



Impact of Cooperative and Thrift Societies on Small Business Performance in Nigeria

Michael Ogunmuyiwa¹, Oluwasanya O.P.², Aladegoroye O.R³

Abstract: Objectives: This study investigated the impact of participatory rate of cooperative members on small business performance in Nigeria. **Prior Work:** Previous studies focused more on the relationship between cooperative and thrift societies and small business performance without paying adequate attention to participatory rate of members. **Approach:** The study was conducted among cooperative and thrift members in Six (6) Local Government Areas in Ogun Central Senatorial District (Ifo, Ewekoro, Obafemi/Owode, Abeokuta North, Abeokuta South, and Odeda). The study adopted survey research design and a sample size of 369 was drawn from a population of 4,836 members of cooperative societies in the Six (6) Local Government Areas using judgmental sampling technique. Descriptive statistics (DS) and Ordinary Least Square (OLS) were employed to test the hypotheses formulated using 5% level of significance. **Result:** Result revealed that Financial Services (FIS) has significant effect on small business performance ($\beta = 0.4131$; $t_c = 5.7988$; $p < 0.05$). Also, Non – Financial Services (NFIS) has significant effect on small business performance ($\beta = 0.2708$; $t_c = 3.2023$; $p < 0.05$). In addition, Socio-economic Factor and Membership (SEF/MEM) has significant effect on performance of small businesses ($\beta = 0.1817$; $t_c = 2.6416$; $p < 0.05$). Patronage (PAT), also has a significant effect on performance of small business ($\beta = 0.7919$; $t_c = 15.8113$; $p < 0.05$). **Implications:** Based on these findings, the study concluded that FIS, NFIS, SEF/MEM and PAT have significant effect on the performance of small businesses in Nigeria. Thus, these elements are the critical factors influencing the performance and growth of small businesses in Nigeria. **Value:** Small businesses as well as SMEs in general can leverage on the dimensions of cooperative used in this study to improve performance of their enterprises.

Keywords: Financial Service; Non-Financial Service; Patronage; Small Business Performance.

JEL Classification: L25; Q13; P13.

1. Introduction

Nigeria's economy is dominated by small businesses in agriculture, manufacturing, commerce, industry and services. Small and medium businesses in Nigeria like any other parts of the world are seen as the backbone of all economies and they are key sources of economic growth, development most especially that Covid-19 pandemic is ravaging many industries (Ohen, Ofem & Arikpo, 2018).

Previous initiatives designed to assist Small and Medium Enterprises (SMEs) in Nigeria include Mandatory Minimum Credit Allocation by banks to small enterprises; the World Bank Small and Medium Enterprises (SME I and SME II loan programmes, the Agricultural Credit Guarantee Scheme

¹ Olabisi Onabanjo University, Nigeria, Corresponding author: msogunmuyiwa@gmail.com.

² Department of Cooperative and Rural Development, Faculty of Management Sciences, Olabisi Onabanjo University Ago-Iwoye, Ogun State.

³ Department of Cooperative and Rural Development, Faculty of Management Sciences, Olabisi Onabanjo University Ago-Iwoye, Ogun State.

Fund (ACGSF) and the Small and Medium Industries Equity Investment Scheme (SMIEIS). The most ambitious move ever made by the government was the establishment of the Small and Medium Enterprise Development Agency of Nigeria (SMEDAN) to facilitate access to credit, technology, and market for the SMEs (Effiom, 2014). But many believed that these efforts of government have generally yielded poor results. Given the large domestic market and plethora of raw materials in Nigeria, there is little progress in terms of manufacturing value-added products, either for import substitution, exports, or employment creation. The small holder agricultural sector has also not fared better and the country still spends millions of dollars to import food and other vital products and services (Ohen et. al, 2018)

The non-delivery of satisfactory results by the past SME development efforts has made it imperative to identify other institutional arrangements that could provide a more satisfactory result. One of such institutions is the Cooperative and Thrift Societies (CTCS). These are voluntary association of individuals who come together to meet their savings, credit and insurance needs. They are member-based organizations that help members to address economic challenges. These organizations provide those savings credit and insurance services through various schemes based on self-help and mutual aid and on terms and conditions decided by members themselves (Mhembwe & Dube, 2017).

Nigerian cooperatives and thrift societies like cooperatives in other climes have always played a key role in the promotion and development of small businesses (Ademilua, 2017). Indeed, promotion and support of business enterprise of members and jointly owned businesses are at the core of cooperative functional activities. However, this promotional engagement is often neglected since policy makers often see cooperative and thrift societies as simply a channel for poverty alleviation and rural development and relates to them as such. Thus, they are yet to come to terms with the fact that cooperatives are first and foremost businesses and business promotion agents whose potential capabilities could be utilized to further promote SMEs (Okoli, 2018).

Cooperatives and thrift societies play an important role in facilitating access to credit procurement and storage distribution of input and marketing of products. They create employment opportunities particularly in the rural areas and allow disadvantaged groups to be organized for social and economic benefit. The cooperative and thrift societies are formed with the idea of cooperation. Every cooperative society is formed to render service to its members rather than to earn profit.

Generally, it is seen that cooperative societies do not function efficiently due to lack of managerial talent. The gains to the Nigerian economy during the pre-oil era were largely due to positive effects arising from general acceptance by the people of cooperative movements. Unfortunately, those attractions no longer exist today as they have been eroded away with the petroleum becoming the dominant commodity and the mainstay of the economy. Despite these numerous benefits of the cooperative societies, many cooperators seem not to gain or reap substantially from being membership of various cooperative societies in terms of capital formation and the improvement of their welfare status.

Despite its microfinance power, the Cooperative Societies as an informal source of finance has serious setbacks (Okoli, 2018). One of these problems is the inadequate amount of capital that can be raised from the members of the cooperative society when compared to the need of small industrialists. There are factors however that have militated against the efficiency of cooperative sector as an economic tool of microfinance, job creation, poverty eradication and wealth creation. Some of these are bad leadership, lack of mutual training and exposure to modern management techniques, ambiguous government role in the cooperative movement, as well as the challenges of the changing world. The perceived benefits and problems of cooperative societies in the financial sector era is worthy of exploration. There is paucity of research in this regard in the Nigeria context.

Different scholars have argued in favour of the cooperative thrift and credit society that most of the problems on the part of the informal savings strategies can be handled by the cooperative thrift and credit societies and consequently enhance the performance of the small businesses. However, the

impact of cooperative thrift and credit societies on small business performance has not been well investigated in literature. Very scanty related studies such as Akerele & Adekunbi (2018), Ailemen, Ojeka, Agwu & Achugamonu (2015) among others have focused on different scope such as Ondo, Lagos, Cross-Rivers and Accra. This obviously is the very first gap identified in the body of literature on the subject matter. To bridge this gap, this study focuses on Ogun Central Senatorial Districts, Ogun State, Nigeria.

Also, most of the existing literature focused strictly on the relationship between cooperative and thrift societies and small business performance without paying adequate attention on participatory rate. Participation rate in cooperative societies is low and there is high probability that cooperative and thrift societies would play significant role in the performance of small businesses. This of course is the kernel of this study. Thus, this study investigates the impact of cooperative, thrift and credit societies on small business performance in Nigeria. The rest of the paper is divided into three (3) sections. Section II focuses on the review of relevant literature while section III is on the methodology and empirical results. Section IV concludes the study and proffers recommendations.

2. Review of Past Studies

The Small and Medium Enterprises (SME) sector provides on the average 50% of Nigeria's employment and 50% of its industrial output (Mhembwe & Dube, 2017). The development of small businesses in Nigeria is a step towards building a vibrant and diversified economy to alleviate poverty and reduce unemployment in the country. This explains why successive Nigerian governments have been spending immense amount of money obtained from internal and external funding institutions for entrepreneurial and small business development programmes.

Nigerian SMEs have not fared particularly well because of hostile operating environment among other challenges. Most SMEs in Nigeria die within their first five (5) years of existence due to insufficient capital, lack of focus, inadequate market research, over-concentration on one or two markets for finished products, lack of succession plan, inexperience, lack of proper book keeping, irregular power supply, infrastructural inadequacies (water, roads and electricity), lack of proper records or lack of any records at all, inability to separate business and family or personal finances, lack of business strategy, inability to distinguish between revenue and profit, inability to procure the right plant and machinery, inability to engage or employ the right caliber of staff and cut-throat competition.

The major challenge facing small businesses in sub-Saharan Africa is lack of funding especially in Nigeria. One of the ways small business owners survive is by belonging to informal interdependent societies. The availability of finance is necessary for small business development and players in the market often use informal avenues. These include friends and family, money lenders and informal savings schemes such as Esusu in West Africa and stokvels in South Africa (Oladejo & Yinus, 2014).

Esusu operates as a savings group, an insurance scheme, and an avenue for social interaction. The scheme operates under a trustworthy leader who manages a fixed contribution that is shared among members based on rotation. The membership size, amount to be contributed and interval of payment are usually agreed by members. These groups aid social interaction and give financial support and expose members to business opportunities due to their interdependent nature (Cheruiyot, Kimeli & Ogendo, 2017). Members contribute an amount that is agreed on at weekly or monthly meetings and a ballot is used to decide the individual who will be the recipient of the contribution (Akerele & Adekunbi, 2018). For instance, if there are 10 members in a group and each contributes US\$20, the recipient will receive \$200. The rotation will continue until all members get paid after which the Esusu is dissolved. Members can then restart the scheme all over again. The Hausas call the same scheme Adachi which is synonymous with the Akans' Susu in Ghana.

The goal of cooperative thrift and credit society is to encourage thrift among the members and to meet the credit needs of people who might otherwise be exposed to exploitation. Members are known for

strong commitment and participation in decision making. These societies mobilize local savings and administer credit to members, thereby encouraging thrift and entrepreneurial activity. They have relatively simple administrative processes and transaction costs are small and shared. Interest income from loans and return on investments may either be distributed to the members or reinvested in the society within a given period. These societies have made small business owners in some countries in sub-Saharan Africa competitive especially Nigeria, especially, among the cocoa farmers and agricultural processors in Southern Nigeria (Bamidele & Spencer, 2007).

Oladejo (2013) opined that interdependent societies support economic development. Cities such as Berber (Morocco), Yoruba (Nigeria), Akan (Ghana) and Kikuyu (Kenya) are examples of interdependent societies with entrepreneurial traits. In these societies, groups of people save together, and small business owners have access to finance. This study therefore attempts to appraise the impact of cooperative and thrift societies on small business performance in Nigeria.

In comparison with other organizational forms, cooperatives have been found to offer poor product quality and suffer from low reputations. The main reasons discussed in the literature are lack of profit orientation due to poorly specified and diluted property rights. However, although many cooperatives indeed perform poorly, and some are apparently able to completely avoid or at least reduce the problems that are considered prototypical for this hybrid organizational form.

3. Methodology

The study was carried out in Ogun State. The State is one of the thirty-six (36) states in Nigeria. Ogun State has Twenty (20) Local Government Areas. These Local Government Areas are spread across the three Senatorial Districts which are Ogun Central, Ogun West and Ogun East. Ogun East comprises of Nine (9) Local Government Areas along the Ijebu and Remo areas. Ogun West comprises Five (5) Local Government Areas comprising of the Yewa people while Ogun Central consists of Six (6) Local Government Areas along the Egba area of the state.

The study was conducted in Ogun Central comprising Ifo, Ewekoro, Obafemi Owode, Abeokuta South, Abeokuta North and Odeda. Hence, this study was conducted among all the cooperatives and thrift societies in the Six (6) Local Government Areas. The study employed survey research design. Based on the Local Government Areas, there are Seventy-two (72) cooperative and thrift societies in the Six (6) Local Government Areas with total membership of Four thousand, eight hundred and Thirty-six (4,836) members. From this population, using judgmental sampling technique, a sample size of Three hundred and sixty-nine (369) respondents was obtained using Taro Yamane and three hundred and eighteen (318) respondents were finally used for the analysis.

3.1. Model Formulation

The following model was developed for this study

$$\text{SSBP} = f(\text{FIS}, \text{NFIS}, \text{MEM}, \text{PAT}) \quad (1)$$

$$\text{SSBP} = \alpha_0 + \alpha_1\text{FIS} + \alpha_2\text{NFIS} + \alpha_3\text{MEM} + \alpha_4\text{PAT} + \mu \quad (2)$$

Where:

SSBP = Small Business Performance

FIS = Financial Service of Cooperative Societies

NFIS = Non-financial Service of Cooperative Societies

MEM = Membership

PAT = Patronage of Cooperative Societies

$\alpha_0 + \alpha_1 + \alpha_2 + \alpha_3$ and μ_i are parameters to be estimated.

In a-priori terms, the expected signs of the variables in the model are specified above as stated in mathematical form below:

$$\frac{\delta SSBP}{\delta FIS} > 0; \frac{\delta SSBP}{\delta NFIS} > 0; \frac{\delta SSBP}{\delta MEM} > 0; \frac{\delta SSBP}{\delta PAT} > 0 \quad (3)$$

It is expected that financial services and non-financial services provided by cooperative and thrift societies will be positively related to small business performance. Also, membership and patronage of cooperative and thrift societies will impact positively on small business performance in Nigeria.

3.2. Results and Discussion

Table 1. Descriptive Statistics of the Variables

Descriptive Values	Variables				
	SSBP	FIS	NFIS	SEF/MEM	PAT
Mean	3.2920	3.9013	3.2820	3.4480	3.2370
Median	3.6000	3.0091	3.2000	3.6000	3.2000
Maximum	4.4000	4.7133	4.8000	4.6000	4.4000
Minimum	1.0000	1.7830	1.6000	1.6000	1.8000
Std. Dev.	0.8239	0.8219	0.8306	0.7972	0.8002
Skewness	-1.0066	-0.7389	-0.3144	-0.8401	-0.3990
Kurtosis	3.4671	3.9102	2.3414	3.0134	2.0401
Jarque-Bera	35.5945	8.7927	6.9101	23.5317	12.9853
Probability	0.3221	0.1457	0.3315	0.2121	0.1115
Obs.	318		318	318	318

Source: Authors' Computation, 2021.

Descriptive statistics of each variable was revealed in Table 1. The mean for all the variables is positive with FIS having the highest mean value (3.9013). SEF/MEM ranked second, SSBP ranked third, NFIS ranked fourth while PAT ranked fifth. Similarly, the median of the variables depicted close value as that of the mean value, which suggest that the variables are symmetric and performed well.

More so, it indicated that the standard deviation of the variables is low, implying that the variables are stable because they were below 1%. It was also discovered that all the variables are negatively skewed due to the negative values of the skewness for all the variables. Also, SSBP, FIP and SEF/MEM are leptokurtic because their kurtosis values were greater than three (3), while NFIS and PAT are platykurtic since their value is less than three (3) which implies that the variables produce fewer and less extreme outliers than those of the normal distribution. The normality test was carried out to check if the residuals are normally distributed; the result of the Jarque-Bera statistics suggests that the residuals are normally distributed given the probability value.

Table 2. Multiple Regression of the effect of Cooperative and Thrift Society (CTS) on Small Business Performance

Variables	Coefficient	Std. Error	t. Statistic	Prob.
C	0.4139	0.1739	2.3795	0.0183
FIS	0.4131	0.0712	5.7988	0.0000
NFIS	0.2708	0.0845	3.2023	0.0016
MEM	0.1817	0.0687	2.6416	0.0089
PAT	0.7919	0.0500	15.8113	0.0000
R ²				0.9710
Adj. R ²				0.9600
S.E. of regression				0.1149
Sum squared resid				2.5896
Log likelihood				150.8935

F-statistic	7203.861
Prob (F-statistic)	0.0000

Source: Authors' Computation, 2021.

The combined effect of cooperative and thrift society on small business performance is presented in Table 2. The coefficient of FIS is positive in line with the a-priori expectation. This indicates that a positive relationship exists between financial services and small business performance which is also significant @ 5 per cent level ($\beta = 0.4131$; $t_c = 5.7988$; $p < 0.05$). Likewise, the coefficient of NFIS is positive and significant which indicated that a positive relationship also exists between non-financial services offered by cooperative and thrift society and performance of small business ($\beta = 0.7919$; $t_c = 3.2023$; $p < 0.05$).

Moreover, the coefficient of MEM is also positive, in line with a-priori expectation, which implies that a positive and significant relationship exists between socio-economic factors/membership and small business performance ($\beta = 0.1817$; $t_c = 2.6416$; $p < 0.05$). Furthermore, the coefficient of PAT is positive in line with theoretical expectation. It also indicates that a positive and significant relationship exists between patronage and small business performance ($\beta = 0.7919$; $t_c = 15.8113$; $p < 0.05$).

The adjusted R-squared ($R^2 = 0.9600$) was quite high explaining a variation of 96% in small business performance being responsible for by cooperative and thrift variables. This means that, the variables chosen are strong in explaining small business performance. The F-statistic of which measures the joint statistical influence of the explanatory variables in explaining the dependent variable was found to be statistically significant at 1%. The F-statistic = 7203.861; $P = 0.0000$ shows that all the components of cooperative and thrift society used in the model are important determinants of small business performance in Nigeria.

The t-values of FIS, NFIS, SEF/MEM and PAT for the model are 5.7988, 3.2023, 2.6416 and 15.8113 with significance values of 0.0000, 0.0016, 0.0089 and 0.0000 respectively. This indicated that FIS, NFIS, MEM and PAT had significant effect on the performance of small business in Nigeria.

3.3. Discussion of Findings

The results revealed that financial services had significant effect on small business performance. The result supported the findings of Mande and Lawal (2014), Oladejo (2013), Anup (2014) and Ailemen *et al.* (2015) who reported significant relationship between micro credits, loans, and SMEs growth. Meanwhile, the finding disagreed with the view expressed by Akerele and Adekunmbi (2018), Alema (2014) and Kiriimi *et al.* (2017) who maintained that financial service offered by cooperative society did not have any significant effect on SMEs performance.

Moreso, result revealed that non-financial services had significant effect on small business performance. This result gave credence to the result of Ohen *et al.* (2018); Chiara & Alexander (2012), Ademilua (2017), Effiom (2014) and Nwankwo *et al.* (2012) who found that non-financial services provided by cooperative society had significant effect on the performance of small business. However, this finding refuted the claims of Dunggio and Yasa (2016) who reported insignificant relationship between non-financial services and SMEs performance.

Furthermore, the findings also showed that membership had significant effect on performance of small businesses considered by this study. This result gave credence to the conclusion of Kyazze *et al.* (2017); Alema (2008); Chiara & Alexander (2012) who found that membership of cooperative society affects the performance of SMEs. But, this result disagreed with the conclusion of Okoli (2018) and Munyasia (2016) who found insignificant relationship between membership of cooperative society and SMEs performance.

4. Conclusion and Recommendations

Sequel to the discussions of findings above, the study concludes that, all the independent variables (FIS, NFIS, SEF/MEM and PAT) are significantly related to small scale business performance in Nigeria with financial services and patronage being the most significant dimensions of cooperative and thrift society. Thus, small businesses as well as SMEs in general can leverage on the dimensions of cooperative used in this study to improve performance of their enterprises. Also, small businesses should be encouraged to join or form cooperative societies to facilitate access to fund and equally take advantage of other dimensions and opportunities offered by cooperative societies to enhance business growth and promote entrepreneurial development.

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