



The Cooperative Structure as Support Basis for SMEs in South Africa

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Abstract

The small business sector plays an important role in economic development and job creation. SMEs are influenced by various factors and are often discriminated against by large businesses due to their size. An initiative that can promote SMEs is the establishment of cooperatives. By using this business form, SMEs can increase their bargaining power, which will enable them to compete and survive. The cooperative cannot only contribute to the survival of the small business, but also plays an important role in building communities. This is an important aspect in South Africa, which is characterised by vast rural areas with communities living in poor conditions.

Worldwide SMEs are using cooperatives to survive. It seems, however that this trend has not gain the same momentum in South Africa. The same benefits can be obtained and efforts should be made to promote this principle.

1. Introduction

Much emphasis is placed on SMEs to create jobs, alleviate poverty and contribute to economic development. SMEs can undoubtedly make a considerable contribution to economic development as long as the obstacles in its way are bridged. In a developing country, the small business sector is widely regarded as the driving force behind job creation (Lunsche & Barron 2000:1). In a country characterised by difficult political and economic conditions and transformation, entrepreneurship proves to be important. The entrepreneur and the small business are essential in economic restructuring (Glass & Drnovsek, 2001). Subsequently, entrepreneurship is a prerequisite for economic development within a country (Jennings 1994:293). Although South Africa experienced political stability, the economy is characterised by a high unemployment rate and a low growth rate. If these aspects are not addressed effectively, it can deter political stability. The entrepreneur forms the driving force behind the small business and plays an essential role in the economy. Everything possible should be done to enable the entrepreneur to make a contribution. South Africa is currently characterised by economic restructuring. Imbalances caused by the earlier political dispensation should be rectified.

South Africa is characterised by vast rural areas with communities living in poor conditions. By stimulating economic activities this problem can be alleviated. Communities must become self-sufficient and initiatives for achieving this should stem from the community itself. Due to economic reasons, large businesses are reluctant to invest in rural areas. Large businesses tend not to contribute to job creation and their main aim is to increase shareholder return. These businesses withdraw money from the community and the main beneficiaries are those outside the community (Hazen, 2000).

Obstacles preventing or impeding SMEs to function effectively should be addressed. Although various initiatives from the public and private sector exist, every new programs contributing to support SMEs should be investigated. The small business exists within a dynamic environment

and is influenced by various internal, as well as external, factors. Because of its smaller size, the small business is limited by many problems not experienced by their larger counterparts. Discrimination against small businesses exists due to their size. Since they have limited bargaining power, small businesses often pay higher prices for purchases, are charged with higher interest rates and get limited credit facilities (Moolman, 1998:36). Economies of scale enable large businesses to dominate many markets which can lead to the demise of small businesses. If small businesses can combine their flexibility and market knowledge with economies of scale they will be able to compete with large business and survive competition (Masurel & Janszen, 1998).

South African SMEs, especially in rural areas, experience various problems which their counterparts in urban areas and other developed countries, are not exposed to. According to the Strategy on Small Business Support (SA, 2001:39) insufficient business structure, relatively low buying power and lack of training facilities are examples of these problems. An initiative available to SMEs is to establish cooperatives.

2. The Relationship Between SMEs And Cooperative

A cooperative refers to an autonomous association of persons, including a natural person, who unites voluntarily to meet their common economic and social needs through a jointly owned and democratically controlled business in terms of the Cooperative Act (91/1981).

Although the entrepreneur as an owner of his/her own business is not always associated with a cooperative, many people do not see small business owners as natural allies and participants in the cooperative sector. SMEs are increasingly facing the same economic problems that farmers have experienced for years (Hazen, 2000). The benefits of a cooperative also apply to small businesses, and this form of business may also be used by SMEs. In South Africa a substantial need exists for cooperative ventures. In these ventures individuals lacking either starting capital or the technical, managerial and marketing experience can work together within a business (SA, 2001: 41)

In addition to forming formal cooperatives, cooperative alliances or agreements can be used. This type of cooperation can achieve the same advantages as the formal cooperative (Steensma & Weaver, 2000 :1)

Cooperation can also be accomplished by the formation of clusters. Clusters can be described as the concentration of activities belonging to the same sector (Weiland,1999:1518). Other researchers add geographic proximity as an additional characteristic of clusters (McCormic, 1999 : 1532). The cooperative is thus a more formal established organisation which operates according to prescribed principles. This formal status can sometimes benefit the participants (Weijland,1999:1526).

This study, however, focus on the formal established cooperative as a support structure for SMEs.

3. Advantages Of Cooperatives

If SMEs cooperate and combine resources they can reap benefits that a single business cannot realize (Bhuyan & Olson, 1997:2). The establishment of cooperatives by SMEs can result in various advantages for this sector. Firstly, a cooperative can supply services to its members which other suppliers are unwilling to do. Secondly, cooperatives can increase the bargaining power of the individual SMEs by strengthening their position in the dynamic environment in which they operate.

Due to this collective bargaining power, flexibility and knowledge of the local markets SMEs will be in a more favourable position to survive. Non-agricultural cooperatives in various sectors of the economy have experienced reduced operating cost. Independent traders in similar businesses may join and form a purchase cooperative to purchase supplies and equipment or conduct other activities to share and reduce cost (Bhuyan & Olson,1997:7).

In terms of start-up capital, entrepreneurs who do not have the financial strength to open a new business can cooperate by starting a new venture as a cooperative (Bhuyan & Olson, 1997:2). Cooperatives are also in a position to concentrate on the socio-economic needs of their individual members. Innovations, diversification and specialisation should be encouraged in these businesses.

The benefit of collective action not only contributes to lower purchasing prices and operating costs. In terms of marketing they can achieve a more sustainable supply of products, especially dealing with contracts with large businesses. Participating businesses are enabled to increase their marketing capacity by grouping their production outputs. Larger contracts can be negotiated and SMEs can even enter the export market (Steensma & Weaver, 2000:1). Cooperatives as a business form can enable SMEs to strengthen their position in the market (Masurel & Jansen, 1998:1) When using a cooperative, own resources can be accumulated which can enable members to survive independently of external support and compete in relevant markets (Von Ravensburg, 1999 : 5). In terms of production, small businesses which are operating on a sub-optimal scale, can increase their production if the cooperative develop additional markets. Cooperatives can also facilitate technical change by making it easier for the government to provide the infrastructure needed to support higher level of technologies and by encouraging the adoption of new product and processes (McCormick,1999).

Government, donors and the business community can be more inclined to use the cooperative as an instrument for channeling aid to the small business sector. This will not only contribute to the survival of the small business sector, but it can also position the small business sector in a way that it can contribute considerably to the economic development of the country. The cooperative as a business form actually serves as an instrument of development in the hands of the small business sector. Cooperatives should also be in a better position to contribute towards poverty alleviation due to the fact that are managed by their members. Any surpluses generated by their activities are available to the individual members. (Von Ravensburg, 1999:6).

People can participate in the cooperative sector to help build a community that benefits them as well as their neighboring communities. In many rural communities, cooperatives play an important role as the economic engine for creating jobs and increasing rural incomes.(Hazen, 2000).

4. The Use Of Cooperatives In Different Countries

The establishment of cooperatives by SMEs is becoming a worldwide trend. According to Hazen (2000) people across America are looking for opportunities that will result in better lives for themselves and their communities. People are looking for values that they might find in a cooperative. The small business sector is supposed to keep communities alive. These businesses, however, find it hard to survive due to competition. The participation in cooperatives will help them to build these communities. In many communities cooperatives are the economic engine creating jobs and increasing rural income. Independent small business owners are discovering the power of cooperation across the United States. It is expected that cooperatives established by small business owners will be the fastest growing segment of the cooperative sector in this century in the United States. Purchasing and marketing cooperatives owned by small businesses are rendering various services to their members. Examples of the services provided by cooperatives are joint purchasing and advertising, reservations services, employee training and benefits and financing and insurance. Other small businesses using the cooperative as a business form includes contractors, pharmacies, electrical distributors, hotels and carpet stores (Hazen, 2000).

In the Netherlands SMEs play an important role in the retail sector. Many of these small businesses operate in the cooperative sector (Masurel & Janszen, 1998). The concentration of large businesses result in the decline of the small business sector. Cooperation amongst SMEs can enable them to survive. A clear relationship exists between market concentration and the number of SMEs participating in cooperatives. The strongest relationship is identified in food retailing (Masurel & Janszen, 1998).

In many Third World countries human scavengers are making a living by recovering materials to sell for recycling. Where these scavengers sell to a middleman they actually receive a small percentage of the final selling price to the industry. It is, however, possible for these scavengers to form cooperatives to circumvent the middlemen. By doing this they improve their situation. Efforts to promote the creation of scavenger cooperatives are common in Asia and Latin America (Martin, 1998). One of the most vibrant scavenger cooperatives exists in Colombia. Members of the cooperative have a higher standard of living compared to those who work for themselves. These members can receive loans from the cooperative, scholarships for studies and can also obtain insurance. Similar scavenger cooperatives are also found in Brazil and Mexico. Members of these cooperatives enjoy higher income, participate in training courses and have access to health care and legal protection. A similar trend is experienced in Asia where scavenger cooperatives are gaining momentum (Martin, 1998). After extensive research Harper & Roy (2000 : 4) also came to the conclusion that there is a great need for effective new cooperative enterprises in India. Although failures were experienced, those failures resulted from misdirected efforts by government and other agencies who wanted to promote them. As these institutions are withdrawing, increased challenges not only emerge for new cooperatives but even more for restoring older cooperatives to profitable operations (Harper & Roy, 2000:4).

Rural cooperatives have also emerged in China where service providers to small farmers, such as packagers and retailers, pool their resources (Helsell:2001).

5. The Role Of The Entrepreneur

One of the most important rewards for an entrepreneur is independence (Hisrich & Peters, 1995). The entrepreneur who forms the driving force behind a small business does not have to abandon his/her independence when becoming a member of a cooperative. The cooperative also does not eliminate the entrepreneur. The entrepreneur is needed to discover and implement the cooperative opportunity. The cooperative will only be an extension of the members= business (Ropke, 1992:18). The owners of small businesses will continue to operate independently.

Except for the advantages already mentioned, cooperatives can provide members with information and support services that can be used in their own operation. This is one of the biggest problems faced by SMEs (South Africa, National-Support Strategy, 2001). Acquiring this information normally involves high cost for the entrepreneur. In terms of these services the cooperative can fulfill the role of a management team which is often considered a prerequisite for a successful small business (Steyn, 1998:9)

The cooperative should promote the wealth of its members. These members refer to the entrepreneurs who have established the cooperative. It is also widely accepted that the existence and promotion of entrepreneurship are essential for wealth creation. (Van Rensburg, 2001). To be able to fulfill this function the cooperative must provide benefits to the members that will exceed the benefits had they not established a cooperative. This will only be possible if the cooperative can survive, innovate and prosper in a dynamic and uncertain environment. Ropke (1992:20) is of the opinion that the uncertainty prevailing in the environment necessitates the presence of entrepreneurs. These entrepreneurs should be creative and implement innovations despite these uncertainties.

The cooperative's management will be arranged by the entrepreneur, whose tasks will include controlling the business and taking responsibility. This involvement of the entrepreneur will imply opportunity cost, as well as the utilisation of scarce time. The amount of time spent by the entrepreneur on the managerial activities of the cooperative and the time spent on his own business should be balanced.

The cooperative can therefore be used as a business form by small businesses. By doing this, certain advantages can be obtained and problems can be addressed. The cooperative can benefit from the characteristics and involvement of the entrepreneur who initially established the business. The entrepreneur and the performance of the cooperative are therefore closely linked.

6. The Nature Of Non-Agricultural Cooperative In South Africa

In South Africa the cooperative as a form of business is mainly associated with the agricultural sector. The cooperative was established to improve the economic position of the farmer. Although the cooperative was found in other sectors, it was limited. This situation seems to have changed a larger number of cooperatives are registered than agricultural cooperatives. Due to inadequate data it is difficult to establish to what extent SMEs participate in the cooperative sector. As in the case of other parts of the world, South African SMEs experience the same problems as the agricultural sector. Therefore the South African SMEs can apply the cooperative with the same positive results by.

In South Africa the cooperative sector is regulated by the Cooperative Act (91/1981). It is administered by the Registrar of Cooperatives. Any new cooperative must be registered at the Registrar, who should keep register of all cooperatives. The Cooperative Act (91/1981) requires that every cooperative should submit financial statements on a annual basis to the Registrar's office. These statements can facilitate controlling the position of cooperatives. The Registrar is also able to identify inactive cooperatives according to these financial records. A spokesperson (Scholtz,2001.a) of the Registrar's Office reports that only a small percentage of cooperatives are currently submitting their financial statements. Due to administration problems control cannot be exerted. The possibility exists that currently some registered cooperatives are inactive. An effective data basis should be established to determine the magnitude of this sector. This will help to address any obstacles and also to promote the sector.

According to statistics of the Office of the Registrar (Scholtz, 2001.b) on 31 December 2000, 1046 cooperatives have been registered. The non-agricultural cooperatives amounted to 618. During the period January 2001 to June 2001 a further 365 cooperatives were registered of which 301 were non-agricultural cooperatives. By studying these statistics, the cooperative seems to be a popular form of business. As already mentioned, it is difficult to determine the number of active cooperatives and how many of the newly established cooperatives actually continue to function and flourish. When studying the list of non-agricultural cooperatives, it becomes clear

that the majority of cooperatives are established by individuals. Of the 618 registered cooperatives 216 were traders and 95 home industries. Cooperatives established by SMEs have therefore not gained the momentum they already have in the rest of the world.

Although cooperatives have certain advantages, problems can be experienced. The cooperative should be managed effectively. The individual members must be actively involved in managing the business. Conflict between members and management must be avoided, including the board of directors. In this regard Von Ravensburg (1998:25) is of the opinion that the absence of members= involvement can lead to a situation where the cooperative does not make a positive contribution to its members and any contribution towards economic development would also not materialise. Especially newly established cooperatives should obtain assistance regarding proper financial management and marketing principles. The level of skills of the members will also have a direct influence on the assistance that will be needed and the time frame thereof. It is accepted that some people may need assistance and guidance regarding management functions for many years and perhaps indefinitely (Harper & Roy, 2000: 7).

In order to stimulate the cooperative sector, advice regarding the operation of a cooperative must be provided. The unique nature of a cooperative also necessitates advice regarding registration, establishment and functioning of this business form. Von Ravensburg (1998:25) is of the opinion that management audits should be conducted with the purpose of giving advice to the members regarding aspects, such as the cooperative structure, management and the nature of feedback to members. This will result in members obtaining optimal advantages from the cooperative.

7. Recommendations

Worldwide the small business sector is using cooperatives to compete and survive. The same policy could be followed locally. The need for economic development and the role that cooperatives and SMEs can play emphasise the use of cooperatives by SMEs. The necessary initiatives should be developed to facilitate the development of a model according to which

cooperatives can as a form of business effectively be used by SMEs. Therefore, the successful application of models that are used in the rest of the world must be studied.

The following research in the South African context is important:

- the scope of cooperatives established by SMEs,
- the problems currently experienced regarding the establishment and sustainability of cooperatives,
- the creation of applicable structures for enhancing the cooperative principle and for supporting the establishment of cooperatives,
- researching successful cooperative models functioning in other parts of the world.

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