

## **Creative Entrepreneurship: The Role of Co-operatives in Poverty Reduction**

FESTUS EDOBOR  
Cardiff Metropolitan University, United Kingdom

JAMES OGUNLEYE  
Middlesex University, United Kingdom

**ABSTRACT** This brief paper explores the role of co-operatives in poverty reduction and economic development with particular reference to Nigeria. The paper examines cooperative enterprises, concepts of creativity as apply to entrepreneurship, principles of cooperatives and the ways in which cooperatives can promote small and medium-sized enterprises particularly as a means of reducing poverty and promoting sustainable economic development in Nigeria. The paper concludes that SMEs are the key to Nigeria's prosperity and cooperative organisations are central to that prosperity mix.

*Keywords:* Cooperatives, collectives, SMEs, entrepreneurship, creativity

### **Introduction**

#### *Cooperative enterprises*

Over the years, cooperative enterprises have successfully operated locally-owned people-centred businesses while also serving as catalysts for social-economic organisation and community cohesion. Cooperatives have over one billion members worldwide and can be found in sectors ranging from agriculture to finance to health (Whitman, 2011). In the UK, there is a cooperative that operates 400 markets on behalf of 65 cooperative market societies, through which 12,000 producers can sell direct to consumers (Cooperatives UK, 2008). In Nigeria, the cooperative business model offers stability and security in tough times, and is said to be expanding into new fields within the SME sector although there has not been a recent empirically based evidence to verify the extent to which the model is established in Nigeria.

However, according to Develtere and Pollet (2008), Nigerian cooperatives grew from 2,900 with a membership of 2.5 million in 1992 to 5000 with a membership of 4.3 million in 2005. In Kenya, the number of persons in the cooperative movement was 2.5 million in 1992 and grew to 3.3 million in 2005 thus accounting for 20% of Kenyan population (Vanhuynegem, 2008). Philip's (2003) suggests a total of 654 cooperative societies of various kinds operate in South Africa – and has with a membership of 56,501 as at 2002.

### *Creativity and Entrepreneurship*

Creativity is traditionally conceptualised within the four overlapping themes of product, process, personality and environment – and, lately, technology. Although creativity is a complex multifaceted and multidimensional process (Ogunleye, 2013; Reisman 2013, 2014), yet it is at the heart of entrepreneurship. Creativity can be defined as ability to apply what is known (knowledge) in a variety of contexts—both to familiar and unfamiliar situations—in a way that creates or adds value (Ogunleye & Tankeh, 2007; Tankeh & Ogunleye, 2006a; see also Ogunleye, 2008, 2006b, 1999, 2001). Creating or adding value to a product or service or taking the out-come of innovation to the marketplace is an art of enterprise, something that is inherent in entrepreneurship. Fillis & Rentschler (2010, p.2) define entrepreneurship as the “process of creating value for business and social communities by bringing together unique combinations of public and private resources to exploit economic, social or cultural opportunities in an environment of change.” Shalley et al. (2004) argued in Fillis & Rentschler (2010, p. 20), creativity enables a business enterprise ‘to take advantage of opportunities which develop as the result of changing environmental conditions’. Creativity therefore is an important ingredient in the ‘solution mix’ for enterprise, innovation, growth and competitiveness (Ogunleye, 2014).

### **Principles of Co-operatives**

Co-operatives are member-owned businesses. A simple way to understand them is that they aggregate the market power of people who on their own could achieve little or nothing. In so doing they provide ways out of poverty and powerlessness. As they scale up, co-operatives also provide significant potential for local economic development. The representative body for co-operatives, the International Co-operative Alliance (ICA, 1995), defines a co-operative as:

An autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations, through a jointly owned and democratically controlled enterprise.

The ICA (1995) sets out seven fundamental co-operative principles: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training and information; co-operation among co-operatives; and concern for community. The first four of these are core principles without which a co-operative would lose its identity; they guarantee the conditions under which members own, control and benefit from the business. The education principle is really a commitment to make membership effective and so is a precondition for democratic control, while co-operation among co-operatives is a business strategy without which co-ops remain economically vulnerable (Birchall & Simmons, 2009). The last principle, concern for community, is the most controversial. It recognises that, unlike investors, co-operative members tend also to be members of a particular community. For some, this principle is a business strategy to reinforce the sense of ownership. This may not apply in every co-operative, particularly where the 'common bond' between members is tenuous or missing. Yet where the interests of members and communities closely coincide, members may perceive the provision of collective as well as individual benefits to be appropriate (Streeck & Schmitter, 1985).

However, for some stakeholders, concern for community represents a distraction away from the core aims of the co-operative. They argue that co-operatives are not 'social' organisations, and that the *primary aims* of the co-operative are to meet the members' economic needs. While they acknowledge that co-operatives may create wider social benefits, they see these as by-products such as improved nutrition and increased capabilities, and aggregate effects in the wider society such as lower mortality rates or higher employment levels (Birchall & Simmons, 2009). Such aggregate effects are much sought after by governments. Paradoxically, however, in order to achieve these wider goals, research shows that governments need to respect the autonomy of co-operatives (Birchall & Simmons, 2009; 2010).

The diversity of types of co-operative can be confusing. Birchall (2009), Birchall & Simmons (2009) provide a simple way of classifying them. Apart from the investors of capital, there are three main stakeholders in a business: its consumers, the producers who supply inputs to or take the outputs from the business, and its employees. In a co-operative, usually one of these stakeholders is put at the centre of the business. This gives us three classes: consumer co-ops, producer co-ops and worker co-ops. There is one interesting complication. *Financial co-operatives*—co-operative banks, insurance societies and credit unions—often have in membership people who are consumers of their products and—in their own right—producers. So farmers and small businesses can be members alongside private individuals. As long as the interests of each group do not conflict, the

co-operative works well. The potential of co-operatives is shown widely in the experiences of other countries (Birchall, 1997; 2003; 2004; Bibby & Shaw, 2005; Develtere, 2008)—including both more economically-developed and less economically developed countries. Globally, 800 million people are members of co-operatives and 100 million are employed by them (ICA, 1995) and the United Nations estimated in 1994 that the livelihoods of three billion people were made more secure by co-operatives. The UN, through its Secretary General, has made numerous statements in support of co-operatives (UN, 2001; 2005; 2007), and in 2001 it published ‘Guidelines aimed at creating a supportive environment for the development of co-operatives’. The International Labour Organisation (ILO, 2012) adopted ‘Recommendation 193 on the promotion of co-operatives’. Similarly, in 2004, the European Commission sent a communication to the European Council and Parliament ‘on the promotion of co-operative societies in Europe’. There is currently a large body of international support for co-operatives and this is reflected in the adoption by the UN of 2012 as the international year of the co-operative.

In previous research, Simmons & Birchall (2008) show that, while there were considerable challenges to be faced by co-operatives, there are few better alternative ways of organising in key sectors like agriculture. This provides a ‘moral imperative’ for stakeholders to look beyond any sense of clumsiness for purpose and to establish more competent ways to support and manage them (Huxham, 2000). It should be noted here that the nature of the co-operative is important. In many major studies, experience shows the need to respect the ‘true’ nature of co-operatives, operating according to the ICA principles (e.g. Simmons & Birchall, 2008; Develtere, 2008). This is an important consideration in Serbia, where historically there have been organisations called ‘co-operatives’ that have not always met these criteria.

### **Co-operatives and Poverty Reduction in Nigeria**

Cooperative movement in Nigeria started with the colonial masters, with the formulation and enactment of cooperative legislation in 1935. During this period, the cocoa farmers in Western Region formed marketing societies with the sole aim of checking the excesses of middlemen and ensuring the marketing of pure and unadulterated cocoa (Okone & Ijere, 1986). The initiative was taken following the acceptance, by the Colonial Administration, of Mr. C.F. Strickland’s Report in 1934 on the prospects of cooperatives in Nigeria. Subsequently Mr E.E.G. Haig was appointed the first Registrar of Co-operatives (Okone & Ijere, 1986). In September 1935, the Cooperative Department was inaugurated at Ibadan in Moore Plantation with total staff strength of one registrar, three cooperative inspectors, one clerk and one

messenger. The following year, in 1936, the Cooperative Regulation was passed and the Cooperative Department was separated from the Department of Agriculture. The inauguration of the first Nigerian cooperative finally took place in 1937 with the registration of Gbedun Cooperative Produce Marketing Society Ltd.

While it is true that Nigerian cooperatives growth has been slow, increasing in membership from 12 in 1935, with membership of 400 to 500 in 1949, and 450,000 in 1975 with more increase in membership in subsequent years, one finds out that there is still room for further and faster improvement (Okorie & Ijere, 1986). For example as at 2005, there was a total 4.3 million members in 5000 Nigerian cooperatives.

Since the year 1973, the Federal Government of Nigeria has been utilising the Nigeria cooperative movement as a source of distribution of scarce and essential commodities. This very fact has gone deep into helping greatly to rekindle more interest in the study of cooperatives since it looks as if one has to be a member of a cooperative society before one can obtain any scarce and essential commodity. From 1935 to 1952, there was one central cooperative societies' division located in the Department of Agriculture in Ibadan. It was from there, under the registration of cooperatives that the movement spread to other parts of the country. As time went on, however, the cooperative development became a regional matter, and later Cooperative Society Division was established in the Federal Ministry of Labour for the Federal Territory of Lagos. Subsequently, same were created by various state ministries in the country just as farmers' cooperatives flourished in the then Western Nigeria which built the famous Cocoa House, the cooperative credit society and unions thrived in the Eastern part and later metamorphosed into Cooperative and Commerce Bank Nigeria Limited. The establishment of cooperative societies and agricultural institutions in the old regions of the country contributed to some of the major achievements credited to the good leadership of each of the regions between 1950 and part of 1960s (Ejeakanonu, 2007).

The Cooperatives in Nigeria are organised into service and producer cooperatives. The producer cooperative objectives are to promote the use of modern technology and contribute to national development through production. The service cooperatives are responsible for procurement, marketing and expansion services, loan disbursement, sale of consumer goods and member education. The cooperatives have made remarkable progress in agriculture, banking, credit, agro-processing, storage, marketing, dairy, fishing and housing. Service cooperatives are the closest to communities and are organised on a shareholder basis formed by individual members of organisations voluntarily working in a specific geographic area. For instance, primary level cassava farmers cooperatives provide a collection point for the farmers' produce, negotiate the per ton cost of cassava.

Cooperatives are known to have assisted in the establishment and development of SMEs through its role in entrepreneurship promotion; raising cap-

ital; provision of infrastructural facilities; small scale industrialization; and developing small holder agriculture.

#### *Role in entrepreneurship promotion*

Besides Fillis' & Rentschler's (2010) conceptualisation highlighted above, entrepreneurship can be defined as the practice of starting a new business or reviving an existing business, in order to capitalize on new-found opportunities. Cooperatives have long been identified and associated with promoting entrepreneurship not only on their jointly owned businesses but also in the individual business units of their members. Cooperatives by their nature and antecedents have always been pro-entrepreneurship. Of the cooperative efforts in this regard, the former United Nations Secretary-General Boutros Boutros-Ghali, in his 1994 Report to the General Assembly, stated:

Cooperative enterprises provide the organisational means whereby a significant proportion of humanity is able to take into its own hands the tasks of creating productive employment, overcoming poverty and achieving social integration.

#### *Role in raising capital*

Small enterprises sometimes experience difficulty in obtaining capital, due to the poor match between their capital needs and the operating rules of the capital markets. Of all financing options available to SME, including a reluctant financial market and cash-strapped government, cooperatives appear to be a most reliable option. Cooperatives, particularly financial cooperatives, are a response of the market itself to mobilize resources and make same available to SME and other users through appropriate institutional arrangement, thus explaining the recourse of some development agencies to channel funds meant for SMEs through cooperatives (Fischer 1998).

#### *Role in provision of infrastructural facilities*

Inadequate infrastructure has been a problem to SMEs in Nigeria like in some other developing countries. Cooperatives have often been able to provide some of these facilities by establishing joint production facilities for members with full compliments of tools, electricity, access road etc. In other words, members have formed cooperative societies primarily as a form of 'organised self-employment'.

#### *Role in small scale industrialization*

Cooperatives are also known to have increasingly promoted and supported small production and manufacturing enterprises, such as oil palm mills, maize processing facilities are often established as common work facilities or production cooperatives especially in South East Nigeria. The handicraft and other local art ventures are also increasingly receiving the support and assistance of cooperatives in such states like Cross River and Akwa Ibom States. In production cooperatives that are established to promote industrialization members are usually the employees or workers of the cooperative.

#### *Role in developing smallholder agriculture*

Historically, agricultural cooperatives have been a successful and common aspect of rural life in Nigeria. These cooperatives have allowed for economic stability and provided a framework for local investment that is community based. Aside from traditional agricultural and livestock ventures, agricultural activities focusing on livestock, fishing, forestry, and other natural resource based activities have also been effectively promoted. The attraction of agricultural cooperative to farmers is largely because of its role in farm inputs supply, marketing and processing and credit disbursements.

#### **Conclusion**

Creativity is at the heart of entrepreneurship—the process of creating or adding value to a product or service or taking the out-come of innovation to the marketplace. Through collectivism, enterprises are able to exploit social, economic and cultural capital or opportunities to their collective advantages. It is also clear from the foregoing that SMEs are the key to Nigeria's prosperity and cooperative organisations are central to that prosperity mix.

#### *Correspondence*

Festus O. Osabor  
School of Management  
Cardiff Metropolitan University, UK  
Email: festusedobor@yahoo.co.uk

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