



## THE HUMAN RESOURCE CHALLENGES AND CO-OPERATIVES' COMPETITIVENESS

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### ABSTRACT

*The role of the co-operatives' sector in socio-economic development in Africa cannot be underestimated. There are several factors that lead to improved co-operatives performance and competitiveness. This paper explores the HR factor in the co-operative competitiveness. Through the review of the existing literature on HR, co-operatives' competitiveness and social capital concept, the paper reports co-operatives as social capital given the interrelation between co-operative's seven principles and social capital's three dimensions. In regard, to co-operative competitiveness, the paper hypothesises that the three major HR challenges revolve around employee abilities, motivation and opportunities to participate – the AMO model. These the key factors affecting co-operatives' competitiveness. Thus, it is recommendable that two sets of HR practices be enhanced in co-operatives – training and compensation, and motivation and participation of employees. The paper's originality is in proposal of a new co-operatives' competitiveness model, HRAMO-SRC model, which is recognises the difference in the nature of co-operatives compared to the manufacturing industry, which is grounded on the AMO model.*

**Keywords:** HR, co-operatives, social capital, AMO model, HRAMO-SRC model, abilities, training, motivation, opportunities

## **1.0 Introduction and background information**

### **1.1 Introduction**

The economic development of many countries today can be attributed to the substantial contribution of the growing co-operatives movement. International Co-operative Alliance (ICA) define as co-operative as “an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations, through a jointly owned and democratically controlled enterprise” (Birchall & Ketilson, 2009). Co-operatives are recognised as important mechanism for socio-economic development (Emana, 2009), given their unique characteristics relative to other (investor-oriented) businesses (Ortmann & King, 2007), especially as bonding, bridging and linking social capital organisations (Karlsson, 2012; Keeley, 2007; Hong & Sporleder, 2007). For instance, the ICA Report (2006, cited in Mutua, et al., 2013) indicates that, the Kenya’s co-operatives sector contributes to about 45 percent of the national gross domestic product and 31 percent of the total national savings and deposits.

This is because of the co-operative’s identity, values and principles. The seven co-operative principles are: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training and information; cooperation among co-operatives; and concern for community (ICA, 2012). In upholding such co-operatives principles, for co-operatives’ role in development, appropriate co-operative structure and systems must be in place. One of the key structure and system that should be in place is the human resources (HR). The HR factor is among the key factors for co-operatives’ success (Mutua, et al., 2013). This supports the overall observation by Khan (2010) that, there is a significant positive relationship between HR practices and organisational performance and competitiveness.

Management of HR within organisations ensure the development of “people and their relationships at work” (Stanley & Albin, 2013, p. 209). According to Armstrong and Taylor (2014), human resource management (HRM) aims to: “support the organisation in achieving its objectives by developing and implementing HR strategies that are integrated with the business strategy (strategic HRM); contribute to the development of a high-performance culture; ensure that the organisation has the talented, skilled and engaged people it needs; create a positive employment relationship between directors and employees and a climate of mutual trust; encourage the application of an ethical approach to people management” (p. 5-6). Generally,

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HRM is aimed at to build an organisation in achieving its objectives with the ‘right persons’, in the ‘right positions’ and at the ‘right period’.

Therefore, the recruitment, development and wellbeing of the people in an organisation, including co-operatives, cannot be underestimated. This is because, such people’s efforts, knowledge, capabilities and committed behaviours, is tenable to contribute to a co-ordinated human enterprise, such as a co-operative, to carry out related tasks in a way which enables the organisation to perform and be effective.

## **1.2 Background information**

There is a remarkable development of the co-operative movement both in the size and diversification of business activities. The movement cuts across various industries, including financial, marketing, processing, industry, housing, consumer, investment, and service. Characterised by democratic management, co-operatives are recognized as idyllic socio-economic organisations for rural development. This is because of their capacity to reach and involve the masses and benefit them, in increasing production and productivity without unpleasant effects of concentration of wealth in the hands of a few (Mallikarjuna, 2014).

This headway, especially in certain sectors like agriculture, is also helping in dispelling the notion of the unsuitability of co-operatives for a big industrial function (see Megyesi, et al., 2010; Lizzaralde, 2009). Co-operatives are not only diversifying their activities but they are also growing in size, both vertically and horizontally. This makes them become complex business instruments requiring all the tools and techniques of modern management for their success. According to Hansen, et al., (2002), such success mitigates the effects of trust on co-operatives’ performance and competitiveness.

According to Mallikarjuna (2014), lack of trained and motivated HR to manage co-operatives’ affairs on efficient business lines, is one of the constraints in co-operatives’ performance and competitiveness, exhibited by weak structural relationships with limited management experiences and skills. Therefore, the planned development aspect of HRM is significant, in the context of co-operatives’ performance and competitiveness, for their role in the integrated socio-economic development.

In the above respect, profound understanding of HR in respect to co-operatives need more analysis. This content analysis study reviews literature on HR and co-operatives performance and competitiveness.

## 2.0 Literature review

### 2.1 Contemporary co-operatives as social capital organisations

Co-operative business community view the qualities of successful co-operative enterprise management to be unique, relative to other (investor-oriented) businesses. This is in light to the social capital dimensions of co-operatives as illustrated in the Table 2.1 below. Putman (2000) argues that “social capital refers to features of social organisation, such as networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit”. In essence, this resonates to the seven principles guiding co-operatives, as highlighted in Section 1.1.

**Table 2.1: Social capital elements of co-operatives**

| Social capital dimensions   | Related co-operative principles  |
|---|--|
| <b>Structural dimension:</b> Involves the composition, connection, and communication patterns among co-operative stakeholders, their links, arrangements and stability in working together given their common bond - proximity and similarity (Stone, 2000).  | Principle 1: Voluntary and open membership; Principle 2: Democratic member control; and Principle 5: Education, training and information |
| <b>Relational dimension:</b> Involves mutual trust among co-operative stakeholders. Confidence is a key factor in facilitating effective interactions between stakeholders. Examples such as the members trust of each other, the willingness to co-operate with the co-operators with opposite point of views in a co-operative, and the extent to which co-operative members can count on their fellow co-operators, indicate the level of mutual trust among a co-operative’s members (Jackson, et al., 2006). | Principle 4: Autonomy and independence; and Principle 7: Concern for community   |
| <b>Cognitive dimension:</b> Involves the stakeholders’ understanding, beliefs and perceptions of the member economic participation, and the extent of the co-operation tendency among co-operatives.  | Principle 3: Member economic participation; and Principle 6: Cooperation among co-operatives   |

Source: Adapted from Hong & Sporleder (2007)

According to Grootaert and Bastelaer (2001), structural social capital facilitates information sharing, and collective action and decision-making through established roles, social networks and other social structures supplemented by rules, procedures, and precedents.

Cognitive social capital, on the other hand, “refers to shared norms, values, trust, attitudes, and beliefs”. The trust among and between co-operatives’ stakeholders (members, management staff, and external stakeholders) is one of the positive links to co-operatives’ performance and competitiveness (Liang, et al., 2015). The show of trust is significant if the organisation is to achieve competitiveness through HR.

However, contemporary co-operatives are facing a decrease in trust in various ways (Valetinov, 2004). According to Nilsson, et al., (2012), co-operatives are becoming more similar to capitalist business organisations in terms of both internal governance and external activities. Members joining co-operatives are placing more value on the offensive economic orientation and benefits than defensive social orientation and benefits. The return on economic capital exceeds the return from social capital, as the size of co-operatives expands. The expanding size or types of co-operatives is leading to shakier relationships between members and the management staff, which causes a change in member attitudes toward co-operatives (Feng, et al., 2011; Nilsson, et al., 2012), hence, relaxed member commitments, and draining of member collective orientation.

The observed shaky relationships between co-operative members and the management staff, may be attributed to the related human resource challenges – as discussed in the subsequent sub-section.

## **2.2 Human resource challenges in co-operatives**

HR structure in co-operatives seem to be unclear with interrelationship between the membership, board of directors and the management staff. There are various unique HR challenges in co-operative organisations ranging from attracting and maintaining quality HR, succession of management and key HR, and aligning the incentives of managers and employees with co-operative members’ interest.

Human capital at the management level is essential for strategy development (Kiptoo & Mwirigi, 2014). However, planning function in co-operatives is unique when compared with other business models. According to Boland, et al., (2011), strategic planning in a company is usually the role of the management staff, but in co-operatives, the board of directors represents the general membership and thus accountable to it for clarifications of corporate actions. In this regard, co-operative’s board of directors are obliged to play a critical role in assessing their co-operative’s competitive environment, setting the objectives for the co-operative to achieve, and

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setting the required general resources utilisation guidelines to implement a number of steps to achieve those objectives.

Additionally, co-operative planning may be connected to the economic rationale of co-operative creating itself. Because the board of directors are elected from the co-operative membership, their respective succession planning is complicated by term limits and low or non-existing remuneration, which often leads to boards' continual turn over (Froelich, et al., 2011). According to Boland, et al., (2011), the succession of the co-operative's manager is another critical issue. The trio found out that co-operatives may hire management staff who do not have direct experience with the co-operative business form, and say company. This becomes a challenges considering that co-operative managers need to operate under a different objectives set, harmoniously work with a board of directors consisting of co-operative members, and have a more closely and constant communication relationship with their member-customers. Hence, in most cases, this places more emphasis to co-operatives on development of internal talents.

A co-operative's HR are central to its success, since they may be the primary means by which the member interacts with the co-operative. However, obtaining and developing qualified HR is a challenge for co-operatives. For instance, there are related difficulties of attracting employees to rural areas where most co-operatives are established (Boland, 2010).

Moreover, the knowledge, skills, and abilities of the co-operative employees to the member-stated objectives contribute value to the co-operatives' performance and competitiveness. But co-operative employees' capacity is still a concern. The principles of training and personnel development are underemphasised for co-operative performance and competitiveness strategy (Boland, et al., 2011).

Finally, co-operatives also encounter other traditional challenges with their employees as well. For instance, and obviously, margin structure and profit levels do impact employees' compensation levels, whilst access to debt capital affects the efficiency by which employees use financial assets (ibid).

To conclude, co-operative's HR are challenged in abilities, motivation and opportunities to participate. This in agreement with various scholars (see Nilson, et al., 2012; Westlund & Adam, 2010), delimits the co-operatives' social capital, which is the bedrock of co-operative's performance and competitiveness.

### 3.0 Conclusion and Recommendations

#### 3.1 Conclusion

Despite the potential significance of co-operatives, the reality of HR in co-operatives is that the people are still undervalued, not adequately trained, underutilised and poorly motivated and consequently perform well below their true capability (see Shilpika, 2012, p. 612). In essence, the gloomy picture of the co-operatives' HR function is painted by such issues (Batti, 2014) as: misunderstood co-operatives structure and strategy sometimes exhibited by leadership crisis that may affect staffs' abilities; challenged acquisition and retention of competent staff; inadequate HR policies or procedures guidelines for incentives, benefits and performance reward, and induction and coaching; mismatching of employee qualifications with available job positions, to balance with organisational needs; inadequate HR management skills among the board of directors; inadequate capacity to manage a workforce diversity; inadequate career development opportunities. These co-operative HR issues can be categorised into the intertwined abilities, motivation and opportunities (AMO model), which erodes or promotes co-operatives' social capital dimensions of structure, cognition and relations for performance and competitiveness.

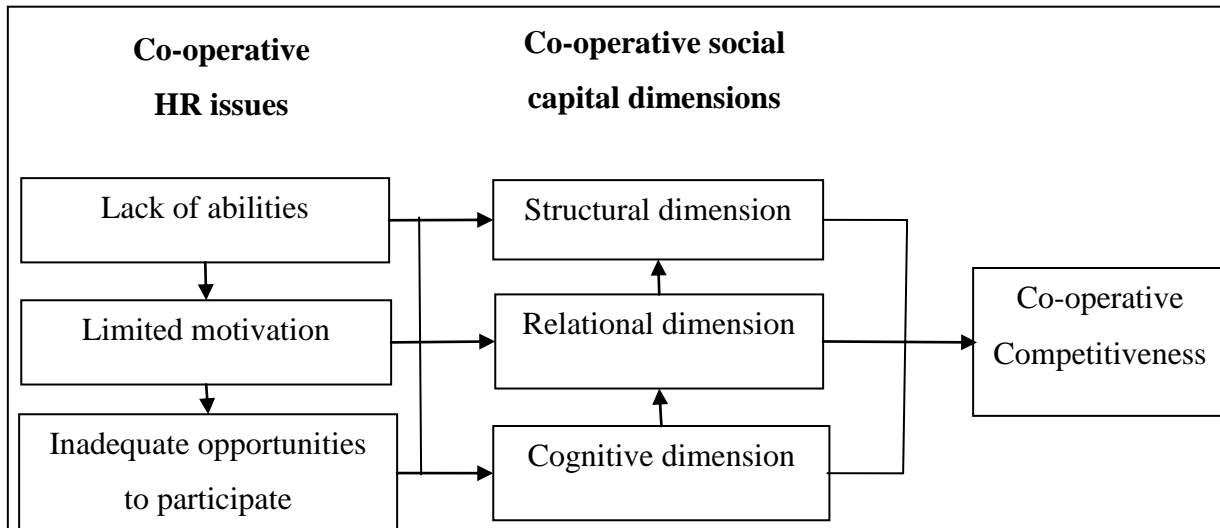


Figure 3.1: HR issues and the co-operative social capital dimensions

Source: Author

The AMO model, from the manufacturing industry perspective, establishes that performance and competitiveness is equal to the employees' Ability, Motivation and Opportunity to participate (Appelbaum, et al., 2000).

### **3.2 Recommendations**

In the today's era of high business competitiveness, co-operatives "cannot afford to bear the loss of potential human resource" (Ulah & Yasmin, 2013, p.2). Co-operatives' management need to be more powerful and more independent (Bijman, et al., 2013), through adoption of professionalism and emphasis of principle-agent based than community and trust based management (Liang, et al., 2015). This is able to contribute to the innovation and market orientation of co-operatives, hence their performance and competitiveness. Simply, as compared to other organisational resources such as finance, human resources have the capability to create competitive advantage for their organisations. Therefore, the following recommendations on the intertwined HR practices – training and compensation, and motivation and participation - are made for co-operatives competitiveness (Chisholm & Nielsen, 2009).

#### **3.2.1 Training and compensation**

Training is an essential activity of HRM, intended to prepare individuals and work teams for daily tasks. Collins and Smith (2006) found that training of employees increases mutual confidence and cooperation. Training is a significant activity because it needs to schematise and improve the existing employees' abilities. Through training and interaction, co-operative employees acquire skills that increase their confidence and ability to work and participate in business activities (Majee & Hoyt 2009). The training programs can be an important resource for preparing employees to cope with job demands. According to Ralević, et al., (2015), the readiness and availability of individuals to engage in their roles is dependent with their coping strategies mechanism with various demands. This resonate with structural and relational dimension of social capital of a co-operative as illustrated in Table 2.1.

Training of co-operative HR can increase the influence of organisational culture of integration as also co-operative member-owners – aligning employee values with co-operative (see Hodgetts & Luthans, 2003). This will enhance co-operatives' image, reduce staff turnovers, and in turn improve co-operatives' performance (Ralević, et al., 2015). Improving the HR knowledge, skills and abilities by training is important.



The full development and utilisation of co-operative HR, will lead to possible adequate compensation for achieved employees' performance and thus stimulate their motivation. Compensation and motivation are HR practices, required to enable the co-operatives to exploit the total potential of their HR. Compensation will provide the alignment of interests between the co-operatives and their employee based on the work performance assessment. According to Ralević, et al., (2015), employees will contribute to the achievement of co-operative objectives if they believe that their engagements are contributory in the co-operatives' competitiveness.

### **3.2.2 Motivation and participation**

Motivation – the willingness of an individual to do efforts and take action towards organisational goals – is a powerful internal drive that reinforces and satisfies employee behaviour by meeting an unsatisfied physiological or psychological need and triggers or stimulate their tendency to continue and perform. It is therefore essential for a manager to understand what really motivates employees, without mere assumptions (Dobre, 2013). This is in perspective of Kalimullah's (2010) argument that, a motivated employee has his/her goals aligned with those of the organisation and directs his/her efforts in that direction. This resonates well with the relational and cognitive dimension of social capital of a co-operative as illustrated in Table 2.1.

In essence, co-operatives will be more successful, as their employees continuously look for ways to improve their work in respect to increased productivity and member-customer satisfaction in respect to the co-operative principles. Getting the employees to reach their full potential at work under such co-operative stressful conditions is a tough challenge, but this can be achieved by motivating them. Co-operatives' manager should find the means to generate and sustain employee motivation; meeting diverse needs, such as physiological needs, safety requirements and self-actualization needs. Further, employees should be appreciated and involved in decision-making for enhanced enthusiasm, loyalty and trust in co-operatives.

As such, there is need to develop policies that should allow employees to be also co-operative shareholders in respect to co-operative principles. This will enhance interaction and participation of employees (now also shareholders) to build trust among them and other stakeholders members (Majee & Hoyt, 2009). Moreover, Majee and Hoyt (2010) found that when members (including the employees) jointly own their business and share the returns, they

are more inclined to participate. Being a co-owner of a co-operative, makes one more committed and interested in the wellbeing of their co-operative organisation.

On the above hypotheses, there is need for co-operatives to become more sensitive and pro-active in understanding the HR challenges and offer more support to build capacity in employees to be able to be integrated in the co-operative structure's common bond (proximity and similarities), relate in trust and confidence with other co-operative stakeholders, and be cognitive of the co-operative principles and values for co-operative's objective achievements.

### **3.3 Study limitation and future studies**

Unlike the AMO model of performance of the manufacturing industry (Appelbaum, et. al., 2000), the HR in co-operatives leads to a higher model of performance and competitiveness. The author refer to this as “human resources’ abilities, motivation and opportunities (HRAMO) to involve in structure, relations and cognition (SRC)” of co-operatives. In summary, this is the “HRAMO-SRC model of co-operative competitiveness”. This, therefore, calls for an empirical co-operative study to test the hypothesis and fully develop the proposed model in Figure 3.2 below.

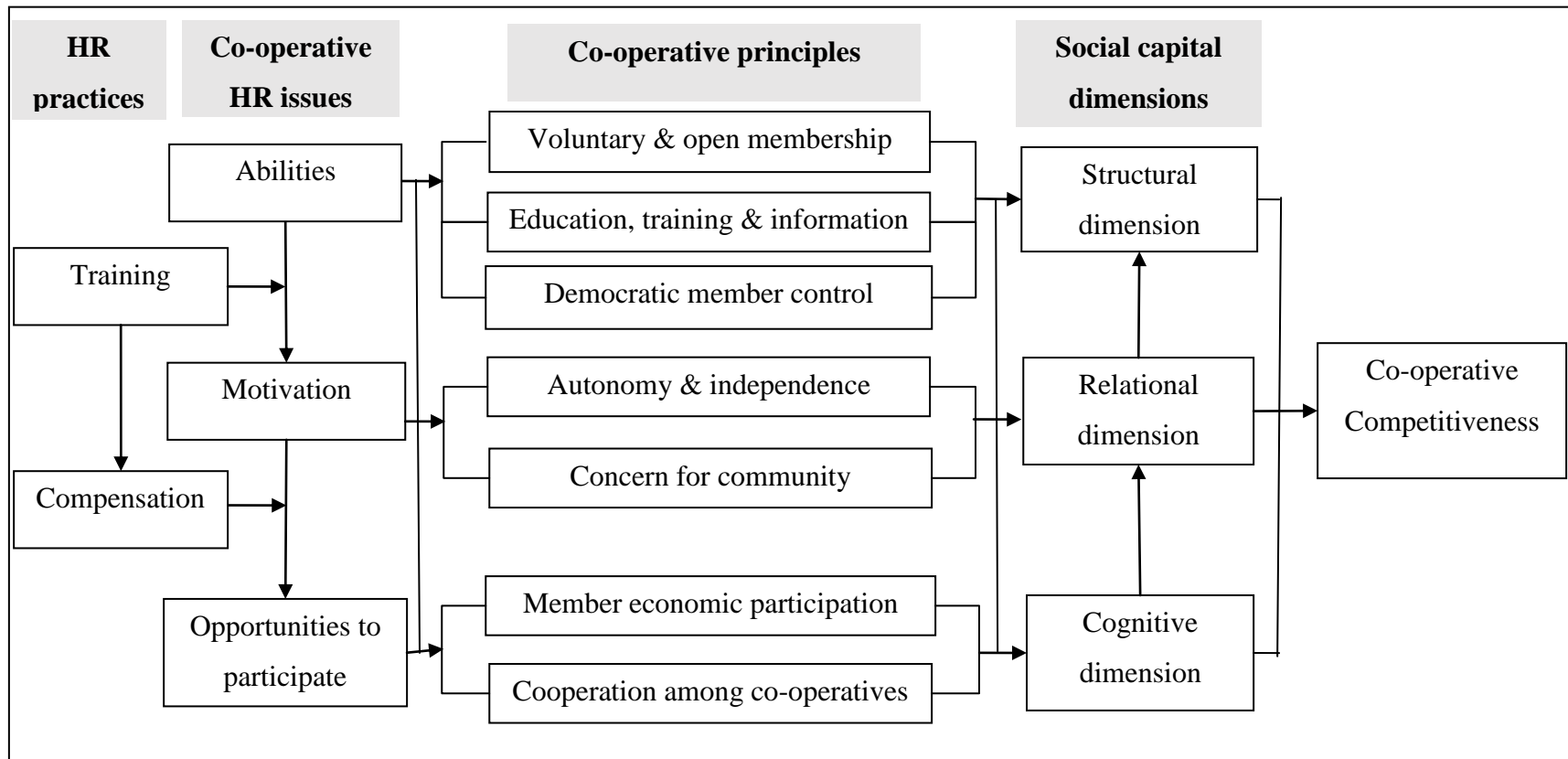


Figure 3.2: HRAMO-SRC model of co-operative competitiveness

Source: Author

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