

**PEGGING THE FAILURE RATE OF CO-OPERATIVES - GLOBAL CHALLENGE  
TO THE SURVIVAL OF THE SOCIAL ECONOMY**

**BY**

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### **ABSTRACT**

*Against a background of world-wide phenomenon of co-operative failures, the paper examines the fundamental reasons for this disturbing trend using Ilishan Remo, a University town in South-western Nigeria as a case study. Compared to previous research, the study breaks new ground in that it offers to share with the rest of the world, remedial measures which hitherto were unique to certain communities in South-western Nigeria. The results revealed 8 major factors responsible for co-operative failures and possible remedial measures to stem the trend. The overall lesson from this study is that co-operative failure is a world-wide phenomenon and its remedy also demands concerted efforts from all. Each member of the international community directly or indirectly stands to gain from one another in our quest to stem the tide of co-operative failures. The ultimate outcome of our concerted efforts is strengthening the social economy which is the bedrock of community life globally.*

### **1. INTRODUCTION**

From time immemorial, human beings have existed to help one another. The concept of co-operative is embedded in man's quest for socialization the goal of which is to bring about changes in the attitudes, skills, knowledge and the general human conduct of the individual for the survival of the latter and corporate well-being of the society. A co-operative society can be defined as an organization wherein people voluntarily associate together on the basis of equality for the promotion of their socio-economic well-being through democratically controlled business operations. Communal life has been the norm since the beginning of civilization – helping each other survive has been the hall-mark and the bedrock of the global social economy. For many people, helping others is a natural trait - in fact, co-operatives have been a veritable tool of survival within the global social economy. Countless number of

individuals the world over have literally “jumped” from poverty to bountiful wealth through active participation in co-operative societies. This is particularly so in developing countries like Nigeria where access to bank loans is either very poor or non-existent and corruption rife among the citizenry.

The International Co-operative Association (ICA) defines a co-operative 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. (ICA 1995). According to the International Labour Organization, a co-operative is “an association of persons usually of limited means who have voluntarily joined together to achieve a common economic end through the formation of a democratically controlled business organization making equitable contribution to the capital required and accepting a fair share of the risks and benefits of the undertakings in which members actively participate”. These definitions imply that co-operative activity is not limited to any sphere of human endeavour and that is the reason we have the following types of co-operatives;-

- Housing
- Produce
- Agriculture
- Consumer
- Transport
- Thrift and credit
- Fishing
- Health
- Multi-purpose etc

All the above types of co-operative societies are in operation in South-western Nigeria.

Co-operatives have excelled where other forms of business association have failed. Many businesses which otherwise could have suffered financial asphyxiation have done tremendously well, thus uplifting the standard of living of millions of people around the world. Various governments have enacted laws to support co-operatives, fine-tune current operations and ensure their continued success. However, in spite of the general success among co-operatives, the gains are gradually being eroded by co-operative failures. This disturbing phenomenon is not limited to developing countries it is a common malaise even in some of the advanced economies of the world.

With this background, the paper addresses the issue of co-operative failures taking into consideration the theoretical framework of the concept of socialization and the theory of society. It then proffers to the rest of the global social economy the measures adopted by the Ilisan Remo community, a University town in South-Western Nigeria in appreciably curbing co-operative failures. More importantly, the paper recommends ways by which such measures can be adopted in other countries with the overall objective of pegging the failure rate of co-operatives in the larger world.

## **1.1 Objectives**

The objectives of this paper are the following:-

- The analyze the factors responsible for co-operative failure in South-western Nigeria
- To bring to the fore specific steps being taken to curtail co-operative failure.
- To share with the rest of the world certain remedial measures which hitherto were unique to some communities in South-western Nigeria.
- To evaluate the possible effects of these measures in strengthening the social economy globally.

## **1.2 Study Design And Methodology**

The study employed a simple questionnaire to ask a randomly selected sample of 100 co-operators plausible reasons responsible for co-operative failure within Ilishan Remo community in a 2-year period (2005-2006). Respondents were also required to provide remedial measures to curb the ugly trend. Out of the 100 questionnaires sent out, 84 were completed and returned representing 84% response rate.

## **2. CONCEPTUAL FRAMEWORK AND THEORETICAL ASSUMPTIONS**

Simply defined, a theory is a set of ideas which claims to explain how something works. This section of the paper will identify certain theories of society with the aim of complementing the main thrust of the paper i.e adducing reasons for co-operative failure and hopefully providing remedial measures for the utmost benefit of mankind.

### **2.1 Functionalist Theory**

Prominent among contemporary theories of society is functionalism which first emerged in 19<sup>th</sup> century Europe, and was developed by American sociologists like Talcott Parsons in the 20<sup>th</sup> century to the extent that it became the dominant theoretical perspective in sociology during the 1940s and 1950s especially in the United States.

According to Haralambos and Holborn (2004),

One of the main concerns of functionalist theory is to explain how social life is possible. The theory assumes that a certain degree of order and stability is essential for the survival of social system. Functionalism is therefore concerned with explaining the origin and maintenance of order and stability in society. Many functionalists see shared values as the key to this explanation: value consensus integrates the various parts of society. It forms the basis of social unity or social solidarity, since individuals will tend to identify and feel kinship with those who share the same values as themselves. Value consensus provides the foundation for cooperation, since common values produce common goals. Members of society will tend to cooperate in pursuit of goals that they share.<sup>1</sup>

<sup>1</sup>. Holborn, M and Haralambos, M. (2004) *Sociology Themes and Perspectives* 6th Edition. Harper Collins Publishers, London. Pp xiv-xv

Summarizing, the duo wrote inter alia:

...society, from a functionalist perspective, is a system made up of interrelated parts. The social system has certain basic needs that must be met if it is to survive. These needs are known as functional prerequisites. The function of any part of society is its contribution to the maintenance of society. The major functions of social institutions are those that help to meet the functional prerequisites of society. Since society is a system, there must be some degree of integration between its parts. A minimal degree of integration is therefore a functional prerequisite of society. The progress of society is best achieved through maintaining order and then allowing society to evolve naturally without too much planning. Many functionalists maintain that the order and stability they see as essential for the maintenance of the social system are largely provided by value consensus. ....<sup>2</sup>

## **2.2 Concept of Socialization**

Scholars have proffered many definitions for the concept of socialization over the years.

Socialization is viewed as a process by which different individuals prepare to play many different and varied roles and interact in such a way that the inter-related individuals and groups can function as a whole.

Fageyinbo (2005) identifies two main types of socialization viz.

- (a) Childhood or Primary Socialization and
- (b) Adulthood or Secondary Socialization

Childhood socialization is operative from birth through childhood to about the adolescence period. At this stage the child is dependent on the “significant others” e.g. the parents, siblings, playmates, and other relatives within the environment. The quality of the social environment provided by the significant others in terms of its stimulations, motivations, incentives, praises, sanctions and reprimands determine to a large extent those social leanings he chose or was forced to internalize. The child learns the basics of acceptable behavioural patterns through initiation, indoctrination, training and self discovery ..... He builds up network of social relations and acquires social skills which gradually make him to become socially integrated as an acceptable member of his society and to interact with his environment as a more matured independent person.

<sup>2</sup>. Ibid

In adulthood socialization, adults constantly must learn to adopt and adapt to new positions or situations they occupy at work, in associations or the larger society.

At school, in the neighborhood and at work, there is a large network of interactions with “the generalized others”. (who are usually relationships that are formal and impersonal. This means that throughout life, the individual continues to learn to make socially approved behaviour appropriate to the expectations associated with new statuses or social positions occupied)<sup>3</sup>

In Nigeria and much of Africa, agents of socialization include the following:

- a. The Family or Home
- b. The School
- c. The Age Groups or Peer Groups
- d. The Mass Media
- e. Associations or Clubs
- f. Religious Institutions

### **2.3 Interaction Theories:**

Human Interaction consists primarily of communication. Through language, gestures, and actions we communicate with others and they communicate with us. Stark (1989) posits that:

sociologists recognize that much of what we want can only be gotten from other people to give us rewards. However, it is costly to give up rewards....

To get others to reward us, we must reward them; perhaps nothing could be more obvious, because humans seek rewards from one another, they are inevitably forced into exchange relations. That is, human beings engage in social interaction – they attempt to influence one another....

The essence of humanness – our ability to contemplate our own existence, our past, and our future – comes to us from society. For this reason, sociologists refer to the process by which infants develop into normal humans as socialization. When we judge some one to be an adequate person, we say that he or she has been adequately socialized – literally has been made social. At the start of our lives, we are not social because we are unable to understand

<sup>3</sup>. Fageyinbo, M.O. (2005), Essential Themes in Tertiary Social Studies  
Loud Books Publishers, Ibadan pp 7-8

the meaning of the behaviour or those around us or to interpret the symbols they use to communicate. Therefore, we are unable to interact effectively.<sup>4</sup>

By extension anyone who benefits from a co-operative society but by his action or inaction causes that co-operative to fail or collapse is not a social being.

According to Stark (1989),

To gain rewards, people must exchange with one another. However, self-interest limits the conditions under which people will exchange rewards. Indeed, the key insight on which Adam Smith based his economic theory is that when an exchange between two persons is voluntary, that is, when neither is being forced to yield rewards, to the other, an exchange will not take place unless both persons believe they will benefit from it. When we give something to someone else, we expect a return – at the very least we expect them to appreciate our gift to give us some degree of emotional reward. Perhaps one of the most common complaints expressed about people is ingratitude – “After all I have done for him is this the way he pays me back?” Whenever we engage in an exchange with another person we risk loss by not receiving an adequate return for what we give. That universal human problem leads to amazingly complex regularities in human interaction. When we exchange with someone and afterward feel cheated we tend to avoid exchanging with that person in the future. Conversely, when we exchange with someone and are satisfied with our return, we tend to seek exchanges with that person again. Consequently, over time people tend to establish stable exchange partnerships.<sup>5</sup>

Similarly, co-operative societies have survived over the years because co-operators put in something (investment in money and time) and have reaped substantially in returns. Conversely, when the co-operative society is not able to benefit members due to the selfishness or ignorance of other members, the larger society is the loser via co-operative failures with attendant anguish, pain and bad blood on the part of co-operators.

<sup>4</sup>. Stark, R. (1989) *Sociology* 3rd Edition Wadsworth Publishing Co., Belmont CA, USA, pp. 73-76

<sup>5</sup>. Ibid

### **3. STUDY OUTCOMES:**

Using a randomly selected sample of 100 co-operators in Ilishan Remo to whom were given a 2-page questionnaire, the respondents were expected to provide reasons for co-operative failures within the community. Out of the 100 questionnaires sent out, 84 were returned representing 84% response rate. The results revealed that the major factors responsible for co-operative failures were:

- (1) Incompetence/Lack of administrative skills by officers of the co-operative societies.
- (2) Dishonesty among members
- (3) Inadequacy of government monitoring role of the activities of the activities of co-operative societies
- (4) Insufficient capital
- (5) Deliberate hiding of vital information from the rest of members
- (6) Misappropriation /Embezzlement of funds
- (7) Diverting of Loans to unproductive ventures
- (8) Lack of education and/or training of members
- (9) Accumulation and non-payment of credit facilities

#### **3.1 Incompetence/ Lack of Administrative Skills of Officers.**

According to Kellerman (2004), there are two fundamental categories of bad leadership - ineffective and unethical; furthermore, there are seven types of bad leadership that are the most prevalent; incompetent, rigid, intemperate, callous, corrupt, insular and evil.<sup>6</sup> There is no doubt that the problem of incompetence and lack of skills of officers of most co-operatives in South-western Nigeria is a major contributing factor to co-operative failure. There is ample lack of technical and administrative skills among the leaders of many co-operative societies. The reason for this is not far-fetched – the President or Chairman possesses some silent skills,

<sup>6</sup> Kellerman, B. (2004), *Bad Leadership*. Harvard Business School Press. Boston Massachusetts. Pp. 19-20

(such as retired civil servants and pensioners) most times they would have to work with incompetent and uncompetitive Board members – and the result is always the same - failure.

### **3.2 Dishonesty Among Members**

Oftentimes, members claim to be what they are not in their application forms and failure/inability to do necessary cross-checking due to absence or unreliability of database are also contributory factors to co-operative failures. Existing members, when requested to assess prospective members, are usually not honest. Such dishonesty, replicated several times is nothing but a disaster waiting to happen.

### **3.3 Inadequacy Of Government's Monitoring Role**

Our governments have not shown enough sincerity in monitoring various co-operative societies to ensure that as many people as possible benefit through their establishment. Secondly, government policies are not consistent from one regime to the other. In such situations, co-operative societies instead of being nurtured, die premature deaths.

### **3.4 Insufficient Capital**

Capital to any business is likened to blood to a human being. Without good blood flowing through the veins of a human being, the person is good as dead. Most co-operative members do not have adequate shares and savings in their societies. The net effect of this is that the co-operative is not able to discharge her statutory obligations to members and/or society. If this trend is sustained over time, members are forced to either pull out or not show enough commitment to the society and the ultimate result is failure.

### **3.5 Deliberate Hoarding of Vital Information from Members**

Often times, some members are in possession of vital information which, if known to other members could be of overall benefit to the society e.g. if a member using as collateral the

same asset already used as security for another loan elsewhere or engaging in unhealthy business practices that would not facilitate the repayment of a loan by a member. These are examples of vital information which, if kept from other members could harm the co-operative and ultimately result in failure.

### **3.6 Misappropriation/Embezzlement of Funds**

Perhaps it is no overstatement to say that nothing kills a co-operative society faster than misappropriation or outright embezzlement of funds by members. This hardly takes place without the connivance of members of the Executive. Where necessary internal controls are in place and the officers are men and women of integrity, embezzlement may be difficult, and that underscores the need to have upright and principled men and women in charge of co-operatives. However, the overall success of any co-operative society hinges on the honesty and uprightness of members. Where each member serves as a watchdog on the rest, misappropriation or embezzlement of funds would be an up-hill task.

### **3.7 Diverting of Loans to Unproductive Ventures**

Sadly, there are reported cases of co-operative members using loans to marry extra wives, conduct expensive funeral ceremonies or on such foolish things. Yet others put loans on building projects with the funds not being sufficient to complete such projects and no extra source of funds to service the loans obtained. Either way it ends in financial disaster and if not promptly detected, could lead to co-operative failure.

### **3.8 Lack of Education or Training by Members**

A peculiar problem with most co-operative members is that most of them are semi- literates or outright illiterates who cannot detect cracks in the walls of their societies in order to be able to offer necessary advice or make an early exit. Most members are not conversant with

books of accounts and where financial statements are presented most do not understand as to ask intelligent questions and make informed judgments on the viability or otherwise of the society.

### **3.9 Undue Accumulation and Non-payment of Credit Facilities**

It is not uncommon to have few individuals monopolize credit facilities while other members do not pay back loans obtained. Neither is healthy for the long-term survival of any co-operative society.

## **4. CURTAILING CO-OPERATIVE FAILURES**

From this paper so far, it is evident that the preponderant cause of co-operative failure centers around funds management—possibly via default in loans repayment, embezzlement of funds, diversion of funds to unproductive ventures etc. Some co-operative societies in Ilishan Remo, a university town in South-western Nigeria have adopted some unique measures in combating the scourge of co-operative failure; however some of these measures which may not necessarily work in other parts of the world due to cultural differences and legal constraints are analyzed below:

### **4.1 Loans Given to Groups Within the Group**

The concept of giving loans to “groups within the group” works this way; each co-operator belongs to a group either by trade affiliation e.g. teachers, carpenters, bricklayers, hair dressers, etc or simply dividing the whole house into smaller units with articulate and assertive members of the society elected as group heads. Depending on the size of each group, only one member of the group is qualified for a loan at a time. Upon a request for a loan by any member of a group, such loan is processed through the normal channel but at the point of disbursement, the amount is technically given to the entire group even though there

is only one beneficiary. His/Her activities are constantly monitored to ensure that he/she stays on course. Any problem encountered by the beneficiary is shared with the rest of the group and they put heads together to find solutions to such problem. No member of the smaller group benefits from further loans until the group has completely liquidated its loan. This ensures group responsibility for every loan taken by members of each group. It also generates healthy rivalry among the groups in maintaining the ideals for which the co-operative society is established. Apart from loans, it is the responsibility of group members to monitor other (sometimes private) activities of fellow group members and any deviant behaviour which would not enhance the corporate interest of the larger group is promptly brought to the attention of the group head and/or the President/Chairman of the co-operative society for necessary action.

#### **4.2 Engagement in “Friendly Embarrassing” Activities**

In many parts of South-western Nigeria, people pay premium attention to such social activities as marriages, funerals, child naming ceremonies, house warming and other social functions. Dignitaries from all walks of life, in-laws, relatives, old school mates, friends, church members etc. are usually invited to such functions. Due to the clout of the attendees at such functions, co-operative societies usually exploit such auspicious ceremonies to demand their outstanding debts from defaulting members. In most cases, the debts are settled in full within a few minutes of demand. Dignitaries present usually would not want their host to be openly disgraced and they either settle the debts instantly or give firm promises as to when the debts would be completely liquidated. In most cases, such promises do not fail. It must be pointed out here that the debtor would have got a hint that such ‘visit’ was on the way – and so he/she would not be totally caught off-guard. He/she would also be at the fore-front of arranging for settlement from his guests. The co-operative members, while performing this ‘duty’ would neither be violent nor rude but would be firm in ensuring that the ceremony

does not go on without. either a complete on-the-spot settlement of the debt or a fool proof commitment from a high net worth individual(s) on the settlement thereof. That is why the activities are referred to as ‘friendly embarrassing’. They are embarrassing to the individual(s) concerned but the manner of execution is friendly. This may not work in many countries around the world but it is perfectly working in Nigeria especially in the South-western part.

#### **4.3 Denial of Some Group Benefits to Defaulting Members.**

In many co-operative societies in South-western Nigeria, the Annual General Meeting (AGMs) are not only meant to receive the financial statements and the highlights of the past year’s activities but also a moment to relax, celebrate the achievements of the out-going year and share gifts to deserving members. An ingenious way of forcing debtors to settle their debts and consequently prevent a collapse of the co-operative society is to deny such debtor members the many gifts available to other members. Even though the cost of such gifts in most cases is not material, what makes it painful to defaulters is the open way in which their non-inclusion on the gift package is done. In most cases, defaulters determine to settle their debts before the next AGM so as to be one of the year’s gift recipients; the positive turnaround is openly acknowledged and celebrated. All these contribute to strengthening the co-operative society and prevent failure.

#### **4.4 Guarantors and Fresh Seekers of Loans to Act as Pressure Points.**

Another ingenious method of preventing co-operative failure is forcing guarantors of previous loans and fresh seekers of loans to act as pressure points or sources of pressure on loan defaulters. The guarantor does not only begin to repay the debt (by virtue of his guarantee); he also does not have access to fresh loans until the guaranteed loan is fully settled. The fresh seeker of loan at times is also persuaded to put pressure on a defaulter and

ensure that a sizeable portion thereof is paid back before his/her request can be entertained by the society.

The effect of this method on the co-operative society is to ensure that loans are promptly settled and the entire society is the healthier for it.

#### **4.5 Strict Enforcement of Bye-Law Provisions on Recall of Loans and Overdue Loans.**

Section 18 of the Bye-Laws of one co-operative multipurpose society in Ilishan Remo, Nigeria reads thus on the recall of loans:

All loans shall be issued subject to the right of the society to call for immediate replacement.

- (a). If any misapplication is proved
- (b). If the borrower gives an indication of resignation.

Section 77 of the same Bye-Laws reads thus:

Overdue loans: When a loan is not paid on the due date, the loan amount shall at once be closed and the borrower informed of the principal and interest outstanding against him. On the total amount so found due the borrower shall be charged penal interest from the date of closing the loan account to the date of recovery and steps shall be taken promptly, firstly by deducting part of it from any sum due to the member in respect of the sale of his farm produce or manufactured products and thereafter, in any lawful manner that the committee may deem suitable.

It must be emphasized here that these provisions are strictly enforced by the members especially the Executive and the cumulative effect of this is added strength to the co-operative society.

#### **4.6 No Loans to Outsiders**

In addition to the above steps in strengthening co-operative societies in South Western Nigeria, it is a known policy of most societies not to give loans to outsiders no matter the status of such person in the society.

It must be acknowledged here that in some countries some of the above-mentioned practices may be considered extra-legal and an infringement on people's privacy or human rights, they are perfectly effective in curbing the failure rate of co-operative societies in South-western Nigeria. The emphasis is on loan recovery because even when other factors are in place and money (or working capital) is lacking, it is a matter of time before such entity collapses.

### **CLOSING REMARKS**

If indeed co-operatives are based on the values of self-help, self responsibility, democracy, equality, equity and solidarity, then the fight against co-operative failure must be a collective one involving all stakeholders. No doubt, the global social economy has a distinct and valuable role to play in helping to create a strong, sustainable, prosperous and inclusive society. Co-operative societies worldwide must imbibe the ethical values of honesty, openness, social responsibility and caring for others which are very much in line with the tradition of the founders of the co-operative movement.

It is when we continually find new and innovative solutions to issues whether they are socially, economically or environmentally based that the global social economy develops. Then the needs of millions of co-operative members which have been ignored or inadequately fulfilled by the private and public sectors can be satisfied.

The people of Ilishan Remo and indeed the entire South-western part of Nigeria have demonstrated this in some of the unique ways used in combating this scourge. The rest of the co-operative world can follow suit by borrowing from, or better still, improving on some of these methods to the ultimate benefit of millions of people around the world who have stakes in the co-operative enterprise.

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