

# **A CONCEPTUAL FRAMEWORK FOR A SUCCESSFUL COOPERATIVE ENTREPRENEURSHIP DEVELOPMENT**

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## **INTRODUCTION**

Previously, the concept of cooperatives was only applied in areas such as agriculture, finance (financial contribution among friends) and buying and selling. Very recently, researchers started making attempts to link cooperative concept into the entrepreneurship domain. Hence, the concept of cooperative entrepreneurship is an emerging trend in this present 21<sup>st</sup> century.

The importance of cooperative entrepreneurship is becoming more visible under the current challenging economic situation. According to Skurnik (2002), cooperative entrepreneurship plays a key social function in the organization of economic relations. Originally, cooperatives ensured a balanced development of the market economy; in the new globalizing world, these national, democratically controlled organizations ensure that the economy continues to serve the everyday needs of the ordinary people. Accordingly, Ravensburg (2009) noted that cooperative entrepreneurs play major roles in stabilizing and enhancing member businesses, crafts people or professionals by partaking in some risk sharing and mutual help among members. They also increased incomes and satisfactory conditions of work. They were involved in poverty alleviation and prevention, social dialogue and empowerment of disadvantaged groups. Additional socio-economic benefits may include: pooling of expertise and collaboration, training

and education; capacity building; improved use and control of local resources; opening of markets including export markets; access to information; protection of natural resources; social recognition and new social relations/networking; defense against the flight of capital in the case of financial downturns; prevention of rural-urban migration, support of rural diversification; and the creation of alternative or increased incomes which can contribute to the abolition of child labor and bonded labor (Ravensburg, 2009; p. 12 &13).

Despite the many benefits of the cooperative entrepreneurship as highlighted above, it is yet to spread across the globe (Ravensburg, 2009). He noted that cooperative entrepreneurship has proven to be highly effective over the course of nearly 150 years in several Western European countries, with professionals and public bodies in both Western Europe and North America increasingly making use of entrepreneurial cooperatives in recent times. However, to date, entrepreneurial cooperatives have hardly diffused into Eastern Europe, African, Asian or Latin American markets.

Furthermore, although cooperative entrepreneurship has also been perceived to be one of the world's most dynamic emerging economic sectors in the most recent times with a lot of potentials to be exploited (Ravensburg, 2009), it is yet to be accorded the needed attention identified and treated like any other areas of entrepreneurship, such as: agripreneurship, technopreneurship, socialpreneurship, infopreneurship and political entrepreneurship. The study conducted by Skurnik (2002) observed that only little attention has been given to cooperative entrepreneurship which has contributed to its weak links with mainstream economics and, partly

for these reasons, the theory and practice remain surprisingly unfamiliar. The author further pointed that practically, a cooperative is perceived to be strong but theoretically very weak (Skurnik, 2002). Again, the study of cooperative entrepreneurship appears to lack a clear model or framework. For instance, many past studies that attempt to provide a framework for cooperative entrepreneurship were not successful, as those frameworks lack a clear direction and focus. For example, the models provided by Chaddad and Cook (2004); Birchall (2011) and Mazzrol & Anzam (2011), only talk about forms of cooperative entrepreneurship and factors that affect cooperative entrepreneurship. Even so, the most important factors that actually affect cooperative entrepreneurship, such as individual/members' characteristics, business characteristics and environment were not mentioned or included in the study. For instance, Lucky (2011) argued that studies involving entrepreneurship without regard for the environment and individual characteristic factors are incomplete. As a result, this paper examines entrepreneurs by providing a conceptual model to examine a successful cooperative entrepreneurship. It further provides a useful insight on the key factors that tend to determine a successful cooperative entrepreneurship development.

## **LITERATURE REVIEW**

The term 'cooperative' is as old as human creation. From the beginning, humans want to collaborate, work together or work as a team to achieve many of the tasks. The story of ancient Babylon is a good example, where people engaged in a form of cooperative activity in order to build the tallest building that would touch the sky. Many cultures live communal lives whereby individuals or groups help others to accomplish a goal with the belief that they would

reciprocate whenever their help is required or needed. Thus, the term 'cooperative entrepreneurship' dates back to ancient times. However, in recent times, the term 'cooperative' is resurfacing under the current global economic challenges. Recently, authors in the area of cooperatives are gradually linking cooperatives with entrepreneurship, thus the term 'cooperative entrepreneurship'. According to Skurnik (2002), cooperative entrepreneurship is described as businesses owned by members, or group of customers, called customer-owners. They do not just own the business, but are also in full control in the management of the business. It is a business organization which is open to all and members voluntarily joined with the aim of producing services in the interests of its members. Similarly, the International Cooperative Alliance (ICA) in 1995, at the centenary congress, defined cooperative entrepreneurship 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 definition by Van der Walt (2008) described cooperative entrepreneurship as business organizations, voluntary and willingly established by group of people called members with common needs in order to apply this business into the community and also ensure that the actors called entrepreneurs are fully involved in all the activities. Collective entrepreneurship, which refers to producer-owned firms, is often located at the level of the multiple producer-owners and at the level of the jointly-owned firm. Also, in looking into the new phenomenon of agricultural cooperatives, Van der Walt (2008) defined a cooperative as "a form of rent-seeking behavior exhibited by formal groups of individual agricultural producers that combine the institutional frameworks of investor-driven shareholder firms and patron-driven forms of collective action". He argued that cooperative entrepreneurship which is a new form of business can be used to

offer rural communities some techniques on how to deal with or cope in any economic situation, which had failed to respond to the community's priorities in their quest to survive. Accordingly, Jos & Bart (2010) described cooperative entrepreneurship as a situation warranting the deployment of assets by a certain group of people with common business objectives. Accordingly, Ravensburg (2009) noted that a cooperative entrepreneurship takes the form of private, professional or public business organization with the hope of helping them to enhance their heir effectiveness by improving access to goods and services, that otherwise would not have been available. He further provided some of the characteristics and benefits of cooperative entrepreneurship as summarized in Table 1.1 below.

A recent article in the TIME magazine (TIME, August 13 2012) further highlighted this. The John Lewis Department Store (JLDS) is an example of a successful cooperative entrepreneurship undertaking. JLDS is an employee-owned business catering to the luxury lovers as well as the budget-conscious. The British Deputy Prime Minister, Nick Clegg, referred to the “John Lewis Economy” - one which promotes a more responsible form of capitalism through employee-owned businesses. The approach touts the virtues of “worthwhile and satisfying employment” for the “happiness of all its members”.

**Table 1.1 Features and benefit of Entrepreneur Cooperative**

<b>Features</b>	<b>Benefits</b>
Supplies of raw materials or commodities (food and non-food products)	Usually at a lower costs than would be available to individuals
Plant and machinery supplies	Usually at a lower costs than would be available to individuals
Purchase of machinery and equipment shared among members	The investment costs of which would be prohibitive to individual member enterprise
Storage of products	Smoothing of prices
Marketing and distribution	Economies of scale and scope
Publicity and promotion	Reputation and visibility
Creating brand names	Increased public recognition and eventually market share
Setting and certifying of quality standards	Operation in new markets, such as fair trade or 'slowfood'
Information about products, production and the sector	Product design and production planning improved
Education and training	Management and production skills enhanced
Insurance services	Cheaper and more appropriate risk coverage
Accountancy, management services	Concentration on key business areas
Legal and tax services	Concentration on key business areas
Investment	Improved financial management

Advising members (tax and legal advice, management advice, among others)	Enhanced strategic decision making
Market analysis and strategic planning	Enhanced strategic decision making
Occasionally access to business and household finance	Bridging bottlenecks in liquidity
Risk cover	Innovation becomes easier

*Source: Ravensburg (2009)*

From the above, it is very clear that there is no limit with regards to the definition of cooperative entrepreneurship. However, certain ingredients, such as individuals, groups, business, members, control, management, members' improvement and assistance, etc., are required for an effective description of the term. Therefore, drawing from all these definitions, this paper conceptualizes cooperative entrepreneurship as any form of business organization which preaches free

membership, is member-owned, controls, manages, and pools resources with the aim of producing services for its members' benefits.

### **Theoretical Background**

In an attempt to examine cooperative entrepreneurship, previous authors have provided several models as well as frameworks. These models intended to guide the study of cooperative entrepreneurship by providing a direction. For instance, the study by Chaddad and Cook (2004) provided a cooperative entrepreneurship model that is based on the ownership rights. This model focuses only on the various forms of cooperative entrepreneurship and membership types. For example, it listed cooperative entrepreneurship, as traditional cooperatives, proportional investment cooperatives, members-investors cooperative, new generation cooperative, cooperative with capital seeking entities, investors-share cooperative and lastly, investor-oriented firm cooperative. Although, this model is deemed to be very complex, it however failed to provide a clear direction for a successful cooperative entrepreneurship development. Figure 1.1 below provides a clear picture of the explanation of cooperative entrepreneurship by Chaddad and Cook (2004).

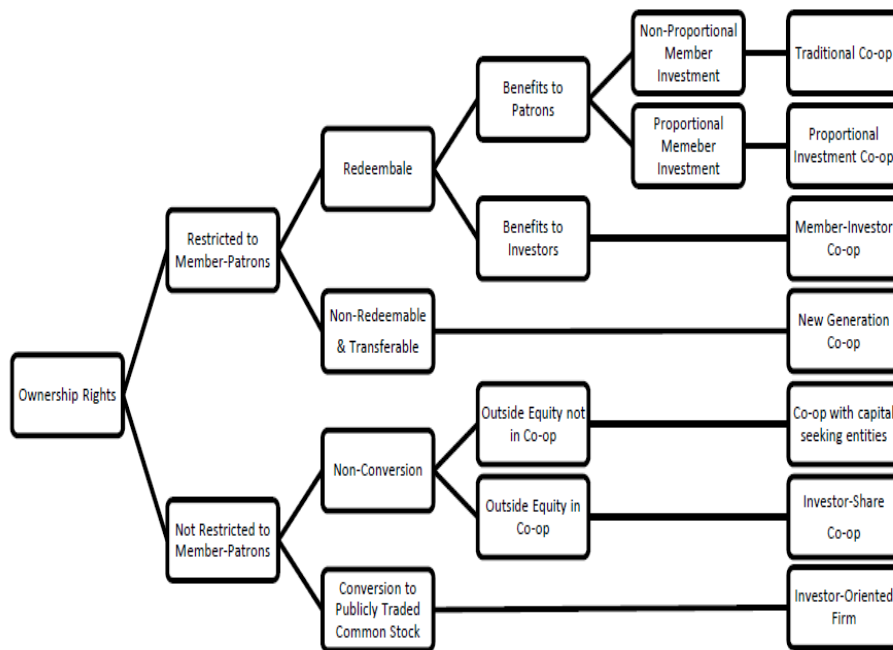


Figure 1.1 **Taxonomy of Co-operatives** (Source: Chaddad & Cook, 2004).

Similarly, the study conducted by Birchall (2011) on cooperative entrepreneurship proposed another model which focused on the member-owned businesses, otherwise called member-owned cooperative development. This model argued that cooperative entrepreneurship can assume different forms, depending on the objective and purpose it intends to achieve. According to Mazzrol & Anzam (2011), each of these cooperatives listed by Birchall (2011) has particular characteristics, defined as “class”, “genus” and “species”. They also observed that each of these cooperatives is part of the cooperative business family and is distinctly different from the investors owner firm (IOF) and other organizational forms. For instance, consumers-owned cooperative is different from producer-owned cooperative, while employees-owned cooperative is also different from both consumers-owned and producers-owned cooperatives. Figure 1.2 below demonstrates these forms of cooperative entrepreneurship development.



**Table 1.2 A Suggested Taxonomy of Member-Owned Businesses**

Class	Genus	Species	Hybrids
Consumer-owned	General retailing	Consumer co-ops: food, staple goods	Jointly-owned businesses with other retailers
Consumer-owned	Specialist retailing	Consumer co-ops: pharmacy, furniture, travel, garage, services etc.	Joint ventures
Consumer-owned	Insurance	Friendly societies, mutual assurance, life insurance, health insurance	
Consumer-owned	Housing	Market value housing co-ops; no-equity co-ops	Community housing associations (Scotland)
Consumer-owned	Utilities	Electricity, water, telecoms co-ops	Joint ventures with local governments
Consumer-owned	Education	Child care co-ops, co-op schools (Sweden)	Schools with multi-stakeholder governance
Consumer and producer owned	Banking	Co-op banks, credit unions, savings & credit co-ops	Mutual savings banks (USA)
Producer-owned	Retailer-owned wholesaler	Supermarket, hardware store, pharmacy	Jointly-owned business with wholesalers
Producer-owned	Shared services for self-employed, SMEs & professionals	A wide variety, including taxidriers, artisans, market traders, and dentists co-ops	Minority producer-ownership in an ICD
Employee-owned	Continuum: simple labour co-ops to conglomerates	A wide variety of sectors	Employee share-ownership schemes

Source: Birchall 2011

Furthermore, Mazzarol, Linnios & Reboud (2011), after an extensive literature review on the cooperative entrepreneurship development, affirmed that certain elements play a crucial role in providing a clear model for cooperative entrepreneurship development. They argued that these elements which have been identified by past researchers should be developed and integrated into the business model leading to a cooperative model as depicted in Figure 1.2 below. The model indicates that a cooperative entrepreneurship may be borne out of four major elements, i.e., purpose, profit formula, key process and key resources. These four major elements further produce sub-elements which are also very essential in determining a suitable model for an effective cooperative entrepreneurship development.

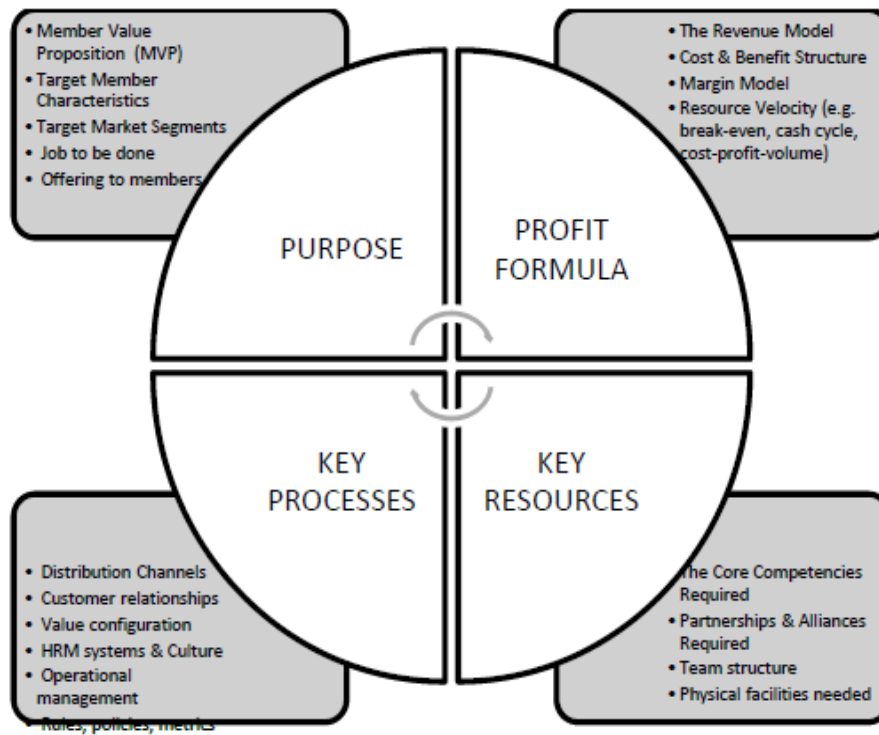


Figure 1.2 Elements of the Business Model for the Co-operative Enterprise (Source: Adopted from Mazzarol, Limnios & Reboud, 2011)

In another development, Skurnik (2002) explored the role of cooperative entrepreneurship and firms in organizing economic activities. To adequately understand the concept, the author focused on the past, present and future activities of the cooperative entrepreneurship development. He examined the basic elements of the cooperative form of enterprise. The study listed elements such as members/owners, member community, business connection, member financing, business operations of cooperative, corporate governance, external financing, business operation of a limited company, own financing, delivery and customers, as the key factors for successful cooperative development. However, important elements, such as individual/member

characteristics, business characteristics and environment which help in creating a successful cooperative entrepreneurship were neglected. Yet, the author noted that those elements mentioned in his study interact together to create a successful cooperative entrepreneurship. Figure 1.3 below shows the cooperative elements and how they interact to create a successful entrepreneurship.

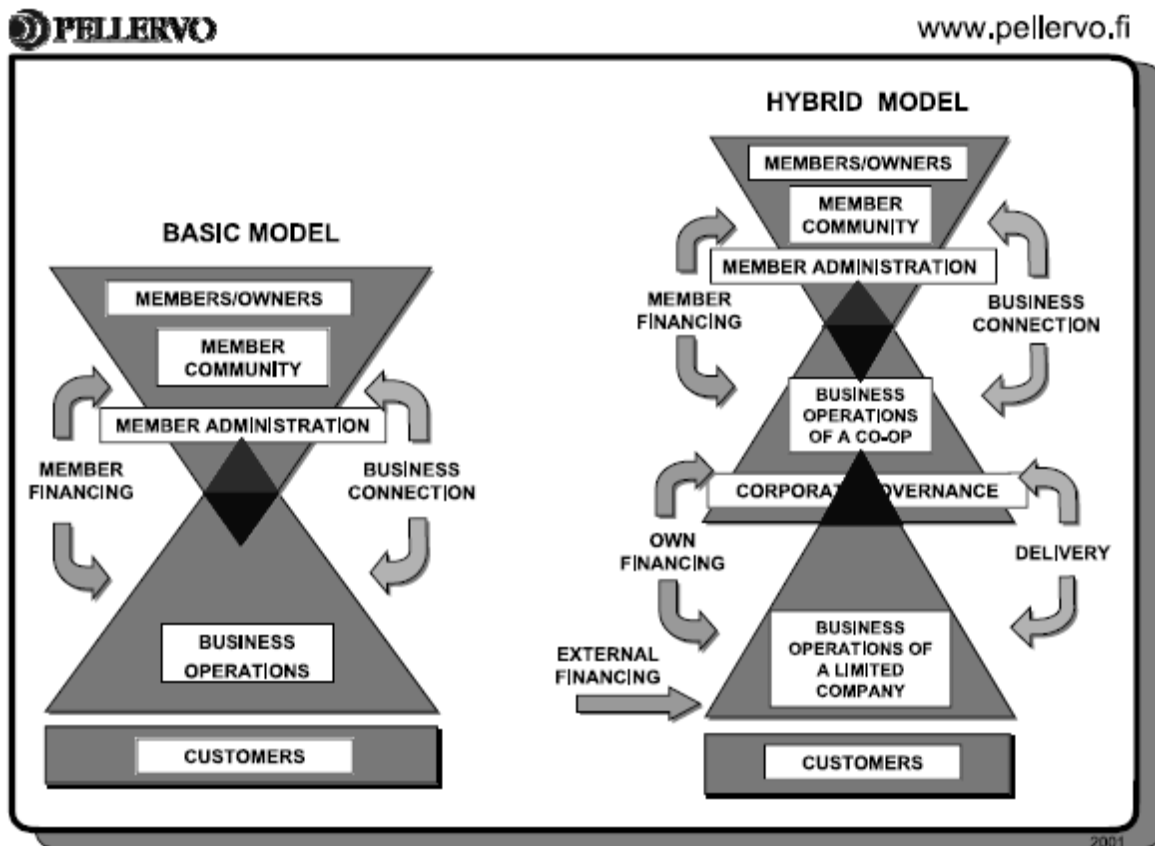


Figure 1.3 The Model of the basic elements of the cooperative form of enterprise (Source: Skurnik, 2002).

Furthermore, to confront the challenges of the aftermath of industrial restructuring in Europe, particularly in Basque, and to face new challenges created by globalization and industrial delocalization, a model of cooperative entrepreneurship approach was advanced as a response to

restructuring of the entire economy (E-ARIADNA-Cooperative Entrepreneurship, 2007). ARIADNA, a professional organization that specializes in cooperative entrepreneurship, created a model with three major stages. The model focuses only on the disadvantaged groups who run and manage the cooperative entrepreneurship. This model aimed to produce an alternative method for creating and sustaining cooperative enterprises, with strong roots in Basque (E-ARIADNA-Cooperative Entrepreneurship, 2007).

With reference to the above, stage one is concerned with several approaches aimed to support and promote new cooperatives, while the second stage is to promote the development of the cooperatives. It is expected that this stage will establish an early warning system that assists the new cooperative businesses to anticipate and prepare themselves for potential problems. The third stage in the model makes provision for members or cooperative partners to exit from the cooperative whenever they so wish through "selling of their shares to the workers, and leaving them with a fully functioning business that they can continue to operate and benefit from" (E-ARIADNA-Cooperative Entrepreneurship, 2007). However, despite the effectiveness of this model, it also failed to consider some of the key factors that predict a successful cooperative entrepreneurship.

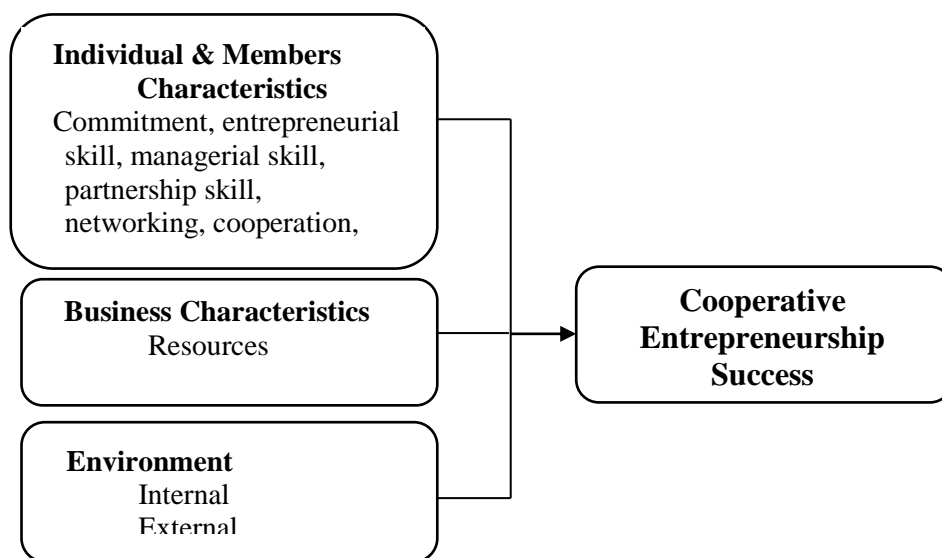
Figure 1.4 below indicates the conceptual model for a successful cooperative entrepreneurship development. It has three key determinants or elements that interact together to produce a successful cooperative entrepreneurship.

The first factor which is referred to as individual/members' characteristics consists of elements such as commitment, entrepreneurship skill, managerial skills, partnership skills, network, cooperation and ICT. This list shows that characteristics, individual and member, are very crucial in determining the success of any cooperative business (Birchall, 2011; Mazzrol & Anzam, 2011; Skurnik, 2002). The theory of personality trait has also stressed on the need to possess the right characteristics in order to achieve better business success (Lucky, 2011; Robbins and Judge, 2007). Birchall (2011); Mazzrol & Anzam (2011); Skurnik (2002) suggested these elements (entrepreneurship skills, managerial skills, partnership skills, network, cooperation and information, communication and technology (ICT) for a successful cooperative entrepreneurship. The study by Lucky (2011) and Hurley, (1999) found that individual characteristics have a significant correlation with performance in predicting who shall become successful entrepreneurs.

The second factor also referred to as business characteristics is equally essential for a successful cooperative entrepreneurship development. This factor consists of one major element which is resources. Since every business needs and depends on resources, be it human or material resources for their effective operation, it is imperative that potential and existing cooperative entrepreneurs must think about this. For instance, they need to ask questions like: how many resources do we have at our disposal? How many members are enough to enable us to build a successful cooperative business? This cooperative business is all about a group of individuals pooling their resources together in order to achieve a common objective. When an organization possesses adequate resources, there are greater chances that it will achieve the business goals.

Finally, the business environment factor, which is the current situation or surroundings within the business (Lucky, 2011). It also includes the forces and factors affecting the business externally (Arowomole, 2000). The empirical study conducted by Lucky (2011) and Minai, Lucky & Adebayo (2011), affirmed that the environment plays a major role in determining the success of any business and entrepreneurial activity, including cooperative entrepreneurship.

Our model therefore, demonstrates that three major factors: individual and member characteristics, business characteristics and environment interact together to create a successful cooperative entrepreneurship development. A successful cooperative entrepreneurship could take any of the following forms: stabilizing and enhancing member businesses, mutual help between members, socioeconomic benefits, increased incomes and satisfactory conditions of work, members' empowerment or empowerment of disadvantaged groups, including profitability (Ravensburg, 2009).



*Figure 1.4: A Conceptual Model*

## **CONCLUSION**

The paper examined cooperative entrepreneurship as an emerging trend in the entrepreneurship domain that needs urgent attention. It examined past literature and models regarding cooperative entrepreneurship. In this paper, we argued that past and related models suggested by previous authors are insufficient and inadequate to ensure a successful cooperative entrepreneurship development in any country due to the fact that some key important factors were neglected and not included in their models, and secondly, some of the models lack clear direction and focus as a result of their complexities. Based on this, this paper proposes a new model to examine a successful cooperative entrepreneurship development, in which the key factors that are believed to create a successful cooperative entrepreneurship were duly considered and included in the model. Therefore, the present model ensures that all the necessary elements or factors that are required for a successful cooperative entrepreneurship are duly considered and included in the model. Thus, a good model should consider the important factors. If this is done, a successful model that will drive mainstream economic activities and provide long-time employment opportunities to the members can be created. The model will also become an answer for successful community development, as well as individual self-reliance and survival, since the model emphasizes on the development of entrepreneurial skills of individual members which contribute to the success of the cooperative business. It is hoped that this model will guide individuals as well as groups who are thinking about how to embark on a cooperative entrepreneurship. It will also assist the existing members on the suitable factors to consider in the pursuance of their cooperative business goals.

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