

Potential pitfalls

When people choose to set up or join a member-controlled enterprise they do so because they can see the advantages that this form of enterprise can bring in terms of achieving the outcomes that they desire.

However, it is important that they also become aware of the potential pitfalls of this form of enterprise and what steps need to be taken to avoid such pitfalls, which may include:

Failing to exert financial control: As obvious as it may seem that all enterprises must be economically viable, too often this is not the case. Sound systems and constant vigilance are required to maintain financial viability and stability. Clearly, any enterprise that goes broke cannot fulfil its purpose. The major threats to the viability of the enterprise usually arise when the market changes and the response of its leaders is inappropriate. In all cases co-ops & mutuals need to achieve a market return on all capital deployed in the enterprise, reach industry standards in terms of labour productivity norms, and use all assets productively. In addition, they must generate a surplus sufficient to cover the risks involved in the enterprise and to provide adequate funds for reinvestment in the future development of the enterprise.

Pressure to perform: The absence of 'shareholders' pressing for higher returns, as is the case in an investor-controlled company, can sometimes mean that the use of resources (finance, labour and other facilities) are not optimized, especially where management has access to funds held in reserve or raised from members/the community in excess of immediate need. When the organization fails to provide adequate controls and oversight, those running the enterprise may not be under sufficient pressure to perform.

Loss of purpose: Where co-ops & mutuals grow, in terms of the number of members and/or turnover, they are frequently beset by multiple problems. They often appear to lose sight of their original purpose, are prone to switch towards serving the interests of senior executives (or cliques) rather than the bulk of their members, and become remote from the members. Two rudimentary problems are evident in many organizations. The first is that the essential purpose of the organization frequently becomes lost within the vagaries of day-to-day operations. The second is that many organizations are susceptible to hijack by individuals who contrive to ensure that the organization serves their objectives as individuals, rather than actively pursuing the essential objectives of their members. As a consequence, some co-ops & mutuals come to be regarded as irrelevant to the lives of their members. In the worst case, they are hijacked by self-interested groups and ultimately demutualised, as has been the fate of many building societies, agricultural co-operatives, and other forms of member-controlled enterprise.

Takeover by special interest groups: Such takeover usually occurs when the bulk of the membership has lost interest in the original purpose of their enterprise, and where it has not adapted so as to achieve the outcomes that are of real interest to its members, this vacuum of interest is often filled by special interest groups with their own agenda. Co-ops & mutuals can attract all manner of special interest groups, ranging



from political and religious groups to those with altruistic objectives or minority viewpoints on all manner of issues. It is not a question of whether or not that such special interest groups are right or wrong, but no matter how worthy the cause it must not be allowed to override the essential function of the enterprise, which is to carry out its purpose and to deliver those outcomes desired by the membership in its entirety.

Source: E. Parnell, 'Potential Pitfalls'. <http://www.co-oppundit.org/pitfalls.html>, accessed 24 April 2012.

