

THE INITIATION AND DEVELOPMENT OF MODERN CO-OPERATIVE ORGANIZATIONS

1. Historical Co-operative Institutions and Traditional Forms of Co-operation

Co-operatives exist in nearly all industrialised and developing countries. Distinctions are often made between modern co-operative organizations and traditional forms of co-operation or historic co-operative institutions, which have existed in the past and are still active in many regions.

In its broadest sense, co-operation is a very generic term. It means any form of two or more persons working together to achieve some aim or aims. Such working together may be on a formalised or informal basis, economic or non-economic in nature. It can take the form of permanent/long-term or otherwise ad-hoc or even a one-time act. In this context the rules as well as the models of such working together will differ from instance to instance. What will be common to all instances is only that two or more persons are involved in the process.

In a narrow sense, however, the term co-operation is also used for the activities of a specific form of organization, the co-operative/the co-operative society. In that sense, a study of co-operation is a study of the co-operative institution and its activities [1; p. 1].

One of the shortest definition given to co-operation is that of Charles Gide who considers that: "co-operation is determination of a fair price, co-operation is an association that aims to eliminate the profit". "The co-operative enterprise does not exclude a rational income, but eliminates parasitic profit, the profit without work".

Hans Muller says the following: "co-operation is a voluntary social reunion under the form of a collective economy, having as an economic principle the interest of the worker in the company" [5].

In other definitions, the co-operatives are considered "associations made up of socially weak persons, endeavouring to achieve certain social aims within the framework of an enterprise open to all and based on the rules of solidarity and democracy". "A genuine co-operative is an association resting on the foundation of voluntary adherence by its members; this adherence must be open in principle, as far as compatible with the economic possibilities of each co-operative cell, to all and everyone without distinction..."¹.

These examples demonstrate the two approaches usually differentiated, namely, the essentialist and the nominalist.

Whereas the essentialist approach attempts to define co-operatives in terms of values, ideologies and overall economic and social goals which are to be pursued, the nominalist approach attempts to define them by picking out certain, mainly structural elements of organisation which are seen to be common to all institutions which claim to be co-operatives. But the values, goals and ideologies differ between the different economic systems and even within a given system. Since co-operatives are found in all the systems and in all the sectors, no essentialist definition can incorporate all the different values, goals and ideologies that exist. An essentialist definition would thus not provide a suitable basis for analyses, findings and recommendations which should enjoy world-wide application and acceptance.

A nominalist definition which is based on structural elements common to all systems and sectors avoids this pitfall.

While it is true that the details may differ according to the economic systems and ideologies, it is also true that certain ideas behind the guidelines are common to all systems and thus directly or indirectly influence the operations of the co-operatives. These are the so-called "*co-operative principles*".

The co-operative principles go back to the Rochdale Pioneers and their original co-operative attempt started in 1844. The International Co-operative Alliance (ICA) accepted and regarded the Rochdale Principles as being one and the same as the "co-operative principles" which were to be adhered to by co-operatives world-wide. Those principles included [6]:

- I Open and voluntary membership;
- II Democratic management and control;

¹ S.Y. Berko, , *Fundamentals of Co-operation*, Anambra State University of Technology, Enugu, 1989, pp. 5-9.

- III Limited returns on share capital;
- IV Patronage refunds in proportion to turnover;
- V Neutrality in (race), religion and politics;
- VI Cash sales of goods at market prices;
- VII Sale of only pure, unadulterated goods;
- VIII Continuous education of the members.

These principles reflected the experiences and the economic political environmental conditions of a specific period, namely, the early period of the industrial revolution. The conditions have not remained unchanged since then. Furthermore, with reference to the different economic systems, these principles were formulated under the system and conditions of extreme capitalism which since then have undergone refinements, and in addition the socialist/communist system in the Eastern European countries and different forms of mixed economies in the developing countries have since come into being with conditions different in several regards to those of the original extreme capitalism. So, it is obvious that any principles meant to apply to co-operatives the world over cannot remain one and the same set as the above.

Since 1966, there are recognised as co-operative principles only the following:

- I Open membership;
- II Democratic management and control;
- III Limited returns (interest) on share capital;
- IV Payment of patronage refunds to members in proportion to their individual turnovers;
- V Continuous education of the members;
- VI Co-operation among co-operatives.

While the above six principles are expected to be observed world-wide, their formulation in 1966 has not signalled the end of discussions or indeed the search for "the co-operative principles" as such and the "co-operative ideals". Furthermore, while some earlier Rochdale principles are no longer regarded as binding principles, they are in many countries still in vogue in one form or another as worth-while business practices.

In the work entitled *Chances of Co-operatives in the Future* [5], professor Hans Munkner presents a "synoptic table of co-operative ideas, principles and practices". As we consider it relevant for understanding the co-operative background, we present its content in the following:

Co-operative Ideas, Principles and Practices

Table 1

General Ideas	Co-operative Principles	Co-operative Practices
Self-help Solidarity	<p>Self-help based on Solidarity; Voluntary and open membership</p> <p>Member Promotion</p> <p>Identity</p>	<ul style="list-style-type: none"> - association at regional, national and international level; - co-operation among co-operatives; - outside assistance, if any, only on a temporary basis and only with the aim to develop the spirit of self-help. - no use of the co-operative name for other purposes than member promotion; - policy-making by members or their elected representatives; - services near cost; - limitation of transactions with non-members; - annual control by co-operative auditors. - requirements of personal and financial participation of each member; - only members eligible to serve on the board; - shares to be held by members only; - limitation of transaction with non-members.
Democracy	Democratic Management and Control	<ul style="list-style-type: none"> - equal status of the members; - one man one vote; - decision-making by majority vote; - general meeting of the members as the supreme authority; - direct or indirect participation of all members in the control of society.
Economy	Economic Efficiency	<ul style="list-style-type: none"> - application of modern methods of business administration and management; - policy-making by the members or their elected representatives; - management entrusted to elected, full-time, paid office-bearers; - employment of competent, well-trained staff; - provision for adequate financial means; - adequate size of business; - supplementary transactions with non-members, if necessary.

Liberty	Voluntary Association Autonomy	<ul style="list-style-type: none"> - no compulsory affiliation; - no artificial limitation of the right to withdraw from the society. - rights of members to make and amend by-laws; - right of members to decide on admission of new members; - right of members to transact their joint business according to their own policy within the economic system of the country.
Equity	Fair and Just Distribution of the Results	<ul style="list-style-type: none"> - limited remuneration of invested capital; - limited dividend of interest on paid-up share capital; - dividend in proportion to transactions with the co-operative enterprise.
Altruism	Open Membership Indivisible Reserve Fund	<ul style="list-style-type: none"> - no artificial limitations for admission of new members; - no discrimination against any person on account of religion, race or political beliefs; - equal status of old and new members. - no claim of any member to any portion of the reserve fund; - no distribution of unclaimed funds after liquidation of a society among the members.
Social Advancement Through Education	Promotion of Education	<ul style="list-style-type: none"> - provision for an education committee in every society as part of its organizational structure; - provisions to allocate a certain percentage of the net surplus or turnover to an education fund; - requirement of a minimum educational standard before admission to membership education and training of office-bearers, employees and members and information of the general public.

Source: Munkner, H.H., *Co-operative Principles and Co-operative Law*, Marburg, 1974, pp. 14-17, with amendments.

2. The Growth and Spread of Modern Co-operatives

The evolution and spread of modern co-operatives and co-operative movements in Europe has often been characterised as a rapid process which

was also influenced by ideologies shared by its participants. However, it may be remembered that only by the end of the 19th century more or less consolidated movements of primary and secondary co-operative² institutions had been firmly established in the 'classical' European countries. During this period various disappointments and failures were experienced and measures had to be undertaken to avoid such mistakes and to improve the conditions for the development of the co-operatives in the future [3].

During the 20th century the modern co-operatives continued to develop successfully in nearly all industrialised countries [2]. They have also been initiated and established in most of the developing countries. Consequently, various different types and forms of co-operative organizations exist and are operating nearly all countries of the world.

3. The Co-operatives as Self-help Organizations

Originally co-operatives were organizations for solving pressing problems, with which the individual alone could not cope and which existing institutions did not solve at all or not in a satisfactory manner.

The co-operative idea is rooted in the insight that individual people who have the same economic difficulties achieve more if they unite. They do not want to draw on outside help but rather improve their situation through self-initiative. This voluntary act of uniting with the purpose of helping oneself does not mean relinquishing one's own, independent existence but strengthening it. This is the basic thought underlying the Raiffeisen idea which consists of *self-help*, *self-administration* and *self-responsibility* [4].

Co-operative *self-help* means that people in the same or similar situation join forces, raise the necessary financial means for the joint co-operative undertaking themselves and are prepared to give mutual support. This is done in the expectation of compensating competitive disadvantages by membership in a co-operative society, improving one's own position on the market and satisfying economic needs better.

² The primary co-operatives are the smallest individual units having in most cases individual persons as members. The secondary co-operatives are usually formed by a number of primary (local) co-operatives and are thus "co-operatives of co-operatives". They are referred to as "regional co-operatives".

Self-administration means that the members organize the internal conditions of their co-operative society themselves and thereby protect it from external influences. This means that internally the co-operative is not subject to any third party's orders (e.g. the government or other authorities).

The members decide on the bodies of their co-operative society (general meeting, supervisory board and board of directors) which have executive and controlling functions as well as on the economic activities of their co-operative enterprise. The one man, one vote principle holds true here.

This internal democracy is a vital element of the Raiffeisen system of free co-operatives.

The *self-responsibility* is directly deduced from the principle of self-administration. Self-responsibility means that the members themselves are responsible for the foundation and the upkeep of the co-operative enterprise and answer for it to third parties. This mutual joint liability establishes confidence towards other organizations in the economic life.

The originally unlimited liability was later gradually replaced by a limited liability. Apart from the necessary legal basis this was above all possible due to the fact that over the years, the co-operatives were able to considerably strengthen their share capital and reserves out of transfers from business returns.

However, limited financial liability in no way alters the personal responsibility of each member for his co-operative [4; p. 9].

In most countries, formal and informal initiatives for organized self-help exist. The survival of peripheral groups is often made possible by self-help. But in order to secure the interests of their members in modern societies and economies, the initial stages of self-help activities must be capable of development and flexibility.

It is very often the traditional self-help organizations which prove themselves through their ability to adapt to the respective situation. That is why they are important factors in development. They can be the basis for the transfer to modern market-orientated self-help organizations which enable their members to be integrated into the national economy whilst retaining the advantages of their membership in a face-to-face self-help organization.

3.1. Basic Conditions for the Creation of Co-operative Self-help Organizations

Co-operative self-help organizations can be expected to be successfully created under the conditions that, at least:

- there are enough (prospective) members, who are not satisfied with their economic and social conditions and have the aim of actively improving them;
- they have concrete knowledge of an adequately applicable concept of co-operative organizations as an instrument which is appropriate for achieving their common interests;
- potential advantages of co-operation exist which can be realized for the benefit of these persons;
- they consider the establishment of a co-operative as the best alternative for the achievement of their aims;
- they are ready to collaborate and form a co-operative group;
- they are motivated and capable enough to participate in the establishment of a jointly owned co-operative enterprise and make the personal and financial pre-contribution needed for that purpose;
- neither traditional forms nor legal prescriptions and regulations hinder or even forbid the activities for establishing a new co-operative self-help organization which can be characterized as an innovation in its local environment [3; p. 181].

3.2. Phases of the Initiation and Establishment of Co-operative Self-help Organizations

Regarding the process of initiating and establishing a co-operative self-help organization, it is useful to distinguish among at least the following three phases:

1. *The pre-co-operative phase* - i.e. the phase before the initiation of the co-operative is started.

The International Raiffeisen Union (IRU) [4; pp.18-19] considers that the foundation of a self-help co-operative should be preceded by:

- analysis of conscious needs, analysis of the objective and analysis of the self-help potential;
- selection of the type of co-operative. When selecting a co-operative type, e.g. a credit, supply or a marketing co-operative, not only the needs of the potential members but also their willingness and economic capacity to contribute to the setting-up of a co-operative have to be taken into account. The members' ability to work together with the co-operative on a long-term basis and make use of their services must also be taken into consideration.

- founding of pre-co-operatives. Especially if the conditions for a properly functioning co-operative are not adequately at hand, *i.e.* the economic situation, the emphasis on members' needs and the necessary training are not satisfactory, then the founding of pre-co-operatives should be encouraged. These can then be gradually transformed into formal co-operative societies.

2. *The phase of establishing the co-operative self-help organization;*

3. *The phase of development of the co-operatives as self-reliant autonomous self-help organizations.*

Such a distinction may be helpful in an attempt to understand and systematize the various theories which try to explain the initiation and development of co-operative self-help organizations, the theoretical conditions analysed in this regard as well as designing and evaluating adequate measures needed for the self-help promotion.

3.3. The Improvement of Strategies for Promoting the Creation of Co-operative self-help Organizations

In order to improve the effectiveness of strategies for supporting the creation of co-operative self-help organizations, Hanel [3; pp.188–190] recommends some aspects that should be emphasized. These are:

- creation or improvement of the framework conditions within which individuals and groups are allowed and motivated to undertake and increase co-operative self-help activities for their own benefit
- preservation of the autonomy of co-operative self-help organizations and co-operative movements as (private) socio-economic institutions of their members;
- taking into consideration the subjectively felt needs, interests, goals, timing and risk preferences as well as the situation related possibilities of action open to the potential members, bearing in mind that their economic promotion in the form of goods and services provided by the co-operative enterprise may be the major incentive for them to contribute financially and personally to the establishment of the co-operative organization;
- putting into practice the principle of subsidiarity with special regard to:
 - deciding between co-operative-oriented and government-related fields of activity;
 - transferring only such tasks and decisions to higher levels, which these higher levels can perform more efficiently in practice than the lower ones;

– providing external help for self-help in the technical, managerial and financial fields, thus linking external assistance to contributions of the co-operative members, who are the recipients or the target groups;

- following an educative, motivating and participatory bottom-up-approach, when the co-operative organizations are initiated and developed and the incentive-contribution-relationships as well as the rules of distribution of the promotional potential are agreed upon;
- integrating, if possible, local co-operative-oriented structures and autochthonous forms of self-help and mutual help;
- promoting, as much as possible, the formation of small, homogeneous and cohesive (local) co-operative groups because of their advantages;
- establishing efficiently operating co-operative enterprises, which, in co-operation with secondary and tertiary co-operative organizations, are able to realise economic advantages of co-operation, to succeed in competition on the markets in the modern and traditional sectors and act as innovative centres for the promotion of their members;
- adapting the organizational structures of the co-operatives to economic, social and cultural conditions prevailing in the regions and villages concerned;
- developing sufficiently adapted and practically tested concepts of co-operative self-help institution building, which can be used by potential members with the help of local promoters, so that the diffusion of the innovation 'co-operative' may be increased and accelerated;
- selecting, motivating, training and eventually employing local self-help promoters, who may act as co-operative entrepreneurs³.

One important problem is the creation of appropriate structures of self-help promotion institutions which are capable of designing and implementing the supporting policies for the initiation and establishment of co-operative self-help organizations.

References

1. Chukwu S.C., *Economics of the Co-operative Business Enterprise*, Marburg Consult, Series A-2, Marburg, 1990.
2. Dobay K.M., *Co-operation in Rural Environment, in Agriculture Restructuring & Rural Transition in Romania*, Gavrilescu D. (co-ordinator), CORESI Ltd., Bucharest, 1997.

³ The initiation and establishment of self-help organizations is an innovative task requiring entrepreneurial activities which can be performed either by prospective members or by external promoters.

3. Hanel I., *Basic Aspects of Co-operative Organizations and Co-operative Self-help Promotion in Developing Countries*, Marburg Consult, Series A-3, Marburg, 1992.
4. International Raiffeisen Union, *Guidelines on Development Policy for the Promotion of Co-operatives and Other Self-help Organizations According to the Principles of Friedrich Wilhelm Raiffeissen, Bonn, 1991.*
5. Munkner H.H., *Chances of Co-operatives in the Future. Contribution to the International Co-operative Alliance Centennial 1895-1995, Institute for Co-operation in Developing Countries, Papers and Reports, no. 31, Marburg/Lahn, 1996.*
6. Neale W.L., *The European Co-operative Statute... Who Needs It ?*, in *The World of Co-operative Enterprise*, Plunkett Foundation, 1995.