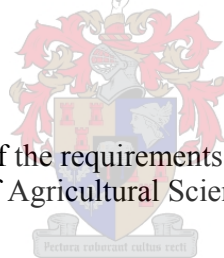


An appraisal of the impact of membership characteristics on the pursuit of cooperative governance: a case study of wine cooperatives in the Western Cape

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Thesis presented in partial fulfilment of the requirements for the degree of Master of Agricultural Management in the Faculty of Agricultural Sciences at Stellenbosch University



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DECLARATION

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ABSTRACT

The South African wine industry has gone through a difficult period of having to undergo major changes, most markedly in respect of its economic structure and institutional framework over the last twelve years. The reintroduction of the wine industry to the world markets has brought wide-ranging opportunities, as reflected by the increase in the number of exports. However, such a reintroduction has also brought pressure to bear in terms of both local and international competitiveness. The increased pressure on the industry has resulted in serious effects on the wine producers concerned, both in terms of meeting the international standards and in terms of having to cope with sophisticated consumer needs. The current study assesses to what degree, if any, membership characteristics impact on wine cooperatives in South Africa. The central question to be addressed is whether the characteristics of members who are involved in the governance structures of wine cooperatives impact on the manner in which cooperative governance is pursued.

To address the research question stated above, the study used a list of wine cooperatives obtained from Wines Cellars South Africa (WCSA), which captured the relevant data relating to all the existing wine cooperatives in 2006. From the list, 46 wine cooperatives were randomly selected. Representatives of some of the cooperatives were sent questionnaires by email, with the representatives of other cooperative being personally interviewed. A qualitative analysis, making use of the Likert Scale method, was performed. The analysis made use of 16 belief statements to determine the degree of belief held in such statements, in order to ascertain the general degree of understanding regarding those membership characteristics that could potentially influence wine cooperative governance. A quantitative analysis was performed, using Statistica Version 8 to ascertain the possible relations between certain factors (variables). Of the 16 variables which were selected for the analysis, only 8 variables showed positive and significant relations.

The results obtained in the study showed a high degree of investment-related incentive problems (caused by conflicts of interest, due to the different returns acquired by the members and their diverse risk profiles), as well as a high degree of decision-related incentive problems (caused by the influence of education, occupation and experience on the decision-making process). The study also attempted to ascertain the general perception of collective action approach in the wine industry. The assessment revealed that sentiments relating to the collective action approach in the wine industry still exist. The

results of the quantitative analysis showed the relations existing between eight different variables to be influential factors in relation to the decision-making process. Furthermore, the study used New Institutional Economics of property rights and agency theories to confirm the agency dilemmas existing within the wine cooperatives. Such theories, together with their possible effects on the pursuit of cooperative governance, are addressed towards the end of the study. Generally, the study shows that differences in membership characteristics can lead to different levels of member expectations, resulting in steering the organisation in different directions during the decision-making process.

OPSOMMING

Die Suid-Afrikaanse wynbedryf het 'n moeilike tydperk van grootskaalse veranderinge oor die afgelope twaalf jaar beleef, soos waarneembaar uit die veranderinge in sy ekonomiese struktuur sowel as institusionele raamwerke. Die hertoetreding van die bedryf tot die wêreldmark het uitstekende geleenthede in terme van uitvoering gebring, maar dit het ook druk op die bedryf geplaas om meer mededingend te wees plaaslik en internasionaal. Die toenemende druk op die bedryf het ernstige gevolge vir wynprodusente beide in terme van die voldoening aan internasionale standaarde en om aan gesofistikeerde verbruikersbehoefte te voorsien. Hierdie studie ondersoek die impak van lede-eienskappe van wynkoöperasies. Die vraag is of die eienskappe van die lede van die koöperasies se bestuurstruktuur 'n invloed het op die wyse waarop die koöperasie bestuur word.

Om hierdie navorsingsvraag aan te spreek, het die studie 'n lys van wynkoöperasies van Wynkelders Suid Afrika (WKSA) gebruik, wat al die bestaande wynkoöperasies in 2006 gelys het. Ses en veertig wynkoöperasies is ewekansig gekies. Vraelyste is per epos gestuur en persoonlike onderhouds is met ander gevoer. 'n Kwalitatiewe analise is gevolg deur die gebruik van 'n Likertskaal metode wat bestaan het uit sestien stellings om te bepaal hoe sterk sekere opinies gehuldig word. Sodoende kon 'n algemene indruk verkry word van die lede-eienskappe wat potensieel die bestuur van die koöperasie kon beïnvloed. 'n Kwantitatiewe analise is ook gedoen deur die gebruik van Statistica 8 om die moontlike verhoudings tussen sekere faktore of veranderlikes te bepaal. Sestien veranderlikes is gekies vir hierdie analise en slegs agt veranderlikes het positiewe en betekenisvolle verhoudings getoon.

Resultate toon baie beleggingsverwante motiveringsprobleme (wat veroorsaak word deur konflikterende belange as gevolg van verskillende opbrengste verkry deur lede en hul diverse risikoprofile) en besluitnemingsverwante motiveringsprobleme (veroorzaak deur die invloed van opleiding, betrekking en ervaring in die besluitnemingsproses). Die studie het ook probeer om die algemene persepsie van die koöperatiewe benadering in die wynbedryf te bepaal. Die assessering wys dat sentiment oor die koöperatiewe benadering die wynindustrie steeds bestaan. Die resultate van die kwantitatiewe analise het verhoudings getoon tussen agt veranderlikes as invloedryke veranderlikes tot die besluitnemingsproses. Verder het die studie die 'New Institutional Economics' van eiendomsreg gebruik en agentskap teorieë om die dilemmas van agentskappe binne die wynkoöperasies te bevestig. Hierdie dilemmas word aan die einde van die studie aangespreek tesame met hul moontlike effek op

die uitoefening van koöperatiewe bestuur. Oor die algemeen wys die studie dat verskille in lede eienskappe kan lei tot verskillende vlakke van lede verwagtings en daarom, die stuur van die organisasie in 'n ander rigting gedurende die besluitnemingsproses.

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ACRONYMS

AGM	Annual General Meeting
BLNS	Botswana, Lesotho, Namibia and Swaziland
DoA	Department of Agriculture
DTI	Department of Trade and Industry
GA	general assembly
KWV	Kooperatiewe Wijnbouwers Vereniging
NIE	New Institutional Economics
SACU	South African Customs Union
SAWB	South African Wine and Brandy Company
SAWIT	South African Wine Industry Trust
TDCA	Trade Development Cooperation Agreement
Wintech	Wine Industry Network for Expertise and Technology
WIP	Wine Industry Plan
WITC	Wine Industry Transformation Charter

CHAPTER 1: INTRODUCTION

1.1 Background

The South African grape and wine farmers have a long history of operating as cooperatives. This period of operation has led to the development of the wine industry into the competitive sector. Part of this success has been the loyalty of its members and the use of the collective approach as a tool to circumvent market risk through its bargaining power. As the time progresses more and more of farmers became developed and simultaneously with the changes in political and environmental challenges.

As discussed with Bruwer (2005), changes in the political and economic environment of the wine industry have led to increasing uncertainty and conflicts of interest among the member farmers and the management of the various wine cooperatives. Van Rooyen (1998) note that the provision of economic and financial benefits to cooperative members is one of the crucial elements for ensuring the survival and development of cooperatives, though it is not a sufficient condition for their success. He further argues that the link between member ethics and values and the primary cooperative organisation must be protected and fostered to ensure a sound basis for cooperation, ownership and member participation. A closer look at member participation, with particular reference to the processes involved in reaching economic decisions, is, therefore, critical to securing an understanding of which members' characteristics and activities influence the decision-making process.

Membership characteristics are defined by Bandiera *et al.* (2004) as the typical features of different members of the same organisation. The level at which the individual features vary determines the degree to which the members cooperate with one another (Bandiera *et al.* 2004). Bandiera *et al.* (2004) further argue that the influence of the different membership characteristics has a potential to exert externalities on other members, and, as a result, any conflict of interest existing among the members can be seen to emerge. An example of such conflict of interest is the use of common property resources, in terms of which the action of an individual imposes negative externalities on others. Another example of such conflict of interest occurs in the case of the provision of a public good, in terms of which the actions of individuals impose positive externalities on others, in regards to such factors as knowledge and experience. The success of membership-based organisations depends on the members' ability to refrain from individually profitable actions for the sake of the common good of

their organisation Cook (2003). Membership-based organisations are defined by Cook (2003) as institutional forms that base their operations on the attributes such as individual ability, traditional solidarity and cooperation between the individuals concerned.

These attributes are termed in this study as ‘membership characteristics’ to refer to things members hold and ‘do’ (and ‘do not do’) on more or less regular basis. Thus, an individual character could be when each member engages in similar actions over time and/or if many members act in a particular way. When managing these individual’s characters organisations tend to use the hierarchical powers. These levels vary and depend on the type of organisations. The focus of this study is on cooperative organisations, which are also defined as structured membership-based organisations by Bandiera *et al.* (2004).

Hanel (1992) traces the history of cooperative organisations as institutional forms from the beginning of the Industrial Revolution in Europe to the end of the 18th century. Consequently, analysts of European history often term such institutional forms ‘pre-industrial’ or ‘historical cooperatives’. In contrast, the sociological and socio-political approaches refer to such institutional forms as structured organisations that are based on existing social systems and communities. Such organisational forms are taken as being cooperatively structured, provided that the relationships between the individuals are characterised by solidarity and cooperation, as well as that the socio-political and economic power is more or less equally distributed among the members. Such cooperatively structured communities or groups are distinguished from other more hierarchically organised ones, in which power structures are more or less concentrated in certain individuals or subgroups (Hanel, 1992).

In the light of such an organisational structure, Kuhn (1990) highlights various institutional forms that define the historical and traditional cooperative structures and their institutions. Such forms include those to be found in European history, in terms of which the early land tenure system of Germanic tribes can be defined as a cooperative agrarian system, in contrast to feudal land tenure systems. Furthermore, Kuhn (1990) argues that the guilds of artisans and traders that existed in the Middle Ages, as well as various forms of communal maintenance of forests and dams, have been characterised as cooperative in nature. The same is true for the developing countries, in which tribal systems, extended families, local communities, and, in particular, various forms of mutual help and indigenous cooperation have been identified as cooperative (Kuhn, 1990).

Although historical cooperative institutions are distinguishable from modern cooperatives, there seems to be sufficient evidence to support the opinion that forms of traditional self-help and cooperation can be favourable for the initiation and diffusion of modern cooperative organisations. The distinction is in line with the social perspective that claims that more cooperatively structured communities provide more favourable conditions for the evolution of modern organisation- and cooperative-based movements than do hierarchically structured societies (Hanel, 1992).

Modern cooperatives have predominantly been established in the rural regions of most of the developing countries: in particularly organisations which have been registered in terms of cooperative laws, and which are, consequently, termed 'cooperatives' (Kuhn, 1990). Such cooperatives are mostly terminologically distinguished from autochthonous forms of cooperative organisation, which operated according to customary laws, as well as from those modern cooperatives that are not registered under laws pertaining to cooperatives (Kuhn, 1990).

In South Africa, common distinctions are often made between 'commercial' and 'emerging' cooperatives. Historically, before the promulgation of the Co-operatives Amendment Act No. 37 of 1993, a large number of commercial (white) cooperatives were established, predominantly in the white-owned farming areas, and registered under the various Cooperative Acts, beginning with the Co-operative Societies Act No. 28 of 1922. In contrast, most of the emerging (black) cooperatives were registered under legislation passed by the various homeland governments (Amin & Bernstein (1996) and Ortmann & King, 2007).

Such classification reflects the history of colonialism and racial segregation in South Africa. For example, from the 1920s to the 1930s, cooperatives were created and promoted to protect the more vulnerable section of the white population, who were faced with the prospect of having to leave the land because they could not compete with other larger farmers (NDA, 2004). With the help of the government, such cooperatives gained much support (in both ideological and material terms) in the form of enabling legislation; political solidarity; consultation networking; and access to resources (such as credit, land and training), incentives, subsidies, advice, and monopoly markets (DTI, 2004).

As a consequence, such cooperatives became a powerful lobby for agricultural and gained a virtual monopoly of power in key agricultural sectors. Their strength came from the amount of financial support that they received from the Land Bank, as well as from their capacity to influence those marketing boards that regulated prices until after 1994 (Phillip, 2003). The later deregulation of the

agricultural sector culminated in the promulgation of the Marketing of Agricultural Products Act No. 47 of 1996, in terms of which the controlled marketing system, under the overall control of a regulatory board, was abolished. Several cooperatives including those in the wine industry then strategically positioned themselves in line with the globalisation and democratisation of the country as a whole (Ewert, *et al.* 1998 and Ortmann & King, 2007). Such development has resulted in a number of different responses, such as the privatisation or transformation of the cooperatives into companies, and the modification of the cooperative way of doing business (Ewert *et al.* 1998). Undoubtedly, the success of such cooperatives played a strategic role in the development of the agricultural economy of South Africa: they were responsible for supporting most agricultural production and the exports trade. According to Amin and Bernstein (1996), their success can be contrasted with the poor experience of the emerging cooperatives that were registered under legislation passed by the various homeland governments.

Recently, wine cooperatives have been regarded as institutions that are impeded by several inhibiting factors, as a result of which the prevalence of such factors was seen as problematic to successful cooperative governance. A key problem is the nature of membership groups (Amin & Bernstein, 1996). Dakurah *et al.* (2005) found that membership groups in organisations are often largely heterogeneous, even when members have similar goals for their cooperatives. For example, even though the members of organisations might share the same goals and come from the same area, there might still be some marked differences among them (Dakurah *et al.* 2005). Such differences might include the level of experience in farming or education, which can influence the related decision-making and entrepreneurial capabilities, as well as different behavioural intentions, which might be caused by the attitudes of members towards the organisation (Dakurah *et al.* 2005).

The attitudes that people hold towards an organisation influence their behaviour towards that organisation. In terms of the dictum of *ceteris paribus*, the more positive the attitude is that one holds towards an organisation, the more likely it is that the person will patronise, or use a service provided by, it. As democratic organisations, cooperatives rely on being patronised by their members for them to be able to realise their distinctive character; Dakurah *et al.* (2005) note that a vital part of any cooperative's success is the loyalty and active participation of its members.

According to Dakurah *et al.* (2005), the strength of a cooperative organisation depends upon its members' ability to mobilise its resources, and not only to gain market share and to achieve economic growth, but also to maintain member commitment. In addition, the ability of a cooperative to meet its

members' expectations depends on whether the management concerned is able effectively to evaluate membership needs. Satisfied and highly committed members are likely to support their cooperatives by participating in all cooperative activities. However, dissatisfaction might significantly discourage members from participating in such activities. According to Dakurah *et al.* (2005), often a cooperative management tends to fall short on evaluating members' needs, due to the notion of 'assumed similarity', in terms of which the cooperative officials mistakenly believe that the interests of the general membership are similar and that, therefore, there is no need for on-going evaluation. The next section unpacks problems that are perceived to lie within the ambit of cooperative governance, thus forming the cornerstone of the present study.

1.2 Statement of the problem

The revitalisation of the agricultural cooperative movement as an institutional remedy to curb market inefficiencies has become an acceptable policy in South Africa. In principle, agricultural cooperatives are institutional arrangements or organisational structures that promote the collective interests of their group members, and which, as such, are regarded as one possible way of assisting the producers to reach the markets (Kerallah & Kistern, 2002).

Although such a role can potentially have a positive impact on collective bargaining, on improving the terms of trade of the members, and on bettering their livelihoods, Karantininis and Zago (2001) argue that agricultural cooperatives still face various challenges and problems. Increasingly, such challenges have been exacerbated by the globalisation of markets, and by the intense competition that is entered into with investor-owned firms. In addition, Karantininis and Zago (2001) assert that agricultural cooperatives also suffer from internal governance problems. Moreover, traditional cooperative organisations have not always been successful at serving the needs of their members, so that their popularity waned in the few decades leading up to the 1990s (Kherallah & Kirsten, 2002). Such a decline in popularity has largely resulted from organisational problems, such as free riding, the control problems, and the portfolio, horizon and influence cost problems. Several researchers (Brennan, (2004); Cook & Iliopolous, (2000); Nilsson, (2001); O'Connor, (2004); Sykuta & Cook, (2001)) have considered such organisational problems in terms of the paradigm of New Institutional Economics (NIE). The NIE theories (especially those relating to collective action, property rights, agency and organisation) of several researchers (namely Bandiera *et al.* (2004); Kasper & Streit, (1998); Oliver *et al.* (1985); Robbins & Barnell, (2002); and Ruys *et al.* (2000)) have also been advanced to provide a fine theoretical focus within which to analyse the structure of transactions and their governing

institutions. Borgen (2003) has also addressed the matter, with a particular focus on the relevance and significance of analysing the internal governance systems that give rise to such organisational problems. Further advancement of the NIE in governance systems and the recent work of certain scholars; e.g. Borgen, (2003); Gripsrud *et al.* (2000); and Ortmann and King, (2007) clearly indicate that the governance systems in agricultural cooperatives tend to be plagued by uncharacteristic conditions, which might lead to the existence of organisational problems.

Much of the literature, in particular from the perspective of property rights and agency theories, describes such organisational problems in a fair amount of detail (Cotterill, 2001), resulting in them describing the cooperative membership structure and governance control in a legitimate way. Therefore, the focus of the current study lies primarily with internal organisational problems, such as free riding, the control problem, and the portfolio, horizon and influence cost, as well as with the incentives for continuing with the collective action approach.

1.3 Objectives of the study

The object of the study is to examine the internal organisational problems that affect agricultural cooperatives in the wine industry in an attempt to understand which characteristics of members are associated with such cooperative organisational problems.

1.4 Research questions

The main research question is: do the characteristics of members in wine cooperative governance structures impact on the manner in which cooperative governance is pursued?

1.4.1 Sub questions

To address the main research question, major membership attributes together with the governance standards of the wine cooperatives such as member's objectives, level of shareholding, private occupational status, knowledge and experience and cooperative principles were identified in the literature of Sykuta & Cook, (2001), Borgen, (2003) and Gripsrud *et al.* (2000) and were formulated into the research questions to form the following:

- What effect/impact does a cooperative with a large group size have on the pursuit of cooperative governance?
- What impact does shareholding in different cooperatives and the receipt of high returns have on investment-related decision-making?

- What effect does the level of knowledge and experience of cooperative members have on decision-making?
- What impact do different member objectives have on the process of reaching consensus in regard to cooperative goals?
- What impact does the occupational status and similar status of a particular member have on that member's commitment, and to what degree does it influence their decision-making?
- Which cooperative principles still hold, or are applicable, in wine cooperatives?

1.5 Hypothesis

The hypothesis sets below provide some hypothetical cases that would be tested in order to find out the possible correlation that exists between the identified factors.

1.5.1 General hypothesis

Different member characteristics and beliefs in cooperatives impact on the pursuit of cooperative governance. The point of departure is that cooperative governance problems emerge under different circumstances, with the challenge being to specify how such aspects correlate in relation to the problems.

1.5.2 Specific hypothesis

The characteristics of the aspects referred to above are classified according to the following hypothetical cases:

- A lack of team spirit and the attendance of annual general meetings (AGMs) in cooperative organisations is largely influenced by the large number of members in the cooperatives.
- Any difficulty in encouraging all the members to attend, and contribute to, the AGMs is largely influenced by the large number of members in the cooperative.
- The higher the level of education of a member, the more a member becomes influential and becomes part of the decision-making structure of the cooperative.
- Members' shares and cooperative principles influence the voting system.
- Operating in terms of cooperative principles leads to high returns and benefits.
- The more that individual farmers operate alone, the greater is the access to market opportunities.

1.6 Research design and methodological frameworks

Both the NIE and the organisational theories of various researchers such as Cook & Iliopoulos (1999 and 2000); Staatz, (1984) and Williamson, (1979) use several theoretical frameworks, such as the collective action theory, the transaction–cost theory, the property rights theory, and the agency theory to assess 1) different incentive mechanisms for farmers either to form a vertically integrated organisation, or to adopt a collective action approach, 2) how the characteristics of a transaction affect the costs of handling markets and other forms of organisations and 3) the effects of property rights and agency dynamics in cooperative governance structures are also discussed. The analysis synthesises the organisational issues and human resource practices in the cooperative organisation in Chapter Five. Therefore, the design of the study is structured around the frameworks provided by the literature above.

The theoretical analysis entered into in the current study is in line with the focus of the above-mentioned assessments. In order to meet the objectives of the research, the study further emphasises the property rights and agency dilemmas, with a view to laying a foundation for the attainment of the objectives of the study and to promoting an understanding of the structure of cooperative governance and the factors identified for the analysis.

Understanding such theories is, thus, an important part in designing the research approaches and the methodological structure of the study. The nature of the study is based on the governance of organisations, specifically focusing on the factors that might influence the decision-making process. Anderson (1984) perceives cooperative governance as an institutional framework, which defines the structure and linkages; fixes the rules of conduct, interactions and conflict resolution; and provides incentives or disincentives for the behaviour of organisations and individuals. Thus, cooperative governance, which involves the decision-making body of those wine cooperatives, has emerged as the main theme in the study.

Robbins and Barnell (2002) argue that organisational studies state that organisations are likely to be embedded in organisational inefficiencies, due to the differences of their constituencies. These differences come with different degrees of power and unique sets of values, as a result of which it is questionable whether they will reach consensus in terms of their preferences. Therefore, Robbins and Barnell (2002) argue that assessing the governance of organisations is imperative in order to identify factors that might result in organisational inefficiencies.

In this study, the type of organisation that is investigated is wine cooperatives. Therefore, because of the focus of the study, a case study approach is adopted here and the relevance of the approach will be explained in Chapter Six, where the research design and approaches of the study will be discussed. In addition, both qualitative and quantitative research methods were selected for use in the study. The relevance and use of such methods will also be explained in Chapter Six. The methods of data collection are discussed in terms of the purposive or judgemental sampling, the sources of data, the data tools and instruments used. The use of Likert methods for both data collection and data analysis will also be discussed in Chapter Six, as will the reason for the selection of such methods. The results of both the qualitative and quantitative data analysis will be presented in Chapter Seven, including the addressing of both sets of objectives (using descriptive analysis) and the hypothetical cases (using correlation analysis). The results of the study will be discussed in Chapter Eight in relation to the objectives and the hypothetical statements of the research in order to draw the appropriate conclusion. The following section of the current thesis provides the motivation for the present study.

1.7 Motivation

In the last decade, South African agricultural policy has made substantial advances towards liberalisation (D'Haese & Bostyn (2001) and Van Rooyen, (1998)). According to D'Haese and Bostyn (2001), such advances have resulted in two major effects on the agricultural sector, in particular in the cooperative sector. First, the cooperatives in the agricultural sector have lost their institutional role, and, secondly, the new competitive environment, which is a result of such liberalisation, has meant that South African agriculture has felt the need to become internationally competitive, which has forced the cooperative sector to make dramatic adjustments to their business models. Of most importance these adjustments brought lot of uncertainties and doubts to the future of the cooperative members as a result member's loyalty and trust together with their cooperative managers varied and drastically declined.

The loss of these values between the cooperative members is viewed by D'Haese and Bostyn (2001) as a conflict of interest between members. The research relevant to this situation is limited in South Africa and even D'Haesa and Bostyn's work (2001) did not cover the underlying reasons that led to the conflict of interest amongst the cooperative members. Hardman *et al.* (2002) performed a study on cooperation behaviour of different industry players using a social paradigm with a special focus on factors that could contribute to the formation and maintenance of cooperative relationships such as beliefs, attitude, and goals held by the industry players. However, though the analysis of their study examined an industry, they found that trust and communication has a positive impact on improving

cooperation in the South African apple industry. Therefore, it is still unknown what could be the impact of an individual's characteristics in the cooperative governance.

Currently, there has not been a research on members and managers of wine cooperatives on possible impact of their existence on cooperative decision making process and the views held by various wine cooperative participants has not been documented. It is hoped that this thesis, will provide a theoretical arguments that could contribute to the ongoing knowledge and transformation of the wine industry.

1.8 Chapter outline

The chapter outline is as follows:

- Chapter One presents the introductory part of the study. It discusses the background of the study, statement of the problem, and the objectives of the study, research questions, hypothesis and research design and lastly purpose of the study.
- Chapter Two reviews a theoretical perspective on the institutional environment in which agricultural cooperative organisations perform in South Africa.
- Chapter Three provides a descriptive overview of the wine industry, particularly regarding its developmental stages, with the view to providing a basis for the discussion of wine cooperatives.
- Chapter Four discusses what incentivises farmers to form cooperatives. The chapter discusses why grape and wine farmers choose to form cooperatives, as opposed to other forms of organisation.
- Chapter Five discusses the nature of cooperative governance, with an emphasis on the challenges facing cooperative governance activities. The chapter provides an overview of the literature relating to those challenges that were identified in Chapter One.
- Chapter Six discusses the research design and methodology used in the study.
- Chapter Seven provides the data analysis and the interpretation of results.
- Chapter Eight provides a discussion, and the conclusion, of the study.

CHAPTER 2: PERSPECTIVES ON THE INSTITUTIONAL ENVIRONMENT OF THE COOPERATIVE SECTOR

2.1 Introduction

During the 1990s, the South African government instituted a series of policy changes in agriculture. Arguably, those matters of leading concern were the identification of policy issues and options (1992–1993), the making of choices and the focusing on institutional analysis (1993–1995), and the implementation, monitoring and reorientation of agriculture (1995/6 until about 1998); (Duncan, 1999). The results of such efforts were the establishment of a policy framework, which was aimed at making the field of agricultural endeavour more efficient than it had been in the past.

Presently in agriculture, the cooperative sector operates within the framework of cooperative policy drafts generated by means of the policy development processes adopted by the Department of Trade and Industry (DTI) and the National Department of Agriculture (DoA). The policy development process has been characterised by attempts to redress past inequalities and to develop new policies that aim to empower the emerging sector to become capable of fully participating in the economic mainstream.

The aim of the current chapter is to explore the legislative and policy environment for cooperatives in South Africa, with a focus on the agricultural sector. The chapter looks at issues of policy content in terms of what might be done, or in terms of approach, rather than as a means of obtaining answers. In so doing, its focus reflects the rationale for cooperative legislation, issues regarding membership rights, and certain aspects of the cooperative internal environment. The chapter also reflects on recent legislative changes that have taken place in the cooperative sector, using an institutional perspective to inform the reshaping of the cooperative's external environment. The last part of the chapter summarises the general perspective on the institutional environment of the cooperative sector.

2.2 Issues shaping the policy environment of cooperatives in South Africa

2.2.1 History of cooperative legislation in South Africa

In various countries, cooperatives have been unified and controlled under different acts. In South Africa, prior to the introduction of the Co-operative Societies Act No. 28 of 1922, the cooperative

movement was controlled in terms of the Companies Acts, in particular, the Companies Acts of Natal, the Orange Free State and the Cape Province. Due to the absence of a Cooperative Act at the time, such Companies Acts were used for the registration of cooperatives (Van Niekerk, 1988). Van Niekerk (1988) stated that the absence of an act governing cooperatives prior to 1922 delayed the establishment of such organisations, because the provision of Companies Acts did not allow for the development of cooperatives.

In July 1922, Co-operative Societies Act No. 28 of 1922, which mainly focused on agricultural activities, was passed, becoming operational in August 1922 (Ortmann & King, 2007). The promulgation of such an act brought about a new dimension, resulting in the extensive revival of the cooperative movement in South Africa. The introduction of the Act also led to a shift from the need to comply with the regulations of the Companies Act to the need to comply with those of the Co-operative Societies Act of 1922. Van Niekerk (1988) ascertained that the making of such a shift contributed greatly to the development of the agricultural cooperative movement.

Shortly after the promulgation of the Co-operative Societies Act No. 28 of 1922, it appeared that cooperative enterprises still had not yet served their intended purpose of offering a maximum price for their sales, combined with a strong bargaining power for their members. Such a finding led to the amendment of the Co-operative Societies Act No. 28 of 1922 by means of the Amendment Act No. 38 of 1925. According to Van Niekerk (1988), the latter Act so empowered the cooperative movement that the cooperatives began to serve the interests of their members and to control the markets fully. Part of the success of the cooperatives was caused by the introduction of a single-channel marketing system. According to Amin and Bernstein (1996), the results of the single-channel marketing system emanated from the restrictive provision in the cooperative legislation that allowed the minister concerned to force all those producers who produced 75% of the produce in the same region to supply their produce to one cooperative. Such a restrictive provision was also embodied in section 102 of the Co-operative Societies Act No. 29 of 1939, though it only applied to those areas that produced such products as cotton, hay, tobacco, and lucerne. After the promulgation of the 1922 to 1925 acts, the number of agricultural cooperatives dramatically increased till 1929, though the number then sharply declined once more, due to the price depression which took place between 1922 and 1933 (Amin & Bernstein, 1996). Van Niekerk (1988) notes that the price depression had a serious negative impact on the agricultural industry, especially the agricultural cooperatives. For instance, the total turnover of the cooperatives decreased in 1932, becoming less than half that of 1929. In contrast, the price depression

brought some favourable support from the government's side. The support, in part, took the form of the introduction of certain legislation governing the production of, and trade in, specific commodities. Such acts included the Mealie Control Act No. 39 of 1931, the Experts Subsidies Act No. 49 of 1931, and the Flour and Meal Importation Restriction Act No. 14 of 1931. All such attempts at legislation were intended to improve the situation of the white farmer.

The Depression of 1922 to 1933 significantly affected both agriculture and the agricultural cooperatives, and, as a result, more attempts were made to improve the situation. One such attempt was made by the 1933 Commission of Enquiry to conduct a comprehensive investigation into the cooperatives and agricultural credit (Van Niekerk, 1988). Ortmann and King (2007) and Van Niekerk (1988) argue that the report of the 1933 Commission of Enquiry contributed to the passing of Marketing Act No. 26 of 1937 and the Co-operative Societies Act No. 29 of 1939. The latter Act came into operation on 1 September 1939 and served to consolidate the Co-operative Societies Act No. 28 of 1922 and some subsequent amendments. The Act introduced new provisions that catered for new cooperatives with limited liability, and also opened a way for non-members to participate in the cooperative business. According to Van Niekerk (1988), other important principles embodied in the Act were as follow:

- The bonds of cooperatives could also include movable assets.
- The establishment of branches was placed under administrative control.
- Members of cooperatives with limited liability could have four additional votes, based on the value of their transactions with the cooperatives.
- Stricter provision, with regard to finance, was accepted.

Marketing Act No. 26 of 1937 and Marketing Act No. 59 of 1968 also helped to establish a legislative framework that was designed to advance the interests of the white, at the expense of the African, agricultural sector (Bayley, 2000). They introduced a number of mechanisms that supported the survival of the cooperatives. For instance, in response to the price depression of the time, such Acts introduced control board systems, which helped to strengthen the bargaining power, to reduce the price gap between the producer and the consumer, and to secure more satisfactory and stable prices for white farmers. In addition to the implementation of such a system, different schemes were established in support of white farmers, including the Canning Scheme (for peaches, apricots and pears), the Karakul Scheme, the Mohair and Wool Schemes, the Cotton Scheme, the Tobacco Scheme, the South African Dried and Deciduous Fruit Schemes, and the Dairy Products Marketing Scheme (Bayley, 2000). Such

systems were seen as a supporting mechanism for the development of the commercial sector at the time. In contrast, various unfair discriminatory mechanisms were imposed on black farmers, which were aimed solely at reducing the amount of competition in the market and at creating an entry barrier to black farmers. Among such barriers were the making inaccessible of shares directed at the ownership of white cooperatives, the enforcement of the ineligibility of black farmers to receive discounts or credit to purchase inputs, and the exaggeration of costs for storage (Amin & Bernstein, 1996).

According to Bayley (2000) the Marketing Act No. 26 of 1937 and Marketing Act No. 59 of 1968 were established in the context of the systematic disempowerment of black farmers. They argue that such disempowerment was encouraged by the provisions set out in the Marketing Act of 1968, which treated different geographical areas differently, and which placed the emphasis on confining African farming activities to specified geographical areas. Such demarcation clearly shows how geographical distinctions became the tool by means of which to implement discrimination.

The passing of the Co-operative Societies Act No. 29 of 1939 introduced a new period of growth for agricultural cooperatives, as well as forming the conceptual basis of the Cooperative Development Act No. 91 of 1981. The implementation of the latter Act was a major step, as it introduced special provisions for the establishment, incorporation, functioning, winding up and dissolution of cooperatives, as well as for the appointment of a Registrar of Cooperatives (Van Niekerk, 1988). The Act was followed by several amendments, notably those of 1993 and the subsequent Cooperative Acts, which were passed in a number of former homelands (Amin & Bernstein, 1996). Amin and Bernstein (1996) noted that the Cooperative Development Act No. 91 of 1981 was cumbersome and complicated, as it contained detailed provisions that, over time, became less important, and which conflicted with the subsequent development of cooperative strategies and practices. According to the NDA (2004), the Act was skewed towards the white commercial sector, and was worded in such complex language that it was not understandable to the average farmer.

According to Amin and Bernstein's (1996) argument, the amendment of Act No. 91 of 1981 by the Co-operatives Amendment Act No. 37 of 1993 followed, and was particularly important for, the subsequent developments in the agricultural sector. They noted that the 1993 Co-operatives Amendment Act extended the scope of business for agricultural cooperatives from its original focus, legalising certain practices retrospectively and helping the cooperatives to strengthen their position in terms of the future post-apartheid dispensation. The amendments enabled the cooperatives in the following ways:

- To appoint non-members to their boards;
- to deal with any articles of consumption (namely, to buy, sell or lease immovable agricultural property);
- to undertake any insurance business;
- to pursue certain activities without ministerial approval;
- to conduct business with non-members; and
- to convert themselves into companies or closed corporations.

The amendments meant that cooperative businesses could retain an element of independence and extend their business interests to non-members. Such a ruling resulted in the creation of new alternative markets for inputs and consumer goods in the homeland areas. In addition, limits on central government regulation over cooperative business and provisions that enabled cooperatives to be converted into companies were introduced and applied (Amin & Bernstein, 1996). An exclusive and discriminatory amendment was also introduced to encourage the trading of land by cooperatives, with the intention of protecting the white communities. Such legislation was systematically implemented by the large (Highveld) cooperatives, which acted as agents in order to keep the land concerned under white ownership and control (Amin & Bernstein, 1996).

During the Government of National Unity, the revitalisation of the cooperative movement was fore grounded, and both new cooperative policies, as well as the new cooperative act, were introduced after a long period of review. The Cooperative Development Act No. 14 of 2005 came into place, followed by the making of certain regulatory changes. The responsibility for cooperatives in government was transferred from the DoA to the DTI, with the establishment of The Enterprise Organisation. The taking of such a step has widened the scope of the cooperative sector, resulting in all the sectors of the economy being governed by Cooperative Development Act No. 14 of 2005. To this end, subsection 2.2.2 below provides the theoretical analysis of the scope of the cooperative policy in South Africa.

2.2.2 Scope of cooperative policy in South Africa

The origin of the cooperative policy in South Africa cannot be separated from those issues of segregation which led to problems relating to an inequality in outcome and opportunity, as well as other consequences of discrimination (NCASA, 2001). In theory, the nature of the ruling system has been well described in Kasper and Streit's argument (1998) on the origin of institutions. Kasper and Streit (1998) and Menard (2000) assert that rules, and, indeed, entire ruling system, are designed by agents who are selected by a political process in order to advance certain arrangements that will allow

specific segments of the population to meet their own aspirations; therefore, institutions are shaped for a specific purpose. With regard to the cooperative policy environment, the appropriateness of the policy, both to the commercial and to the emerging sectors, is essential for providing a level playing field for the state, as well as for both farmers and non-farmers, as well as for other relevant stakeholders. In theory, the policies will only be efficient when their contributions to society bring about positive changes and/or result in a situation in which no South Africans are disadvantaged as a result of the policy change. The aforementioned conditions are postulated by Troskie (2002), who drew his insights from Tweeten (1989). As cited by Troskie (2002), Tweeten (1989) regards a desirable policy as one with the potential to make one or more individuals better off, without making anyone worse off (the Pareto Criterion). Such a criterion seeks to achieve a state of affairs that improves the welfare of targeted individuals without disadvantaging others.

With its limited application, the potential of the Pareto Principle to achieve desirable conditions has been characterised by two distinct criteria, namely a weak criterion and a strong criterion. The more considerate criterion (the weak criterion), which was also advocated by Troskie (2002), stipulates a hard-to-find scenario, in which a desirable policy is one with the potential to make everyone better off as a consequence of the change. The situation is confronted by the realities of society, which are characterised by different individual/group preferences, which cannot be resolved without purposefully designing measures to benefit a particular segment of the society.

With reference to Troskie (2002), Johansson (1999) argues that a strong criterion refers to a desirable policy that leads to at least some individuals becoming better off, without anyone being made worse off by the change. However, with respect to the difficulty in applying such principles, the study hypothesises that, if cooperative policy measures do not cover or balance the interests of the whole spectrum of the cooperative sector, such a focus will be undesirable for South African society as a whole. The Pareto Criterion has stimulated more analysis of policy measures and, as a result, the Kaldor-Hicks compensation criteria have been advanced to further clarify the losers' and gainers' scenarios. The Kaldor-Hicks compensation criteria entail policy measures that result in gains for some and losses for others (Troskie, 2002). According to Kaldor (1939), a policy measure would be desirable for a scenario in which the gainers have the potential to compensate those who have lost. In contrast, Hicks' (1939) criterion seeks to create conditions in which the potential losers are unable to bribe the potential winners to influence the adoption of a policy. In a nutshell, Johnson (2000) argues that the major thrust of hypothetical compensation criteria focuses on the efficiency aspects of policy change,

with policy change being considered desirable if its benefits exceed the undesirable effects, or costs, of the change.

An understanding of the policy conditions requires a thorough knowledge and understanding of the fundamentals of the private interests of both legislators and their constituencies, and the distribution of costs and benefits of policies. Horn (1995) asserts that such private interests have a definite impact on the implementation of policies, and, as a result, legislators and their constituencies are seen as being involved in a form of transaction. Such an exchange involves securing electoral support and benefits that can be generated out of the designed policies (Johnson, 2000). Horn (1995) also argues that such net electoral support depends on the flow of benefits and costs that the constituents anticipate over a period of time. Therefore, the focus of the ruling system will always favour those societies with which it conducts transactions.

The above set of conditions can potentially result in disputes over decisions about such matters as the scope and the direction of the policy framework and the procedures that the administrative agents should follow in this regard. Such factors influence ‘who’ ultimately gets ‘what’ out of both the policies and the legislation, and also influence the progress of the policy development process. Understanding the scope of the particular policy and its design is vital in order to grasp the purpose of the policy. The purpose of the design of the cooperative policy is, therefore, discussed in Subsection 2.2.3 below.

2.2.3 The design of cooperative legislation

Cooperative legislation embodies the primary stance of a state towards those cooperatives within the country. Such legislation reflects the way in which the state regards the nature, the operation, and the activities of such institutions (Ashish, 1993). Penn (1993) generally notes that the rationale behind legislation governing cooperatives constitutes a requirement to typify cooperatives and to give them the proper legal framework for their existence and development. In addition, Penn (1993) also argues that having one general law for all cooperatives should also do away with any contradictions or duplications that are likely to arise, should the different kinds of cooperatives be governed by different laws. In such a way, the design of cooperative legislation accommodates the interests of all those industries that are involved in the cooperative sector. Also imperative is the understanding of the focus and/or nature of those groups that are targeted by the policy. The Subsection 2.2.4 below focuses on both the current policies and on the legislative framework.

2.2.4 Current policy and legislative framework

Since the late 1990s, the legal framework governing South African cooperatives has been under review as part of the implementation of a cooperative development strategy. Primarily, the legal framework aims at outlining the nature of cooperative law; defining the roles and responsibilities of various stakeholders, including the obligations and rights of members; and laying a foundation for socio-economic, political and administrative aspects (DTI, 2004).

The main thrust of the current South African cooperative legislation and other regulations governing cooperatives can be found in the Cooperative Development Act No. 91 of 1981, which mirrors the conventional European and North American models of cooperative practices. According to the DTI (2004), the Act had many pitfalls, one of which is its focus on agricultural cooperatives, with all other cooperatives being categorised as trading cooperatives. However, it is understood that the new Cooperatives Act No. 14 of 2005 aims to harmonise and strengthen the mandate of the cooperative sector in order to (DTI, 2004):

- provide a legislative framework for all types and forms of cooperatives in all sectors of the economy;
- provide for the protection of members' interests in cooperatives;
- redefine the role of government in promoting cooperatives;
- institutionalise relevant customary laws and practices relating to cooperative management as statutes;
- enforce legislation and operating rules on the cooperative movement;
- enable cooperatives to conform to cooperative principles;
- promote equity and increase the amount of participation of the targeted groups;
- focus on emergent cooperatives;
- make cooperatives more user-friendly (to the average person);
- increase the participation of targeted groups in the management of cooperatives;
- ensure a simple registration process and efficient management of cooperatives; and
- promote the development of sustainable cooperative enterprises in all sectors.

The motives for such ideals have been seen as critical to the promotion of the optimal, sustainable and equitable development of the cooperative movement for the benefit of South Africa's development agenda. Based on the intentions of the above-mentioned Co-operatives Act No. 14 of 2005, a brief discussion of the salient features of the Act follows.

2.3 Salient features of cooperative legislation

The salient features of cooperative legislation consist of ownership rights in the legislation; the minimum number of members; the powers and functions of registration; the Cooperative Advisory Board; and the protection of individual rights, as well as of collective rights in the legislation. Each of the issues is discussed, in the said order, below

2.3.1 Ownership rights in the legislation

As with the legal frameworks of other businesses, cooperative legislation vests the title of ownership in cooperatives on their members. Ownership rights in cooperative organisations can be tightly linked to the membership status attained by their members. The membership status imposes a legal obligation and responsibility on all cooperative members to participate equally in, and to benefit equally from, all cooperative services.

Care must be taken to understand issues of equality and equity in the cooperative fraternity. In the Cooperatives Act No. 14 of 2005, equal rights imply the equal degree of liberty conferred on all cooperative members to participate in, and to benefit from, the common services, and also to take responsible action with regard to the costs incurred by the organisation. Such rights have been strengthened by the use of the ‘one man, one vote’ principle at all meetings, and by the granting of the additional benefits of such common services as education and training, which can be provided by cooperatives. Contrary to such strengthening of rights, the nature of such rights of use can be argued as constituting one element that might cause the cooperative system to be plagued by such inconsistencies as free riding behaviours and unfair decision-making by those with fewer investment interests in the cooperative concerned. However, equality in terms of the Cooperative Development Act No. 91 of 1981 implies non-discriminatory practices in regards to the approval or disapproval of any membership applications (i.e. all farmers are regarded as equal in the eyes of the board members, except in terms of their patronisation). In contrast, equity considerations pertain to the desirable distribution of benefits and/or incentives according to the contribution of each member in generating cooperative returns. The murkiness of such issues in legislation is worth noting, as they inform the status of each participant in any cooperative organisation.

2.3.2 Minimum number of members

The legislation considers cooperatives to be the “autonomous association of persons united voluntarily to meet their common economic and social needs and aspirations through jointly owned and democratically controlled enterprises organised and operated on cooperative principles” (RSA, 2005).

Such a definition demonstrates the principle of openness which should be adhered to by cooperatives for those who would like to use their services and for those who will, in turn, be able to accept the responsibilities of membership. With regard to the Cooperative Development Act No. 91 of 1981, the minimum requirement for establishing a viable primary agricultural cooperative did not limit the number of individuals forming a cooperative. For instance, clause 19 of the Act, under the subtitle “Promoters of Cooperatives” section (1) a states, *inter alia*, that:

Persons by whom cooperatives may be formed – subject to the provisions of this Act – should be:

- (a) two or more persons [which] may form a primary agricultural cooperative [or]
- (b) two or more persons [who are] qualified [which] may form a primary special farmers’ cooperative.

Clause 19 demonstrates compliance with the values of the cooperative movement, which encourages freedom of association of any individuals. Contrary to the Cooperative Development Act No. 91 of 1981, the Cooperative Development Act No. 14 of 2005 has introduced a minimum threshold of five persons as having the capacity to establish a primary cooperative.

Section 6 (1) a of the Cooperative Development Act No. 14 of 2005 states that “a minimum of five persons in the case of primary cooperatives” is eligible to apply to register a cooperative. In absolute fairness, the threshold contrasts with the principles governing those cooperatives that advance a freedom of association that may start with more than one or two individuals. On the basis of cooperative principles, restricting two, or any number of, individuals, from forming a cooperative shows the unfairness of cooperative legislation. In order to conform with the code of freedom of association, a minimum requirement for establishing a cooperative should not serve as an obstacle to the establishment of a viable agricultural cooperative. Rather, cooperatives should be encouraged to set out provisions in their constitution and/or statutes that will determine their chosen minimum requirements.

2.3.3 Powers and functions of registration

The most important administrative function of cooperative legislation can be found in the Registrar of Cooperatives. The powers and functions of such an office are much like those allocated to the Registrar of Companies, which are essentially about ensuring that the registration and incorporation of cooperatives is carried out in accordance with the Cooperative Development Act No. 14 of 2005. The powers of the Registrar are derived both from the provisions of the law and from regulations made in

terms of the Act. Beyond ensuring the formalities of registration, the Act states a host of other functions that the Registrar of Cooperatives ought to perform. For instance, the Registrar has the power to request to see the annual financial statements of cooperatives, as well as to appoint auditors to evaluate the financial status of registered cooperatives.

Evidently, and contrary to the Registrar's power, the tendency has been not to execute such powers. Some emerging farmers are certainly not yet meeting the expectations of providing their annual financial statements to the Registrar's office (DTI, 2004). Accordingly, the auditors' right to exist is reduced, leading to the question of whether cooperatives should be treated like other organisations, such as trusts, farmer associations, and clusters, are, whose financial statements are not audited. The possibility that the cooperative advisory board will become involved in cooperative matters is the next issue to be discussed below.

2.3.4 Cooperative advisory board

The Cooperative Development Act No. 14 of 2005 proposes the implementation of a national watchdog structure, in the form of an advisory board, which might provide assistance to, or work in conjunction with, the Minister to provide advice on a number of matters, as well as to resolve disputes. The existence of such a board at national level can be seen as a cost-ineffective way of finding solutions, as there is an extensive gap between the cooperatives at regional level and the advisory board at the national level. Uncertainties exist, therefore, of attending cooperative matters by the board in a short period of time as opposed to the regional offices that might be conveniently accessible to the cooperatives. Since a cooperative is a member-based organisation, a Cooperative Act must stipulate what the rights of members should be in such an organisation. The stipulation of such rights is discussed below.

2.3.5 The protection of individual rights

In addition to the Cooperative Development Act No. 14 of 2005 stipulating that the right to join a cooperative of choice must be protected, the Act also gives the members of a cooperative the freedom to withdraw from a cooperative that they have joined, if they so wish. Members of such cooperatives may also be subject to either expulsion or exclusion, in accordance with the provisions set out in the cooperative's constitution (section 24 [1]). After membership of a cooperative has been conferred on an individual, the Act guarantees such individual a host of other rights, such as those pertaining to the attendance of general meetings, to participation in decision-making at such meetings, and to exercising, where applicable, a vote on matters requiring such action (section 28 [1], 31 [2] [a]).

Another right that is inherent to cooperative membership is the use of the cooperative's services and facilities (section 3 [1] [a])). Although the exercise of such a right is subject to the prescriptions of the cooperative's constitution, the members are assumed to have exercised their choice in joining a cooperative, based on its usefulness. Accordingly, potential members will only exercise their option to join a cooperative if they believe that, by doing so, they will be able to use the cooperative's resources. The likelihood of joining a cooperative only under such conditions arises from members, apart from them presumably being rational economic beings, also only being likely to join or form a cooperative that serves their own best interests.

Finally, as individuals, members have the right to be informed about the affairs of the cooperative in which they have chosen to invest. The legislation provides for a variety of ways in which cooperatives can inform their members of the affairs of their organisation. For instance, section 29 (1 [a-b]) states that cooperatives should hold an AGM for their members in order to provide an opportunity for decision-making about the future business of their cooperative. Those collective rights that exist in cooperative organisations are discussed below.

2.3.6 The protection of collective rights in the legislation

In terms of the Cooperative Development Act No. 14 of 2005, the members of cooperatives have a duty to elect, and to remove if necessary, leaders and directors from among themselves. Therefore, cooperatives are subject to democratic control, which is usually exercised by their members at general meetings in efforts to protect their collegial rights. Any conflict resulting from the complexity of collective interests in a cooperative, with which individual members' interests might either coincide or deviate, can, for instance, by means of voting, be settled by majority agreement (Chris, 1989). Such a system of voting in a cooperative is one way of showing that the members have equal rights. The system of democratic control, as it is practised in a cooperative, serves to protect the collective rights of members, as well as ensuring efficiency in any decision-taking that affects the life of the organisation. Practising collective rights can also be problematic in those cases where the heterogeneity of members is excessively high. Such heterogeneity might lead to serious deviations and to the failure of a sense of collective purpose. A discussion of the policy analysis of both institutions and institutional arrangements follows.

2.4 An institutional approach to cooperative policies

Much institutional analysis of the agricultural sector at the national and global level has focused on the workings of the law, policy and administration as the three pillars of agricultural institutions. In NIE,

the three pillars constitute an institutional environment that is distinguishable from the related institutional arrangements. Whereas the environment may be regarded as those humanly imposed rules (comprising the institutional framework) in use that governs the behaviour of cooperative commerce, the arrangements refer to the cooperatives, markets and contractors. The NIE's central concern about why economies fail to undertake appropriate activities is of great interest to the participants, such as the governments, the policy-makers, the legislators, and the local administrators, in the institutional environment. The participants are assumed to play a key role in reshaping the institutional environment in order to improve the cooperative sector.

2.5 The process of institutional change in the cooperative sector

Duncan's (1999) review of institutional change in the South African cooperative sector deals with cooperative legislation, policies and administration, which it regards as the three main pillars of institutional analysis. Such pillars, which form the external environment, are structured around government bureaucracies, courts and laws that govern the conduct (or constitutional level) of those commercial activities pursued in the sector (Duncan, 1999).

However, in the realm of policy, institutional analysis recognises a difference between operational and constitutional levels of decision-making (Vanberg, 1994). Vanberg (1994) argues that the operational level consists of decisions made within a given set of already existing and broadly accepted constitutional rules. Such a level largely implements the strategic objectives of constitutional provisions. The constitutional level comprises the level at which the rules of the game, including those governing the application of property rights, are established (Vanberg, 1994).

Kasper and Streit (1998) and Kaisla (2001) are all of the opinion that such rules are meant to maintain order, and are created by agents who subscribe to a certain political will. Therefore, in institutional analysis, rules are perceived as being purposefully designed to serve desired expectations. In this respect, Cooperative Development Act No. 91 of 1981 and the new Cooperative Development Act No. 14 of 2005 can be argued to represent the fundamental political will of a certain political system. The earlier Cooperative Development Act, for example, is regarded by the present government as being biased and as possessing a number of shortcomings regarding certain aspects of the South African economy.

Among its many limitations, the Cooperative Development Act No. 91 of 1981 was perceived as (DTI, 2004):

- catering only for highly commercialised cooperatives;
- providing an inadequate definition of a cooperative, which excludes the existence of informal cooperatives;
- complicating the registration process;
- being worded in language that is too complex, and which is, therefore, inaccessible by the average member; and
- focusing largely on agricultural cooperatives.

Regarding the above-mentioned conditions, Johnson (2000) argues that the economic concerns of the government as an arbitrator are related to its low potential to maximise its economic welfare. He argues that the government relies on a political approach that seeks to reconcile conflicting claims, and which is capable of balancing those benefits and costs to society that are associated with unintended consequences. Government institutions are, therefore, seen to operate under severe pressure, which entails difficulties in reaching agreement about policies, as well as about problems of delivery and durability (Johnson, 2000). Johnson (2000) argues that, under such conditions, the execution of such policies creates high transaction costs, which make it difficult to deliver services, and which can even constrain the implementation of services. The role of institutional analysis in this respect involves choosing and establishing the constitutional arrangement that is most likely to minimise the anticipated transaction costs. According to Johnson (2000) and Menard (2000), such costs include the amount of time and effort that is taken to reach agreements on legislative refinements, as well as that which is spent at the expense of private interests (meaning the amount of time which constitutes unpaid overtime). The costs also include the amount of time spent on labouring under the uncertainty as to whether the legislation will be administered as intended, and concerns about the distribution of private benefits and costs. In a similar approach, Johnson (2000) also argues that such costs can influence the internal environment of the cooperative organisation, and might affect the implementation of cooperative values.

2.6 Internal environment of the cooperative organisation

Agricultural cooperatives are influenced by internal values. Such values are inherent within the structure of the organisation, having been embedded in culture and the systems of the organisation. Royer (1995) argues that, largely, such internal values determine how cooperatives respond to external changes. Consequently, the interrelationships between internal values and the external environment in the form of a governance system force cooperatives to recognise, and react to, changes.

2.6.1 Basic cooperative values

The cooperative system is posited by Prakash (2003) in terms of such basic cooperative values as “self-help, self-responsibility, democracy, equality, equity and solidarity”. Furthermore, in the tradition of the founders of a cooperative, members of the cooperative believe in the ethical values of honesty, openness, social responsibility and caring for others. Self-help is based on the belief that all people can, and should, strive to control their own destinies. In addition to the belief in the cooperative’s values, full individual economic development can be achieved in association with others and, consequently, can foster the continuing education and development of all those involved in the cooperative (Hanel, 1992).

According to Kenn (1994), self-responsibility refers to the sense of responsibility that members hold towards their cooperative regarding its establishment and continued vitality. Therefore, the members bear the responsibility for promoting and ensuring the independence of their cooperative. Cooperatives are also based on the principle of equality. In a cooperative, members, no matter whether they are individuals or groups, are all equal (Prakash, 2003). Equality of practice should not depend on the social and economic status of members, but rather on the recognition of the presence of the members in the cooperative system, on their contribution to the system, and on how they are awarded benefits. Besides receiving equal treatment, the members should be treated equitably in the way in which they are rewarded for their participation in a cooperative, normally by means of return of patronage and the allocation of capital reserves in their name. Though honesty, openness, social responsibility and care for others are all values that are to be expected in all kinds of corporations, in principle, such values are regarded as essential in cooperatives.

2.6.2 The principles of cooperation

Those principles governing cooperatives can be understood as iron-clad commandments that must be followed by cooperatives and their members (NCASA, 2000). Such principles provide standards of measurement that restrict, and which might even prohibit, certain actions, while encouraging others. According to Peter (1993) and Prakash (2003), those principles that form the heart of cooperatives are not independent of one another. The researchers argue that such principles are subtly linked and eventually diminish when even one of them is ignored. The first three principles advanced by Prakash (2003) are voluntary and open membership; democratic membership control; and the economic participation of members. He argues that such principles address the internal dynamics that typify any cooperative. The rationale behind such principles is to provide guidelines by which cooperatives put their values into practice. In addition, the principles of autonomy, independence and education and

training should guide the internal operation and external relationships of any cooperative (Prakash, 2003). Peter (1993) and Prakash (2003) argue that such principles, which are regarded as the lifeblood of the cooperative movement, are meant to develop members in order that they might effectively contribute to their cooperatives. In the next section, cooperative principles are discussed in relation to the basic interest that cooperatives hold for potential users.

2.6.3 Contemporary cooperative principles as basic interest to users

According to Royer (1999), any business organisation can be defined in terms of three basic interests: ownership; control; and benefits. Royer (1999) asserts that all three interests are in the hands of the users only in cooperatives. Such interests, which are commonly referred to as contemporary cooperative principles, include the *user-owner principle*, which reflects that a cooperative is owned by those who use it. Royer (1999) argues that such a principle can be expressed both by equity investment in the enterprise and by a claim on its assets. The *user control principle* concerns the ability of members to exert authority over the decision-making processes. In essence, cooperative members are the controllers of their organisation. The *user benefit principle* states that those benefits, including the right to receive services and to share in the earnings, which are generated by a cooperative accrue to the users on the basis of use (Anderson, 1984). In addition, non-members can indirectly benefit from the cooperatives by, for example, buying produce from them at a cheaper price than they might be able to from an individual supplier. However, internally cooperatives must ensure that benefits accrue to patrons on the basis of use, rather than on the basis of investment, or some other standard that might undermine the value of the organisation for its users.

2.7 Conclusion

The purpose of Chapter Two was to provide some perspective on the cooperative environment, which has been conditioned by both the old and the new policy frameworks of the cooperative sector in South Africa. Such perspectives have been described in the context of various policy mechanisms, some of which have been construed within the paradigm of institutional economics. When referring to issues that have shaped the policy environment of the cooperative sector, certain policy attributes that form the environment for both the commercial and the emerging sectors have been found to be essential for accommodating the differences that can be found in the cooperative sector. In order for cooperative legislation to be desirable, a reasonable degree of focus of the policies should address the needs of the targeted group, though not at the expense of the untargeted group. In other words, the new policies that seek to uplift the emerging sector should not impact negatively on the endeavours of the other sector.

Such a finding, in turn, demonstrates the importance of properly recognising the position of cooperative members in legislation, as well as those principles that guide the interaction of such members. The general conclusion regarding the status of cooperative members acknowledges that cooperative legislation is generally covered by that legislation which guarantees respect for basic human rights, namely the South African Constitution. For instance, such cooperative principles as voluntary and open membership, democracy, autonomy and independence are also expressions of basic human rights. Such principles are argued to be the lifeblood of the cooperative movement, because they shape its structure and determine the movement's distinct perspective. Chapter Three discusses where wine cooperatives are in operation, especially within the context of the South African wine industry.

CHAPTER 3: AN OVERVIEW OF THE SOUTH AFRICAN WINE INDUSTRY

3.1 Introduction

The South African wine industry has experienced major changes over the past 14 years. Such changes have mainly resulted from its entry into the world economy, as well as from changes in the political dispensation of the country as a whole since 1990. The period in question had serious implications for the producers, resulting in efforts being focused on improving the quality of brands in order to fit the requirements of the world markets. As with any other industry, the wine industry in South Africa, which has long been dominated by white wines, has faced constantly changing local and international market conditions. For example, the high demand for red wines, both locally and abroad, has increased in recent years, due to, *inter alia*, increasing consumer awareness of the health attributes of red wines. Such shifts in demand have impacted on the structure of varieties planted in South Africa, and, as a result, in 2007 40% of the production of vines constituted the red varieties, compared with the 18% production of red varieties in 1996.

With such a growth in production and the improvement in the quality of wine varieties, South Africa has become better able to cater for the demand for red wines both locally and abroad (Ewert *et al.* 1998). Such success has been supported by several institutions in the wine industry, such as the grape producers (the wine farmers), their market institutions (the cooperatives, the wine cellars, the wholesalers, the retailers and the exporters) and the supporting institutions (the research and government institutions, the universities, the banks and other such institutions).

The current chapter gives a brief overview of the wine industry, starting with Section 3.2, which provides a brief description of the different growth phases of the industry. The section specifically describes the growth phases prior to 1992, until the development of the Wine Industry Transformation Charter (WITC). Section 3.3 explains the main features of the wine industry. The section outlines those major characteristics that typify the industry, such as its size, and the natural and human resources that it uses. Such features are argued to be one of the pillars of the industry. After the description of the wine regions of the Western Cape in Section 3.4, both the relations between South Africa and the EU and the existence of the Trade Development Cooperation Agreement (TDCA) are discussed in Section 3.5. Chapter Three concludes by synthesising the discussion of the different elements that constitute the

wine industry in South Africa, providing the basis for a discussion of cooperative development in South Africa.

3.2 The different growth phases of the wine industry

During the past decade, the South African wine industry has undergone dramatic change (Reid, 2000 and Williamson and Wood, 2003). The relevant literature on the industry reveals three growth phases, in terms of which the development of the industry can be understood.

The first such growth phase saw a period in which restrictive policies and regulations curbed innovation and development within the industry (Reid, 2000). This dates back from the birth of the Cape Wine Industry which was characterised by single producers and by wine of poor quality (Meissenheimer *et al.* 2001). During the 19th century South African wine farmers suffered severely due to market forces and as a result a scheme was established for wine farmers in order to curb the negative market forces. This led to the establishment of Kooperatiewe Wijnbouwers Vereniging (KWV). According to Meissenheimer *et al.* 2001 the aim of this scheme was to provide a bargaining power for the wine farmers and to regulate the prices at which different wine products were sold. This organisational form expanded in all wine regions and as a result it became the common tool for the majority of poor wine farmers to obtain terms of trade by the use of bargaining power.

Before 1992, the wine industry was regulated by the KWV, a cooperative and quasi-governmental body, whose purpose it was to stabilise the industry by means of controlling and absorbing wine surpluses (Ewert *et al.* 1998). The policies which were aimed at achieving such purposes included a quota system, which prescribed the price of grapes and wine, and which prescribed which varieties of vines the farmers were allowed to plant, as well as where the vines were to be located. As a result of such measures, standard prices were set for grapes, irrespective of their variety and quality. During the period under discussion, the strong reliance of wine farmers on the KWV, as well as the existence of international sanctions, led to the KWV being almost the sole exporter of South African wines (Ewert *et al.* 1998).

Due to the growing international and local demand for wines, the KWV introduced programmes to increase the yields of grape growers, in order to meet export and local market needs. One such programme included the extensive replanting of vineyards to obtain high-yielding vines (Young, 1996). Young (1996) argues that the programme resulted in an oversupply of vines, and, subsequently, cooperatives helped to curb the depression of prices, which had been caused by excess supply. The

amount of intervention by the cooperatives increased, and was also justified by the limited amount of knowledge of the relevant producers about the marketing and distribution of wines.

The second period of wine industry development coincided with the democratisation of government (Reid, 2000). In 1994, the first South African democratic government was elected, which led not only to the internal transformation of the industry, but also to a fundamental shift in South Africa's relationship with the international community (Ewert *et al.* 1998). Such a shift came about as a result of the removal of sanctions and the reopening of new export markets. The sudden exposure to the international market caught South African farmers by surprise, as they were ill prepared to deal with international markets at that stage. Among the market challenges facing farmers was their limited knowledge of how to market their produce internationally (Ewert *et al.* 1998). Young (1996) asserts that such problems placed producers in the wrong markets, and at the wrong price points. As a result, South African wine developed a reputation for producing mixed quality wine. The deregulation of the industry and the conversion of the KWV into a company in 2007 meant, however, that the KWV left a void (Ewert *et al.* 1998), with the transition between the different phases being not entirely smooth. Ewert *et al.* (1998) argue that the transition in the wine sector was accompanied by a lack of robust representation in dealings with the government and the international community, resulting in South Africa's initiatives to reach the international markets falling short.

Within five years, the industry had taken cognisance of such problems, and initiatives to identify and address such challenges had begun (Reid, 2000). In 1999, the Wine Industry Network for Expertise and Technology (Wintech) initiated Vision 2020, with the aim of designing specific and detailed strategies for wine, brandy and wine distillates (SAWIS, 2007). In collaboration with the government, a representative structure aimed at implementing Vision 2020 was recommended, leading to the establishment of the South African Wine and Brandy Company (SAWB) in 2002 (Reid, 2000; SAWIS, 2004). In terms of such developments, the South African wine industry had entered the third and current phase of its history.

The formation of the SAWB meant that, for the first time in history, all the relevant stakeholders were represented by a single body (Reid, 2000). Collectively, the SAWB, together with the chambers of wine producers, labour, the cellars and the wholesale merchants, the South African Wine Industry Trust (SAWIT), the relevant government departments and agencies, and other important stakeholders in the industry, developed a Wine Industry Plan (WIP) (Ewert *et al.* 1998). The purpose of the WIP was to align the industry's Vision 2020 initiative with the strategic plan for South African agriculture. The WIP

has, therefore, come to embody the industry's commitment to dealing with the legacy of a highly regulated economic environment, as well as with discrimination along racial and gender lines (Ewert *et al.* 1998).

One of the first active steps that was taken towards implementing the WIP began when SAWIT, with the support of the SAWB, spearheaded the drafting of a WITC in November 2003 (Reid, 2000). According to Ewert *et al.* (1998), the purpose of the WITC was to give impetus to change and development within the industry, as well as to provide a strategic framework that might advance black economic empowerment. By the industry players implementing and complying with the requirements of the WITC, the transformation of the industry might be attained (Ewert *et al.* 1998).

The meaningful contribution to, and the participation of industry players in, the overhaul of the industry depended on the effective utilisation of the industrial attributes discussed below.

3.3 Features of the wine industry

3.3.1 Size of the industry

Currently, South Africa possesses 125 762 ha of land cultivated under vine by 4 406 grape farmers (SAWIS, 2008). Such cultivation represents a decrease of 313 ha from the 126 075 ha under cultivation in 2005 (see Table 3.1 below). With the exception of table grapes, about 325 million vines have been planted, all of which are of the classical *Vinifera* varieties, with 87% being used to produce drinking wines (SAWIS, 2008).

Table 3.1: Vines and areas with vineyards.

Vine types	2005		2006		2007	
	No. of vines	No. of ha	No. of vines	No. of ha	No. of vines	No. of ha
Wine grapes	307 783 674	101 607	308 259 370	102 146	306 955 785	101 957
Sultanas	19 552 681	10 983	18 874 863	10 571	17 673 368	9958
Rootstock	262 455	83	213 699	69	209 121	67
Currants	976 901	336	974 346	337	985 777	345
Total	328 575 711	113 123	328 322 278	113 123	325 824 051	112 327

Source: SAWIS, 2008.

Although South Africa contributes only 1.7% of the world's total vine area, with 840 600 000 litres of wine produced, the country produces 3.0% of the world's wine, making it the ninth largest wine producer in the world behind Spain, France, Italy, the United States, Argentina and Australia, but ahead

of Chile, which has 2.4% of world production capacity (which is higher than that of South Africa), but which produces only 2.8% of the world's wine (SAWIS, 2008). Between 2005 and 2007, positive growth occurred in the production of wine, wine for brandy and distilling wine. Such growth had little impact on the producers, as their income from both wine and wine for brandy was irregular, which was shown by the decline of wine income from R1900.5m to R1884m, and a decline of wine for brandy from R203.8m to R199.3m, respectively for 2005 and 2006 (SAWIS, 2008). In addition to experiencing such a negative trend, an increase was also observed between 2006 and 2007, which led to an income of R2102.2m for wine and of R254.9m for brandy. In brief, the total producer income in rands increased from R2 104.0m in 2005 to R2 357.0m in 2007 (SAWIS, 2008). (See Table 3.2 below.)

Table 3.2: The annual quantity produced and the producer income.

Types of wines	Production per L			Producer's income per mL		
	2005	2006	2007	2005 (R)	2006 (R)	2007 (R)
Wine	628.5	709.7	730.4	1900.5	1884.4	2102.2
Wine for brandy	82.9	82.1	101.5	203.8	199.3	254.9
Distilling wine	129.2	147.9	146.4	–	–	–
Total	840.6	939.7	978.3	2104.3	2083.7	2357.1

Source: SAWIS, 2008.

Such a production trend also served to reflect the income variability of wine farmers. By comparison, wine, wine for brandy and distilled wine were generally low compensators for wine farmers during 2005 and 2006 (see Table 3.2). In addition to the above findings, SAWIS (2008) found that there were 3 999 primary wine producers and 560 wine cellars, with a replacement value¹ of more than R17856m. Such figures showed a decline of 378 wine producers and an increase of 833 new registered wine cellars, as on 30 May 2008 (SAWIS, 2008). The trend suggests a decline in the total replacement value of wine producers, as well as an increase in the investment value of wine cellars. The framework presented in Table 3.3 on the next page shows the structure of the wine industry in 2008.

¹ Overall estimation of investment value by wine producers and wine cellars.

Table 3.3: Production category of wine producers, 2008.

Tons	Per production category
	No. of primary wine producers
-100	1 717
> 100–500	1 475
> 500–1 000	482
> 1 000–5 000	318
> 5 000–10 000	7
	3999

Source: SAWIS, 2008.

Of the producers at the time, nearly 46% were found to be small growers producing less than 100 tons, whereas almost 36% were found to produce between 100 and 500 tons; 10.9% were found to produce 500 to 1 000 tons; and 7% were found to produce between 1 000 and 5 000 tons. Only 0.1% was found to produce as much as between 5 000 and 10 000 tons.

In addition, the wine industry, at the time, comprised 560 cellars, including:

- 59 producer cellars, which processed the grapes of their clients;
- 481 private wine cellars (estates and non-estates), of which the estates were characterised by making wine on their farms, mostly from grapes grown on their own land, while the non-estates were able to buy both grapes and wine and bottle under their brand names; and
- 20 producing wholesalers, which bought wine from the cellars or from individual farmers.

Table 3.4: Number of wine cellars per production category.

Categories (tons of grapes crushed, 2007)	No. of wine cellars per production category			
	Total	Private wine cellars	Coops	Producing wholesalers
-100	263	255	–	8
> 100–500	139	135	–	4
> 500–1 000	41	39	1	1
> 1 000–5 000	62	49	11	2
> 5 000–10 000	14	2	10	2
> 10 000	41	1	37	3
Total	560	481	59	20

Source: SAWIS, 2008.

The growth in the size of the wine industry was exponential in the period under review, as can be seen from the increasing number of wine cellars, which have come to substitute for the declining number of primary wine grape producers (cooperatives). For example, the number of private cellars increased from 477 in 2004 to 481 in 2007, while Van Zyl (ed. 2005) added 512 new wine labels in 2004 and 2005, respectively. Figure 1.1 below shows that such an increase has influenced both the export performance of the industry and the exchange rates on producer income over a decade.

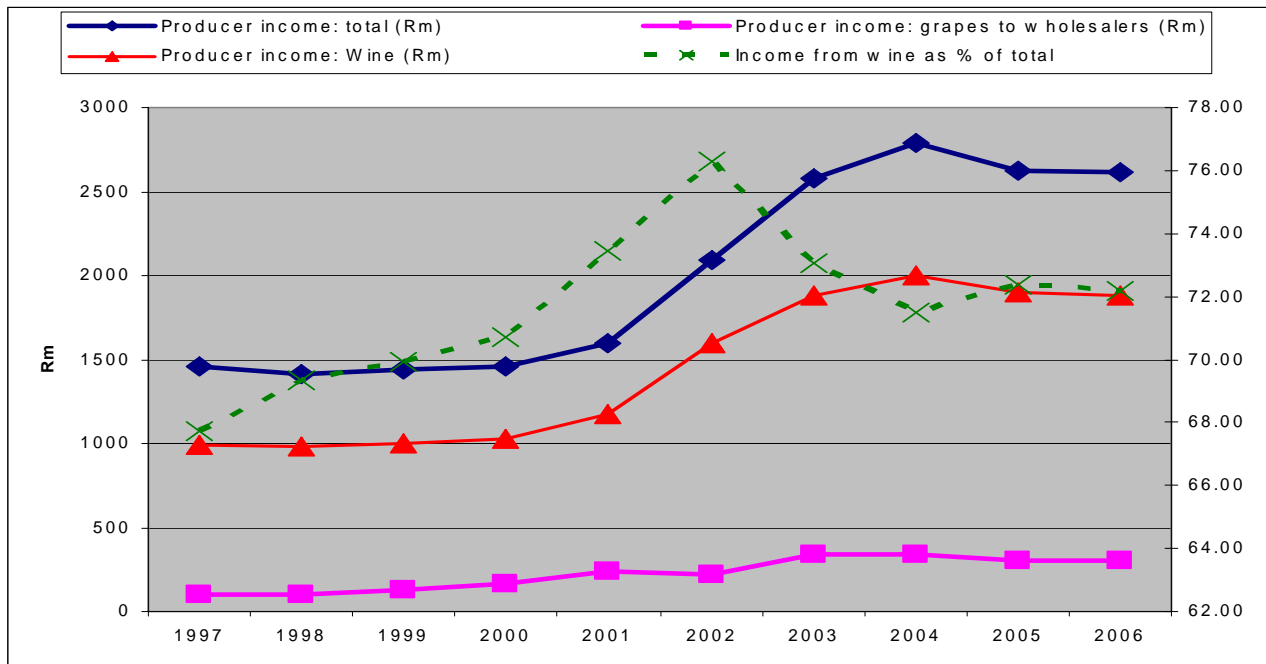


Figure 3.1: Trends in producer income, 1997 to 2006.

Source: SAWIS, 2008.

Following on such a development, the total nominal income almost doubled from R1463m in 1997 to R2 791m in 2004 (see scale on the left-hand side above Figure 1.1). Such an increase resulted in a decline in production in both subsequent years. Figure 1.1 also shows that the share in such an income from wine reached a peak in 2002, restoring the positive trend that had previously been experienced by the farmers (SAWIS, 2008). The expansion and success of the wine industry was also attributed to its much-publicised competitive advantage and uniqueness, in terms of its specificity to its origins and its economic endowments. A brief description of its uniqueness follows.

3.3.2 Natural resources

South Africa’s wine-producing region, situated at the confluence of the Atlantic and Indian Oceans, is characterised by its biodiversity. Approximately 90% of wine production occurs within the perimeters

of the Cape Floral Kingdom, which is globally recognised for its biodiversity and which holds world heritage status as home to 9 700 different plant species (SAWIS, 2008). Due to the rapid loss of natural habitat resulting from natural disasters, such as uncontrolled fires, increasing urbanisation, and other survivalist activities, only 8% of the original Renosterveld and lowland fynbos ecosystems remains in the Western Cape (SAWIS, 2008).

The specificity of the species concerned in terms of climate, soil structure and diversity has led to the development of the variety and unique flavour of South African wine. Such uniqueness is regarded as a competitive advantage of the industry, and has led to the expansion of the industry focus from wine sales to tourism ventures, such as vineyard hiking trails, biodiversity information centres, outdoor adventures, and exposure to indigenous plants and wild animals. In addition, such ventures have provided incentives to farmers to conserve their natural areas and farms in an environmentally sensitive manner. Such conservation, in turn, might lead to them supplementing their income from wine sales and to them possibly expanding the service-related requirements for labour in the industry (SAWIS, 2008). Though the wine industry is currently contributing to the creation of additional employment opportunities, it has also become known as an industry with an unsettling labour relations history. Subsection 3.3.3 below explains the situation regarding the industry's human resources.

3.3.3 Human resources

The South African wine industry is labour-intensive, employing approximately 350 000 people (SAWIS, 2008). Prior to the democratisation of the country, the industry's labour relations were overly informal, with its labour supply being mishandled in terms of certain immoral systems, such as the dop system, which were in place. The system was used by farmers who paid their farm labourers in liquor, at least in part. Significant institutional and structural changes have taken place since the deregulation of the industry, with labour relations becoming more formalised.

In contrast with the policies of the apartheid government, labourers are now entitled to basic conditions of employment and a minimum wage. Arguably, such entitlement has resulted in a decrease in the number of full-time jobs that are made available, as well as a greater reliance of the farmers on seasonal labour. Although the rate of employment throughout the industry has been commended, the need for investment in human capital remains desperate. Though a skilled and educated workforce is required in order to develop a world-class industry, the IDC (2000) revealed, at the turn of the century, that in South Africa only a fraction of the sectors have responded to the need for training and development of their workers.

3.4 Description of the wine regions

South Africa's wine group regions, which are mostly situated in the coastal areas of the Western Cape, are well-known for possessing rich natural endowments, which are characterised by unique fynbos and Renosterveld vegetation that covers almost 1 000 m per year (WOSA, 2007). The broad coastal wine region can be classified in one of two different ways, with one classification relating the different parts of the wine regions to the former KWV regions, and the other consisting of the wine region scheme, which characterises wine production zones as regions, districts and wards. The main drive of such a scheme is to protect the wines of specific regions, as well as the uniqueness of such wines. Currently, a system of eight wine regions/districts is commonly used, as is explained below.

3.4.1 Worcester region

In terms of the previous regional design, the wine-producing region of Worcester was regarded as covering the four wards of Aan-de Dooms, Hex River Valley, Nuy and Scherpenheurel wards. (SAWIS 2008). Approximately 20 588 ha of the areas under vine are found in the region, contributing about 20.19% of the total ha and 22.05% of the vine production of the eight different production zones. Accordingly, the region is the leading contributor to the industry. The climate varies across the region, with an annual rainfall of up to 500 mm/annum in some areas, and as low as 35 mm in others. Due to such attributes, it has become one of the best well-known areas for the production of high quality wines (SAWIS, 2008).

3.4.2 Stellenbosch region

The Stellenbosch region is also well-known for the production of good-quality wines in its seven former wards. The region has also extensively exploited the use of its regional name as a tool for marketing its wine. Its unique Mediterranean climate, with an annual rainfall of between 600 mm and 800 mm, and its variety of soil types and micro climate, has led to it being recognised as an area capable of producing noble cultivars (SAWIS, 2008).

3.4.3 Robertson district

The Robertson district historically comprises nine wards. Due to its low annual rainfall of about 400mm/annum, the Robertson region has supplemented its water capacity by means of irrigation laid on from the Breede and Brandvlei rivers (SAWIS, 2008).

3.4.4 Paarl district

The Paarl district, which lies at the heart of four former ward councils, is one of the premier wine-producing districts in the fertile area of the Berg River valley. The district also falls within a Mediterranean climate zone, with its winter rainfall being estimated at 650 mm per year. Paarl is one of the leading contributors to the industry, with 17.47% of the total number of vines, and 17.08 ha of the total ha under cultivation SAWIS (2008) and WWIS (2007).

3.4.5 Orange River region

The Orange River region can best be described as consisting of nine former divisional councils, including those of the previous Transvaal, Natal and Orange Free State areas. The region contains a small producing area between the Olifants River and the Little Karoo, which consists of 5 149 ha of land, which contribute only 3.53% to the total number of vines (SAWIS, 2008).

3.4.6 Olifants River region

The Olifants River region covers the areas of Citrusdal, Clanwilliam, the previous Transvaal and Klawer, to Vredendal and Lutzville. Though the region is widespread, it is one of the lowest contributors to the industry, contributing 8.92% to the total percentage of vine production, and consisting of 9 861 ha of land (SAWIS, 2007 and 2008).

3.4.7 Little Karoo region

Though the Little Karoo region contributes the least amount of all the regions, namely 30%, to the total production of the industry, it is one of South Africa's producers of renowned fortified wine. Recently, the region introduced a special range of wines derived from such noble cultivars as Chardonnay and Merlot (SAWIS, 2008).

3.4.8 Malmesbury region

Malmesbury is amongst the highest top five contributing regions in the industry, contributing more than 12% of total vineyard production, amounting to about 14 883 ha in total. Besides its impressive contribution, the region is characterised by a low rainfall, which, at times, is supplemented by irrigation along the banks of the Berg River (SAWIS, 2008).

All the above-mentioned regions/districts have been the cornerstone of the success of the wine industry. The production in the identified areas has determined the total export volume, has been the source of multiple job opportunities for the adjacent community, has extended and provided several agribusiness opportunities within the industry, and has contributed to the gross geographic and gross

domestic product. Within the international markets, the potential of such districts has led to the development of industrial relations, which relations are briefly discussed in Section 3.5 below.

3.5 Relations between the European Union (EU) and South Africa

The success of the South African wine industry has been rooted in its international relations and sense of competitiveness, which have impacted on both the local and international markets. Such relations include the close ties experienced with the EU. South Africa and the EU started their trade negotiations immediately after South Africa's first democratic election was held in 1994 (Brown (2001), Sandrey *et al.* (2007) and Williamson and Wood (2003). The trade relations between the South Africa and the EU consist of relations between the 27 member states, which were established, and are governed, by the TDCA, The trade agreement, which was signed in 1999, came into being on 1 January 2000, with the transition period lasting twelve years for South Africa and ten years for the EU (Sandrey *et al.* 2007).

The TDCA covers various issues, including the creation of free trade areas between South Africa and the EU over the 12-year period, which specifically requires the EU to eliminate tariffs of 95%, and South Africa to reduce its tariffs to 86%, for goods traded within the specified period (Sandery *et al.* 2007). In addition, the TDCA created a platform for political dialogue, allowing for the opening up of markets to fellow members at a more rapid pace than might otherwise have been possible, as well as for enhanced possibilities for economic cooperation (Brown, 2001). Ironically, the TDCA yielded some positive externalities even to such non-signatories as the South African Customs Union (SACU) and the adjoining countries of Botswana, Lesotho, Namibia and Swaziland (BLNS). The impact of such externalities has led to the reduction of those duties which are required to be paid at the respective borders (Sandery *et al.* 2007).

The establishment of such relations has resulted in the EU becoming a major source of investment, accounting for almost half of South Africa's total foreign trade (Brown, 2001). The attendant exposure has led the South African wine industry to expand over the past five years, with wine imports from South Africa to the EU increasing annually (Brown, 2001).

In its dominance, as wine trade in the EU has been characterised by its strict regulation, the entry force of the "New World" countries such as South Africa, United States, Chile, New Zealand, Canada and Australia led to the need for the Uruguay Round negotiations which resulted to the fulfilment of Uruguay Round Agreement (URA). The URA brought favour to its signatories through the abolishment of import duties.

As the international wine market became developed, a shift from the quantity driven market to quality driven wine product occurred. This has led to the recognition of winemaking practices as new wine trade standards where climate, culture and history were considered as one of the important factors in the wine industry. These standards were made to exist through the development of a Mutual Acceptance Agreement (MAA) of winemaking/oenological practices which was signed in December 2001. The current signatories of MAA are Argentina, Australia, Canada, Chile, New Zealand, South Africa and Uruguay. The rationale of the MAA is the recognition of the historical differences in the national rules on winemaking practices. Moreover, it promotes a liberal approach by limiting the basis of an importing country's objections to health and safety grounds rather than differ from the importing countries own standards.

3.6 Conclusion

Chapter Three provided a brief overview of the wine industry, highlighting the establishment of South Africa wine industry. In principle, the development has also been in line with its domestic growth, which is characterised as consisting of different phases. Some of the phases include the period of KWV establishment and its transformation, up to the establishment and implementation of the WITC. In this chapter, it was argued that the adoption and implementation of, as well as the degree of compliance with, the WITC serves as an indication of the amount of progress that has been achieved in the transformation of the wine industry.

The industry has also been characterised by its attributes, including such factors as human resources, vine production and the relevant industry players, such as the wine producers, the wine cellars, and the natural resources possessed by the industry, as well as by the respective wine industry regions. The former attribute was perceived as being one of the former important pillars of the industry, due to its resource endowments. Undoubtedly, the viability and success of the industry have come about as the result of the existence, and sustainable farming practices, of the various grape producers.

Discussion on EU dominance in the international wine markets which have led to the EU being the major source of investment was made. This chapter also discussed the existing trade relations between EU and other countries where South Africa benefitted from exemptions. This includes accessing EU markets and as a result the South African wine industry became developed drastically. Also the chapter shared some highlights on the changes that have occurred in the wine world such as the development of the URA and the MAA. These developments meant that EU had to adapt to market changes and allow better terms of trade with other new countries in wine market.

In South Africa, the success of the wine farmers can be traced back to both the institutional support that was provided in Chapter Two and to the use of the collective action approach. In terms of the transaction–cost theory, such an approach is perceived as being encouraged by several factors. Accordingly, Chapter Four focuses on those incentives that influence farmers to perform collective action in order to enhance their competitiveness.

CHAPTER 4:

INCENTIVES FOR COLLECTIVE ACTION IN TERMS OF TRANSACTION-COST ECONOMICS

4.1 Introduction

This chapter discusses incentives for grapes farmers to form cooperatives by means of a collective action approach. For the start, grapes farmers are defined as consisting of persons who practice agricultural activities such as farm production, marketing and distribution of grapes for various purposes. For example, on production activities this include all activities involved in the growing of wine grapes, activities that involves selling and buying of products and lastly distribution involves all the logistic activities in the South African wine industry.

Of the above activities, several risk or uncertainties exist and are discussed in this study using transaction cost economics as factors that trigger farmers to form a collective action approach through cooperatives. The transaction cost economics literature that has been used in this study is that of Williamson (1975) and (1979), Hobbs (1996), Cook (1993) and Staaz (1979). As stated by Hoobs (1996) the reason for the use of this literature is that it takes into account the integrities of explaining the risk factors that could lead to defence mechanism to market participators. Below is the discussion of the key concepts that explains the risk factors that faces the farmers. They include the following: bounded rationality, opportunism, asset specificity, asset fixity and market dilemmas, contingent pricing and externality principle.

4.2 Bounded rationality

Farmers entirely depend on the natural regional climatic conditions for the high quality and quantity of their grape yields (Meissenheimer *et al.* 2006). Even through attempts of ensuring high yields and quality from year to year, the inability of a farmer to know the natural hazards that may occur in the future and correctly determine the expected annual rainfall for good quantity leads to uncertainties and incorrect decision making. This limitation is referred to as bounded rationality to farmers. This state of mind assumes limited cognition of a farmer “a human being, which is restricted by the inaccessibility of the future events. Such a state forces the farmers to function within the sets of boundaries that are set by the limited amount of information and experience, as well as by the limited cognitive capabilities. In this situation normally farmers turn to reap the lowest yields (Meissenheimer *et al.* 2006) and as a

result grape farmers end up with less quantity to supply their markets. Again, this eventually affect the wine industry as the wine cellars will subsequently have low wine quantity for both local and international market. This scenario leads to a situation where farmers establish a collective venture such as cooperatives and wine cellars in order to supply collectively with the aim to bargain for the right price and also to retain their markets.

4.3 Opportunism

One other well-known factor that is common in any sets of life is opportunism. Opportunism defined by Williamson (1979) as: “self interest seeking with guile”, literally translate the unfair practice either by the individual supplier or a buyer.

In the case of the grape and wine farmers , opportunism may occur between the input suppliers and the farmers as well as between farmers and the retailers and/or also other market agents in the grape and wine industry. It goes on and says that the fewer are the input suppliers in the market, the higher the chances of them to act opportunistically by demanding unreasonable prices than previously agreed. Just like the farmers, the fewer are the farmers with the high quality grape, the higher are the chances of them to increase the price to the retailers. In the wine industry attempts have been made by both the input suppliers and grape farmers by establishing a vertically coordinated structure by means of cooperative in order to internalise the risks.

However, conversely to such a self-centred act, opportunism should not be equated with deliberate cheating alone. In its positive sense, opportunism derives from those rational cognitive responses which tend to seek to serve those economic interests that might conflict with the interests of another transacting partner. Resorting to the ‘who is to be blamed’ scenario is justifiable in such a case, as business interests vary.

Another factor that could influence opportunism is the asset specificity problem and is discussed below with its market dilemma.

4.4 The asset specificity

Asset specificity refers to the level into which the farm assets are committed into a particular use either in the production, marketing or logistic process. Williamson (1979) and Staatz (1984), Lazzarini *et al.* (2000) and Bijman and Hendriske (2003) argue that the more these assets become specific to a

particular use or user, the more costly or impossible it becomes to divert their original use to alternative uses.

Royer (1995) identified four site specificity cases; this includes the following:

- site specificity (assets invested in the farm or within the operating unity);
- physical assets specificity (which includes the tailoring of those assets with physical properties to a particular transaction, such as to those of a dairy parlour);
- dedicated assets (with the investment infrastructure being based on a particular customer's needs to generate profits); and
- human asset specificity, such as knowledge and specialised skills.

Assets specificity brings about high sunk cost in the farm such as establishment of the vineyards, dams, electric wires, storage and storage facilities. At times, these costs turn to control the bargaining power of the farmers. For instance, during the low harvesting period, grape farmers are always found vulnerable and with low negotiation options and as a result they get exploited by the buyers. This experience has influence the farmers to vertically integrate with other stakeholders and to an extent of developing a shareholding structures that could limit this restrict.

According to Verde (2005) such a form of collective action allows the farmer to bargain collectively and to lobby for government action to ensure the maintenance of due regard for contracts. Subsection 4.5 below discusses the impact of fixed assets and the rationale behind the power of the market.

4.5 Asset fixity and market dilemma

The theory of contestable markets links the asset fixity dilemma with the immobility of assets (Baumol & Panzar, cited in Williamson, 1979). The said researchers imply that a high degree of specialised assets results from both high investment costs and from highly specialised human capital and market segments in the marketing chain. Such three-tier features generate the 'invisible hand' effect on the market, by creating incentives for farmers and their trading partners to contribute meaningfully to the related market forces. Baumol *et al.* (1982) argue that for market forces to arise, assets must be immobile on both sides of the markets, in order to allow for the transfer of rents between the various market-based actors, such as the farmer, the processor and the retailer. The nature of such actors reflects both the disintegration of the relevant markets and the existence of transactions between the different actors concerned.

Williamson (1979) notes that the existence of a fragmented market can lead to the occurrence of opportunistic behaviour, which integrated cooperative powers should serve to limit. Staatz (1984) asserts that the poorer the integration of markets is, and the more highly specific the assets are, on both sides of the market, the greater is the scope for the opportunistic appropriation of rents. Such a phenomenon encourages farmers to form cooperatives or other forms of vertical integration, in order that they might reduce those risks that are associated with opportunism.

Such an analysis shows how the existence of farmer cooperatives is seen as being of particular interest in situations that are subject to opportunism, especially in relation to the balancing of market forces, and in those situations that require the addressing of the asset fixity problem. In addition, the contingent pricing principle might incentivise farmers to enter into collaboration as part of an integrated company. Such a principle is discussed in Subsection 4.6 below.

4.6 Contingent pricing

As cooperatives operate at cost, the returns that they earn and the prices that they charge are contingent on the earnings that they receive. Ideally, contingent pricing in cooperatives is accomplished using patronage refunds, which constitute a payment system, according to which the patrons are paid for those deliveries that they have made throughout the year. According to Bruwer (2005), South African wine cooperatives tend to use three different payment systems, including that of the advance payment, which is payable by means of bank loans. An advance payment is the initial amount that farmers receive once they have made their deliveries to the cooperatives. After the bank loan has been repaid, an interim and last payment follow. Such payments are allocated in terms of the pooling system, which is responsible for collectively managing the returns of the members concerned (Bruwer, 2005). To exemplify, Staatz (1984) regards such a payment arrangement as a risk-reducing mechanism, since the farmers concerned are able to avoid the costly mistake of committing to pricing that might be either too high or too low. Such a secured payment system is, therefore, contingent on the receipt of the bank loan, as well as on the matured returns that form an intrinsic component of the pooling system.

Cook (1995) views contingent contracting as it likely to operate more smoothly in a cooperative, because the related financial accounts are vested in members' patronage, so that the level of trust and support in the system is likely to be high. Again (Cook, 1995) argue that a common advantage of agricultural cooperatives is their ability to reduce the variability of farmers' income by means of the pooling of growers' returns and expenses across products, time and space.

In the wine cooperative context, such pooling of returns and expenses has led to a reduction in market-related risk, because the fluctuations in those returns that are received from certain grape varieties are counterbalanced by the returns received from other grape varieties. Such an income stabilisation function is important for grape farmers, due to the variations that they experience in their produce (Ewert *et al.* 1998).

Although cooperative pooling might provide some measure of income insurance, for it to act as an incentive for the establishment of cooperatives, such pooling should be more cost-effective than other ways that farmers have of stabilising their income, such as on-farm diversification and a reliance on capital or futures markets (Cook, 1995). Staatz (1984) suggests that, in general, farmers might prefer pooling to the other methods of stabilising their income for at least two reasons.

The first reason for farmers to prefer pooling is due to the reduction in transaction costs at the farmer's level, in relation to those that are likely to be incurred with other forms of income insurance. For instance, using futures markets would force the farmer concerned to undertake several transactions, such as the taking out, and paying, of loans and the buying and selling of contracts. In a cooperative, however, such costs are internalised, with decision-making regarding buying or selling being centralised at managerial level (Cook, 1995).

The second reason for farmers to prefer the use of the pooling system as a means of stabilising their income pertains to the belief that pooling, at least in part, transfers the income that is generated by a more remunerative crop to those farmers who might otherwise have to cope with a decline in sales (Cook, 1995). Again in the context of South Africa, a pool in the wine industry could include different varieties of grapes, so that substantial income transfers can occur if the returns from a highly profitable grape variety are used to help subsidise the production of comparatively low-return grapes. Staatz (1984) notes that the extent to which such transfers can be sustained depends on whether the producers of the highly valued products are prepared to sustain and increases the range of crops that is highly marketable. The maintenance of such a system could result in a more homogenous pool.

If pooling can act as an income stabiliser and, as a result, allow the producers of perishable products to access shared benefits, the use of such a system is likely to motivate them to organise themselves collectively (Ewert *et al.* 1998). Such collective organisation would necessitate the development of vertical integration, and possibly result in the formation of cooperatives. However, the practice of

vertical integration, on its own, has several challenges. Section 4.7 below provides a discussion of the externality principle, as it relates to the companies concerned.

4.7 The externality principle

The externality principle hypothesises that a firm will integrate vertically when the participants in adjacent market stages impose negative externalities on them (Staatz, 1984). Such vertical integration occurs in several different industries, including the wine and agro-food industries. Staatz (1984) is of the opinion that a major externality arises whenever participants in an adjacent market, either intentionally or unintentionally, negatively impact on the production systems, products and resources of other companies.

For example, a wine farmer might produce a high quality of bulk wine that requires further nurturing, filling, packaging and handling in the subsequent processing stages. In such a case, any negligence that occurs during such processing stages might ultimately adversely affect the quality of the final product (in its liquid product form). Such an adverse effect might damage the farmer's reputation with those consumers who buy the tainted product. Sykuta and Cook (2001) note that, in order to retain the high quality of the product, it is preferable for the companies concerned to integrate their operations vertically, in order to develop and control the quality of the product throughout.

In terms of the South African perspective, Bruwer (2005) notes that vertical integration between the wine cooperatives and the wine companies has already been achieved in South Africa. Consequently, the wine industry has secured relatively sound control over its distribution systems. In addition, Bruwer (2005) notes that the producers in the wine industry tend to collaborate as regards their bottling and marketing services, which are handled jointly by integration teams in the wine sector. The relationships typifying such integration develop by means of the buying and trading of shares between the cooperatives and companies concerned.

Staatz (1984) argues that farmers might also have an incentive to integrate vertically on the input side. An example of such an incentive is when the grape farmers introduce new inputs, such as fertiliser, improved seeds and insecticides, whose characteristics, such as whether they will, in fact, produce high-quality grapes, are difficult to determine in advance. In such an instance, Staatz (1984) argues that the difficulty in determining the quality of the product that will be generated by such inputs in the short term increases the likelihood of opportunism. As the high quality of the product is not instantly apparent during the introductory stage of such input, the fly-by-night input suppliers are likely to

benefit during such a period. The solution for farmers who wish to guard against such opportunism is to integrate vertically with the input supply businesses by means of the development of grower-owned firms. In addition, processing firms might also wish to integrate with the farmers in order to assure the quality of product and the transmission of information from consumer to farmer. Besides improving the factor of convenience in supply and demand chains, such integration is also posited as a cost-effective way in which processors can defuse the chains, as it eliminates some contracting costs (Verde, 2005). The principles explained above showed how farmers might choose to pursue their farming and marketing activities on a collective basis.

4.8 Conclusion

Chapter Four applied some TCE concepts to examine the incentives for farmers to form vertically integrated structures. Several hypotheses were examined from the perspective of the three basic principles of the transaction–cost approach, namely, those of asset fixity, uncertainty, and externality. Asset fixity is regarded as generating an incentive for wine farmers to cross their borders and to seek to appropriate rents that will disburse their economic activities. The cheapest way of following such a route was mooted as being by means of ‘public transport’, in the form of an institutional model that internalises membership costs. Asset fixity, therefore, underlies the argument that cooperatives are necessary in order to stabilise the risks associated with membership, by both providing farmers with market-based power and preserving their access to markets. Wine cooperatives were also found to offer farmers certain advantages in dealing with uncertainty, such as the possibility of contingency pricing by means of patronage refunds. The offering of such advantages suggests that cooperatives can play a role in those areas where production and prices are relatively volatile, and where other risk management tools are not accessible to the farmers concerned (such as in the case of the futures market).

Wine farmers might also formed cooperatives to internalise any externalities that are imposed on them. On the output side, it has been found that the negligence of trading partners in maintaining the quality of farm products might adversely affect the demand for such products. As a result, the farmer might integrate vertically to limit such risks. In contrast, farmers might wish to integrate retroactively in order to ascertain the quality of input. However, in many societies the ability of cooperatives to attract and to serve members according to what they require depends, firstly, on the concessions granted by political systems; secondly, on the perceived role of cooperatives as democratic tools; and thirdly, and most importantly, on the success of the cooperative system in that society. The latter is argued to be

dependent on the way in which cooperatives are governed by their members, as well as on the way in which members respond to cooperative systems. Accordingly, Chapter Five explores issues relating to cooperative governance.

CHAPTER 5: AGRICULTURAL COOPERATIVES AND GOVERNANCE PROBLEMS

5.1 Introduction

In the wine industry, a substantial part of both the purchasing of grapes and the marketing of finished wines is carried out by several distinct organisational forms. In the light of their long history of operation and their much-disputed reputation, wine cooperatives have played a crucial role in promoting the interests of those farmers who belong to them. For decades, the efforts of such cooperatives to advance such services have been challenged by increasing pressure from the ever-changing competitive environment of which they form a part. Ewert *et al.* (1998) argue that such an environment has placed a strain on cooperatives, including their governance.

This chapter discusses the literature on organisational challenges of most importance to cooperative governance by using the New Economics Theory of Brennan (2004), Shafritz and Ott (2001), Sykuta and Cook (2001) and Nilsson (2001). The aim is to attempt to apply the literature to South African wine cooperatives. By so doing it covers the nature of the cooperative, incentive problems and the conditions that induce them.

5.2 The intrinsic nature of the cooperative governance structure

The aim of the present section is to discuss the structure and nature of cooperative governance, in terms of property rights and agency theories. Such theories have been used in this section to provide the appropriate parameters for the identification of incentive problems within the cooperatives. As will be explained in the following subsections, Brennan (2004), Shafritz and Ott (2001), and Sykuta and Cook (2001) converge on a set of interrelated arguments which hold that those problems which relate to incentive are believed to plague cooperative organisations, due to their structure and the nature of their governance system.

The cooperative structure is perceived by Sykuta and Cook (2001) to be producer-owned and producer-governed. Brennan (2004) defines such an organisational structure as that which is characterised by its transparency and the highly visible participation of its members. According to Brennan (2004), such an organisational structure has the potential to introduce a greater sense of trust into an organisation than

might else exist, because the producers are involved in both the governance and in the patronisation of their organisation. Such a structure typifies collective governance, since a member's rights to patronise and to participate in decision-making processes are the same. Shafritz and Ott (2001) argue that the specification of such rights of membership is effected by means of contracting, and that the behaviour of an individual, including that of a manager, in cooperatives depends on the nature of such contracts.

In the light of the existence of such relationships, Nilsson (2001) views the cooperative as consisting of a nexus of contracts with the relevant stakeholders, such as the employees, the suppliers, the customers, the creditors, and the owners. All such contracts, apart from those involving owners, are characterised by the receipt of a fixed remuneration, whereas the owners are vested with the right to receive the residuals of the cooperative's operations. Accordingly, the concept of contracting, in relation to cooperatives, gives rise to the existence of transaction costs that become operative whenever a transaction of service takes place. When such services are in high demand by the external environment, it might be more cost-effective for the cooperative concerned to make them available within the organisation in the form of long-term contracts. The level of completeness and reliance on such contracts raises another dilemma in relation to incomplete contracts.

The incomplete contract theory of Sykuta and Cook (2001) asserts that the emergence of such a dilemma has come about as the result of the allocation of control rights over the related asset. The holders of the control rights, accordingly, determine the degree to which the contingencies facing the organisation can be fully identified, as well as how quickly the residual losses can be avoided. The distance between those with a residual claim and those in residual control has become a bone of contention in cooperative governance is discussed in Subsection 5.2.1 below.

5.2.1 Property rights and the agency dilemma

The current subsection addresses those dynamics that occur in the relationship between the cooperative members (the principals) and their managers (the agents). The relationship between the principal and the agent is bound by those residual powers that are assigned to both parties in order to achieve a number of different goals and/or utility functions. Such assignation results in a twofold control structure in governance systems, in terms of which the agents are vested with absolute control over the principal's welfare and with the operations of their cooperatives, whereas the principal has control rights over the agent and over those returns which are generated by the cooperatives.

Shafritz and Ott (2001) refer to such a residual structure as being reductive in nature, due to the type of property rights that apply to it. For example, those members of cooperatives who hold no individual ownership rights in the organisation simply own the monetary value of their own shares. In addition to their shares, cooperatives also have unallocated equity capital, meaning that capital which is collectively owned, and which is subject to collective decision-making. Accordingly, the members of cooperatives have scant individual property and control rights over the accumulated capital of the cooperatives concerned, with the operations of the cooperative largely being in the hands of external parties (Shafritz and Ott, 2001).

Shafritz and Ott (2001) and Sykuta and Cook (2001) surmise that, since both the ownership and control portfolios constitute utility maximisers, it is likely that the agents concerned will not always act in the best interests of their principals. According to Cook and Iliopoulos (1999), such a separation of rights is likely to discourage members from investing in their own organisation, and is likely to militate against the overall ability of the organisation to generate equity capital. In this way, property rights problems result in the agency dilemma and in the development of cooperatives. The complexity of the above-mentioned agency dynamics has several implications, in connection with which Nilsson (2001) focuses on the achievement of cooperative returns in response to daunting challenges, finding that cooperative governance systems tend to function inefficiently. In Subsection 5.2.2 below, the alleged inefficiencies of cooperative governance are discussed.

5.2.2 Alleged inefficiencies in cooperative governance

As stated above, cooperatives have been the subject of criticism due to issues relating to unclear property rights and high agency costs. The current subsection looks at those elements of the governance structures of cooperatives that are generally regarded as inefficient.

The inefficiency of cooperative governance mechanisms has been well documented by Cook and Iliopoulos (1999) and Nilsson (2001). Nilsson (2001) identifies three elements that lead to inefficiencies in agricultural cooperatives, and argues that such elements detract from the effectiveness of the cooperative organisation. Nilsson (2001) argues that principal-agency costs are one of the problems that result in technical inefficiency. The core of the problem is rooted in the separation of ownership and leadership participation. The problem is complicated by the fact that the managers of cooperatives tend to receive fixed remuneration packages, which are characterised as incomplete and costly to maintain. Apart from the high management costs, decision-making in cooperative governance is complex, due to the involved ownership structure, which, at times, inhibits the owners from reaching

mutual agreements and from being open to new ideas that might benefit the whole organisation. Based on technical concerns, Nilsson (2001) regards cooperatives to be less technically efficient than are their non-cooperative counterparts.

Nilsson (2001) argues that the problem of allocation inefficiency results from the fact that cooperative members are residual claimants and decision-makers regarding their own business, as a result they tend to under-utilise their resources. Such a scenario comes about when deciding about the allocation of costs to purchase new assets for developing the operations of the cooperative. Differences regarding whether or not to purchase such assets are influenced by such factors as the level of commitment and risk involved. As a result, certain members might be reluctant to become involved in long-term investments or to take risks that will generate returns in the long-term. Nilsson (2001) argues that such a tendency has the potential to inhibit the competence of an organisation, due to the lack of organisational development. In turn this could be caused by the existence of different member objectives that exist in an organisation. Due to this perceived effect, member objectives became one of the key factors that could be investigated as part of the member characteristics in this study.

Further on to the discussion Nilsson (2001) argues that the nature of, and the principles that are upheld by, cooperatives also contribute to their inefficiency. Such a finding is indicated by the presence of those legal constraints and organisational standards that restrict the type of business that cooperatives can conduct. Cook and Iliopoulos (1999) and Nilsson (2001) assert that such a restriction serves to limit the growth of the organisation; as a result cooperatives are likely to be scale-inefficient. By nature the operations of cooperatives are limited to a specialised segment of each of the product value chain. Hence, its scope to service the needs of its members is restricted to one activity. This revelation has led the study to include cooperative institutions as one of the factors that could create member's characteristic such as possession of different shareholdings from various cooperatives.

Prior to the making of such a finding, Cook and Iliopoulos (1999) had demonstrated the following five vague property rights problems resulting from such a separation: the free rider problem; the horizon problem; the portfolio problem; the control problem; and the influence cost problem. Borgen (2003) asserts that such problems act as disincentive mechanisms for members to invest in their cooperatives, as well as affecting the overall ability of the cooperative in question to generate equity capital.

Borgen (2003) and Sykuta and Cook (2001) also suggest that members of cooperatives are more willing to invest in equity when those cooperatives to which they belong are characterised by such

structures as closed memberships, marketing agreements, and transferable and appreciable equity shares. Specifically, such structures are perceived as reducing the high rate of opportunism that can occur as a result of free riding, horizon and portfolio problems. As a result of the existence of such factors, incentive problems have also emerged in cooperative governance studies. Such problems are discussed in Subsection 5.3 below.

5.3 Incentive problems of cooperatives

The current section discusses the incentive problems of cooperatives, which incorporate what Cook and Iliopoulos (2000) regard as vaguely defined problems to do with property rights. Borgen (2003) identifies two sets of such problems, namely investment-related incentive problems and decision-related incentive problems. Subsection 5.3.1 below discusses investment-related problems as constituting a disinvestment mechanism that militates against cooperative members committing on investment-related decisions.

5.3.1 Investment-related incentive problems

Investment-related incentive problems are commonly conceptualised from the perspective of property rights theory. As stated in Section 5.2, property rights are founded on the basis of ownership structure. Such rights both entitle owners to make claims on grounds of residual returns and assign them with their relevant roles in the decision-making process (Borgen, 2003). In cooperatives, three property rights are distinguished: the right to use assets; the right to obtain benefits generated by the assets; and the right to transfer certain rights to other members (Borgen, 2003). In relation to such rights, the free rider problem, the horizon problem and the portfolio problem will be shown to affect the decision-making process in cooperatives adversely.

5.3.1.1 *Free rider problem*

As a cooperative is collectively owned by its members, its assets are collectively owned by all members. A problem arises due to the user owner and control principles when new members join the cooperative in question, as they then immediately gain access to all those assets that the long-standing members have already accumulated. The equal sharing of assets among all members in a cooperative results in the new members being able to free ride by accruing equal benefits to those possessed by the long-standing members (Nilsson, 2001). Nilsson (2001) argues that the disparity that exists between members, both in terms of their contributions to equity investment and in the length of time that they have been contributing to the cooperative, might result in a clash over free-riding behaviour between the new and the more long-standing members. Such a proposition assumes that the free-riding problem

is closely linked to the collectively-owned (public good) equity, as those who have served the cooperative for a relatively long time tend to gain no additional benefits from such long-standing membership.

Ideally, based on the amount of patronage that is expected from the long-serving members of a cooperative, those patrons who are new members should acquire the same rights both to organisational cash flows and to participating in the organisational decision-making process as are possessed by the former. In terms of the patronage principle underlying membership interaction, new members are allowed to benefit just as much as the existing members do, even though they have not made investments that are of equal value to those made by the existing members. In other words, the membership rights accorded all those who pay membership fees are the same, no matter whether such fees are paid by new or long-serving members. Such equality of treatment allows for the free riding of new members, which can be seen as a flaw in the cooperative system in terms of the valuation and trading of residual rights. Another dimension of such differences in investment incentives concerns the horizon problem.

5.3.1.2 *Horizon problem*

Cook and Iliopoulos (1999) assert that the horizon problem occurs when the productive life of an asset exceeds the duration of the member's claim on the cash flow that is generated by the asset. Effectively, what this means is that the returns of the claimants are less than is the return that was generated by the asset. Nilsson (2001) argues that the complex nature of such a problem lies in the disparity that exists in the different life spans of the various claimants in the cooperative, as well as in the difference in the interests of such claimants, as well as the directors and the managers who are concerned with the distribution of benefits and the investment costs. For example, if the investments are to be paid off only after some members retire or withdraw from the cooperatives; the members concerned might be very reluctant to bear the costs of financing the investment. Borgen (2004) argues that the horizon problem is likely to be more serious when:

- individual members commit to large investments;
- the membership is open to everyone;
- intra-family membership transfers are prohibited; and
- the membership is large and diverse.

Differing horizon planning, in terms of investments, might not only lead to an inability to reach uniform decisions, but also result in the favouring of investment-related decisions in support of a short

payoff horizon (Sykuta & Cook, 2001). Added to such a problem is the existence of the portfolio problem, which relates to the variance in the risk profiles of the members concerned. The portfolio problem is discussed in Subsection 5.3.1.3 below.

5.3.1.3 Portfolio problem

According to Cook (1995) and Cook and Iliopoulos (1999), the portfolio problem in cooperatives is the result of the extremely diverse risk profiles of its members. Cook (1995) argues that such a problem is caused by the tied equity, as well as by the fact that investment-related decisions are made collectively. Cook and Iliopoulos (1999) hold that the existence of such a problem gives rise to further differences in preferences among members, with a general tendency for them to favour only decisions with lower levels of risk. The portfolio problem presents itself in a number of governance-related inefficiencies, such as in the prolonging of the decision-making process and in the failure to allocate capital resources. Besides investment-related problems, the literature also reveals four problems that are related to the decision-making processes. Such problems are discussed in Subsection 5.3.2 below.

5.3.2 Decision-related incentive problems

The overriding problem in the decision-making process in cooperatives is that of the existence of potentially differing interests among the different members (Cook and Iliopoulos, 2000). With respect to the decision-making problems, Borgen (2003) sets three generic conditions for relationship-based problems in cooperative organisations, including instances:

- of divergence of interest between the principals and the agents;
- of the inability of principals to monitor the actions of their agents perfectly without costs; and
- of the inability of principals to acquire the information that is possessed by agents without costs.

Such conditions manifest themselves in the control problem, the follow-up problem, and the influence cost problem, all of which are discussed in the following subsections.

5.3.2.1 Control problem

Nilsson (2001) explains that control problems occur as a result of the allocation of decision management functions to contracted decision-makers who are not residual claimants. The concern to which such an allocation gives rise is the divergence of interest between management and the members, as the focus of a manager's interest is usually on employment security, on issues of prestige, on decision-making that is based on the maintenance of personal relationships with the staff (in terms of their careers), and on the granting of possibly specific benefits to close associates (Nilsson, 2001). In addition, Brennan (2004) argues that the complex relationship that exists between managers and

members has been worsened by the existence of moral hazard (in the form of hidden action), as well as by adverse selection (in the form of hidden information). Brennan (2004) views as morally hazardous those situations in which the actions of agents are hidden from the principals, which are costly to observe. The full monitoring of the actions of agents is either too costly, or even impossible, to perform. By implication, such a tendency results in a monitoring problem, with the members of the cooperative being likely to find it prohibitively costly to guide the management team in such respect.

A hidden information problem, which is also known as adverse selection, comprises a scenario in terms of which the agents have the advantage of information asymmetry over the principals. In addition to identifying such an advantage, Borgen (2003) further argues that, in terms of the management perspective, such a tendency might be experienced when the cooperative managers hold crucial knowledge on which the cooperatives in question rely. Such a situation usually results in the need for principals to normalise such situations by, for example, establishing efficient systems of financial rewards that align the managers' interests with the levels at which they are expected to perform (Sykuta & Cook, 2001). Also, the unequal amount of knowledge that is possessed by different cooperative members, in terms of which some members have an information advantage over others, who, as a result, tend to rely on the former for advice. Such an imbalance can lead to the misuse of power by those who are better informed (Sykuta & Cook, 2001), resulting in the follow-up problem, which is discussed in Subsection 5.3.2.2 below.

5.3.2.2 Follow-up problem / Control problem.

According to Nilsson (2001), the follow-up problem can occur in a cooperative with a large and heterogeneous membership, which is characterised by their having little, or relatively no, control and influence over the decision-making process. Nilsson (2001) argues that, in such cases, it is likely that such members will come to rely on those with an information advantage, who are closer to the board of directors and the managers than they are, in order to advance their own interests. Such a situation places the executive board members in a difficult position regarding the weighing up of different members' opinions. Consequently, the negative element of collective ownership, in this case, creates a risk of members losing interest in monitoring their organisation, resulting in their loss of control over the ownership of the cooperative concerned, which might lead to biased, poor-quality decision-making. The existence information imbalance has been specially looked at this study as one of the factors that members hold for their own benefit. The additional governance-related incentive issue, to which Cook (1995) refers as the 'influence cost problem', is discussed in Subsection 5.3.2.3 below.

5.3.2.3 *Influence cost problem*

Cook (1995) states that the influence cost problem occurs when different groups of owners of a cooperative express opposing interests during the decision-making process, so that they lobby for support against one another. An instance of such counter-lobbying can be seen in decision-making regarding the distribution of wealth or other benefits among members. For example, in those activities that involve the election of new members to executive boards, internal lobbies tend to be accompanied by the abuse of stature by the members of a cooperative. The development of such a scenario might result in the development of the influence cost problem, which tends to arise when the different members manipulate one another in order to advance their own selfish interests. Gripsrud *et al.* (2000) note that the pursuit of such interests by the members concerned does not occur without cost. Such costs include the amount of time spent and resources used by the members in order to position themselves to influence the decision-making process. The organisation itself might expend resources in attempting to respond to such attempts to influence the process (Gripsrud *et al.* 2000).

In addition to the overriding problems mentioned above, Cook and Iliopoulos (1999), Gripsrud *et al.* (2000), and Nilsson (2001) have identified several elements that impact on the incentive problems concerned. The elements are discussed in Section 5.4 below, in relation to those objectives which were set out in Chapter One.

5.4 **Conditions that induce incentive problems**

The current section of this thesis explores the above-mentioned incentive problems, to which the heterogeneity of membership contributes, according to Gripsrud *et al.* (2000) and Nilsson (2001). Gripsrud *et al.* (2000) cite seven elements that Cook and Iliopoulos (1999) view as applicable in identifying the degree of heterogeneity among the members in cooperatives. Such elements include variance in:

- the geographical distribution of members;
- the number of different commodities/inputs produced/purchased by members;
- the members' ages;
- the members' educational levels;
- the size of the members' farm(s);
- the percentage of non-farm income received by the different members; and
- the business objectives/goals.

Gripsrud *et al.* (2000) argue that such factors create potential grounds of conflict during the making of decisions by the members concerned.

Nilsson (2001) suggests that the existence of a heterogeneous membership might also lead to the receipt of differing amounts of financial contribution from the members. Based on a personal discussion held with Bruwer (2005), the author of this thesis finds that such a scenario can be related to the number of unequal shares (meaning heterogeneity in shareholding) which are bought by members on first entering the cooperative. Hypothetically, such shares, which reflect the level of produce delivered by members to the cooperative, can impact on the level of expectation and increase the amount of incentives, thereby influencing the relevant decision-making. Such a situation might result in the experiencing of conflicts of interest, as the members strive to promote their views, to forge alliances, and, possibly, to engage in politics in general. Therefore, the heterogeneous composition of the membership of a cooperative tends to result in problems related to governance.

5.5 Conclusion

Cooperatives are ruled by internal values, which are argued to be inherent in their governance structure. Such values, therefore, form the culture of cooperative businesses. However, cooperative business systems can be seen as being influenced by several kinds of issues, such as those issues relating to collective ownership and governance, the relationship between owners and their employees, and incentive-related problems. In addition to such factors, the cooperative governance structures stem from a range of agency concerns that are believed to be the result of the separation of claimants' rights from control rights. It has been argued that the separation of such rights leads to the existence of information asymmetry, to the opportunistic behaviour of cooperative agents, and to several agency-related costs.

Chapter Five dealt with those issues that are associated with incentive problems, including investment-related problems, which were discussed from the perspective of property rights theory. It has been noted that the ownership structure of the governance system determines how costs and rewards should be allocated in a cooperative. The second leg of the argument was discussed from within the perspective of agency theory. The overriding problem with such an argument is the existence of potentially different interests among the various members, as well as the amount of influence that such interests have on the design of decision-making mechanisms. It was argued that the relationship between members and their employees is so complex that the delegation of decision-making authority is problematic. Apart from the two sets of incentive problems, cooperative governance problems have

also been posited to arise from a high degree of heterogeneity in the composition of membership. Therefore, the literature has confirmed that the degree of such heterogeneity might contribute to problems related to the governance of cooperative, due to the existence of a diverse number of interests. Consequently, the chapter, after identifying the major aspects that exist in cooperative governance, discussed how such aspects are regarded as factors that might influence the decision-making processes in cooperative governance. The chapter also set out the literature framework on which the methodology is based. Chapter Six describes the research design and methodology used in the current study.

CHAPTER 6: RESEARCH APPROACHES AND METHODOLOGY

6.1 Introduction

Chapter Six focuses on the methodology and the research approaches used in the current study. Its purpose is to describe the techniques used in Chapter Seven for measuring the possible impacts of the selected statements, as well as the level of the correlation between the identified variables. The chapter begins with a discussion of the qualitative and quantitative research approaches as major research designs. This is followed by the description of the research methodology, including the methods and data collection procedure, the measurement instrument (the Likert Scale Method), and the data analysis methods. The methodological approach is first discussed in Section 6.2 below.

6.2 Overview of the research methodology

To satisfy the research needs of any study, Mouton (2001) notes that an appropriate methodology has to be selected, and suitable tools for analysis have to be chosen. He defines two distinct research approaches, namely the qualitative and quantitative research approaches. The current study uses both approaches, due to their relevance to the nature of this study, which requires both subjective and objective analysis. Subsection 6.2.1 below discusses the qualitative approach.

6.2.1 Qualitative approach

The qualitative approach is grounded in the premise of the social sciences paradigm (Babbie, 1995). Such an approach is advanced by Babbie (1995) and Blanche *et al.* (1999) as the form of investigation that tends to recognise the importance of the subjective and experiential nature of the human being. Gilbert (1993) notes that the qualitative approach leads to the discovery of the deeper meaning of human nature and actions. In addition, Gilbert (1993) describes the task of the qualitative methodologies as being that of capturing what people believe and do as a product of how they interpret the complexity of their world, as well as of understanding the viewpoints of the participants. Babbie *et al.* (2001) and Mouton (1996) refer to such an approach as consisting of a broad methodology that makes use of collection methods and techniques that share certain principles and logic to study social action. Among such key methods are those of data collection, such as participation observation, semi-structured interviewing, and the construction of life stories from personal documents. Holland and Campbell (eds. 2001) and Mouton (1996) note that the qualitative methodology gathers information in

the form of text-based units, which represent the social reality, context and attributes being studied. The study also takes cognisance of the limitation of such an approach, which is acknowledged by Blanche *et al.* (1999) as consisting of strict reliance on the texts and discourses of the participants, confining of the focus of the study to a small number of participants, and the lack of adherence to validity and reliability principles. Gilbert (1993) argues that, due to such limitations, the qualitative approach tends to be subjective, not to represent the wider population and to have the capacity to produce only inadequate empirical results.

In addition, Babbie *et al.* (2001) note that qualitative methodological processes involve an analytical induction, discourse and narrative analysis. For the purpose of the current study, which focuses on providing a descriptive analysis of those factors that influence cooperative governance in the wine industry, the qualitative approach was applied. The researcher was, consequently, able to take advantage of the methodological strengths of such an approach, such as systematic induction, narrative and discourse analysis. In the current study, the qualitative approach was first used in the descriptive analysis of the general perception of those factors that might influence the cooperative decision-making processes. To supplement such an approach, the quantitative approach was also used to add value to the study. Such an approach is described in Subsection 6.2.2 below.

6.2.2 Quantitative approach

A quantitative research approach is found in the positivist social science paradigm, Creswell (1994). Creswell (1994), states that this approach focuses on the statistical analysis that could establish whether the hypothesis could be supported or rejected in the light of the evidence that has been accumulated.

According to Gilbert (1993), one of the limitations of the quantitative research approach is that it might disregard human individuality and cognitive ability. Consequently, quantification can become an end in itself, rather than a human endeavour intent on exploring aspects of human nature. Section 6.3 below describes the research design selected for the current study.

6.3 Research methodology

In line with the qualitative research approach that focuses on the study of human action in its natural setting, the current study emphasises those factors that might affect the processes of decision-making among the members of a cooperative. Due to the nature of the study, a case study approach was applied, in order to access the deeper meaning of the phenomenon being researched and to delineate the

parameters of the organisational analysis. Babbie *et al.* (2001) note that such a focus should be characterised by the following features:

- the selection of a small number of cases for study;
- flexible design features, which allow the researcher to adapt and change the study where and when necessary;
- an openness to the potential offered by multiple sources of data; and
- engagement with the object being researched.

However, Babbie *et al.* (2001) note that the case study approach has been more traditionally used in such disciplines as business studies, jurisprudence and social work, so that it has come to be regarded as a research tool and teaching method. Again, Babbie *et al.* (2001) identify six different types of case studies, namely those of organisation and institution; community studies; social group studies; studies of events, roles and relationships; individual case studies; and studies of countries and nations.

For the purpose of the current study, a case study of organisation and institutions was applied. The making of such a selection was informed by the focus of the study, which aimed to assess the nature of a cooperative organisation. The study features the following basic elements of the case study approach:

- the analysis of best practices, which was discussed in Chapter Four, in relation to those issues having to do with the existence of opportunistic behaviours in the cooperative organisation;
- policy implementation and evaluation, in relation to those elements that constitute the environment of cooperative governance, as described in Chapter Five;
- the analysis of human resource practices;
- the analysis of management and organisational issues and culture; and
- the process of change and re-engineering, which was discussed in Chapter Five, in terms of property right and agency theories.

Such concepts were used for identifying those major factors that can be measured by the methods discussed in Section 6.4 below.

6.4 Methods of data collection used in the study

6.4.1 Primary research methods of data collection

A Likert-scale questionnaire was the main instrument used to gather the quantitative data in the current study. The questionnaire was designed around the making of statements based on opinions, as a means

of exploring the respondent's perceptions regarding those factors that might affect cooperative governance. Questionnaire-based surveys have been used by several different researchers to measure the perceptions of constituencies as to the operations of their organisation and as to the impact on cooperative governance. The survey in the current study was conducted by means of semi-structured questionnaires, which were e-mailed and faxed to individual members of the target group. In addition, individual interviews were also conducted personally, including telephonically, in order to obtain insights of a qualitative nature.

6.4.2 Secondary research methods for data collection

The study also made use of secondary resources, including the Wine of South Africa (WoSA) database. New Institutional Economics textbooks, wine reports, academic journals, unpublished manuscripts, conference proceedings, and government publications were also consulted.

6.5 Description of the main measurement instrument used in the study: The Likert Scale Method

Such aspects as beliefs, attitudes, values and goals have been well documented in a number of impact studies, with the development of impact assessment scales receiving considerable attention (Clason and Dormody 1993; Dakurah *et al.* 2005; Hardman *et al.* 2002 and Mude, 2005). An impact assessment scale provides researchers and practitioners with a tool for measuring responses received, allowing for an adequate comparative analysis to take place.

Likert (1937) was the first to propose such a method of attitude measurement. Since he first devised such a method, Likert Scale Questionnaire surveys have been widely used for measuring the perceptions and attitudes of respondents regarding the socio-cultural impact of various phenomena Dakurah *et al.* (2005) and Clason and Dormody (1993).

Some of the item statements included in the scale were expressed positively and some negatively, to discourage the respondents from responding automatically to the statements, as well as to promote their consideration of each and every item. The individual items were analysed by counting how many respondents gave a particular response to a specific item. To calculate the sum of the numerical value, a tabulation of processing, which was also alluded to by Holland and Campbell (eds. 2001), was carried out. Holland and Campbell (eds. 2001) note that, in order to sum up the numerical values, a subject's score has to be tabulated by assigning a numerical value to each of the answers, ranging from 1 for the

alternative at one end of the scale to 6 for the alternative at the other. However, the principal objective of such an exercise is to arrive at a combined overall score for all items.

Likert (1937) and Lankford (1994) identify three main advantages of the Likert method and this includes:

- The method considers the responses of subjects, rather than subjective opinions, and is entirely based on empirical data.
- The amount of preparation required is minimal.
- The method produces more homogenous scales, and increases the probability of a unitary attitude being measured; as a result, both the construct and concurrent validity and reliability are reasonably high.

6.6 Construction of the Likert Scale Questionnaire

The basic procedure used in the current study for developing the scale for measuring the respondent's perceptions was adopted from those of Likert (1937); Lankford (1994) and Clason and Dormody (1983). The following four main steps were taken in developing the instrument:

- **Step One** consisted of the identification and generation of impact variables. Such impact variables were derived from three sources of information: (a) a literature review of impact items which were used in previous research on respondents' attitudes towards cooperatives; (b) a review of questionnaires used in earlier attitude and perception studies relating to cooperative member participation and influence; and (c) a literature review on the existence and effects of homogeneous and heterogeneous membership in cooperatives. The said literature could also be found in the literature body of this thesis in Chapter four and five.
- **Step Two** consisted of using the above-mentioned variables to formulate 21 attitudinal statements. The survey questionnaire consisted of two parts, which incorporated the six-point Likert scale to measure the respondents' level of agreement or disagreement, while allowing them to state their neutrality or lack of opinion about the content of the statements made.
- **Step Three** consisted of the pre-test, which was conducted using a sample of five questionnaires. The pre-test was undertaken in order to ensure the clarity of questions and to measure whether the questionnaire could be completed within a reasonable period of time (about 15 minutes). The questionnaire was broadly guided by the following questions:
 - What effect/impact does group size have on the pursuit of cooperative governance?

- What impact does the inequality of turnover acquired by cooperative members have on decision-making?
- What effect does the level of members' knowledge of cooperatives have on decision-making?
- What impact do the goals of members of cooperatives have on the process of reaching common investment-related decisions?
- What influence does occupational status have on the extent of involvement of members in a cooperative?
- Which cooperative principles still hold, or are still applicable, in wine cooperatives?
- **Step Four** consisted of modifying the survey instrument in response to those comments and suggestions that were derived from the pre-test. The questionnaires were also consequently reworded in keeping with the jargon used.

A Likert Scale Questionnaire was the main instrument used to obtain the quantitative data, and was designed around opinion statements as a means of exploring the respondents' perceptions of a wide range of influential characteristics of membership. The questionnaire elicited the expression of beliefs about cooperatives, such as the effect of group size, turnover acquisition, the education attained by, as well as the experiences of, individual members, as well as their goals, occupational status and beliefs about cooperative principles and the taking of collective action.

6.7 Data collection procedure

For the purpose of the current study, purposive or judgemental sampling was applied as a non-probability technique. According to Bless and Higson-Smith (1997), such a sampling technique is based on the judgement of the researcher, which specifies the characteristics of a representative sample, as well as what the researcher considers to be typical units. For the study, respondents were chosen for their exposure and knowledge of the topic being researched. Fifty wine cooperatives were randomly selected, of which 46 were open to being used in the study. Consequently, the respondents in the cooperatives were selected primarily due to their decision-making experience during wine cooperative meetings. The respondents included cooperative managers, directors and other managers. Since the interest of the current study focuses on the individual respondents' perceptions of those factors that might influence the decision-making processes in wine cooperatives, qualitative data were deemed to be the most suitable for collection. Bless and Higson-Smith (1997) argue that qualitative data are open

to the case study approach. As qualitative analysis allows for generalisation of the results, such a form of analysis has been used in the current study.

A series of personal telephone interviews and e-mail conversation was conducted, together with the use of the structured questionnaires. Though the use of structured questionnaires leads to a range of possible answers, greater flexibility was achieved by increasing the number of possible response alternatives to that used in the standard study of this nature. Consequently, the respondents were able to choose from a broader possibility of answers, which allowed them not only either to agree or disagree with the statement in question, but also to choose to remain neutral, in those cases that they felt such neutrality was necessary. They were also able to state that they had no opinion about a particular statement. The assessment was conducted based on a series of choices, ranging from 'strongly agree', through 'agree', 'neutral', 'disagree', and 'strongly disagree', to 'no opinion', allowing the respondents to express the degree of their beliefs in the opinions advanced.

6.8 Validity and reliability of data

Welman and Kruger (2001) describe validity as a mechanism that ensures that the process implemented to collect data has collected the intended data successfully. According to Babbie *et al.* (2001), validity refers to the level at which an empirical measure adequately reflects the real meaning of the subject under study. In the current study, to ensure that the data acquired was valid, the following actions were taken:

- An extensive literature review was undertaken, in order to find out how case study interviews should be conducted.
- The purpose of the study was clearly explained to the respondents concerned, and issues of concern were resolved satisfactorily. The procedure of collecting the data was explained to the respondents, and they were requested to submit the questionnaire two weeks later. Such an act was taken keeping the quantitative approach in mind, due to the limitations of the qualitative method involved.

Babbie *et al.* (2001) describe reliability as the condition in which the same results will be achieved whenever the same technique is reused to perform the same study. Reliability in the current study was achieved by undertaking the following:

- The credibility of the study was reinforced by its being mentored by the professional statistician at Stellenbosch University.

- The respondents who completed the questionnaires were directly involved with the wine cooperatives in question.

6.9 Methods of data analysis

According to Welman and Kruger (2001), qualitative data analysis tends primarily to be an inductive process of organising data into categories and of identifying patterns. For the first part of the study, a content analysis method was followed to gain an understanding of the procedures and the importance of qualitative data analysis. The adoption of such a method entailed conducting a literature review to study the various techniques used for analysing qualitative data. According to Babbie *et al.* (2001), the most general guide for analysing the qualitative data involved looking for similarities and dissimilarities in the data. Such a guide must be capable of analysing the patterns of interactions and events that are found to occur in what the researcher is studying (Babbie *et al.* 2001). The analysis focused on the qualitative data collected during the study in response to the questionnaires, all of which data were coded categorically, before being reflected on an Excel spreadsheet.

The data which were collected by means of the Likert Scale Questionnaire were utilised for the quantitative analysis. This data was coded into six scale beliefs in order to ascertain the level of various beliefs. Such processing enabled the performance of a statistical analysis, which was conducted with the help of a software statistical package, Statistica Version 8. The software made the following actions possible:

- the entering and storage of data;
- the utilisation of retrieval strategies;
- the engagement in statistical analysis;
- the calculation of Spearman correlations for the testing of relationships ; and
- the generation of graphs and reports.

In order to conduct the quantitative analysis, specific questions that were connected in some way were grouped together and numerically coded. Such an action allowed for the capturing of numerical data using Statistica Version 8, which was aimed at finding out any possible correlation of the two variables. Bivariate analysis and the testing of significance was done using a Chi-square test to assess the statistical significance of the two variables. Use of the Chi-square technique indicated whether or not a relation or difference existed between, or among, the different variables. Generally, such a difference was reflected by the level of significance obtained. If the significance level was found to be less than

0,05 or 5%, it meant that there was a 5% chance that the results obtained were positively significant. The analysis of variance was also employed to test the theoretical framework of the study.

The essence of such analyses was to return to the terms of reference, the research problem and the research questions, in order to begin to sort out and evaluate the information gathered in relation to the questions posed in the questionnaire. By doing so, an explanation of the actual meaning of the data could be achieved by means of logical reasoning. The goal of conducting such a procedure was to integrate the general responses into a theory that offered an appropriate interpretation of the analysis.

6.10 Summary

Chapter Six discussed the choice of methodology used to conduct the research. The two approaches of qualitative and quantitative analysis were discussed as tools to be used in the study. The chapter explained the way in which such approaches were customised to suit the requirements of the study. The methods used for the sampling, data analysis and the choice of statistics were described in detail. Chapter Seven presents the results that were generated by the use of such tools.

CHAPTER 7:

DATA ANALYSIS AND INTERPRETATION OF RESULTS

7.1 Introduction

The analysis conducted in the current study is twofold. Firstly, it used a qualitative approach, which focused primarily on organising data into categories and identifying patterns. The purpose of the qualitative analysis was to determine the perceptions of respondents in regard to those factors that might affect decision-making in cooperative ruling and/or governance. The data for the analysis were collected by means of the use of questionnaires in such districts as the Boland, the West Coast, Eden, the Central Karoo and the Cape Winelands.

The second part of the current chapter focuses on the quantitative analysis that was undertaken in this study. The analysis aimed at identifying the relations between the factors (variables) that were perceived by the respondents as impacting on the decision-making process. The variables were selected, based on their common indicators (i.e. large group size; the returns acquired; the influence of education; the development of goals; and the occupational status of the respondents), and with due recognition of their connectivity.

The purpose of such analyses was to return to the terms of reference, the research problem, the research questions and the hypothesis in order to organise and evaluate the information gathered in relation to the questions stated in the study. By doing so, an explanation of the actual meaning of the data and logical reasoning were achieved. The ultimate goal of such a procedure was to integrate the concepts in question into a theory that offered a better understanding and a real interpretation of the results. Accordingly, the chapter described the analytical processes and presented the results of both the qualitative and quantitative analysis.

The aim of the current chapter is to identify trends in the qualitative data that were collected by means of the Likert Scale Questionnaire. The identification of such trends should allow for the generalisation of how the respondents were found to perceive certain variables as influential in cooperative decision-making process and ruling. In addition, the aim of the chapter is to find the possible correlations between the selected variables in order to identify those relations between variables that impact on the decision-making process. Therefore, the purpose of the chapter is to apply the methodological set-up

that was discussed in Chapter Six to answer all those research questions that were raised in Chapter One.

7.2 Basic aspects measured

The current section identifies the following basic aspects which were used for measuring factors that characterised membership participation during the decision-making process:

- the effect of large group size;
- the effect of returns acquired;
- the effect of a high level of education and the experience of members;
- the development of cooperative goals;
- the effect of occupational status; and
- beliefs about cooperative principles and collective action.

From such aspects, 21 statements were taken to develop the Likert Scale Questionnaire, which was used for collecting the data that represented the opinions of the respondents (see Appendix 1). Of the 21 statements, 12 statements were chosen for correlation analysis to determine any possible relations among them (see Appendix 2). The nature of such measurement can also be found in the works of Borgen (2003), Cook and Iliopoulos (1999), Gripsrud et al. (2000), and Nilsson (2001). Such analyses are grounded in the aforementioned studies and the earlier work of Olson (1965).

7.3 Interpretation of qualitative results

The current section of this thesis provides an interpretation of the results that were derived by means of qualitative analysis. Those results that were obtained in response to the 16 statements were measured are presented below.

7.3.1 Group size

Four measures were used to assess the impact of a large group size on the organisation, and participation in, the decision-making process. The members were asked to what degree they agreed or disagreed with the following statements, regarding their impact on decision-making in cooperative governance:

- Larger cooperatives experience difficulty in creating team spirit among their members.
- In large cooperatives, it is difficult to get all members to attend the AGMs.
- At the AGMs, it is difficult to get all members to speak.
- Decisions can be reached more quickly in cooperatives with fewer members.

In response to such questions, 73% of the respondents were found to agree that larger cooperatives experience difficulty in creating team spirit among their members, with 18% strongly agreeing and 55% agreeing (see Table 7.1). However, 27% of the respondents expressed some ambivalence towards the statement by indicating disagreement with it. No respondents stated that they were either neutral about the statement, or had no opinion about it.

Table 7.1: Respondents on the effect of group size

Belief	Agree	Strongly Agree	Neutral	Disagree	Strongly Disagree	No Opinion
Larger co-operative experiences difficulty in creating team spirit among members	55%	18%	0%	27%	0%	0%
In larger co-operative it is difficult to get all members to attend AGM'S	36%	32%	5%	27%	0%	0%
At AGM's it is difficult to get all members to speak.	41%	45%	9%	5%	0%	0%
Decisions can be reached quickly in cooperative with few members.	27%	9%	0%	41%	14%	0%

Many respondents (68%) stated that they agreed with the statement regarding the difficulty in getting all members to attend AGMs (with 36% of the respondents saying that they ‘agreed’ with the statement, followed by 32% who ‘strongly agreed’ on the correctness of the statement). 5% of the respondents were neutral about the statement, whereas 27% of the respondents disagreed with it. The percentage agreeing with the statement outnumbered the percentage at other scale levels, so that the opinions that were experienced on large group size slightly dominated in terms of the idealistic conditions that impact on decision-making in cooperative governance. In the study, such opinions were associated with those factors comprising the conditions prevailing where decision-making processes and participatory activities are found.

With regard to the statement on the difficulty of getting all the members to speak at AGMs, 45% of the respondents ‘strongly agreed’, followed by 41% who ‘agreed’, 9% who were ‘neutral’ and 5% who ‘disagreed’ with the statement. In contrast, the statement on decisions being reached quickly in cooperatives with few members (i.e. under ten members) was supported by 36% of the respondents (of whom 27% ‘agreed’ and 9% ‘strongly agreed’), with 55% of the respondents disagreeing with the

statement (with 41% disagreeing and 14% strongly disagreeing with it). Only 9% of the respondents were neutral about the statement. The results clearly reflected a wide variety of opinions. With regard to the beliefs about the effect of a large group size on the cooperative decision-making process, the results showed a majority of 73% who agreed with the statement.

Such findings, in principle, show that those cooperatives that are characterised by a large group of members are perceived as having difficulty in motivating their members to participate in decision-making. The focal point in decision-making varies widely. Whereas some decision-making processes aim at reaching decisions regarding the distribution of wealth, others tend to focus on investments, with still others being concerned with the election of members to executive boards. The measurement of two beliefs aimed at finding out their possible impact on investment-related decision-making process is discussed below.

7.3.2 Returns acquired

Two measures were used to assess the likelihood of respondents committing themselves to investment-related decisions that were commensurate with the returns that they were likely to receive. Respondents were asked to what degree they agreed, or disagreed, with the notion that:

- those members of a cooperative who have shares in different cooperatives are less likely to commit to the making of large-scale investment-related decisions in a cooperative that offers low returns (see Table 7.2); and subsection
- those members of a cooperative who receive large returns from their cooperative are likely to be more inclined to commit themselves to large-scale investment-related decisions (see Table 7.2).

Table 7.2: Belief on return investment in cooperatives.

Belief	Strongly				Strongly Disagree	No Opinion
	Agree	Agree	Neutral	Disagree		
Members who have shares in different cooperatives are less likely to commit to large investment decisions in a co-operative that offers low returns	9%	59%	9%	14%	0%	9%
Members who receive larger returns from their Co-operatives will be more inclined to commit themselves to investment decisions	14%	64%	9%	9%	0%	4%

As can be seen in Table 7.2 above, 68% of the respondents agreed (with 9% strongly agreeing and 59% agreeing) that those members who have shares in the different cooperatives are less likely to commit to making large-return investment-related decisions in a cooperative that offers only low returns. Only 14% of the respondents disagreed with the statement, with 9% expressing their neutrality towards the statement and another 9% stating that they had no opinion about it. The making of large-return investment-related decisions was seen to be more likely when the members believed that they would receive large returns from their cooperatives. Such a finding could be seen in the fact that 78% of the respondents agreed with the statement, with 14% strongly agreeing and 64% agreeing with it. Of the remainder, 9% expressed their neutrality towards the statement, with another 9% expressing their disagreement with it, and the remaining 4% stating that they had no opinion about it.

In response to the question on investment-related decision-making, a large percentage of the respondents agreed with the statement, suggesting that investment-related decision-making tends to be influenced by the numbers of shares that members hold, as well as by the rate of return that members receive from cooperatives. In addition, the impact of the level of education and experience of high-profile members on their decision-making has come to the fore. The results of such an impact are discussed in Subsection 7.3.3 below.

7.3.3 Influence of members

The general beliefs about the influence of members among themselves were assessed by means of the following three statements and the results I showed in Table 7.3 below:

- The higher the level of education of a member, the more influence such a member has on how the cooperative is run.
- The higher the level of education of a member, the easier it is for such a member to become involved in cooperative structure.
- Those members who have dealt with the cooperatives for a long time have too much to say on how the cooperative is run.

Table 7.3: Belief on the effect of education and experience attained on decision making process.

Belief	Strongly		Neutral	Disagree	Strongly	No
	Agree	Agree			Disagree	
The higher the level of education of a member the more influence he/she has on how the co-operative is run.	68%	%	18%	14%	0%	0%
The higher the level of education of a member, the easier it is for such a member to become involved in cooperative structures	73%	%	13%	14%	0%	0%
Members who have been dealing with the Co-operatives for a long time have too much to say on how the co-operative is run	18%	9%	23%	50%	0%	0%

In response to the above statements, Table 7.3 shows that 68% of the respondents agreed, or strongly agreed, that those members of a cooperative with a relatively high level of education tend to have more influence on how a cooperative is run than less well educated members do. Only 14% of the respondents disagreed with the statement, whereas 18% expressed their neutrality regarding the statement.

When the respondents were asked about the influence of a high level of education on decision-making, both within and outside cooperative management structures, 73% agreed and strongly agreed that a higher level of education greatly influences the members' prospects for participating in cooperative

structures. In response to the statement, 14% of the respondents expressed their neutrality about it, with the remaining 14% disagreeing with it.

Regarding the statement that those members who have been dealing with a cooperative for a long time have too much to say on how the cooperative is run, 50% of the respondents disagreed with it, 23% said that they were neutral about it, and approximately 27% agreed with it (with 9% strongly agreeing with it and 18% agreeing with it). In this instance, the members of cooperatives who had been dealing with cooperatives for a long time were generally not perceived as dominant figures in the cooperative operations. In relation to the effect of knowledge or education and members' experience in such operations, the results show that such characteristics generally have little influence on cooperative decision-making.

Another belief that was measured to determine its impact on the decision-making process was the development of cooperative goals.

7.3.4 Development of cooperative goals

The development of cooperative goals is largely driven by the nature of the members' objectives (Karantininis & Zago, 2001). Responses were gathered in response to the following general statement and the results are showed in Table 7.4 below. The general statement includes that the more the short-, medium-, and long-term objectives of members differ, the more difficult it is to reach consensus on cooperative goals. Of the respondents the results showed 72% supported the above statement, with 5% agreeing, and 67% strongly agreeing, with it. 5% expressing their neutrality about it, and 18% disagreeing with it, and 5% strongly disagreeing with it.

Table 7.4: Results on the effect of different member goals.

Belief	Strongly		Neutral	Disagree	Strongly	No
	Agree	Agree			Disagree	
The more that the short, medium and long term objectives of members differs, the more difficult it is to reach consensus on the goals of the co-operative.	5%	67%	5%	18%	5%	0%

For cooperatives to be successful, members' goals should generally be in line with what can, in fact, be achieved by a cooperative. However, such might not be the case, as members' goals may differ, in line

with their occupational status. The results obtained in response to the statement pertaining to the occupational status of the respondents are provided below.

7.3.5 Occupational status

Several opinions were raised with regard to the influence of the various types of occupations (in/outside cooperative, or off-farm, employment), member qualifications, and levels of participation of the members of cooperatives. As can be seen in Table 7.5 below, 55% of the respondents agreed, and 27% of the respondents strongly agreed, with the statement that full-time farmers showed more involvement in cooperative matters because they were solely dependent on cooperative turnover. Only 14% of the respondents disagreed with the statement, with 4% expressing their neutrality on the matter. In the light of the percentage of respondents agreeing with the statement, it is possible that full-time farmers might be pillars of cooperatives due to them having more time to spend on their cooperative than do part-time farmers.

Table 7.5: Results on effects of occupational status

Belief	Strongly				Strongly	
	Agree	Agree	Neutral	Disagree	Disagree	Opinion
Full-time farmers are more involved in Co-operative matters than part time farmers because they are more reliant on the co-operative for their income	55%	27%	4%	14%	%	0%
Members who have similar Qualifications and occupations tend to group together to try and influence decisions on the operations of the cooperative	5%	23%	18%	50%	4%	0%

With regard to the statement regarding the influence of members with similar qualifications and occupations on cooperative decisions, about 54% (of which 50% disagrees and 4% strongly disagree) that the qualifications and occupation of the members in cooperatives had no role to play in influencing cooperative decision-making (see Figure 7.5 above). In contrast, 28% of the respondents associated the level of education and occupational status of the members with the habit of forming special bargaining

groups to influence decisions, whereas 18% of the respondents stated that they were neutral on the statement.

The involvement and participation of members might also depend on whether the cooperative principles still serve the interests of members. Subsection 7.3.6 below discusses the responses received in response to the statements made in relation to cooperative principles and the collective action approach.

7.3.6 Beliefs regarding cooperative principles and the collective action approach

The study also focused on nine cooperative principles, which are believed to be influential pillars in respect of how cooperative governance executes its practices. The benefits that are granted to cooperative members might be subject to the efficient coordination of the influence of cooperative principles. An attempt was made to establish the respondents' perception of the collective action approach, in order to determine whether such sentiments still hold in well-established commercial cooperatives.

Such beliefs were tested using the following statements:

- Wine cooperatives should accept any farmer who wants to join them.
- Wine cooperatives should practise the principle of 'one person, one vote'.
- The voting system of the cooperatives should be based on the number of shares held by the respective members.
- The members of cooperatives should, on principle, receive their returns based on their turnover.
- Wine cooperatives should, on principle, support the education of their members, and of the public.
- The members of cooperatives should benefit from doing business in accordance with cooperative principles.
- Farmers must stick together in order to get things done, even if they have to give up some of their individual freedom.
- An individual farmer can usually make better marketing decisions than can a group of farmers.
- Members of wine cooperatives have a competitive advantage in the marketplace.

The above statements were tested to ascertain the perspective of members in cooperatives on cooperative principles, as well as on the collective action approach. Table 7.1 below indicates the responses that were made in this regard. Of the nine statements, the support of the members for

cooperative principles was assessed, using the first six principles listed in Table 7.1. In response to the first statement, 77% of the respondents replied in the negative, with 36% disagreeing, and 41% agreeing, with it. The ‘one person, one vote’ principle was clearly not supported by 81% of the respondents, of whom 36% strongly disagreed with it and 45% disagreed with it. Those cooperative principles concerning returns, shares, education and the cooperative way of doing business brought a mixed response. For instance, 72% of the respondents agreed that the voting system of cooperative should be based on how many shares were held by each member. Also, the granting of support of educational opportunities and the receipt of benefits, based on cooperative principles, received positive support from the respondents. Such positive support was shown by the fact that 69% of the respondents agreed that the cooperatives should support the provision of educational opportunities, with 50% agreeing that the members should derive benefits from conducting business in line with cooperative principles.

Table 7.6: Respondents’ (N = 22) responses regarding statements on cooperative principles and the collective action approach.

Statements	Strongly agree (%)	Agree (%)	Neutral (%)	Strongly disagree (%)	Disagree (%)	No opinion (%)	Total (%)
1. Open membership	0	18	5	36	41	0	100
2. One person, one vote	5	14	0	36	45	0	100
3. Voting and shares	59	23	9	9	5	0	100
4. Returns on coop principle	23	50	9	5	5	5	100
5. Support of education	14	55	5	4	5	5	100
6. Business in coop way	23	27	14	23	14	5	100
7. Sticking together	27	50	5	14	0	5	100
8. Individualism	5	36	9	36	9	0	95
9. Competitive advantage in the marketplace	5	18	36	32	9	0	100

Source: Questionnaire

The benefits derived from the collective action approach are also shown in the above assessment, including:

- Farmers must stick together in order to get things done, even if they have to give up some of their individual freedom.
- An individual farmer can usually make better marketing decisions than can a group of farmers.
- The members of wine cooperatives have a competitive advantage in the marketplace.

Notwithstanding the few respondents who were neutral towards, or who stated that they had no opinion about, the above statements, most of the respondents supported taking the collective action approach. For instance, the results showed that 77% of the respondents agreed (with 27% agreeing, and 50% strongly agreeing) with the statement that farmers should support one another, even if doing so meant them sacrificing their individual freedom. Regarding the potential of individual farmers making better decisions (in a form of individualism) than do a group of farmers, 45% of the respondents disagreed with the statement, whereas 41% agreed with it, and 9% expressed their neutrality about it.

Lastly, when they were asked about the competitive edge that the members of wine cooperatives might have in the marketplace, 36% of the respondents expressed their neutrality towards the statement, showing that they had mixed feelings about the dominance of cooperative members in the marketplace. Of the respondents, 41% of the respondents disagreed that the members of wine cooperatives have a competitive advantage in the marketplace, with 23% agreeing on the statement. In general, though, some respondents expressed the belief that the members of cooperatives do not necessarily have a competitive advantage in the marketplace.

Overall, the results showed that collective action practices in wine cooperatives were still supported and were perceived to be an appropriate vehicle for the making of relatively sound marketing decisions regarding accessing the market. The above analysis focused on certain specific aspects of cooperatives, as well as on various characteristics that are associated with potential impacts on decision-making. The various trends in beliefs that were identified were interpreted in order to ascertain the general beliefs held in relation to the said statements. Such results are used to supplement the arguments in Chapter Eight. Section 7.4 below discusses the results of the quantitative analysis, as well as identifying the variables that have been noted to influence the decision-making process.

7.4 Interpretation of quantitative results

The major focus of the current section is on how the selected variables relate to one another with regards to the decision-making process. Examples of such relations include:

- the creation of team spirit, in the light of getting the members of cooperatives to attend AGM meetings; the relation of AGM attendance to the participation of members in such meetings;
- turnover and returns;
- members' shares and returns;
- individuality and access to the marketplace.

A correlation analysis was performed to identify the influences among the various variables concerned.

7.4.1 Methods of interpretation of quantitative results

The influences of the variables on one another were assessed by means of examining the computed correlation coefficients. Coefficients are calculated measures that assess the strength and direction of association between, and among, variables. A positive coefficient between the two variables indicates that they are congruent in the same direction, whereas the negative coefficient implies the reverse, namely that the variables change in different directions. The size of the correlation coefficient indicates the relative strength of a relationship between two variables. In the current study, the absolute size of the standardised coefficient was $\rho < 0.5$ (5%), and a rate varying between 0.0 and 1.0 was used. Accordingly, the larger the absolute size of the number, the stronger was the relationship between the two variables. To make the analysis possible, of the 16 variables, 6 formal correlation equations were established, which presented a clear direction on the variables that were tested for correlation.

7.4.2 Correlation formal equations

Six different correlation equations were developed, in order to show which variables would be assessed in the correlation analysis. In order to show such relations, the following equation format was prepared for the analysis, based on the hypothetical cases which were referred to in Chapter One, in terms of the relationship between:

- the creation of team spirit (1a) and the attainment of the attendance of members at meetings in large cooperatives (1b);
- the number of members' shares (6c) and the cooperative turnover as factors with the capacity to influence the voting system (6d);
- those highly educated members influencing how a cooperative should be run (3a) and the influence of the level of education on the amount of involvement in cooperative structures (3b);

- those highly educated members with the power to influence the decision-making process (3a) and their involvement in influencing those decisions to do with cooperative operation (5b);
- the attracting of members to meetings (1b) and the difficulties encountered by members in speaking out in the meetings of large cooperatives (1c);
- the cooperatives' acceptance of any new member (2a) and the number of members' shares (6c) as factors with the potential to influence the voting system;
- The high returns (6d) and benefits gained by means of practising cooperative principles (6h); and
- the individual (6g) and cooperative accessing (6i) of the market.

7.4.3 Results of the correlation analysis

The results of the above equations are shown in Table 7.2 below, in which only statistically significant variables are presented. Of the six hypothetical cases, four hypotheses were proven, with the remaining two being rejected, due to the results of the analysis revealing four positive correlations and significances at a ρ -value of both 0.05 (5%) and $\rho > 0.1$ (10%). However, of the eight correlation format equations above, only four achieved significant results. The results are shown in Table 7.2 below.

Table 7.7: Spearman Correlation results.

Results of the 16 variables.					
	Variable 1	Variable 2	Spearman r	Spearman ρ -value	Cases
1	Qx1a	Q1b	0.70	<0.01	22
2	Qx1b	Q1c	0.43	0.05	22
3	Q3a	Q3b	0.64	<0.01	22
4	Qx2a	Q6c	0.38	0.08	22
5	Qx3a	Q5b	0.03	0.90	22
6	Q6c	Q6d	0.19	0.39	22
7	Qx6d	Q6h	-0.29	0.18	22
8	Qx6g	Q6i	-0.08	0.73	22

* The trend for a positive correlation is marked in bold. Results that are not significant are indicated at the 5% level ($\rho > 0.05$), with significant results being indicated at the 10% level ($\rho < 0.1$).

Sixteen variables were categorically inserted into a test in order to identify the strength of the relations between the variables concerned. To facilitate interpretation of the results, the categories are presented as Q^2_{x1} , $x2$, and so on, whereas the factorial variables are indicated as Q_{x1a} ; Q_{x1b} ; Q_{x1c} ; and so on.

Beliefs in the impact of large group size (Q1) are reflected in the statements to do with:

- the difficulty in creating team spirit (Q1a);
- the attendance of all members (Q1b); and
- the getting of members to speak at AGMs (Q1c).

Beliefs in cooperative turnovers (Q2) are reflected in the statements to do with:

- the effects of low member returns on investment-related decision-making (Q2a); and
- the effect of shares on the voting system (6c).

Beliefs in the impact of education (Q3) are reflected in the statements to do with:

- the impact of a high level of education on how a cooperative should be run (Q3a);
- the effect of a high level of education on how at home members are in cooperative structures (Q3b); and
- the effect of a high level of education (Q3a) and the same level of qualification (Q5b) on the influencing of the decision-making process.

Beliefs in cooperative principles and collective action (Q6) are reflected in the statements to do with:

- wine cooperatives abiding by the principle of 'one person, one vote' (Q6c);
- members receiving returns based on, and as a result of following, cooperative principles (Q6d); and
- members receiving benefits from behaving cooperatively (Q6h).

Lastly, the responses that were received in response to the statements made about the relatively sound marketing decisions made by individual farmers (Q6g) and about the statement that cooperative members have a competitive advantage in the marketplace (Q6i) were also assessed. Of the 16 variables mentioned, only those 8 variables stated below were found to show a relation to each other. In line with the formal equations described above, the results of the 6 variables that showed some positive and significant relations are discussed below. Those results that showed negative and non-significant relations have been excluded from the analysis.

² Q refers to the questions which were omitted from the questionnaire.

7.4.3.1 *Beliefs regarding the impact of large group size*

The following two hypotheses were postulated to prove the impact of large group size on the cooperative decision-making process.

Hypothesis 1: The lack of team spirit and the attendance of the AGMs of cooperative organisations is largely influenced by having many members in a cooperative.

Hypothesis 2: The difficulty in obtaining the participation of all the members in the AGMs is largely influenced by having a large number of members in a cooperative.

In relation to the above hypothesis, Q1a was found to be statistically significant and positively related to Q1b. Table 7.2 shows a p -value of $p < 0.01$ for the correlation concerned. The p -value shows a correlation between the two variables concerned, and denotes the fact that large cooperatives might be negatively affected by both the lack of team spirit and the lack of attendance of meetings by some members. Such results are in line with the hypothesis that states that the more members there are in a cooperative, the less likely it is that the members will attend the AGMs of the cooperative, resulting in difficulties with creating team spirit in a large cooperative.

In addition, the results obtained in the given category show the existence of a correlation between Q1b and Q1c, in the form of a p -value of 0.5 (5%). The existence of such a correlation also serves to support hypothesis 2, which shows that getting all members to participate in the AGMs is negatively impacted by the large size of the cooperative. Such a finding generally reflected a negative perception of the efficiency of large cooperatives.

7.4.3.2 *Beliefs regarding members' shares*

Beliefs in the influence of members' shares were assessed using the following hypothesis:

Hypothesis 3: Member's shares and cooperative principles influence the voting system.

Two variables, namely Q2a and Q6c, were used to establish whether any relationship exists between the making of investment-related decisions, based on the amount of returns received from the cooperative (Q2a), and the investment-related decisions made on the basis of shareholding principles (Q6c). Both types of decisions were found to be positively correlated and significant at 0.08, which showed the significance to be $p > -0.1$ (10%). The results signify that both the amount of returns received by the members per cooperative and the existence of different shareholdings in the

cooperatives might influence the members reaching certain investment-related decisions that might not be beneficial to them in the long run.

The above-mentioned variables were found to be positively related to each other, with the greater the measured value of each variable, the greater the belief, and the more likely that relations existed between them. The results also demonstrate the relevance of some of the variables in cooperative decision-making process, and the practical impact that such variables might have on the pursuit of cooperative governance.

7.4.3.3 *Beliefs regarding the impact of the level of education attained*

To establish the beliefs held regarding the level of education attained, the following hypothesis was postulated:

Hypothesis 4: The higher the level of education of a member, the more a member becomes influential and becomes part of the decision-making structure of the cooperative concerned.

Two variables were used to measure the influence of a high level of education on the cooperative decision-making process, in the light of the above hypothesis. The variables, which include Q3a and Q3b, were found to be positively related to each other. They showed a trend of ρ -value < 0.01 , which was not significant on the 5% level ($\rho > 0.05$). Despite the correlation not being significant at 5%, the statistical trend of such variables was still found to be significant at 10% ($\rho > 0.1$). The identification of such a trend also signifies and supports the hypothesis that the decision-making process is more likely to be widely influenced by those members with a high level of education in cooperatives.

7.5 Conclusion

The current chapter has discussed the results of the qualitative and quantitative data analyses, which were conducted using the procedures and methodologies that were described in Chapter Six. The results of the qualitative analysis, which are presented in percentage format, show that five out of six categories of belief were supported by the respondents. The key concept of such beliefs related to: group size; the return required; member influence; cooperative goals; and occupational status. However, the statements regarding the principles of open membership and 'one person, one vote' were most disagreed with. In terms of the collective action approach, the principles of togetherness and competitive advantage in the marketplace were also received positively by the respondents concerned. Therefore, the results of the qualitative analysis showed how those factors which were derived from the

identified six categories could affect the pursuit of decision-making processes in cooperative governance.

The quantitative analysis revealed the positive relationships of eight different characteristics. The first correlated factors were found to include the lack of:

- team spirit (Q1a);
- the attendance of meetings (Q1b); and
- participation during deliberation by members (Q1c).

Such factors were seen to delay the decision-making processes and to act as barriers to the proper governance of large cooperatives.

Other factors, which relate to investment-related decision-making, include those relating to:

- various shareholdings (Q2a);
- how the level of education of individual members impacts on the way in which the cooperative is being run (Q3a);
- the level of education of those members involved in cooperative structures (Q3b); and
- how the voting system of the cooperative is based on the members' shareholdings in the cooperative (Q2a).

In the current study, such factors are generally presented as having the capacity to influence investment-related decision-making. The positively related variables can also be regarded as potential factors that can be linked to those factors that have a negative impact on the process of decision-making. Chapter Eight presents the discussion and conclusion of the study, and links the results with the theoretical framework presented in Chapter Six.

CHAPTER 8: DISCUSSION AND CONCLUSION

8.1 Introduction

Chapter Seven analysed the respondents' beliefs in terms of six different categories. The current chapter provides the conclusion to the study, drawing the basis of its discussion from the theoretical framework presented in Chapter Six.

8.2 Concluding remarks: Research questions and discussion

The goal of the study was, firstly, to answer the main research question, which sought to establish whether the characteristics of those members in wine cooperative governance structures impact on the way in which the related cooperative governance is pursued. In order to answer the question, six specific questions, relating to the characteristics in question, were identified in Chapter One. The questions were answered in Chapter Seven. The qualitative analysis revealed that 73% of the respondents expressed their belief that it is difficult to create team spirit among the different members in large cooperatives. The analysis also showed that 68% of the respondents said that they believed that it was difficult to get all the members to attend the relevant meetings, with 86% stating that it was difficult to get all of the members to speak up at AGMs.

The second set of results which were obtained in the study were quantitative in nature. Such results were generated, based on the sets of correlation equations which were outlined in Subsection 7.3.1. From such equations, two factors from the large group size category were selected for the correlation analysis, in order to assess to what extent the two factors coincided in making an impact on the cooperative decision-making process. Such factors included the difficulty in creating team spirit, and the attainment of the attendance of all members at the meetings of large cooperatives.

The results of the correlation analysis were also used to answer those hypotheses that were presented in Chapter One, and which were discussed in Chapter Seven. The level of correlation of such factors was performed at a measure of $\rho < 0.05$ (5%), and at a significance of $\rho < 0.1$ (10%). The correlation between the factors was positive. Such results were found to be in line with the hypothesis that a lack of team spirit and attendance of AGMs by members of cooperatives was greatly influenced by a high rate of membership in the cooperatives concerned.

Therefore, the irregular attendance of cooperative meetings, getting the members to speak up at the AGMs, and the difficulty in creating team spirit in large cooperatives may be regarded as factors that might hinder the smooth flow of the cooperative decision-making process. Cook (1995) argues that a large group size encourages members to skip AGMs, leading to the disintegration of membership and unnecessary reliance upon one another. Such a scenario is also identified in the literature of Cook and Iliopoulos (2000) as a factor that encourages free riding, in terms of which some members come entirely to rely on the decision-making of other members. Therefore, the current study concludes that the proven lack of collective participation in a cooperative with a large group of members might negatively affect its governance. To this end, the first objective of the study, being to assess the influence of a large group size on the pursuit of cooperative governance, was achieved.

Secondly, the study set out to establish what impact the shareholdings in different cooperatives and the receiving of high returns from different cooperatives has on the investment-related decision-making processes concerned. The research question, which was simplified during the course of the survey, reflected two points, namely the impact of shareholding in different cooperatives, as well as of receiving large returns on investment-related decision-making commitments. The qualitative results showed that 68% of respondents agreed that those members who have shares in different cooperatives are less likely to commit to making large-scale investment-related decisions in a cooperative that offers only low returns. Of the respondents, 78% agreed that those members who receive relatively large returns from their cooperatives will be more inclined to commit themselves to large-scale investment-related decision-making. Based on such results, the study generally concludes that the level of returns accrued by members from each cooperative influences their commitment to the making of investment-related decisions.

In addition to the qualitative results obtained in the study, the results from the quantitative analysis showed a positive correlation between the amount of returns received by the members in each cooperative and the existence of different shareholdings in cooperatives, at a significance level of $p > 0.1$. Such a finding has proven the hypothesis that members' shares and cooperative principles influence investment-related decision-making. The study has revealed that the results obtained regarding the hypothesis referred to above are relevant to the work of the following researchers: Cook and Iliopoulos (1999); Gripsrud *et al.* (2000); Grossmann *et al.* (1999); and Nilsoon (2001). The researchers argue that the level of patronisation of each member determines how the relevant costs and rewards should be allocated. According to Gripsrud *et al.* (2000), the acquirement of returns (that could

be linked to the above results) from cooperative systems has been seen to be plagued by an element that leads to a portfolio problem, which could be due to the diverse risk/reward profiles of the members. For instance, risk-averse members might appreciate collectively owned equity capital as an alleviation and absorber of external shocks that cannot be easily dealt with by individual and separately operating farmers. In contrast, the use of the collective's own capital might be regarded by risk-takers as a vehicle for free riders, giving rise to the portfolio dilemma. To conclude, the study ascertains that the level at which members accrue their returns in cooperatives determines the level at which they commit to investment-related decisions. Based on the achievement of such results, the second objective can be seen to have been achieved, showing that the shareholding and acquiring of returns from cooperatives influences the investment-related decision-making process.

The third research question that was assessed related to what effect the level of knowledge and experience among cooperative members had on the decision-making concerned. The effect of knowledge, which was generally defined as being that resulting from the obtaining of any level of education above Grade 12, as well as of experience, were the only two characteristics measured. Of the respondents, 68% of the respondents agreed that those members of cooperatives who have a high level of education tend to have a relatively high degree of influence on how a cooperative should be run. In response to their being asked whether being so well qualified influenced the members concerned to want to become part of the cooperative structure, 68% of the members who were asked such a question agreed.

In terms of the quantitative analysis, a statistical trend of $p > 0.1$ was also found to exist between the above-mentioned educational factors. The level of education attained, as well as the amount of the experience gained by the relevant members, were identified in the study as being those factors that determine the members' level of knowledge. Consequently, it was found that those members with high levels of education have a greater likelihood of influencing the cooperatives' activities, and also stand a better chance of becoming involved in, cooperative structures. The influence-cost problem emerges in such a case. Such a finding shows that, in a cooperative system, education is one of the critical factors that enable members to gain power over the decision-making process. Generally, such a trend also signifies and supports the hypothesis that the decision-making process is likely largely to be influenced by members with a high level of education in cooperatives. Such results show that the third objective of the study was achieved, indicating that the level of know-how which is characterised by a high level of education and experience influences the decision-making process.

Fourthly, the question relating to membership beliefs regarding the development of cooperative goals, pertained to what impact the objectives of the different members had on the reaching of consensus on cooperative goals. The respondents were tested by means of the posing of a simplified statement that stated that the more the short, medium and long objectives of the members differ, the more difficult it is to reach consensus on the development of cooperative goals. The qualitative results showed that 73% of the respondents supported the statement concerned. Based on the attainment of such results, the study generally concluded that the existence of different set of objectives might lead to difficulty in the members reaching common goals. Those results that have been achieved in the current study by aligning the future of each member of a cooperative with the projected set of objectives or goals reflect much potential for conflict among the different sets of member goals in the wine cooperatives concerned. Such results were translated in terms of the existence of the time horizon problem. Such translation was necessitated by the discovery that members tend to operate according to their own future plans (their planning horizon), rather than purely in the collective interest of the development of their cooperative. In line with the attainment of such results, the fourth objective set was achieved, with the discovery that members' objectives influence the development of cooperative goals.

Fifthly, the impact of occupational status on member involvement was assessed by asking what impact the occupational status and similar qualifications of members have on their commitment to the cooperative to which they belong. The results obtained in response to the question showed that 82% of the respondents agreed that full-time farmers are more involved in cooperative matters than are part-time farmers. The results also showed that 14% of the respondents disagreed with the statement, with 5% being neutral on the matter. In contrast, 55% of the respondents indicated that the qualifications and occupation of the members had no influence on the decision-making process. The results generally showed that a higher level of commitment could be found among the full-time farmers than among the part-time farmers. Such a finding might have been made due to them being reliant on the cooperatives to reach the markets, in order to secure a reliable income. The making of such a finding meant that the potential for full-time farmers to share similar interests that might encourage them to participate in decision-making exists.

In addition, it was shown that those members of similar stature have a tendency to influence decision-making in their favour. The nature of such results translates into the existence of the portfolio problem, in terms of which those members with high qualifications and similar stature have the potential to

influence the decision-making process. Therefore, based on such results, the fifth objective can be seen to have been achieved, with the potential of the influencing mechanism being noted.

Ultimately, the question which was asked to establish which cooperative principles still hold for, or are applicable to, wine cooperatives was answered, in response to which the results generally showed that the respondents generally supported that the voting system of cooperatives should be based on the shareholdings of the members concerned. Such support is indicated in the answers of 72% of the respondents, which served to confirm the transition that had been made by many wine cooperatives to form wine cellars that practised the shareholding principles. The transformation of wine cooperatives into wine cellars was reflected in the current study as another strategy for benefiting the members concerned by way of economies of size and the bargaining effect. Considering whether sentiments regarding collective action exist in the wine industry, and based on the results obtained in the above example, the sixth objective of the study was achieved.

A strongly ambivalent attitude was also shown in response to some statements, such as the scant support that was expressed for the acceptance of any farmer who wanted to join a cooperative, as well as for the practice of the 'one person, one vote' principle. The two sets of statements were not popular among the respondents, with their responses generally conveying the impression that they preferred a closed business institution that was driven by shareholding principles. Even though the cooperative principles were found not to be popular, the study discovered that sentiments regarding collective action still existed in the wine industry. The final objective of the study was, therefore, achieved, as was shown by the existence of such collective action institutions as the wine cellars.

8.3 Conclusion

The preceding section answered and achieved the main pillars of the study, such as the research questions and the research objectives. Factors that correlated in influencing the decision-making processes in wine cooperatives were also identified. Such influential factors were advanced in the study as comprising those characteristics that reflect the behaviour of the members of cooperatives. Such pillars were stated in Chapter One of the current study. Chapter Three, which surveyed the wine industry cooperatives and provided a brief overview of the wine industry, revealed some structural changes and developments that have taken place in the wine industry. Of particular importance to the industry's development was the positive effects of the EU and the TDCA on the export status and the growth phases of the industry. Chapter Three also showed that the TDCA had some positive externalities, such as SACU and the BLNS. The study also recognised that all such developments have

come into being as a result of the viable and sustainable farming of grape farmers, which has brought about the theoretical analysis of the farmers' adoption of a collective action approach by means of cooperatives.

Chapter Four provided an analysis in terms of TCE arguments. The chapter revealed that the farmers concerned benefitted from having to deal with such uncertainties as contingency pricing by means of patronage refunds. The chapter suggested that the cooperatives might have the capacity to play a pivotal role in those cases where production and prices were more volatile, and where other risk management tools were not accessible to the farmers concerned.

The study also revealed that the success of such advantages depended on the manner in which cooperative members pursued their governance, as well as how they responded to the cooperative system. Such a concern was addressed in Chapter Five.

Chapter Five discussed both the intrinsic nature and the inherent governance problems of cooperatives. The chapter revealed that, by nature, cooperatives are limited by inefficiencies, because of their vaguely defined property rights, as well as due to such inherent problems as those of free riding, the horizon, portfolio, influence cost and control. In addition, two sets of theories, namely the property right and agency theories, were used. The former theory asserts that the overriding problem in cooperatives is the existence of potentially different interests among members, and the influence that such heterogeneity has on the decision-making process. The study noted that ownership structure largely determines how costs and rewards should be allocated in a cooperative. In a nutshell, Chapter Five provided a literature review of all possible factors that might influence the pursuit of cooperative governance. To apply the theory to the ambit of the study, 21 statements were developed for the survey that was conducted to obtain the necessary data. Chapter Six provided the methodological approach, with the appropriate research tools being used to assess the statements. The results of the survey were presented in Chapter Seven, and concluded in Chapter Eight. In addition, the current chapter laid the foundation for the application of the theoretical discussions that were dealt with in Chapter Six.

In conclusion, and according to the interpretation of the results, it was shown that the theoretical discussion presented in Chapter Five has some commonalities with those issues that were identified in Chapter Seven. According to the study, such commonalities generally reflect the nature of the cooperative attributes. The study discovered that certain membership characteristics were generally perceived by the respondents as being factors that might have a negative impact when it comes to

attempting to reach investment-related decisions. In theory, such challenges are known as investment-related decision-making problems, and they have been proven to have a major negative impact on cooperative governance practices.

8.4 Recommendations

Of particular importance to the current study was the demonstration of those challenges that are inherent to the governance of the collective model, which, in the present case, comprise cooperative governance. Accordingly, the disadvantages of the collective model lie primarily in two key areas, firstly, within the relevant legislative ambit, of which the parameters consist of those acts that influence both the policies and the strategies of the sector and industry at large, and, secondly, in the nature of heterogeneity and opportunism that leads to governance problems. As described in the current study, there have been many such challenges, starting in the year 1922 and lasting till the conversion of the wine cooperative into companies in 2005.

Such challenges have largely been driven by the ongoing development of the cooperative acts, policies and industry strategies, which have determined how the cooperatives should be defined, formed, constituted, and operated. Such determinants have formed the core nature of the cooperative governance structure, as well as the different stages and processes of the relevant decision-making. With respect to the focus of the study, a number of challenges that might be regarded as a shortfall of the legislation pertaining to cooperative governance operations have been identified by the study. In addition, the study recommends that due attention should be paid to the following considerations, which might impact on some of the challenges that are described in the study.

8.4.1 Minimum threshold of five persons

By definition, the Cooperative Act No. 14 of 2005, Chapter Two, section 1 (6 [1] [a]), regarding the application to register cooperatives, states that “an application to register a cooperative must be made by a minimum of five natural persons in the case of a primary cooperative”.

Firstly, such a threshold is arguably too exclusive, conflicting with the principles of autonomous and voluntary involvement in the cooperative, in the sense that it prohibits from between two to four individuals, who might have an interest in forming a cooperative, from forming a cooperative structured organisation. To uphold the principles of autonomous and voluntary movement, the study recommends that any number of viable farming business enterprises that are ready and willing to

cooperate with one another should be allowed to form a cooperative, and that the threshold level should be established in the organisation's constitution.

8.4.2 The board of directors and the supervisory committee

In its governance structure, a cooperative is structured into three levels: the general assembly (GA), the board of directors, and the supervisory committee. Each such level has its own role, with the roles of the board of directors and supervisory committee being of critical importance. For instance, the principal tasks of the supervisory committee are to control the activities of the board of directors, to convene the AGM (in the absence of the board of directors), and to answer to the AGM. In terms of such structures, two possible governance syndromes might occur, which relate to the portfolio and influence cost problems. Such syndromes might result from the members having the same stature, level of education or experience.

To prevent the development of such a syndrome, the study recommends the adoption of a single board structure that will transfer first-hand information to the GA without manipulation and lobbying by the elite group. Such a structure will also limit the stages of decision-making processes that might negatively impact on the taking of overall decisions. The study also assumes that closing the gap between the boards and the GA will facilitate governance of the cooperative.

8.4.3 Format of the cooperative constitution

The cooperative constitution might seem to be of secondary importance, though, from the practical point of view, such might be the main directive of the cooperative system. Such a constitution sets out the standard of operation, patronisation and the cooperative governance system. However, its format, length and presentation have been marked by the existence of overly detailed texts, which are too difficult to be understood and applied by an emerging cooperative. Therefore, the study recommends that attention be paid to the simplification, as well as to the shortening of the length of, the constitution.

8.4.4 Cooperative registration period

The period of registering a cooperative has been characterised by long delays, which might be due to the high number of applications received by the DTI, which has been a challenge for the registers. The current study ascertains that, if the establishment of cooperative business enterprises in South Africa is one of the development initiatives for the merging sector, the capacity of both the national and the provincial level should be increased in order to meet the expanding needs.

8.4.5 Success of collective enterprises

Lastly, in order to limit and increase the success rate of collective enterprises, it is crucial to ensure that the legislative framework, policies and strategies, both at the national and provincial level, should stop promoting large cooperative business models, which have resulted in organisational failures arising from a range of heterogeneous factors.

Also, the government has a crucial role to play in developing an agricultural enterprise programme that is geared towards providing advisory support, and in developing competent enterprise development advisors who are enabled to provide support specifically in terms of organisational governance and the pursuit of research regarding the inherent challenges of various business mode.

APPENDIX

Dear Respondent

As part of my Master's research at the University of Stellenbosch, I am conducting a survey that investigates the impact of member characteristics on the pursuit of the cooperative governance, the case study of wine cooperatives in the Western Cape. Results of this study will be made available at the University of Stellenbosch and at the Western Cape Department of Agriculture Library. I hereby request your participation in fill in the questionnaires. Any information obtained from you in connection with this study will remain confidential. In any report or publication will not be identified and only group data will be presented.

If you have any question about the research, please call Professor N Vink at 021 808....or email at vinkn@sun.co.za.

Thank you very much for your cooperation.

Phumlani Mentani (Researcher)
University of Stellenbosch.

Part 1: For statistical purpose only. Please tick where appropriate.

The response scale is as follows:

1. Strongly agree
2. Agree
3. Neutral
4. Disagree
5. Strongly disagree
6. No opinion

To what extent do you agree or disagree with the following statements regarding their impact on decision making in cooperative governance?

Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	No Opinion
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1. Member belief on the effect of group size.

- | | | | | | | |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| a) Larger co-operative experiences difficulty in creating team spirit among members. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| b) In larger co-operative it is difficult to get all members to attend AGM'S. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| c) At AGM's it is difficult to get all members to speak. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| d) Decisions can be reached quickly in co-operative with few members. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

2. Member belief on Returns Acquisition.

- | | | | | | | |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| a) Members who have shares in different co-operative are less likely to commit to large investment decisions in a co-operative that offers low returns. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| b) Members who receive larger returns from their Co-operative will be more inclined to commit themselves to investment decisions. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

3. Member belief on the effect of education attained and experience on decision-making.

- | | | | | | | |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| a) The higher the level of education of a member the more influence he/she has on how the co-operative is run. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| b) The higher the level of education of a member, the easier it is for such a member to become involved in co-operative structures. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| c) Members who have been dealing with the Co-operatives for a long time have too much to say on how the co-operative is run. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	No Opinion
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4. Members' belief on the development of co-operative goals.

a) The more that the short, medium and long term objectives of members differs, the more difficult it is to reach consensus on the goals of the co-operative.

5. Member belief on occupational status.

a) Full-time farmers are more involved in Co-operative matters than part time farmers because they are more reliant on the co-operative for their income

b) Members who have similar Qualifications and occupations tend to group together to try and influence decisions on the operations of the co-operative

Part 2

6. Beliefs on co-operative principles and collective action approach.

a) Wine co-operatives should accept any farmer who wants to join.

b) Wine co-operatives should practice one person, one vote.

c) The voting system of the co-operatives should be based on the member's shares.

d) Co-operative members should receive their returns based on their turnover in co-operative principles.

e) Wine co-operatives should support Education in co-operative principle for members and the public.

f) Farmers must stick together in order to get things done even if they have to give up some of their individual freedom.

g) An individual farmer can usually make Better marketing decisions than a group of farmers.

h) Members receive benefits from doing business the co-operative way.

i) Members of wine co-operatives have a competitive advantage in the market place.

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