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Seminar Monograph

Cooperative Entrepreneurship as an Expression of Cooperative Identity

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1. Background

On 25 May 2009 the International Labour Organisation and the Department of Trade and Industry hosted a seminar entitled: *Cooperative Entrepreneurship as an Expression of Cooperative Identity*. This was the fourth cooperative seminar in the series to be hosted by the ILO and DTI.

The seminar drew in cooperators, policy experts, sector stakeholders and academics into a common space to think about cooperative development as part of an approach to addressing wider development challenges facing the country.

The seminar series on cooperatives is intended to achieve the following:

- Provide a platform for in depth debate about key policy and development issues facing cooperatives in South Africa;
- Generate new ideas, innovative thinking and insights about the role of cooperatives, the cooperative sector and cooperative economy;
- Identify opportunities and challenges facing cooperative development in South Africa;
- Provide a learning and sharing space for cooperative practitioners, policy actors, support ngos, and mass organisations;
- Generate knowledge about cooperative practices and experiences at the frontline of change;
- Enhance the capacity for knowledge based leadership around cooperative development in South Africa.

2. Problem Statement

Over the past few years South Africa has experienced an explosion of cooperatives. According to the national registrar cooperative numbers have jumped from about 1400 in 2004 to over 16000 by 2007. This trend has been spurred on by a new cooperative Act passed in 2005, together with an overarching policy framework. Various political parties, unions and social movements have also raised the profile of the cooperative option on the national development agenda in South Africa. Some have declared cooperatives an integral part of 'Black Economic Empowerment'. This has politicised cooperatives in particular way. Moreover, cooperatives have also been reduced to 'Small, Medium and Micro Enterprises'. This emphasis has reduced cooperatives to another business form. However, cooperative's are defined by seven internationally recognised principles giving cooperatives a distinct identity and form. These principles provide for an institutional form that is inherently social and empowering. Cooperatives are not another form of private enterprise. This begs the question: What is the relationship between cooperatives and entrepreneurship? Do entrepreneurship skills take away from cooperative identity or do they re-inforce it through adding to this identity, as cooperative entrepreneurship? How do entrepreneurship skills contribute to the sustainability of cooperatives? What other skills and education emphasis is required to ensure cooperatives are viable? What is the role of the state? What is the role of the cooperative movement?

3. Cooperative Entrepreneurship

Bernd Harms, Former Head of DGRV South Africa and Cooperative Development Consultant

3.1 Introduction

A large number of people in South Africa who live in rural and peri-urban areas are part of the informal economy or are otherwise socially, economically and politically excluded from the benefits of development. Cooperatives are increasingly playing a significant role in helping these people to find solutions on how to cooperate out of poverty by tapping their own resources, knowledge and strengths.

Cooperatives contribute to develop the local economies where the poor live through their unique and strong linkages with the community. They enable poor people to have their voices heard in addition to improving their daily working and living conditions. Because cooperatives are democratic organisations and owned by those who use their services, cooperatives are an ideal instrument to empower the poor. They are participatory, responsive to local needs, are able to mobilize communities and help particularly vulnerable groups of people.

“What isn’t possible for the individual is possible for many persons acting together!” (Raiffeisen)

Cooperatives are faced with the same challenge as any other business firm: they must create value. They must produce goods that customers (members) desire at prices they are able and willing to pay. They face the same or very similar macro and microeconomic restraints as other firms.

The major difference between a cooperative firm and a capitalist enterprise is that in a cooperative the owners of the firm and the customers of the products produced by the firm are the *same* persons (*principle of identity*). The entrepreneurial potentials and problems for value creation arise out of this identity.

Co-operatives can successfully compete with other types of economic organisations when they do have a “co-operative advantage”. How can this co-operative advantage be discovered? A solution would be “co-operative entrepreneurs”.

3.2 The need for “Cooperative Entrepreneurs”

Experience from various countries shows that co-operatives have mostly been initiated and created with the help of external promoters or co-operative entrepreneurs.

A cooperative entrepreneur is needed:

1. To discover; and
2. To implement cooperative opportunities.

In other words: the discovery and implementation of the “cooperative effect” for the welfare of members is the role and function of cooperative entrepreneurship. The “cooperative effect” means that the cooperative must be able to survive against competitors (“market test”) and that the cooperative must be able to let the members participate in the achievements (“participation test”). The ultimate entrepreneurial task is to bridge the gap between what is known (“**What needs to be done**”) and what is being done.

3.3 Different Types of Cooperative Entrepreneurs

Entrepreneurs are rarely mentioned in connection with cooperative development. When innovative entrepreneurship is a necessary condition for the achievement of economic development in general, it is also necessary for a cooperative’s success in particular. Without cooperative entrepreneurship cooperatives cannot succeed, they would not be established. Innovative cooperative entrepreneurs are the main promoters of cooperative development.

Entrepreneur is not entrepreneur. As with humans in general, there are big differences about entrepreneurs. Röpke differentiates between four types:

a. Member Entrepreneurs:

Cooperative entrepreneurs are part of the class of members (which can be elected into a position of cooperative leadership).

b. Manager Entrepreneurs

Cooperative entrepreneurs are managers of the cooperative enterprise.

c. Bureaucratic Entrepreneurs:

Cooperative entrepreneurs are part of a governmental or parastatal administration.

d. Catalytic Entrepreneurs

Cooperative entrepreneurs are members of other non-cooperative organisations (schools, universities, donor/aid and sponsoring agencies, churches) who provide career possibilities and incentives independent from or in addition to cooperative entrepreneurship. They are specialists in the initialisation, promotion and support of cooperatives.

According to Röpke the first two can be characterized as self-initiating, the other two as external-promoting entrepreneurs. In self-initiating cooperative entrepreneurship, the vital decisions are made by persons with functions within a cooperative society (members, managers, directors, board members).

Although the first two types of cooperative entrepreneurs can be characterized as ideal, many cooperatives in this category are run almost exclusively for the benefit of one

person, a small group, or an extended family business. On the other hand one can observe that member cooperative entrepreneurs are coming from professions that have no material interests such as priests, teachers, social workers, government employees, and professional or sponsoring/promoting agencies.

Regarding managers as entrepreneurs the danger exists that cooperatives are becoming manager-driven, disregarding the needs and interests of the members.

When bureaucrats such as government officials take over cooperative entrepreneurial functions, they often follow a blue print approach, which often succeeds in establishing cooperatives to channel inputs or to obtain produce from members and become instruments of government. Bureaucratic entrepreneurs may not be aware of existing local cooperative opportunities. Because of lack of member participation it is easy for managers or committee members to engage directly in unproductive and corrupt practices. The provision of state funds and subsidized services provided to members may stabilize or create a tendency of dependency and increase the difficulty for those entrepreneurs and groups willing to realize cooperative ventures with their own means.

The catalytic entrepreneur may circumvent some of the constraints mentioned so far. They are external agents whose task it is to get the process of cooperative institutionalization started and to work with and strengthen local cooperatives. They basically work from bottom-up and can be governmental or non-governmental. Catalytic entrepreneurs have the advantage that they are not part of the local hierarchy of power and influence. They also might see cooperative opportunities often overlooked by locals. However, the risk exists that they become too much involved in cooperative affairs making the cooperative an externally dependent structure.

3.4 Promotion of Cooperative Development

Entrepreneurship is an essential ingredient of cooperative development. Cooperative development always includes the *dual* aspect of cooperatives: development of the cooperative enterprise and promotion (motivating and enabling) of member entrepreneurship.

How to promote cooperatives in order that cooperatives can advance their members more effectively? With what kind of services can cooperatives improve the performance of their member entrepreneurs? How can cooperatives stimulate member innovation of their members and promote those that are working out of the economic core and transform these enterprises into ambitious and glamorous firms?

The primary focus of policy makers, educators, trainers and consultants must be on promoting ambitious and glamorous cooperatives (which probably are rather young) and new cooperatives.

The first thing to do is negative: *not* to do things which handicap or restrain these class of cooperatives. The second thing to do is to *identify* new cooperative entrepreneurs and

young cooperatives with highly ambitious/innovative entrepreneurs. Thus, policy makers and government should make a shift to the promotion of cooperative entrepreneurs and through them member promotion.

External assistance should be actively sought by co-operative leaders and managers with the specific goal of increasing entrepreneurial opportunities and management capacity. This assistance usually takes the form of training courses, project or venture finance, or entrepreneurial advice offered by **experienced and well trained** “catalytic” entrepreneurs from co-operative movements, NGOs or government institutions.

In that way government policy shifts from direct intervention and promoting state goals to indirect assistance and promotion of member goals. Cooperative entrepreneurship has to be promoted instead of promoting the cooperative sector as a whole. Modern cooperative entrepreneurs will have to learn a minimum of theory in order to understand what they are doing and what needs to be done in order to compete successfully and grow by better promoting their members. Thus, a main emphasis is laid upon cooperative education and training, capacity building or human resources development. A special focus should be given to academic entrepreneurs, thus connecting the worlds of science and business.

4. An ILO View on Cooperative Entrepreneurship

Ursula Titus, Head of the ILO SA-Jump Program

5. Summary of Main Discussion Points

The deliberations at this seminar raised the following important points:

- Given the explosion of cooperative in South Africa it is important to distinguish between fake and genuine cooperatives. The ICA statement of identity and principles as well as the 2005 Act provide a basis to assess cooperatives on the ground. This is important because genuine cooperatives should not be overshadowed by 'fly by night' ones merely chasing financial resources. In many ways the Black Economic Empowerment policy thrust from government has politicised cooperatives in a particular way and has encouraged rent seeking as opposed to bottom up member and worker owner driven cooperatives;
- Cooperative entrepreneurship is not a 'silver bullet' but is a key ingredient in cooperative development. For cooperatives operating in a market environment enhancing cooperative entrepreneurial skills is crucial. On the other hand, subsistence and social cooperatives might not need to be driven by cooperative entrepreneurship. In both cases cooperative entrepreneurship should not take away from cooperative principles.
- Cooperative entrepreneurship should not be collapsed into SME frameworks and neither should it reduce cooperatives to another business form. Cooperatives are a distinct institutional form with a values centred institutional model and social character. The hard skills of financial management, marketing, management etc that are required in cooperatives should be encouraged as part of a wider education and training practice in cooperatives. Most of the successful cooperative movements in the world are grounded in ongoing education and training to build institutional capacity, raise member awareness and ensure skills development. Cooperative entrepreneurship should be part of the culture of cooperative practice and it is an integral part of cooperative ideology.
- Government is busy with various interventions that impact on and close the space for bottom up movement building. In many ways the enabling role of the state, despite the good intentions, easily translates into control. Government is talking about cooperative colleges and various other interventions to build cooperative capacity but all seem to be in a top down framework. Besides government the cooperative movement needs to be challenged to build 'in-house' movement capacity for education and training.
- The economic role and function of cooperatives should not be reduced to poverty reduction. Cooperatives in the global north, in rich countries, play a pivotal role in mainstream economic activity. The multi-class appeal of cooperatives needs to be

enhanced to attract different skills and capacities into cooperatives. Professionalising the training for cooperatives becomes important. For example, securing accredited training in diploma's and degrees on cooperative entrepreneurship, management, financial mangement and so on is crucial in the South African context.