the needs of the members, the resources in the community that could be mobilized, the existing socio-political and economic conditions in the locality in order to set more realistic goals.

Management therefore must have the ability to :

1.1 Set realistic goals for the cooperative in accordance with the needs of the members and the resources available.

1.2 Programme cooperative projects and objectives on the basis of importance of each project to the cooperative and its members.

1.3 Anticipate problems that might arise due to social, economic and political changes in the community. Management must also be able to plan alternative courses of action to solve them.

2.0 Staffing

Aside from planning, management must be responsible for recruitment, training, and development of staff. In this respect management must accomplish the following :

2.1 The proper choice of staff on the basis of competence and expertise.

2.2 Constant maintenance of awareness among employees of the purpose and objectives of the cooperative in executing plans.

2.3 Maintain harmonious relationship between management and staff.

2.4 Motivate personnel towards the attainment of cooperative goals.

2.5 Set policies and procedures for staff to assist management in the proper and efficient use of resources.

2.6 The effective overseeing of personnel to accomplish timely reports and data consolidation.

3.0 *Internal Control*

The third function of management is to exercise control over internal resources of the cooperative. Measure of efficiency will be highly dependent on the ability of management and staff to maintain control over :

3.1 Utilization of cash reserves as close as possible to the designed cash flow.

3.2 Turnover of receivable as close as possible to the collection programme and credit policy of the cooperative.

3.3 Utilization of loans and credit lines which constitute the main bulk of usable fund.

3.4 Maintenance of proper inventory level and corresponding records to continuously inform management of the flow of goods.

3.5 Scheduling and timing of procurement to meet requirement of the members or of marketing deliveries.

3.6 Maintenance and proper utilisation of transportation and other marketing facilities.

II. Finance

It goes without saying that financing is the lifeblood of the cooperative. Without financing the cooperative will be unable to achieve the goals for which it was established. The basic criteria of measuring effectiveness of the cooperative in the area of financing are as follows:

1. Ability of the Board of Directors, Officers, and Managers of the cooperative to establish a posture of efficiency and reliability to merit the confidence of financing institution.

2. Ability to build up capital in the course of the operation to meet the expanding needs of the members and the cooperative.

3. Ability to maintain adequate working capital to be able to make timely payments of all required services such as storage cost, interest expense, freight charges, advances and or payments to members and suppliers. Ability to make prompt payment is necessary to maintain a posture of reliability.

4. Ability to obtain trade accounts from suppliers for the purchase of equipment and other farm inputs needed by its members.

5. Ability to grant loans to members and credit to customers on the basis of sound credit policies.

III. Marketing

Very often, in underdeveloped countries, there is no way for the farmers to see any real benefit from increased production. An increase in yield often results in price decline because of lack of an effective marketing outlet working in the interest of the farmers.

The proper translation of the production effort of the members in the satisfactory monetary value as well as the generation of effective savings in the acquisition of the needs of the members are the main reason why people become members and patronize their cooperative.

The cooperative can become an effective marketing agency working for the interest of the farmers if it can accomplish the following :

1. Estimate and programme, an adequate volume of business to justify operation in sufficient scale to be able to survive and grow.

2. Effectively utilize collective purchasing as a leverage to acquire the needs of members in terms of equipments, spare parts, chemicals, seeds, fertilizers, etc. at lower cost.

3. Make itself felt in the market by using the collective produce of its members to influence the price and control the operation of merchant middlemen who try to manipulate the price in the market.

4. Offer better prices for the produce of members by maintaining marketing cost at minimum level.

5. Obtain fast and accurate market information to be able to utilize them in programming procurement and sales.

6. Make prompt payment of all accounts to maintain cooperative's image of dependability.

7. Maximise sales and procurement operation with the least amount of money through fast turnover of goods.

IV. Accounting

I would compare the accounting function to the thumb of the hand. Accounting and proper recording of activities gives the management, the officers and the Board of Directors the grasp to judge and use their intuition in decision making. Therefore, the effectiveness of the cooperative can be measured in terms of :

1.0 Ability to record and submit timely reports of the actual as well as planned activities of the cooperative, some of which are the following :

- 1.1 Actual cash flow *vs.* Projected cash flow.
 - 1.2 Actual procurement *vs.* Programmed Procurement.
 - 1.3 Actual Inventory Level *vs.* Desired Inventory Level.
 - 1.4 Actual Receivables *vs.* Collection Programme.
 - 1.5 Actual Sales *vs.* Projected Sales.
 - 1.6 Savings generated through collective purchase and selling activity.
2. Ability to analyze and evaluate financial performance of the cooperative.
 3. Ability to orient the accounting system to the operation of the cooperative.

Control of Business Performance

After discussing the criteria that could be used in evaluating cooperative performance we shall tackle next the problem of control. Control is a tool used to direct management and staff towards the attainment of the cooperative goal.

In general, the control process involves the fourfold activity of *planning, budgeting, accounting* and *analysis*.

Planning is the process by which the aspirations and needs of the members are translated into specific activities that would be performed by the cooperative to attain its goal. In the budgeting process, these plans are expressed in monetary terms that reflect estimates of cost. The budget serves as a guideline for both management and staff in attaining certain operational targets.

Accounting, of course, is the tool used by management in the analysis of performance. In accounting, records that

reflect actual performance are kept. In the course of the analysis and evaluation, management determines whether the cooperative performance is at par with the plans originally set. When performance does not reach the standard, an analysis is made to determine the reason for the discrepancy. At this stage, management either decides to replan its activity or institutes corrective action.

Planning and budgeting are joint tasks of both the top management and the head of the responsibility centres. Budgets will be effective as a means of control only if the person being judged is agreeable to the standard. The best way to assure this agreement is to allow the person whose performance is to be measured to participate in the process of planning and budgeting. The usual practice was to follow budgets imposed by management. The results obtained from these imposed budgets were frequently unsatisfactory because the organisation tended to resent and disregard them.

In order to participate intelligently the head of the responsibility centre should understand clearly what he is expected to do, the criteria that will be used in judging his performance, the constraints of the cooperative like manpower resources, financial resources and marketing resources. Hence, in budgeting, we see the importance of setting definite criteria in measuring efficiency of the cooperative.

The end product of the negotiation between the manager and the head of the responsibility centre is a statement of estimated output that is expected during the budget season based on the estimated input required to achieve the output.

Of course, budgeting is at best a good "guesstimate" for the simple reason that any projection of the future involves uncertainty. It is therefore important for the staff or the head of the responsibility centres to report immediately any difficulties encountered during the budget period in order that corrective action may be instituted or replanning made.

The third requisite of an adequate control procedure is an accounting system that produce for management accurate, timely and relevant information of the condition of

the business. Reports must be accurate and timely if they are to serve as a basis for sound decisions. Management must not be cluttered with inconsequential details of the operation; hence, content of the reports should be limited to those needed by management for decision making purposes.

The most important area in the cooperative management where control should be exercised is in the management of cash and merchandise inventory. Cash and inventory constitutes the main resources of the cooperative. These items are especially critical since any mishandling of these resources could result in loss of confidence and patronage among the members. One of the main reasons for the dissolution of several cooperatives is the loss of confidence of the members on the management of the cooperative as a result of mismanagement of fund and inventory.

From the reports submitted, management can now answer the questions such as : "Is capital sufficient to carry on operation? Can the cooperative meet its obligations on schedule? Is the gross savings sufficient to cover the operating expenses with enough margin for safety? Was the gross margin realized consistent with the operating plant?"

All kinds of questions can be asked that would indicate to management whether operation was satisfactory or not. If the result of the analysis reveals that the answer to these questions are quite unsatisfactory, then new plans must be made and implemented promptly and firmly.

A good manager will supplement the formal accounting control with informal observations of the day-to-day operations to satisfy himself that subordinates are carrying out their responsibilities satisfactorily. He will probably ask himself questions like "Do the reports come in on time to be of any use? Do the employees use their time efficiently? Are the equipment and other facilities properly maintained? Is inventory being carefully handled and adequately protected against damage and pilferage? Is market analysis sufficiently accurate *viz-a-viz* what has been observed in actual market performance?"

These are things that management would necessarily be thinking about during each day in the office.

So, the management control depends considerably on the capability and dedication of the management and the staff. This concern for the cooperative can come about with the realization that the cooperative is growing and that the future outlook depends on their present performance. Professionalism is a desired feature of management because cooperative politics have had a deterrent effect in many cases. Sometimes the Members of the Board are elected on the basis of popularity rather than competence and often times they fail to understand the motive of management when planning for the good of the business.

Conversely, the members' decision in the choice of the Board of Directors is equally important. Many cooperatives failed because its members failed to elect the right persons on the Board of Directors.

Democratic Control

Herman Lamm

In order to ensure better services to members we have found it necessary to build our cooperative societies larger and larger. The societies have now mostly many hundreds of members, sometimes even thousands spread over a large area. There is also a steady increase in the number of employees and even those are sometimes spread over number of departments or branches. The character of the original society has changed. It is not any more possible for the central management to have an intimate personal contact with every member and every employee. But we are all at the bottom of our hearts conservative and therefore it takes often long time before we realise that the society needs a new business organisation, a new democratic form and new forms of communications with the individual members and the individual employees.

In modern business we are aware that a supervisor should not have more than 6-8 persons to supervise, when it is a question of day-to-day supervision. We therefore streamline our business organisation in terms of departments and sub-departments. But still we very often find a manager trying to supervise directly without any assistants 20-30 persons, because he "does not dare to give anybody else the responsibilities".

In the same way there are certain rules for an effective democracy. If a members meeting is to give a reasonable opportunity for an ordinary member to seek clarifications from the management, the meeting should be held locally in his area and the number of participants should not be more than 50-100. This means in a living cooperative democracy not more than 200-300 members should form that area society or branch. A society with 500-1000 members or more, therefore need several regional member meetings—mostly one at every branch, if there are branches. And as soon as the society has to call for several member meetings,

it is also time to build up a system of elective colleges rendering their representatives to a general meeting. We must also provide for local advisory committees in the different member regions as a link between the individual members and the central management. There is also a need for practical rules how the representatives should meet and contact the members and how the central management should also have a two-way communication with those member representatives.

Similar systems have to be built up for a two-way traffic of information between the ordinary employees and the central management—may be even for democratic reasons, but specially to enable the staff to participate actively in the efficient working of the society. The general manager must meet the departmental heads frequently for discussions—not only to give orders—and those departmental managers or assistants must have a close personal contact with their junior employees or otherwise conduct regular meetings even for them. It is also seen on side of the vertical lines of control and contacts among the employees a need for horizontal collaboration between departments. (There is also need of departments for member contact and personnel management.)

All these changes affect favourably the work of the management. The board of non-officials need not take detailed decisions they can leave these to the general manager and his assistants. It is even dangerous at this stage if the board continues to intervene in the day-to-day work of the society because it thereby hampers not only the efficient work of the general manager but also through him of all the officers and the other employees. A system of giving monthly reports to the board members has to be developed to assist them to follow the actual results of the working of the society. Those reports have to be carefully prepared. The board meetings may anyhow be too crowded to ensure a detailed discussion. The board therefore has to divide itself into sub-committees for intensive studies of different parts of the work of the society. Short-term and long-term plans for the work of the society have to be developed.

Even though a secondary society is a special identity the

same contacts have to be developed between the secondary society and its primaries. The coordination and integration between primaries and a secondary society is natural and necessary. The secondary society takes over more and more of those tasks which earlier were performed by the primaries, in marketing and purchasing, storing and processing, financing and planning. And therefore it is a must for the members of the primaries to be well-informed about the performances and plans of the secondary society and to have ample opportunities to influence those.

In all these developments we have to build up new lines of communication. The cooperative movement is a form of economic democracy. But we also have to see that the persons who function as member representatives, employees and board members understand and develop the right forms of democratic contacts and understanding. Open and frank discussions are always very informative. Lectures without active involvement of the participants are mostly useless because the lectures go in through one ear and out through the other. Decisions have to be taken at the right levels, but they should always be implemented only when the involved members and staff have given their suggestions and reasons. Every wise decision should be able to stand the test of critical questioning by the persons involved. Only by questioning the reasons those members and employees will be able to understand and appreciate the decisions and also react to and implement them in the right spirit. Without open and frank discussions we very easily leave large gaps in the communication chain, thereby undermining member involvement and the involvement of the employees.

Relations with Members

As already mentioned, there is need for a three tier system in a large society.

The members should be invited to *local members meetings* in sub-regions of the society. Those meetings should in principle discuss all the important subjects meant for the final general assembly. The sub-regional meetings should

not be able to pass or reject reports and proposals but only to convey to the general meeting the opinion of the local membership. In the sub-regional meetings the members should elect representatives to the general assembly, and also a local advisors' committee which will be the link between the members in the sub-region and the board during the year (they may be the same persons for both the tasks).

The interlinks between the members and the central board should be the *representative general body meeting* and the *local advisory member committees*. The general body is the decision-making body for the society. They should elect the board and also elect the auditors or the control committee, to control the work of the board and the management. The local sub-regional member committees should function during the year as liaison between the local members and the central board and the general manager.

The central institutions are the policy-making *board* and the *general and assistant managers* are the executing body.

The same applies principally also to a secondary society, especially if there is a very intimate collaboration and integration of work between the secondary and its primaries. In this case the local member meetings are not those of the secondary society but belong to its affiliated primaries. But for practical purposes those should principally be treated in the same way as "local sub-regional member meetings".

Let us now proceed to the different institutions and see how to develop in them practical forms of democracy and member involvement :

1. *Local sub-regional member meetings*

In order to facilitate a fruitful discussion on the yearly report, that report or at least a leaflet on the important points of the report should be available in a printed form beforehand, through branch offices and local representatives or distributed to all members with the invitation to the local member meetings.

It is important that the oral report on the meeting is given in an easily understandable form, stressing the practical work and changes rather than the account figures. For a

large society it is possible to develop coloured slides showing the important changes in the year under report. Teachers or other educationists among the board members and employees may be utilised to find forms for stimulating reporting.

The second important point on the agenda should be a discussion where members have the opportunity to ask for clarifications on any point concerning the previous year, not only on the accounts, but on other subjects as well. We will mostly find that their questions rather concern the services of the society. We should encourage such questions and even criticism because mostly by that the members get involved in the affairs of the society. If necessary to invite questions, "a panel : may be placed on the platform to answer the questions. In order to make it easy for members to "come out" with their questions: tea or coffee may be served between the report and the general discussion.

It is important that members are attracted to the meetings through posters, advertisements, printed invitations etc., even through some entertainments after the meetings. These meetings are part of our member education. If the percentage of members present at the meetings is high, we can also easily prevent that a small group monopolises the society affairs in their own interests.

2. Local advisory committees in the sub-region

The local committees should have clearly defined tasks and rights. They should meet regularly, monthly or quarterly, summarise the results of the society from the local membership point of view and discuss any suggestion or criticism given to them by the local members. It is also their responsibility to canvass for more member participation in meetings, member education programmes etc.

In order to make the committees more active they should get periodical reports on the work of the society concerning their own area, small easily understandable reports. They should also be called regularly by the management to a conference discussing the affairs of the society.

If there are local branches of the society in the sub-regions.

it should be made quite clear to the local committee that they have no authorities to boss over those branches or their branch managers. The committee members should generally direct their requests to the board and the general manager when they have proposals to make. A copy of the minute for their committee meetings or excerpts out of the minutes may therefore be sent to the general manager.

3. *Election of board members*

Even though the local sub-regions may forward candidates for election of board members, it should always be left to the representative general body meeting to elect the board. It is obvious that the highest authority in the society also should have the right to elect and dismiss board members and to elect a useful combination of persons for the board. To avoid that members from a certain area or a certain group of members inside the society monopolises the elections to the board there are other better systems than to have the elections of board members locally. For instance, to state in the bye-laws that the board should have representation from certain areas, etc. It may also be useful to state in the bye-laws or in other forms how the board should be comprehensively composed. Only if we have a comprehensively composed board we may be able to avoid unnecessary political interference and vested interests coming out of that. The good thing with local committees and a representative general body is that mostly the members may not accept an outsider to be elected on the board in place of those members who have already served for some time in local representative positions. It is also easier in such a system to introduce the practical rule that only those who have taken part in courses and other educational activities are able to be elected or re-elected to the board and the local committees.

4. *Sub-committees in the board*

In a large board of 10-20 members there is mostly a need to divide it in sub-committees for, more in particular, dealing with different subjects. These committees should, as a

rule, act as preparatory institutions for the board meetings, thereby reducing some of the board discussions. They might even be given the right to control in detail some parts of working of the society. But, as a rule, the sub-committees should not take decisions on their own and definitely they should not go into detailed decisions which are natural for the managers to take.

5. *Auditors or control committees*

There are different types of auditing. Internal audit may be developed by certain staff of the society itself. Some audit may, in accordance with the cooperative law, have to be made by government auditors or specialist chartered accountants. Besides those, every society should have auditors elected by and among the members both to control the accounts and the assets and to see that the board has been working efficiently and in the interests of the members. It is also good way to get some members who are able to question the decisions of the board in the general body meetings. They may be called auditors or a control committee but they should also collaborate with government auditors or chartered accountants when such are available.

6. *Member education*

A large society needs continuous member information and education. An important member information may be provided by calling members to local meetings several times a year. Some member education may be conducted by conferences with member representatives, in centralised classes or in local study circles for elected member representatives, like representatives to the general body meetings (which may also meet 2 or 4 times a year), local committee members and members of the central board and the central control committee (or the auditors). Some courses may even be made nearly compulsory by adopting the system to ask if the representatives have taken the courses before they are elected or re-elected.

To call ordinary members especially for meetings or

classes on technical subjects such as cooperative principles, the cooperative law or book-keeping and accounts is not generally effective. The information and education have to be taken step by step. Topics like farm guidance in all forms, family economy, family health and nutrition, etc. will appeal much better to the members. And it is a part of our cooperative goal to inform and educate the members in such topics of interests for the betterment of their family economy. Whatever topic we choose, the discussions we have should lead to the services rendered by the society. And to explain why and how these should and could be performed we have to involve ourselves in cooperative practices and cooperative principles.

In several countries of this region, cooperative education has been looked upon as a subject which should be exclusively dealt with by the cooperative union and its institutions and officers. It may be right that the special institutions organised for education should take a lead and provide course programmes, meeting programmes etc. But the actual practical member education has to be framed inside the cooperative societies and lecturers have mainly to come from among the officers and board members of the societies. Every board should have a special sub-committee for member education, may be also combined with staff training. As soon as the society has reached a certain size, it also has to appoint a special full-time officer for the educational and information activities. It is also necessary to see that allotments of funds are made to member education and information not out of the surplus of the society but as direct costs inside the budget.

Staff Relations

The cooperative is a democratic institution. This approach should not stop with the member democracy. The democratic spirit should also apply to the management relations with the employees of the society.

In every society we have, for the good performance of the society and the services to the members, to rely to a great extent on active participation by the employees. For an

employee the salary and the social benefits may be important. But mostly the comfort in the work, the good relations with colleagues and supervisors play a role as important as the direct benefits. Every human being likes to know *why* he should work in a certain way and *how* his job is inter-linked with other departments; he does not like to be an automatic cog in a strange machinery and prefer to feel the importance of his own work. Only those employees who are able to find a form of pride in their own work are able to become competent fellow-workers.

Specially in developing countries this approach has to be developed gradually. Most of the employees have restricted experiences of collaboration in bigger institutions. Therefore, instructions in the work have to be given carefully and in much more detail. It has been seen that in most cooperative societies the communication gap between the management and the employees is even more accentuated than between the management and the members.

Some of the employees are also those who mostly meet the members directly. Those employees must therefore be specially well informed so that they in turn also can communicate the information to the members in the right spirit.

Defective Communications

Many circulars reaching junior staff in the societies may only be citing the rules and regulations from government or apex organisations, extracts taken from minutes of the board meetings or from notes forwarded by officers of the society. These notes may be rightly worded for their special purpose but not sufficient for an implementation by junior staff. Practical details have to be added. The reasons for the change in regulations might sometimes easily be added to the circular. And the language must be simple enough to be fully understandable by the staff involved.

In most organisations we have a system of reports and periodical returns. That system has to be overhauled from time to time in order to suit the actual needs. It is necessary to see that the board and the managers get information suitable to their actual needs. It is also mostly frustrating

for those who make up these reports if they find that they are doing an unnecessary job, because the reports are never read or utilised in decision making by the persons for whom they are prepared. It is also often useful to inform the report-giving persons about the summary of the reports, the position for the whole society, comparisons between different departments, areas or branches. Thereby we may involve the staff in a healthy competition or at least push them to think in terms of savings on costs.

Written circulars and working orders are useful and necessary. Every senior employee at least should have clear written instructions for his work and major changes in the routines should always be given in writing. If possible for every post there should be a description over duties and responsibilities. It is important as stated before that those circulars and orders are not mainly formally and legally worded but given a practical understandable form suited for the involved employees. In order to avoid misunderstandings those written circulars and orders must be completed by oral reports. For every departmental head it is therefore useful and necessary to assemble his own staff periodically to meetings in which he brings up important news in the working system, informs his employees about what is generally going on in the society and give them sufficient time to put questions to him about the actual work of the department.

Modifications in the Working System

When a new or altered system has to be introduced, some representatives from the involved departments should be asked to elaborate the details of the working system in order to avoid unnecessary mistakes and to see that all involved have had an opportunity to give their opinion about the details before the decision is taken by management. This is both a practical rule and an act of good personnel management.

Vertical and Horizontal Flow of Information

In order to ensure a good working system the general manager should have regular meetings with those who work

directly under his supervision. Thereby the departmental heads or assistant managers are fully informed and can easily communicate needed information to their subordinates.

The meetings of departmental heads also function as a coordinating factor, so that every department is knowledgeable about how connected actions are performed in the other departments.

Management, internal relations, board-manager

The board of management can principally function :

1. As a working board taking most detailed decisions.
2. As a policy decision making board, deciding over all principal issues and controlling that their decisions have been followed up, but leaving the day-to-day business to the manager and his assistant.
3. As a purely controlling board, leaving most work to the managers and only confining themselves to control the work and the business from the members' point of view.

In a small society without very efficient officers or in a large society with full-time working board members the first alternative may be used. But as a rule the second alternative is the best. The third alternative if used, shows that the manager probably is efficient but too strong and the board members too weak and lack in personal confidence. In order to arrive at "the golden middle way" both managers and board members have to look on the problem from each other's side.

The Manager should develop a number of well-defined and easily understandable regular reports (if possible distributed to the board members before the meeting) in order to keep the board well informed about the overall business of the society. But the reports should not be too detailed. There is a danger if the manager floods the board members with detailed reports, thereby stopping them from discussing the important issues.

For every important decision in the board there should

be a summary given by the manager in written form and elaborated in the meeting for their information. Some questions may be elaborated further on by the reports from the sub-committees who may already in detail have discussed the subject. But a well prepared decision must always be based on facts and figures which should be presented at least in a short form before the decision is taken.

The manager may need assistance by one or several of his officers to be able to serve the board with the right material.

In order to avoid unnecessary discussions about every decision to be taken by the management, the manager should develop rules which the board should take definite decisions to. Such rules can then be left with the manager and his subordinates to implement and only special cases brought to the board.

The manager should see that all important matters are reported to the board but he should never seek to escape his own responsibility by asking the board to sanction every action taken by him.

The Board should see that they appoint an honest and efficient manager—even if it involves a high salary scale—and then leave even important details to him. The manager has to issue orders to all subordinates and to keep the employees under control. If the board members interfere in his management they thereby weaken his authority and the good working of the staff.

The authority of the board should never be questioned but the board should work through the manager and never outside of him. If the board members are not satisfied with the work of the manager they should rather sack him and appoint a new manager.

The board should confine themselves to policy making, that is to give general rules for the day-to-day actions of the manager and his subordinates. Only exceptions from those rules may therefore be taken up in the board for special decisions.

We may elaborate for practical purposes the problems for certain important types of decisions :

1. *Staff matters* : The board will appoint the manager

and decide his duties and responsibilities, salary etc. The board may also appoint some other senior officers assisting the manager but only after hearing the manager's opinion. The working orders for the officers should be developed by the manager and only reported to the board for approval.

All lower staff should be appointed by the manager or his senior officers. It is a general rule that the nearest supervisor is the person who is mostly eager to get an efficient and honest subordinate, otherwise his own work will be suffering. Therefore, as a principal system throughout, no supervision should be given to a subordinate against whom he may have sincere objections.

In countries where there is severe unemployment, there are also chances for unfair employments. The board should control such cases but should avoid to involve themselves in appointment of lower staff.

2. *Purchases and sales, giving loans and recovery action, etc.*

The board has to give detailed rules for such business actions. If possible the rules should be so detailed that only a few exceptions or principal cases have to be referred to the board for detailed decisions. The rest will only come to the board as post facto reports. Such a system is useful in order to avoid nepotism or favouritism or even doubts about the board's actions.

When the board delegates to the manager or an assistant to him important powers of this kind subject to certain regulations set down by them, it does not mean that they have absolved themselves from the responsibility. They have to control rigidly and see that the officer responsible follows the given instructions and they have to guard against nepotism or favouritism on his part. But it is easier to control one man's actions where the responsibility is clearly defined than to control the board members if they indulge in doubtful actions or interference. If the board members are themselves involved there is no possibility of their exercising rigid control on the officers.

3. *Member relations*

The board does have more responsibility to take actions in the matter of member relations than in the other business of the society. This may specially be the case where the sub-committee members handling such problems may have even to personally involve themselves in imparting information and education to members. Here is an area where a secretary or a president of the board may have special responsibilities and duties. But on the other hand as information to members should be part of the ordinary work of the officers it is important not to divide too much this area from the other business of the society. Even a member secretary therefore might preferably be a subordinate to the general manager.

Role of Board President

It is very clear that a board member should never try to take individual actions of his own or personally give guidance to the staff of the society. In principle it is the general manager who exercises the highest authority between the board meetings. The board has the full authority only as a body.

The role of the president is a little more difficult to define. Even he has to follow the general rule for board members but he should also be able to assist the manager whenever needed by collaborating with him in solving important problems between the board meetings. But even he should avoid exercise of any direct authority over the manager between the board meetings and he should be very careful not to give any orders or even advice to lower staff over the head of the manager or in his absence. The good working of many societies is mostly due to an intimate collaboration between the president and the manager without the president nursing a superiority complex.

Summary

In my opinion to improve relations with members and employees is mostly a question of small but important

practical actions. There is need for the management, both the board and the managers, to give enough time for improvement of such relations.

We make much fuss about member education and staff training in developed and formal forms, but what we first of all need is more meetings and conferences and a more psychological and democratic way of treating those groups. Member democracy is a day-to-day affair mostly depending upon the lines of communication and the necessity for a two-way traffic. The role of the employees, and whether they should be members with full member rights or whether they should be given influence in special forms of industrial democracy is sometimes discussed. But if the staff are practically involved in the decision making if they are well informed and given opportunities to suggest improvements in the working arrangements, then most of these other actions are of secondary importance in the normal large sized societies.

In developing countries there is criticism of the unwanted political interference with the movement as well as bureaucratic influence from government officers. The management decisions in a cooperative may favour or disfavour a member or an employee. It is therefore difficult but very necessary that the board members see to it that all actions are taken in accordance with the principle of serving all members equally and of according fair and equal treatment to the employees.

Above all, their actions, attitudes and decisions must subserve the interests of the society, and subscribe to the general principles of cooperation.

Techniques of Cost Control in Cooperative Management

K. S. Ponnuthurai

Control is the compelling of events to conform to the plan. The process of control through cost accounting is by planning, direction, supervision, feedback and appraisal. The objects of cost accounting in brief are:

1. To show the structure of each product and process so as to exercise an effective control over each element of cost.
2. To facilitate product costing for inventory valuation and income determination.
3. To show whether a profit has been made on the business as a whole and in each process, job and department.
4. To determine the most profitable level of operation.
5. To aid in pricing by distinguishing between fixed and variable cost.
6. To prevent wastage by using an efficient system of stock and wages control.
7. To provide cost estimates for tender purposes.
8. To ensure efficient utilisation of all resources by comparing actual performance with predetermined standards.

Cost accounting is concerned with various components of cost and their control, whereas financial accounting is mainly for profit measurement. Financial accounts are concerned with the third parties in respect of capital, assets, liability and personal accounts which are irrelevant to cost accounting. Cost accounting concerns itself with internal matters. However, financial accounts are concerned with the society as a whole, but cost accounting directs its attention to cost centres for the purpose of control. Financial

accounting aids in exercising control only to a limited degree but cost accounting ensures more effective and efficient control over the utilisation of the resources of the society. Cost accounting is an aid to management.

Controlling of cost requires that the elements of cost are broken down so that they may be regulated at the source. Actual control of cost is a management function and not an accounting function. Control needs both information and action. The information is to be supplied by the accounting section indicating spots of weakness and the management section should take corrective action to make the control process effective. The cost accounting and the financial accounting systems should be integrated if best results are to be achieved.

Various cost factors

There are two methods of recording costs, *viz.*, historical costing and standard costing. Historical costing is concerned with recording actual costs at the time or after such costs have been incurred. Actual costs convey what has happened. Actual costs as such are not a means for measuring efficiency. Costs should be pre-determined and compared with the actual costs. The difference between historical costing and pre-determined costing is very important. If standard costing is not practicable, costs may be controlled through budgets.

In order to produce a commodity or to render a service, materials have to be bought, labour engaged and expenses incurred. These costs are termed material cost, labour cost and expenses. These costs or expenses are further subdivided into direct and indirect costs as follows :

1. Direct material
2. Direct labour
3. Direct expense
4. Indirect material
5. Indirect labour
6. Indirect expense.

The first three are called prime costs and the last three are called overheads.

The general principle of determining whether the expenses are direct is by considering whether the expenses can be traced directly to a specific product or a job. An indirect cost cannot be directly associated with a product or a commodity or the activities of a cost centre but has to be apportioned on a suitable basis.

Direct materials, direct labour and direct expenses are called prime costs and are traceable to a product or cost centre. The indirect cost of production, selling costs, distribution costs, research and development costs and administration costs are called overheads. All overheads have to be apportioned on an equitable basis such as machine hour rate, labour hour rate, direct material cost percentage etc. An illustration of the various elements of costs attributable to a job, a contract, a product or a process of service is as follows :—

Direct Costs

| | | |
|-----------------|-------|-------|
| Direct material | ..... |  |
| Direct labour | ..... |  |
| Direct expenses | ..... |  |
| | <hr/> | |
| Prime Costs |  | ..... |

Overhead Expenses

| | | |
|--------------------------|-------|-------|
| Indirect material | ..... |  |
| Indirect labour | ..... |  |
| Indirect expenses | ..... |  |
| | <hr/> | |
| Cost of production |  | ..... |
| Selling and distribution | ..... |  |
| Research and development | ..... |  |
| Administration expenses | ..... |  |
| | <hr/> | |
| | | <hr/> |
| Total cost |  | ..... |
| | | <hr/> |

Fixed and Variable Costs

In developing costs for control purposes, costs are classified as fixed and variable. The segregation of fixed costs and variable costs is important for break-even analyses, marginal costing and the ascertaining cost-profit-volume relationship, all of which help in decision making in regard to the various activities of a society.

A fixed cost is one which tends to be unaffected by variations in the volume of output. This does not mean that a fixed cost is always fixed in amount, for there are other forces such as price levels and market shortages which tend to bring variations in fixed costs. Fixed costs are costs of time in that they accumulate with the passage of time irrespective of the volume of output. They are also called period costs as they are costs of time. The term fixed means fixed in amount rather than in relation to changes in output or volume. Three basic types of fixed costs can be distinguished :

1. Cost which are not susceptible to any substantial changes within a short period, *e.g.* certain types of depreciation and other invested costs.
2. Costs which are fixed for short periods but are liable to change if volume changes, *e.g.* supervision salaries affected by the need to employ more hands to supervise a larger volume of production.
3. Costs which are fixed by management and bear no functional relationship to the volume of output, *e.g.* pure research and design engineering.

Variable costs tend to vary directly with fluctuations in the volume of output. If a change in output forces a change in the amount of a particular cost element, then that element of cost is a variable cost. However, if output changes are too large, variable costs may not be in a constant proportion. Hence the word "tend" is used in the definition. It is, however, not a simple matter to classify costs as either fixed or variable. The accountant should set about analysing his costs into fixed and variable elements in order to calcu-

late the break-even point, and the marginal cost in processing or manufacturing and these aid management in a great way in decision making. However, it is not always possible to segregate the fixed and variable costs by simple inspection. Such segregation can be done by statistical analysis, accounts classification, estimate methods and scatter chart method. There are many factors in addition to volume which cause costs to vary. Examples are changes in plant and equipment, products manufactured, methods used, organisation, personnel, working hours, conditions of efficiency, managerial policy, prices, etc. The once and for all classification of costs will not serve all the purposes and conditions.

Certain costs known as variable costs contain both variable and fixed elements. Some variable costs are neither wholly fixed nor wholly variable, such costs change with activity but not in direct proportion to it, e.g. activity may increase by 10 percent but costs may increase by 4 or 5 percent. Such costs are termed semi-variable costs and include costs such as maintenance, supervision, storekeeping etc. Maintenance may be analysed into time based maintenance and activity based maintenance. The former may be weekly, monthly or annual preventive maintenance and the latter on the basis of say five thousand mile service in the case of a motor vehicle or break-down costs, which are wholly dependent on activity.

Break-even point and marginal cost techniques

The dual basis of cost—time based and activity based—(fixed and variable costs) are very useful aids to determine the break-even point and the marginal cost of a product or products. The breaks even point at which an enterprise breaks even *i.e.* the total costs and the total income are equal and neither a profit nor a loss is made. The break-even point is important to the management since it indicates the lowest level to which activity on a particular project can drop without endangering the future of the society. It should, however, be remembered that break-even charts are true only within certain limits of activity, for fixed cost may change at different levels of activity.

Marginal costs are the variable costs incurred as a result of undertaking a particular activity. It is also defined by economists as the extra cost of producing an additional unit *i.e.* the variable cost per unit. Marginal costs are very important in decision making in that, in the short-term, the difference between the income and the marginal cost *i.e.* contribution, determines the income on each alternative project less the fixed costs. The profits of a project are maximised by selecting the project that gives the greatest contribution. Since contribution is an important figure in decision making in the short-term, marginal cost statement has to be prepared so as to show the contribution realisable on any project. This is vitally important when a selection has to be made on one or more competing alternatives.

Based on the fixed and variable costs certain useful formulae can be built up, *viz.* :

| | | |
|--------------|---|----------------------------|
| Total cost | = | fixed cost + variable cost |
| Contribution | = | sales — marginal costs |
| Profits | = | contribution — fixed cost. |

When a single product is manufactured, the following additional formulae can be used :

| | | |
|------------------------|---|---|
| Contribution | = | number of units × contribution per unit |
| Profit | = | number of units × contribution per unit minus fixed cost. |
| B/E point (in unit) | = | $\frac{\text{fixed cost}}{\text{contribution per unit}}$ |

When there is a key factor in the process of manufacture, it is also possible to ascertain the contribution per unit of key factor for each alternative project, if a selection has to be made of the most profitable alternative.

Investment Decisions

Investment decisions are spending decisions. There are two types of spending decisions. One concerns the fixed

assets and the other concerns the expenditure for the time being without committing such expenditure for the future. The present discussions relate to the expenditure on fixed assets which are long-lived.

The question of whether to invest on a particular asset or not implies that there are alternative courses of action and a decision means, elimination of one or more alternatives and selecting a particular proposal. A proposal should be financially evaluated before a decision is made about the investment on the proposal. Generally, cooperatives are not used to evaluating a proposal in a scientific manner so as to obtain beforehand definite information on the feasibility or profitability of investing capital on a proposal. This is an aspect that deserves careful attention by the cooperatives as they have now become complex institutions embracing activities like production, processing and manufacturing. The main criteria for approving an investment are :—

1. The invested money must be recovered within a reasonable period.
2. A reasonable rate of return on the sum invested must accrue to the society.
3. The rate of return referred to at 2 above should be higher than the cost of the capital.

When evaluating long-term projects, fixed and variable costs analysis is less important as the emphasis is on the cost of the project as a whole and not on the unit cost. Any new project should be critically evaluated by obtaining estimates of additional revenues, operative costs and other expenses on each alternative proposal. Certain methods of investment appraisals in common use are the Pay Back, Peak Earnings, Rate of Return on Capital and Urgency or Postponability :—

Pay back : By this method the number of years it would take for the earnings from the investment to equal the original cost is estimated.

Peak earnings: By this method the highest rate of return expected during the peak period is estimated.

Rate of return on capital: This is found by dividing the net earning by the capital used.

Urgency or Postpon-ability : Under this method the projects that receive priority are those which, if postponed, would result in the greatest loss of profits. This arises where the funds to cover all the investments are inadequate.

Generally the foregoing methods of investment evaluation or appraisal have serious defects and can only be rough assessments. The time factor, which is a very important, is not taken into consideration. The evaluation technique recommended for adoption is the Discounted Cash Flow Method. This is a "general term used in all methods of financial evaluation which takes into account all quantifiable factors including the timing of consequential cash flows?" (A.H.A. Bennet). The methods of applying discounted cash flow are : (a) Terminal Value Method, (b) Present Value or net Present Value Method, (c) Internal Rate of Return Method.

From the financial point of view a proposal is fully described by the cash receipts and cash payments. The timing of cash receipts and payments is important as the cash received in time can be reinvested to earn income to the Society. Profits are not taken into consideration because profits accrue at the point of sale irrespective of whether the sale is for cash or credit. But the society will be paying interest on cash spent in producing or purchasing the stocks sold till the cash on credit sale is received. Only when cash is received true profit will be known.

In evaluating a proposal we have to estimate the incremental cash flow over the whole life of the proposal. Sometimes, it is difficult to evaluate a proposal for more than five years. However, there is nothing seriously wrong in estimating cash flows even into distant futures in order to have an idea of the estimated cash flows right up to the end of the

period. For the purpose of evaluating future consequences of a proposal, future cash flows on the basis of past expenditures and book values are irrelevant, and decisions should be made purely on future expectations which are, of course, influenced by past experience.

Terminal Value Method : This method simply adds all the incremental cash flows attributable to a proposal, i.e. accounting receipts as plus and payments as minus. The result is called the terminal value and represents the extra wealth that will be generated on the proposal at the end of the period of the proposal. If extra wealth is generated the proposal is accepted. If loss is revealed the proposal is rejected. An example of the Terminal Value Method of evaluating a proposal is as follows :—

An Industrial Cooperative Society proposes to replace a manually operated process by a mechanical device. The mechanical equipment will cost Rs. 12,000. It is expected to save monthly wages amounting to Rs. 400. The equipment is expected to work for 5 years. The maintenance cost will be Rs. 600 per year. Cost of capital is 10% per annum. Cash flows are as follows :

| Now | End of Year 1 | End of year 2 | End of Year 3 | End of Year 4 | End of Year 5 | Check Column |
|---|------------------|------------------|------------------|------------------|------------------|-----------------|
| 1. Savings | +4,800 | +4,800 | +4,800 | +4,800 | +4,800 | +24,000 |
| 2. Maintenance | -600 | -600 | -600 | -600 | -600 | -3,000 |
| 3. Effect on profit before depreciation | +4,200 | +4,200 | +4,200 | +4,200 | +4,200 | +21,000 |
| 4. Equipment cost -12,000 | — | — | — | — | — | -12,000 |
| 5. Net cash flows before interest -12,000 | +4,200 | +4,200 | +4,200 | +4,200 | +4,200 | +9,000 |
| 6. Interest at 10% | -1,200 | -900 | -570 | -207 | +192 | -2,685 |
| 7. Cumulative Cash Flow | -12,000 | -9,000 | -5,700 | -2,070 | +1,923 | +6,315 |

The terminal value in the above example is plus Rs. 6,315 at the end of 5th year i.e. the last year according to the deci-

sion of the society. The total interest on capital is Rs. 2,685 calculated on each year's cumulative cash flow as reduced by earlier inflows. The proposal has only Rs. 9,000 unrecovered out of the total investment of Rs. 12,000 at the end of the first year.

By the end of the 4th year the society has recovered the full investment and has a surplus of Rs. 1,923 and at the end of the 5th year including the interest of Rs. 192 on the surplus of Rs. 1,923 accruing to the society, if invested elsewhere, the society has a total surplus of Rs. 6,315. On the basis of the terminal value method the proposal could be accepted.

Present Value or Net Present Value Method: This is a different way of expressing the same arithmetical result in the same decision, i.e. whether or not to invest in one particular project as against some alternative. The Present Value is based on the principle that Rs. 100 today can be invested and earn interest for one year. If the rate of interest is 8% Rs. 100 now would be worth Rs. 108 at the end of one year. Similarly, Rs. 108 will bring in a further 8% at the end of the 2nd year. Working backwards, Rs. 100 due in one year at 8% is worth $\frac{\text{Rs. } 100 \times \text{Rs. } 100}{108}$ at the present

time, which is equal to Rs. 92.59. This is Net Present Value. Similarly N.P.V. of 100 due in 2 years at 8% equals, $\frac{\text{Rs. } 100 \times \text{Rs. } 100 \times 100}{108 \times 108}$ which is equal to Rs. 85.73.

Without tedious calculations, compound interest tables could be made use of to obtain the N.P.V. for any number of years at varying rates of interest. The cash flow method is used to ascertain the Present Value as well. If the Net Present Value of a project shows an absolute surplus over the capital outlay when discounted, that project is acceptable. Alternatively, the net cash flow can be utilised to ascertain the discounted yield or the internal rate of return. This method involves complicated calculations.

Setting Norms and Controlling Variable Costs

Norms are set by standard costing. Standard cost is the planned cost and scientifically predetermined consisting

of the cost of material, labour and overheads, chargeable to a product or service. Standard costs represent a planned method of producing a product or providing a service. A standard material cost will consist of standard specification, standard usage and standard price. Then, standard material cost = standard usage \times standard price. Similarly, standard labour costs, direct expenses, overheads and sales could be calculated. Actual costs are compared with standard costs as often as necessary and variances from pre-determined standards are ascertained and the causes for such variances investigated and corrective action taken. Norms or standards should be carefully prepared, as otherwise they would not serve the purposes intended for. Ideal standards of very high efficiency will not be attainable and the fact that employees cannot reach this standard is likely to create feelings of frustration rather than motivation. A standard should be set taking into account achievable rates of work, normal machine break-down and other unavoidable deficiencies. The standard, once decided upon, should be reliable, attainable and should provide an incentive to the workers so as to improve their performance. The standard should be revised from time to time according to changes in general price levels and should not be out of date. If this is not done, the employees concerned will not take the standards seriously. They will have no confidence in the standards.

Standard costs and budgets are complementary to each other. The introduction and development of standard costing provide a sound basis for budgetary control. The practice of using norms and standards facilitate the preparation of budgets in a realistic manner. It is very desirable that standard costs are made an integral part of the budgetary control system both in the preparation of budgets and their use as a control device.

Variable costs can be controlled by marginal costing and flexible budgeting. Marginal costs are variable costs incurred in production, selling and administration. These are direct material cost, direct labour costs and variable overheads. All these tend to vary in direct relation to the volume of output.

When budgeted costs are segregated into their fixed and variable components, then it is easy to compute the costs that should have been incurred for any given level of activity. A budget prepared in this manner is called a flexible budget. Flexible budgets are usually restricted to overheads which include the variable components as well. Direct costs are controlled by standard costs. The cost performance can be measured by the difference between the actual costs and budgeted costs for the actual level of activity. Variances in costs can be spotted and deficiencies corrected and for these reasons flexible budgets are more widely used.

Use of Financial Ratios and Financial Statements

If the figures shown in the trading, profits and loss accounts and balance sheet are skilfully analysed, it helps to diagnose the state of the society. A comparison of these analyses and the linking-up of a series of these can be used as the basis for a more accurate assessment of the financial needs and capabilities of a business than afforded by an examination of the accounts in their original state. The reason for this is that by means of percentages and other devices, the available information could be crystallised in such a way that the implications are clarified and attention concentrated upon facts which are completely hidden behind a mass of figures in the usual balance sheet and profit and loss account.

A financial ratio is also a tool of evaluation and control since variations in a ratio are usually significant. Adverse changes require corrective action. Favourable changes should be exploited. If, for instance, a society's gross profit margin declines from 10% to 5% or the cost of management to sales turnover increases from 5% to 10%, such variations should be investigated and corrective action taken.

Types of analysis : Broadly, accounts analysis may be divided into two sections :—

- (a) The study of a consecutive series of annual accounts.
- (b) Study of the position in all its aspects at one particular date or for one particular period.

The former focusses investigation upon the financial trends for a period and the latter scrutinises in detail the position disclosed by one set of accounts. A combination of both these methods is necessary for a proper appraisal of the financial position based upon the analysis of the annual accounts. If a study under method (a) reveals a particular weakness or weaknesses, it may be necessary to probe the figures by method (b) above to obtain an indication as to the reason or reasons for the trouble. It should be understood that the financial analysis will not give an absolute answer to every question of doubt it may bring to light. But it will point to a direction in which further inquiries should be made. As an example where losses have been traced to excessive transport expenses or decline in sales revenue, financial analysis will indicate the weakness and the weakness is to be found out by investigation.

Balance Sheet Summary and Ratios : One of the first analyses is usually made to bring out the liquidity position of the society, its capital surplus and from these, surplus variation statements and disposition of resources statements are prepared. The next step is to calculate the most important finance ratios. These ratios can throw considerable light on the financial structure of the society showing the percentage which the various items such as capital, creditors and loans in the summarised balance sheet bear to total assets. Solvency ratios, equity ratios, operating ratios and vulnerability ratios could be prepared from the financial statement of accounts at the end of a year and these ratios will help to interpret the working of the society during the year. The following simple balance sheet is used to illustrate the above ratios :

| | | | |
|----------------|------------|-----------------------|-------------|
| Share capital | Rs. 60,000 | Fixed assets | Rs. 130,000 |
| Reserves | 40,000 | <i>Current assets</i> | |
| Long term loan | 60,000 | Stock | 40,000 |
| Current | | Debtors | 20,000 |
| Liabilities | 40,000 | Cash | 10,000 |
| | 200,000 | | 70,000 |
| | 200,000 | | 200,000 |
| Sales | 70,000 | Net Profit | 14,000 |

- (a) Solvency ratio indicate the extent to which a society can meet its current commitments.

$$\text{Current assets : Current liabilities} = \\ 70,000 : 40,000 = 1.75$$

$$\text{Liquid assets : Current liabilities} = \\ 30,000 : 40,000 = .75$$

- (b) Equity ratios indicate the extent to which a society is financed by its own capital.

$$\text{Equity : Total capital employed} = \\ 100,000 : 200,000 = .5$$

$$\text{Equity : Equity} + \text{Long-term Debt} = \\ 100,000 : 160,000 = .625$$

$$\text{Equity : Fixed assets} = 100,000 : 130,000 = .77$$

- (c) Operating ratios : Sales : Total capital =

$$70,000 : 200,000 = .35 \quad \text{Employed} = 3 \text{ years.}$$

$$\text{Sales : Equity} = 70,000 : 100,000 = .7 = 1\frac{1}{2} \text{ years}$$

$$\text{Sales : Current assets} = 70,000 : 70,000 = 1 = 1 \text{ year}$$

$$\text{Sales : Working capital} = 70,000 : (70,000 - 40,000) \\ = 2.3 = 5 \text{ months}$$

$$\text{Sales : Stock} = 70,000 : 40,000 = 1.75 = 7 \text{ months}$$

$$\text{Sales : Debtors} = 70,000 : 20,000 = 3.5 = 3\frac{1}{2} \text{ months}$$

$$\text{Net Profit : Total capital employed which is 14,000} \\ 200,000 = 7\%$$

$$\text{Net Profit : Sales} = 14,000 : 70,000 = 20\%$$

$$\text{Net Profit : Working capital} = 14,000 : 30,000 = 46.7\%$$

$$\text{Net profit : Owned capital} = 14,000 : 100,000 = 14\%$$

- (d) Vulnerability is measured by calculating the extent to which current assets, starting with the most liquid assets, would need to be realised before the whole of the liabilities are covered :

$$\text{Cash } 10,000 + \text{debtors } 20,000 + \text{Stock } 10,000 = 25\% \\ \text{stock.}$$

Surplus variation statements : When the capital surplus at each successive balance sheet date has been prepared, statements are prepared next setting out the items which have caused the changes from time to time in the amount of the surplus. The chief items concerned will be profits or

losses, depreciations, additions to share capital and loans less disbursements.

From these statements it could be seen :—
assets and liabilities,

- (a) Whether the business is expanding—increase in assets and liabilities,
- (b) Whether the society is sustaining losses, and if so, the causes for the loss should be investigated,
- (c) If the plant is working to capacity,
- (d) If further capital by way of shares or loans is necessary,
- (e) If the relationship with the society's creditors is satisfactory.

Two methods are commonly used for bringing asset values into line with the current monetary values, *viz.*, revalorization and revaluation. Revalorization is the applying of an index number which represents the change in value to the Balance Sheet figures. There are, however, certain limitations in applying the revalorization method though apparently this method appears to be scientific. The purpose of using the revalorization method by use of indices is to discount the falling value of money in terms of the purchasing power so as to ascertain a proper base to calculate the profit target. The basis is the real value of the assets involved. It is likely that if sufficient profits in the form of reserves are not retained in the society in terms of the real value of the capital employed in a steadily rising cost economy, the society would be losing its capital, in real terms, annually. The revaluation method is not for the purpose of resale of the assets but to put a proper value on their current worth on a going concern basis for the same purpose as in the revalorization method. For a small society the utilisation of these methods will be expensive.

Conclusion

Efficient cost control will result in savings to the society in its various activities (e.g. production, processing and manufacturing costs and administration, distribution and

selling costs) by the elimination of wasteful expenditure. If cost savings are to be genuinely achieved, the management must be convinced of the need for it. There is a lot of scope among the cooperatives for cost reductions by proper approaches to the problem of costs. The large cooperative in particular, must realise the need for special committees selected from the various departments of the society, co-opting persons with special knowledge or skill from outside, if necessary, to achieve efficiency and cost reduction. Improvement in efficiency must ultimately be reflected in reduced costs.

Budgeting and Budgetary Control

Robert Staermose

A captain of a large ship must know navigation and he must have great experience in the use of navigational aids; otherwise he cannot steer his ship safely to the port of destination. Before he sets out to sea he must plot his course, he must deviate from the course to avoid danger zones of different kinds, he must revert to his course and ultimately bring the passengers, the cargo and the ship to their goal.

It is quite relevant to compare the manager of a large-scale modern business enterprise to a chief navigator; the manager must also lead his "ship" through to its destination—to the yearly assessment of results—he must plan a course and follow it, knowing what the danger signals are telling him when his direction is going wrong and acting upon such warnings to put it right again. The navigational aid at the manager's disposal is *the budget* and the use of it is called *budgetary control*.

To make a budget means making an estimate or a forecast of performance and needs of a defined future period, which, in business enterprises, is usually one year—for the business year ahead of the current one.

In a cooperative enterprise it is the duty of the managing committee to set the goals, guided by resolutions in general meeting, so that it is clearly said what the society intends doing. The plans of implementation of such policy must be made by using the techniques of budgeting. In any kind of business, be it in the field of merchandising, banking, shipping, industry etc., the technique is the same; you estimate first *the volume of business* your enterprise expects to handle during the budget year; then you figure out with rates known from own or other experience, how much your *gross income* may be; next you find out about men and money—what size and kind of *personnel* is needed to handle the business volume and how much their salaries, wages and other com-

pensation are likely to be; you make a *finance* estimate to see how much money is needed and where you can get it and at what cost; then you have to consider all the other *costs of a fixed or variable nature* involved in the operations planned; finally the budget may be built up into *an estimate of total costs and total income* which will tell whether the enterprise, on the business volume forecast, is likely to *break down even*, and not only that; it is important to be able to see whether sufficient profit can be made over and above *the break-even point* to build up capital for expansion and consolidation, and—in a cooperative enterprise—to pay a patronage refund.

For a merchandising unit like a consumer cooperative society the process of budgeting consists of making the following estimates :

- (1) Sales Estimate for 12 months.
- (2) Estimate of Gross Profit and Other Income
- (3) Estimate of Personnel (number of employees and costs).
- (4) Estimate of Maximum Needs of Finance (and of capital costs).
- (5) Estimate of Total Fixed and Variable Costs (the Consolidated Budget).
- (6) Compilation of Work Sheet for Break-Even Chart and Drafting of Chart.

When the budget has been drafted and approved in a managing committee meeting, which should be held two months before the beginning of the period covered by the budget, the manager must draft the forms necessary to operate *the budgetary control*; he must draft a statement for budgetary control of sales showing the actual results alongside the budget estimates so that deviations can be clearly seen; he must institute a calculation control to see that the pricing practices are such that the gross profit budgeted is likely to be realised; he must know the seasonal variations in work loads and the variations in finance requirements during the year, so that the necessary arrangement for temporary staffing and credits are made well in

advance of peak times; he must know the cost ratios budgeted and he must month by month compute the actual ratios for comparison with the estimates. In this manner the budget becomes the manager's most important "navigational instrument"; *it is absolutely necessary to have such instrument and to use it in large-scale business.*

In this paper no practical example of budgeting is shown. In the following some observations will be made on the way in which the various estimates—the budget components—are produced.

The basic estimate is *the estimate of sales*. It tells how much we intend doing during the coming business year. To build up a sales budget, it is necessary to know the spending power of the consumers living in the area of operations; the spending habits must also be known; in the case to be presented it will be shown how knowledge of family incomes and family expenditure is gathered from various sources, mainly from public statistics already processed from census data or special surveys (the Indian NSS—the National Sample Survey—being an excellent example of such information) or from special research organised by a national cooperative apex federation—perhaps in collaboration with a public statistical office or a research institution. An example of building up a sales estimate on food, textiles, kitchen utensils, soap and toilet articles based upon known family spendings in industrial areas (5 industrial centres in Pakistan) has been shown in paras 108-112 of "Management of Urban Cooperative Consumers' Societies" written by the author of the present paper. The amounts spent on each category of foods, such as cereals and pulses, baked products, milk and milk products, edible fats and oils, meat, fish, poultry, fruits, vegetables, spices, relishes, sugar and sugar products, food away from home, drinks and tobacco, are known by month and year; it then remains to estimate how much the cooperative shop is likely to be able to supply of each food item; if it decided that the shop, for lack of proper equipment, will not supply fish, meat and poultry, the estimate for these items must, of course, be zero. If the shop intends concentrating on "Staples"—the basic foods—the estimates against the family expenditure

on cereals and pulses may be set as high as 75%. If the habit in this area is to buy kerosene and other fuel oil from a house-to-house peddler, the shop may be unable to change such convenient practice and induce the housewives to walk to the shop for oil, but some sales may be expected; in such situation the percentage for cooperative supply must be set rather low. The person drafting the sales estimate must use his knowledge of local conditions, common sense and—in time—his own experience and that of others—so that his final consolidated sales budget is realistic and not just guesswork.

The *estimate of gross profit and other income* must be built up in the same detailed manner as the sales budget; the lay of the market must be known for each group of commodities so that the profit margins commonly used in the local wholesale and retail trade can guide the estimates of profit; in some countries the cooperatives may be strong enough to lead its own price policy, in others the margins for the better part of the turnover may be fixed by government; whatever the rates may be, it is important that the estimate is carefully built up for each group of commodities and with detailed regard of such commodities as are likely to constitute a major part of the sales volume—such as, for instance, sugar, rice, wheat and similar staples, for which the margins are usually small. *An estimate must be very sober—it must be neither optimistic nor pessimistic.*

When the sales estimate and the gross profit and income estimate have told what the volume is likely to be and what gross income is likely to be available, the next three estimates are concerned with different kinds of expenses ending in the consolidated cost and income estimate, the budget which is really a forecast of the year-end and profit and loss account. These expense estimates tell whether the enterprise can be managed within the gross income obtainable; if that is not the case the management must make up their minds either to stop the enterprise and liquidate it, before the capital is completely lost, or to increase the income, or to reduce the costs—or do both things at the same time; which, of course, is more easily said than done.

For the drafting of the personnel estimate in a consumer

cooperative enterprise certain guidelines and techniques are available.

If the sales volume in a consumer society has been estimated at, for instance, 3,600,000 for 12 months, the question is how many full-time employees are needed to handle such volume. In order to decide this it is not enough to know the ratio between the yearly sales and the number of employees as it was within one's own society last year and a few years before, nor can sufficient guidance be found by studying the ratio in neighbouring societies. It is necessary to make the estimate on the basis of standards. As is, unfortunately, the case in this as in other important fields of management evaluation, such standards have not yet been established for cooperatives in the Asian region. What can be done, with standards missing, is to compute the so-called sales intensity ratio in societies which are considered to be working reasonably well; and then start research through appropriate organs with the ultimate aim of proposing standard ratios—valid for areas or countries where cooperatives work under comparable conditions.

If, in the case mentioned above, such provisional standards indicate that the overall intensity rate of 60,000 per employee is a reasonable one to apply, the estimate of the total strength of the society's establishment would be 60 employees; analysis from certain areas show that if the ratio is computed for salesmen (shop managers included) alone, the result may be that one salesman is able to handle a volume of 140,000 a year; this special ratio may be helpful, because it would then indicate that the shop sales personnel would consist of 25-26 persons; the balance of 34-35 would be head office clerks, store-keepers in warehouses or godowns, drivers, watchmen, sweepers and top and middle management personnel such as the general manager, the accountants, the cashiers, the inspectors and other supervisors. An allocation list must be made and the salaries and other emoluments must be applied for a computation of the personnel cost factor. It is important to gauge this budget item carefully by efficiency standards, so that the enterprise undertaking large-scale operations does not overstaff itself; such overstaffing is, undoubtedly found in

several countries in the cooperative sector, and since the costs of staffing is considerable—roughly half of the total cost—such mismanagement may become the chief cause of a failure.

The *estimate of maximum needs of finance* must, like all the other budget components, be the subject of very specific treatment, as said in the title of the estimate, the needs are not average needs but *maximum* needs, which means that the finance budget must provide also for the needs as they are at peak seasons; such seasons vary from country to country according to the religious and ceremonial habits—Christmas being a peak shopping season in a predominantly christian country, the Ids in a Muslim country and so on. Traders must stock up their shops in volume as well as in assortment in advance of such seasons, and money and/or credits from banks or suppliers must be available for such peak investments. Slack seasons are also found and sufficient funds must be available to cover costs during such periods—although this is usually a smaller problem than arranging for the peak months. The writer of a budget must, however, be aware of the seasonal variations in sales and work load and understand their financial implications.

A balance sheet-type statement must be built up, showing on the one side *the financial requirements* for cash (in hand and banks), stock-in-trade, trade credit (receivable), sites and buildings, furniture and equipment, vehicles and other needs, and on the other side *the sources of finance* such as own capital in the form of shares and reserves, deposits from members and non-members, outside borrowings of various kinds etc.—it would be too involved for this paper to deal with all the details of the economics of financing a large-scale merchandising enterprise and to discuss all finance ratios but a few of the main items should be dealt with in the context of budgeting.

In estimating the investment in stock-in-trade the ratio of the stock-turn is used; if the society with 3,600,000 as yearly business volume turns over its stock 30 times a year (which is a fair assessment for an enterprise dealing mainly in staples on the assumption that it is not engaged in long-term warehousing) the average stock at sales price is

120,000 and the *average* investment at cost price may be estimated at 110,000 . The author of the budget will then adjust for the peak sales; if this extra turnover is, roughly speaking, limited to one month of the year, and if it is assumed that it amounts to a full month of sales, this means that the society would have 11 months of sales of about 275,000 for each month and 550,000 for one month; in the budget the stock-in-trade requirements might then be listed as follows :

| | | |
|-----------------------------------|---|---------|
| Normal Stock-in-Trade (11 months) | : | 80,000 |
| Peak Stock-in-Trade (1 month) | : | 160,000 |

and the extraordinary need might then be covered by a separate item on the side of the sources of finance.

The size of stocks should be shown for each category of goods handled, in accordance with the standards of stock-turns for each, and in the budgetary control sheet the stock estimates should be specified for comparison with the monthly back values for each category, so that *an effective means of warning against overstocking* is available from month to month.

If goods are sold on credit an item must cover the finance requirements; it is not the place here to discuss trade credit by cooperatives; in large-scale cooperative branch operations it will hardly be possible to offer credit on consumption goods except for large items where special credit systems can be applied (hire-purchase or similar contractual arrangements). In case such special systems are worked, the means to finance such sales must, of course, be found and provided for in the budget.

Investments in land, buildings, rolling stock, dead stock and other fixed assets foreseen for the budget period must be listed and provided for; several standard ratios by which to gauge the most economical investment in fixed assets are in use, but it is difficult to quote any details because of lack of research in the field; one rule of thumb is that the total of fixed assets should not exceed own and owned capital, but it is, in many countries, not possible to finance the rapid expansions required by government or by the situations,

for instance the highly dynamic urbanization going on in many countries, by own or owned capital.

It may be mentioned here that an ultimate aim with regard to finance is to head for a financial position, where borrowing are 25% and own and owned capital (share capital plus bonafide reserves) are 75% of the total sum of the balance sheet.

A sub-estimate to the finance budget is the estimate of *capital costs*; in modern enterprises, especially in the field of merchandising, it is useful to *distinguish*, in recording and evaluation, *between capital (or non-operational) costs and operation costs*: a definition which covers the distinction fairly well is that capital costs are such costs as are paid or calculated for the financing of the enterprise, whereas operational costs are such expenditure as are paid or calculated to make the business run. In case of a delivery van, for instance, the capital costs would be the interest on the investment plus the depreciations, whereas the operational cost would be the driver's wages, the maintenance and repairs, oil and petrol, insurance, registration fees and similar expenses connected with the running of the van.

In the budget the capital costs must be computed not only for new investments forecast, but also for the balances on the investments already made; one method is to compute interest on all the asset items with deduction of depreciation funds for the items concerned and add depreciation according to plan for the items of dead stock and other items subject to such yearly valuation. This means that the capital costs estimate will include interest not only on loans where interest is actually payable but also on the equity in the form of shares and reserves (less depreciation funds). This may appear a theoretical manner to go about the cost budgeting, but it is necessary to practice such theory in large-scale businesses, not only to arrive at result-statements for internal comparison but also to show results which can give a true picture of the *operational* performance in comparison with other enterprises: many cases have been found in practice where one society showed a better result than another, but when a closer analysis was made, it proved to be due to differences in age and consequently in financial

position; the younger society with a poorer total result might have the better operational performance; a “rentier” society should not be praised for a better result than the “upstart” society, if a distinction between capital costs and operational costs and a business like application of capital costs budgeting show that the younger one is more efficient in its performance than the older one. Financial position and structure is one thing, operational performance another.

In this connection it is relevant to draw attention to a situation existing in some countries where the consumer cooperatives receive government aid; such aid may be given directly or indirectly; a direct subsidy is, for instance, money paid to societies to cover rent of shops etc., salaries and other cost items; indirect costs are subsidised, for instance when government officers are placed at a society’s disposal without charge, when loans are given without or at low interest, when facilities of other kinds are placed free at the society’s disposal and so on. The same subsidies are usually given by the paternal association to institutional societies. A bonafide and true picture of performance is not presented, neither to the government, nor to the committee and the membership, if such subsidies are left unrecorded and are not brought out in the open. This ought to be done. If it is not done the “day of independence” will be pushed into a distant future, because neither the government controllers, nor the management, nor the membership will be given true data on the position and performance and their evaluation of their society will be false.

The final, consolidated budget will contain the following information:

The subject of budgetary control on operational and capital costs is a large one; it is a handicap in cooperative management and also in management training for cooperatives that academic institutions teach costing in relation to industrial enterprises but only to a very limited extent for merchandising enterprises, which have costing problems of their own different to those in industrial units. In the cooperative training institutions this important

Budget for the Year 1967-1968

| Total Estimates of Expenditure | | Total Estimates of Income | |
|--------------------------------|-------------------|---------------------------|------------------|
| Head of Expenditure | % on Amount Sales | Head of Income | % on Amount Sale |
| Cost of Goods Sold | | 12 months' sales | |
| Staff salaries | | Interest on Reserves | |
| Honoraria | | Subsidies | |
| Meetings | | Other Revenue | |
| Travel Allowance | | | |
| Stationery | | | |
| Mis. Expenses | | | |
| Leakages | | | |
| Capital Costs | | | |
| Net Surplus | | | |
| TOTAL : | <hr/> <hr/> | TOTAL : | <hr/> <hr/> |

discipline is slowly getting the attention it deserves, but relevant teaching material is scarce.

Budgeting is an important means of developing not only efficiency in management from month to month and from year to year, but it is also an aid to the education of the management committee engendering sound ideas of what is good and what is bad in the performance end position of the enterprise; it helps expanding and improving co-operative services, because the important precondition of such progress is efficiency in management and the support to management which can be given by well-informed committee members imbued with commonsense and able, as is said in by-laws, to "conduct the affairs as prudent businessmen would do".

Management Control in Consumers Cooperatives

Robert Staermose

The purposes and the functions of management control are very allusively illustrated if compared to the driving of a motor car. The manner of thinking, the methods of preparation and the execution of the job of driving can point by point be compared with the job of controlling a business enterprise in such a manner that the right decisions are made at the right time. Before the driver seats himself behind the steering wheel of a motor-car, he must first of all have decided or been told where he has to drive the car; when the destination has been fixed he must decide which road will be the best one to take. This compares very well with the *definition of goals* of business by the managing committee or by the top management of an enterprise and to *the master budget*, short time and long time forecasts, which in large scale business units must be set up in order to have some internal standards to check by.

A prudent driver does not start out on a tour before he has made a number of checkings to see whether the machine and other parts of the vehicle are in such a state that he is likely to reach the destination safely with the passengers and his load in good condition; he will open up and check the radiator for water, he will see that the rubber hoses are not rotten and likely to break, that the fan belt is in no need of replacement, he will check the engine oil and the brake fluid, and if he is a very conscientious man, he will not hesitate to lie down under the car, not minding soiling his clothes, to inspect steering, front suspension, gear box oil and other checkpoints; he may take the car to a service station in order to have an outside expert make all these preparations. These preparations are directly comparable to what a wise manager will want to do and what a new manager should be given instructions to do before he takes

over the job of managing a large-scale cooperative consumer enterprise as now existing in several countries.

The incoming new manager ought not to assume his executive duties until he has satisfied himself that the asset values in the balance sheet or trial balance on the day of taking charge are genuine. He should be in a position to request physical verification of stock-in-trade, if not in all branches then in some, to probe the value of the physical stock behind the branch liability balances; he should check that the cash in hand and the cash in banks are actually physically present, tallying with the book balances; he should be in a position to demand an external check on all debtors' accounts by having them verified either by the debtors' personal signatures, in his presence, which can be done in the case of employee debtors, and he should demand statements from outside debtors in which they confirm that they owe the balance shown in the records; he should check either by probes or by complete physical inventory the balance shown as furniture and equipment, and if it has not already been done insist that all items of furniture and equipment are marked with numbers and ownership initials, so that he becomes sure that there is no inflation in this asset. He should demand a complete check with the creditors (most of them suppliers) getting their confirmation of balances as of the latest date possible so that he is sure that the creditors' accounts those showing advances paid as well as those showing balance due by the society are correct; he should extend this control even to accounts which show zero balances in the books, but where the trader concerned has done business with the society during the past 12 months.

The new manager must also study, when taking over his post the procedures of the enterprise with two purposes, in the first place he must satisfy himself that these procedures are reasonably efficient and secondly he must satisfy himself that the system of recording the business transactions is set up to supply all the information necessary to warn of risks of losses and to signal when the business operations are deviating from the set course.

Observations from the field have often shown that such

pre-determination of goals, plotting of the course, checking of the machinery and pre-control of its working are not usually made when an outgoing manager hands over to his successor; the result is that the new manager may find himself facing a lot of difficulties for which he feels that he has no responsibility, and for which the managing committee will hardly be able to make him responsible. It seems necessary to frame clear rules on the takeover procedure in the large-scale consumer cooperatives, either formulated by the Government Coop. Department, by the local managing committees or by both. If such rules are not framed and followed, the responsibility for management is diluted; the concept of management responsibility must be taken much more seriously than seems to be the case today; it is, in a way, rather ridiculous that large-scale cooperative business units can change their executive head without the outgoing chief being made to answer for the condition of the organisation and its machinery, and with new chief taking over without knowing the true state of affairs he is going to lead. It is rather queer to contrast this absence of a transfer procedure in the top management with the termination of the service of a branch salesman and the initiation of *his* successor; such take-over is subject to very elaborate checking, a minute process of stock-taking, fixation of responsibility, recovery of deficits from the old salesman (if possible) and a clear transfer of a balance of liability to the new employee, all attested with signed documents or signatures in the records. The idea and practice behind a transfer of a top management executive ought to be exactly the same as in the case of a transfer of a branch salesman; the outgoing man ought to be made to answer for his conduct of business and his custodianship of the society's finances and the new manager ought to be made quite clear, or made himself quite clear, about the situation from where he has to start.

Reverting to the illustration of the automobile, it is well known that during driving the chauffeur is guided by external checks, with the mile or kilometre stones along road, by place names and by landmarks known to him. In the same manner, the manager of a business enterprise keeps himself informed about the development of the business by

checking volume, costs, income, profit, cash flow, recoveries of debts and other aspects of position and performance by *external* standards. Is such checking possible for a large consumer cooperative enterprise? The answer seems to be that cooperative business statistics in most countries of Asia is still on an embryonic stage. It has not even been born. As cooperative business is being concentrated and developed in large units it becomes more and more important that the apex organisations employ experts on business statistics who can work out reliable and useful ratios for management of finance and management of business operations in consumer cooperatives. There are consumer movements in Europe where committee members and personnel, even junior employees, are fully aware of their societies' financial position measured by standards set in practice as averages for the one-third of the existing societies with the best financial position. In some consumer movements it has also for many years been the practice to classify costs, and to work out standards for the various groups of costs, so that the managers can compare and see whether their own societies are working above or below the cost standards. It seems to be the time now when every apex organisation should work seriously as a "Bureau of Standards" engaging business statistics experts as well as people with wide practical experience to work out standards of finance and operational performance, so that it can be discerned whether a particular society has been managed excellently, well, fairly, poorly or very poorly, the last meaning that it has not been managed at all.

During his driving the person behind the steering wheel will keep an eye not only on the road in front of him so that he is sure that he is on the right course towards his destination, but he also casts a glance off and on at the control panel so that he sees all the time that none of the instruments warns of an approaching risk of engine stop or breakdown; he must check the fuel indicator and decide when and where to re-fuel; he must see that the thermometer hand showing the heat of the motor is in the green, he must note how the instrument or the signal lamp for the voltage and battery charging behave and, at the same time,

he must adjust ventilation valves and other instruments having a bearing upon the well-being of his passengers. In the same manner, the manager of a business enterprise must check his financial position regularly with a pre-determined cash-flow statement in order not to be caught by any surprise, as for instance lacking the financial means for seasonal buying and other similar situations; he must check with the annual budget whether his business volume and its components are not deviating downwards from the forecasts, and he must take warning from the Monthly Operational Report of poor performance by branches or departments so that he can take timely action to prevent irreparable and serious losses.

Have the top managers, in actual practice, got instruments of the same character as the driver of an automobile has got to guide and warn him? Have they got realistic and detailed budgets well built-up to give firm interior control? Have they got cash-flow statements to help them foresee and meet financial emergencies? Have they got operational reports showing the gross profit and all expenses and net results of each retail branch and each operational department within the enterprise? Are they getting periodical statements showing the recoveries in debtors' accounts and warning against the deterioration of claims into bad debts? Are they making a sufficient number of surprise checks on cash, on stock-in-trade, on furniture and other similar assets to satisfy themselves that they are without shortages or that shortages are within bounds? Are they obtaining statements showing whether the sales by group of commodities is up to good standards of stock-turn? Is a report on sales intensity rates prepared every month to help discerning whether the work load per sales person indicates full utilisation of the staff?

Observations show that such management instruments are, generally, not produced. It is sometimes asked whether they are really necessary. It is the contention of the author that control instruments for the areas named above are absolutely indispensable to good management when the volume of business rises up to the size now found in the large consumer societies in India, Ceylon, Hong Kong,

Japan and perhaps in a few other countries. But how are such controls to be produced in a clear and simple manner which does not raise costs of administration which are already too high compared to the margin within the consumer stores have to break-even ?

It is not the intention, in this paper, to detail the methods of building up a budget and a cash-flow statement. Adequate answers to questions on the production of these instruments of control can easily be found in the literature on business management, where the writing of budgets, the production of break-even charts, and the ensuing budgetary control is a large sub-discipline. On the basis of some observation made during 1967 in a large urban consumer store, some guidance can be offered on a system leading to the production of management instruments in an enterprise having a yearly turnover of Cu. 4.5 mn through one head office, one central godown, one textiles branch and fourteen branches for food and general merchandise. The problem facing the consultants who were called in to reorganise the accounting and reporting system was that they found the procedures used in the past and the position on the day their work was started at a low level; one bank account had at that time (in March 1967) not been reconciled for several months; when it was done it was found that several cheques had been passed through the day book and general ledger twice and for several cancelled cheques no reverse entries had been made. These mistakes and omissions had not been noticed by the internal continuous audit but would have been detected if regular continuous reconciliation had taken place or if surprise checks had been made. A second bank account had not been reconciled since it was opened about $4\frac{1}{2}$ years back in time and it was an extremely time-consuming job to have it done. There were many other examples of mistakes and neglects; the shortcomings in the recording practice were so serious that the manager, if he relied upon information from the records, would be led completely astray; this is mentioned not to hurt anybody by any cheap attitude of superiority, but simply to say that it is an enormous time consuming job to clear a starting ground for managerial accountancy and reporting in the circum-

tances as those found in the particular consumer store mentioned.

It shall not be related in detail how the work of clearing such a starting ground did finally succeed. It was due to good cooperation between all concerned and to the willingness to work hard by everybody involved in the project. The reorganisation which was then started comprised the introduction of new blanket vouchers for reporting the daily sales by the branches, the introduction of one blanket voucher for total daily sales analysed by sales tax categories, the striking of a daily stock liability balance by each individual branch salesman as his control against the Accounting Section's Retail Liability Register. Cash controls were instituted by a daily check between the cash balance struck from the financial accounting in the Accounts Section with the balance struck by the cashier in his cash book; the cashier was instructed to handle cheques through his cash book as representing cash, and he was given charge of the monthly bank reconciliations keeping a control record to the bank's pass books. The invoices were covered by invoice aprons with the cost and selling price for the commodities on each apron. The Price Fixation Register was abolished and the invoice price and the selling price of the commodities as given in the apron were entered into a new Goods Purchase Book; the vouchers for indents from the retail branches and the transfer of goods between branches were redrafted and the godown instructed to submit all indents once daily covered by a blanket voucher for all daily issues of goods; for price variations and claims for shortage allowance and condemnation of goods a special voucher was designed and instructions for its use given.

A control system for empties such as jute bags, tins, wooden boxes, etc. was instituted so that all the branches were charged the sale value in accordance with a price list of all empties issued and later they would be credited the empties returned at the same price, so that shortages in the stock of empties could be found in terms of money value through physical inventories; forms for new records were devised and introduced with extensive use of loose leaf binders.

A complete physical inventory of furniture and equipment was made and each item listed on an index card giving the value, the rate of depreciation and other information on each place; forms for monthly operational and finance reports and for physical verification of stock-in-trade as well as other forms were either re-designed or devised anew.

The new management accounting procedure has followed the pattern of all modernizations of accounting and certain innovations have been made which will ultimately prepare the accounts for mechanical data processing, with or without the use of electronic computers. One of the features in the accounting system is that the operations *on the stage of vouching* have been expanded. Vouchers are not entered one by one, but they are summarized with the use of blanket vouchers so that the entries in the books are reduced in number compared to the old practice; another new feature is that all the accounts have been classified and numbered in accordance with a *decimal classification system and a cost code* covering all individual items in the different groups of costs in a consumer cooperative store, classifying them into two main groups, one of operational costs, another of non-operational costs; another change made is that the retail liability system (in India called the double compartment system) has been fully integrated into the self-balancing general ledger and the system has been extended to cover not only the retail branches but also the central godown; the reorganisation work has also comprised the methods of stock-taking in the branches and the lists of stocks verified, which are priced with the sales prices only and broken down by the eight different rates of sales tax used in the State concerned; the new Goods Purchase Book gives all the information necessary to figure out the average mark-up for each of the eight sales tax categories and, at the same time, the sales price side functions as the charge record for goods received by the central godown. The procedure described may sound involved as is always the case when accounting operations are being put into the form of narration instead of demonstrated with actual forms of vouchers and records arranged as a flow chart. Everybody concerned with the reorganisation agrees, how-

ever, that the new procedures represent a much simpler and easier operation than the old one.

The outcome of the reorganisation is that a general ledger is showing much fewer postings than before, because postings are made from the Cash Book, the Goods Purchase Book, the Journal and the Price Variations Summary only once monthly, and the job of striking a trial balance at the end of every month is therefore a simpler matter than before. The possibilities of checking have been considerably extended, and the accuracy of the book-keeping has been enhanced. The main result is, however, that the new cost analysis system and the new monthly calculation control for each category of goods (in this society classified by sales tax rates) makes it possible to compute, at the end of every month, a Monthly Operational Report with the sales figures for the month and the accrued figures for year-to-year date for each retail unit and for the central godown, with the computation of the gross profit by each unit; the gross profit is, of course, an estimate but practice has already shown that this estimate is surprisingly accurate with deviations from the sales found by physical inventories on stock of only a few hundred Cu. for the store as a whole; the expenses are listed as incurred by or allocated to each individual branch unit, and the report then informs the management about the contribution which each branch has given for the current business year towards coverage of the overhead incurred by the Head Office and the Central Godown; the last line of the report shows the net result of the operations, with due charge being made for Depreciation : Interest : etc". This Monthly Operations Report is supplemented by the information necessary to evaluate the recoveries from debtors, the outstanding balances in relation to the trade with such debtors, information on relationships to traders and similar relevant information; the control instruments needed for management decisions have been made available in a rational and meaningful manner.

How should management instruments as the Calculation Control and the Monthly Operational Report and the other controls be used? Who should use these instruments? To

which extent should the managing committee be informed about the contents of the reports from month to month? To which extent should information be given to all members of the staff with defined responsibility for business performance? The members of the top management group, i.e. General Manager, the Assistant Manager and the Accountant must train themselves in reading and in evaluating the figures brought out in the Operational Report; they must compare the branch sales and also read the trends from figures covering similar lengths of time in preceding years so that they can see whether the individual branch is progressing or declining and, especially, the individual branch is returning an increasing ratio of gross profits and net contributions; the management must also develop their judgement in respect of overhead expenditure in relation to the business volume and the changing composition of the business volume over a period of years; some help can be found in the study of the business statistics published by the apex organisation, if this body has developed such service, but the main source of developing judgement must be found in the local circumstances.

It goes without saying that the information given by the Monthly Operational Report and other controls must be followed by appropriate action to repair weaknesses, to stop declines and to improve the result by expansion of trading services at declining unit costs. The apex organisation should provide consultation, especially in the fields of inventory and sales management, and in accountancy and administration, who can discuss the lessons of the control instruments with the management and help them to explore and plot the course of action. The managing committee should make it routine to hold a Monthly Operational Report, and where they are informed about the action which the manager finds fitting the situation and where their collaboration in making the proposed improvements is solicited. Staff meetings with the members in the middle management and the low management group should be held regularly once a month; in such a meeting the general manager should give the staff an evaluation of performance since the first meeting; it would do no harm if each individual

retail branch manager got copy of the Monthly Operational Report and could be taught to read and interpret it.

It would be quite a logical thought if measures were recommended to introduce the methods used in the pilot project described above in all the cooperative consumer stores in the country concerned. The assumption behind such course of action would be that the pilot project has been found to be a success. One is, however, afraid that this is not the case.

What has happened is that the accountant of the store in question has been transferred away to another government post, and thus the chief local person trained to take charge of the new management system has disappeared. No replacement has been found and if a qualified successor comes in, it will take some time to train him into the new procedure. This is one setback which is likely to be suffered in many other similar stores, because of the fact that the members of the top management group are almost in all cases government officers on deputation with short periods of service in the cooperative store. Another hurdle locking the way to the duplication of the experience in the project store is that it has taken a very long time, first to clear the starting ground as mentioned earlier and then to introduce the new vouching, recording and reporting system. In fact, so many man-days have been used that it can easily be projected that it will last all too many years before the management system can be effectively introduced in all the consumer stores and cooperative department stores in the country.

The need for management control is so seriously imminent that other possibilities of introducing them within a short time must be explored. The thinking about other and more effective approaches than the one adopted in the pilot project is that the answer may be the organisation of accounting centres from where a centralised and mechanized accounting service can be offered on the same pattern as found, for instance, in the consumer movements of the Scandinavian countries. It is being discussed how to establish a small number of accounting centres to cover all the consumer stores and cooperative department stores of the

country with accounting services. It has been estimated how much it will cost to install machinery, to place voucher processing clerks, paid by the accounting centre, in each store, to employ a number of stock-takers who can be continuously on the job of physical verification of stock-in-trade with the aid of modern machinery, and to staff the accounting centre with its necessary administrative and operative staffs. The first calculation shows that an accounting centre of a size to service about 40 central stores and departmental stores, with a turnover of about 150 mn Cus. through about 600 retail branches, would cost about the 650,000 Cus. yearly or about 0.4% on the sales. As the clerical staff in the local stores could be reduced and the internal continuous audit could be abolished, the individual store would be able to pay the cost of centralised accounting and centralised production of management reports without any difficulty. The preliminary provisional examination seems to show that a scheme on these lines would be economically feasible.

The estimates have so far been upon the so-called RDP system (Regular Data Processing without the use of an electronic computer); it may well be found that it would be more advisable to go further than that, and the conclusion may well be that a full-fledged EDP system (Electronic Data Processing) would provide the best answer to the needs. For accounting centre pilot projects with the purpose of enhancing the level of business management in large-scale cooperative business enterprise international aid projects can be drafted, sponsored either by the United Nations specialised agencies as the ILO or the FAO, bilateral agencies or by a combination of both.

Organisational Set-up of Personnel Section— The Swedish K.F. Model

Herman Lamm

The main tasks of a modern personnel section are :

1. *Service* to other sections—in recruiting and employing staff, in education, training and wage questions etc.,
2. *Planning* personnel requirements, staff budgets, training and promotion, reshuffle of staff, recruiting etc. covered by the firm's short-term and long-term plans.
3. *Development* work to make use of experience and findings in the sphere of personnel administration.
4. *Setting norms* for a uniform staff policy throughout the firm.
5. *Influencing* managers and other staff in supervisory positions to adopt a better and more friendly staff policy.
6. *Checking* that norms, regulations and accounting routines are followed.
7. *Representing* the firm in contacts with social bodies and other organisations in the sphere of staff administration.

Staff administration can be set up in three ways :

1. *A centralised staff administration*, where all staff matters are dealt with by a personnel section comprising a department for recruiting, one for education and training, one for wages, one for staff welfare and so on. This division can also be made on the basis of different staff categories.
2. *A decentralised staff administration*, where only a few central matters are dealt with by the personnel section and such questions as recruiting, education and so on, are managed by the sectional managers themselves. A certain degree of decentralisation is, for instance, necessary when employing non-supervisory staff for a number of food shops situated some distance from head office.
3. *Division into development and planning matters, plus office duties* is often applied in very large organisations. Office

duties can then be managed in several different places, all according to the nature of the firm (e.g. in KF's various industrial undertakings) or be managed as one office unit (e.g. in KF's personnel section at head office). The personnel section has an executive function within the firm, i.e. it is empowered to issue directives to other departments, but has no right to give orders. As a rule, it should therefore be placed directly subordinate to the supreme manager or general manager. If it has to be placed under some assistant manager, the latter should not be the production or sales manager, but preferably the administrative manager.

The tasks of the personnel section can be divided up as follows :

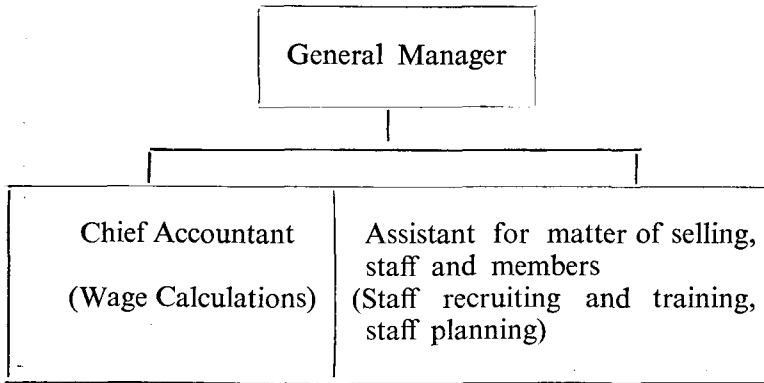
1. Drawing up, proposing and issuing information on the firm's staff policy.
2. Representing the firm in collective agreement, negotiations and interpreting such agreements.
3. (a) Staff planning
(b) Organisational planning
4. Recruiting, employing, introducing new staff, holidays, leave, promotion, re-shuffles, laying-off workers, disciplinary measures, retirements.
5. (a) Wages administration and annual wage adjustments, special staff benefits, pensions, insurance matter.
(b) Adjustment of wages for executive staff, etc.
6. Compiling reports and statistics.
7. (a) Staff training and information to staff,
(b) Matters concerning leadership development are of special importance.
8. Joint Management Councils, industrial safety, health schemes.
9. Staff social matters.
(a) Staff premises, leisure-time facilities, housing, work environment.
(b) Staff loans, celebrations, gifts

The Swedish Consumer Cooperative Movement has 1.6 million members, of Sweden's total population of 8 million. In 1970, the 232 coop retail societies affiliated to KF (The Swedish Cooperative Union & Wholesale Society) sold goods to a total value of 8,100 million Swedish Kronor (US\$ 1,600 mill.) through 2,600 shops and 166 department stores. This represents 19% of Sweden's whole retail trade. This was US\$ 1,800 million in 1974, 18,901 of whole retail trade of Sweden. There are all sizes of coop retail societies, but amalgamations during the years have resulted in a concentration to a few large societies :

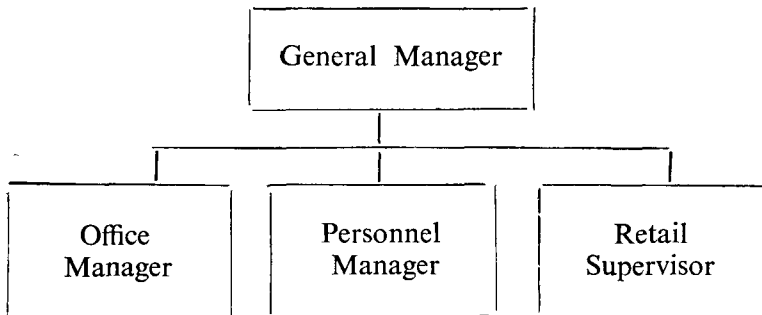
| Societies with | | No. of societies | No. of members | Share of total membership |
|------------------------|---------|------------------|----------------|---------------------------|
| 50-500 | Members | 102 | 24,000 | 1.5% |
| 500-5,000 | „ | 73 | 121,000 | 7.5% |
| 5-20,000 | „ | 26 | 235,000 | 14.6% |
| 20-60,000 | „ | 27 | 684,000 | 42.6% |
| 60-240,000 | „ | 4 | 542,000 | 33.8% |
| All Societies Together | | 232 | 1,606,000 | 100.0% |

Within the Swedish consumer cooperative movement, the personnel function is arranged as follows :

- A. In minor retail societies, or small department stores in such societies with sales of up to 10 million Skr (US\$ 2 million) and with up to 50 employees, the general manager himself deals with almost all staff administration.
- B. In somewhat larger units with a turnover of 10-20 million Skr (US\$ 2.4 m.) and between 50 and 100 employees with a membership of 4 or 5,000, staff administration is managed by the manager's two immediate assistants :



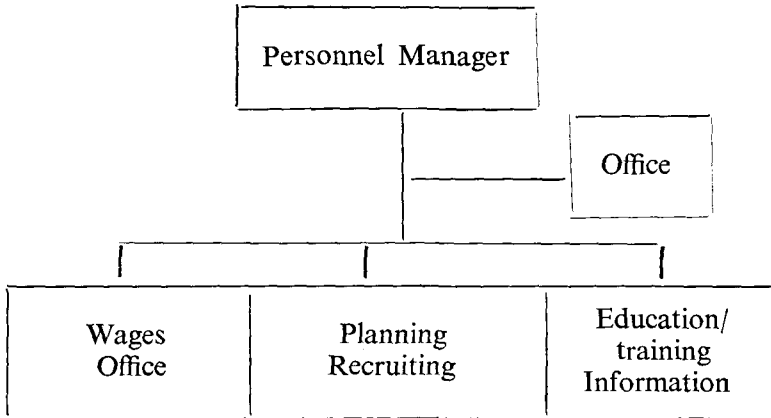
- C. A larger society with a turnover of between 40,50 million Skr (US\$ 8-10 million), 200-250 employees, 7-8,000 members, perhaps having one department store and 15 food shops, the following organisation is applied :



As a rule, the personnel manager usually also deals with member questions and members' meetings. Sometimes he has an assistant, but always at least a clerk for wage calculations, pensions etc., and a typist.

- D. The 15 largest coop retail societies in Sweden usually have the staff administration function placed sub-

ordinate to the society's general manager, in the following pattern :



Such an organisation is based on an annual sales of 200-250 million Skr (US\$ 40-50 million), with 1,000 employees in approx. 6 department stores and 100 food shops.

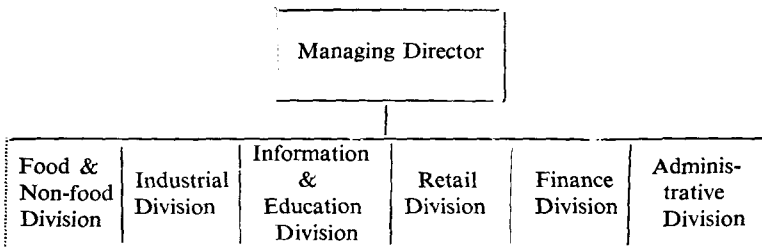
The personnel section in societies of this size, will need the following staffing, and the 9 tasks are divided up among them as follows :

| Department | Labour force | Tasks |
|------------------------------|--|-------------------------------|
| Personnel manager and office | Manager + 1 assistant + 1-2 secretaries | 1, 2, 3b, 5b, 7b, 8 and 9b |
| Wages | manager + 3-4 assistants | parts of 2, plus 5a and 6 |
| Planning/recruiting | manager + 1 assistant | 3a and 4 |
| Education/training | manager + 1 assistant | 7a and 9a |

The staffing of the wages office depends on the mechanical equipment used and type of wage routines applied.

- E. In 1970, KF had an average of 26,800 employees, of which 3,500 were employed at the head office and national warehouse, 2,800 at the 17 Regional Warehouses and the rest mainly in varying sized factories in different parts of the country.

KF has the following administrative organisation :

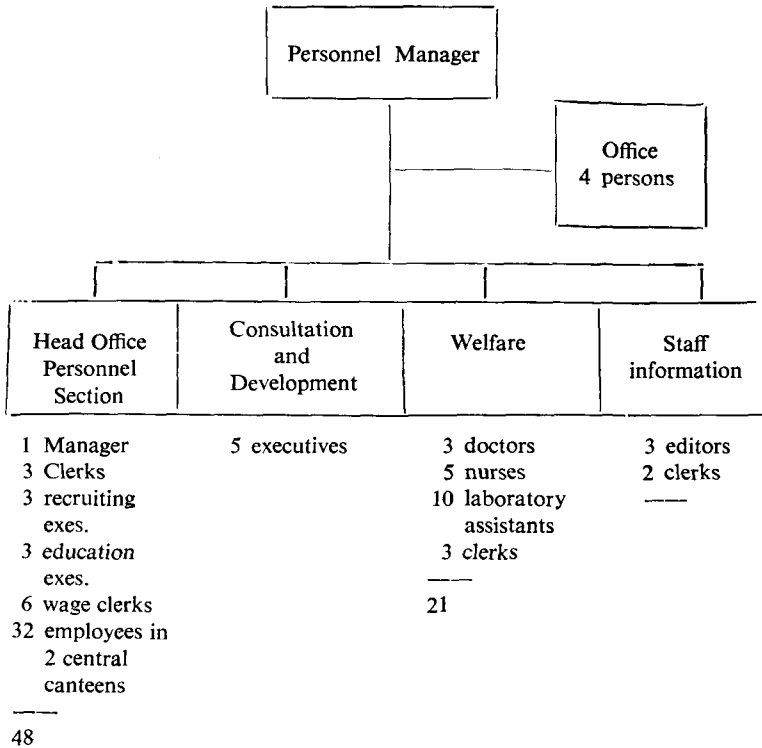


The Administrative Division of KF comprises (apart from the Director's Office) :

1. Personnel department.
2. Systems development and administrative rationalisation (including computer office for mechanized book-keeping).
3. Organisational planning.
4. Cooperative college.

Further, the Retail Division, covering shop planning and architectural office as well as advisory and consultant service to the societies in retail matters, has an Employment Intermediary for clerical employees in coop retail societies.

KF's central Personnel Department has the following set-up:



When studying this plan, one should bear in mind that all KF's book-keeping is centralised and managed by computer, that industries, warehouses and other locally sited units have their own staff administration, and that there is also a separate Organisation dealing with agreement negotiations with the trade unions, on behalf of all consumer cooperative organisations. "Consultation and development" covers the following, for all of KF and the retail societies :

Staff and wage accounting
Staff planning, inventory and recruiting

Organisational planning, staff policy and industrial democracy. The Cooperative College, which can accommodate over 150 students, holds courses and seminars for 20-25

participants, and lasting from 1 to 8 weeks. The courses are mainly for shop managers and executive clerks in the societies. The college also draws up course material for the societies' own education and training of staff on lower levels. Courses are also held for executive clerks employed at KF's industries and warehouses, and such courses cover staff administration, cooperation and so on. The college has about 14 full-time employed lecturers. The longest course, lasting 2 years and taking 24 participants, is combined with practical work as assistant lecturer at the college and in the local societies' staff education and training schemes.

Employment Intermediary for clerks in the coop retail societies is both an intermediary for jobs and suitable candidates in respect of positions such as shop managers for large outlets and executive clerks in the societies and their department stores. The office has a register covering both jobs and employees, compiled by means of annual reports. Twice a month the Personnel Section issues a sheet giving information on available jobs. Both executives and societies submit their requirements as regards jobs, and are given advice and suggestions. Naturally, this office works in close contact with the Personnel Section, which has a register of all KF's staff, and with the Cooperative College. This office has a staff of three.

Personnel Planning

Prof. Y. K. Bhushan

What is Personnel Planning?

Personnel Planning may be defined as a strategy for possession, utilisation, improvement and preservation of human resources in an enterprise. The process of planning, usually involves three stages : (i) An assessment of forecast of the requirements of the situation anticipated for future, (ii) an evaluation and projection of existing resources, and (iii) the measure to ensure that the necessary resources are available as and when required. The personnel planning may, therefore, be described as the process of analysing the current and future personnel requirements for an organisation and its human resources as a base for planning and the taking of necessary action to ensure that such needs and resources are kept in proper balance.

The term “personnel planning : may be used both in a *comprehensive* and *restricted* sense. *Comprehensive* personnel planning includes (i) an establishment of a proper organisational structure, (ii) qualitative and quantitative assessment of skills, (iii) appreciation of the working environment including physical conditions of work, (iv) wage structure and service conditions, (v) personnel productivity and performance, (vi) processing of recruitment and training, (vii) employee motivation, morale and development, (viii) labour management relations etc. In its *restricted* sense the term “Personnel Planning” is used to refer to the quantitative forecasting of the future manpower requirement and of the resources that are likely to be available over the same period with the object of finding out the gap between the two.

The Need for Personnel Planning

The need for personnel planning in any enterprise is

felt both at the time of its inception and during its working life because of the following reasons :

(i) There are marked shortages in certain skill areas like the special categories of engineers or stenographers and therefore, an enterprise can get the right number of personnel in these areas only if it plans properly and well in advance.

(ii) The mounting labour costs make it necessary to plan the acquisition, development and utilization of human resources.

(iii) Overall business planning, including finance, production and marketing functions, is complete only when personnel planning is also undertaken.

(iv) Personnel in an enterprise acquires the status of a fixed asset that can be liquidated only when the enterprise is wound up. Men once recruited cannot be easily eased out of their jobs. Even re-allocations of personnel are difficult to make in some highly unionised organisations.

(v) Organisational planning and development can be undertaken only when personnel planning has been attempted.

(vi) Progressive personnel management aiming at the achievement of the optimal contribution from the staff in an enterprise is possible only when comprehensive personnel planning providing for the systematic development of personnel and their placement in proper positions in the organisation is undertaken.

Objectives of Personnel Planning

The principle objectives of personnel planning are :

(i) To develop, maintain and disseminate information about the organisation, short and long-term goals, the principal location and requirements of key positions and the progression routes for individuals in the organisation for the benefit of both the management and the personnel.

(ii) To make the qualitative and quantitative evaluation of the adequacy of manpower for anticipated future needs.

(iii) To develop and use a strategy of optimum utiliza-

tion of the organisation's manpower through systematic efforts towards their proper placement and development.

Thus, manpower planning has in its objective the provision of—
 the *right number* of employees,
 with the *right level* of talent and skills.
 in the *right jobs* at the right time,
 performing the *right activities*,
 to achieve the *right objectives*, and
 to fulfil the organisational purposes.

Importance of Personnel Planning for the Cooperative Sector

The personnel planning is assuming particular importance for the cooperative sector because of the following developments :

- (i) The changing concept of cooperative management involving the introduction of professionalisation.
- (ii) The growth and expansion of business in the cooperative sector particularly in large cooperative organisations like the state and national business federation and the processing units.
- (iii) The need for adopting modern technology calling for the exercise of newer skills (e.g. modern rice mills).
- (iv) The need to ensure viability to cooperative organisations by keeping the manpower costs to the minimum.

Assessment of Personnel requirements (forecasting the demand for manpower)

- (i) The business enterprise must be viewed as a system like the human body consisting of interrelated parts called sub-systems like production, marketing, finance and personnel. Given this concept of the enterprise, personnel planning calls for the preparation of plans for the other sub-systems and their dovetailing and/or integration with the planning for the personnel.
- (ii) The following main stages or elements in the overall framework of business planning will be of direct relevance to personnel planning :

- (a) A decision regarding the fields in which the organisation will concentrate its main efforts.
- (b) A view should be taken on the share which an organisation can hope to achieve in the overall market assessed for the line of products of services supplied by the organisation.
- (c) The estimates will have to be made of the resources and the production and/or sales capacity which would be needed by the firm to take full advantage of the market potential.
- (d) General production and marketing plans and targets should be prepared for the period for which planning is proposed to be undertaken.
- (e) Detailed performance targets must be agreed to for each level and each area of activity in the firm.

(iii) *Changes expected* in the volume of business, level of activity, the nature of a particular activity and in the organisation of the activities of an enterprise must be taken into account in framing forecast of the overall business and personnel requirements of an enterprise.

(iv) *The implications of the overall business plans* have to be spelt out in terms of personnel requirements. In the terminology of managerial planning means that the overall short and long plan of the enterprise will serve as the “premises” for personnel planning.

(v) The methods that are commonly used for working out the manpower implications of business plans are :

(a) *Executive Judgement*: This may be done from the bottom up by asking the junior managers to outline their requirements and passing these estimates up through the organisation for collation and comment or from the top downward through a departmental head whose suggested forecast are circulated downwards for discussion. This is by far a most commonly used method assessing the personnel requirements. A useful variant of this method is the right angle method according to which a Committee of Managers engaged in different activities compare the forecasts made centrally by the companies planning staff or personnel department with those prepared at the grassroots level.

(b) *Statistical Technics* : Statistical methods are applied in personnel planning on the assumption that development in the future will exhibit some continuity with the past. The methods commonly employed are : (I) *Extrapolation*—This consists in extending the trend line for a single variable over the time in future. (II) *Regression and Correlation*—This method helps in predicting changes in one variable by reference to changes in the other. Thus if a group of workers bears a strong relationship to the output from the department or sales, we get the knowledge of future labour requirements. (III) *Econometric Models*—The method involved in the development of a complex equation to portray the inter-relationship among different variables e.g. the relationship between manpower requirements and measures of environments and profitability, sales. etc.

(c) *Work Study* : According to this method, the forecasts should be converted into production schedules and programmes of work and the work standards fixed on the basis of work study techniques like time and motion study, work sampling etc., are used to find out how many man-days and men will be required to implement the schedule and programmes. Allowance may, of course, be made for increases or decreases in productivity or efficiency. The method is most commonly used in manufacturing enterprises, the most outstanding examples of which in the cooperative sector are sugar factories and Super Bazars.

(d) *Productivity Measurement* : This method is quite akin to the work study. It is concerned with the output per man-hour. The output given in the forecast is divided by labour productivity i.e. the output per man hour. The method suffers from the difficulties in the measurements of output and the productivity.

Assessment of personnel resources (Forecasting the Supply)

The next step in personnel planning is the stock-taking of the current human resources and the formulation of projections regarding the supply of manpower that could be expected to be available at various points in the time-span chosen for manning. This will entail adoption of the following measures :

(A) Analysis of current labour resources

(i) Among the various ways of analysing the manpower of an organisation, the following four are particularly important :

- (a) Department-wise
- (b) Function-wise
- (c) Occupation groupings
- (d) Level of skill and qualification (status of grades).

(ii) *Compiling a Manpower Inventory.* It is a stock-taking of the firm's employees. Its basic element is a straight forward headcount, for a particular point in time. The headcount will yield the number of employees say, by department and by sub-unit i.e. by location, by pay or grade, by sex, by age, by length of service, by occupation, by qualifications and for training etc. The information may be called from pay-records.

(iii) *Preparing a Skills Inventory.* A skills inventory should provide valid information on professional and technical skills and other qualifications employed or available for future employment in the firm. A skills inventory can (a) increase opportunities for promotion by revealing individual skills, (b) provide a guide to individual growth and help in performance department, (c) help in deciding upon the feasibility of projects calling for specific specialised skills, and (d) help in locating skill areas for which training needs to be arranged.

The basic information in skills inventory should include : (a) education (b) work experience (c) skills that can be practised competently (d) additional skills, etc.

(iv) *Manpower Audit.* The function of manpower audit is to describe, explain make comments upon, and investigate what the inventory shows as the manpower resources. Some typical questions raised in such audit are :

- (a) What is the picture at start and termination—this year? last year? five years?
- (b) What is the picture of absences?
- (c) Which skilled category is difficult to recruit?

(d) What is the demographic-pattern over a 5—, 10—, 15— mile radius etc. etc.

(B) *Analysis of changes in manpower*

(i) Changes in the labour force in a firm take place due to

- (i) transfers—lateral and vertical,
- (ii) Recruitment,
- (iii) Quits, and
- (iv) Promotions.

(ii) Factors which erode and reduce the manpower in a firm may be called wastage factors.

Wastage may be—

- (i) Natural i.e. due to deaths, illness, disability etc.
- (ii) Discharges.
- (iii) Voluntary—i.e. that governed by conditions of work, moral, job satisfaction etc.
- (iv) Promotions and lateral and vertical transfers.

(iii) Traditionally turnover of wastage is measured by relating the number of those leaving in a year to the average number employed. However, a more satisfactory measure would be the *labour stability index* i.e. $\frac{\text{Number of employees over one year of service}}{\text{Number employed one year ago}}$.

Experiments are also being made with the actuarial methods (used in Insurance) to determine the survival patterns in each category of employees.

(C) *Changes in conditions of work.* The effect of changes in working conditions over the planning period may be calculated to make adjustments in the stock-in-hand of manpower at different points of time in future. (e.g. changes may be made in normal weekly hours of work, holidays, retirement policy etc.)

(D) *External Supply Factors.* A careful study of the trends in the local and national employment market will help in determining the expected supply of manpower at any point of time more realistically.

Reconciliation of Demand and Supply Factors

- (i) Sales target may have to be trimmed because of too large a manpower gap.
- (ii) Overtime arrangements may have to be resorted to for filling up the manpower gap.
- (iii) Productivity bargaining and incentives may help in increasing productivity.
- (iv) More apprentices may be trained.
- (v) Introduce organisation and methods measures.
- (vi) Monitor forecasts of manpower requirements.

Organisation for Personnel Planning

- (i) Basic responsibility lies with the top management and the line officers. Personnel Department has to render the technical staff service. A work study unit will be well in order.
- (ii) Procedure for personnel planning is generally bottom-up.
- (iii) Uptodate and comprehensive record of personnel data is a pre-requisite for effective personnel planning. The maintenance and updating of such records is the function of the Personnel Department.

Personnel Planning and Aspects of Purposive Management and Personnel Policy

- (i) Employee development.
- (ii) Optimal placement.
- (iii) Career development planning for individuals and progression routes.
- (iv) Purposive Performance Appraisal.
- (v) Management by Objectives.

Personnel Planning in the Cooperative Sector

- (i) It is undertaken only at the time of inception e.g. in super bazars or sugar factories.
- (ii) There is no perspective planning. Manpower requirements are assessed and markets tapped only when some definite business proposal comes up.

- (iii) There is too heavy reliance on executive judgement though work load analysis is also undertaken (say in sugar mills and super bazars).
- (iv) A national business federation has made a beginning with “skills inventory”.
- (v) Systematic analysis of wastage is hardly ever undertaken.
- (vi) Performance appraisal is routine and lacks purpose. Career development is rare and is undertaken only casually and in a few cases.

Role of Personnel Function in a Business Enterprise

H.A. Desai

Management is defined as planning, organising, directing and controlling resources in business. Personnel function is management of human resources and thus it is connected with planning, organising, directing and controlling of human resources in business.

Personnel management in operation consists of procurement, development, compensation, integration and maintenance of human resources in the business organisation.

The personnel manager has to advise, assist and control management at all levels within the organisation to manage these important resources. This function is all pervading and its need and usefulness have been established. The management of these resources is more important than management of other resources because in this case we are dealing with material which is capable of reactions and has deeper involvement in the purpose and objects of the business itself. Modern business philosophy has recognized the importance of social obligations of business, and also of human values and together with higher expectations of employees in the context of present social, economic and political conditions have contributed to the importance and growth of the personnel function in modern business enterprise.

The primary responsibility of the personnel manager in the business is to create and build an environment where the organisation can (a) secure and maintain right quality of employees, (b) recognise both organisational and human needs, and meet them, and (c) fulfil the obligations imposed by the society, consumers, shareholders and employees.

The environment within the organisation should be conducive to growth of human beings and it must provide self-fulfilment and job satisfaction so as to utilise, fully

human skills and potential, thereby helping the man and the organisation.

This is achieved by the mechanism of personnel men advising people who are responsible for management of business to develop a right personnel policy, assist various levels of management in implementing this personnel policy. It must develop a system of controls to ensure that the policy is effective and if not, to review and revise the policy from time to time. The personnel men therefore have to be closely associated with the management of business at all levels and must find the right place and support from the top management to achieve the desired results.

The personnel men have a specific responsibility to help the management in structuring the organisation, so that, the organisation can build up its own strength to perpetuate itself and also to face difficult economic problems of business in rapidly changing business conditions. The organisation should be effective, so that, all the jobs in it are effectively coordinated. It will provide, easy flow of communication and make for better understanding between people and functions. This will result in a good team-spirit to accomplish high achievements. The organisation should be flexible enough to absorb the changes and more efficient management systems to suit business needs and efficiency.

The personnel men have to suggest and operate a good reward and punishment system in the organisation. The technique of motivation of people will determine the degree of accomplishments. The organisation will have to introduce rewards, wage differentials, systems of evaluation of performance and evaluation of jobs, so as to classify and grade them properly to eliminate discrepancies and grievances.

Personnel men will have to build up consistent with the overall business planning an effective programme to undertake manpower planning and establish standards, so as to make every employee an asset in the organisation. It is his responsibility to ensure that every employee contributes more than what it costs to the organisation so that the employee becomes an economic hand. Personnel function is not necessarily required to hire cheapest labour but it must

provide efficient labour. It must establish high standards both for personnel achievements and for work loads and establish a reward system commensurate with these standards. It must also undertake long-term planning and development programmes so as to meet organisational need with individual needs of growth and development.

It is recognised as one of the primary responsibilities of the personnel men to provide the right type of men as and when required by the organisation. Employees when hired for the organisation will be required to adjust themselves to the needs of the organisation, and changing technology. Therefore continuous training and development programmes will have to be introduced to help employees to adjust with the changing conditions within the organisation. Personnel men will have to establish procedures and practices that will enable the organisations to find training needs within it and establish adequate effective training programme to meet these needs. It could be an individual programme of training and development of an employee or collective training and development programmes for different groups and different levels of management so as to improve the overall management performance. This aspect of the function has become important as the rate of management obsolescence is becoming higher and higher day by day.

The personnel function has to meet organisational needs in the present day industrial conditions where employees have formed unions and governments have introduced legislation to direct and control industrial relations. Trade unions are becoming powerful and have constantly sought and received the support of the government to improve their status with the employers. The employers have constantly witnessed erosion of their power and authority to handle workers due to these reasons. Personnel men will have to meet this dual challenge of unions and government and establish harmonious and cordial relations with them so as to improve profitability and productivity within the organisation. The personnel men have to introduce right techniques of handling grievances, establish proper channels of communications to meet and iron out collective problems

of workers and take effective measures to ensure long term industrial peace.

The personnel man has to develop various employee relations and employee services programmes so as to build up loyalty and long term interest of the employee with that of the organisation. In particular he has to organise sports activities and ensure safety and security of employees and medical schemes and provision of good and cheap food through canteen and cafeteria services. He has to provide easy credit facilities to help men to save and meet their future needs, assist in education for self and the children of the employees and also a long term security arrangement to meet disability of old age requirements. The employee services have become an important and integrated part of the personnel function because only with this technique it can claim to meet fully the employees' needs and also discharge its social obligation to its employees' welfare.

Lastly, the personnel function has to provide special procedures and practices to meet individual needs and also help individuals to get integrated with the organisational needs. This is by making rules and regulations for smooth and efficient working explaining these rules and regulations and purpose behind them to all concerned and thereafter to ensure that these rules and regulations are effectively followed and practised. In exceptional cases where individuals are unable to meet the demands of the organisations, it has to undertake steps to handle such problems.

We shall see from the above, that functions of the personnel department pervade all over the organisation and include all individuals who are included in the organisation. In the present day organisations where the authority and responsibility of management of people lies with the level of management to whom the employee reports, the personnel men have to discharge and implement the personnel policy through their line executives. The personnel man has to play a role in helping the line men to handle their personnel problem more effectively and efficiently and ensure that consistency is maintained regarding personnel policies and practices with various groups, sections, departments or divisions within the same organisation. It is therefore impor-

tant to stress that the personnel department has not only to advise the top management in making a right personnel policy but to assist various levels of management in implementing this policy. The personnel function therefore is an important challenge in almost all developing economies where it has to help a person to accept the industrial discipline and improve his skills to give him the security and growth which he is seeking.

Personnel Management in Indian Cooperatives Policies and Problems : An Overview

Prof. Y.K. Bhushan

Personnel Management may be viewed as (a) a functional area of management concerned with the management of human resources and (b) as the response of the management to the challenge posed by human relations in the organisation.

The nature of personnel policies, programmes and practices depend upon :

- (a) ownership pattern
- (b) size of the enterprise, and
- (c) management attitudes and philosophy.

The size of the enterprise is an important determinant of the complexity of operations and relationship among men and the problems in the management of human resources. Size also determines the extent to which the personnel function will get differentiated in the organisation.

Management attitudes and philosophy reflect in the modes selected in particular organisation to cope with the problems of man-management.

Pattern of Cooperative Ownership—(a) Producer-owned, (b) Consumer-owned, (c) Use-owned, (d) Worker-owned.

To promote their own interests through the medium of cooperatives producers, consumers and users of services like credit have to employ some paid staff. The employer-employee relationship in such societies gives rise to the personnel function and problems of reconciling the interests of the members with those of the employees.

There is generally no employer-employee relationship implied in cooperatives organised by engineers, technicians, skilled and unskilled workers and, therefore, the personnel function does not get differentiated from general management. Employer-employee relationship and the need for a personnel management set-up may arise if such coopera-

tives have employees who are not members because of restrictive provisions in the bye-laws. (e.g. contract labour in industrial cooperatives, non-member employees in workers' cooperatives, etc.).

Classification of cooperatives by size and problems of personnel management :

1. Small-scale.
2. Medium-scale or growing organisations.
3. Large-scale cooperatives.

Primary societies—Agricultural credit, Land Development Banks, marketing societies, consumer stores employing an average of 1-3 employees have no personnel problems warranting the establishment of a personnel management system. Medium-sized cooperatives employing on an average roughly 50-250 employees have to establish the set-up for personnel management and cope with the tensions and conflicts between management and employees. In this category will fall District Central Banks, District Marketing Societies, Central Wholesale Consumer Stores, and some medium-sized processing units as also some workers' cooperatives which have non-member employees. Personnel management in such cooperatives is looked after by the secretary or Manager-in-charge of administration and the personnel practices are evolved as a matter of expediency rather than long-term policy. Informal and extra-organisational considerations govern recruitment, selection and promotion of personnel for a good part. This affects the employee morale and tensions and conflicts tend to develop. The responsibility for training and developing personnel is not much realised till problems become pressing.

The large-sized cooperative employing over 300 employees in various skilled categories have the problems of personnel management that characterise enterprises of similar scale in other sectors. This includes large Super Bazars, State Cooperative Banks, State and National Business Federations, etc. A broad survey of the personnel administration practices in such organisations is given here. The observations and conclusions given here are based on a Survey of Personnel Administration Practices made by Prof. Rudrabasavaraj, formerly of the V.M. National Institute of Coopera-

tive Management and are re-inforced by surveys of personnel policies in selected National and State Business Federations being made by the present writer.

(a) Recruitment and Selection

(i) Manpower planning is rarely undertaken though manpower requirements are sometimes assessed through work study techniques before the inception of the enterprise e.g. in Super Bazars and Sugar factories.

(ii) Most of the cooperatives make use of newspaper advertising and employment exchanges for recruitment but quite frequently the effective source of recruitment would be the recommendations of the Members of the Board or sometimes of the employees at higher levels.

(iii) The authority to make selection of personnel is generally centralised with the Staff Committee or the Board of Directors as a whole. Exceptions may be made only for the lower echelons of the organisation.

(iv) Most of the State Acts vest the Registrar with the power to determine the terms of employment in societies, prescribe qualifications for employees to key posts and in societies receiving aid from the Government, the employees may have to be appointed with the prior approval of the Registrar of Cooperative Societies.

(v) Job analysis is rare and job description and specifications wherever prepared are vague and arbitrary.

(vi) The selection procedure is highly subjective placing all the emphasis as it does on interviews which are conducted in a rather casual manner.

(b) Manpower Training

(i) Training and developing non-supervisory manpower is a much neglected area in the cooperative organisations although special cooperative training facilities are available and made use of. Most of the organisations (8 out of 12 studied or 67%) do not provide any internal manpower training. Even in the 4 organisations (33%) offering some sort of training programme, the training officers and experts are conspicuous by their absence. Establishing the need for different types of training for different individuals

does not seem to be done on a systematic basis. Adequate training facilities do not seem to be prevalent.

(ii) While external cooperative training facilities are made use of, systematic policies of deputation, determination of individual training needs and proper utilisation of trained manpower need closer attention and lot of planning and organisation.

(iii) The dilemma of cooperative training in India is that those who deserve to be trained cannot be spared and those who can be spared do not always deserve training.

(iv) The infrastructure for training is provided by the National Institute, the 15 Cooperative Training Colleges and 63 Cooperative Training Centres run by the National Council for Cooperative Training of the National Cooperative Union of India. The total capacity of this three-tier training structure is 8,000 persons per annum. Training courses are being given management orientation in an increasing measure.

(c) Promotion and Performance Appraisal

(i) Promotion is predominantly by seniority, sometimes by recommendation and pulls, and in some cases by merit.

(ii) Clear-cut promotion rules and policies do not exist in a majority of cooperative enterprises.

(iii) Career development concepts are not known to most of the organisations.

(iv) Performance Appraisal is modelled on the lines of governmental procedures and the confidential report made by the superior at the end of the year clinches the issue.

(d) Communication

(i) Communication is mostly top-down though later on communication through meetings and conferences of executives is also gaining acceptance.

(ii) Suggestion schemes are in force in some organisations but have not been quite effective.

(iii) Most of the chief executives of cooperative organisations follow the open-door policy but few have organised communication in the form of joint committees.

(e) Wage and Salary Administration

(i) Most of the organisations have never used the job evaluation programme to find out the relative worth of jobs. Only the capacity to pay seems to influence the structuring of wages and salaries. It is generally alleged that because of the poor compensation structure obtaining in the cooperatives, they are unable to attract high talent persons.

(ii) While most of the cooperatives (7 out of 12 or 58%) pay a minimum ranging from Rs. 125 to Rs. 150, 3 pay the highest minimum ranging from Rs. 275 to 300. The average pay ranging from Rs. 175 to 475 is not disheartening at all and is well above the need-based minimum that most employees are striving for in the country.

(iii) The practice of giving an advance on the pay for certain reasons like marriages, sickness, emergencies etc., goes a long way in meeting the financial needs of the employees. Most organisations do not pay any shift premium and believe in rotating the employee. Overtime work is paid at the rate of double time or compensatory time-off.

(iv) The effort to increase productivity, efficiency, employee earnings and to share productivity increases through proper incentive schemes is not attempted. In modern industry, incentive schemes play a vital role and need to be planned and implemented.

While the wage and salary picture in the cooperatives is not too bleak, a plea needs to be made for systematic job evaluation programmes, on the basis of which sound wage and salary policies, programmes and structures could be evolved. Personnel Administration has a key role to play here and this expertise is just not available in most of the sample cooperative organisations covered in the study.

(f) Employee Welfare and Services

(i) It is the personnel policy of the cooperative organisation to provide various services and welfare measures to its non-supervisory employees. These include the following :

1. Cooperative Stores,
2. Credit Societies,
3. Housing,

4. Recreation Programmes,
5. Recreation Facilities,
6. Picnics,
7. Canteens,
8. Cycle Sheds,
9. Transport,
10. Uniforms,
11. Educational Facilities,
12. Medical Facilities,
13. Fair price shops.

(ii) Another aspect that has not received much attention is safety. No safety programmes are evolved and implemented. It is essential to reduce or eliminate all accidents and in order to do it, promotion of safety consciousness based on a thorough-going safety programme is required. Another important area is the employee health and much has not been accomplished in this field. There is a need to organise and implement good employee health programmes.

(g) Employee-Employer Relations

(i) In spite of the dearth of personnel expertise, the employee-employer relations seem to be on an excellent footing, particularly when it is realised that most of the organisations in the survey have harmonious and strike-free industrial relations situation. In the light of recent wave of industrial indiscipline in the country, this peaceful phenomenon in the sample cooperative organisations is all the more commendable. A striking feature of union-management relations in these organisations is the complete informality and mutual give-and-take atmosphere.

(ii) Only a few organisations have formal grievance redressal procedures and the others do not seem to have any policy to meet employee grievances and complaints.

(h) Personnel Organisation

Most of the cooperative organisations do not have an adequate personnel organisation, which could provide sound and professional expertise and advice to top management. It appears that the value of such an organisation is yet to be realised in the organisations. There seems to be a lack

of awareness of what personnel administration can accomplish and what are the functions and role of the personnel administrators. Gradually as the cooperative organisation grows bigger in size, it begins to realise the complexities of personnel matters and some attention is bestowed on this area.

Growth, complexity and sophistication of cooperative business would introduce competent personnel expertise. There is a need to specify clearly the functions of labour welfare and personnel officers now operating in the cooperative organisations and to make use of their expertise.

Some Problems of Personnel Administration

Some of the more pressing problems of personnel administration in the cooperative sector are :

(i) The lack of cadres of qualified personnel and the problem created by the assignment of government officials to managerial positions in the cooperatives.

(ii) Political interference in selection and promotion.

(iii) Conflict of interests between cooperative ownership and employees reflecting in union-management relations.

(iv) Lower levels of pay and lower fringe benefits as compared to government and private-sector organisations.

(v) Low motivation and commitment on the part of the employees.

(vi) Lack of proper organisational set-up for personnel management.

Recruitment of Personnel—Policy

J. K. Verma

Introductory

The policy regarding recruitment of personnel to manage a cooperative organisation cannot be measured in absolute terms. It evolves and develops as the organisation grows. The situation differs from area to area, sector to sector, from one territory to another and from one country to another. But the basic fact to be realised is that the management of a cooperative in a given situation should evolve a sound policy for recruitment of personnel and review it from time to time according to needs. The policy may also vary according to the size of a Society and the functions it performs. For instance, a primary cooperative society, with its operations restricted only to fulfil credit needs and supply of inputs of the farmers for supporting their agricultural programmes with a very limited membership, may be able to manage its affairs by recruiting one, two or more persons locally on account of its limited functions and operations, and may not have a well defined policy. If the same cooperative, in course of time, grows bigger and extends its jurisdiction to cover a wider area of operation, increased membership and undertakes multi-farious activities, such as, running a consumer store or installs a processing unit, it may have to employ a fairly sizeable number of staff. When such a situation arises, the management of a cooperative will have to give thought to evolving a suitable policy for recruitment and evolve a sound policy of personnel management. The situation may considerably differ in an organisation which is central or federal in character and which may have much wider jurisdiction. For such institutions, greater skills are required by the staff in attending to different items of work, such as, framing of programmes and its implementation, book-keeping and accounting, etc. Therefore, recruitment of personnel should always be

reviewed in the context of the needs and these have to be suited to a given situation.

Special Characteristics of a Cooperative Society

The structure of a cooperative organisation is democratic in character and the affairs are conducted on the basis of achieving the ultimate goal of providing services to members through joint action. The service is generally measured in terms of economic gains keeping the social purposes in mind. A cooperative form of organisation therefore is basically different from a public sector undertaking where the top executive is usually in a position to wield considerable authority and ample powers to ensure the implementation of the objective. Like-wise it differs from a capitalist organisation like a public limited company or a private company whose objective is to maximise gains as they themselves are the beneficiaries. The democratic structure in a cooperative organisation ensures that the decisions of the organisation are taken for benefiting the members and not only for making absolute gains. This places a great deal of responsibility on its executives and the lower staff. Therefore, recruitment of proper persons to manage the affairs of a cooperative organisation assumes special importance. It also places a great deal of responsibility on the Board of Management for providing proper system of recruitment besides reviewing the recruitment policy from time to time.

Training as a Part of Recruitment Policy

The work in a cooperative organisation whether it is big or small is of a specialised nature. It is entirely different from the work being carried on in running government offices. A cooperative institution is essentially a business undertaking whether business is of the nature of extending credits or pertaining to consumer, housing, marketing or of any other fields. For a successful business organisation it is of utmost importance that it has the ability and efficiency of making prompt and correct decisions. No doubt that these skills are developed through a process of experience, but it is also true that the skills can be developed by proper and timely training, both theoretical and practical.

Untrained staff can do a lot of damage to a cooperative organisation. Training of an employee whether high or low has to be such as would enable him to discharge his duties efficiently and speedily. Elaborate training may not be necessary for people engaged in office or clerical work, but even in their case training seems important for ensuring efficiency and speed, and to reduce the cost. The training of employees engaged in technical jobs assumes a much greater importance because of the skills that are necessary in executing the job. If these skills are acquired through the process of training, it greatly helps an employee in his decision making capacity. In-service training or apprenticeship for people engaged in technical assignments after they have the necessary theoretical education and background, would seem to be more important than by merely obtaining theoretical training prior to employment. Therefore, every cooperative institution should aim at providing in-service training to staff. Any policy of recruitment which does not envisage the training of the executives and staff whether it is pre-job training or on the job training, must be considered wanting in essentials.

Factors Governing Laying down of Recruitment Policy

We have now to consider what would be the factors which will govern the laying down of recruitment policy in a cooperative organisation. As mentioned earlier, the policy of recruitment cannot be absolute and has to be flexible, to be reviewed from time to time, so that it may change according to conditions that prevail in a given situation. Therefore, the following aspects have to be taken into consideration :—

- (i) The size and nature of the service to be rendered by a cooperative organisation.
- (ii) Availability of man-power qualified for filling up different vacancies in the organisation.
- (iii) The filling up of certain posts from the point of view of maintaining liaison with different institutions including Government.

- (iv) Taking into consideration the general policy of the Cooperative Movement in the country.
- (v) The stage of country's development.
- (vi) Availability of similar opportunities in different cooperative institutions of different or same levels.

Let us try to look at each of the factors from a practical angle :—

(i) *Size and nature of operations*

An institution with a wide area of operation and large turnover will have resources to pay for well qualified and trained personnel. A large unit also has inbuilt opportunities for career advancement. On the other hand smaller institutions with limited turnovers, do need qualified and competent personnel but will not be in a position to afford the expenditure on recruitment, training, etc. because of small surpluses. Even those small institutions which choose to incur heavy expenditure may not attract competent personnel due to inherent limitations for career advancement.

(ii) *Man-power availability*

Employment in cooperative enterprises has limited mobility in contrast to the private and public sector business enterprises. This results in a larger number of available manpower acquiring skills suited to fields with maximum employment potential. But where large cooperative organisations like processing units exist and form an integral part of the community the position might weigh in favour of the cooperative.

(iii) *Filling positions for maintaining liaison with government and other organisations*

The need for services of high level executives will arise because a particular pattern of trade is developing in the country. In all the developing countries in Asia and Africa, the trend is towards developing state trading. If the policy of the state trading is implemented with all its speed, there is a danger for developing cooperative trade to the extent it is necessary in the interest of the economy of the country. Therefore, a high level executive taken from Government

may be in a position to act as a good liaison with the Government to present a proper picture of the cooperative institution vis-a-vis a public sector undertaking in getting its share of trade and business. From other points of view also, such as obtaining government patronage and support, it becomes absolute for a cooperative organisation to function in relationship with government by appointing such a type of high level executive.

(iv) Policy of the Cooperative Movement in the country

The policy of the Government towards the cooperative movement, that of the cooperative movement regarding its own future and the prestige cooperative organisations generally enjoy in the society are very vital in attracting talented and qualified persons seeking employment opportunities in the cooperative society. If the coverage of cooperatives is sought to be expanded and bigger units with scope of lucrative employment are planned, manpower tends to gravitate towards the cooperatives. On the other hand if the policy is such that cooperatives do not have an important place, persons aspiring for prestigious positions tend to move away from the sector.

(v) The stage of country's development

Facilities for training, education and the capability of manpower are attuned to meet the normal standards of business. A country that has within itself industries and business needing a high degree of training, skill and exacting standards of efficiency develops the climate as well as educational and training facilities needed for securing employment in a highly competitive set up. In contrast an underdeveloped or a developing society will have manpower that has not felt the need for skills of this nature. The standard of manpower available depends upon this factor very considerably. The policy of recruitment will also depend upon the need of specific types of skills available.

(vi) Employment opportunities

Just as an organisation desires to choose the best suited candidate from among those available for employment, the

person who seeks employment is also inclined to secure a position in an organisation which provides maximum opportunities of employment, prestige in society and satisfactory service conditions. This also implies that the organisation which seeks to attract the best available talent has to make its service prestigious and more gainful to the worker. According to the Rural Credit Review Committee, the "Service with the cooperative institutions does not yet enjoy the status or reputation in the employment market which is required to attract personnel of requisite ability."

Taking the above factors into consideration, a cooperative organisation will have to evolve a suitable policy of recruitment. Some of the important considerations are given below :—

(i) *Local persons vs outsiders*

By and large, the source to recruitment of personnel for a growing organisation will necessarily have to be the open market. In localised institutions other than the provincial or the national federations, such recruitment will have largely to be from the locality. From various angles although this may not be the absolute rule but the factors of providing opportunities to the local people are of such great significance that they cannot be lost sight of. Experience shows that excessive preoccupation with this consideration can result in the recruitment of ill-qualified persons. The defect can be remedied to some extent by prescribing minimum qualifications for employment to various cadres.

(ii) *Open Market*

In provincial or national level institutions the question of localising should not arise specially in a big country like India where if the recruitment is based on purely territorial or provincial considerations, the danger of fissiparous tendency in a cooperative organisation cannot be over-ruled. In such institutions, therefore, the policy has to be very broadbased. Recruitment has to be on the basis of public advertisement in the important newspapers and giving wide publicity therefor. This has the advantage of eliminating malpractices of favouritism and nepotism in recruit-

ment and giving the management a greater opportunity for selecting suitable persons from a larger area. On account of the impartiality involved in this method, this is the most commonly utilised method in higher level co-operative organisations. Even in regard to advertisements, the area to be covered by the publicity machinery will have to be determined in order to limit expenditure, so that it is compatible with the publicity needs. In case of positions which can be filled up through local publicity, wider coverage will not be necessary. The policy for area to be covered by advertisements in respect of various levels of posts will also have to be defined. But, at the same time it has to be considered that even on the basis of this broadbased policy sometimes undesirable people get into their positions due to various reasons and due to certain amount of pressures brought upon the Selectors. One has to be watchful against unqualified persons getting into the organisation or else the inevitable result would be the termination of their services in due course.

(iii) Promotions

While the open market recruitment based on the selection by a competent body of men from the management is considered to be a sound policy, the fact that the existing employees have to be provided with promotion by way of incentive or better performance should not be lost sight of. The case of every employee should be considered on merit depending upon his performance and he should be selected on the basis of his performance for appointment to higher posts irrespective of pressures or other considerations. Therefore, if proper screening is done of cases of eligible staff for higher appointments, the institution would be benefited by services from experienced people and would lessen its dependence upon the inexperienced people taken from the market. But, no rigidity in this matter should be followed excepting that a particular indication in the general policy that depending upon the availability of suitable and experienced people in the organisation, preference would be given to such people though the management reserves its right to always take people from the open market. The

opportunity for promotion stimulates superior performance and high morale among the staff members. The advantage of promotion normally has a chain effect of upward movement among the existing employees. A policy of promotion also carries with it certain disadvantages. The criteria for promotion viz., whether it is the length of service, merit, loyalty, efficiency or other quality or a proper combination of all the qualities needs to be determined. Since the object of promotion is to locate the most capable person among the existing employees to occupy a higher position, an error in judgement or a wrong policy may lead to deterioration in the working of the organisation. Selection by promotion exclusively from within the existing cadres may cause too much in-breeding and develop a sense of complacency among the work force.

(iv) Recruitment by Deputation

Even under the present stage of development it sometimes becomes extremely difficult to find the suitable type of person to fill-up an intermediate or a high level post. Take for instance the case of a big cooperative organisation needing some technical personnel in agricultural field. The situation as it obtains in India, competent and trained people in the field of Agricultural Extension are not readily available from the market, firstly on account of large scale requirement of Government Departments and secondly because of lack of opportunities in the open market for utilising the education and experience of such graduates. Similarly, for a post requiring high administrative ability with basic knowledge of cooperative programmes and policies, dependence on Cooperative Departments for obtaining on loan suitable people should not be ruled out. Take for instance the case of an Internal Auditor required for supervising and guiding the internal audit staff in a cooperative organisation. People at reasonable emoluments may not be readily available from the open market; this poses a problem. The Co-operative Departments of State Governments or the offices of the Accountant-General have always a team of audit staff trained and experienced. In such cases, it may be advisable to take only the services of such people to fill up

the gaps. This situation may improve in course of time but the present position makes it more or less obligatory on a cooperative organisation to approach a Government Department for recruitment of such personnel, who have been trained in certain specialised fields of work. Therefore, it cannot be a very wise policy to rule out, only on the basis of ideology or principle, that no deputationists from the Government will be taken.

This policy of course will have to be limited to exceptional cases. If for the sake of facility in filling up vacancies persons are hired on deputation terms, it may dampen the enthusiasm of the people working at the junior level, since they feel that they are deprived of the chances of promotion. The management may not also make any efforts to have its own cadres since they can always depend upon deputationists to fill the posts. Even when persons are taken on deputation, the management policy has got to be that within the tenure of deputation for a particular position it should undertake either to designate one of the promising employees who may be able to shoulder the responsibility of higher position with some training as an under-study or recruit a person at the next junior level with capacity to shoulder higher responsibility after getting on-the-job-training from the deputationist. Indiscriminate borrowing of persons on deputation, particularly at the intermediate and lower levels in respect of posts which can normally be filled up by promotion, is bound to result in dissatisfaction among the direct recruits and cause resentment which may seriously affect the efficiency of the organisation. It is, therefore, of paramount importance to lay down a policy as for which posts persons may be employed on deputation from other organisations and under what circumstances.

(v) *Other cooperatives in the locality*

Recruiting persons who are working in other cooperative organisations in the area will have an advantage in so far as the person appointed will have necessary background of cooperative ideology and an awareness of the working of cooperative organisations. However, this policy would also result in taking away experienced people from one coopera-

tive organisation for employment in the other, more so, in cases where the organisations which do not have in-built opportunities for promotion to higher positions. The organisation that can afford to offer attractive terms of employment within the cooperative sector might lure away employees working in other cooperative organisations whose terms of compensation may be less attractive and result in depleting the smaller organisation of experienced and qualified personnel. Therefore, competition between two cooperative institutions to draw the employees working in the respective institutions should be rigidly avoided. The general policy for all cooperative institutions working in the same area should be determined by mutual consultations of the management of different institutions to safeguard the interests of the employees as well as the institutions themselves.

(vi) *Building up of cadres*

It has been found often that cooperative business organisations are not able to recruit key personnel owing to the scarcity of adequately qualified, trained and experienced people to man key positions. In order to over-come this, efforts have been made in the credit, consumer and marketing sectors to build up a pool of key personnel who are adequately qualified and trained for the positions in lower level cooperatives. In a few States this system is operating well. However, it has received a set back in many other States. The reasons for lack of progress in this aspect have been that the managements apprehend that the key personnel who belong to a pool maintained by the apex body may not be responsive and answerable to the elected management. The elected management also has a feeling that their authority to appoint personnel for key positions in their organisations would be abridged if this scheme becomes operative, because persons from the pool can always revert from their posts and do not risk losing employment. No proper solution has yet been found to solve this problem of creating a key personnel pool in these States in the wake of the ideological problems. It will be necessary to study the proposal in the face of the new problems that have cropped up and the

managements have to frame suitable policies for filling up key positions.

(vii) *Laying down conditions of age, sex, educational background, cooperative experience, cooperative training, etc.*

The ideal recruitment policy should aim at selection of employees of highest ability and good character to be utilised in positions best suited to their talents, education and training without regard to sex, religion, political preferences, etc. In addition, proper care should be taken to comply with the public policies relating to employment of children, handicapped persons, restriction of employment of women in hazardous occupations, etc. While creating opportunities for employment, it is also necessary that there should be enough safeguards for provision of social security and social welfare, so that it may not only attract but also retain employees of high standard. What a worker expects from his job and what motivation will be required by him to do his job efficiently, has to be understood and given concrete shape. Orderly working conditions are necessary to make an employee feel that his work is necessary and important for the functioning of the organisation. Supplementary programmes in the shape of retiring benefits, insurance, etc. which will further enable him to dedicate his service to the organisation should also be instituted. However, well built and systematic an organisation may be there is always scope for exhibiting human weakness by persons in authority which might manifest the form of favouritism, prejudice or nepotism. When employees feel that there is favouritism, or undue prejudice against a class of employees, there is a general deterioration of work standards, because the employees keep more pre-occupied with their futures under adverse circumstances.

However, no recruitment policy should lose sight of the basic prerogatives of the employer namely, the right to discipline employees who do not compete with the demands of the organisation in order to keep up the standards of their job assignment, the right to transfer employees from job to job or from department to department in order to maintain

efficiency and to groom people for holding superior positions. The next is the right to dismiss workers for in-subordination or serious infringement of the regulations of workers, following the normal rules will mean tolerance of inefficient work and in-subordination of the management which will have a shattering effect on the morale of the entire working force.

(viii) *Authority to decide on policy of recruitment*

It will be the responsibility of the Managing Committee of an organisation to delegate authority to its functionaries for recruitment to various posts. It has been found in a large number of organisations even upto the State level, recruitment to all posts is made either by the Managing Committee or by a smaller Committee called the Selection Committee. This might be advisable and useful only upto the level of supervisory personnel starting from the Chief Executive. For positions at lower levels, it is essential that the head of the Division concerned should be associated. The Chief Executive Officer should be invariably associated with all recruitments. Laying down such a policy should also incorporate within itself the qualifications, experience, etc. for each position.

(ix) *Delegation to Chief Executive*

It may not be out of place to mention here that in highly advanced countries like the USA, some of the European countries, Great Britain, etc. the top executive is generally hired or given a particular assignment for a particular work. He has full authority to engage his Assistants, Technical Experts and other staff for doing the job. The Board of Management who are concerned only with the top executive to fulfil an assignment, give him full authority to act.

(x) *Conclusion*

Like any business organisation, a cooperative can operate successfully only if it has personnel with requisite skills, aptitude and competence. This has also to be reflected in the important place accorded to the employment of qualified and trained personnel. The demand for qualified staff

and for arrangements to train them has now acquired a new dimension. Whether the cooperatives can measure up to this demand will depend on their ability to find personnel of the quality and the skill required for expanding their operations. The qualitative improvement of the staff has to be given sufficient importance while considering the need for a quantitative increase in the number of persons to be recruited to meet expanding operations of cooperatives.

Employees Problems

H.A. Desai

I propose to examine in this paper three major problems which management face with regard to employees :—

1. Rewarding good work,
2. Discipline, and
3. Handling grievances.

1. Rewarding good work

Rewarding good work has presented many difficult and sometimes emotional problems in the administration. In rewarding employees for good work is to make exceptions and as such very few of the employees stand to benefit leaving a large majority who will not be eligible for reward. To make an exception is the very purpose of recognition. It is a process of identifying an employee of outstanding merit and compensate him. This should be done judiciously and with care. If this is not done properly, it will have a demoralising effect on the group or employees as such.

When we select a man for a special reward we thereby indicate our standard of good performance or in practice define what we mean by good performance and thereby induce or encourage other employees to meet that standard if they desire the same reward. This standard should be higher than the general but should not be so high that none can reach it. Research in motivation has shown that if standards are beyond reach it will not motivate employees to meet them.

In selecting an employee for outstanding performance, not only one must set high standards, but also be objective in assessment of the work of the employees selected. In analysing the performance, we should bear in mind the accomplishment of work, both as regards quality and quantity, and attitudes shown in all aspects of work and discipline. In practice management often commits mistakes in reward-

ing for good attitudes only instead for good performance. Sometimes management is also carried away by the casual or occasional outstanding performance or occasional important contribution rather than with the consistent high grade work performance. A person who is eligible for extra merits must be a consistently good worker and capable of taking both load and responsibility in times of emergencies and difficult situations.

Reward is always for good work and high standards of performance and therefore the selection of an employee for special reward must meet this organisational need. Compromise on this would create serious and difficult emotional problems in the organisation. It should also be noted that the reward to an outstanding employee should be given occasionally and not every time. If it is given every time then the outstanding employee will expect it every time, because for him this will become normal. Secondly, it may become discouragement to the other employees in the organisation and also foster a feeling that the employee given special increment is more favoured than others.

Researches have found that special monetary rewards have little importance in the tools of motivation for outstanding work. It is the recognition conveyed by the management to other employees that the workers so selected is a good performer which is important for him and the organisation. Almost all organisations provide opportunities to managers to find out important techniques for positive motivations. Researches have found that such motivations are normally "job-oriented, emotionally satisfying and more lasting than the monetary rewards". They are like giving officiating opportunities, special assignments to work on important prestige projects, to train new employees, given challenging work to introduce a system or reorganise a section, assignment of work as officer-on-special duty to clear some backlog or to assign him to special committees, investigations, or co-opt on some senior management committees or give some outdoor assignments or send on some development and training programmes or seminars or encourage him to undertake some educational and development work. These and similar methods have been developed by

managements and it is found that the organisations have substantially benefited by these emotional appeals and recognition than by the monetary rewards only. It is not our intention or purpose to under-rate or replace the monetary rewards but to highlight the limitations the monetary reward has on the performance of employees both regarding duration and depth of satisfaction and the problem it creates sometimes within the organisation.

2. Discipline

Discipline is an attitude to conform to rules, regulations, traditions, customs of the organisation to which people belong. We know that men accomplish economic and social activities in groups and therefore it is essential that a certain degree of discipline is necessary for the organisation to be effective. It may be a family, a religious institution, an industrial organisation, a cooperative society, a government administration or a military organisation, each one needs discipline. The degree and standard of discipline required will depend on the task the group has to accomplish. Where the tasks are critical and serious, discipline of the highest standard is essential like in the army. However, in a social organisation where the membership to the organisation is voluntary, we need not have very high standards of discipline relative to the military organisation.

In business organisations, discipline is important but it must be understood that the rules and regulations are meant to achieve business objectives. Rules should guide human behaviour and in making the rules the authorities must consider the economic, social and cultural factors, otherwise the same will put a strain on the efficiency of the organisation. It must also be noted that discipline is not rigid but is a means to an end and it will always be related to the values prevalent at the time when the rules were made. Values go on changing and with that it is important that rules and regulations will have to change, otherwise they will be ineffective.

In an industrial organisation, it must be noted that if discipline is to be effective, it must fulfil certain conditions.

It is important for the organisation to make rules and

make it known to people who are governed by them and once these rules are made, somebody must be authorised to enforce the rules. The control system within the organisation should be so developed that breaches of the rule is not committed generally and if committed there is authority to enforce the rule. It should also be noted that no exception, including those in authority, will be excused in maintenance of good discipline. If the organisation is used to making exceptions or showing laxity in its enforcement, to that extent, the overall discipline will suffer. It is essential that people in authority set an example of good discipline if they want the same to prevail amongst all their subordinates.

There are two major factors which contribute to good discipline. They are habit and attitude. Good habit is a matter of enforcement and good control systems. Attitudes depend on the individual and are effected by training and general environment that exist in the society and organisation. The management of discipline requires consistency in application and also the sensitivity of the authority to the need for changing rules if required by changing times. Discipline also assumes the acceptance of authority both formal and informal and in case there is any doubt in the minds of the people regarding the authority of the superiors to that extent the discipline will suffer in the organisation. Sometimes we notice conflicts of authority i.e. some institutions or individuals challenging the present authority like trade unions challenging the authority of management. In such conditions we find indiscipline. In order to handle such problems, it is necessary to go deeper into the very basis of the authority and take decisions to correct the imbalance caused as a result of the conflict.

Discipline is necessary to improve the performance and improve the development of the individual. It must be applied with these objectives to permit a man to adjust to the needs of the organisation and impress upon him its necessity both for himself as well as for the growth and development of the organisation. Consistent application of disciplinary procedures over a period will give good results. To use discipline to send out people or punish them is bad management. It is always easy to break relations and termi-

nate the service or punish a man who is not conforming to the rules, but it is more important and necessary for a sound policy of personnel management to understand the deeper motives of a man and to take actions to improve his habits and attitude to make him more disciplined. The effectiveness of the management therefore will depend on how managers enforce discipline for positive development of an employee or negatively to punish him.

3. Handling grievances

An employee at times feels aggrieved by the action of supervisors and managers. These feelings some time may arise out of management policy or supervisory action or it may be a grievance arising out of his misunderstanding of facts. In case of employees, when these feelings are allowed to remain in the minds for a long time becomes the basis of negative attitudes and poor performance. The accumulated feeling becomes more complex day by day and it takes much longer for the supervisor to remove such feeling. It is for these reasons that managements have introduced a good grievance procedure. This gives an opportunity to both employees and supervisors to meet and discuss their feelings and problems and take necessary corrective actions if required. It also provides an opportunity sometimes to the employees to express their emotional pressure and thereafter relax so that their general performance and attitude to work are not affected. The present management techniques envisage that supervisory leadership should be so established that the employee should feel free to come forward and talk his grievance to his superior. This enables better employee relations and good performance of the employees.

It is important that the supervisor should always be available to listen to the grievance of an employee. He must be attentive, objective and unemotional at the time of listening. He should note mentally all important facts, underline the feelings and should sort out the relevant and irrelevant material that the employee communicates to him. He must also try to establish the important point of grievance and find out whether the employee has single motive or multiple motives in making this grievance. He must, therefore, listen,

analyse the whole story of the employee and before he departs, once again summarise the whole story as he has understood, stressing important facts and feelings and then ask him to meet him again after a few days. This lapse of time is important to permit an employer to reflect over the facts but also he can use the time to review the facts from his point of view and prepare a reply to meet the points and the facts of grievance. Make sure that you meet him at the appointed time and explain once again the facts which he has represented on the previous occasion. The rules of the company which affect his case, the policy of the company in the matter on questions that he has raised, the previous practices that are followed in similar cases should be weighed to establish the consistency in the management decision and policy. We can also provide him with facts of the same if necessary. However, if his case is genuine, then you must assure him to take up the matter with the higher levels of management and thereafter do something in the matter and at the same time keep him informed from time to time on the action that you have taken on his grievance.

Grievance handling is the most effective technique people have found to strengthen employees relations on the job. The supervisors sincerity in handling employees grievances, opportunity to explain facts and company policy, will reflect their ability of leadership and effectiveness on the job.

Employer/Employee Relationship-Management View Point

N. A. Kularajah

Need for Employer-Employee Relationship

It is vital that in the running of an organisation a correct and proper relationship should exist between the employer and the employee. This is necessary in order that the organisation should utilise the human resources available at its disposal to its maximum value. In any organisation, it is the human factor that forms the substance from which all the other things originate. The tendency to look upon employees irreverently and to treat them like machines or extensions of machines has been responsible for much dissension and lack of appreciation of this body of people. Therefore, I must emphasize that success in the running of an organisation will depend to a complete extent on whether the employees willingly give their best and respond effectively to the demands or request or urgings of the employer. In young organisations that have failed, if the causes are analysed it could be traced to this factor, that is lack of effort or dedication from those employed to do a job. My organisation is a very good example. Right from the beginning, when I took over the management of the organisation, I appreciated the need for my employees to feel and desire that they should work with me and push forward the organisation they are working in. I was fortunate in the sense that I had attended a course or conference on human relationship where it was repeatedly said that the dividing point between success and failure lies in the employees of the organisation and that even the worst kind of employees can be made to do something worthwhile under the most difficult situation if the necessary motivation and response exist in them. Bearing this in mind I set upon to provide the employees with the necessary motivation and to create in them the desire to work for the organisation. What exactly

are the necessary requirements I would enumerate later. But what I would like to mention here is that I succeeded beyond the expectation of any one and that success is seen in today's standing of MCIS.

Perfect Employer/Employee Relationship?

How does one create the perfect employer/employees relationship or is there such a thing as the perfect employer/employees relationship? Let me say that there is no such thing as the perfect employer/employees relationship because human beings are all fallible and possess weaknesses which does not therefore permit the perfect atmosphere for the perfect kind of relationship. Only if all human beings are perfect could there be a perfect relationship. However, how does one achieve the optimum in employer/employees relationship. I think the first prerequisite is to be human. Time and again, we have heard people say 'be human'. What does that exactly mean? One of the saddest things is the human tendency to be selfish, to lack compassion and to believe that emotions and feelings are generally not the same. To be human is to have the qualities of compassion, sympathy and not to do unto others what you do not want to be done unto yourself. This applies in equal force in employer/employees relationship though I would say that it has to be done with sense. This brings to point another important aspect or quality that is required in management personnel. In other words, to be human it is necessary to have a certain amount of faith or belief in God. Why would this be so essential and I say it is essential in an organisation. Employer/employees relationship is human relationship and there can be no proper human relationship if it is not conditioned by those human responses enunciated in the book of God.

A management responsibility

I may have started off rather with an extraneous matter but I believe in giving due priority to those things that come first and to my mind this is an essential ingredient for successful human activity. In a cooperative, it takes on greater significance because of its whole concept and undertaking.

In this connection, there lies a responsibility with management in that those whom they employ or promote to positions of a supervisory nature to control other human beings, it is necessary for management to require similar characteristics from such people as they all form a chain in the human inter-activity that takes place. Let me give an example; if A is found to be a very good worker and is promoted to a position where he controls and supervises a group of staff and if A lacks the human responses mentioned earlier, he is going to create animosity or antagonism among staff which would be directed not against A in particular but against the whole management in general because management is responsible for the appointment and the employees feel that whatever behaviour that is represented by A is the behaviour management expects. Therefore this being human is a first essential in the build up of an employer/employee relationship.

Basic factors required

Once this element is established, the basic conditions of employment would flow from the employer in that he would ensure that the scheme of service and the various physical factors necessary as a basic requirement are fulfilled. What are these factors? We have first the hygiene factors. There are factors that every employer must provide as necessary things to satisfy his employees. They are related to conditions of living and employment without which there is no possibility of the employer retaining employees. In fact he would have a rapid turnover of employees which is far away from the situation we are trying to discuss today. These factors must exist to begin the whole chain of events that would create an atmosphere to enable positive employer/employee relationship. These factors satisfy but will not motivate or create satisfactory employer/employees relationship. There are eight of them and I would prefer to use American terms to describe them. All employees look for them. They are :

1. Clean Work Place
2. Safety Provisions
3. Insurance and Benefits

4. Vacations and Holidays
5. Social Relations
6. Personnel Policies
7. Status
8. Fair Pay Rates.

Most of these terms are well understood by you and I am sure you appreciate them. One thing that would be noted immediately is that they all tie up with the first point raised by me that is about being human. All the factors are related to human consideration in human conditions. A little elaboration is necessary to show their importance in building up confidence in employees to accept an employer as one who is reasonable and not a thorough 'mercenary'.

- (a) *A Clean Work Place* is necessary for the sake of the health of employees without which the employer would be faced with too many sick leave applicants and poor productivity. Modern day organisations provide for exceptionally high standard in ventilation and office conditions such that this is not a problem except probably in small family organisations located far from centres of high development. In any event the law requires that such facilities be provided as otherwise it would be a statutory offence.
- (b) *Safety Provisions*—These are again essential to give security and confidence. Proper fire fighting facilities, safe floors and equipments and others which you can from your experience or situation think of.
- (c) *Insurance and Benefits*—These relate to protection of the future of the dependants and the employee himself. If one is to ask oneself his purpose of a job, he would among other things add as priorities security of his family and their total future including his retirement years. His monthly income is not going to be totally sufficient to ensure these. An organisation has therefore to provide for these, e.g. provident fund, accident benefits, death benefits, retirement benefits.
- (d) *Vacations and Holidays*—Every person looking for a job will in his examination of the suitability of the organisation as an employer look for these benefits or

terms. You and I know their value as well as their importance to the organisation even without considering the employees welfare or interest.

- (e) *Social Relations*—Every job must enhance the image and social relations of the employee. Every man looks for this in his employment and any degrading or belittling of his dignity in employment will make him shun away from the employer.
- (f) *Personnel Policies*—Every employee looks forward to a definite personnel policy from the organisation he works in. Without this guidepost they know anything could happen and their interests and their future could be swallowed by continuous changes and attitudes to suit each particular circumstance that the employer may introduce. These policies involve everything from disciplinary procedure to recruitment, advancement and promotions. Hazy and ambiguous statements made often and unkept can undermine and decay confidence and cause frustration.
- (g) *Status*—Every man wishes to be respected and treated with respect. This must also manifest itself in the job he does. An employer must therefore ensure that the status of the man is maintained regardless of the job he does. This is similar to the question of social relations and related to an employee's social needs.
- (h) *Fair Pay Rates*—This is the most important of the hygiene factors and the most essential reason why a man wants employment. In so seeking a job he would want to ensure that whatever he receives in the first place meets his basic human wants and secondly that the payment commensurates with the job he does. If these two elements are not met then you cannot have a good work force who would commit themselves to the organisation's objectives and interest.

As mentioned earlier the elements mentioned satisfy the basic human requirements and ensure the basis for the development of good employer/employees relationship. More details would be given to some of these factors when I touch on them again later in this paper.

Motivators

With these satisfied you would find that there are still other things required to push or motivate a person in doing a job. In the actual job itself therefore an employee needs certain of his social ego and self actualisation requirements met. These requirements are the motivators or the reasons for working hard. They can be enumerated as the following :

- (a) Independence
- (b) Variety of Work
- (c) Interesting Work
- (d) Feeling of Achievement
- (e) Chance to Advance
- (f) Recognition
- (g) Capable Management
- (h) Fair Supervision.

All these factors constitute a management problem also in that time and again management tries to evolve a system of management that enables the existence of a dynamic work force that is self motivated and wholeheartedly working in the interest of the organisation. In recent years a system of management has been devised that most effectively meets these motivational requirements of the employees. This latest management technique is known as management by objectives and I shall discuss to a certain detail the technique in the following pages.

Management by Objectives

What is Management by Objectives? J.W. Humble, one of the world's leading exponents of the MBO system says that 'Management by Objectives stands for a style of management which seeks to integrate logical business planning with a creative use of human beings. It is a demanding and rewarding style of managing a business'

George S. Odiorne, Dean of the College of Business and Professor of Management at the University of Utah, U.S.A. defines this system briefly as 'the system in which the first step of management is the clarification of corporate objectives and the breaking down of all subordinate activity into logical subdivisions that contribute to the major objectives'.

Peter Drucker describes MBO as 'Management by Objectives tells a manager what he ought to do. The proper organisation of his job enables him to do it. But it is the spirit of the organisation that determines whether he will do it.'

It is the spirit that motivates, that calls upon a man's reserves of dedication and effort, that decides whether he will give his best or do just enough to get by.

By this system, a complete free play of an individual's ability is allowed, within the organisation's aims. It is the nearest to the requirement of participation in management. This system is based on the concept that every man or woman is a thinking, feeling and unique individual. He expects personal return or satisfaction from whatever job he is doing. The personal satisfaction could arise through realisation of actual contribution made towards the organisation's development. As an individual he would be given greater independence in the way he does his job and therefore his own particular style and ideas could be used when approaching the job. This would be achieved by the Manager of each Division setting objectives for his Division, which are to be integrated with the overall objectives of the Society. Within each division, the various departments and units would set their own objectives to contribute to the division's objectives. There would therefore be a very close integration and a tightened organisational set-up. There will arise greater independence as well as inter-dependence among the various departments. MBO will also ensure that the force to work or motivation will not come from the top as has been previously but from all levels in the organisation. Communication channels will be cleared between the various departments. And as Professor R. A. Howard had said, the most important aspect of MBO would be that '*managers, departmental heads and others become committed to the organisational objectives*'.

My friend, Lloyd Matheson, General Manager of the Canadian Cooperative Insurance Service, when he was on a short visit to Malaysia, described MBO as Cooperative Management. He emphasised that MBO fits ideally with the principles on which a cooperative society is founded.

Management by Objectives in MCIS

Let me mention here that MBO as a system of management was introduced in the MCIS in 1971. During the last 10 years the MCIS has grown from assets of about \$1,027,000, a staff of 5 and new life assurance business of over 3 million per annum to assets of more than \$ 40 million, staff of over 1,500 and new life assurance of over \$ 85 million per annum. In order to keep pace with expansion and specialisation we had to reorganise almost every year. We had to keep up-to-date on the trends and techniques of the insurance industry all over the world and new business methods and management practices. We had to ensure maximum efficiency at minimum cost and to offer the best service and every service possible to members of the Society. We had to try our best to attain higher standards, increased performance and maximum coverage in all our activities. We made constant changes and sent several staff for advanced training overseas. The Society was also represented at several seminars of every type both locally and elsewhere. We realised that in order to get the best from everyone of the staff, we should build morale, team spirit and a sense of pride in the Society. The MCIS Recreation Club was organised to build team spirit for I had found that building team spirit within the organisation was a difficult task. Any external activity like the Annual Dance organised by the club and the various sports activities were better instruments to build team spirit and sense of pride in the Society. Great care was taken in staff relations and every effort was made to make sure that employees understood the policy and aims of the Society. Staff were encouraged to make criticisms and suggestions. Every staff was urged to do some creative thinking and help me with ideas to eliminate waste, save labour, improve efficiency and increase output in quantity and quality. The response to the MCIS Suggestions Scheme introduced in 1968 has been an overwhelming success. Policyholders and employees are encouraged to submit original suggestions which are considered by the Suggestions Committee on the third Wednesday every month. The response showed that the policyholders and

staff care for the Society. Several suggestions have been implemented. Through careful selection we tried to get the right man for the right job and to provide proper training for the job. Comprehensive annual confidential reports are made on all staff to enable the selection to be made or to arrange for suitable training or to arrange transfers or to reshuffle duties. It was made clear to everyone that just as a human body will not function effectively with injured limbs or other organs though the brain is in a first-class condition so would the Society not progress unless everyone is efficient and maximum use is made of all the talent and creativity available. Monthly newsletters are issued to staff informing them of the changes taking place.

We have always remembered the following advice of the eminent Mr. J.M. Campbell given in his address at the H.R.H. Duke of Edinburgh Study Conference on Human Problems of Industrial Communities in Oxford in 1956 :

‘Through careful selection we must start by getting the right man in the right job and he must be properly trained for the job. Men will be stimulated by good leadership, a sense of cause, a sense of purpose, a sense of challenge, a sense of their importance of their jobs by interest, by self-regard, by ambition and scope for advancement-in pay responsibility and prestige. They will give of their best under good organisation and purposeful discipline, rather than in disorder and chaos’. We have always kept this in mind and put it into practice wherever possible. It is perhaps because of this that almost all employees of the Society have what is known as the ‘Zeigarnik Effect’.

Zeigarnik Effect

What is Zeigarnik Effect ? Professor John F. Mee, Professor of Management, Graduate School of Business, Indiana University, U.S.A., describes the Zeigarnik Effect as follows :—

“The Zeigarnik Effect may be explained as a compulsion inherent in some persons to complete a task or to achieve a given result; it is something called a ‘compulsion to close’. Some people have a high Zeigarnik, others have a low one. This effect is named after B. Zeigarnik, a psychologist

who conducted experiments on the influence of finished and unfinished tasks on the behaviour of individuals, and is one of the rare psychological terms that bears the name of a person.

The interpretation of Zeigarnik's research findings indicates the importance of strong and goal-directed motivation to complete tasks. In some people tensions are aroused by the performance of work required by a task, and these remain unrelieved until the task is completed. Subsequent experiments have demonstrated that the Zeigarnik effect depends largely on the degree of one's ego involvement in the situation. For persons with a need for achievement, the beginning of a task or the start of activities to achieve a goal arouses psychological forces to push the task or activities to completion. Furthermore, personal success or failure is an important factor in the degree of compulsion for the closure of action".

I am quite happy to state that the staff have the Zeigarnik effect in a great measure. Many of the staff work voluntarily without overtime pay to complete jobs assigned to them. Many of the staff come forward to work as a team to achieve the aims of the Society. Every member of the staff realises the importance of united effort. Such efforts produce what is known as the Synergistic effect. I feel that it is better to quote Professor John. F. Mee again.

"If a synergistic effect can be established, greater creativity and productivity may be realised from the members of a work group. The concept of a synergy usually has been identified with the physical sciences. Behavioural scientists and organisational planners have found the concept useful in explaining the impact of an organisational system on human behaviour.

A synergy occurs by the united actions of elements producing a greater effect than the effect of the elements working independently. A synergistic effect can make $2+2=5$ from the viewpoint of results realised in a particular situation. The synergistic effect of aqua regia (royal water) on gold or platinum can be used to illustrate the concept. Anyone can observe the results of a synergy by first pouring some nitric acid into one beaker and then pouring hydro-

chloric acid into a second beaker. Two elements are now prepared for independent action in separate beakers. A piece of gold or platinum can be placed in either or both beakers and remain insoluble. No synergistic effect was produced by the independent action of the elements. The second step must be taken. The nitric acid and hydrochloric acid can be mixed in one beaker, usually in the proportion of one volume of nitric to three of hydrochloric to form aqua regia. A corrosive fuming yellow liquid is now ready to demonstrate the unified actions of the elements. By working together, these elements can dissolve gold or platinum. The synergistic effect can be observed.

Inasmuch as both behavioural and physical scientists are influenced by the impact of science on society and the resulting substitution of observation and inference for sheer authority, the concept of the synergy is being applied to the human elements of a work group. A greater total result is expected from the combined and united efforts of the individuals in a group situation than from the same individuals working independently.

Let us observe the possible results of an organisational design that seeks to benefit from the synergistic effect of the united efforts of people at work. A manager designs an organisational pattern to employ four people. Instead of assigning each person a specific operation, he assigns an objective or total desired result to the four people as a group effort. The work group is delegated responsibility and authority for the performance of work to achieve the objective or total result desired. The people combine and unify their efforts for the total result instead of working independently on a specific operation or segment of work. The group is rewarded or penalised as a group for its accomplishments. Instead of job descriptions, there is a role assignment for the achievement of a desired objective. The people are encouraged to employ all of their talents and skills to effect the total result. The emphasis is on the objective desired and on confidence in the people to achieve this objective through their own devices rather than a prescribed system for them to follow. Emphasis is on the result instead of a system and procedures designed by the manager.

The united efforts of a group with an objective, instead of a work assignment, can result in a synergistic effect from greater productivity and achievement.

1. All members of the group are oriented towards the objective or total results possible instead of prescribed routines of work. The pay-off is on results rather than work patterns.
2. All Members of the group enjoy the self-esteem of a role assignment instead of following authoritative work procedures and a constraining job description.
3. Each member of the group is permitted to work at the highest and best use of his knowledge, skills and value system. His total talents can be applied towards achieving greater results. Using only a portion of a person's talents for a specific job is a waste in Society.

We found that the previous methods of motivation of staff through only financial incentives was not good enough for dynamic growth, let alone normal growth. We realised that for any employee to give his best, he should have a number of personal needs satisfied including the very important aspect of actual participation in management. Instead of the staff being directed to do certain things through rigid rules and methods given to him he should be made to realise how he could make his contribution to the successful management of the Society.

Furthermore, we had to watch that when things were going on well complacency should not be allowed to creep in. Worse still, apathy and clock-watching and loss of motivation in the case of a few of the staff can have disastrous results. Before we implemented MBO we had to have an expert adviser acceptable to all the staff. We sent a manager to attend the Cooperative Management Seminar organised by the International Cooperative Alliance in Wisconsin, U.S.A., and on his return to attend a Training Course at the Cranfield College of Management in the U.K. A meeting of all the senior staff was organised on 31st December 1970 for the inauguration of MBO by the Chairman of the Society and to explain it fully to all of them.

Training courses on objectives and procedures are being held during lunch hour to groups of staff from separate departments every day. Lunch is provided by the Society to those who attend. Such problem-solving training during the lunch hour is based on the shortcomings in the various departments. Training is provided by studying these shortcomings and eliminating them through training. At the same time every effort is made to cause an entirely new attitude or change in the behaviour pattern of the staff towards the society and its objectives.

This digression on Management by Objectives, I hope, shows how the factors of motivation could be fulfilled both as a solution of a management problem and as a promoter of employer/employee relationship through boosting the anticipations of an employee in his own qualities and achievements.

Other conditions for better relationship

There are other conditions and circumstances that could be introduced to foster relationship.

Fair deals

Employees expect management to give them a fair deal in all areas of activity. This may be in promotions, in questions of work and in opportunities. Because there is such a number of people involved in the processes of management there is always the possibility of victimisation, persecution, neglect or bottling up of a person's talents. These can build into a reservoir of discontent and disorganise the most carefully organised plans of management. Management has to provide channels for these things which are better termed as grievances to be brought out. Trade Unions, Joint Staff Councils and other such bodies are some ways that these can be solved. However before they come to these 'courts of last resort' management must ensure first to be rid of unfair practices by management staff and secondly through its own channels be able to spot them and eradicate them after considering the circumstances without undermining the influence of Management staff. Initiative of such kind builds confidence and brings forth trust from employees.

Management should not at any time justify unfair practices under any pretext. Management may be able to fool itself or think it is fooling the employees but they are only hurting themselves in the long run. Employees respect and respond to capable management and fair supervision and management's responsibility is to ensure this.

Incentives and benefits

What about benefits and advantages to employees like:

- (a) Profit sharing,
- (b) Scholarships to children of employees,
- (c) Payment of the cost of or at least half of insurance premiums particularly accident premium,
- (d) Preventive and curative medical facilities to family also,
- (e) Funeral expenses of spouse or child, and
- (f) Special prices on goods of the organisation.

Further recreation facilities could be organised through a sports club for staff subsidised by the organisation. These are very interesting and useful propositions which consolidate the organisation's strength and the employees' sense of belonging. It is the sense of belonging that is going to make employees work and increase the organisations production and profit margin. In a cooperative this requirement is more than essential for we are as much interested in our member's well-being as in our employees. Anything otherwise is contrary to our belief and our motives and we can join the ranks of the exploiters.

Profit-sharing is a very interesting point. I believe that such a benefit should be introduced by every organisation without any qualms. I also consider it a social responsibility of every employer more so in the case of cooperatives. It is a logical concept in that if profits in an organisation soar or in the case of cooperatives surplus, it is primarily due to the employees and no one else. Consequently they have a legitimate claim for a share. The proportions can be the organisation's discretion. But such a move would be one of the ideal ways of realising a devoted and dedicated

work force and in giving a sense of belonging. Further the feeling of participation in management will also find footing and be created in employees. Savings and a lot of other benefits accrue from such a programme. I think I need not elaborate this point. Everyone can appreciate it.

Conclusion

I have written at length on this subject and just as I started I would like to end on the theme of human considerations. In treating and subjecting employees to terms and conditions one must take their lives as a whole. The lives they spend outside the working hours are just as important to them as what they spend in the organisations. One conditions the other and often creates the problems they face and management faces. To overlook their after work lives and conditions and to arrive at decisions in respect of them is like being concerned with only the front wheel of a bicycle one may be riding. It is short sighted and in the eyes of the employee indifference to their interests.

Every employer must always remember that every employee is an investment and he is the first and best investment of the employer. Therefore every employer must ensure that this investment must be well looked after, protected and nourished to grow healthily. For it is this investment that gives and causes all the other investment returns.

Trade Unions and Cooperatives—View Point of a Trade Unionist

G. J. Ogale

I shall attempt to examine in this article on the important question in the Trade Union Movement: namely the "Trade Unions and the Cooperative Movement". Every one working in the field might have his own opinion and so I have, I therefore propose to explain, in short, my own point of view regarding this subject.

The Cooperative movement and its ideological base are being rapidly pulled in the direction of the right or left, in such a violent manner that its impact is likely to be felt by generations of men and women in the years to come. If we are to understand the inner meaning of this change, we will have to understand the forces which are at work, the traditions which are disintegrating and social conflicts that are developing in various sectors of the cooperative movement. In a word the inner nature of the present revolutionary changes has for its essence the obtaining for our people social and distributive justice; the freedom from want and misery; a social order in which there will be no unemployment for any one; cooperatives will be owning the means of production, organisation of scientific research will be not for individual benefit but for social benefit and the throwing open of a large vista of cooperatives for the downtrodden, the handicapped, the underdog. For a person like me, who has been actively associated with organised rural and industrial labour, this is not a mere accident of history but the dawn of a twilight, the lure of which has attracted me even in my childhood and I say it in all humility that I have to some extent enabled the march of these events to shape the larger contours of its horizon. This much for a preface to the agonising re-appraisal that I propose to elaborate hereinbelow.

Cooperation has the merit of combining freedom and

opportunity for the small man with benefits of large-scale management and organisation as well as goodwill and support from the community. It is one of the principal means for bringing about peaceful changes of a fundamental nature within the economy. Within the rural economy, in particular, it is the primary means for raising the level of productivity, extending improvements in technology and expanding employment opportunities. It is, therefore, quite natural that in a planned economy, pledged to the values of socialism and democracy, cooperation should have been looked upon as the principal basis of organisation in many branches of economic life, notably in agriculture, marketing, processing, small industry, consumers distribution, housing etc. Each Five-Year Plan has thus stressed the role of cooperation, aiming at the development of a growing cooperative section in India's economy. Development of cooperative processing is essential not only for increasing rural incomes and facilitating credit for production but also for building up of a cooperative rural economy. The success of the Pravara Sahakari Sakhar Karkhana, the first white sugar producing factory in India, has opened a new and uncharted field for large scale cooperative industries and made the Government of India to revise its licensing policy.

That cooperation is a means to an achieving of certain well-defined ends will be readily conceded; that effective implementation of any cooperative policy involves the remarking of the foundations of our society will also have to be agreed upon, that basically it involves altering the productive relations which will offer expanding welfare to its people will also have to be conceded by any serious student of history. On the political plane, cooperation has to accept the logic of the working of democracy at the grass roots imbued with a new social purpose; a purpose which will contain within itself the high ideals of freedom and planning at the same time.

In the context of this, an examination of cooperative institutions all over India reveals a dismal picture. While I have to confine myself with the role of trade unionism in the cooperative sector, I cannot help mentioning here the

broader characteristics which are today manifesting themselves on the cooperative horizon. Even the ex-Finance Minister, Government of India, Shri Y.B. Chavan, who has the pulse of Maharashtra Politics in his hands, remarked some years back that cooperative sugar factories are becoming a State within a state and those who are supporting the Government of the day, year after year, may one day turn round and say, we are ourselves the Government.

These processing and manufacturing units, of course organised cooperatively, represent ten percent of the landed aristocracy or the higher middle group of cultivators, who having been deprived of their privileged position under the Zamindari or Talukdari system, have taken comfortable refuge in cooperative institutions. They have developed an outer facade of cooperative democracy and their behaviour towards labour is of fascist practices. They subscribe to socialism on the outer surface with a view to practice the worst anti-labour measures. As a worker in the field of sugarcane labour, I am painfully aware of the attitude of the chairmen of cooperatively organised processing units who many times exhibit a mentality of the tycoon of American industry in the thirties and forties. The character of the present leadership in cooperatives represent the worst aspect of capitalistic practices in fact they are a shade worse because the so-called capitalists like Parrys and Bradys having no social base, exhibit a genuine respect for labour demands; while cooperatives which represent a kind of monopoly capital and indifference to labour demands and what is worse; they can get away with it. If these are not monopoly capitalistic ventures under what other ventures can we represent this form? The present cooperative set-up does not abolish classes, on the other hand it is characteristic of the functioning of these cooperatives. The secret of the ability is the successful exploitation of the national sentiment. It promises success and unity-political and economic—which had been rendered miserable by poverty and disunity. The cooperative institutions all over the country have thrown up leadership, of course on the elective principle, with increasing resolve to make themselves the masters of the working class and also of the fast vanishing proper-

tied class in the interest of perpetuating their authority. It has given to the Chairmen of the Institutions certain patronage which they use for buying over the disgruntled unemployed youth from their own kith, who by the very fact of favours received is inclined to become an enemy of labour and therefore, of the working class. Indirectly, they have also won approval of the traders by a suppression of the working class and by making the industrial machine produce at cheaper cost in the interest of total profit for the producer. To the demand for a sharing of the profit amongst workers and producers on a rational basis, they raise hopes for a possible future increasing in the standard of life of the working class. It would ensure security for the masses, they announce enthusiastically, and stability for the Government. Cooperation or the philosophy of Robert Owen has been topsyturvied by these leaders and they exploit this philosophy so long as it serves their interest. Mussolini termed the demand for labour or the demand for increase of their wages "the decaying corpse of liberty". Our Chairmen of cooperative societies have no respect for liberty. They deny its capacity for self-mastery. They believe that workers are sheep for whatever purposes the producers may determine. They insist upon a slavish obedience to their orders which, on the one hand, produces hypocrites and sycophants and on the other turns the dignity of man into fawning imitation of their own cruelty.

All these have been going on in the name of cooperation and cooperative philosophy. The Government of the day and their civil servants are helpless spectators in this fashionable drama of exploitation and cheating the conscience of the working classes.

The cooperative movement in India generally and more particularly in Maharashtra has reached a stage when it is necessary to go deeper into its philosophy, its expansion during the inter-war years and after, and to determine the broad contours of its developments as an adjunct to the developing economy of backward countries. Cooperation or the cooperative movement came to India more as a middle way between two extreme views advocated by its protagonists. They were, first, those who sincerely believed that

cooperation cannot flourish except under a highly organised and socialised economic structure. According to them, cooperation in isolated sectors of the economy with an overall free economy at the top throws up irreconcilable elements which are bound to adversely affect the cooperative movement. Secondly, a large body of cooperators have consistently held the view that in the interest of purity of its philosophy and ideological consistency, the cooperative movement should be kept as much away and as distant as possible from the State. The less the cooperative movement has to do with the State, the better for its future expansion and for raising the level of the individual self. In between came those, and this has been the typical Indian assertion of the cooperative spirit, who genuinely thought that a combination of these two irreconcilable views is a distinct possibility. While State assistance should not be frowned upon, they asserted, people's initiative should also be developed side by side to bring about a harmonious working of the cooperative movement. To what extent we have been adhering to this middle way? To what extent this middle way itself has been able to vindicate itself? In actual practice, in spite of the high moral principles of the early pioneers we have deviated from the higher principles of cooperation which made the movement attractive. These are all very relevant questions in the context of the confusing social, political and deteriorating economic situation that is developing in the country. Whenever any movement reaches a point of no-return, whenever the results of any investment are contrary to its original expectations, it is pertinent to cry a halt, take a look around and redetermine the future course of action to be adopted. That is the stage, cooperative movement has today reached in India. I must confess that in an enquiry these theoretical discussions may appear outwardly irrelevant having no validity to the important question of how best to ameliorate the working conditions of labour in sugarcane farms and factories and other cooperatively-owned factories. As a humble trade unionist of thirty years standing in the service of sugarcane employees, I cannot help raising these fundamental questions of the origin, philosophy and the course of action of the

cooperative movement, because basically, it is in the name of the cooperative philosophy that the suppression of labour is going on. Every time, we raise even very small demands on behalf of labour, we are told that profits accruing from the cooperative venture go to fill up the coffers of the society; that individual profit here is not the motive force; that people belonging to the cooperative movement are economically backward and, therefore, any criticism against the cooperative movement is cutting the plant before it has taken deeper roots; and therefore, any activity on behalf of labour is not only dubbed as sinister but trade unionists working in this sector are dubbed as mischief-mongers. When, as a labour force, attack on us is so comprehensive, it is no doubt our right to demand a re-examination of the fundamentals of cooperation itself and tell the organisers of the cooperative movement that the existing system of production, even if it protects the producers, does not enable the workers to participate happily and willingly in this collective endeavour.

In the context of this the role of trade unionism becomes doubly difficult. How is it that organised labour in traditional industries like textile and steel has been able to successfully exploit the power of labour to strike in the interest of widening their power to bargain and have by and large succeeded in establishing the inevitability of labour's power to extract increasing welfare from its employer? How is it that exactly the contrary feeling of helplessness prevails amongst the rural—proletariat who have to fight with their back to the wall often unsuccessfully to obtain even 50% of whatever their compatriates have achieved in the industrial sector? Even the implementation of Government Laws on Industrial Relations are left far behind in cooperatives on the facile assumption that cooperatives are people's institutions; the destiny of whose membership is in the hands of the poor producers of sugarcane or cotton or groundnuts. For a correct analysis of this phenomenon, one has to go deeper into the dichotomy so ably propounded by Marx in his analysis of industrial proletariat and the rural proletariat. Basically, it is the ability of democracy, to evolve under a regulated system, a kind of harmony between the instruments of manufacture. A certain scepticism about the future

of the democratic processes is endemic in any analysis of this deep-seated dichotomy and they must be separated from each other. Democratic procedures often involve an attack on privileges which had behind them the power and prestige of long tradition and most of those who have attacked democracy from the right have done so out of their desire to preserve those privileges from invasion. The attack from the left on democracy was based on the conviction that its opponents would not respect the procedures of democracy as soon as those privileges are attached upon which that democracy is based. In the Asiatic and African countries, which form the core of developing nations, this attack on democracy is going on merrily. Gunnar Myrdal in his famous book "Asian Drama" has rightly emphasised that our approach to rural problems will have to be remoulded to encompass the existing dichotomy between the highly organised trade unionism and a truly backward rural trade union activity in which the absence of leadership has created a truly dangerous chasm and a socio-political hiatus. Those of us who think that industrial progress by itself and in isolation can lead to the emancipation of the individual, irrespective of what happens in the rural sector, are mistaken. There can be no permanency of progress of the one at the cost of the other and with every one concerned laid stress on this aspect.

This is of course not a new controversy, this conflict of the rural and industrial proletariat, nor is it for the first time that cooperation has been called upon to face or encounter it. While the urban proletariat has insisted on political action for the redress of their unjust positions, the rural proletariat has always been content to let a certain degree of social action to develop before he would lead the people towards a social change. Both Marx and Engels considered the rural proletariat incapable of spear-heading of social change as against the Industrial proletariat who has historically proved themselves successful on more than one occasion. In between come the cooperators who under the influence of their prophet, Robert Owen, believed in the establishment of a "Federation of independent self-governing, decentralised, autonomous social units". On the one

hand, therefore, cooperatives organised production, processing of raw materials, elimination of middlemen, organisation of inputs for total production, assuring a minimum price structure—all these in the cooperative sector demand dedicated leadership which will be well versed in the ideological base and will stand up united to fight against all those interests which are inimical to these goals and their achievement, on the other hand, we have the yawning chasm of leadership. The abolition of landlordism and modification of existing property right have given new opportunities to the cooperatives for a re-organisation of the entire social fabric of rural existence. Political emancipation was the hand work of Mahatma Gandhi in our country; but few are aware of the radicalism of his views on economic emancipation. I can do no better than quote two interviews given by Mahatma Gandhi to Lowis Fisher during a week he spent with him in 1942. Even before Independence came, to a question by Lowis Fisher “What was his programme for the improvement of the peasantry? Mahatma Gandhi replied “the peasants would take the land, we will not have to tell them to take it. They would take it.” To a second question from Lowis Fisher, whether the landlords should be compensated, he replied, “No, that would be fiscally impossible. “You see”, he smiled. “Our gratitude to our millionire friends does not prevent us from saying such things.” To a question whether peasants will seize the lands with violence, Mahatma Gandhi replied, “there may be violence, but then the landlords may cooperate, they might cooperate by fleeing. There may be 15 days of chaos but I think we would soon bring that under control”.

“Economic quality is the master key to non-violent independence”. A non-violent system of Government is clearly an impossibility so long as the wide gulf between the rich and the hungry millions persists. The contrast between the palaces of Delhi and the miserable hovels of the poor labouring class cannot last one day in a free India. A violent and bloody revolution is a certainty one day unless there is a voluntary abdication of the riches and the power that riches give and sharing them for the common good.

I have stated at length, the chasm that at present exists between industrial trade unionism and the absence of well organised trade union activity in the rural sector; and this with a view primarily to determine in advance what Prof. Gunnar Myrdal has called "Value premises". What are the value premises which we in India consider cooperation in rural sector to achieve and what is the sense of direction in which we want landless labourers and small holders to tread the path of social progress. These can be enumerated as follows :

(a) We do not anticipate even a single individual to remain a landless labourer all his life. A scheme to accelerate to the pace of his absorption in the broad pattern of community life in which he will be an equal partner in his efforts at increased production and increased sharing of rural wealth, should be the sheet anchor of rural trade unionism.

(b) In the processing of agricultural raw materials, certain well defined stages will necessarily have to be of the ownership of the primary producer, the basic consideration in all cases being the conversion of the producer into a manufacturer.

(c) Land as a national means of production should have to be cooperatively managed, if not cooperatively owned.

(d) Natural differences in soil, fertility and soil categorisation, like irrigated, will have to be done away with. In other words, income variations based on natural differentiation will have to be reduced to the barest minimum.

(e) From the oft-repeated credit-worthiness of the farmer which has played havoc towards increasing income disparities in the rural areas, we must now aim at credit-worthiness of purpose. Creditworthiness is an outdated concept which makes the rich richer and poor remains where he has been. This of course is true for conditions prevailing in India today and may or may not be applicable to other Asiatic or African countries.

(f) Processing cooperatives at present engage labourers on the same basis on which the private sector also engage labour. The time has come when a policy decision should

be taken to give separate and definite representation to labourers. Today, they are not equal partners in the management of rural cooperative processing industries.

Lest I am accused of over-emphasising cooperation in the manufacturing sector only, let me hasten to add here that so far as cooperative credit structure is concerned, it has succeeded in providing an alternative source of investment to the money lenders with Government guarantee. The one beneficial effect of cooperative credit organisations should have been lowering of the rate of interest but students of Farm Economics will tell you that from 3 percent in 1950, the rate of interest now charged to the farmers has gone upto 12 percent. In any case, if cooperatives feel happy with cooperative credit organisations only, they may keep their happiness to themselves because credit has not provided the basis of an economic activity nor has it generated extra production. On the other hand, to some extent, it has increased the indebtedness of the farmers. Even this small benefit is monopolised by a dominant group in the village bringing in its wake all the evils of groupism, petty forgery, vindictiveness, so on and so forth. There are other activities like marketing and recently a few consumer stores have also been established, but as far as the impact of cooperation on the labour and employee is concerned, it is mostly in the manufacturing sector that the heaviest impact is felt and I should, therefore be excused, if I insist on exposing the evils of cooperation in the manufacturing sector only.

I have been a witness to payment of twenty five paise per day as wages to the sugarcane farm workers. These workers had travelled long distance leaving their families behind to make a miserable living on privately run farms. When independence came we announced cooperation as the panacea for all our ills and I have explained at length the motive force that went behind the emergence of the cooperative movement. Time has come when we should evaluate these principles in the expansion of the cooperative sector and I make hold to enumerate below the salient principles on which alone the cooperative movement can be made to

work. Any deviation from its high ideals will make it imbibe the worst aspect of capitalism. These ideals are :

- (i) Absence of exploitation of any kind,
- (ii) Absence of the profit motive,
- (iii) Self-help and mutual assistance,
- (iv) Establishment of communities of interest which will be able to live on their own lands, work together in their own factories and workshops,
- (v) We call it the new moral world—a world of mutual help, social equality and brotherhood.

But what is actually happening is a negation of all these cooperative principles. We are growing institutions which will surely engulf everyone in its sweep and class antagonism which we wanted to avoid will emerge as a monster if remedial measures are not taken in hand early.

Allow me to enumerate here some of the difficulties which labour in sugar factories particularly in the cooperative sector is facing in Maharashtra, which may be more or less true of conditions in other parts of the country as well. A recent example of differential treatment meted out to sugar employees in the cooperative sector will be clear from the fact that while in the State Farming Corporation, labour was also able to extract from its Board of Directors, an increase in the rates of harvesting and transport labour of 45 percent, in cooperative sugar factories the harvesting labour has not been able to obtain a rise of even 30 percent in the year 1969-70. Trade union activity amongst sugar employees is handicapped for want of proper encouragement and sympathetic treatment from employers. On the smallest pretext and on the false analogy of discipline, workers are threatened with dismissal. In individual cases of a routine nature, complaints lodged with the employers are not attended to promptly with the result that heaps of injustice are being piled on the workers. In the name of employing local labour and giving encouragement to talents from the rural areas, which incidently belong to their own class of people, sub-standard qualifications for skilled workers are accepted by the management. Very often, out-

side labour which is highly qualified and skilled is passed over in favour of an incompetent and inefficient worker with the result that he is under a moral pressure to accept high handedness from his employers. Outside labour being skillful and self-confident and although numerically small is likely to be more assertive of its rights and fight against injustices indulged in by the employers. There is, therefore, an extreme sense of frustration as also helplessness amongst a larger body of sugar factory workers who are not prepared to accept the logic of trade union activity and stand up as a force against the injustices perpetrated on them. In short, the treatment of sugar factory labour, which must be true of all other cooperative units, is reminiscent of fascist practices. All this is going on in the name of cooperative philosophy and under the very system of cooperative democracy. This picture is aggravated further when one is to hear stories of exploitation of agricultural labourers by the so-called grower members of processing units. It is true that at present there is no law regulating the wages of agricultural labour and other service conditions have also not yet been brought under a system of cooperative legislation, but the fact that these processing units are the property of growers who are supposed to be imbued with the philosophy of cooperation, one has a right to expect better treatment of this class of labourers from the sugarcane growers. The cultivator, in my view, is proving a worst type of capitalist who is protected by the cooperative structure in his exploiting tendencies of agricultural labour. He has now come to stay as an obstacle against the progress of large number of agricultural labourers and unless these people are brought under some kind of legislation, their condition is not likely to improve. As against the daily wages paid to the employees in the State Farms, which were still the other day in the hands of private capitalists, the sugarcane workers of the cane growers are paid much less. Two years back, the sugarcane growers in the cooperative sector have been paid a price of about Rs. 170 to 220 per ton; when the minimum price declared by the Central Government was about Rs. 80/-; and how is it that no single extra rupee has been passed on by the cane growers to these

unfortunate labourers working on their farms. Has the Government of India and the State Government supplied large capitals of these cooperative enterprises only to help exploitation of poor and helpless labourers? Do not the cooperative processing units owe it to the society to pass on a portion of the profits to these agricultural labourers, and is the Government of the State and the Centre so helpless in mitigating the suffering of the primary producers of sugarcane?

It would be interesting to know the methodology adopted by the co-operative factories in fixing the prices of sugarcane. They simply pass on their entire calculated surplus profit, from their sugar operation to their grower-members by way of as higher a cane price as possible after meeting their conversion charges and overheads. This eliminates the accrual of any profits in the hands of the cooperative factories; thereby automatically resulting in almost zero liability to Corporate Income-tax. It also greatly facilitates the avoidance of Income-tax in the hands of growers, because the entire surplus is passed on to them as cane price and not in any other form, as dividend etc. Though such higher cane prices may be attracted by the State Agricultural Income-tax, the rate of this tax apply only for agricultural incomes above Rs 36,000/- in a year and are also of a lower level when compared to corporate or personal income-tax.

Such a mode of siphoning off the entire surplus by the cooperative sugar factories to the cultivators naturally means a severe loss of revenues that should normally accrue to the Central Exchequer by way of Corporate Income-tax and depriving labour its natural share by way of annual Bonus. In order to illustrate the point, the following is a statement from a study made, showing the raw material price paid, tax provision made and dividend declared both in absolute amount and as a percentage of the total disburseable revenue by the sugar factories in Maharashtra in the joint stock and the cooperative sectors.

**Disposition of Revenue
Joint stock factories**

| | | Rupees in Crores* | | | | | | | | | | | |
|---|------------------|-------------------|------------|-------|------------|-------|------------|-------|------------|-------|------------|-------|------------|
| | | 1965 | | 1966 | | 1967 | | 1968 | | 1969 | | 1970 | |
| | No. of Companies | Rs | % of Total | Rs | % of Total | Rs | % of Total | Rs | % of Total | Rs | % of Total | Rs | % of Total |
| | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 |
| 1. Raw materials (including sugarcane) | | 11.74 | 64.7 | 15.15 | 70.7 | 16.82 | 70.6 | 27.62 | 77.8 | 30.84 | 79.9 | 29.45 | 81.62 |
| 2. Tax Provision | | 1.91 | 10.5 | 1.65 | 7.7 | 1.91 | 8.0 | 2.65 | 7.4 | 2.36 | 6.2 | 1.05 | 2.91 |
| 3. Dividend | | 1.20 | 60.6 | 1.08 | 5.1 | 1.11 | 4.7 | 1.24 | 3.5 | 1.24 | 3.2 | 0.97 | 2.68 |

* 1 Crore = 10 Million.

| | | Co-operative Sector | | | | | | | | | | | | | | | |
|-------------------------------------|--|---------------------|------------|-------|------------|-------|------------|-------|------------|-------|------------|-------|------------|------|------------|----|------------|
| | | 1965 | | | 1966 | | | 1967 | | | 1968 | | | 1969 | | | 1970 |
| | | Rs | % of Total | Rs | % of Total | Rs | % of Total | Rs | % of Total | Rs | % of Total | Rs | % of Total | Rs | % of Total | Rs | % of Total |
| No. of Societies studied | | 18 | | 18 | | 14 | | 14 | | 14 | | 14 | | 14 | | 14 | |
| 1. Raw material including sugarcane | | 22.69 | 90.9 | 27.07 | 91.9 | 17.34 | 89.9 | 46.30 | 95.11 | 46.95 | 94.4 | 47.30 | 92.31 | | | | |
| 2. Tax Provision | | 0.11 | 0.4 | 0.09 | 0.3 | 0.01 | — | — | — | — | — | — | — | — | — | — | — |
| 3. Dividend | | 0.26 | 1.1 | 0.11 | 0.4 | 0.06 | 0.4 | 0.06 | 0.01 | 0.07 | 0.01 | 0.09 | 0.18 | | | | |

* Crore=10 Million.

The position after 1970 is yet to be studied, but, if anything, it will be more or less of the same pattern as for the years shown in the above statement, especially because of the progressive increase in the sugarcane prices being paid by the cooperative sugar factories.

I may also give another table based on a study by experts which shows the extent to which tax has been avoided by the cooperative sugar factories in Maharashtra, even after taking into consideration the higher sugarcane prices that should be paid as per the formula recommended by the Sugar Industry Enquiry Commission; Generally known as "Bhargava Commission Formula"; which envisages a division of excess realisation from free sale sugar on 50 : 50 basis; i.e. 50% of the profits is to go to cultivators as extra cane price over the price declared by the Central Government and 50% to go to Industry for paying dividend, Bonus etc.

| Season | No. of Coop Sugar factories studied | Excess Sugarcane price paid over S.I.E.C. formula | Income-tax avoided % 44.5% on the excess paid | Total additional amount that can be retained after tax payment for distribution as dividends, further additional cane prices or repayment of installation Government loans |
|---------|---|--|---|---|
| 1968-69 | 25 | 17.64 | 7.85 | 9.79 |
| 1969-70 | 28 | 5.65 | 2.52 | 3.14 |
| 1970-71 | 30 | 10.79 | 4.80 | 5.99 |
| 1971-72 | 30 | 27.96 | 12.44 | 15.52 |
| 1972-73 | 33 | 23.39 | 10.41 | 12.98 |
| 1973-74 | 33 | 28.29 | 12.59 | 15.70 |

The above table evidences the fact that the cooperative sector of the sugar industry in Maharashtra paid during the six years period 1968-69 to 1973-74, about Rs. 113.75 crores by way of cane price in excess of what should be payable as per the formula recommended by the Sugar Industry Enquiry Commission and in the process avoided Corporate

Income-tax to the tune of about Rs. 50 crores. On an average, it can be said, every year about Rs. 17.30 crores is paid as excess cane price and Rs. 8.40 crores of corporate income-tax is avoided. If the cooperative sector has paid higher cane price only to the extent of the said formula during the said period, it would have had to pay considerable amount to the Central Exchequer by way of Corporate Income-tax. If from the residual amount it had paid dividends to the shareholders the recipients would have been liable to pay personal income-tax and the labour would have got its legally due share of profit in terms of annual Bonus.

It was expected that through cooperative processing units and through a system of making the producer also the manufacturer of finished goods, we shall be releasing a new force of economic activity towards social transformation of the countryside. When we started with these cooperative ventures, we had announced from house tops that they will be a happy amalgamation of the employee's labour, the intelligent man's wisdom and the rich man of society's money. Instead, the cooperative ventures are fast becoming centres of reaction combining within themselves the worst aspect of exploitation and cheating the conscience of labour.

For all these reasons, it is my firm conviction that a central study of the entire functioning of cooperative system in India, vis-a-vis labour employed in it should be undertaken at the highest level with a view to checking up the unhealthy, un-democratic and corrupt practices which are on the increase along with the growth of political power. If the movement is intended for the uplift of the common man, then all socialist and democratically minded people and the Government must apply their minds for the purification of the movement so that it will truly remain a people's movement and may not turn into a new method of economic exploitation of our society and of political aggrandizement.

