

# Examination of the Roles of Cooperative Society on the Promotion of Small Scale Enterprises in Osun State, Nigeria

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**Abstract:** - This study aims to examine the roles of cooperative society on the promotion of small and medium scale enterprises in Osun State, Nigeria. The purpose of the study is to investigate the operation of cooperative society, its business environment and socio-economic impact on the promotion of small enterprises. Co-operatives societies contribute to the socio-economic development of their communities through the creation of product/service, enterprise financing, employment opportunity and social responsibility. The survey was done between early December 2018 and late March 2019 while the technique of simple random sampling is used to select the sample of 30 respondents from each cooperative society making a total sample size of 90. The study recommends that the government, at all level, should support the development of cooperative society as it promotes the economic well-being of the people through the spread of small businesses.

**Keywords:** Cooperative Society, Small and Medium Enterprises, Socio-economic Development, Enterprise Financing.

## I. INTRODUCTION

Cooperative society describes as a business organisation in which a group of individuals who have a common interest, mutually agree to join together to form the business in order to promote their economic activities such as production, distribution, or marketing of goods and services, and for the provision of welfare benefits to the members (Brown, 1986 in Effiom, 2014). The introduction of modern cooperative business into Nigeria dates back to the year 1935 following the acceptance by the colonial administration of Mr C, F, Strickland's report on the prospects of cooperative in Nigeria (Agbo and Chidebelu, 2010). In his submission, Bello (2005) stated that for over 160 years, cooperatives had been an effective way for people to exert control over their economic livelihoods as they play an increasingly important role in facilitating job creation, economic growth and social development. However, Co-operatives society offer communities' opportunities to create employment for the residents, generate power in the market place, make goods and services available, prevent the leakage of participants money and assist in youth retention (Gibson, 2005).

A cooperative society is a user owned and democratically controlled business from which benefits are derived and

distributed equitably based on use or as a business owned and controlled by the people who use its services (United States Department of Agriculture Rural Development, 2012). More so, Kareem, Arigbabu, Akintaro and Badmus, (2012) stated that democracy of cooperative society is an institutional arrangement for arriving at collective decisions, realize the common goals by making the people itself decide issues through the election of the representative that assemble to carry out its will. Cooperatives were observed as having a political as well as an economic objective, and also as a response to the lay-offs of workers and rising unemployment (Develtere, Pollet and Wanyama, 2008).

Cooperative is a typical social, economic enterprise organized by the people and run by themselves, naturally they would ensure that they reaped the benefit of their labour, so, as a grass root organization, it is the people in the cooperative society that should be given the most attention (Othman, Kari, Jani and Hamdan, 2012). Accordingly, The Medium Term Agricultural Development Strategy (MTADS) remarks that "grassroots organizations will be important in the privatization objective, specifically in the marketing of agricultural inputs and products, as well as in providing cohesive groups suitable for extension work and joint borrowing and mobilizing savings. Co-operatives are usually 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" (Conn, 2003). The participants observe cooperative society as a way of generating finances for the development of small enterprises. One of the characteristics of a cooperative society is their dual goal: socially, supporting their members and economically, acting as an enterprise in the market (Haan et al. 2003).

According to USDA (2012), keeping owners educated about what is happening in their industry is essential for any business, but it is vital in a cooperative for at least three reasons:

- Democratic control, exercised through majority rule, requires that the entire ownership be informed and involved to ensure enlightened decision making.

- The cooperative can be responsive to members' needs only if members express them and recognize that they must bear the financial burden to fulfil those needs.
- Unfamiliarity with the cooperative form of business means that the education system, at any level, does not give much instruction about cooperatives in business and economics courses, and, therefore, the cooperative must conduct its educational efforts.

Regardless of the type, size, geographical location or purpose, cooperatives provide a unique tool for achieving one or more economic goals in an increasingly competitive global economy (Dogarawa, 2005). More so, Akerele (2017) posits that cooperatives play an essential role in facilitating access to credit, procurement and storage distribution of input and marketing of products, these create employment opportunities particularly in the rural areas and allow disadvantaged groups to organise for social and economic benefit. Accordingly, Anyanwu (1992) postulates that in most African countries community development has depended significantly on voluntary cooperative efforts.

The cooperative society is established to provide social, economic value and administrative support to the members. Most cooperative societies find it challenging to thrive due to lack of proper organisational structure, inadequate funding and low participation of members in the administration. Despite all the challenges, the cooperative society serves as a crucial alternative to business funding and SMEs promotion when compared to a non-cooperative organisation. In Nigeria today, one of the various strategies employed to tackle poverty among the people is co-operative society (Olaleye, 2004). The concept of self-reliance is located centrally within the discourse of community development and connect to related concepts like self-help, mutual-help, indigenous participation and rural development.

Nonetheless, it advocates the need for people to improve their condition using local initiatives and resources in their own hands (Fonchingong and Fonjong, 2003). Considering the mode of cooperative society operations and administration in Nigeria, its formation rapidly spread to accommodate many interested individuals and business owners. Cooperatives are distinctly different from non-cooperative society, and the differences found in the cooperative's purpose, its ownership and control, and how benefits are distributed (USDA, 2012). Therefore, this article aims at providing empirical evidence from Osun State, Nigeria, the extent to which Cooperative societies promotes and influence the growth of Small Scale Enterprises.

#### *Research Questions*

To effectively provide this empirical evidence, there is the need to provide answers to the following questions:

- Does cooperative society contribute to the socio-economic development of Osun State?

- What is the level of participation of cooperative society in enterprise promotion in Osun State?
- Is there any difference between the financial performance of cooperative society and non-cooperative society among SMEs in Osun State?
- What are the reasons for Small Scale Enterprise owner's participation in cooperative society?

#### *Objectives of the Study*

The general aim of this study was to examine the roles of cooperatives society in the promotion of small-scale enterprises in Osun State, while the specific goals were to:

- Identify ways by which cooperative societies contribute to the socio-economic development of Osun State, Nigeria.
- Assess the level of participation of cooperative society in enterprise promotion of Osun State.
- Examine if there is a significant difference between financial performances of cooperative societies and non-cooperative societies among the small-scale enterprises;
- Recognise the justification for participation in cooperative societies by the SMEs' owners.

## II. LITERATURE REVIEW

There is no single or straightforward definition of what constitutes a small enterprise (Carter and Jones-Evans 2006). Central Bank of Nigeria (1979), described small-scale enterprises as an establishment whose annual turnover does not exceed five hundred thousand naira (N500, 000.00) in the same year. Ekpenyong and Nyong (1992) opined that SMEs contribute to long-run industrial growth by producing an increasing number of firms that grow up and out of the small-scale sector. Small and medium-sized enterprises (SMEs) are non-subsidiary, independent firms which employ less than a given number of employees, though, the number varies with countries. The most frequent upper limit designating an SME is 250 employees, as in the European Union, while some states set the limit at 200 employees, the United States considers SMEs to include firms with fewer than 500 employees (OECD, 2005). Kilby (1969) perceives SMEs as a quasi-sponge for urban employment and a provider of cheap consumer goods with little or no imported content, serving a vital pressure-releasing and welfare-augmenting function. Bolton Report (1971) suggested a qualitative or economic approach that tried to capture the range and diversity of the smaller enterprise relative to the larger enterprise with regards to these three criteria:

- independent (not part of a larger enterprise)
- managed in a personalized manner (simple management structure)
- a relatively small share of the market (the enterprise is a price 'taker' rather than price 'maker').

According to Ekpenyong and Nyong (1992), there are three primary sources of enterprise financing open to SMEs in Nigeria:

- formal financial institutions such as commercial banks, merchant banks, savings banks, insurance companies, and development banks;
- informal financial institutions consisting of money lenders, landlords, credit and savings associations (co-operative societies); friends and relations;
- personal savings.

Cooperative societies have been an effective way for people to exert control over their economic livelihood, and this provides the opportunity of achieving one or more economic goals in an ever-increasing competitive environment (Ezekiel, 2014). However, Develtere, Pollet and Wanyama, (2008) opined that cooperative society is increasingly becoming a significant source of productive resources that are made available to their members for a variety of uses; the most common is the income generation opportunities make possible due to the growing abilities of these cooperatives to mobilize substantial savings from which members can borrow. Olayinka (2014) posits that the promotion of cooperatives can lead to a renaissance for the revival of the global economy. Cooperatives are very much enterprises of the future, which play an essential role in complementing traditional markets and government action (Effiom, 2014). Today rural and urban residents use cooperatives to acquire consumer services such as housing, credit and other financial services (through credit unions), groceries, education and telecommunications (USDA, 2012).

Table 1: Seven Principles of Cooperative

The co-operative principles are guidelines by which co-operatives put their values into practice.

**First Principle:** Voluntary and Open Membership Co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political, or religious discrimination.

**Second Principle:** Democratic Member Control Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives, members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.

**Third Principle:** Member Economic Participation Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

**Fourth Principle:** Autonomy and Independence Co-operatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or

raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

**Fifth Principle:** Education, Training, and Information Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public—particularly young people and opinion leaders—about the nature and benefits of cooperation.

**Sixth Principle:** Co-operation among Co-operatives. Co-operatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional, and international structures.

**Seventh Principle:** Concern for Community Co-operatives work for the sustainable development of their communities through policies approved by their members.

Source: Gertler, M. (2001). Rural co-operatives and sustainable development.

Saskatoon SK: Centre for the Study of Co-operatives, University of Saskatchewan

### *Understanding cooperatives*

Kwamong and Hanisch (2013), described Cooperative society as an enterprise that is characterized by user ownership, user control, and user benefit:

- A cooperative is user-owned because the users of the services provided by the cooperative also own the cooperative organization.
- A cooperative is user-controlled because the users of its services make decisions on its strategies and policies.
- A cooperative is also characterized as a user-benefit organization because all the benefits of the cooperative are distributed to its users on the basis of their use of cooperative services; that is, individuals benefit in proportion to individual use (patronage).

### *Types of Co-operative Societies*

Although all types of cooperative societies work on the same principle, they differ with regard to the nature of activities they perform. Followings are different types of co-operative societies..

- (i) Consumers' Co-operative Society: These societies are formed to protect the interest of general consumers by making consumer goods available at a reasonable price. They buy goods directly from the producers or manufacturers and thereby eliminate the middlemen in the process of distribution.
- (ii) Producers' Co-operative Society: These societies are formed to protect the interest of small producers by making available items of their need for production like raw materials, tools and equipment, machinery, etc.
- (iii) Co-operative Marketing Society: These societies are formed by small producers and manufacturers who find it difficult to sell their products individually. The society collects the products from the individual

members and takes the responsibility of selling those products in the market.

- (iv) Co-operative Credit Society: These societies are formed to provide financial support to the members. The society accepts deposits from members and grants them loans at reasonable rates of interest in times of need.
- (v) Co-operative Farming Society: These societies are formed by small farmers to work jointly and thereby enjoy the benefits of large-scale farming.
- (vi) Housing Co-operative Society: These societies are formed to provide residential houses to members. They purchase land, develop it and construct houses or flats and allot the same to members. Some societies also provide loans at low rate of interest to members to construct their own houses.

#### *Characteristics of Co-operative Society*

A co-operative society is a special type of business organisation different from other forms of organisation (adopted from lesson 9, cooperative society). Its characteristics are as follows;

- i. Open membership: The membership of a Co-operative Society is open to all those who have a common interest. A minimum of ten members are required to form a cooperative society. The Co-operative societies Act does not specify the maximum number of members for any co-operative society. However, after the formation of the society, the member may specify the maximum number of members.
- ii. Voluntary Association: Members join the co-operative society voluntarily, that is, by choice. A member can join the society as and when he likes, continue for as long as he likes, and leave the society at will.
- iii. State control: To protect the interest of members, co-operative societies are placed under state control through registration. While getting registered, a society has to submit details about the members and the business it is to undertake. It has to maintain books of accounts, which are to be audited by government auditors.
- iv. Sources of Finance: In a co-operative society capital is contributed by all the members. However, it can easily raise loans and secure grants from government after its registration.
- v. Democratic Management: Co-operative societies are managed on democratic lines. The society is managed by a group known as "Board of Directors". The members of the board of directors are the elected representatives of the society. Each member has a single vote, irrespective of the number of shares held. For example, in a village credit society the small farmer having one share has equal voting right as that of a landlord having 20 shares.

- vi. Service motive: Co-operatives are not formed to maximise profit like other forms of business organisation. The main purpose of a Co-operative Society is to provide service to its members. For example, in a Consumer Co-operative Store, goods are sold to its members at a reasonable price by retaining a small margin of profit. It also provides better quality goods to its members and the general public.
- vii. Separate Legal Entity: A Co-operative Society is registered under the Co-operative Societies Act. After registration a society becomes a separate legal entity, with limited liability of its members. Death, insolvency or lunacy of a member does not affect the existence of a society. It can enter into agreements with others and can purchase or sell properties in its own name.
- viii. Distribution of Surplus: Every co-operative society in addition to providing services to its members, also generates some profit while conducting business. Profits are not earned at the cost of its members. Profit generated is distributed to its members not on the basis of the shares held by the members (like the company form of business), but on the basis of members' participation in the business of the society.
- ix. Self-help through mutual cooperation: Co-operative Societies thrive on the principle of mutual help. They are the organisations of financially weaker sections of society. Co-operative Societies convert the weakness of members into strength by adopting the principle of self-help through mutual co-operation. It is only by working jointly on the principle of "Each for all and all for each", the members can fight exploitation and secure a place in society.

### III. RESEARCH METHODOLOGY

The research method chose for this study is a combination of primary data and secondary data. The primary data collected from a structured questionnaire. It was distributed randomly among the cooperative society stakeholders to gather the required information. The secondary data obtained from the selected society's official documents, statements of account and cooperative society's bulletin. The data were analyzed using descriptive statistics such as Chi-square (Kareem et al., 2012). The survey was carried out in early December 2018 and late March 2019. In this research work, the technique of simple random sampling is used to select the sample of 30 respondents from each cooperative society making a total sample size of 90. The study was limited to Owolowo cooperative society, Ike Oluwa cooperative society and Asalam cooperative society, all in Osun State, Nigeria. The research focuses on the major stakeholders in the selected cooperative societies to establish their contributions to the promotion of small scale enterprises.

#### IV. DATA ANALYSIS

The table below shows the Chi-square tests results on the examination of the roles of cooperatives societies on SMEs promotion in Osun State, Nigeria. The result shows that education, occupation, age, income level, enterprise size, investment level are linked statistically with cooperative society development.

Table 2: Results of Pearson Chi-Square Tests

Variables	Value	df	Asymp. Sig(2-sided)
Education	91.169	3	.311
Occupation	1.141	2	.421
Age	26.311	4	.012
Income level	21.430	4	.721
Enterprise size	45.907	2	.532
Investment level	27.004	3	.041

The result of this study is similar to Olayinka (2014) that the promotion of cooperative societies can lead the renaissance for the revival of the national economy. Research results are also consistent with Kareem et al. (2012), where cooperative societies are viewed as a democratic organisation. Results of this study demonstrated that members who were active in participating in their own cooperatives societies activities have meaningful contributions to the share increment and SME promotion.

#### V. CONCLUSION

The study shows that cooperative societies are very fundamental means of raising fund for the promotion of small businesses in Osun State, Nigeria. The cooperative society members' participation in society administration has a meaningful impact on the socio-economic activities of the communities. The cooperative society is not only for enterprise financing but also for business training and development, employment opportunity, and a good network of relationship in the organization to promote small businesses, innovation, and creativity among the members of cooperative society. In support of Olaleye, (2004), cooperative society reduces poverty in the community.

The study raised fundamental issues on the roles of cooperative societies on the promotion of small business by analyzing the membership preferences, involvement in outside activities, members financial contributions, social relationship, gender, and education level attainment. While reviewing previous contributions to the study, it shows that a cooperative society is a democratic organization (Kareem et al., 2012). Teamwork in cooperative society enables an idea generation and fruitful decision making towards the development of the organization and promotion of individual member business in the community.

More so, business support services and fundraising is easy through cooperative society than non-cooperative society, most specifically the other financial institution in the State such as banks.

Although cooperative societies have some teething challenges for their contributions to the promotion of small businesses, still they are very significant compared to other non-cooperative society sectors. The research shows that the spread and sustainability of many small enterprises associated with cooperative societies depend on the regular control and monitoring of their affairs by the management of the organization.

#### VI. RECOMMENDATION

Based on the findings of this research study, the recommendations are as follows;

- i. Cooperative society plays a significant role in the promotion of small businesses; therefore, there is a need for continuous orientation of its establishment.
- ii. It is advisable that the government at all level should support the development of cooperative society as it promotes the economic well-being of the people through the spread of small businesses.
- iii. Cooperative development agencies should pay more attention to the sustainability of the already established cooperative societies for business promotion and economic development.
- iv. Member participation should be encouraged to foster new venture creation and entrepreneurial development.
- v. There is a need for a cooperative society awareness campaign to underscore the importance of its establishment for business promotion and financial assistance.

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