Forms of business ownership

Cooperative Societies

A **cooperative** (also known as **co-operative**, **co-op**, or **coop**) is "an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned enterprise". Cooperatives are democratically owned by their members, with each member having one vote in electing the board of directors.

It is an association or corporation established for the purpose of providing services on a nonprofit basis to its shareholders or members who own and control it. In Kenya these businesses ate registered in accordance with the cooperative societies Act, CAP 490.

Types of cooperative societies in Kenya

a) Savings and Credit Co-operative Societies

These are formed to provide financial support to members. They accept deposits to members and grant them loans at reasonable interest rates in times of need.

b) Housing co-operatives Societies

These are co-operative societies formed to provide residential houses to members. They purchase land, develop it and construct houses or flats and allot the same to members. Some societies also provide loans at low rates of interest to members to construct their own houses.

c) Consumer Co-operatives Societies

These societies are formed to protect the interest of general consumers by making consumer goods available at reasonable price. They buy goods directly from the producers or manufactures and thereby eliminate the middlemen in the process of distribution.

d) Agriculture/Farmers Co-operative Societies

These are formed by small farmers to work jointly and thereby enjoy the benefits of large-scale farming.

e) Producer Co-operative Societies

These societies are formed to protect the interest of small producer by making available items of their need for production like raw materials, tools and equipment, machinery etc.

f) Marketing Co-operative Societies

These are formed by several producer and manufacturers who find it difficult to sell their products in their market. A good example is the Kenya Co-operative Creameries that deals with milk.

g) Investment Co-operative Societies

The objects of an investment co-operative are: To invest members' contributions in prudently identified ventures in order to maximize the return on their investment.

h) Transport co-operative societies eg for Matatus. The government requires that all PSVs must belong to a Sacco in order to be licensed to operate**.**

Features of a Cooperative Society

1. Voluntary Association- The membership of cooperative societies is voluntary. Anybody having a common interest is free to join a cooperative society. The member can also leave the society any time after giving a proper notice.
2. The membership of a cooperative society is a minimum of 10 people and no set maximum limit.
3. Equal Voting Rights- A cooperative society is based on the principle of "one man one vote". A member has only one vote irrespective of the number of share(s) held by him. Thus, a co-operative society runs on democratic principles.
4. Separate Legal Entity- A cooperative society is required to be registered under the Co-operative Societies Act. Registration provides it a separate legal entity. Its existence is quite different from its members. The death, insolvency or lunacy of a member does not affect its existence. It can sue and be sued in its own name. It can make agreements as well as purchase and sell property in its own name.
5. Service Motive- A cooperative society is based on the service motive of its members. Its main objective is to provide service to the members and not to maximize profits. Earning profits is the most important objective of other forms of business organization. It is not so in the case of co-operatives.
6. Distribution of Surplus- Members are paid dividend and bonus out of the profits of the co-operative society. The bonus is given according to the volume of business transacted by each member with the co-operative society.For example, in a consumer co-operative society, bonus is paid in proportion to the purchases made by members during a year. In a producers' cooperative society, the value of goods delivered for sale forms the basis of distributing bonus.
7. State Control- Cooperative societies are subjected to regulation and control by the government.

8. Elimination of Middlemen- The main object of the cooperative societies is to eliminate middlemen and to establish direct contact between members and customers. This ensures availability of goods at fair prices and minimizes unhealthy competition.
9. Cash Trading- Generally, a co-operative society buys and sells goods on cash basis. Cash trading does not involve bad debts and credit collection expenses. Thus, it helps the society to have a good working capital and to maintain short-term solvency.
10. Audit- Accounts of cooperative society are audited by the auditors appointed by the Government under the supervision and control of Registrar of Co-operative Societies.
11. Principle of Self and Mutual Help- Cooperative society promotes the common interests of its members through self-help and mutual help.
12. Democratic Management- Annual General Meeting (AGM) of co-operative society is held every year in which the managing committee is elected, which manages the affairs of the co-operative society.
13. Perpetual Existence- Existence of a cooperative remains unaffected by the death, or insolvency of any of its members. Thus, it has perpetual existence.

Advantages of cooperative societies

1. Easy to Form- A cooperative society is a voluntary association and may be formed with a minimum of ten adult members. Its registration is very simple and can be done without much legal formalities.

2. Open Membership- Membership in a cooperative organisation is open to all people having a common interest. A person can become a member at any time he likes and can leave the society at any time by returning his shares, without affecting its continuity.

3. Democratic Management- A cooperative society is managed in a democratic manner. It is based on the principle of 'one man one vote'. All members have equal rights and can have a voice in its management.

4. Limited Liability- The liability of the members of a co-operative society is limited to the extent of capital contributed by them. They do not have to bear personal liability for the debts of the society.

5. Stability- A co-operative society has a separate legal existence. It is not affected by the death, insolvency, lunacy or permanent incapacity of any of its members. It has a fairly stable life and continues to exist for a long period.

6. Economical Operations- The operation of a cooperative society is quite economical due to elimination of middlemen and the voluntary services provided by its members.

7. Government Patronage- Government gives all kinds of help to co-operatives, such as loans at lower rates of interest and relief in taxation.

8. Low Management Cost- Some of the expenses of the management are saved by the voluntary services rendered by the members. They take active interest in the working of the society. So, the society is not required to spend large amount on managerial personnel.

9. Mutual Co-Operation- Cooperative societies promote the spirit of mutual understanding, self-help and self-government. They save weaker sections of the society from exploitation by the rich. The underlying principle of co-operation is “self-help through mutual help.”

10. No Speculation- The share is always open to new members. The shares of cooperative society are not sold at the rates higher than their par values. Hence, it is free from evils of speculation in share values.

11. Economic Advantages- Cooperative societies provide loans for productive purposes and financial assistance to farmers and other lower income earning people.

Disadvantages of Cooperative societies

1. Limited Capital- Cooperatives are usually at a disadvantage in raising capital because of the low rate of return on capital invested by the members.

2. Inefficient Management- The management of a co-operative society is generally inefficient because the managing committee consists of part-time and inexperienced people. Qualified managers are not attracted towards a cooperative on account of its limited capacity to pay adequate remuneration.

3. Absence of Motivation- A cooperative society is formed for mutual benefit and the interest of individual members is not fully satisfied. There is no direct link between effort and reward. Hence, members are not inclined to put their best efforts in a cooperative society.

4. Differences and Factionalism(splitting the group into factions) among Members- Once the initial enthusiasm about the co-operative ideal is exhausted, differences and group conflicts arise

among members. Then, it becomes difficult to get full co-operation from the members. The selfish motives of members begin to dominate and service motive is sometimes forgotten.

5. Rigid Rules and Regulations- Excessive Government regulation and control over co-operatives affect their functioning. For example, a co-operative society is required to get its accounts audited by the auditors of the co-operative department and to submit its accounts regularly to the Registrar. These regulations and control may adversely affect the flexibility of operations and the efficiency of management in a co-operative society.

6. Lack of Competition- Cooperatives, generally, do not face any stiff competition. Markets for their goods and services are more or less ready and assured. Hence, there is possibility of slackening of efforts.

7. Cash Trading- The members of the societies are generally from poor sections of the society. These persons need credit facilities. On the other hand, private traders extend credit facilities to the consumers. Though the societies sell goods at lower prices but absence of credit facilities compel them to go to private traders for meeting their requirements.

8. Lack of Secrecy- The affairs of a co-operative society are openly discussed in the meetings of the members. Every member is free to inspect the books and records of the society. Therefore, it becomes difficult to keep the secrets of business.

PUBLIC SECTOR BUSINESESS

Public Corporations/ Parastatals

1.Public Corporations/Parastatals are companies, establishments, and enterprises owned and financed by the government to render essential social and welfare services at affordable prices.

2.Public corporation" means an entity that is created by the state to carry out **public** missions and services. In order to carry out these **public** missions and services, a **public corporation** participates in activities or provides services that are also provided by private **enterprise**.

3. A public corporation is that form of public enterprise which is created as an autonomous unit, by a special Act of the Parliament or the State Legislature. Since a public corporation is created by a Statute; it is also known as a statutory corporation.

Reasons for Establishing Public Corporations

1. To provide essential services at low costs.

2. To establish corporations that require enormous capital which an individual might not be able to afford.
3. To avoid duplication of services.
4. For price control and consumer protection.
5. To prevent unhealthy competition.

Functions of Public Corporations and Parastatals

1. Generation of revenue for the government.
2. Economic growth and development.
3. Production and provision of essential services to the citizens.
4. Provision of employment and job opportunities.
5. Prevention of exploitation.

Examples of parastatals in Kenya

- Kenya pipeline
- Kenya broadcasting corporation
- KENGEN
- Kenya standard gauge railway
- Kenya bureau of standards (KEBS)
- Kenya Airways
- Kenyatta National hospital

Features of Public Corporation:

(i) Special Statute:

A public corporation is created by a special Act of the Parliament . The Act defines its powers, objectives, functions and relations with the ministry and the Parliament.

(ii) Separate Legal Entity:

A public corporation is a separate legal entity with perpetual succession and common seal. It has an existence, independent of the Government. It can own properly; can make contracts and file suits, in its own name.

(iii) Capital Provided by the Government:

The capital of a public corporation is provided by the Government or by agencies controlled by the government. However, many public corporations have also begun to raise money from the capital market.

(iv) Financial Autonomy:

A public corporation enjoys financial autonomy. It prepares its own budget; and has authority to retain and utilize its earnings for its business.

(v) Management by Board of Directors:

Its management is vested in a Board of Directors, appointed or nominated by the Government. But there is no Governmental interference in the day-to-day working of the corporation.

(vi) Own Staff:

A publication corporation has its own staff; whose appointment, remuneration and service conditions are decided by the corporation itself.

(vii) Service Motive:

The main objective of a public corporation is service-motive; though it is expected to the self-supporting and earn reasonable profits.

(viii) Public Accountability:

A public corporation has to submit its annual report on its working. Its accounts are audited by the Auditor General.

Advantages of Public Corporation:

(i) Bold Management due to Operational Autonomy:

A public corporation enjoys internal operational autonomy; as it is free from Governmental control. It can, therefore, run in a business like manner. Management can take bold decisions involving experimentation in its lines of activities, taking advantage of business situations.

(ii) Legislative Control:

Affairs of a public corporation are subject to scrutiny by Committees of Parliament . The Press also keeps a watchful eye on the working of a public corporation. This keeps a check on the unhealthy practices on the part of the management of the public corporation.

(iii) Qualified and Contented Staff:

Public corporation offers attractive service conditions to its staff. As such it is able to attract qualified staff. Because of qualified and contented staff, industrial relations problems are not much severe. Staff has a motivation to work hard for the corporation.

(iv) Tailor-Made Statute:

The special Act, by which a public corporation is created, can be tailor-made to meet the specific needs of the public corporation; so that the corporation can function in the best manner to achieve its objectives.

(v) Not Affected by Political Changes:

Being a distinct legal entity, a public corporation is not much affected by political changes. It can maintain continuity of policy and operations.

(vi) Lesser Likelihood of Exploitation:

The Board of Directors of a public corporation consists of representatives of various interest groups like labour, consumers etc. nominated by the Government. As such, there is lesser likelihood of exploitation of any class of society, by the public corporation.

(vii) Reasonable Pricing Policy:

A public corporation follows a reasonable pricing policy, based on cost-benefit analysis. Hence, public are generally satisfied with the provision of goods and services, by the public corporation.

Limitations Public Corporation:

(i) Autonomy and Flexibility, Only in Theory:

Autonomy and flexibility advantages of a public corporation exist only in theory. In practice, there is a lot of interference in the working of a public corporation by ministers, government officers and other politicians.

(ii) Misuse of Monopolistic Power:

Public corporations often enjoy monopoly in their field of operation. As such, on the one hand they are indifferent to consumer needs and problems; and on the other hand, often do not hesitate to exploit consumers.

(iii) Rigid Constitution:

The constitution of a public corporation is very rigid. It cannot be changed, without amending the Statute of its formation. Hence, a public corporation could not be flexible in its operations.

(iv) Low Managerial Efficiency:

Quite often civil servants, who do not possess management knowledge and skills, are appointed by the government on the Board of Directors, of a public corporation. As such, managerial efficiency of public corporation is not as much as found in private business enterprises.

(v) Problem of Passing a Special Act:

A public corporation cannot be formed without passing a special Act; which is a time consuming and difficult process. Hence, the scope for setting up public corporations is very restricted.

(vi) Clash of Divergent Interests:

In the Board of Directors of public corporation, conflicts may arise among representatives of different groups. Such clashes tell upon the efficient functioning of the corporation and may hamper its growth.