

***COOPERATIVES AND ENTREPRENEURS: A PARTNERSHIP FOR JOB
JOB CREATION AND ECONOMIC DEVELOPMENT.***

By

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ABSTRACT.

Unemployment remains a serious concern in any country. Although South Africa has experienced political stability, the economy is characterized by a relative low growth rate and high unemployment rate. If these aspects are not addressed effectively political stability can be deter. Many communities, especially in rural areas, are living in poor conditions. By stimulating economic activities, this problem can be alleviated. Efforts should therefore be to stimulate economic activities by involving members or local entrepreneurs and at the same time keep the generated wealth in the community.

Much emphasis is often placed on the small business sector to create jobs and alleviate poverty. The small business sector can undoubtedly make a contribution to economic development as long as obstacles in its way are bridged and the many difficulties faced by small businesses are eliminated or addressed effectively. One way to do this, is for entrepreneurs to form cooperative alliances. Many entrepreneurs in the same industry

have been forced by these difficulties to organize and to form cooperatives. Not only does this strengthen the position of small businesses to compete with big businesses, but it also contributes to community development. Earnings produced by cooperatives are returned to the member/owner and the end result is that this wealth is kept within the community. Thereby the goal of job creation and uplifting of communities are reached. Looking at the definition of the cooperative, namely an autonomous association of individuals united voluntarily to meet their common economic, social and cultural needs through jointly owned and democratically controlled enterprises, it is obvious why this is the ideal type of business to support and develop communities. The ability to take advantage of the economies of scale, while retaining individual identity, is appealing to entrepreneurs.

The cooperative will only be successful if it promotes the wealth of its members and provide competitive products and services. This will only be possible if the cooperative can survive, innovate and adjust to changes in the economy. The aforementioned can be achieved if there is an effective combination of the entrepreneurial skills and the cooperative type of business with the advantages it can offer. The entrepreneur and the performance of the cooperative are therefore closely linked.

The presence of collective entrepreneurship can offer the cooperative the opportunity to capitalize on individual talents together with wisdom and collective energy. All this will contribute to a competitive advantage and a successful cooperative.

This paper also reports on a model in South Africa where a cooperative alliance has been formed between an existing small business and entrepreneurs in the informal sector. This cooperative model allows unemployed people to participate with an existing entrepreneur who acts as their trainer/mentor. Not only are jobs created, but unemployed people are prepared and equipped to become part of the main stream economy.

INTRODUCTION

Unemployment in South Africa is a matter of serious concern for its effect on economic welfare creation. (Competition News, 2002:1). The economy has also been characterized by both low growth and investment (Makgetla : 2004). Although South Africa has experienced political stability, the high unemployment rate, if not addressed effectively, can deter political stability. Research shows that there is a positive relationship between the level of unemployment and the crime rate and that crime will be mostly efficient controlled by addressing the employment and income earning issues (Blackmore, 2003 : 439).

Many rural communities in South Africa are living in poor conditions. By stimulating economic activities, this problem can be alleviated. Communities must become self-sufficient and initiatives for achieving this should stem from the community itself.

Much emphasis is often placed on SMEs to create jobs, alleviate poverty and contribute to economic development due to the fact that large businesses focus more on shareholder return and not necessarily on job creation. These businesses withdraw money from the

community and the main beneficiaries are those outside the community (Hazen, 2000). Efforts should therefore be to stimulate economic activities in rural communities, involving members or local entrepreneurs in the process of producing that wealth and at the same time keep the generated wealth within the community. By keeping wealth within the community, the desired goal, namely job creation and the uplifting of communities, will be reached. This can be achieved through the creation of worker-owned cooperatives (see discussion later). Earnings produced by cooperatives are returned to the member/owner in proportion to the business conducted with the cooperative (Scarini, 2003:14).

In a developing country, the small business sector is widely regarded as the driving force behind job creation and economic development (Lunsche & Barron, 2000 : 1). SMEs can undoubtedly make a contribution to economic development, as long as the obstacles are bridged. If the small business sector wants to realize its full potential the small business must become a major role player in the mainstream economy, be able to compete with large businesses and become fully sustainable. However, not only the formal sector can contribute to economic development, but worldwide the importance of the informal sectors is being realized and strategies to integrate this sector into the mainstream economy are being developed (Luiz : 2002). The bulk of new employment in recent years, particularly in developing and transition countries, has been in the informal economy, because people find it difficult to get jobs or start businesses in the formal economy (Haskell:299).

The business model which will be discussed later can serve as an example of an effort to include the informal sector into the mainstream economy through cooperation amongst unemployed individuals and formal entrepreneurs.

Entrepreneurs as the driving force behind the small business should be supported and assisted enabling them to fulfill their essential role in economic development and restructuring (Glass & Drnovsek : 2001). Unfortunately, the small business sector faces many difficulties and these difficulties have encouraged entrepreneurs in the same industry to organize and create cooperatives (Scarinci, 2003:12). The purpose and flexibility of the cooperative appeal to many small business owners. The ability to take advantage of the economies of scale, while retaining individual identity, is appealing to many entrepreneurs and convince them to establish cooperatives. Some of the advantages offered by the cooperative form of business are access to services and supplies at a more favorable rate, volume discounts, availability of credit and improved delivery since these are required by a group rather than an individual (Scarina, 2003:14). Cooperatives can indeed have a significant and positive impact on the communities in which they are located. They create and retain local jobs, have a more long-term commitment to remain in the community and provide local leadership and development (Zueli & Cropp, 2003:77).

The use of cooperatives to stimulate rural economies is a worldwide phenomenon (Hazen, 2000; Campbell, 2004). A good example of the utilization of the cooperative can also be found in India where the government has laid emphasis on the strengthening of

the movement to generate employment and reduce poverty. Cooperatives played a significant role in promoting rural development and cooperative development was taken up as a national program in this country (Anon, 2004). This effort might be the reason why there are currently 446 784 agricultural cooperatives in India, compared to the 27076 in the United States (Zeuli & Cropp, 2004:13), and 1264 in South Africa (Scholtz, 2001). Greater support for cooperatives has, however, also come from the South African Government, which has realized the potential of this business form, (Makgetla, N S. 2004) although the sector has not reached the momentum as elsewhere in the world.

WHAT IS A COOPERATIVE?

Cooperation is not a bargaining game in which one person's success is achieved at the expense or exclusion of the success of others. The constant aim is mutual benefit (Thorn, 2000).

Looking at the definition of a cooperative, namely an autonomous association of individuals united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise (DTI, 2003:5), it is obvious why the cooperative is the ideal type of business to support and develop communities. Cooperatives are about people doing good work to benefit themselves. But even more basic, it is people working with other people to make themselves better off. It is people recognizing that together they can do more than they can do by themselves (Haskell, 2003a:2).

Cooperatives can either be client-owned or worker-owner cooperatives. In the case of worker-owner cooperatives members are both workers and employers. Client-owned cooperatives are established by members that have their own enterprises or households. The members use their cooperative to obtain goods at more favorable prices or they use the cooperative as a marketing instrument for their products (DTI , 2003:6).

As is the case with any other type of business the application of proper business principles also applies to cooperatives. Cooperatives must be managed effectively in order able to survive. The fact that the members are also the owners and are jointly responsible for the success of their businesses, places a responsibility on each participant in the cooperative venture. It is expected from members to act like entrepreneurs and to apply their business skills in the cooperative. If cooperatives want to be prominent role players in the economy and increase their ability to make a difference, they will require enhanced internal capacities, professional management, commitment, general membership education and training, and constructive support from government. A study done in South Africa (Van der Walt, 2003) indicated that a large percentage of non-agricultural cooperatives are not operational any more. Some of these cooperatives have not even been operational after they had been established. There are different reasons for this phenomenon although a proper understanding of the nature of the cooperatives and the responsibilities by members play an important role in these unsuccessful efforts.

Research on alliances amongst small enterprises (Hoffmann & Schlosser, 2001:372) also stresses the importance of proper planning and sufficient knowledge regarding the alliance during the strategic and analysis phase of the alliance. Alliances need to be

professionally planned and organized for the full potential of the cooperation to be realized. Individuals interested to establish cooperatives or considering to participate in cooperative alliances should be assisted before committing themselves. This assistance should preferably come from people who are familiar with the cooperative venture. A failure to understand cooperative complexities can lead to inappropriate assistance and advice. Finding developers and other parties who can assist cooperatives and who are familiar with the cooperative model may be challenging (Zeuli & Kropp, 2004:78).

Research in South Africa (Van der Walt, 2003) also indicated that cooperatives, especially newly established cooperatives in rural areas, have a substantial need for training and managerial assistance during the establishment phase. Once the cooperative is in operation, continuous member education is critical to keep members committed to and involved in the cooperative. This education does not only entail knowledge regarding cooperative principles and practices. Haskel (2003b:2) stated that during this education process it is critical that the cooperative form of business is completely understood. It is also important that cooperative education initiatives adequately deal with today's complex business, marketing and financial issues. Training should also be provided to directors and management to improve their entrepreneurial and business skills (Zeuli & Kropp, 2004:78). These training efforts should also extend to youth and the general public (Haskel, 2003b:2). To have an active and vibrant cooperative sector, people in all walks of life should be informed about the nature and advantages of this type of business. It is also important that this education is based on research, otherwise it will be flawed and dated (DES, 2003:8).

In the USA, university-based cooperatives centers plays an important role in this regard. Unfortunately, such centers do not exist in South Africa.

Research that documents positive and negative cooperative practices can form the basis for future cooperative development. Cooperatives may, however, not be in a position to establish their own research centers and will have to rely on other parties to do and finance these research activities. The establishment of such centers is an important part of creating and enabling a sustainable environment for the long-term development of cooperatives, (DES, 2003:8). Currently, limited research on cooperatives are conducted in South Africa.

SUCCESS FACTORS FOR EFFECTIVE COOPERATIVES

In order to have a vibrant cooperative sector, an environment conducive for cooperative development should be created and certain aspects should be addressed. The following factors play an important role in the effectiveness of cooperatives and also the ability to survive.

- *Effective management.* Cooperatives should be managed effectively. Conflict between members and management, including the board of directors, must be avoided (Zeuli & Cropp, 2003:50, Von Ravensburg, 1999:25). The advantages of cooperatives will only be realized if the cooperative continues to operate as a sustainable form of business.

- *The initiative for the cooperative must come from its members.* Those who will eventually enjoy the advantages of the cooperative, must initiate the establishment of the business. Therefore a bottom-up approach should be followed (Bhuyan & Olson, 1998:8).
- *Member support and commitment.* The cooperative will only succeed if continuous commitment and support by its members exist. (Randall, 2001:1). Members must realize that the cooperative basically depends on them for its existence.
- *Entrepreneurial mindset.* A factor often ignored when addressing cooperative success is the entrepreneurial mindset of members (Röpke, 1992:15). Environmental factors influencing the business sector also apply to cooperatives. In order to address the changing needs of members, all role players (including members, management and directors) must be creative and innovative.
- *Cooperative education.* The cooperative as a form of business must be completely understood and education should also deal with business, marketing and financial issues (Haskell, 2003; Campbell, 2003).
- *Government support.* Although a cooperative is member-driven, government support is indispensable. Government should provide the policy conducive to cooperative development (Von Ravensburg, 1999:23, DES, 2003:5).

Cooperatives should not be used as an instrument of the government but must be able to act autonomously (DES, 2003:6).

ROLE OF THE ENTREPRENEUR

To be viable the cooperative should promote the wealth of its members in order to meet these requirements, the cooperative must provide benefits to the members that will exceed the benefits if they had not established a cooperative. Although it is expected from members to support the cooperative (Zeuli & Cropp 2004:50), the expectation that members will automatically support the cooperative is not always valid (Hogeland, 2004:27). Von Ravensburg (1998:25) is of the opinion that the absence of members' involvement can lead to a situation where it is difficult for the cooperative to make a positive contribution to its members and any contribution towards economic development would also not materialize.

Cooperatives compete with other businesses and must provide competitive products and services. Otherwise, the important factor, namely member support, will be lost in favour of competitors. It is therefore important for the cooperative to establish a competitive advantage and this will only be possible if the cooperative can survive, innovate and adjust to changes in the industry and the economy (Scarini, 2003:14). The presence of an entrepreneurial spirit is therefore essential if cooperatives want to meet these requirements and stay competitive. Members can therefore not only be participants or recipients, but they must be entrepreneurs always searching for opportunities. The cooperative is actually dependant on the characteristics and involvement of the

entrepreneur. The entrepreneur and the performance of the cooperative are therefore closely linked.

To describe the entrepreneurship in a cooperative, the term collective entrepreneurships (Morris & Kuratko, 2002:165), where individual skills are integrated into a group and the team's collective capacity to innovate becomes greater than the sum of its parts, is actually very appropriate. Group members learn about each others' abilities. They learn how they can help one another to perform better and how they can best take advantage of one another's experience. The presence of collective entrepreneurship can offer the cooperative the opportunity to capitalize on individual talents together with wisdom and collective energy. All of this will contribute to a competitive advantage and a successful cooperative.

THE DEVELOPMENT OF SMALL BAKERIES : AN EXAMPLE OF JOB CREATION THROUGH COOPERATION BETWEEN THE FORMAL AND INFORMAL SECTOR IN SOUTH AFRICA

The Yebo cooperative in South Africa has been established by the Deutscher Genossenschafts und Raffeisenverband with the purpose to promote cooperative development in the country and support and service member-based self-help organizations (Biyela, 2004).

Yebo cooperative has developed a business model whereby unemployed people who want to get involved in business can partner with existing small businesses who are

willing to give them training and business mentorship, enabling them to become formal business owners. When these entrepreneurs reach the stage where they have adequate business skills and sufficient funds they will become part of the mainstream economy.

The project started with 17 informal entrepreneurs who indicated that they want to get involved in the pilot project. It was decided to start with a bread baking business due to the high demand for basic food and an inadequate supply network. It was also decided to establish the project in a black township where the unemployment rate is high. As the group were unemployed they had limited funds to buy baking equipment and rent a premise. Yebo approached a local small bakery to enter into an empowerment partnership with the group and Yebo agreed to become the facilitator. The local baker accepted the alliance and agreed to make his equipment and premises available to be used by the group during training. During training, the group had to bake for their trainer's business as compensation for his service and the use of his facilities. His requirement was 500 loaves per day. Any production exceeding this quantity was for the account of the trainees. The trainers currently work on a cooperative basis and market their share of the production in the nearby township where they had already decided to open their bakery in future. In this way, training was immediately linked with income generation for the group.

Within two months of the alliance, the group was able to sell about 700 loaves per day to their own market. The profit realized from their sales managed to compensate each of them with an amount of at least R400 per person per month and the potential exists to

increase this income. This model does not only create opportunities for people who want to start their own bakeries, but provide trained people who can enter the labour market if they are not keen to own their own baking operation.

A second initiative taken by Yebo cooperative was to invite other existing small bakeries to join hands and buy their baking ingredients in bulk. Five small bakeries have responded which resulted in a dramatic decrease in their purchasing prices.

The arrangement between the entrepreneur and the trainees is currently an informal cooperative alliance. When the time comes to make a decision the group members can either start individual small bakeries or they can form a formal cooperative and expand their production. Not only has this venture created income and employment, but it transformed formerly unemployed people into competent entrepreneurs which can in turn create jobs and contribute to economic development.

This model and the outcome thereof will be monitored and will serve as a case study for future qualitative research.

CONCLUSION AND RECOMMENDATIONS

Although much has been done in some countries to promote cooperative development, more active steps should be taken in South Africa in this regard. To give more momentum to the process the following recommendations should be considered.

-Cooperative alliances between informal and formal entrepreneurs have huge potential, especially in third world countries and should be exploited.

-The promotion of the cooperative type of business form should be promoted amongst existing small businesses, as well as individuals in the informal economy.

-Cooperative training and education should be a priority, not only at tertiary level, but also at secondary level. Government should play a more active role in providing resources, especially in countries where they have not accepted responsibility in this regard.

-Cooperative research institutes within the university sector is needed to ensure research-based education and management development programs. Cooperative centers, which prove to be effective in other countries, should also be considered in a country like South Africa. Government should accept the responsibility to assist these institutions.

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