

## **The Co-operative Advantage and Evolving Nature of Co-operative Enterprises: An Overview of Co-operative Societies in Nairobi County Kenya**

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**Abstract:** *The co-operative movement has registered tremendous growth as people realize the need of joined effort aimed at improving their livelihood. The concept of co-operation has been there for a long time among communities but was formalized by the Rochdale pioneers who in 1844 formed the first modern form of co-operative. Although many co-operative enterprises have been formed based on this model, there is need to investigate whether it brings benefits to its members or if there has been a change in its mode of application. This study therefore investigates on the relevance of co-operative enterprises and whether these organizations uphold the original principles of co-operation or are evolving to other types of business enterprises. The study relies on secondary data as reviewed by scholars, county government reports on co-operative management and different reports during Annual General Meeting of co-operative enterprises. The findings indicate that co-operative enterprises have grown in numbers and the government supports and encourages formation of co-operatives through policy development and implementation. Co-operatives are evolving as large business enterprises and are being forced into professional management by competing private business organizations operating in a liberalized market. Due to globalization and free market economy co-operative enterprises have abandoned the traditional belief that they are loose organizations, formed by the poor for the poor and are transforming themselves to a different form of organization that copes with competition while still trying to highly satisfy its diverse stakeholders. The government should continue to play a key role in providing legal framework and regulating the formation and functions of co-operatives in order to ensure success as they strive towards enhancing better livelihood of the world population.*

**Key Words:** *Co-operative, Co-operation, Principles, Performance*

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### **I. Introduction**

Co-operation is any kind of collaborative activity between individuals or groups either voluntary or otherwise. It is the joining together of individual effort to enable attain common objectives. The co-operative identity relates to definition of a co-operative, the co-operative values and the co-operative principles. This identity was provided by the International Co-operative Alliance (ICA) and guides operations of co-operative enterprises worldwide. The International Co-operative Alliance (ICA) derives its membership from co-operative organizations of different countries. 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 (Kibanga & Maina, 2004).

Co-operatives use the power of three and are business enterprises designed to benefit members and the immediate community. Co-operatives ought to be developed to improve the economic, social and cultural situations of persons who have limited resources and opportunities (Manyara, 2003). They are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity (Minishi, 2012). These enterprises are guided by co-operative principles which are voluntary and open membership, democratic member control, member economic participation, autonomy and independence, education, training and information, co-operation among co-operatives and concern for the community. The co-operative principles are derived from the original co-operative principles by the Rochdale pioneers in 1844 and who formed the first modern co-operative.

It is estimated that more than one billion members worldwide belong to co-operatives while 40% of the world population derives its livelihood from co-operatives. In terms of performance, the Co-operative movement in Kenya is ranked first in Africa and seventh in the world. The World Council of Credit Unions (WOCCU) rates Co-operatives in Kenya as the fastest growing sub-sector in the world employing 500,000 people directly and two million indirectly. The co-operative movement in the country has its roots from the colonial era where only white settlers were allowed to join co-operatives before the country became independent in 1963. Co-operatives then only dealt with agricultural products like tea, coffee and pyrethrum with their main interest being serving white farmers (Kobia, 2011). After independence in 1963 ordinary persons were allowed

to join co-operatives. The first modern co-operative in Kenya was formed by European farmers in 1908 at Lumbwa Kipkellion and in 1931 a Co-operative Societies Ordinance was enacted to govern the registration of co-operatives (Silas, 2011). This co-operative enabled the purchase of farming inputs such as fertilizers, chemicals, seeds and other agricultural inputs using economies of scale which provided saving benefits to farmers. Agricultural co-operatives were more popular and dealt with coffee, dairy, pyrethrum, cotton and horticulture. After independence, co-operatives were used as a political vehicle for land distribution to indigenous Kenyans and were seen as drivers of change towards reviving economic growth which was to be driven by agricultural activities. The government also identified co-operatives as entities that would provide the means through which the population could easily and effectively participate in economic development.

Many people join co-operatives to take advantage of economies of scale and benefit from the synergetic effect of gaining more from less. Since co-operatives are aligned to members needs, three quarters of the population depend on the co-operative movement either directly or indirectly specifically from the 17,000 registered co-operatives. Within Nairobi County, where African Confederation of Co-operative Savings and Credit Associations (ACCOSCA) is located Savings and credit co-operatives, housing co-operatives and transport co-operatives take lead in terms of large membership. Indeed many residents belong to co-operatives or social welfare groups regarded as pre-co-operatives that help in improving their wellbeing. It is estimated that 45% of all the savings mobilized in the country are through the co-operative movement. The 47 County governments have not been left behind as they organize women and youth into co-operative groups with the aim of taking advantage of social capital and economies of scale. Over the years co-operatives have grown in their area of operation making great contribution to the country's Gross Domestic Product and in national savings since through them people derive their livelihood. The growth in co-operatives has led to emergence of support institutions in all sectors which in turn has created employment and supported the country's economic performance.

## **II. Study Area**

Nairobi is the capital city of Kenya with the largest number of urban co-operatives and hosts the head office of many national co-operative organizations. Various types of co-operatives in this county draw their members from both formal and informal sectors. Savings and credit co-operatives, housing co-operatives, transport co-operatives and multipurpose co-operatives have been formed in this county. The apex organization, Co-operative Alliance of Kenya is also located in this County. Being an economic hub Nairobi county by year 2014 had 101 employee based Savings and Credit Co-operatives, 902 community based co-operatives and 91 transport based co-operatives. There are 238 Housing co-operatives, 23 investment co-operatives and 21 multipurpose co-operatives. Nairobi County therefore is a good representation of co-operatives in the country and portrays the general perception that majority of the population have towards these enterprises.

## **III. Methodology**

Relevant critical document analysis was used to generate information that determines the co-operative advantage dimensions and the co-operative movement perceived future state (Onen and Oso, 2009). This theoretical approach was adopted since it's fairly flexible and open-ended and focuses on generating information that supports the study (Mugenda, 2013). It's mandatory for co-operatives to hold an Annual General Meeting every year and various reports on co-operative performance are presented to members during the meeting. These reports showing actual performance of co-operatives every year were reviewed to get a true perspective on merits of co-operative business enterprises. Each of the 47 Counties is expected to present a report on performance of co-operatives during each year. The study relied on performance of co-operatives in Nairobi County during 2012/13 period. Nairobi County has the largest number of co-operatives with many national co-operative organizations, Savings and Credit Co-operatives, Housing Co-operatives and transport co-operatives. This purposive sampling was necessary since it was certain that the data collected would provide the required information (Mugenda and Mugenda, 2013).

## **IV. The Co-operative Advantage**

The advantages accruing to co-operative enterprises arise as a result of the principles that guide their formation and management. Their main difference with other forms of business is in ideology, ownership, management and in leadership structure. Although the co-operative principles have been reviewed over time, they remain the building blocks on which co-operative enterprises are formed and evolve upon. Globalization, Liberalization, and market competition have been the drivers that propel co-operatives to rethink about their mode of operation. Sharing the same market with private enterprises that are purely capitalists and dealing with the same population, co-operatives have to address emerging needs and exceed satisfaction of stakeholders. Formed from the grass roots members come together due to a felt need and this unites them towards their identified objectives. As democratic organizations that embrace voluntary and open membership, all members

fully participate through one member one vote principle irrespective of the number of shares held unlike in other corporate organizations. This participation and involvement of all ensures social economic integration that goes beyond the formal setup. Democratic decision making facilitates ownership in the direction a co-operative takes as members elect office bearers every financial year. Economic participation by members, and information, education and training are also principles embedded in these enterprises ensuring they operate as cohesive units. When profit or bonus is realized it's expected to be shared as per level of patronage or reinvested for growth of the co-operative. Co-operation amongst them also enables economy of scale on the social economic front and in ensuring their voice is heard in the political and global arena. The values and ethical standards upheld by each individual member leads to transparency and accountability when undertaking business affairs.

Co-operatives are owned by users, are user controlled and benefit users by providing social economic support.

These enterprises have diversified into multi-sectoral activities and mainly operate in agricultural marketing and supply, finance and banking, housing, transport and in insurance among others. Co-operative enterprises are spread in all parts of the country and have continued to register impressive growth as indicated in county reports a case in point being Co-operatives in Nairobi County. In the year 2013/14 total membership for co-operatives in the county increased from 846,563 to 969,362 an increase of 14.5% in one year. The total share capital also increased from KSH. 5.4 billion to KSH. 8.2 billion in the same period while members deposit rose from KSH.124.7 billion to KSH.151.7 billion. This is clear indication that confidence on usage of the co-operative model that emphasizes on shared objectives is growing and members have more trust in patronizing co-operative products. In this County, Savings and Credit Co-operative Societies also disbursed loans worth KSH.123.4 billion while loans outstanding were KSH.148 billion during the year 2013/14 in the same county. It was also evident that members were playing their part in organization and management of their co-operatives while still tailoring their long term personal development plans with co-operative enterprises.

Further statistical evidence of members' confidence on co-operatives in Nairobi County is depicted by table 1.

**Table 1: Co-operative Enterprise Performance**

ITEM	Year 2012/13	Year 2013/2014	Percentage
Number of newly registered Co-operatives	179	227	27
Number of loanees	639524	643014	0.5
Number of employees	2189	6410	192.8
Number of Front Office Savings Accounts	491448	520961	6
Dormant membership	479	261	83.5

**Table 1: Nairobi County Co-operative Performance Report**

Table 1 Shows that co-operative enterprises are energizing themselves and are still in the growth stage since from every activity there is marked improvement. The number of newly registered co-operatives has grown (27%) while more people have opened savings accounts with co-operatives as marked by an increase of 6%. The number of dormant members has reduced (83.5%) a clear indication that there is realization that co-operatives offer better service and are to be trusted. Education, training and information and capacity building has led to improved membership while people employed on permanent basis by co-operatives has increased.

Co-operatives have created employment and in the county they have employed 6,410 employees who received salaries amounting to KSH. 1.8 billion in the year 2013/14. Co-operatives are resilient during rough economic downturn and have proved to react differently to world economics since members continue to patronize on co-operative products and services while their management is not interfered with by government. During political upheaval co-operators help in conflict resolution since membership is not through race, religion, political affiliation, tribe or even gender. Co-operative enterprises are concerned with their immediate community and provide extensive training through the principle of education and training to stakeholders. This enhances governance and creates an understanding of the country's leadership. Co-operatives also provide social solidarity and enable members achieve better economic outcome through jointly raising their voices (Simmons and Birchall, 2009).

Despite this growth co-operatives are still faced by persistent challenges relating to insufficient resources, technology, competition, lack of adequate skills, governance and the challenge of some employers not remitting members monthly contribution to the co-operative in time.

#### **4.1 The Co-operators Dilemma**

Co-operatives are meant to benefit the wellbeing of members who come together to share economies of scale and take advantage of reduced costs compared to accessing the same services from other organizations (Silas, 2011). The co-operative need arises from an angle of socialistic ideal where the aim is to invest in the society as a whole rather than in individuals (Roy, 1981). Co-operatives work with not against others, pool in

the same direction and attempt to ensure equity and equality while still promoting democracy. Co-operatives may also be used to counter exploitative and divisive nature of capitalists if true co-operation exists where members do not fear being outcompeted and associate on need for mutual benefit. A co-operative society therefore has the sole responsibility of improving the economic, social and cultural dimension of its members. It ought to practice equity and social justice when sharing results of investments which may remove members from poverty traps (Simmons and Johnston). The Rochdale pioneers model of 1884 has evolved to incorporate new ideas, but the ideals remain, that co-operatives are formed by members and are for members. A co-operative member should get the core benefit being the main reason of joining the co-operative society before enjoying any other accruing benefits. To members of a Savings and Credit Co-operative Society, a high rate of dividend may be an indicator of ineffective performance if the main reason for joining the co-operative was to get a cheap source of credit and not necessarily a high dividend rate. This argument by Raiffeisen, a theorist in co-operative management indicates that the sole purpose of credit unions is to provide cheap credit at low interest hence advocated formation of credit unions (Soy, 1981). Based on this argument therefore an efficient co-operative society has lower interest rate on loans to members and related fees and a lower rate of dividend for any charges should only cater for costs that maintain the co-operative society. A savings and credit co-operative society should be a source of cheap credit, if possible, offered at the lowest possible cost compared to other lending institutions. This benefit counters any carrot and stick method being used by other lending institutions on members who have an insatiable desire for loans at all cost.

Co-operative members have at times insisted that management should provide services efficiently and effectively and also provide a high rate of dividend. A producer co-operative should first provide the consumable commodity more cheaply to the farmer before marketing it for profit to other non members. If a co-operative bakes bread, members should buy at the lowest possible cost before selling to non members at a profit and the same applies even to tea and coffee sectors. However the nature of a co-operative determines the method through which members are going to benefit from it. Some co-operative societies have greatly improved the socio-economic welfare of members. Housing co-operative societies have ensured that members live in environmentally friendly neighborhoods and have constructed decent housing structures for both the working and non working class.

As co-operative organizations continue to grow, it's not evident on the form they are taking as they are in the middle way between socialism and capitalism (Minishi, 2012). The most important contribution is to ensure that co-operatives as business enterprises are enabled to build a better world. Through a research report on the enabling environment for co-operatives in East, and Central Africa, the International Co-operative Alliance has recommended that the government should support co-operatives while the apex co-operative organization should reposition itself to successfully support the co-operative movement.

#### **4.2 Evolving Nature of Co-operative Enterprises**

Co-operatives are evolving with changing times as they attempt to acquire a new framework and their success and social economic impact has been assessed during their low and high performance. In developing countries co-operatives are the main contributors to economic growth and poverty alleviation (Silas, 2011). The co-operative movement growth is unstoppable and only requires appropriate governance policy to prevent abuse (Webster, 2011). Through the constitution, the government has liberalized the co-operative movement and has devolved the function to county governments. The aim is to ease bureaucracy in management decision making and to ensure closer monitoring from the local level. Co-operative enterprises have devised emerging strategies in governance, in capitalization, marketing and in communication. Indicators that co-operative organizations are changing their approach on management and business performance include;

1. Rebranding by changing localized names of co-operatives societies to reflect a national other than a local outlook a strategy that attracts members from all over the country.
2. Diversification of products and services to cater for members and non member needs that would otherwise be sought from competing organizations.
3. Application of diversification strategies with forward and backward linkages in all operations.
4. Use of corporate governance in management instead of ladder less leadership.
5. The starting of commercial arm co-operative societies a breakaway from the original co-operative with separate management committee members that caters for both members and non members. This performance drive of being multi-function leans towards capitalism and relies on internal and external sources of funds.
6. Competitive leadership where the electro process for management positions and employment in co-operative organizations has become more competitive unlike in previous years. Front and back office services are managed by professionals equally competitive in the job market.
7. The reawakening by private business entities that co-operatives are worthy competitors in all economic levels but more on the lower level hierarchy. Competitors therefore are devising strategies that can

counter the progressive reawakening of co-operatives. This new co-operative business trend of intensive marketing for new members contradicts an earlier perception that co-operatives are loose traditional associations whose main aim is self sustenance by members.

8. The Government continues to consistently device new policies and upscale co-operative management and development practices implemented through extension officers. An organization that licenses and guides operation of deposit taking Saccos was established the Sacco Society Regulatory Authority (SASRA) which ensure prudence in managing resources.
9. Increased interest by neighboring countries and the world at large on socio-economic contribution of co-operatives to the national economy. The co-operative model is therefore being sought by many African countries that want to implement it to improve the wellbeing of citizens.
10. The formation of co-operatives by both rich and poor and perception of co-operatives as being for the poor being discarded. Co-operatives are being viewed as business enterprises whose synergetic effect supersedes any other form of business.
11. Intensive training and development of board members, management committee, members and employees on improving efficiency and effectiveness and providing higher satisfaction to co-operators and to stakeholders.
12. Constant formation and review of co-operative policy and legislation where stakeholders are involved, this has been through the Co-operative Act, Rules and general law.
13. The popularization of co-operatives by County and national government where youth and women are encouraged to form co-operatives in order to improve their livelihood since government loans and tenders are only given to those who have formed groups or joined co-operatives.
14. Establishment of co-operative unions that support the co-operative ideals and ensure self reliance while guaranteeing non exploitation of members.

#### **4.3 Future Co-operative Organizations**

It is envisaged that Co-operative enterprises of the future will be huge business empires that will outperform many corporate organizations. This belief made United Nations declare 2012 the International year of co-operatives hence recognizing from within the international community the role of co-operatives that co-operative enterprises build a better world (Stewart, Brown, Walton, Shaw and Webster, 2011). It's expected that in future the country's population will live in houses put up using co-operative loans, that people will engage in transport activities spearheaded by transport co-operatives, eat food grown by co-operative organizations, take their children to schools owned by co-operatives and all children will be taught by teachers who are members of co-operative organizations. Political leaders will emerge from the co-operatives and for elective positions; members will work towards supporting one of their own. In this way, the world will end up becoming a co-operative organized system. In governance, democratic co-operative organizations will rise up against rules and regulations that limit their growth and will support political systems that recognize co-operative values and principles. Co-operatives of the future will evolve the same way that members of a revolving fund or social welfare group having a common purpose decide to legalize their operations and choose their socio-economic direction and through growth become major lending institutions.

The co-operative sector has service support pillars that indicate an upward growth trend. These pillars include banks like the Co-operative bank which is the third largest bank in Kenya, an insurance organization, the Co-operative Insurance Company Ltd (CIC) which is the 2<sup>nd</sup> largest insurer, institute of higher learning the Co-operative University College (CUCK), a credit union Kenya Union of Savings and Credit Co-operatives (KUSCCO Ltd) and a coordinating apex organization the Co-operative Alliance of Kenya (CAK). Other National Co-operative Organizations include Co-operatives ICT provider (CODIC), National Union of Housing Co-operatives (NACHU) among others. The government through the department of co-operative development and marketing spearheads the formation of a co-operative union that represents all co-operatives within a related sector in the country. The department of co-operative development in the Ministry of Industrialization and Enterprise Development engages in expansion strategies that ensure all people irrespective of their socio-economic status, both local and abroad, in the formal and informal sectors become members of co-operative societies. Any dispute arising between member and a member, with a co-operative or among co-operatives is solved by the Co-operative Tribunal hence ensuring a smooth flow of co-operative activities (Manyara, 2006). Like the Central organization of trade Unions which is an affiliate of International Labour Organization (ILO) the Co-operative Alliance should devise ways of ensuring the movement speaks in one voice that drives its agenda. Since co-operatives are formed by members to improve their wellbeing, then good governance should be towards this objective.

The agro-sectors that drive the economy are managed through co-operatives. These sectors that include coffee, dairy, tea and horticulture provide the social and economic pillars of vision 2030 and contribute greatly to achievement of Millennium Development Goals. More than 60% of the population is of small scale farmers

organized in co-operatives for they derive great benefits from co-operation. Indeed any government development policy can be driven through co-operatives since their tentacles spread in all parts of the country as witnessed by transport co-operatives where membership is localized to ensure accountability and efficient service delivery. It's also possible to reach a greater percentage of the population through co-operative education since there is a connection between co-operation and communities (Stewart et al, 2011).

## **V. Conclusion And Recommendations**

### **5.1 Conclusion**

The traditional co-operative movement model is being changed to a modern model that takes into consideration the social-economic transformation of the world population. The co-operative concept is widely used to facilitate social economic growth and its effect is experienced in all parts of the country through touching the livelihood of most families. It's evident that co-operatives have different shareholder structure, governance and reward systems compared to other business enterprises. With increased competition from privately owned companies, co-operatives have opened themselves up and taken a professional approach by ensuring member wealth maximization, effective human capital management, strategic management, corporate governance and customer focus. Co-operatives therefore are neither purely socialistic nor capitalistic but a combination of the two. The government takes a leading role of encouraging groups and co-operative society's formation and also facilitates growth of these enterprises. The greatest challenge to co-operative organizations is governance, technology and bureaucratic decision making that requires approval by members in a general meeting. This is unlike in other business forms where a group of professionals is entrusted in making independent prudent decisions that lead to shareholders wealth maximization but with due diligence.

### **5.2 Recommendations**

The government should continue creating an enabling environment for growth and development of the co-operative movement. This is by developing regulatory policy and monitoring activities of co-operative enterprises to protect members from exploitation since co-operation will continue into the foreseeable future. During education and training to stakeholders, emphasis should be on co-operative values and principles while still encouraging members on need for innovation and creativity of products and services for this will lead to growth of the co-operative movement.

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