

## Co-operatives; Forms of Business Ownership that Nurture Both Social and Commercial Entrepreneurship

Gerald Absanto, Grace Mori and Christina Alfred  
Moshi University College of Co-operative and Business Studies (MUCCOBS),  
P.O. Box 469 Shinyanga, Tanzania

**Abstract:** Co-operatives can 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. Co-operatives work for the social and cultural development of their members and the wider community. They also have an interest in caring for the environment and future generations through the principle of concern for the community. The co-operative society from its inception was a social innovation and still plays an important social role in organizing economic relations. Whereas, originally co-operatives ensured the development of the market economy in the globalizing world of today they ensure that the economy continues to serve the everyday needs of the ordinary people in the best possible way. Co-operatives also provide a forum through various meetings whereby members come together to address their social and economic problems. Members normally share their experiences and discuss how to solve their current existing social and economic problems and finally come up with appropriate solutions for their benefits, as well as for the benefit of the community. Co-operatives not only conduct business for the members but also, encourage members to conduct business with their co-operatives. Co-operatives provide various supports to their members as well as the community at large to undertake commercial/economic entrepreneurship. Co-operatives are thought to be the only form of business ownership that nurture both social and commercial entrepreneurship through its dual aspect of achieving social-economic motives of its members as well as the entire community.

**Key words:** Co-operatives, entrepreneurship, social entrepreneurship, commercial entrepreneurship, generation

### INTRODUCTION

Co-operatives have been an important part of the development of Tanzania for 75 years. While they have seen many successes and failures during this period no other institution has brought so, many people together for a common cause.

#### Definition of key terms

**Co-operatives:** A co-operative is a group of people who work together voluntarily to meet their common economic, social and cultural needs through a jointly owned and democratically controlled enterprise. Co-operatives are based on the values of self-help, self-responsibility, democracy, equality and solidarity. Co-operative members believe in honesty, openness, social responsibility and caring for others.

**Social entrepreneurship:** The concept of social entrepreneurship has different meanings to different

people and researchers (Dees, 1998). Some refers it as not for profit initiative in search of alternative funding strategies or management schemes to create social value (Austin *et al.*, 2003). Some understands it, as the socially responsible practice of commercial businesses engaged in cross sector partnerships (Sagawa and Segal, 2000; Waddock and Post, 1991). Others view social entrepreneurship as a means to alleviate social problems and catalyze social transformation (Alvord *et al.*, 2004).

**Commercial (economic) entrepreneurship:** Entrepreneurship is defined differently by different scholars. Schumpeter (1934) defines entrepreneurship as a person's ability to be innovative in terms of goals, methods of production, markets, sources of supply and industrial organization.

Craven believes that all successful entrepreneurs have key traits such as patience, results driven, a strong need for achievement and set high but realistic and achievable goals.

Drucker (1960) defines entrepreneurship, as the tendency to create value through identification and exploitation of opportunities. This includes starting and managing one's own business. Gibb (2005) defines entrepreneurship, as a way of thinking, reasoning and acting that result in the creation, enhancement, realization and renewal of value for an individual, group, organization and society. At the heart of this process is the creation and recognition of opportunities followed by the will and initiation to seize these opportunities.

## DISCUSSION

**Business organisation:** Business organisation refers to all necessary arrangements required to conduct a business. It refers to all those steps that need to be undertaken for establishing relationship between men, material and machinery to carry on business efficiently for earning profits (Rutashobya and Olomi, 1999).

**Forms of business ownership:** While establishing a business the most important task is to select a proper form of ownership. This is because the conducts of business, its control, acquisition of capital, extent of risk, distribution of profit, legal formalities, etc., all depend on the form of organisation. The most important forms of business organisation are as follows: Sole proprietorship, partnership, joint stock company and co-operative society.

**Co-operatives as forms of business ownership:** The International Co-operative Alliance (ICA) defines a co-operative firm as follows: A co-operative is 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.

According to ICA the social values upon which the principles of cooperation are self-help, self-responsibility, democracy, equality, equity and solidarity. Co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

The International Co-operative Alliance (ICA News, No. 5/6, 1995), also outlines the basic co-operative principles by which co-operatives put their values into practice as follows:

**Voluntary and open membership:** Co-operatives are voluntary organisations 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.

**Democratic member control:** Co-operatives are democratic organisations 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 organized in a democratic manner.

**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.

**Autonomy and independence:** Co-operatives are autonomous, self-help organisations controlled by their members. If they enter to agreements with other organisations, 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. 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.

**Cooperation among co-operatives:** Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

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

**The concept of social entrepreneurship:** Social entrepreneurship combines the passion of a social mission with an image of business-like discipline, innovation and determination. The time is certainly ripe for entrepreneurial approaches to social problems. Social entrepreneurs are needed to develop new models for a new century.

Johnson (2000) views social entrepreneurship in three perspectives: Firstly, as a process of creating value by combining resources in new ways (Schumpeter, 1934). Second, these resource combinations are intended primarily to explore and exploit opportunities to create social value by stimulating social change (Alvord *et al.*, 2004) or meeting social needs and third, social entrepreneurship as a process, involves the offering of services and products but also refer to the creation of new organizations.

Dees (1998, 2003) maintains that the following conditions are present in social entrepreneurship: Adopting a mission to create and sustain social value (not just private value); recognizing and relentlessly pursuing new opportunities to serve that mission; engaging in a process of continuous innovation, adaptation and learning; acting boldly without being limited by resources currently in hand and exhibiting heightened accountability to the constituencies served and for the outcomes created. Social entrepreneurship, therefore emphasizes on creativity, flexibility and collective work to accomplish community goals in order to bring about a sustainable social change. It can occur within the public, private or non-profit sectors and is in essence a hybrid model involving both for-profit and non-profit activities. The language of social entrepreneurship may be new but the phenomenon is not. In addition to innovative non-governmental organization ventures, social entrepreneurship can include social purpose business ventures, such as community development banks and hybrid organizations mixing not-for-profit and for-profit elements, such as homeless shelters that start businesses to train and employ their residents. Social entrepreneurs look for the most effective methods of serving their social missions.

**Social entrepreneurship vs. business (economic) entrepreneurship:** Social entrepreneurship is seen as different from other forms of entrepreneurship in the relatively higher priority given to promote social value and development versus capturing economic value. (Schumpeter, 1934; Baumol, 1993) contends that although the profit motive might be a central engine of entrepreneurship, it does not preclude other motivations. It should therefore be noted that entrepreneurship in the business sector has a social aspect versus personal fulfillment for social entrepreneurship (Bornstein, 1998; Catford, 1998). However, this does not mean that social entrepreneurship initiatives should not embrace an earned income strategy.

The main difference between entrepreneurship in the business sector and social entrepreneurship lies in the

relative priority given to social wealth creation versus economic wealth creation. Thus, in social entrepreneurship, social wealth creation is the primary objective while economic value creation, in the form of earned income, is a necessary by-product that ensures the sustainability of the initiative and financial self-sufficiency. Additional distinctive feature of social entrepreneurship lies in the limited ability to capture the value added. Example, social entrepreneurs who address basic social needs such as food, shelter or education very often find it difficult to capture economic value because even if the customers are willing often they are unable to pay even a small part of the price of the products or services provided. Social entrepreneurs involved in for-profit activities see profit as a means to an end while economic entrepreneurs see profit as an end in itself (Dees, 1998).

Regarding their similarities (Catford, 1998), comments that social and economic entrepreneurs share the same focus on vision and opportunity and the same ability to convince and empower others to help them turn these visions into a reality. For social entrepreneurs, however these characteristics are coupled with a strong desire for social justice. Dees (1998) and Henton added on the idea by commenting that social entrepreneurs (much like economic entrepreneurs) do not allow the lack of initial resources to limit their options and that their reach often exceeds their grasp.

**Dual aspects of co-operatives:** A co-operative society is an association of individual persons who voluntarily form an economic enterprise of which they pool their resources so that it can serve their economic and social interests democratically, on the basis of equity and equality (Chambo, 2008). In co-operatives, people of the same background come together to attain their social-economic motives through pooling up of their resources and running a jointly owned enterprise. Co-operatives are differentiated from other forms of business ownership as uniting marginalized people with the same economic and social background where members are valued by who they are rather than what they have this is because everybody have only one vote irrespective of how much share capital have contributed to form the enterprise.

Co-operatives have twin elements which are economic or business aspect and social aspect. Among this aspects none of the motive is superior to the other, co-operatives thrives to ensure that the motives are balanced.

As a business enterprise, co-operatives join their members to solve their economic problems through running a profitable business enterprise. The aim is to

ensure that members get returns on their capital invested. It should be noted that under business aspect, co-operative aims at making profit and adheres to all business skills and ethics such as cost analysis, financial management and record keeping, marketing and value addition just to mention a few. For example, Agricultural Marketing Co-operatives Societies (AMCOS) are formed to ensure that member's produce/products are marketed to fetch high prices in the market and to eliminate middlemen exploitation while in saving and Credit Co-operative Societies (SACCOS) the aim is to lend members money efficiently and profitably to ensure that member's wealth is maximized.

Co-operative as social enterprises are concerned with not only member's social welfare but also with solving the existing social problem in the community. For example, housing co-operatives have the primary objective of ensuring that the community gets better shelter, also consumer co-operatives have the role protecting consumer rights.

From the twin element of co-operatives, co-operatives are seen as the guardian of both commercial and social entrepreneurship.

**Co-operative as an organisation that fosters commercial entrepreneurship:** Co-operatives not only conduct business for the members but also encourage members to conduct business with their co-operatives. Co-operatives provide various supports to their members, as well as the community at large to undertake commercial/economic entrepreneurship. Through the principles of members economic participation, members are supposed to conduct business with their co-operatives and benefits are distributed in proportion to their transactions with the co-operative; for example in Saving And Credit Co-operatives Societies (SACCOS) members are encouraged to prepare business plans and borrow from their co-operatives to conduct their own business as well as returning the borrowed money with interest to SACCOS. Before the money is lent to a member, SACCOS make various follow ups to ensure that money are lent to a profitable prospect business. Likewise, in Agricultural and Marketing Co-operative Societies (AMCOS) where the main business is marketing member's agricultural products, every member is obliged to grow as much as agricultural products to sell them to AMCOS. Co-operatives ensure that members conduct business with co-operatives by implementing the principle of member's economic participation whereby the return on share capital employed to co-operatives distributed to members as surplus is apportioned in proportion to their transaction with their co-operatives that is: The more you

have conducted business with co-operatives the more the return you will earn. The implementation of this principle challenges members to actively conduct business with their co-operatives in order to get high returns and in turn, members acquire business skills.

Inline with the principle of member's economic participation, co-operatives also implement the principle of continuous education, training and information where by members, elected representatives, managers and employees are provided with education and training so, they can contribute effectively to the development of their co-operatives and themselves. The general skills are provided to members, such as commercial knowledge, management, economics, marketing accounting, warehousing, processing and finance. But, there are also more specific skills that are provided to different types of co-operative enterprises. For example, the specific management tools required for agricultural marketing co-operatives are different from those needed by financial or housing co-operatives. Those skills needed by members of different co-operatives are also, different from one type to another (Chambo, 2008). Member's education and training is a continuous process in co-operatives since 10% of the organization's surplus before appropriation is always retained as an education fund as per Co-operative Societies Act No. 20 of 2003.

**Co-operative as an organisation that promotes social entrepreneurship:** Co-operatives work for the social and cultural development of their members and the wider community. They also, have an interest in caring for the environment and future generations through the principle of concern for the community. The co-operative society from its inception was a social innovation and still plays an important social role in organizing economic relations. Whereas originally co-operatives ensured the development of the market economy, in the globalizing world of today they ensure that the economy continues to serve the everyday needs of the ordinary people in the best possible way. Co-operatives also provide a forum through various meetings whereby members come together to address their social and economic problems. Members normally share their experiences and discuss how to solve their current existing social problems and finally, come up with appropriate solutions for their benefits, as well as for the benefit of the community.

Proponents of social entrepreneurship have put various criterion to assess social entrepreneurship, for example, Johnson (2000) views social entrepreneurship in three perspectives: Firstly, as a process of creating value by combining resources in new ways (Schumpeter, 1934). Second, these resource combinations are intended

primarily to explore and exploit opportunities to create social value by stimulating social change or meeting social needs (Alvord *et al.*, 2004) and third, social entrepreneurship as a process, involves the offering of services and products but also refer to the creation of new organizations. Let us consider whether the co-operatives have these qualities as put by Johnson.

Co-operatives do create value by combining resources in new ways. For example, producers' co-operatives societies are formed by individual small scale producers through joint venture to alleviate problems in collecting inputs and marketing their products.

These combinations of resources are intended primarily to eliminate middleman's exploitation to meet a social need (better prices for producers' products). Consumer co-operatives offer various services to small scale producers, such as provision of agricultural inputs at reasonable prices, marketing information, networking and technical know-how in production.

Also Dees (1998, 2003), maintains that the following conditions are present in social entrepreneurship: Adopting a mission to create and sustain social value (not just private value); recognizing and relentlessly pursuing new opportunities to serve that mission; engaging in a process of continuous innovation, adaptation and learning; acting boldly without being limited by resources currently in hand and exhibiting heightened accountability to the constituencies served and for the outcomes created.

Let us consider saving and credit co-operative societies. They have a social mission of providing tailor-made financial services to its members and the community at large, especially those who are excluded from the formal financial system. Members normally pool up their capital to form a credit association to serve the clients neglected by commercial banks and other formal financial institutions the majority of whom are poor rural dwellers. As these associations grow there is continuous innovation and creativity to design the appropriate market oriented financial products to suit the needs of the surrounding community.

### CONCLUSION

Co-operatives are organisations that bring poor people together for social-economic motives. Though, co-operatives have been facing ups and downs they need to be empowered so that they can continue empowering emerging entrepreneurs.

### REFERENCES

- Alvord, S.H., L.D. Brown and C.W. Letts, 2004. Social entrepreneurship and societal transformation. *J. Applied Behav. Sci.*, 40: 260-282.
- Austin, J., H. Stevenson and J. Wei-Skillern, 2003. Social entrepreneurship and commercial entrepreneurship: Same, different or both? Harvard Business School Working Paper Series No. 04-029.
- Baumol, W.J., 1993. *Entrepreneurship, Management and the Structure of Payoffs*. MIT Press, Cambridge, MA.
- Bornstein, D., 1998. Changing the world on a shoestring: An ambitious foundation promotes social change by finding social entrepreneurs. *Atlantic Monthly*, 28: 34-39.
- Catford, J., 1998. Social entrepreneurs are vital for health promotion-but they need supportive environments too. *Health Promotion Int.*, 13: 95-97.
- Chambo, S., 2008. Co-operative education and training in Africa. Proceedings of the National Co-Operative Conference in Pretoria, July 2, 2008, Africa -.
- Dees, J.G., 1998. The meaning of social entrepreneurship. Centre for Advancement of Social Entrepreneurship (CASE), Fuqua School of Business, Duke University, Durham, NC. [http://www.caseatduke.org/documents/dees\\_sedef.pdf](http://www.caseatduke.org/documents/dees_sedef.pdf).
- Dees, J.G., 2003. Social entrepreneurship is about innovation and impact, not income. <http://www.caseatduke.org/articles/1004/corner.htm>.
- Drucker, P.F., 1960. *Innovation and Entrepreneurship*. HarperCollins Publishers, India.
- Gibb, A.A., 2005. The entrepreneur as the core competence of the firm. *European Forum for Management Development Entrepreneurship Bulletin*, Brussels.
- Johnson, S., 2000. Literature review on social entrepreneurship. Canadian Centre for Social Entrepreneurship.
- Rutashobya, L.K. and D.R. Olomi, 1999. *African Entrepreneurship and Small Business Development*. DUP, USA., ISBN: 9789976603170, Pages: 319.
- Sagawa, S. and E. Segal, 2000. *Common Interest Common Good: Creating Value through Business and Social Sector Partnerships*. Harvard Business Press, India, ISBN: 9780875848488, Pages: 278.
- Schumpeter, J.A., 1934. *The Theory of Economic Development*. Harvard University Press, Oxford.
- Waddock, S.A. and J.E. Post, 1991. Social entrepreneurs and catalytic change. *Public Administration Rev.*, 51: 393-401.