



Organizational performance and management constraints of sheep and wool producers' co-operatives in Karnataka

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ABSTRACT

Co-operatives are democratic institution which brings together people across all section of the society having common economic and social interests. However, majority of the co-operatives failed to perform their basic roles and look towards government patronage. The present study was undertaken to examine the issues of performance and constraints of primary sheep and wool producers' co-operatives in the state of Karnataka. A sample of 50 randomly selected primary sheep co-operatives was studied in the Mysuru and Bengaluru region of Karnataka. The results revealed that sheep co-operatives were poor performers in providing service to members, cooperative production and market linkages. However, their performance was moderate in the domains of planning and administrative procedures, human resource management, financial management and membership strategies. Overall performance of the co-operatives although average but was more close towards red line of poor performance. Sheep co-operatives performance was constrained by so many endogenous as well as exogenous factors viz. lack of resource, poor market participation, lack of income, poor management, lack of communication etc. Thus these primary co-operatives have failed to perform effectively which was evident from the findings of the study. In order to make them function as viable and sustainable institutions, these co-operatives need to concentrate their energy to increase their market presence in near future and in long run they can also federate at the state level which provides them strategic advantage in mobilizing resources using this statewide network for the wellbeing of their members and larger community.

Key words: Co-operatives, Constraint quotient, Performance, Sheep and wool producers

Co-operatives are democratic institutions which brings together people from all section of the society having common economic and social interests. Co-operatives form important institutional arrangements to overcome the constraints faced by smallholders in the complex market situations in developing countries. Success stories of co-operatives and rural producer's organizations like Amul pattern of milk co-operatives and Mahagrapes (Narrod *et al.* 2009) are well known in India. However, majority of the co-operatives failed to perform their basic role and look towards government patronage. Small Farmers' Agri-Business Consortium (SFAC) in 2013 reported that many national level commodity specific growers association face the problem of lack of motivation, resources, communication, high joining fee and were ineffectual. Furthermore, poor often lack essential assets for successful cooperation such as basic education, management and

entrepreneurial skills, and financial capacity (Pingali *et al.* 2005). The number of co-operatives of small ruminants are less as compared to milk and sugar co-operatives in India and have received very little attention hitherto. Comprehensive studies on the performance and constraints of these organizations are lacking. Thus, the present study was designed to quantitatively analyze these issues of 'Primary Sheep and Wool Producers Co-operative Societies (SWPCS)' affiliated to Karnataka Sheep and Wool Development Corporation (KSWDC). The findings of the study may help the sheep co-operatives and their supporting agencies to evolve strategic framework for the development of these co-operatives.

MATERIALS AND METHODS

Primary Sheep and Wool Producers Co-operative Societies (SWPCS) in Karnataka were functioning for about five to fifteen years. Their area of operation extends to part of taluk with average membership size of 449. About 350 co-operatives are affiliated to Karnataka Sheep and Wool Development Corporation Ltd. The objective of the SWPCS is to provide inputs, procure outputs like wool, wool products and live sheep and sell them to buyers. A total of 50 such SWPCS which were functioning for atleast five

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years were randomly selected from three districts of Mysuru division (Mandya, Mysuru and Chamarajanagar) and Bengaluru division (Tumakuru, Ramanagara and Chitradurga) of Karnataka. From each cooperative, one office bearer and two members were selected randomly thus making the sample size of 150. Data were collected using Cooperative Performance Index (CPI) tool developed by USAID to assess the organizational performance of SWPCSs. The tool was slightly modified after consulting the experts to suit the context of the study. A semi-structured interview schedule was used to quantify the management constraints of the SWPCSs. Data were collected on nine indicators covering five domains to measure organizational performance of SWPCS using dichotomous question of yes/no type coded as 1/0 respectively. The results were quantified for each indicator by using integrated indexing equation developed as given below

$$S = \frac{1}{N} \sum_{n=1}^n \frac{X_n}{Y}$$

where, S, is the indicator score; N, total number of sub-indicator under each indicator; n, denotes nth sub-indicator (n = 1, 2, 3, ..., n); X_n, total number of 'yes' responses to nth sub-indicator; Y, total number of respondents. Then the indicators were considered as poor (S=0–0.33), average (S=0.37–0.66) and good (S=0.67–1.00).

Constraint quotient (CQ) for management constraints was developed by coding level of seriousness of each constraint in three point continuum. Not serious, serious and most serious responses for each constraint were assigned value of 0, 1 and 2 respectively and total constraint score (CS) for each constraint was calculated by using formula;

$$CS = x(0) + y(1) + z(2)$$

where, x, total number of 'not serious' responses; y, total number of 'serious' responses; z, total number of 'most serious' responses.

After constraint score calculation, Constraint Quotient was calculated using formula;

$$CQ = \frac{CS}{2 \times N}$$

where, N, total number of respondents. Constraints were classified based on the CQ value as most serious (CQ = 0.67–1), serious (CQ=0.37–0.66) and not serious (CQ = 0–0.33).

RESULTS AND DISCUSSION

Organizational performance of sheep and wool producers' co-operatives

All the co-operatives were either registered with Taluk or District Registrar of co-operatives and were affiliated to Karnataka Sheep and Wool Development Corporation limited. They all had required documentation, like copy of bylaws, copy of regularly scheduled meetings and its proceedings. With respect to planning and administrative

procedures (S=0.5), all cooperative prepared financial reports and their action plan was voted on by general body. They had short and long term action plan and their board members attended meeting regularly. However, no board member was trained in basic financial management, budgeting and report writing and no annual budget was prepared in any of the co-operatives. SWPCS did not have any administrative and operations manuals. In financial front they need to be responsible in order to truly benefit its members.

With respect to human resource management (S=0.38), general secretary was the only paid staff in all the co-operatives; SWPCSs did not have any other staff like operational manager or paid accountant. General secretary did not have any performance agreements with the cooperative. Every cooperative had grievances and conflict resolution procedures and they had utilized this mechanism when needed. Regarding financial management (S=0.43), albeit in all the co-operatives, no board member had been trained in cooperative supervision. They maintained all the necessary books of accounts and had clearly documented financial procedures. All documents were maintained on paper and there was no computerized accounting system. Financial reporting was timely produced and audited in only 56% of the co-operatives. Although external audit was conducted, there was no report of internal audit in any of the SWPCS. Since from the inception, all co-operatives were under loss and the amount of loss was communicated to members in general body meeting. As there was no surplus, no discussion was made about the surplus in the general assembly. Any member in the cooperative can access their financial reports and were made available at any time but they were not published and shared with members.

In all cases, the inputs applied to for sheep production remained more or less the same; in 35% of the cooperative members were trained to use inputs by KSWDC. But the co-operatives could not provide training and technical support on improved production methods to its members on their own. Due to lack of financial resources, they did not had any loan guarantee fund for its members. No cooperative had cooperative marketing committee to provide market information to its members. However, co-operatives had capacity to bulk and distribute all inputs to members but no inputs were provided from the co-operatives let alone quality assurance of inputs used by its members. Thus co-operatives fared poorly with respect to service provided to their members (S=0.28).

Facilitating linkages, access to alternative markets and developing relationships with key actors in the value chain is a very essential function of co-operatives. However, incapacity of the cooperative to develop linkages and business relations was evident by the fact that there was no cooperative production (S=0.016) of any commodities by any of the SWPCSs. Only 4% of the co-operatives procured wool from the members and sold it to weavers' co-operatives but no value addition was done. Other SWPCSs did not procure any of the members products like sheep and wool

and marketed them on their behalf. Market linkages ($S=0.006$) of the SWPCSs was very poor, they did not have any formal business contract with any market actors and hence there was no marketing committee or any market plan in any of the co-operatives. Thus, SWPCS did not make any attempt to develop any marketing materials or conduct market study to identify the market opportunities or client base.

It was observed during the study that membership strategies ($S=0.39$) were moderate; all co-operatives had clearly defined membership criteria but strategy for the member recruitment was not evident. This was mainly due to their inability to render quality services to all the members, poor market participation and financially status. Co-operatives could not undertake any survey of members' needs but their demands were expressed informally in general body meeting. However, their ability to meet their demand was very limited as the SWPCSs were not federated under any district or state level apex organizations. Co-operatives integrated the members' needs in their planning process, however, they were not capable enough to work the plan due to lack of financial and skilled human resources. Performance of the co-operatives in the economic front was very poor. The share capital of the SWPCSs was locked in the vaults of banks in the form of fixed deposits which earned nominal interest. No part of the share was invested in any business except for two co-operatives in Bengaluru division which were doing wool business. The little interest or profit earned was not sufficient to cover their administrative cost and thus no bonus was paid to members in any co-operatives since their inception. SWPCSs did not maintain any record of their member activities which could facilitate member to member business networking, but it happened through informal communication networks. Despite all these deficiencies, membership in 72% of the SWPCSs in the past five years had increased to avail the financial intermediary services provided by them. As far as training ($S=0$) was concerned, none of the co-operatives had member-trainers to train other members and no training was provided to potential member-trainers by the co-operatives from their own fund (Table 1).

Management constraints of sheep and wool producers' co-operatives

Economic constraints ($MCQ=0.99$) constitute a major obstacle in the management of co-operatives. The most important perceived constraint was lack of financial resources ($CQ=1$). The area of operation of SWPCSs was restricted to part of taluk and each covered no more than ten to fifteen villages. Consequently, the equity mobilized was too small to invest in any sustainable income generating activity to achieve aggregated welfare. Poor market participation ($CQ=1$) was other equally important constraint; only few co-operatives in Bengaluru division ventured into wool business but were not successful as their main buyers, weavers co-operatives were also under loss due to poor demand for woolen products. SWPCSs were

Table 1. Perceived cooperative effectiveness (n=50)

Perceived cooperative effectiveness	Score
<i>Legal status and cooperative planning and strategy</i>	
a. Legal status	1
b. Cooperative planning and administrative procedures	0.5
<i>Management structure and accounting system</i>	
a. Human resource management	0.38
b. Financial management	0.43
<i>Production and quality of inputs</i>	
a. Service to members	0.28
<i>Market linkages and business relations</i>	
a. Cooperative production	0.016
b. Market linkages	0.006
<i>Recruitment and member retention strategy</i>	
a. Membership strategies	0.39
b. Training of members	0
Cooperative performance index (CPI)	0.34

not engaging in any sustainable income generating activity ($CQ=0.96$), their only source of income was the little interest earned on their bank deposits. The paradoxical situation of high demand for small ruminant meat and low direct market participation of sheep farmers still continue to persist. Livestock markets are not regulated unlike Agricultural Produce Market Committee APMC markets, markets and value chains are infested by middlemen whose high commission eats into farmers' profit. In such an institutional environment, there is a huge scope for SWPCSs to place themselves strategically in the constellation of the multiple market actors.

Management constraints ($MCQ=0.52$) were second most serious factors of which poor management i.e. lack of management capabilities and skills ($CQ=0.76$) on the part of leadership was one of the main impediment for SWPCS to initiate any institutional changes. Poor knowledge-networking renders co-operatives incapable to identify market opportunities and orient their activities to meet the marked demands. SWPCSs had good informal communication among members and other SWPCSs, however, communication ($CQ=0.54$) with external actors was weak. Communication with KSWDC, banks, agriculture and veterinary universities, state department of animal husbandry was also poor and restricted to production related services only. Communication with market actors was almost absent. Consequently, SWPCSs could not efficiently fulfill their role as coordinator ($CQ=0.51$) in the knowledge, service and market networks. Free-riding is one of the destructive problems in collective action which reduces the efficiency and effectiveness of the co-operatives. Studies have shown that in a multi-level collective action if intragroup conflict is embedded in intergroup competition, it will markedly reduce free riding (Gunnthorsdottir and Rapoport 2006). SWPCSs had limited abilities to perform as competitive units with other market actors. Their active domain was distribution of chaff cutter, elite breeding rams,

Table 2. Distribution of respondents according to perceived management constraints and threats to co-operatives (n=150)

Constraint	Not serious	Serious	Most serious	Constraint quotient (CQ)	Major constraint quotient (MCQ)
<i>Economic constraints</i>					
Lack of financial resource	0 (0.00)	0 (0.00)	150 (100.00)	1	0.99
Poor market participation	0 (0.00)	2 (1.33)	148 (98.66)	1	
Lack of income	0 (0.00)	11 (7.30)	139 (92.70)	0.96	
<i>Management constraints</i>					
Poor management	11 (7.33)	85 (56.67)	54 (36.00)	0.76	0.52
Lack of communication	41 (27.3)	56 (37.3)	53 (35.3)	0.54	
Lack of coordination	40 (26.7)	66 (44.0)	44 (29.3)	0.51	
Lack of transparency	93 (62.0)	30 (20.0)	27 (18.00)	0.28	
<i>Social constraints</i>					
Free riding	47 (31.3)	63 (42.0)	40 (26.7)	0.47	0.26
Internal conflicts	97 (64.70)	27 (18.00)	26 (17.30)	0.26	
Political interference	108 (72.00)	27 (18.00)	15 (10.00)	0.19	
Lack of trust	114 (76.00)	29 (19.33)	7 (4.67)	0.14	

Figures in parenthesis indicate percentage.

deworming medicine, sheep/goat etc. provided by KSWDC and intermediation between financial institution and members. The members participate actively to access these services while remain passive with respect to economic and organizational activities, thus free riding (CQ=0.47) although at moderate level was a problem.

Members told that often office bearers concealed the information about some services they provide as these services were scarce and the eligible beneficiaries were more. These services were mostly accessed by the friends, relatives and close aides of office bearers. The lack of transparency (CQ=0.28) and elite capture deprive weaker members from equal access to services which often lead to internal conflicts (CQ=0.26) which consequently lead to the participatory exclusion of the disappointed members. Studies have shown that limited members' participation in organising, implementing and managing the cooperative's activities, contribute much to the failure of co-operatives (Braverman *et al.* 1991). However, lack of transparency and internal conflicts were not a major problem. Moreover, they had mechanism in place to address whenever these issues arise. However, in SWPCSs political interference (CQ=0.19) was minimal as these co-operatives were small and financially weak; but involvement was active during elections to local bodies and legislative assemblies (Table-2). Trust strengthens credible commitment for joint activities (Keefer and Knack 2005). In rural settings, localities develop strong ties due to stable populations and longstanding residents, which are thought to provide the opportunities for intimacy and trust to develop in social relations (Kalantaridis and Bika 2006). In SWPCSs, trust was not a problem, as the group was small and members knew each other personally. Trust may offer soft platform to co-operatives and external actors to initiate development activities (Sligo and Massey 2007) but it poses greater risk of stagnation, feuds and over-support of weak members (Atterton 2007) which reflects in poor management and

performance. Thus, although social constraints (MCQ=0.26) were present in the co-operatives, they were not very serious.

It was evident from the study that performance of the SWPCSs although average (CPI = 0.34), but they were poor performers in the areas of training to members (S=0), market linkages (S=0.006), cooperative production (S=0.016) and service to members (0.28) which are the core functional elements of the co-operatives. The performance was constrained by various factors of which economic (MCQ=0.99) and management (MCQ=0.52) constraints were dominant factors, however, social (MCQ=0.26) constraint was not found to be a serious one. Thus, sheep co-operatives have failed to fulfill their social and economic objectives effectively. In view of these facts, it can be recommended that in the short run co-operatives should concentrate their energies in capacity building of the members and start income generating activities. In the long run, SWPCSs should federate at district and state level so as to enable them to mobilize the human and financial resources and participate in the lucrative meat market to promote the wellbeing of their members and larger society.

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