

COOPERATIVES: PRINCIPLES AND PRACTICES IN THE 21ST CENTURY

O. D. Kovalchuk, Ph.D., Associate Professor
Zhytomyr National Agroecological University

The article provides a comprehensive summary of basic information on the cooperative principles. It covers the nature and extent of the use of cooperatives, compares cooperatives to other business structures, explains the roles various people play in a cooperative. The purpose is to make available the information someone would need to acquire a general understanding about the role of cooperatives.

Scientific problem. Agricultural cooperatives usually develop in rural economies during the transformation from self-sufficiency farming to full market production. At this stage farmers often start realizing their weak

individual economic position in the market. By joining forces and initiating economic cooperation, farmers can strengthen their position in the market so that they can jointly benefit.

Analysis of recent researches and publications. Wadsworth J. and Eversul E. write that in one sense, cooperation is probably as old as civilization. Early people had to learn to work together to meet their common needs, or perish [6, p.3].

McDonnell D., Macknight E. and Donnell H. argue that during a time of economic downturn and high unemployment, particularly among young people, society needs innovative strategies to generate growth. Cooperatives are one strategy based on fairness, democracy, and equality. This business model has a global track record in helping communities become sustainable and achieving more equitable distribution of wealth. One of the most pressing problems facing communities around the world is the lack of opportunities for young people. The era of 'a job for life' has ended. Today's students and graduates know that their future employment may well depend upon creating their own job [5, p. 9].

Researchers from International Labor Organization and International Cooperative Alliance accent that as value-based and principle driven organizations, cooperative enterprises are by nature a sustainable and participatory form of business. They place emphasis on job security and improved working conditions, pay competitive wages, promote additional income through profit-sharing and distribution of dividends, and support community facilities and services such as health clinics and schools. Cooperatives foster democratic knowledge and practices and social inclusion, making them well-placed to support the achievement of sustainable development. Cooperatives have also shown resilience in the face of the economic crises [4, p.3].

Issues of the cooperatives development are also considered in the works of many Ukrainian scientists, including Zinovchuk V., Malik M., Moldavan L. and others.

The objective of the article is to research the principles and the trends of the cooperatives development in the world.

Statement of the main results of the study. There is no universally accepted definition of a cooperative. In general, a cooperative is a business owned and democratically controlled by the people who use its services and whose benefits are derived and distributed equitably on the basis of use. The user-owners are called members. They benefit in two ways from the cooperative, in proportion to the use they make of it. First, the more they use the cooperative, the more service they receive. Second, earnings are allocated to members based on the amount of business they do with the cooperative.

In many ways, cooperatives resemble other businesses. They have similar physical facilities, perform similar functions and must follow sound business practices. They are usually incorporated under law by filing articles of incorporation, granting them the right to do business. The organizers draw up by laws and other necessary legal papers. Members elect a board of directors. The board sets policy and hires a manager to run the day-to-day operations. But in some ways, cooperatives are distinctly different from other businesses. These differences are found in the cooperative's purpose, its ownership and control, and how benefits are distributed. They are reflected in cooperative principles that explain the unique aspects of doing business on a cooperative basis [6].

The hub of the global cooperative movement, the 1995 Centenary Congress of the International Cooperative Alliance adopted seven principles that guide all cooperative organisations [1, p.5]. They reflect how the cooperative values are put into practice.

1st Principle: Voluntary and Open Membership. Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2nd Principle: Democratic Member Control. Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member, one vote) and cooperatives at other levels are also organized in a democratic manner.

3rd Principle: Member Economic Participation. Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

4th Principle: Autonomy and Independence. Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

5th Principle: Education, Training and Information. Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives. They inform the general public – particularly young people and opinion leaders – about the nature and benefits of cooperation.

6th Principle: Cooperation among Cooperatives. Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

7th Principle: Concern for Community. Cooperatives work for the sustainable development of their communities through policies approved by their members.

Today rural and urban residents use cooperatives to acquire consumer services such as housing, credit and other financial services, groceries, education and telecommunications. Franchisees, governmental units, hardware and grocery stores, florists and numerous other businesses use cooperatives to market their products and secure the supplies they need at competitive prices. Cooperatives remain a major component of the food and agriculture industry, but now they are available to help people provide services for themselves in virtually all segments of the economy (Figure 1).



Figure 1. World structure of cooperatives by sector of activity

Source: [2, p.46].

The agriculture and food industries sector groups together all cooperatives that operate along the entire agricultural value chain, starting

from the cultivation of agricultural products and livestock farming to the industrial processing of agricultural products and animals. This sector includes both agricultural producers' cooperatives and consortia of cooperatives (or similar arrangements) that carry out the processing and marketing of agricultural goods for their members (Table 1).

Table 1

**The 10 largest cooperatives in the agriculture and
food industries sector by turnover 2014, billion USD**

Cooperatives	Country	Rank 2013	Rank 2014	Turnover 2014
NH Nonghyup	Republic of Korea	1	1	63.76
Zen-Noh	Japan	2	2	47.69
CHS Inc.	USA	3	3	43.66
Bay Wa	Germany	4	4	20.16
Dairy Farmers	USA	10	5	17.92
Fonterra New	Zealand	6	6	15.56
Frieslandcampina	Netherlands	5	7	15.14
Land O'Lakes, Inc.	USA	8	8	14.97
Arla foods	Denmark	9	9	13.95
Hokuren	Japan	7	10	13.88

Source: [3, p.27].

Overall, data pertaining to this sector was collected for 771 cooperatives distributed in 36 countries, with a total turnover in 2013 of 767.75 billion US dollars. Looking at the cooperatives with a turnover of over 100 million US dollars in this sector, there are 466 cooperatives distributed in 30 countries, with a total turnover of 756.05 billion US dollars [2, p. 46].

Conclusions. Cooperation is a very old concept, with the potential for a very bright future. That potential will only be realized if the people with an interest in cooperatives make the effort to make them work.

Various researches over the past century have analyzed and observed the application of cooperative principles. Although slight differences in terminology appear on the various lists, seven principles emerge as being widely recognized and practiced. These principles are more than just good practices, policies or common sense. They distinguish a cooperative from other kinds of business. They are also recognized in statutes and regulations as criteria for a business to qualify as a cooperative.

Cooperatives can help to achieve solutions for growth through collective action. Their ethical underpinning ensures that people are at the core of the organization and attention must be directed toward ensuring

each member is treated fairly. Their sustainable business model and practices provide hope in a time of economic recession. Cooperatives have always strived to be innovative, correcting market failures and creating benefits for members.

References

1. CDI (2016), Co-ops 101: A Guide to Starting a Cooperative, Cooperative Development Institute, Massachusetts.

2. Euricse (2015), Exploring the co-operative economy, Report 2015, European Research Institute on Cooperative and Social Enterprises, Brussels.

3. Euricse (2016), Exploring the co-operative economy, Report 2016, European Research Institute on Cooperative and Social Enterprises, Brussels.

4. ILO (2014), Cooperatives and the Sustainable Development Goals A Contribution to the Post-2015 Development Debate, Geneva.

5. McDonnell D., Macknight E., and Donnell H. (2012), Co-operative Entrepreneurship: Co-operate for growth, University of Aberdeen

6. Wadsworth J. and Eversul E. (2012), Co-ops 101: An Introduction to Cooperatives, Cooperative Information Report 55, USDA, Washington, D.C.