



# Review of International Co-operation

*2012 Issue*

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# **Review of International Co-operation**

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## Table of Contents

Editorial	Lou Hammond Ketilson	2
Understanding Co-operatives Through Research	Lou Hammond Ketilson	5
Bringing Them into the System: The Role of Financial Co-operatives in Promoting Financial Inclusion in Cameroon	Nathanael Ojong	13
Co-operative Education in Africa	Faustine Bee	22
Entrepreneurship Levels of Co-operatives in Malaysia	Norwatim Abdul Latiff Mohd Rasydi Abd. Rashid Suraya Husin Ayu Diana Awang Mohd Nusi Abdul Rahman Mohamed Dahlan Ibrahim Abdul Aziz Abdul Latif Ghazali Ahmad Mohd Rafi Yaacob	39
Developing Food Selection towards Sustainability – the role of consumer co-operatives	Minna Mikkola Martine Hingley	52
Co-operative Solutions in the area of renewable energy: Evidence from Austria	Elizabeth Reiner Dietmar Roessl Daniela Weismeyer-Sammer	71
How Viable are Spanish Credit Co-operatives After Recent Bank Capitalization and Restructuring Regulations?	Gemma Fajardo	90
Satellite Accounts for the Co-operative Economy of the Republic of Serbia, 2009: A New Approach for Measuring the Success of the Co-operative Economy	Dragan Vukmirovic Andra Milojevic Suzana Karamarkovic Mirjana Smolcic Rade Ciric Vesna Simonovic Marina Pavlovic	105
Multi-stakeholder Co-operatives: Engines of Innovation for Building a Healthier Local Food System and a Healthier Economy	Margaret Lund	128

## Editorial

by Lou Hammond Ketilson

This issue of the Review contains papers from the XXVII International Co-operative Alliance Research Conference, hosted by the Ruralia Institute, University of Helsinki, in Mikkeli August 2011. Falling on the eve of the 2012 International Year of Co-operatives, Mikkeli was a fitting location to examine the theme, “New Opportunities for Co-operatives”. The ICA Committee on Co-operative Research would like to thank the Ruralia Institute for hosting this very important event.

The call-for-papers invited participation of researchers from all disciplines, as well as practitioners from private and public enterprises, and civil society organizations. Participants were encouraged to share their research results on co-operative theory and practice, both achievements and failures. The conference provided a forum to exchange ideas on research needs and provided an ideal environment in which to develop collaborative partnerships. Enhancing communication between researchers and practitioners – leaders, managers and promoters of co-operative development – was a central conference goal. To facilitate this objective, round-table sessions enabled academics and practitioners to share views and begin conversations regarding critical business issues, to identify opportunities for co-operatives to fulfill public service needs, and suggest policy initiatives to further ecologically, economically and socially sustainable development.

The first paper in the issue, "Understanding Co-operatives Through Research" reinforces a central theme of the Mikkeli conference, inviting researchers from around the world to look for opportunities to work more closely with co-operative practitioners to identify research questions of mutual interest, as well as to implement the studies. The paper outlines a number of strategies that have proven successful in building collaborative research relationships between co-operative organizations and academics with the goal of bridging gaps. It also speaks to the role that the International Co-operative Alliance Committee on Co-operative Research can play in pursuing these goals on an international level.

Differing ways to achieve sustainability underpins three of the papers included in this issue. "Developing Food Selection towards Sustainability – the Role of Consumer Co-operatives" examines the role of the Finnish consumer co-operative as an actor-promoter of sustainable food systems at the supply chain level, exploring the views and practices of the consumer co-operative regarding sustainable food production. Minna Mikkola and Martine Hingley argue that this role is based in the character and ownership structure of the co-operative, emphasising consumer communication and education as the basis for greater growth. In "Multi-stakeholder Co-operatives: Engines of Innovation for Building a Healthier Local Food System and a Healthier Economy", Margaret Lund argues that multi-stakeholder co-operatives have much to contribute to the discussion of healthy food value chains in the United States. She observes that recently formed co-operatives are successfully bringing together farmers, workers, consumers, food processors, distributors and community members in common ventures designed to ensure safe and healthy food and to support a vibrant local economy. Finally, "Co-operative Solutions in the Area of Renewable Energy: Evidence from Austria" examines the adequacy of the co-operative as a legal form for organizing renewal energy projects. Reiner, Roessl and Weismeyer-Sammer identify ease of entry and exit of members as offering an important opportunity for citizen participation. Despite limited interest in the formation of co-operatives in Austria, they argue that co-operatively organized public-citizen partnerships (PCP) show potential in the provision of renewable energy.

The importance of financial co-operatives in serving rural and other under-served areas is identified in two papers in this issue. In "Bringing Them into the System: The Role of Financial Co-operatives in Promoting Financial Inclusion in Cameroon", Nathanael Ojong demonstrates that financial co-operatives play a vital role in bringing financial services to the unbanked in Cameroon, a group primarily comprised of those working in the informal economy. A variety of strategies, such as the Daily Savings Scheme, linkages with informal savings and credit groups, and the usage of savings as collateral, have proven effective. The impact of regulatory change on rural savings banks (*cajas rurales*) following the financial crisis is examined in "How Viable are Spanish Credit Co-operatives After Recent Bank Capitalization and Restructuring Regulations?" Gemma Fajardo concludes that it is too early to know whether reforms will help to strengthen the co-operative credit sector or whether they will hinder its growth, but notes that significant change is occurring through mergers and the establishment of co-operative groups.

An examination of the nature and impact of co-operative entrepreneurial activity is examined in two papers. The use of the co-operative form is explored in "Entrepreneurship Levels of Co-operatives in Malaysia". Norwatim Abdul Latiff et. al. reflect on the presence of entrepreneurial characteristics, proposing seven strategies to improve the level of entrepreneurship in Malaysian co-operatives: adopting characteristics of entrepreneurship in co-operatives; improving managerial and technical skills among board members, management, and workers; fostering entrepreneurship among members of the co-operatives; emphasizing the role of co-operatives as corporate marketers; establishing support systems to improve the performance of co-operatives as organizations with entrepreneurial characteristics; establishing a Research & Development One-Stop Centre for Co-operatives; and promoting internationalization. "Satellite Accounts for Co-operative Economy of the Republic of Serbia, 2009 – New Approach for Measuring Co-operative Economy Success" provides a detailed overview of the history of co-operative development in Serbia, and then presents results of a significant data collection exercise to quantify the economic impact of the country's co-operatives. Dragan Vukmirović et. al. conclude that the figures do not represent the real economic capacity and potential for the future economic development of co-operatives in Serbia, especially in agriculture.

In the last paper, "Co-operative Education in Africa", Faustine Bee examines the current state and impact of co-operative education. Noting that initially institutions outside Africa provided co-operative education, independent African countries soon established their own Co-operative Colleges to cater to the needs of their co-operatives in co-op education, training, research, and advisory services. The paper discusses the provision of co-operative education in Africa, examines potential opportunities, and explores the challenges involved.

With close to 100 papers presented and both the academic and practitioner community well represented, the conference was declared a great success. This issue of the Review includes a sampling of those papers, providing an indication of the diversity of co-operative research being conducted around the world. We hope you enjoy reading the papers we have selected for this edition.

# Understanding co-operatives through research<sup>1</sup>

by Lou Hammond Ketilson<sup>2</sup>

## The Importance of Research to Co-operative Organizations

Author Robin Murray states in his review<sup>3</sup> of the book, *Humanizing the Economy: Co-operatives in the Age of Capital*<sup>4</sup>:

“There are many signs that there is a turn in the *Zeitgeist* toward co-operation...In many ways practice has advanced faster than theory. There is an explosion of social economic initiatives, but much less research on their common patterns and characteristics. .... If the tide is turning in favor of co-operation, is the co-operative movement prepared? It needs the same deep research on the factors for institutional success that Elinor Ostrom and her colleagues have devoted to the management of the commons. It [the co-operative movement] needs the further articulation of the co-operative idea in the Information Age. And it requires the elaboration of the institutional infrastructure – schools, colleges, banks, think tanks, innovation labs, information networks, ethical marks, and currencies – in other words, the

economic soil which allows co-operatives to flourish.”

These comments by Robin Murray, well known for his contribution *Co-operation in the Age of Google*, suggest that there are a number of gaps in the knowledge now possessed by the co-operative research community and co-operative leaders. He further suggests that the research community has a responsibility to bridge these gaps.

But how can this be done? The following paper outlines a number of strategies that have proven successful in building collaborative research relationships between co-operative organizations and academics with the goal of bridging these gaps. While my focus is primarily Canada, I will also speak to the role that the International Co-operative Alliance Committee on Co-operative Research can play on an international level.

## The Role the Academy Can Play

Academic researchers have important contributions to make toward the understanding of co-operatives through the research they conduct. To appreciate these potential contributions and where they can best be made, however, it is important to distinguish among the various types of research that is conducted.

### Conceptual Research

Conceptual research is what is most often expected of the academy. Such

research is theoretical and abstract, rooted in a conceptual framework used to outline possible courses of action or to present a preferred approach to an idea or thought.

Conceptual - or theoretical frameworks – attempt to connect to all aspects of inquiry – problem definition, purpose, literature review, methodology, data collection and analysis.

The outcome of conceptual research is perhaps what has contributed to the

label, “ivory tower” when many people talk about the work of the academic in a university setting. Because of its theoretical nature, the research outcome may be considered impractical and removed from the realities of every day life, perceived as failing to provide useful answers to the concerns of the co-operative community.

It is critical to understand, however, that theoretical research is fundamental to the in-depth understanding of a particular phenomenon under study. To build a body of knowledge, research must be replicable over time, and capable of being generalized across a wide variety of settings and contexts. To have confidence in the results there is a need to be able to predict with some certainty that what has been observed is true not only of the institution under study, but in every similar circumstance.

Conceptual research alone, however, is not sufficient to serve the needs of co-operatives organizations.

### Applied Research

Applied research, often lead by researchers working within co-operative organizations, may – and ideally should – begin with a conceptual framework to set out the results of previous, similar research and to suggest ways in which the issue under review might be successfully studied. The method of inquiry chosen should also be conducted with the same degree of rigour and concern for sound research methodology as conceptual research. Ultimately, however, applied research will focus on the short or long term concerns of an organization. The value of the research outcome to the organization should be immediately recognizable.

Applied research is sometimes criticized within academia for its narrow focus on a particular organization. The research is also less likely to be repeated and the results are not generalizable across a large number of settings. The outcomes of such research are considered to be of greater value to the co-operative community, but because of its specificity, of lesser value to the academic community.

In some cases an academic “partners” with the community organization but typically on only the one project. Unfortunately a single project in isolation from others is not sufficient to build a “theory “ of co-operatives. Within academia such research may be considered to be consulting or practise of professional skills, not ‘real’ research.

### Community-Engaged Research

Community-engaged research (also referred to as community-based research) is gaining greater acceptance among academics and sector members alike. This model of research is built upon an ongoing partnership between the academic and the practitioner, often with many practitioners in similar organizations. What sets this approach to research apart is the premise that the research method involves co-construction of the research question, the choice of research method, data collection,

**"Community-engaged research is gaining greater acceptance among academics and sector members alike"**



analysis and interpretation. The researcher is not merely an objective observer of the organization as object, and the organizational leaders are as active in the research design and conduct as the academic.

The outcome of this model and this approach to research is results that are of benefit to both the academic and the co-operative. The problem can be framed in such a way as to have academic rigor, theoretical and practical value. The

model supports both applied and conceptual research – conceptual research disseminated in ways which have relevance; research questions driven by co-op partner needs, but framed in longer-term context so as to add to building a body of knowledge.

I will use my own personal experience to illustrate the ways in which community-engaged research has evolved in the Canadian setting.

## Strategies for Conducting Co-operative Research in Canada

Until the mid 1980's most large co-operative organizations in Canada hired their own research staff and had fairly extensive libraries of their own. Research was specific to the decision-making needs of the co-operative but also had a strong policy orientation. This is no longer the case as one by one the research departments and libraries have closed<sup>5</sup>. Today there are three research institutes as well as five research chairs located at universities across Canada, whose work focusses specifically on co-operatives, each receiving funds in varying proportions from francophone and/or anglophone co-operatives<sup>6</sup>. I will describe the approach and research focus of the one with which I am most familiar, the Centre for the Study of Co-operatives located at the *University of Saskatchewan in Western Canada*.

### The Centre for the Study of Co-operatives, University of Saskatchewan

The Centre for the Study of Co-operatives is an interdisciplinary teaching and research institution located on the University of Saskatchewan campus in Saskatoon.

We are part of an international network of

similar centres and organizations. Founded in 1984, we are the largest centre of this type in Anglophone Canada, arguably the most research-oriented in North America, and one of the most interdisciplinary in the world.

Our purpose as university researchers and academics is to support university-level and university-based research, teaching, and outreach related to co-operatives; in doing this, we foster mutually enriching interaction between the university community and the co-operative sector. The work of our Centre is driven by a mandate that envisions a future in which people are empowered through co-operatives—among other solutions—to develop an economy and society that are democratic, participatory, responsive, creative, diverse, productive, and sustainable.

*Conceptual research* is broadly applicable to many different kinds of co-operatives and to the strategic decisions and issues they face; at the same time, it is an area of fundamental interest for researchers and students who seek to understand the world. Through the conceptual research we conduct at the Centre for the study of Co-operatives, we

aim to bring together the academic and co-operative sectors.

Co-operatives embody values that are attractive to many people, and interesting for academic study. As microcosms of society, co-ops show the intersection of political and economic affairs. They are rich and instructive examples of complex organization. But we study them not only in abstract theory: co-ops also need to be studied in their contemporary contexts and in relation to social and economic needs, in Saskatchewan and elsewhere.

Our goal is to conduct *grounded* research that involves mutual exchange, ideas that are of interest and benefit to researchers and learners both within and outside of universities. As such we strive to be a leading centre for *community-engaged research*.

Our interests, and that of co-operatives as an area of inquiry, also require us to be *interdisciplinary*, and we enthusiastically embrace this direction. We see the Centre for the study of Co-operatives as a leading example of organizational innovation, one of a growing number of university research centres around the world. A key part of our strategy is to create linkages among groups of researchers and learners in different fields and disciplines, with co-operatives as our common thread. We have used this model very effectively in bringing together some fifty community partners and twenty five academics to study the social economy.

Our strategic focus on co-operatives leads us into connected themes and areas. These include community economic development, social economy, community and social cohesion, the study of organizational innovations, institutional governance, the new

economy, the role of social movements in economic change, sustainable development, and empowerment.

The Centre undertakes research about co-operatives and the political, social, and economic aspects relating to them. One of our largest projects — Linking, Learning, Leveraging: Social Enterprises, Knowledgeable Economies, and Sustainable Communities (2005-2011) — investigated how social economy enterprises, including co-operatives, not-for-profits, and other community-based organizations, build stronger and more entrepreneurial communities. The project involved partnerships between university researchers and a broad spectrum of more than twenty-five community enterprises whose goals and activities contribute to the foundation of the regional economy and its sustained growth and development. Student employment and training was also integral to this project. Over fifty students benefited from project funding with scholarships, internships, and other stipends. Many of the internships involved co-op development work across Northern Ontario, Manitoba and Saskatchewan.

The Centre for the Study of Co-operatives has a long history of working closely with the established co-operative sector, conducting research to facilitate decision making by elected leadership and management. More recently our research has focused on the emerging co-operative sector, and more broadly in communities where co-operatives are not extensively represented. In addition to generating information for co-operative managers and decision makers, much of the research we do informs policymakers at the local, provincial, and national level.

## National Initiatives

The co-operative sector in Canada also has a long history of sector organizations working in partnership with academics to conduct research of relevance to both parties. Representatives from the federal government and national co-operative organizations, francophone and anglophone, have been active participants in the Canadian Association for Studies in Co-operation, the national association of English speaking co-operative researchers, as well as CIRIEC Canada, the French counterpart, since their inception over 25 years ago. Annual meetings and associated publications provide a venue for discussion and sharing of contemporary research results.

Starting in the late 1990s a new model for conducting research began to emerge with the assistance of funding from Canada's national funding agency for the social sciences, Social Sciences and Humanities Research Council (SSHRC). This model, officially called a Community-University Research Alliance (CURA), was intended to refocus the emphasis from theoretical research with limited immediate value to the non-university audience, to community-focused, partnership-based research.

In 2000 the Centre for the Study of Co-operatives obtained SSHRC funding to pursue the largest of its day, national study on co-operatives. With government and co-op sector partners involved in research design, data collection and dissemination, it was the first in a series of large initiatives employing a community-engaged research model. Seven federally funded, large-scale CURA projects examining the social economy in Canada followed (2005 – 2010), entrenching the collaborative

model of research more firmly in the Canadian research landscape. In each of these instances, the leading institution was a university, with co-operatives involved as active partners. In 2009 in Quebec, then 2010 nationally, co-operative organizations were successful in obtaining CURA funds, this time with the co-operative organization being the lead institution, working in partnership with academics across the country.

These most recently funded initiatives are the largest projects to-date conducting research specifically on co-operatives. Développement Territorial et Coopération (2009-2014) is partnered with five Quebec universities, a francophone university in New Brunswick, co-op development and municipal organizations, and lead by Conseil Québécois de la Coopération et de la Mutualité. *Measuring the Co-operative Difference Research Network* (2010-2015) involves four universities located in the Atlantic region, central Canada, the Prairies and the West Coast of Canada, co-operatives across Canada, lead by Co-operatives and Mutuels Canada. These partnerships are changing the face of co-operative research in Canada, laying the groundwork for both rigorous and grounded research results.

It is worthy of note that funding and methodological room is still there for independent, theoretical research for those who prefer it.

## Developing a National Co-operative Research Agenda

In 2009 the federal department responsible for co-operative development in Canada, the Rural and Co-operatives Secretariat<sup>7</sup>, initiated an effort to develop and move forward a national research agenda for co-operatives. This process

was led by a National Steering Committee comprised of representatives from academia, national and provincial co-operative associations, and the federal government. The steering committee gathered information on co-operative research past, present and ongoing, and collected input to set priorities for a national agenda. The resulting report recommended the establishment of a national co-operative research network. The Canadian Co-operative Research Network/Réseau canadien de recherche sur les coopératives – serves as a portal to research on co-operatives in Canada. The goal of the site is to create an online

network of co-operative researchers and practitioners that allows for idea exchange, research-sharing, collaboration, determining research priorities and creating a link between researchers, students, practitioners and existing co-op networks year-round<sup>8</sup>.

While the Canadian model is perhaps unique to the country's history and context, it is the author's opinion that this model of academics and practitioners partnering to plan and conduct research is scalable to an international level using the I.C.A. Committee on Co-operative Research as a platform.

## International Perspective on Research: Role that the ICA Committee on Co-operative Research Can Play

The aim and objective of the International Co-operative Alliance Committee on Co-operative Research (CCR) is to promote and support the initiation and furtherance of research activities within co-operatives and research organizations at global, regional, national and local levels, so as to enhance their social and economic effectiveness<sup>9</sup>. Further, the collective and cumulative work of the ICA International and Regional Committees on Co-operative Research is central to the development of Co-operative Studies as a field of inquiry.

The CCR began its work in 1957 as the Research Officers Group. In the 1970's the group changed its name to the ICA Research, Planning and Development Group, reflecting its widening scope of activities and aspirations and its efforts to provide practical input to cooperatives' social and economic concerns. The Committee today functions as a network open to all those – academic and practitioner alike - interested in sharing

research on the co-operative model of enterprise<sup>10</sup>.

The CCR benefits from the commitment and leadership provided by the regional representatives on the executive committee, and continuity provided by the continued and active involvement by previous Chairs. CCR has a strong relationship with and support from ICA, most visibly through the publication of the *Review of International Cooperation*, whose articles have relevance for practitioner and academic alike. A diverse mix of academic disciplines and areas of expertise brings a multi-disciplinary perspective to research outcomes, and diverse geographic perspectives provide a foundation for comparative, cross-country and cross-cultural research. Bolstered by new research networks emerging at the Regional level, with greater involvement by cooperative organizations, the membership of CCR is highly motivated to produce research results.

The work of the Committee on Co-operative Research is constrained, however, by limited resources overall with minimal dedicated resources to support its activities. Unfortunately, the activities and priorities of the research community are not well understood by sectoral organizations, often resulting in a lack of trust and sometimes, respect for academic activities. Conversely, the activities and priorities of sectoral organizations are not well understood by some disciplines among the research community. And while many among the membership of the CCR would support a collaborative and coordinated research program linked more closely to the needs of the Sectoral Committees and of the co-operative movement more broadly, the tradition of the “independent scholar” and the universal principle of academic freedom means that no central body has the authority to plan and execute a co-ordinated research program.

2012 the International Year of Co-operatives, however, presented an important opportunity for generating research and sharing research outcomes with new audiences. The International Year created many opportunities to

increase awareness among the academic community of the activities and priorities of sectoral organizations. In turn, awareness was also raised among sectoral organizations regarding the activities and priorities of the research community. Increased knowledge and understanding on both fronts is necessary to overcome the perceived ‘great divide’ between academia and industry.

Sectoral organizations face many challenges and can benefit from current, sector-based research. Aligning the activities and priorities of researchers and co-operative organizations is one way to accomplish this goal. Today, ICA Board and staff are assisting CCR to serve as a broker in finding researchers to carry out applied and conceptual research for sector committees. The CCR is also facilitating the development of a network of university researchers by partnering with regional co-operative research networks and centres to support the discussions of co-operative leaders. It is hoped that these many new research collaborations will generate the much needed information in support of the Co-operative Decade.

## Notes

- <sup>1</sup> A earlier version of this paper was presented to the United Nations Expert Group Meeting 'Co-operatives in Social Development: Beyond 2012', Ulaanbaatar, Mongolia, 3-6 May 2011.
- <sup>2</sup> Dr. Lou Hammond Ketilson is a Fellow in Co-operative Management and former Director, Centre for the Study of Co-operatives. In 2014 she retired from her faculty position in the Edwards School of Business, University of Saskatchewan, Canada. She was chair of the ICA Committee on Co-operative Research from 2007-2013.
- <sup>3</sup> 'A Co-operative Idea for the 21st Century', A review of John Restakis's *Humanizing the Economy: Co-operatives in the Age of Capital*, by Robin Murray. *i4*, March 25 2011, [communityrenewal.ca/](http://communityrenewal.ca/).
- <sup>4</sup> *Humanizing the Economy: Co-operatives in the Age of Capital*, John Restakis, New Society Publishers, 2011.
- <sup>5</sup> Credit Union Central of Canada and Federated Co-operatives Limited have both recently established in house research capacity. It is too early to conclude that the sector is once more moving in this direction.

- <sup>6</sup> Centres include: Centre for the Study of Co-operatives, University of Saskatchewan (<http://www.usaskstudies.coop>); Centre for Co-operative and Community Based Economy, University of Victoria (<http://www.uvic.ca/research/centres/cccbce/>); Institut de recherche et d'éducation pour les coopératives et les mutuelles de l'Université de Sherbrooke (<https://www.usherbrooke.ca/irecus/>). Chairs include: Chaire des cases populaires acadiennes en gestion des cooperatives, Université de Moncton (<http://www.umoncton.ca/umcm-ccpagc/>); Chaire de cooperation Guy-Bernier, École des sciences de la gestion, Université du Quebec a Montréal ([www.esg.uqam.ca/](http://www.esg.uqam.ca/)); Chair in Co-operative Enterprises, Faculty of Business and Economics, University of Winnipeg (<http://www.uwinnipeg.ca/chair-in-cooperative-enterprises/>); Agribusiness Chair in Cooperatives and Marketing, University of Manitoba (<http://umanitoba.ca/faculties/afs/dept/agribusiness/courses/1048.html>); Cooperative Chair in Agricultural Marketing and Business, Department of Resource Economics and Environmental Sociology, University of Alberta (<http://www.coop.re.ualberta.ca/>).
- <sup>7</sup> Federal responsibility for co-operatives moved to Industry Canada in 2012.
- <sup>8</sup> For more information go to <https://ccnrirc.wordpress.com/>.
- <sup>9</sup> Bylaws of the International Co-operative Alliance Committee on Co-operative Research.
- <sup>10</sup> International Co-operative Alliance Committee on Co-operative Research website <http://ccr.ica.coop/en/about-us>. Accessed April 23, 2015.



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# Bringing Them Into the System: The Role of Financial Co-operatives in Promoting Financial Inclusion in Cameroon

by Nathanael Ojong

## Introduction

Financial co-operatives play a vital role in bringing financial services to the unbanked in Cameroon. Their strength is based on the fact that they develop from the base, hence are organized in close proximity to the population they serve. With over 200 of such institutions serving more than 300,000 members throughout the territory, financial co-operatives are key drivers in the promotion of financial inclusion in Cameroon. Financial co-operatives have a long history in Cameroon. In fact, the first financial co-operative was established in 1963 in Cameroon's North West Region by Anthony Jasen, a Roman Catholic Priest from Holland. From the North West Region, it spread to other regions and subsequently led to the creation of the CamCCUL network in 1968. Today it is

the largest network of financial co-operatives in the country, with 208 members. Organizing into networks has allowed them to improve services, thus achieving significant impact. Savings, credit and money transfer are the major financial products offered.

This paper starts by examining the reasons for the relative success of financial co-operatives in reaching the unbanked. The next section focuses on the strategies used by these institutions to bring financial services to the unbanked. Strategies such as the Daily Savings Scheme, among others, have been very effective. We argue that it is through these strategies that financial co-operatives in Cameroon have been able to promote the financial inclusion mission.

## Reasons for the Success of Financial Services in Reaching the Unbanked

In Cameroon, like in several other developing countries farmers, petty traders and small entrepreneurs, amongst others, often complain of not having access to financial services, vital for the improvement of their farms and the expansion of their businesses. This segment of the population has long been excluded by mainstream financial institutions because they are deemed too risky, and their propensity to save is thought to be very low due to their "poor" status. The operations of financial co-operatives in Cameroon have shown these assumptions to be inaccurate. In

fact, evidence from the field shows that these low-income groups are indeed reliable clients. It is for this reason that we have seen an increase in the number of financial co-operatives in Cameroon. They help local communities deal with the constraints of financialisation – that is, the growing necessity of using financial products to meet daily needs (Servet 2006)<sup>1</sup>. Several reasons account for the success of financial co-operatives in the country.

## Close Proximity to Local Community

Financial co-operatives are developed from the base. They are usually formed through the initiative of a local population that wants to pull its resources together for the common good. Because they are community-driven, they are located in areas where the members so desire. This explains why we find them in rural, peri-urban and urban areas. Their close

proximity makes it easier for members to have access to the services offered. The North West Region of Cameroon has the greatest number of financial co-operatives in the country. In this region, members of financial co-operatives do not have to take a taxi or motorbike to get to these institutions. This is not surprising since this region has 72 financial co-operatives out of a total of 208 in the entire country<sup>2</sup>.

**Table 1: Financial Co-operatives in the North West Region**

Divisions	Number of Financial Co-operatives
Boyo	5
Bui	14
Donga-Mantung	8
Menchum	2
Mezam	27
Momo	14
Ngo-Ketunjia	2

Source: Data obtained from CamCCUL

Of the 208 financial co-operatives, 70 are located in urban areas while 138 are in the rural areas<sup>3</sup>. Their presence in rural areas is vital as the rural population relies heavily on them since there is no good alternative. Thus the rural outreach enables members to smooth consumption, save in a secure place, get credit for investment as well as insure against risk. These institutions are in a better position to achieve rural outreach at a relatively lower cost than other financial institutions. This is due to the fact that they have modest offices, fewer staff and lower salaries, in addition to benefits from their special tax code status<sup>4</sup>. The money transfer service rendered by these institutions in the rural areas ensures that families receive money from relatives who are working in the urban areas. A member of a financial co-operative said that she used to send money through friends and local bus

drivers and at times the recipient did not receive the money. They had no other alternative but to use this riskier method since there was no other formal means of sending money. With the opening of a financial co-operative in her village, she is now able to send money back home easily.

## Organizational Structure

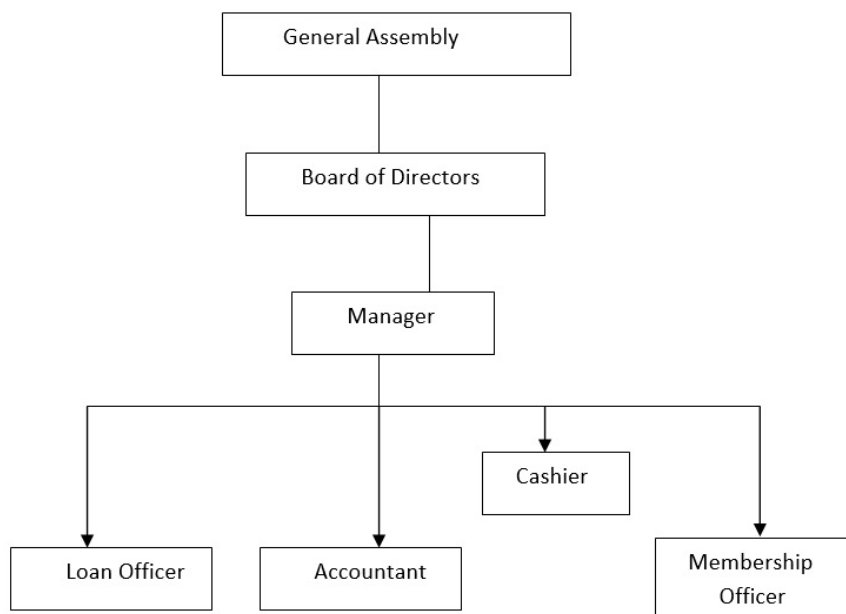
Financial co-operatives in Cameroon have a simple organizational structure as shown in Figure 1 below. Members are deeply involved in the running of the co-operative as they see it as theirs and are proud of it. All members of a financial co-operative have the right to attend the annual general assembly, with each member entitled to one vote. In fact, the assembly is the main decision-making body and the management cannot take key decisions without its approval. The



general assembly elects members of the board of directors. The board of directors then appoints a manager who is responsible for the day-to-day management of the institution. The manager, in close consultation with the board of directors, recruits other staff members. Those who constitute the core

are: an accountant, a loan officer, a membership officer, and a cashier. The small staff reduces costs, which partly explains why it is easy to establish a financial co-operative. We visited one financial co-operative whose manager was also the loan officer, the aim being to keep costs to a minimum<sup>5</sup>.

**Figure 1: Organizational Structure of Financial Co-operatives**



### Relationship with the Informal Economy

A huge proportion of the unbanked group in Cameroon works in the informal economy. According to a survey carried out by Cameroon's Institut National de la Statistique (INS) in 2005, the informal economy provides about 90.4% of employment for the unbanked (INS, 2006). Those in the informal economy do not have access to financial services because they are not capable of meeting the requirements as stipulated by the mainstream financial institutions. To open a bank account, many banks require documents such as proof of residence (electricity or water bills), business license (for those with no regular salary), etc., plus an initial deposit. The low-income unbanked, who mostly work in the informal economy, are unable to provide these documents. Opening a savings or current account in a financial co-operative is very simple and straightforward. To open an

account, a prospective member needs to provide a photocopy of their national identity card, submit a passport-size photograph, and buy the minimum required shares. Then he/she has to complete an application form. Any adult aged 18 can easily meet these requirements. In addition, it is less costly to open an account with a financial co-operative. To open an account with Mbatu Financial Co-operative, for example, a person simply needs to pay a registration fee of 2,000 FCFA (\$4.40 USD) and buy shares of not less than 10,000 FCFA (\$21.80 USD)<sup>6</sup>. Once this is done, the person becomes a member and can start saving or depositing money into the account. Depending on the workload of the staff, this entire process can take less than thirty minutes. This simple and less expensive process has allowed a significant proportion of the unbanked group to turn to financial co-operatives for access to financial services.

## Strategies Used by Financial Co-operatives to Reach the Unbanked

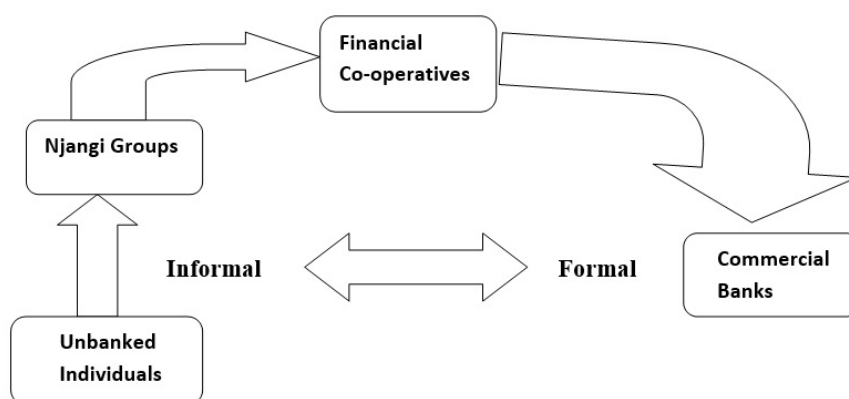
Because financial co-operatives operate within local communities, they are capable of developing innovative ways to reach the target population. Having an understanding of the local environment and the financial lives of the people permits them to develop varying products for different population segments.

### Linkages with Informal Savings & Credit Groups

Financial co-operatives have been able to promote financial inclusion in Cameroon by linking with informal savings and credit groups locally called 'njangi'. These linkages have given them an edge over other financial institutions, especially the commercial banks. Njangi groups have existed in Cameroon for several decades and have been widely used, especially by those excluded from the mainstream financial system, to mobilize resources. However, these njangi groups provide only

short-term loans due to their short life span, usually twelve months. Financial co-operatives fill this gap. Several financial co-operatives now have Njangi Security Accounts. These are special accounts for njangi groups. Instead of saving money at home, the treasurer of the njangi group comes along with two or three members to deposit the money collected from the njangi meeting. They can choose to save the money (so as to earn interest) or simply deposit the money in their current account to withdraw it whenever they need it. As a result of the opening of this njangi account, other members of the njangi groups become acquainted with the various products and services offered by the financial co-operative they have an account with. Several of them subsequently use part of their savings from the njangi group to register as a member of the financial co-operative, thereby benefiting from the range of services offered by the institution.

**Figure 2: Linkages Among Financial Co-operatives & Informal Savings & Credit Groups**



Once the unbanked join these financial co-operatives and start making use of the various services offered, they tend to invite others to join as highlighted by Justina, a member of a farmers' financial co-operative in the North West Region: "I no longer request help from him [her

*husband]; before we use to fight at home because he wasn't giving me money, he spent his time drinking outside. I use to cry all the time; see how fat I am now, it's because I have the peace of mind . . . I have invited my friends to join so that they can be free from suffering."*

The njangi members who subsequently become members of financial co-operatives can be divided into two categories. On the one hand, we have members who immediately stop belonging to njangi groups and on the other hand, we have those who continue participating fully in njangi groups. For the former, they usually stop when they realize that the cost of belonging outweighs the benefits. A former member of a njangi group summarizes it as follows: *“Before when I borrow 50,000 FCFA, by the end I would have paid more than half of the money I borrowed as interest, which is much; every month you pay an interest of 2,500 FCFA, so you realise that at the end, just the interest you pay is more than the loan you took.”* The latter group maintain their relationship with their njangi groups and they save the money they get from these njangi groups in their individual accounts at the financial co-operative as noted by Elizabeth, a management committee member of a farmers’ financial co-operative: *“Even within the management committee, we have a small njangi which we contribute into each management committee meeting day and a person takes the total sum contributed and saves it in his/her account.”*

As shown in Figure 2, financial co-operatives tend to have links with commercial banks. Most financial co-operatives in the North West Region have accounts with various banks such as the Union Bank of Cameroon (UBC), National Financial Credit (NFC) and Société Générale de Banques au Cameroun (SGBC). Some of these financial co-operatives are not so secure, especially those in the rural areas; to reduce the risk of robbery, they prefer to have some of their funds in commercial banks.

### Daily Savings Scheme

Daily savings is another method used by some financial co-operatives to promote financial inclusion. These institutions have agents who visit small traders in market places on a daily basis and collect the amount they wish to save. They are allowed to save as little as 500 FCFA (\$1 USD). This is quite a good saving mechanism as it encourages the local traders to save little amounts at their convenience and these traders really appreciate this method as captured in the following statement made by Innocent, a daily saver: *“I think that if I can be saving 1,000 FCFA each day, it will be very helpful than I trying to save 15,000 FCFA at once.”* It also acts as a commitment device since people are encouraged to save because they see their neighbor do so. Some traders who are more disciplined set targets and have a minimum amount they must save each day. This is usually the case of those who want to have a lump sum to invest in their businesses, pay for children’s school fees, etc. Once a target is attained, they set another target. Over time, these people achieve many targets they would otherwise not have easily achieved in the absence of this scheme. Many women are part of this scheme because it permits them to save in a secure place without the knowledge of their husbands, since the agents come to their business sites. As one participant puts it: *“My husband is a drunkard, so I have to keep my money secretly to take care of my children at home; I save my*

*“Daily savings is another method used by some financial co-operatives to promote financial inclusion.”*

*money without telling him, [because] he can take it to go and drink.*" In such cases the desire to protect their savings from their husbands prompts many women to participate in the Daily Saving Scheme. There is the temptation of spending the little money they make for the day on other things, taking into consideration the solidarity spirit in Cameroon. Because of the high propensity to redistribute the little money they have within their social networks, most people prefer to save as soon as they earn some money. At the end of the day, the agents take the money they have collected to the financial co-operative, which then registers it. It is worth noting that those who belong to the Daily Savings Scheme are not yet members of these financial co-operatives. This means that they cannot make use of the various financial services available to members. The Daily Savings Scheme serves as a stepping stone that permits these people to accumulate some money and then open an account with the financial co-operative. Hence the Scheme permits them to gradually accumulate money that they can use to register, buy shares, and become full members of the financial co-operative. This strategy has been very effective in granting the unbanked access to financial services – it is like a "rail" on which a range of financial and non-financial services can ride. Some people do not graduate from the Daily Savings Scheme even after becoming members of financial co-operatives. Such people continue to save through the Scheme and at the end of the month, they transfer the money into their account. The reason why they do this is because with the Daily Savings Scheme, their savings earn no interest, so in order to earn interest on their savings, they have to transfer it into their savings account. In addition, the Scheme is advantageous to them since they do not have to go to their

co-operatives each day to deposit money. The time they would have spent going each day to deposit money is actually spend at their business places.

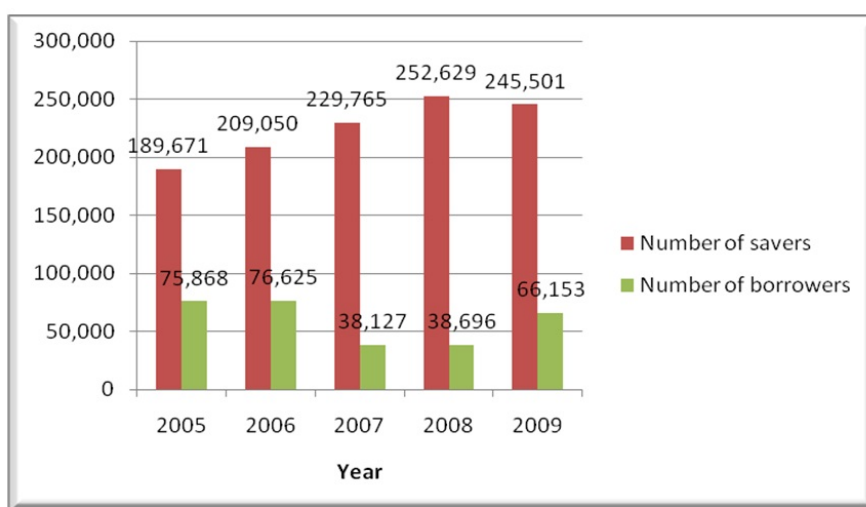
### Use of Savings as Collateral

The unbanked have often been denied access to loans because they cannot provide collateral. Most mainstream financial institutions usually prefer loans to be collateralized with land certificates. By so doing, they exclude the low-income population. Our findings reveal that the poor do indeed own land but in most cases they do not have a land certificate. Several reasons account for this; first, it is too costly for the poor to pay the money required to obtain a land certificate. Money is required as the application file goes through the various stages. Secondly, the entire process is long and too bureaucratic. As a result the poor, especially those who are not acquainted with the system, are left with no other option but to be content with the de facto recognition of the land by the traditional ruler. In Cameroon, several financial co-operatives accept loans to be collateralized with savings on members' saving accounts. This appears irrational from a pure accounting point of view since these borrowers could save on interest payments by financing their various projects with their savings instead of borrowing (Baland et al., 2011). However borrowers like this method for numerous reasons. By using their savings, they bypass the huddle of providing the usual items usually taken as collateral. Also it is relatively cheaper for borrowers to get a loan with their savings. Most financial co-operatives, especially those in the North West Region, charge two interest rates – 1.5% per 1,000 FCFA (\$2.20 USD) for loans with savings and 2% per 1,000 FCFA for loans above savings. In addition,

the interest rate is calculated on the outstanding balance, which means that the total amount to be paid as interest decreases as the borrower repays the loan. Using savings as collateral also pushes borrowers to be more disciplined. Borrowers at times have little or no incentive to put back the money they took from their savings, whereas this is not the case when they get a loan. In addition,

they continue to earn interest on their savings while using it as collateral. In the end, this strategy permits them to save, and to carry out their projects at the same time. It might be argued that using liquid savings as collateral for loans is not a good strategy since these members are too poor to save. Contrary to received wisdom, members save more and borrow less as shown in Figure 3 below<sup>7</sup>.

**Figure 3: Number of Borrowers and Savers in Cameroonian Financial Co-operatives**



Source: Data obtained from Mix Market

### Money Transfer – Telecash

Money transfer services offered by financial co-operatives have been of great help to members, especially those in the rural areas. Those in the urban areas used to send money to their families and friends in the rural areas via local buses and motorbike riders. This method was very risky and costly. At times, the money failed to reach the beneficiary and even when it did reach the beneficiary, it was not on time. Since financial co-operatives both in the urban and rural areas started offering money transfer services, many people have shifted from the old method to this fast, reliable, and cost-efficient means of sending money. This service has encouraged many people to become members of financial co-operatives, hence

benefiting from the range of services offered. Between January 2009 and June 2010, 24 financial co-operatives that were implementing a project aimed at the expansion of Telecash in rural Cameroon experienced an increase in the volume of transfers and the number of new members<sup>8</sup>. The volume of transfers sent during this 18-month period totaled \$1,636,186.30 USD while the number of new members attracted to the 24 financial co-operatives since the installation of Telecash reached 1,477. During this same period, 3,824 transfers were sent and this number is expected to increase to about 9135 in the next five years, according to CamCCUL’s projections. In Mbingo, for instance, where the Mbingo Baptist Hospital is located, over \$21,442.40 USD was transferred through the system in the

first week of the Tecacash facility's operations. Prior to that, relatives of patients had to travel for long distances with huge sums of money to pay hospital bills. This was very risky as travelers were sometimes attacked by armed robbers. In Nkor (another community that benefited from the Tecacash project), villagers had to travel for over 30km on very bad roads to access money transfer services in Kumbo. Now they are able to have access to this service in their village. The Tecacash Rural

Project has led to a significant improvement in the provision of money transfer services across Cameroon through the CamCCUL network. Presently, over 200,000 people in the rural areas are able to send and receive money. To evaluate the impact of this service, it is vital to take into consideration that the beneficiaries of these money transfers are members of families, thus there is a multiplier effect that extends far beyond the immediate household.

## Conclusion

Financial co-operatives have and will continue to play a vital role in promoting financial inclusion through the wide range of financial services and products offered, such as loans (education, farming, business, and real estate), savings, money transfer, and insurance. Their close proximity to local communities makes it easier for them to deliver these services. The various strategies, such as the Daily Savings Scheme, linkages with informal savings and credit groups, and the usage of savings as collateral, have been very effective in bringing financial services to

the unbanked.

That said, there is the need for financial co-operatives to embark on financial literacy projects, especially in the rural areas. By so doing, the members will be able to draw maximum benefit from the financial services offered to them. In addition, financial co-operatives need to stay attuned to the financial needs of different segments of the population so as to develop innovative financial products tailored to their needs.

## Notes

- <sup>1</sup> For detailed explanation of financialisation, see Servet, J.-M., 2010.
- <sup>2</sup> This figure is based only on financial co-operatives that belong to the Cameroon Co-operative Credit Union League (CamCCUL) network. Not all financial co-operatives belong to this network, as a number of them are independent. Over 60% of financial co-operatives belong to this network. These financial co-operatives are scattered all over the country. Cameroon is made up of ten regions (previously provinces) and these regions are made up of divisions. We decided to focus on those that belong to the CamCCUL network because it was difficult to get data on all financial co-operatives from the Ministry of Finance.
- <sup>3</sup> It is worth mentioning that the 208 financial co-operatives represent just the head offices of these institutions. Most of them have branches in other regions.
- <sup>4</sup> The government is now in the process of changing the tax code so that these institutions have the same tax code as those governing commercial banks.

- <sup>5</sup> It should be noted that the total number of staff depends on the size of the institution. Financial co-operatives usually start with few staff members and increase the number as their membership base increases and as they carry out more operations. For instance, as they grow, they might recruit more loan officers, loan recovery officers, and an assistant general manager.
- <sup>6</sup> The exchange rate used throughout this paper is \$1 USD = 458.6 FCFA.
- <sup>7</sup> Data cover only financial co-operatives that are part of the CamCCUL network.
- <sup>8</sup> The goal of the project was to extend CamCCUL's remittance facility, Telecash, to 24 rural communities through 24 financial co-operatives. The project started in January 2009 and ended in June 2010. As a result of this project, 24 rural financial co-operatives now offer money transfer services.

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# Co-operative education in Africa: Opportunities and challenges

by Faustine Bee

## Introduction

### 1. Background Information

Co-operative education is very critical for the advancement of innovative co-operative development worldwide. It is offered mainly through designated co-operative training institutions that are established for that purpose. Historically, the origin of co-operative education can be traced as far back as the Roman Empire (Bisschoff, 1997; Wessels & Jacobsz, 2011). The concept of co-operative education was first developed in the United Kingdom in the 1800s, from which it later spread to the United States of America in 1906, Canada in 1957, and Australia in 1962 (Wessels & Jacobsz, 2011). In some African countries it was introduced during the colonial period while in others it was introduced by independent governments. In many cases, the processes of introducing co-operative education in Africa received numerous donors' support.

There are diverse opinions on what constitutes co-operative education (Wessels & Jacobsz, 2011; Shaw, 2010; Engelbretcht, 2003; Cooperative Education Association, 1998; Baumgart et al., 1994). However, it is an undisputable fact that co-operative organizations and some international agencies profess that a positive role is played by co-operative education in shaping the growth and development of co-operatives worldwide. According to Wikipedia, the free encyclopedia (2012b), co-operative education is a "structured method of combining classroom based education with practical work experience." Consequently, co-operative education has been given several work-based

terminologies such as co-op, professional practice, sandwiched trainings, internships, externships, apprenticeships, and career academies (Groenewald, 2004). This definition makes co-operative education unique in its conduct and method.

The Fifth Co-operative Principle also underscores the centrality of co-operative education, training, and information in co-operative development. Co-operative training is defined as the process of acquiring specific skills needed to run a co-operative enterprise, first as a business organization and second as a social enterprise. The social dimension of the enterprise is included because, unlike other forms of organizations in the public and private sectors, co-operatives are formed to improve the economic, social, and cultural circumstances of members (Chambo, 2009).

The provision of co-operative education has not been smooth in most countries. Beginning in the mid-1980s through to the early 2000s, co-operative education went through crises, as did co-operative organizations themselves. However, in recent times the resilience that co-operatives have shown in the face of global economic crises has sparked renewed demand for co-operative education. Currently, there are efforts to promote co-operatives as an alternative business model as opposed to share capital corporate entities. Co-operative education is, therefore, viewed as a critical factor in the development of the new generation of co-operatives.



## 2. Scope, Methodology, and Organization

Co-operatives have a long and complex history in Africa. Formal co-operative organizations were established in many countries during the colonial era to facilitate the marketing of export crops that were produced by smallholder farmers. With the expansion of co-operatives in terms of size and business turnover and the ensuing management problems, co-operative education was found to be the solution. Initially, co-operative education was provided outside Africa, mainly at Loughborough Co-operative College in the United Kingdom. Later on, independent African countries established their own colleges to cater to the needs of their co-operatives in co-operative education, training, research, and advisory services.

This paper, therefore, discusses the

provision of co-operative education in Africa, examines potential opportunities, and explores the challenges involved. The sharing of these experiences with other partners globally can enrich one another's work and build necessary partnerships.

The methodology used in the generation of data chiefly involves a literature review and an examination of the experience of the researcher in the sector as a co-operative trainer.

The paper is organized into five sections. Section one provides an introduction, while section two reviews co-operative education in Africa. Section three discusses the internationalization of co-operative education and section four examines future prospects for co-operative education. Finally, section five contains some concluding remarks.

## Co-operative Education and Training in Africa

### 1. Definitions: Education and Training

It is an undisputable fact that education has a critical role to play in any country's development. Almost all developed countries have evidenced the role played by intangible assets such as knowledge, skills, and innovation, embodied in their human capital, in bringing about their respective development. This is true for almost all developed countries, such as Israel, Japan, Germany, Singapore, and the United Kingdom, just to mention a few. The term "education" is derived from a Latin word, *educare*, which means "bring up," which is related to *educere* ("bring out" or "bring forth what is within"). According to Wikipedia (2012c), the term "education" may be defined as an "act or experience that has a formative effect on the mind, character, or physical ability of an

individual. In its technical sense, education is the process by which society deliberately transmits its accumulated knowledge, skills, and values from one generation to another." Thus, education is the process by which people learn through instructions, teaching, and learning. Formal education is comprised of systems that include preschool education, primary education, secondary education, higher education, adult education, and co-operative education.

On the other hand, the term "training" refers to the process of acquiring knowledge, skills, and competencies through teaching, apprenticeship, and professional development. In other words, it is a process of changing the attitudes, knowledge, skills, and behavior of human beings (Wikipedia, 2012e).

## 2. The Context of Co-operative Education and Training

Co-operatives are based on the values of self-help, responsibility, democracy, equality, equity, and solidarity. In the tradition of co-operative founders, co-operative members believe in honesty, openness, social responsibility, and caring for others. As pointed out above, co-operative education and training is one of the Seven Co-operative Principles. Unfortunately, there are limited empirical studies on co-operative education and training. Thus, research into co-operative education is called for in order to address this gap. For instance, there are no comparative studies and there is no consensus on what constitutes co-operative education or a co-operative delivery methodology, or how these differ from other systems of education.

Following the recent debates about the nature of learning, it is increasingly realized that there is an interface between individual and organizational learning (Shaw, 2010). This approach to learning focuses on the relationship of the individual learner to his or her wider organizations. The informal learning that takes place in groups through the sharing of knowledge, skills, attitudes, and behaviors, is likely going to shape organizations differently. This kind of thinking is very relevant to co-operative enterprises. Thus, whatever the form of co-operative education is considered, it is key to the success of co-operative enterprises. It provides opportunities for members, leaders, board members, employees, and the public at large to better understand co-operatives and to enhance their growth and management efficacy.

Co-operative education can be offered through various forms of training

conducted by designated training institutions or individual experts. These forms may include one or more of the following:

- Self-directed learning guided by organized tutoring
- Networking, especially for peer learning
- Workshops, seminars, or tailor-made programmes
- Training of trainers and members
- Open and Distance Learning (ODL)
- Long-term training programmes leading to some form of accreditation

Co-operative members, leaders, and interested individuals can acquire co-operative education through self-guided training, which can be conducted through listening to radio programmes, reading the available literature, access to online resources, and learning from one other. This kind of learning is more effective if learners are highly disciplined and dedicated.

Learning through peers or networking is another form of co-operative training that is very effective. This is practiced through group learning in which people gather in their local co-operative organization or elsewhere and learn about issues related to co-operatives.

Workshops, seminars, and conferences are another form of co-operative training that is common in most countries. These are usually organized based on specific themes that address pre-determined needs or are tailor-made to meet the needs of an organization or several organizations. They are conducted once or on a regular basis. In most cases such programmes are conducted based on participatory and democratic education techniques.

The training of trainers (ToT) is a training programme that creates a pool of co-operative trainers who are expected to train their colleagues. The process builds trust and confidence among members and leaders because trainers are drawn from within and among the localities and from co-operative movements; they are able to speak a common language, including local vernacular, and explain issues with simple and understandable examples.

Open and Distance Learning (ODL) is a method that releases learners from the constraints of time and place whilst offering flexible learning opportunities. It is mostly conducted online and as such it has its own challenges. This method mostly relies on computer referencing, computer-aided instructions via the Internet, television-aided learning, and audio/video tape materials. Most challenging is the access to contact through the Internet and telephone, which presupposes the availability of a stable electricity source and computer literacy among the learners.

In recent times virtual learning, or e-learning, or education via computer-mediated communication, is becoming popular. Virtual learning was developed in order to improve ODL, but it is now often used to supplement traditional face-to-face classroom training, creating what is known as Blended Learning (Wikipedia, 2012f). The system usually runs the course through multimedia and or web pages. There are situations in which virtual learning facilitates face-to-face classroom interactions while at a distance by allowing direct communication with trainers, the display of emotions, and questions via telephone and skype, among other things. Trainers and students are able to use a “virtual classroom chalkboard” to train and learn. Sharing multimedia resources such as video and audio files and transferring

PDF or Word documents among trainers and students is possible.

Long-term or residential training programmes are another form of co-operative education and training based on accredited programmes leading to certification. Such certification is not different from what traditional training institutions offer. This includes certificates, diplomas, undergraduate degrees, and postgraduate degrees. Even better is a situation in which co-operative education is mainstreamed or blended into institution-wide programmes so that a larger number of students, on graduating, will have some knowledge of co-operative studies.

### 3. Co-operative Training Institutions

The introduction and practice of co-operative education in Africa is closely associated with the development of the co-operative movement. Cooperative movements were introduced during colonial times, which were associated with the cultivation of traditional agricultural export crops – mostly coffee, cotton, and tobacco (Bee, 1996; Kimario, 1992). Thus, the colonial administrations in Africa – British, French, Belgian, and Portuguese – shaped co-operative development in different ways to suit the needs of the industrial countries in Europe. Consequently, the development of co-operative education was influenced as a result of the nature and forms of co-operative organizations promoted and established in the colonies.

In the Anglophone countries in Africa, Co-operative Colleges were developed. They were connected to the Co-operative College in the United Kingdom, which was established in 1919. It is, therefore, not surprising today to see Co-operative Colleges that were established in most of

the British colonies in Africa – Kenya, Uganda, Tanzania, Zambia, Nigeria, Ghana, and Botswana. This is also true for Asia and the Caribbean (Shaw, 2010). These Colleges were, in most cases, established and run as tertiary educational institutions.

During colonial times, the Co-operative College in the UK provided training for senior- and mid-level personnel in the co-operative movement and co-operative development departments. The training of lower-level cadres, ordinary members and leaders, was left to the co-operative movements in developing countries. The British colonial administration established the position of Registrar of Co-operatives in most of its colonies. Thus, some of those graduating from the Co-operative College in the UK took the position of Registrar and others were employed in emerging positions in the civil service of developing countries. Others became instrumental in the establishment of Co-operative Colleges in the colonies. There were also some graduates who became active politicians and joined the independence struggle movements.

#### 4. Operations of Co-operative Training Institutions

The development of Co-operative Colleges in most of the colonies was shaped by a variety of factors, including political ideology, funding availability, and the strength of the movement. It is partly as a result of these factors that there are remarkable differences among these Colleges today, although they were established via similar arrangements. Shaw (2010) contends that “they exhibit considerable diversity in their size, strategic direction, governance and capacity for outreach.”

Generally speaking, co-operative education in Africa today is provided by

various agents, including training institutions, the co-operative movement, the government, non-governmental organizations, and consultants. However, programmes’ content and the cost of training are among the major constraints to members and leaders of co-operative organizations in accessing them. Furthermore, these providers employ varied methodologies and curricula in conducting co-operative education and training, which can make comparisons of training across borders difficult. Appendices I and II depict different types of programmes offered by co-operative training institutions. One may categorize co-operative training institutions in Africa as follows:

- Specialized University Colleges dedicated to co-operative studies. Currently there are two Colleges that have been transformed into University Colleges. These include Moshi University College of Co-operative and Business Studies (MUCCoBS), formerly the Co-operative College of Moshi and the Co-operative University College of Kenya (formerly the Co-operative College in Lang’ata, Kenya).
- Co-operative Colleges that offer non-university degree programmes; these include:
  - o Lesotho Co-operative College
  - o Uganda Co-operative College, Kigumba
  - o Co-operative College in Lusaka and Katete College, both in Zambia
  - o Cooperative College of Swaziland
  - o Federal Cooperative College, Oji-River, Nigeria
  - o Ghana Co-operative College, Kumasi
- Co-operative training centers/ organizations:
  - o Co-operative Development

- o Centre, Botswana
- o Centre de Formation et de Recherches Coopératives (IWACU), Rwanda
- o Small Enterprise Development Agency (SEDA), South Africa
- Universities operating departments/directorates/centers offering co-operative education:
  - o Mekelle, Ambo, Hawassa, and Haramaya Universities, Ethiopia
  - o Directorate of Cooperative Education at Tshwane University of Technology; Institute for Cooperative Development at the University of Fort Hare; and the Centre for Co-operative Education and Experiential Learning at the University of Zululand, Kwazulu Natal, South Africa

Most of the programmes offered by these co-operative training institutions are accredited by their respective national accreditation bodies. However, currently there is no co-operative accreditation body in these countries or at a regional level. There is the potential for wide variations in terms of curricula for similar programmes in, for example, management, accounting, and auditing, just to mention a few.

Programmes also vary from the certificate to the postgraduate level. Likewise in terms of institutions, in some countries (Tanzania, Kenya, Uganda, Lesotho, and Nigeria) co-operative education is offered through specialized co-operative higher learning institutions, while in others these roles are played by other bodies. For instance in Ethiopia, the role of co-operative college is assumed by a number of universities such as Mekelle, Ambo, Hawassa, and Haramaya. In Botswana a division of the

co-operative development department conducts co-operative education, whereas in Rwanda a donor-funded NGO (Centre de Formation et de Recherches Coopératives – IWACU) does the training (Bee, 2011).

The extent to which there are outreach programmes also varies among countries. There are countries in which there is systematic delivery of outreach programmes that have a higher impact than in countries in which such programmes are centralized. Countries such as Kenya, Uganda, Tanzania, Botswana, Rwanda, and Ethiopia have displayed higher levels of provision of outreach programmes.

Funding of these Colleges is through the governments' regular budgets, which is not adequate to meet the needs of the Colleges. However, Colleges also generate limited revenues through charging fees, mobilizing grants and donations, and renting facilities. Additional income is generated through commercial consulting services executed by staff when available.

Physical infrastructure – lecture theatres, seminar rooms, libraries, hotels, and recreational facilities – that was constructed in the early 1960s and 1970s requires major rehabilitation and improvements. There is also a need for expansion to meet the increasing demands for admissions into new programmes. There are a few cases in which limited new construction and rehabilitation is being undertaken with funding from governments in countries such as Ethiopia, Tanzania, Botswana, and Lesotho. However, more efforts are required to hasten the speed of construction and rehabilitation to cope with the growing demand for co-operative education.

There are also emerging needs such as access to computers and the Internet. Thus, the installation of information and communications technology (ICT) infrastructure, which can facilitate learning and research at the Colleges, is required. Access to computers and the Internet are critical requirements, but these facilities are not readily accessible to all students, let alone outreach programmes.

The recruitment and development of human resources in the Colleges is the backbone of the delivery of quality co-operative education in Africa. Most of those trained during the early 1960s are retiring and a new generation must take over. In addition, changes in the global economy have not spared the theory and practice of co-operatives. Thus, recruitment and staff development programmes must accommodate a shift in development paradigms and theories in co-operative studies. This unfolding scenario requires the introduction of graduate programmes to enhance students' research capacity and independent thinking. There are, however, limited opportunities for graduate studies in co-operative education.

## 5. Case Study: Moshi University College of Co-operative & Business Studies, Tanzania

### 5.1 Establishment of the Co-operative College of Moshi

Tanzania decided to establish its co-operative education and training delivery system on 29 May, 1962. The idea to establish the Tanganyika Co-operative College of Moshi was conceived at a meeting of the Heads of the East African School of Co-operation at Lower Kabete and Mzumbe Co-operative School, the Commissioner for Co-operative Development, and the Permanent Secretary of what was then the Ministry of Co-operatives and Community

Development. Prior to the establishment of the Co-operative College of Moshi, senior- and mid-level co-operative personnel were trained at Loughborough Co-operative College in the UK, now the Co-operative College, which shifted to Manchester in 2001. Because of inadequate space for training at Loughborough Co-operative College, the three East African countries of Kenya, Uganda, and Tanganyika established the East African School of Co-operation at Jean's School, Lower Kabete in 1952 with the Registrars of Co-operatives constituting its Board of Directors (Co-operative College of Moshi, 1984).

The East African School of Co-operation did not last long, as in 1959 Uganda withdrew from the partnership and established its own School, followed by Tanganyika toward the end of 1962 due to a rapid increase in training requirements. Tanganyika had started its own School at what was then the Local Government Training School at Mzumbe, Morogoro to cater to the training needs of Primary Co-operative Societies' employees in 1957.

Major co-operative unions such as the Kilimanjaro Native Co-operative Union (KNCU) were able to send their senior personnel for training at Loughborough Co-operative College as well. However, lower-level personnel were not able to gain access to such training. KNCU, therefore, decided to establish its Commercial College in order to train its staff, members, and leaders. In 1962 the KNCU training facilities were offered to the government of Tanganyika to start the Tanganyika Co-operative College of Moshi at a nominal rent of one shilling per year (Co-operative College of Moshi, 1984).

The Tanganyika Co-operative College of Moshi began operations on 5 January, 1963, with the first batch of 73 students, which included 30 Primary Co-operative

Societies' secretaries, 40 co-operative inspectors, and 3 foreign students from Malawi, Yemen, and Zambia. The first course was an intermediate course in which the following subjects were taught: Bookkeeping, Duties of Inspection, Co-operation, Co-operatives, Law, Commerce, and Civics.

In order to provide the College with a legal basis, the Co-operative College Act No. 32 of 1964 was passed to provide for the establishment of the Co-operative College of Moshi, which replaced the Tanganyika Co-operative College of Moshi. Consequently, the government acquired a 30-acre plot of land one mile from Moshi town centre to construct the new College. Construction started on 19 February, 1966, and was completed in September, 1967. It was officially opened in October of that year. The initial construction cost was 4.5 million TZS, made up of a 20% government contribution and an 80% loan from the Swedish Government. It was officially opened by the Prime Minister of Sweden, Mr. Tage Erlander, on 25 January, 1968, at a ceremony that was also attended by the President of the United Republic of Tanzania, the late J.K. Nyerere (Co-operative College of Moshi, 1984). An additional 45 acres were acquired during the 1980s, making a total land area of 75 acres that the College possesses in Moshi today.

With the establishment of the College, a number of new courses were designed and taught. First, the secretaries' course offered at Mzumbe was transferred to Moshi, as was the intermediate course that was conducted at Lower Kabete, Kenya. New advanced courses in Accountancy and Audits, Economics, Management, Principles of Co-operation, Law, Statistics, and Civics were introduced. Other courses that were developed later included the

Association of Certified and Corporate Accountants Course (1968) and the Ordinary Diploma Course in Management and Accountancy (26 March, 1971).

As the newly independent country had few trained personnel in almost every sector, the first group of teaching staff was recruited from overseas, mainly Britain, West Germany, Finland, Denmark, Norway, and Sweden. These were recruited under Technical Aid arrangements. However, the teaching staff was all African by June, 1972.

The co-operative movement established their own co-operative education facility, known as the Co-operative Education Centre (CEC), in 1964 to train members, leaders, and primary societies' personnel. Although the two institutions were based in Moshi, the nature of their ownership and funding were different. While the College was a public institution owned and funded by the government, the Centre was a private facility owned by the Co-operative Union of Tanzania (CUT) on behalf of the movement. In the mid-1970s, the leadership of the two institutions came under the same Governing Board and the Principal of the College assumed the role of Director of the Centre as well. Until 1993, the Chief Executive Officer of the College and its sister institution was known as the Principal/Director. According to Chambo (2009), the structure of the CEC was decentralized to regions through a regional network structure called Regional Wings. The CEC offered co-operative education through short seminars, workshops, radio study circles, and correspondence courses, which were structured for the understanding of basic co-operative knowledge.

The Centre was formally registered to operate in Tanganyika on 6 June, 1967. In

1968 the Government of Tanzania signed an agreement with the governments of Sweden and Denmark to support CEC in providing co-operative education countrywide through the established Regional Wings (now Regional Centres).

The establishment of national co-operative education programmes occurred due to four major reasons. First, after Independence the number of co-operative societies increased tremendously, which increased demand for co-operative education. Second, the number of spaces for trainees at both Loughborough Co-operative College and the East African School of Co-operation were inadequate, which forced some co-operative unions to establish Colleges. Third, training for members and lower-level personnel was not provided by these schools; locally-designed training for these groups was required. Fourth, a specialized design of co-operative education programmes that reflected local needs was called for, as the dominant form of co-operation in the UK was the consumer co-operative system, whereas in Tanganyika at the time the agricultural marketing co-operative movement was at the forefront (Chambo, 2009).

## **5.2 Co-operative Education under Socialism in Tanzania**

During the 1960s, there were two developments worth mentioning. First, on 26 April, 1964, Tanganyika and the Zanzibar Islands united to form the present-day United Republic of Tanzania. In 1967 Tanzania adapted a socialist policy through the Arusha Declaration. In order to spearhead the movement toward a socialist economy, the government enacted the Villages and Ujamaa Villages Act, 1975, which was expected to establish Ujamaa villages (community-based

farming collectives) in rural areas. Villages then took over the functions of the Primary Co-operative Societies as multi-purpose and production-oriented co-operatives.

On 14 May, 1976, the government dissolved and liquidated all Marketing Co-operative Societies, including unions, through a decree based on the pretext that they were inefficient, corrupt, undemocratic, and incurring colossal losses. Although some of these accusations might be justifiable, there were other reasons for this move that were mainly political in nature (Ellis, 1988; Hyden, 1980). The activities performed by co-operatives were handed over to Crop Authorities, Regional Trading Companies, and the National Milling Corporation, while Village Co-operatives replaced Primary Co-operatives Societies at the grassroots level. The Co-operative Development Department was replaced by the Ujamaa and Co-operative Division under the Prime Minister's Office.

Subsequently, recruitment of students to the Co-operative College ceased as the movement and the Co-operative Development Department were abolished. This situation forced the College to review its curricula in order to find other ways of recruiting students. As a result, the College had to focus on the needs of new sectors – the Ujamaa and Co-operative Division under the Prime Minister's Office, Crop Authorities, Regional Trading Companies, and the National Milling Corporation. Thus, new programmes were introduced, namely:

- Nine-month Certificate Courses in Management & Administration and Management & Accountancy
- A two-year Diploma in Co-operative Management and Accountancy



- A three-year Advanced Diploma in Co-operative Management and Accountancy introduced in 1980
- Short-term and specialized courses ranging from one week to several weeks in duration depending on the needs identified (e.g. Shop Managers, Senior Management, Wholesale and Distribution, Supply and Credit Managers, etc).

### ***5.3 Trade Liberalization and the “Obsolescence of Co-operatives”***

Tanzania experienced serious macroeconomic crises toward the end of the 1970s through the 1980s, a situation that forced the government to introduce economic reforms. Co-operatives were reinstated in 1984 through the Co-operative Societies Act, 1982; liberal macroeconomic policies and sectoral policies such as agricultural trade, monetary, and fiscal measures were introduced. In the agricultural sector, the newly-introduced co-operatives were left to compete with corporate companies, mostly multinationals and private traders.

In the early 1990s, further reforms were adopted through legislation such as the Co-operative Societies Act, 1991, which made co-operatives autonomous organizations that were free to compete with the corporate sector. In the financial sector, the Banking and Financial Institutions Act, 1991, liberalized the financial sector with the aim of reviving the economy. The Co-operative Societies Act, 1991, permitted the formation of Savings and Credit Co-operative Societies (SACCOS) as independent co-operative financial institutions, which were hitherto operating as Savings and Credit Schemes appended to Marketing Co-operatives.

The new developments in the economy had

their effects on co-operative education. Thus, the Co-operative College had to review its curricula to meet the emerging needs of co-operatives in a liberalized market environment. It was at this time that the College diversified its programmes to include non-co-operative courses as well as graduate diploma programmes in finance, community development, SACCOS management, and Co-operative Business Management.

Trade liberalization weakened co-operative organizations, rendering them almost obsolete. The existence of the CEC as a private co-operative education provider was, therefore, threatened. In order to prevent the closure of the CEC, the decision was made on 1 August, 1993, to integrate the CEC with the College by transforming the former into the Directorate of Field Education (DFE) while maintaining regional outreach structures.

In a further development, College staff became concerned for the College’s future as admissions from the ailing co-operative sector started to dwindle. The government, with support from the World Bank, carried out a massive retrenchment of the civil service, and one of the sectors that was seen as redundant was the Co-operative Development Department. Subsequently, government funding to the College dropped tremendously between 1990 and 2000. As a result, the College had to lay off some of its staff and close its campus at Kizumbi in Shinyanga Municipality.

### ***5.4 Transformation of the Co-operative College into a University***

The period from 1990 to 2000 was difficult for the College as admissions and funding decreased significantly, posing a threat of closure. This was a decade of co-operative education crises. The College was not able

to gain access to the education budget, nor to research funding from the government or development partners. Furthermore, recruitment of students into programmes was severely affected as the government and the movement could no longer sponsor staff to attend training at the College.

In order to address these challenges, the process of transforming the College into a University College was initiated by the management and subsequently approved by the Governing Board. The government declared the establishment of the Moshi University College of Co-operative and Business Studies (MUCCoBS) on 28 May, 2004, transforming the former Co-operative College of Moshi into a constituent college of the Sokoine University of Agriculture based in Morogoro Tanzania. It was granted a Charter under the Tanzania Universities Act, 2005, on 18 August, 2010. It operates as a semi-autonomous institution with its own Governing Board and budget, with the view of becoming a full-fledged university by 2014.

The establishment of MUCCoBS was necessary as part of addressing the challenges the College experienced, but also to meet the growing demands for a university-based co-operative education in Africa. The Co-operative College of Moshi had been the training base for senior- and mid-level personnel from Lesotho, Botswana, and South Africa, to mention but a few. The growing management complexities of co-operatives necessitated higher levels of co-operative education and training and hence there was a renewed demand for university education and scientific research into co-operatives.

The University College is organized into two faculties – Co-operative & Community Development and Business & Information Technology. It has an Institute of

Continuing Co-operative Development and Education that coordinates outreach training activities in the thirteen Regional Centres that formerly operated under the Directorate of Field Education. There are three academic directorates, namely the National Co-operative Library and Archives; Consultancy Services; and Research and Postgraduate Studies. In addition there are two administrative directorates – Finance & Planning and Human Resources Management & Administration.

The University College offers a wide range of certificate, diploma, undergraduate, and graduate programmes. It has increased the number of programmes from 11 in 2005/06 to 22 in 2010/11. It operates a campus at Kizumbi Shinyanga that teaches certificate and diploma programmes, and another campus at Mwanza along Lake Victoria that will open in October, 2011, where certificate programmes will be offered.

The number of students has increased along with increases and expansions in programmes and campuses, from 540 in 2005/06 to 3,775 in 2010/11. The number of teaching staff also increased from 60 in 2005/06 to 130 in 2010/11. However, the College is grappling with an aging teaching population as most of the senior members of the academic staff are retiring, leaving behind newly-recruited young staff members who require not only training to acquire the necessary academic qualifications, but also training in co-operative education.

"The growing management complexities of co-operatives necessitated higher levels of co-operative education and training"

## Internationalization of Co-operative Education

Co-operative education is increasingly becoming international. This is happening through the admission of foreign students, recruitment of foreign trainers, and sharing of training materials. Thus not only are materials affected by international influences, but exchanges of staff and students are contributing immensely to co-operative education's internationalization. Perhaps the Co-operative College of Moshi, now MUCCoBS, was internationalized from its very beginning. The first trainers at the Co-operative College of Moshi were mainly from Europe. The College also recruited students from Malawi, Zambia, and Yemen to take courses offered in the 1960s (Co-operative College of Moshi, 1984).

During the 1980s and 1990s, the Co-operative College of Moshi also recruited students from Botswana, Lesotho, Kenya, South Africa, Gambia, and Uganda for mid-level training in co-operative education. Although there was a lapse in the late 1990s and early 2000s resulting from a poor image of co-operatives worldwide, today there is a renewed appreciation of the role co-operatives play in socio-economic development. Co-operatives have survived the recent global economic crises. Thus there are renewed demands for co-operative education in order for co-operatives to address the complex global socio-economic challenges they face.

In its efforts to maintain its regional position in the 1990s, the Co-operative College of Moshi entered into collaborative agreements with the Co-operative College in Lang'ata, Kenya and the Co-operative College in Lusaka, Zambia that involved exchanges of teachers and teaching materials. Although the programme did not

last long due to lack of financial support, it was a good beginning for regional collaboration in human resources development at the continent level.

Following the transformation of the Co-operative College into Moshi University College, new forms of collaboration have been forged with governments, movements and other colleges in the continent. MUCCoBS is now training staff from the Co-operative Development Department in Botswana, as well as staff from the Lesotho Co-operative College and Centre de Formation et de Recherches Coopérative (IWACU) in Rwanda. MUCCoBS has also provided support to the governments of Rwanda and Malawi in carrying out feasibility studies to establish their own Colleges with assistance from the International Labour Organization's (ILO's) CoopAfrica. It has also conducted institutional capacity-building sessions for co-operative institutions in Lesotho, Namibia, and Botswana. MUCCoBS supported the introduction of a diploma programme at the Lesotho Co-operative College in 2009 and is running a distance learning programme for SACCOS Managers in Uganda in collaboration with the Uganda Co-operative Alliance and Développement International Desjardins (DID) Canada.

In April, 2009, the idea of establishing the African Association of Cooperative Training and Research Institutions (AACTRI) was conceived at a workshop involving leaders of Co-operative Colleges organized by the ILO's CoopAfrica in Kigali, Rwanda. The draft memorandum was prepared and discussed in Nairobi in October, 2009. The objective of AACTRI is to serve as a regional body in co-operative education, training, research, and advisory services.

Further, it is to link African co-operative education, training, and research institutions with one another. However, the memorandum is yet to be ratified by all parties. Once concluded it will facilitate collaboration among institutions on many fronts, including exchanges of staff and teaching materials, and the conduct of joint research and accreditation of programmes.

Co-operative education needs to be supported by research into co-operatives. Research generates new knowledge, which enables co-operatives to be innovative and remain competitive in the global market. Currently there is limited research undertaken by co-operatives, governments, or training institutions, resulting in limited reliable data on

co-operatives. In order to increase its participation in research activities, Moshi University College recently introduced Master's and PhD programmes with the aim of spearheading the co-operative research agenda in Tanzania and Africa at large. Botswana is planning to establish a research unit at the Co-operative Training Centre to facilitate research on co-operatives. In an attempt to build institutional capacity in co-operative research, the ILO CoopAfrica facility, in collaboration with the Co-operative College in the UK, organized a co-operative research capacity-building workshop at Ambo University in Ethiopia in 2010, drawing participants from MUCCoBS Tanzania, the Co-operative University College of Kenya, and Ambo University itself.

## Prospects for Co-operative Education and Research: Opportunities and Challenges

The future for co-operative education both in Africa and elsewhere is bright as co-operatives are being appreciated worldwide. There is increasingly renewed vigor in the promotion of co-operatives as viable and sustainable institutions. Thus, there is potential for co-operative education and research in Africa but also challenges. Co-operative education has gained recognition in many countries as a viable post-secondary pedagogy, leading to increases in co-operative education programmes and the number of practitioners. In most African countries, institutions offering co-operative education have continued to receive considerable government and industry support. As a result, today there is a number of higher learning institutions in Africa that offer co-operative education programmes. Apart from specialized colleges, some universities are offering programmes in co-operative education.

In South Africa, the Society for Co-

operative Education (SASCE) has promoted co-operative education vigorously and stimulated research interest in co-operative education through a series of conferences and workshops. This interest in cooperative education research is reflected in the growing number of papers presented at conferences organized by SASCE and the World Association for Cooperative Education (WACE) (Wessels & Jacobsz, 2011). There is also a growing interest among postgraduate students in many universities in Africa who are pursuing research in co-operative education as part of their graduate studies.

Despite the high potential and bright future for co-operative education, there are imminent dangers that it faces. According to Charles Kettering, the former Vice President of the General Motors Corporation, "cooperative education is the education of the future" (Wessels & Jacobsz, 2011). However, there are

problems relating to co-operative principles and practice as implemented in various countries. For instance, there is no general consensus on what constitutes a co-operative education. In most instances, co-operative education focuses on the student's personal growth, rather than institutional growth and career development. Wilson et al. (1996) contends that co-operative education must involve conceiving of, defining, and presenting co-operative education as "a curriculum model that links work and academics – a model based on sound learning theory."

Equally important is innovation and continuous improvement in co-operative development, which is determined by the amount of research in co-operative education, currently neglected to a great extent. Research into co-operative matters at all levels – micro, meso and macro – need to be emphasized for co-operative education to have a future.

The development of curricula and teaching methodologies is another area that calls for a debate. Most of the accredited programmes offered by tertiary training institutions are accredited by national non-co-operative accreditation authorities – mostly under Ministries of Education. Equally important, capacity-building programmes conducted in the form of seminars, tailor-made programmes, and workshops are not accredited. Thus, some form of accreditation of co-operative education through co-operative education accreditation bodies is required. WACE, mentioned above, is one such body.

Most co-operative training institutions are faced with limited budget allocations from the government, which limits their operations, initiation of development projects, and research.

Another challenge relates to the need to re-train teaching staff in co-operative education, as some of those recruited into teaching have not necessarily been trained by co-operative training institutions. Such re-training requires money, which institutions may not necessarily have.

"Equally important  
is innovation and  
continuous  
improvement in  
co-operative  
development"

There are opportunities for training institutions to collaborate and network at the regional and global levels. These collaborations could occur in many areas, with initiatives ranging from exchanges of teachers, students, and materials. Furthermore, collaboration in co-operative research needs to be cultivated and nurtured.

## Concluding Remarks and Recommendations

It is an undisputable fact that co-operative education is critical to the advancement of innovations for co-operative development worldwide. It has a long history; it was first introduced in the United Kingdom but spread to other countries later on. In Africa it was first introduced during the colonial era and in others after independence with donor support. The development of co-operative education in Africa is associated with the growth of the co-operative movement. As co-operative movements grew, the need for co-operative education also increased and resulted in the establishment of co-operative training institutions. Today, there are specialized co-operative training institutions in some countries, while in others universities or other agencies provide co-operative education.

The paper identified four providers of co-operative education, namely University Colleges, specialized Co-operative Colleges, departments or centers, and university-based institutes/directorates/ departments. Because of this diversity in terms of training institutions, curricula for co-operative education and practice vary between countries. In some countries programmes are accredited by accreditation bodies that are not co-operative in nature, while some programmes are not accredited, especially those of short-term nature (such as those offered through seminars, workshops, and tailor-made programmes, to mention a few).

Co-operative education went through crises as did co-operative organizations themselves. However, in recent times, the resilience that co-operatives have shown in addressing global economic crises has sparked a renewed demand for co-operative education. Increasingly, there are efforts to promote co-operatives as ideal alternative business models, as opposed to share capital corporate entities. Co-operative education is seen as a critical factor in these new initiatives of co-operative development. Thus, the future of co-operative education is very bright. It is needed in order to generate innovative solutions to complex co-operative problems. Already there is a growing interest in co-operative education and research in some countries. Additionally, there is a growing interest in internationalizing co-operative education programmes through exchanges of students, teachers, study materials, and through conferences and collaborative arrangements between colleges.

Despite the renewed interest in co-operative education, there are challenges that co-operative training institutions face. These relate to limitations in terms of research into co-operative education, development of theory and practice, institutional capacity to offer co-operative education, financing, and development of human resources. These challenges call for concerted efforts among institutions, the movement, and governments.

## Appendices

### Appendix I: Co-operative Training Institutions Offering Degree Programmes, 2011

	<b>CO-OPERATIVE TRAINING INSTITUTION</b>	<b>PROGRAMMES OFFERED</b>	<b>OTHER SERVICES OFFERED</b>	
1.	Moshi University College of Co-operative and Business Studies, Tanzania	Certificates, Bachelor's, Master's, Postgraduate Diplomas, and Doctoral Programmes	Diplomas, Degrees, Degrees, Research	Short courses, tailor-made programmes, correspondence courses, radio programmes
2.	Co-operative University College of Kenya	Certificates, Diplomas, and Bachelor's Degrees		Outreach programmes

### Appendix II: Co-operative Training Institutions Offering Non-Degree Programmes, 2011

	<b>CO-OPERATIVE TRAINING INSTITUTION</b>	<b>PROGRAMMES OFFERED</b>	<b>OTHER SERVICES OFFERED</b>
1.	Lesotho Co-operative College, Lesotho	Certificates and Diplomas	
2.	Katete College, Zambia	Certificates	
3.	Co-operative College in Lusaka, Zambia, established in 1979 with funding from SIDA; owned by the Government of Zambia	Certificates and Diplomas	Correspondence courses and field training
4.	Cooperative College of Swaziland	Certificates	
5.	Federal Co-operative College Oji-River, Enugu State, Nigeria, established in 1976 and owned by the Government of Nigeria	National Diplomas, Higher National Diplomas, and Professional Diplomas	
6.	Federal Cooperative College, Ibadan, Nigeria, established in 1943 and owned by the Government of Oyo State	Certificates and Diplomas	
7.	Ghana Co-operative College, Kumasi, established in 1971 with British technical assistance	Basic courses in co-operative studies (3 months), with plans to introduce Diplomas in collaboration with Kwame Nkrumah University of science and Technology. (advanced courses of 7 months' duration with a 1-month internship)	
8.	Co-operative College in Kigumba, Uganda	Certificates and Diplomas	
9.	Co-operative Development Centre, Botswana	Short courses in co-operative studies	

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# Entrepreneurship levels of co-operatives in Malaysia

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## Abstract

The main purpose of this paper is to study the level of entrepreneurship among co-operatives in Malaysia. Representatives from 465 co-operatives throughout the country were interviewed for this study. Respondents were randomly selected to represent proportionally co-operatives in credit/finance, farming, housing/construction, industry, consumer goods, transportation, and services. Based on their classification, the co-operatives were stratified by zone: North, South, East, Central, Sabah, and Sarawak.

Focus group interviews were conducted to obtain initial input and identify issues related to co-operative entrepreneurship. Issues raised during the focus group interviews are important in developing a questionnaire to use as the main instrument for data collection. The questionnaire was tested in two pilot studies. Respondents comprised a member of the co-operative board, a secretary, a treasurer, a manager, and an assistant manager. The questionnaire was refined after getting feedback from the respondents as a result of the pilot study. Data were collected through face-to-face interview sessions with respondents at their offices.

The study classifies the level of entrepreneurship in co-operatives into three levels – high, medium and low – among the co-operatives in Malaysia. Nine variables were used: direction, innovation, risk-taking, ability to identify

and take advantage of opportunities, efficient management of resources, recognition, internationalization, instilling entrepreneurial culture, and management effectiveness. Based on the nine variables, 251 co-operatives (54%) were in the low-level entrepreneurship group, 188 co-operatives (40.4%) were at a medium level of entrepreneurship, and 25 co-operatives (5.6%) were in the high-level entrepreneurship group.

A High-Level Co-operative Entrepreneurship Model (HLCSEM) has been developed to serve as a guide to all interested parties in building a co-operative that has a high level of entrepreneurship. The attributes of high-level co-operative entrepreneurship are also described.

Based on results from the study, seven strategies are proposed to improve the level of entrepreneurship in co-operatives. These strategies include adopting characteristics of entrepreneurship in co-operatives; improving managerial and technical skills among board members, management, and workers; fostering entrepreneurship among members of the co-operatives; emphasizing the role of co-operatives as corporate marketers; establishing support systems to improve the performance of co-operatives as organizations with entrepreneurial characteristics; establishing a Research & Development One-Stop Centre for Co-operatives; and promoting internationalization.

## Introduction

Co-operatives are an instrument of a country's economic development. The active involvement of a co-operative in business provides many benefits to its members. It provides jobs to local people, including the families of members. For example, Mondragon co-operatives created for their members a high quality of life and a high degree of job security.

In Malaysia, there are 6,084 co-operatives (Directory of Registration of Co-operatives, December 2008). However, the contribution of the co-operative sector to the country's Gross Domestic Product (GDP) in 2009, at around 1%, was minute relative to the number of registered co-operatives. Co-operatives in Malaysia have not been contributing conspicuously to other sectors of the economy. Therefore, there is an urgent need to examine the level of

productivity of co-operatives. A co-operative is responsible for adopting entrepreneurship in the organization. The adoption of entrepreneurship involves five main processes: identifying opportunities, taking advantage of opportunities, carrying out suitable activities, improving management systems, and reaping the benefits. When the level of entrepreneurship is high, the management system has to be continuously improved to accommodate the associated increase in productivity. This increase in productivity is the result of the co-operative fostering the virtue of entrepreneurship among its members and, in particular, board members. With the right approach and perseverance, the co-operative sector is expected to grow, spurred on by entrepreneurship-related initiatives.

## Literature review

According to Histrich dan Peter (1988), entrepreneurship is a dynamic process of wealth creation by an individual who acquires a high-risk equity, contributes time and energy, and is committed to producing goods and services of value. It is a process of creating something new by expending time and effort, as well as bearing financial risk. Those who take risk in this entrepreneurial endeavor are invariably rewarded with pecuniary benefit, satisfaction, and personal freedom. Kuratko dan Hodgetts (2004) defines entrepreneurship as a process of innovation and creation manifested in four dimensions: individuals, organizations, environment, and processes, and facilitated through a network of government, educational systems, and institutions.

In the context of Malaysia, Siti Maimon's (1998) study on a group of 58 women in

Sabah found that these entrepreneurs learned from experience and were highly committed and confident, self-motivated, hard-working, competitive, steadfast, full of energy, high-achieving, risk-taking, and were capable of initiating actions.

The entrepreneurial activities of co-operatives are socially driven, although profit motives are also important. First and foremost, co-operatives seek to provide for the welfare of their members, and in doing so, provide products and services to members and society in general efficiently and at a reasonable cost. The role of co-operatives is to first identify and provide for the needs of members in areas such as medicine, infrastructure, and food, and subsequently develop the local economy by establishing new industry, thereby creating employment and generating revenue.

Although entrepreneurship is generally associated with wealth creation for the entrepreneurs themselves and those involved in related economic activities, society as a whole also benefits from their initiative because they pay tax to the government. The benefits to society from entrepreneurship is acknowledged (Venkataraman, 1977). Moreover, entrepreneurship is a part of social welfare in that it enhances the social economy by creating new markets, industries, technologies, institutions, and employment opportunities, and improving productivity (Haugh & Pardy, 1999). It is no wonder that co-operatives are associated with social entrepreneurship. Entrepreneurial activities do not only exist in individually-owned companies, but also in the co-operative movement. In fact, a co-operative needs to have high-level entrepreneurship qualities in order to achieve its socio-economic goals. As co-operatives are closely associated with social entrepreneurship, there is a need to develop a model of the development of the co-operative movement.

Social entrepreneurs are individuals with innovative solutions to society's most pressing social problems. They are ambitious and persistent, tackling major social issues and offering new ideas for wide-scale change. A co-operative also can be considered to be an entity of social entrepreneurship because a co-operative is essentially a business entity with social underpinnings, drawing capital internally and from outside sources to enable it to compete in the marketplace. Its sources of funding being what they are, a co-operative's investment portfolio encompasses a variety of socially driven activities. The co-operative system of delivering

products and services to members is unique, and is different from that used in a typical business. It is unique in that co-operatives are vertically integrated in their governance structure, made up of primary co-operatives, intermediate co-operatives and apex co-operatives. Apart from the quality and quantity of its social and economic outputs, the performance of a co-operative can also be measured in terms of its impact on the environment. Thus, social entrepreneurship in co-operatives seeks to bridge the gap between the social and the economic. Ideally, a co-operative would meet the needs of its stakeholders, satisfy market demand, and promote the well-being of society.

Rather than leaving societal problems to the government or the business sector, social entrepreneurs find what is not working and address the issue by changing the system, widely communicating the solution, and persuading entire societies to take new pathways. Social entrepreneurs often seem possessed by their ideas, committing their lives to changing the direction of their field. They are both visionaries and ultimate realists, concerned with the practical implementation of their vision above all else.

Each social entrepreneur must present ideas that are user-friendly, easily understandable, ethical, and that enjoy widespread support in order to maximize the number of local people who will stand up, seize their idea, and implement it. In other words, every leading social entrepreneur is a mass recruiter of local change-makers – a role model proving that citizens who channel passion into action can do almost anything.

There is a dearth of studies on entrepreneurship among co-operatives in Malaysia. The few studies on entrepreneurship that are available currently emphasize the demographic and entrepreneurship characteristics of would-be entrepreneurs. Among other things, these studies look at the entrepreneurship potential of students both at the secondary and post-secondary level. Other studies on local co-operatives examine the organizations' historical development, governance, financial performance, training of members, and co-operative regulations and by-laws. Nevertheless, there are studies on successful overseas co-operatives that could serve as models for local Malaysian co-operatives.

One of the few studies on entrepreneurship in local co-operatives was carried out by a research team from Maktab Kerjasama Malaysia comprising Raja Maimon Raja Yusof, Sushila Devi, Jamilah Din, Nurizah Noordin, and Noraesyah Saari (2002). The study examined the entrepreneurship qualities and management practices of managers of co-operatives. It made a comparison between successful and less successful co-operatives from a socio-economic viewpoint. The study used a stratified random sample of 300 managers from various co-operatives, excluding education

co-operatives. The sample size amounted to 12% of the 2,514 co-operatives nationwide. The study analyzed the perceptions of managers of 19 qualities that are conducive to a co-operative's success. Several qualities were perceived by the respondents to be of great importance, each scoring 95% or greater. These are: integrity, reliability, willingness to shoulder responsibility, success-inducing quality, ability to form teams to take action, and inclination towards excellence. On the other hand, risk-taking, vision, and independence are qualities of entrepreneurship that the respondents do not consider to be as important, with scores below 73%. Other qualities associated with entrepreneurship were perceived to be somewhere in between in terms of importance, with scores of 77-84%. These are: desire for success, work ethic, ability to lead/teach, financial acumen, versatility and knowledge, predictive abilities, reward-seeking tendencies, and optimism. Nevertheless, the aforementioned study did not attempt to measure the level of entrepreneurship of the co-operatives per se. Moreover, the entrepreneurial qualities of the managers may not necessarily manifest in the level of entrepreneurship of the co-operatives they are representing. Consequently, there is an urgent need for a study on the level of entrepreneurship among co-operatives.

## Methodology

The framework adopted for this exploratory study was structured based on a review of the literature and related research. The framework defines the measures of characteristics of entrepreneurs, and outlines the main areas that the study proposed to investigate.

The research framework helps to explain concisely the process followed in the course of the research. The study seeks to categorize co-operatives according to their level of entrepreneurship: high, medium and low. The determination of level of entrepreneurship is based on nine variables, identified and analyzed in detail, using specific measurements for each sub-sample. These variables are: direction, innovation, risk-taking, ability to identify opportunities, efficient management of resources, recognition schemes, internationalization, adoption of an entrepreneurial culture, and management effectiveness. The word 'adoption' here is interchangeably used in this study with 'fostering,' 'internalizing,' and, where appropriate, 'encouraging,' without losing the intended meaning.



Figure 1: Research Framework

Primary data for this study were collected in five stages:

- i. At the preliminary stage, interviews with a focus group made up of senior management members of the co-operatives were carried out. There were 13 co-operative board members, 3 secretaries, and 1 treasurer interviewed, representing co-operatives from the various sectors: credit/finance, farming, housing/construction, industry/manufacturing, consumer goods, transportation, and services.
  - ii. A survey questionnaire was designed, taking into account feedback on various issues related to entrepreneurship obtained from the focus group. This questionnaire was then tested via two pilot surveys to ensure that respondents would provide the information needed to accomplish the objectives of the study.
  - iii. The two pilot surveys involved 28 co-operatives, a number deemed sufficient for the purposes of the study. The respondents were also encouraged to make recommendations on how to improve the questions to enhance the validity and reliability of the information provided by respondents during the field survey later.
  - iv. Data collection was by way of face-to-face interviews with respondents using a survey questionnaire booklet. The questionnaire was divided into two parts. Part A covered demographic profiles of both the co-operatives and the respondents representing them. Part B, covering information related to the objectives of the study, was divided into nine sections.
  - v. A team of researchers was employed to personally meet the respondents at their respective co-operatives. The questionnaire for the study was then distributed, explained, checked for completion, and collected on the same day.
- Data analysis was carried out to obtain descriptive statistics, relevant two-way tables, and inference statistics to

accomplish the objectives of the study. In order to select the most appropriate statistical tools, a normality test was performed on the data set using the One-Sample Kolmogorov-Smirnov Test.

The level of entrepreneurship of the co-operatives under study was gauged based on nine variables (elements of

entrepreneurship), which were weighted (0 to 1) according to its contribution (importance) to entrepreneurship. Each sub-variable was also given a value based on its importance to entrepreneurship, and the summation of these values would indicate whether a co-operative belonged to the low-level, medium-level, or high-level entrepreneurship group.

## Scope of the study

The scope of the study was determined based on the findings of related studies of entrepreneurship, then modified based on feedback from interview sessions held with the focus group, which was made up mainly of co-operative board members who were experienced in co-operative matters. Data obtained from the co-operatives covered a three-year period (2006-2008) prior to the study year (2009).

## Findings and discussion

### Level of Co-operatives' Entrepreneurship in Malaysia

More than half of the co-operatives (251, or 54%) were categorized as low-entrepreneurship co-operatives, 188 co-operatives (40.4%) as medium-entrepreneurship, and only 25 co-operatives (5.6%) as high-entrepreneurship.

<b>Level of Entrepreneurship</b>	<b>Index (Score)</b>	<b>Number of Co-operatives</b>	<b>% of Sample</b>
Low Entrepreneurship	<0.4	251	54.0
Medium Entrepreneurship	0.4 – 0.6	188	40.4
High Entrepreneurship	>0.6	25	5.6
All levels		465	100.0

Table 1: Level of Entrepreneurship

Generally, the level of entrepreneurship in local co-operatives was not very high, although about 40% fell under the medium-level entrepreneurship group. Nevertheless, there is a positive side of these findings in that the co-operatives in the medium-level entrepreneurship category have the potential to improve significantly if they improve their entrepreneurial activities. The effort to improve the level of entrepreneurship has to be extended to low-entrepreneurship co-operatives as well. In the case of those already categorized as high-entrepreneurship co-operatives, they still need to strengthen their entrepreneurial approach by taking into consideration their strengths and weaknesses within each of the nine elements (variables) of entrepreneurship.

## Level of Entrepreneurship in Co-operatives

Variable	Entrepreneurship Level		
	High (n=25)	Medium (n=188)	Low (n=251)
Innovation	***	**	*
Direction	**	**	*
Risk-Taking	**	*	*
Ability to Identify Opportunities	***	**	*
Efficient in Management of Resources	***	**	*
Recognition	**	*	*
Internationalization	*	*	*
Adoption of an Entrepreneurial Culture	***	**	*
Management Effectiveness	***	***	***

\* low    \*\* medium    \*\*\* high

Table 2: Variable Score by Level of Entrepreneurship

Table 2 shows the level of entrepreneurship in the co-operatives under study according to the nine entrepreneurship variables (elements). Among the low-entrepreneurship co-operatives, the scores were low for all variables except for management effectiveness, in which case the score was high. In the case of co-operatives with a medium level of entrepreneurship, the scores were medium for innovation, direction, ability to identify opportunities, efficient management of resources, and adoption (internalization) of an entrepreneurial culture. Scores were low for risk-taking, recognition, and internationalization, but were high for management effectiveness. As regards the co-operatives with a high level of entrepreneurship, the scores were high for innovation, ability to identify opportunities, efficient management of resources, adoption of an entrepreneurial culture, and management effectiveness; scores were medium for direction, risk-taking, and recognition, and were low for internationalization. Thus, the score for the 'internationalization' variable was low in all cases and the management effectiveness variable was high regardless of whether a co-operative belonged to the low-, medium- or high-level entrepreneurship group.

## Typology of Co-operatives' Entrepreneurship

### i. Low-Level Entrepreneurship

Based on the research findings, below are some characteristics of low-level entrepreneurship:

Attribute	Characteristics
<b>Innovation</b>	<ul style="list-style-type: none"> <li>Co-operative never introduces new products or services</li> <li>Few R &amp; D initiatives</li> </ul>
<b>Direction</b>	<ul style="list-style-type: none"> <li>Mission and vision are not clearly defined</li> <li>Objectives for activities are not clearly identified</li> </ul>
<b>Risk-Taking</b>	<ul style="list-style-type: none"> <li>Co-operatives stick to traditional activities (credit)</li> <li>Excess income is only deposited into fixed deposits</li> </ul>
<b>Ability to Identify and Take Advantage of Opportunities</b>	<ul style="list-style-type: none"> <li>Minimal involvement in changes in the surrounding environment that generate business opportunities for co-operatives</li> </ul>
<b>Management of Resources</b>	<ul style="list-style-type: none"> <li>Unable to secure high returns on assets</li> <li>Poor human resource management system</li> </ul>
<b>Recognition</b>	<ul style="list-style-type: none"> <li>Failure to receive awards/recognition from any party</li> </ul>
<b>Internationalization</b>	<ul style="list-style-type: none"> <li>Failure to conduct business overseas</li> </ul>
<b>Fostering of an Entrepreneurial Culture</b>	<ul style="list-style-type: none"> <li>Failure to provide business opportunities to members</li> <li>Lack of involvement with entrepreneurship programmes organized by the Ministry and other agencies</li> </ul>
<b>Management Effectiveness</b>	<ul style="list-style-type: none"> <li>Ineffective internal communications system</li> <li>Failure to develop a flexible organizational structure</li> <li>Units/departments in the co-operative are ill-defined and lack clear-cut functions and responsibilities consistent with their purpose</li> </ul>

Table 3: Characteristics of Low-Level Entrepreneurship

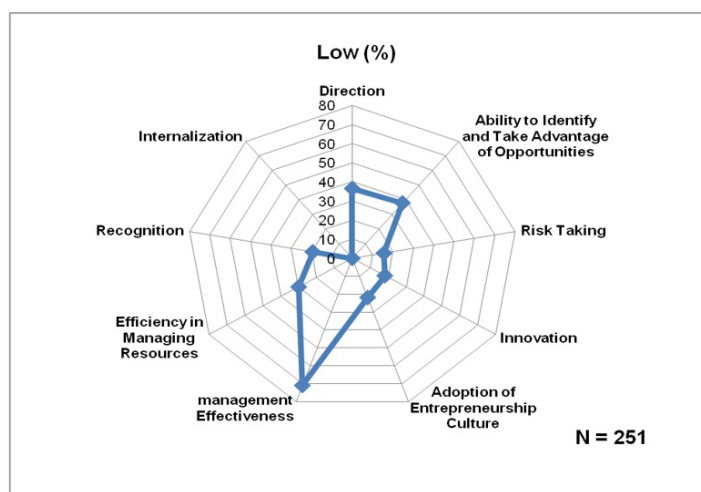


Figure 2: Low-Level Entrepreneurship

Figure 2 displays the average scores for each variable of the co-operatives with a low level of entrepreneurship. Although these co-operatives generally had a low level of entrepreneurship, there are variables in which they had a high score, as in the case of management effectiveness (70.8%). The results also show that the average score for the internationalization variable was zero, meaning that none of the co-operatives in this group was involved in international activities. For the other variables, the scores fell within a narrow range of 15-38%.



## ii. Medium-Level Entrepreneurship

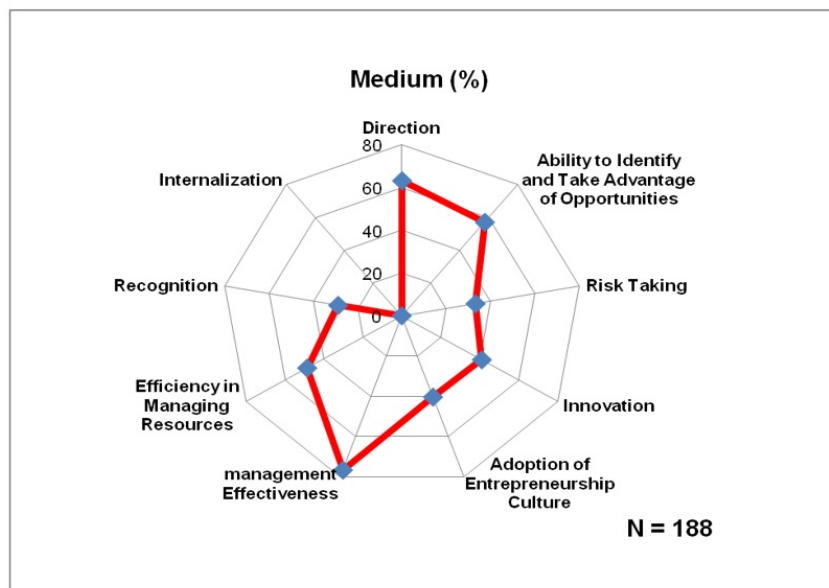


Figure 3: Medium-Level Entrepreneurship

Figure 3 displays the average score for each variable of co-operatives with a medium level of entrepreneurship. Except in the case of recognition (44%) and risk-taking (53.2%), all the other variables had scores of at least 60%. The variable with the highest score (85.5%) was ability to identify opportunities. This was followed by management effectiveness (85%), direction (72.5%), efficient management of resources (66.7%), and innovation and adoption of an entrepreneurial culture (both 63.5%).

## iii. High-Level Entrepreneurship

The table below shows the characteristics of high-level entrepreneurship based on the research findings.

Attribute	Characteristics
<b>Innovation</b>	<ul style="list-style-type: none"> <li>Evidence of innovation</li> <li>Co-operatives have gone beyond ideas to the actual creation of products and services</li> </ul>
<b>Direction</b>	<ul style="list-style-type: none"> <li>Clearly defined</li> <li>Challenging</li> <li>Put into writing</li> </ul>
<b>Risk-Taking</b>	<ul style="list-style-type: none"> <li>Investment in risky ventures</li> <li>Procurement of outside financing</li> <li>Existence of a project evaluation system and an investment portfolio</li> </ul>
<b>Ability to Identify and Take Advantage of Opportunities</b>	<ul style="list-style-type: none"> <li>Use of mechanisms for identifying opportunities and carrying out project plans</li> <li>Provision of resources for this purpose</li> </ul>
<b>Management of Resources</b>	<ul style="list-style-type: none"> <li>Ability to secure high returns on assets</li> <li>Existence of means to manage manpower effectively</li> </ul>
<b>Recognition</b>	<ul style="list-style-type: none"> <li>Recognition from the co-operative's members</li> <li>Recognition from certified local and international organizations</li> </ul>
<b>Internationalization</b>	<ul style="list-style-type: none"> <li>Presence overseas</li> </ul>
<b>Fostering an Entrepreneurial Culture</b>	<ul style="list-style-type: none"> <li>Provision of business opportunities to members: financing, training, etc.</li> </ul>
<b>Management Effectiveness</b>	<ul style="list-style-type: none"> <li>Provision of SOP</li> <li>Access to the right personnel</li> <li>Use of a management information system to make decisions</li> <li>Establishment of an effective internal communication system</li> <li>Development of a flexible organisational structure</li> </ul>

Table 4: Characteristics of High-Level Entrepreneurship

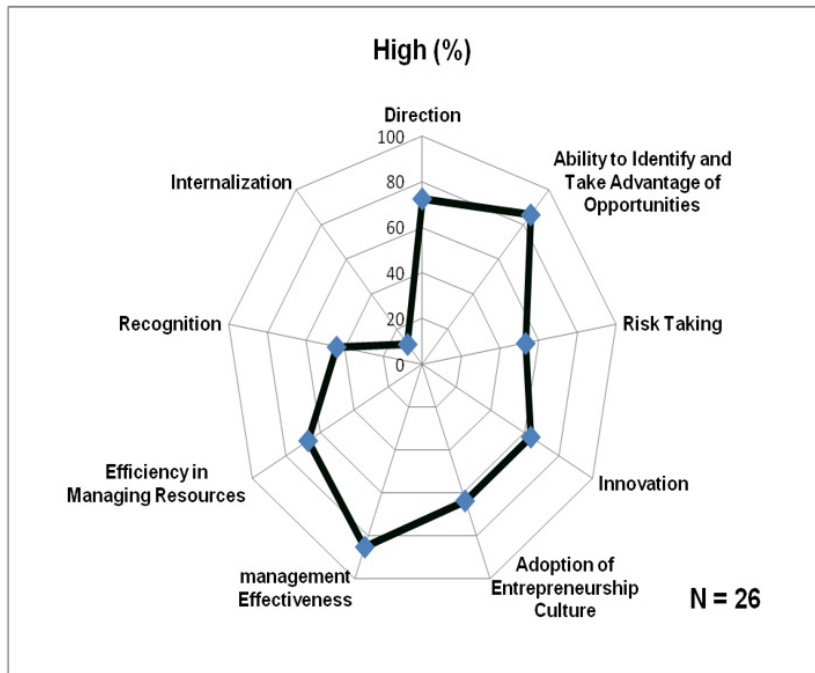


Figure 4: High-Level Entrepreneurship

Figure 4 displays the average scores for each variable of co-operatives with a high level of entrepreneurship. It can be seen that, except for recognition (53.2%), internationalization (53.2%), and risk-taking (44%), the variables have scores of at least 60%. The variable with the highest score (85.5%) is the ability to identify opportunities. This is followed by management effectiveness (85%), direction (72.5%), efficient management of resources (66.7%), innovation (63.5%), and adoption of an entrepreneurial culture (63.5%).

iv. Comparison of Variable Scores Among Entrepreneurship Groups

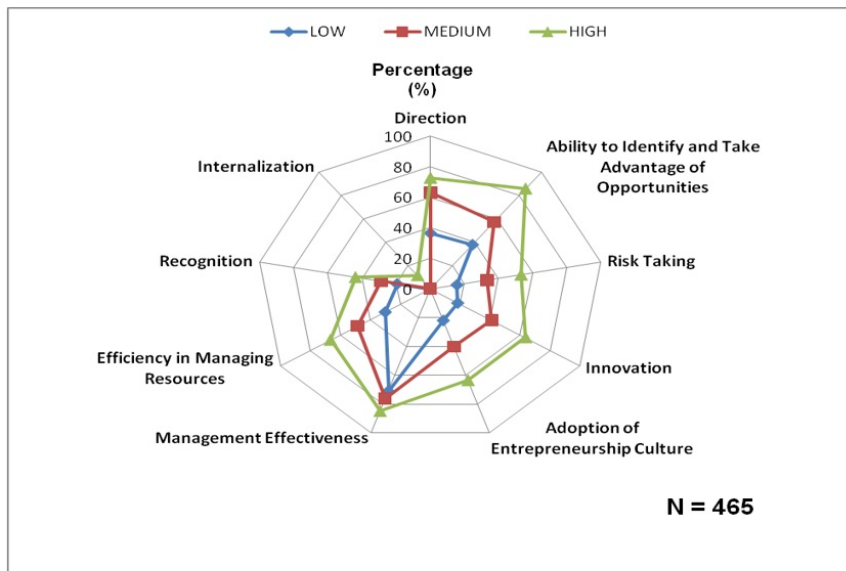


Figure 5: Low-, Medium-, & High-Level Entrepreneurship

Figure 5 shows the average scores of all of the variables for the three groups of co-operatives displayed on the same cobweb diagram. It is apparent that the relative importance of each variable within a group, or the ranking of the nine variables relative to one another, is almost the same across the three groups. The only difference is that the percentage score for each variable increases with the level of entrepreneurship. That is, the scores of the nine variables for the high-level entrepreneurship co-operatives are higher than those of medium-level entrepreneurship co-operatives, while the scores of the nine variable for the medium-level entrepreneurship co-operatives are higher than those of the low-level entrepreneurship co-operatives.

The average scores for internationalization are the lowest in all three groups, ranging from 0-11.5%. There is no significant difference in average scores among the three groups as a whole, but there are some differences between medium- and high-level entrepreneurship co-operatives.

### High-Level Co-operative Entrepreneurship Model (HLCEM)

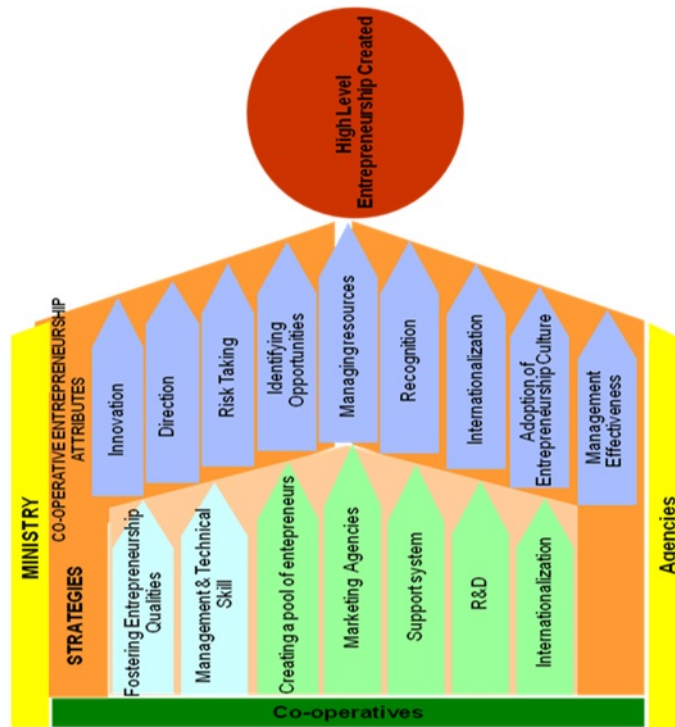


Figure 5: A High-Level Co-operative Entrepreneurship Model (HLCEM)

Figure 5 illustrates a model developed in this study to improve the level of entrepreneurship within co-operatives. This model was created based on seven strategies that incorporate the nine attributes of entrepreneurship. The two indicators represent two principle strategies, while the others represent complementary strategies; these collectively act to enhance the performance of the nine attributes of entrepreneurship. This model is called the 'High-Level Entrepreneurship Co-operative Model.'

The scores for the nine variables (attributes) of all three categories of co-operatives, as well as the results of a correlation analysis, indicate that each attribute contributes to co-operatives' ability to become dynamic and achieve a high level of entrepreneurship. Strategies

that have been consolidated are deemed capable of shifting the value of the nine attributes upward, thereby raising the level of entrepreneurship of the co-operatives.

This co-operative development model reflects the efforts of the co-operative movement to seek to achieve a high level of entrepreneurship by incorporating the nine entrepreneurial attributes with the seven strategies of development. As an analogy, this model depicts the path of an entrepreneur pursuing his/her objectives. It also depicts a structure that draws its strength from the entrepreneurial attributes that it is endowed with. In order to successfully implement this model of co-operative development, it is imperative that the Ministry and supporting agencies play a supportive role.

In principle, a co-operative is a self-help

organization that should not necessarily depend on supporting agencies to carry out its activities. To be independent, co-operatives need to move away from the present practice and tradition of dependence to a position in which they continuously seek to improve their performance. For this to happen, stakeholders and members must be fully committed to their roles. Each member or individual involved must carry out his/her responsibility according to the by-laws binding the co-operatives.

There are seven strategies designed to raise the current level of entrepreneurship of the co-operative movement in Malaysia. With the exception of a few co-operatives, most of these strategies are suitable for low-, medium-, and high-level entrepreneurship

co-operatives. These strategies are as follows:

- i. Fostering attributes of entrepreneurship in co-operatives
- ii. Improving the management and technical skills of board members, administrative staff, and workers
- iii. Creating a pool of entrepreneurs from among co-operative members
- iv. Establishing co-operatives as marketing agencies
- v. Establishing support systems to enhance the entrepreneurial performance of co-operatives
- vi. Establishing a one-stop R & D (Research and Development) Centre for co-operatives
- vii. Encouraging co-operatives to go international with their activities

"To be independent, co-operatives need to move away from the present practice and tradition of dependence to a position in which they continuously seek to improve their performance"

## Conclusion

The study successfully identified three levels of entrepreneurship in co-operatives: low, medium and high. It is suggested that effort be expended to raise the level of entrepreneurship in Malaysian co-operatives from low and medium to high, using several specific strategies. However, there are activities in these strategies that are not suitable for co-operatives with low levels of entrepreneurship. Examples of such activities are those related to internationalization, fostering of entrepreneurship among members, transforming co-operatives into marketing agencies, and research and development.

These activities should only be pursued by co-operatives with a medium or high level of entrepreneurship. Nevertheless, all of the strategies that were designed to raise the level of co-operatives' entrepreneurship must be implemented with the full support of board members, top management, and other agencies involved in the development of co-operatives. Future studies with the following emphases are needed: level of entrepreneurship of the best 100 co-operatives, internationalization, risk-taking, and transformation of leadership. Also suggested is the incorporation of both quantitative and qualitative techniques into the research methodology.

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# Developing food selection towards sustainability - The role of consumer co-operatives<sup>1</sup>

by Minna Mikkola and Martin Hingley

## Introduction

The position of retail industry has strengthened over the years to the extent that it may be suggested to dominate the supply chain in the market interface between producers and consumers (Atkins & Bowler, 2001). Within the supply chain, continuous concentration has decreased the number of farms, processors and independent grocers, such that often large or very large firms remain to compete intensively for their market shares and respond to the demand for food in the market (Atkins & Bowler, 2001; Björkroth et al., 2012; Grocery Manufacturers Association and Pwc, 2011). The large food retailers also compete on an international scale, as they make acquisitions, merge and establish their retail outlets abroad; reflecting the financial power of their capital investment (Atkins & Bowler, 2001). Furthermore, they enter into international buying alliances thereby reinforcing their global reach for the quality and quantity of products demanded by their consumers (Atkins & Bowler, 2001; Björkroth et al., 2012; Grocery Manufacturers Association and Pwc, 2011; Hollingsworth, 2004). Simultaneously product ranges are balanced to ensure maximum consumer choice against highest sales potential, whereby return on invested capital is a hallmark of successful business (Atkins & Bowler, 2001; Grocery Manufacturers Association and Pwc, 2011). These developments, however, should be examined also in terms of local market conditions, which have recently exhibited growing interest in local and sustainable and domestically sourced food (Atkins & Bowler, 2001; Grocery Manufacturers Association and Pwc, 2011;

Hingley et al., 2011; Jones et al., 2004). The phenomenon seems to be a clearly visible tendency in Finnish retailing as well (Hingley et al., 2011; Vihma, 2005). Finland is the case country identified in this paper and with specific reference to the impact made concerning food selection and sustainability of the leading Finnish consumer co-operative, the S-Group.

Interpretations about what local food actually means within current food system vary widely. Local food has been praised as sustainable food for reasons of enhanced local economy, perceived environmentally acceptable local conditions of production and local food cultural heritage. Local food is thus seen to represent environmental concerns, local livelihoods and economies embedded in place (Seyfang, 2006; Weatherell et al., 2003), as well as citizens' local involvement and good social relations (Feenstra, 1997, p 28, in Morgan & Sonnino, 2008, p 1-19). Within the globalised food system, re-localisation efforts "celebrate" "the local" vis-à-vis "the global" (Morgan & Sonnino, 2008, p 1-19), whereby the local is understood as "radical and subversive" in contrast to the global, which is "hegemonic and oppressive" (Born & Purcell, 2006, p 200, in Morgan & Sonnino, 2008, p 1-19). The re-localisation movement has advocated a "proximate system" of "locally grown food, regional trading associations, locally owned processing, local currency, and local control over politics and regulation" (Kloppenborg et al., 2000). Learning to re-localise has been identified as a challenge among food system actors such as farmers and consumers (Morgan

& Murdoch, 2000; Seppänen, 2004). Furthermore, food transport with its negative implications for energy consumption, pollution and additional cost, is suggested to be reduced by re-localised food systems (Morgan & Sonnino, 2008, p 1-19). In short, as a positive concept, local food advocates decentralisation, is understood to be a pillar of sustainable development; and food in sustainable societies is to a significant extent local rather than global (Morgan & Sonnino, 2008).

However, local food is also seen to show features counter to these sustainability implications. There are also suggested negative perspectives relating to local and organic food, which are claimed to dilute the “original ideals”, as the conventional sector subsumes the alternative (Morgan & Sonnino, 2008, p 1-19). Organic consumption has created an upmarket image, which may not serve to satisfy European consumption in general, due to the price premium of organic food (Goodman, 2004). Additionally, it has not been in all cases feasible for consumers to understand the relationships between organic quality, quantity and price (Barnes et al., 2009). Organic farming has so far remained a rather limited form of food production and consumption in Europe (Atkins and Bowler, 2001), where its share of the total agricultural land area tends to be 1 - 2 % at the low end, to 15 - 16 % at the high end among European countries (Rohner-Thielen, 2010). In a similar vein, it has been claimed that the labelling schemes initially supporting local food have turned into marketing tools of international supply chains (Watts et al., 2005, p 30, in Morgan & Sonnino, 2008, p 1-19). Furthermore, the local food movement could be believed to pursue defensive localisation strategies with less regard for

wider societal interests (Campbell, 2004, p 34, in Morgan & Sonnino, 2008, p 10). Parochialism, lack of diversity and action for change have been identified in decentralised societies, counteracting inherently national and international intervention in environmental problems such as climate change (Carter, 2007, p 58-60, in Morgan & Sonnino, 2008, p 1-19).

Within the European food system, consumption of food and drink is at large responsible for circa one third of environmental impacts of overall consumption. Included are impacts such as climate change, eutrophication, abiotic resource depletion and ecotoxicological effects on biota (Tukker et al., 2006). However, activities for decreasing these environmental impacts takes place at the supply chain level, within a number of businesses, and furthermore, they depend on consumer behaviour in the market interface, a matter less well understood (Tukker et al., 2009). Recently, producers’ carbon labels, printed on food packages, signal to consumers the need to reflect their food consumption in terms of climate change (Mikkola & Risku-Norja, 2012) and furthermore, personal carbon calculators, available in the internet, are published to be used by consumers wishing to modify their consumption behaviour (Amani & Schiefer, 2011). However, so far there are no agreements about commensurable methods for life cycle assessment and calculation of carbon footprints vary widely (Amani & Schiefer, 2011; Usva et al., 2009). In addition to socio-economic aspects of local and sustainable food, the life cycle assessment based understanding would offer extended grounding for constructing characteristics of local and sustainable food (Mikkola, 2011).

In their inherently competitive positions, many firms have found that sustainable development may represent a source for novel competitive strategies. Particularly firms doing well, apply a sustainability strategy, which is suggested to be “good for manufacturers, retailers and customers” (Grocery Manufacturers Association and Pwc, 2011) and call for increased co-operation and information exchange (Mikkola, 2011). Here the sustainability strategy is drawn on as a scheme for competitive advantage; the promotion of which seems, however, a dilemma for a number of retailers and their suppliers (Grocery Manufacturers Association and Pwc, 2011; Mikkola, 2011). In Britain and Finland there is evidence of consumer co-operatives promoting local food, offering livelihoods for local suppliers and quality food on the local market (Hingley, 2010; Hingley et al., 2011). In Finland, the retail

market has been heavily centralised, as two retail chains in the beginning of the 21st century together covered about 75% of the market (Atkins & Bowler, 2001; Vihma, 2005); and in 2010, nearly 80% of the market (Björkroth et al., 2012). One of these, a consumer co-operative, the S-group, is currently the market leader with 44% coverage (Björkroth et al., 2012). Due to this dominant position, it is of considerable interest to explore how the consumer co-operative views and practices local and sustainable food. This paper probes into the role of Finnish consumer co-operative as an actor-promoter of sustainable food system at the supply chain level. The accounts of consumer co-operative executives and the executives of the suppliers are juxtaposed to allow the patterns of trade of local and sustainable food to emerge.

## Methodology

The data were obtained by in-depth interviews (Kvale, 1996) focusing on what is understood by local and sustainable food, how it is promoted and the promotion supported by actors as well as what kind of roles and tasks the parties of exchange adopt for themselves in their economic interplay. The seven interviews were conducted during 2010-2011 with the Finnish central co-operative’s executives for selection [1] and environment [2], regional co-operative’s executives for selection [3] and environment [4] and executives of three local food suppliers; the first one in southern central Finland [5], the second one in south-eastern Finland [6] and the third one in the south-western Finland [7]. The interview guide dealt with views and practices regarding local and sustainable food. The interviews were conducted in Finnish on the business premises, recorded and transcribed in English, except one

central co-operative executive who was interviewed in English and one local supplier whose interview was conducted in Swedish and summarised in English.

The data was analysed through the frame of “antenarrative” (Boje, 2001), which the author proposes as “the fragmented, non-linear, incoherent, collective, unplotted and pre-narrative speculation.” Boje (2001) gives antenarrative a double meaning; for him, antenarrative is both something “being before” and something taking place as a “bet”. Antenarrative methodology is suited well to explorations of narratives of (future) sustainability approaches taking place through current market developments. Antenarrative subsumes the crucial aspect of future and uncertainty of consequences, which are implied in relations of economic exchange on the market. More particularly, the antenarrative family includes the



“microstoria” and “story network” analyses (Boje, 2001) used in this paper. According to microstoria concept, the text analysis focuses on ‘little’ stories which may also present Peircean abductions, something between induction and deduction (Boje, 2001) as form of weak inference (Paavola, 2006). Furthermore, microstoria approaches local organizational knowledge and views, revealing the complexity of unfolding events. Story networks capture the polyphony of the same line of thoughts in different contexts and offer a comparative approach, whereby matching of supply and demand for local and sustainable food can be studied.

## Results

### Co-operative executives

The national and regional executives were clearly exercised with the particular business character of the consumer co-operative. The customers are owners, and the justification for the existence and operation of the co-operative needs to be executed daily by serving the customer-owner better than other retailers. This is approached by determined strategies for closer consumer contact, development of products and services customers needed, and emphasis on co-operative’s member benefits. The member loyalty card, the ‘Green card’, currently covers a number of various services other than food and consumer goods retailing; there are also services pertaining to travelling, eating out-of-home, car and banking business. The core concept of offering benefits for members also means a strategy of price leadership, whereby what was sold and at what price was perceived differently than in competing investor owned firms. In particular, the business model made it possible to detach from quarter-year policies and head towards long-term

For analytic purposes, the reading of texts focused broadly on business talk and its turns, concerning local and sustainable food. The results are presented first for co-operative executives and second for executives of local food suppliers, and their orientation for sustainability discussed in terms of strategic socio-economic and environmental developments within the food system. In focus are particularly the behaviours of trading partners visible through issues such as volume, price, logistics, environment and developmental support by the co-operative for the local suppliers.

developments and strategic planning as well as investments:

“...to sell cheaper, is always a good thing for us, because the owner benefits... And it frees us of this partial optimisation, that we'd constantly have to prove our ability to make money, instead we can... focus on the needs of the customer.” [1]

“There are about 10,000 active customer owners and all our regional co-ops are working actively to get them...to give tips how to improve performance for regional co-ops.” [2]

The market leadership of about 44% in daily consumer goods was achieved in Finland in 2009; the history of poor and reduced turnover during previous decades changed into a situation of continuous growth of co-operative retailing. The economic strength and long-term planning of the S-Group co-operative became clearly visible during times of economic depression.

“...in 2008 we hit this depression and dived...the CEO told publicly that, that because of our form of ownership...when everyone else was cutting...that we believe there's growth even after this depression and we look past the drop in economic situation into the future...of course it has to be sensible keeping business economics in mind... but it is probably a (co-operative) difference that you don't have to go to the market for credibility, from the stock exchange rate.” [3]

The administrative structure is rather heavy; the regional co-operatives own their central (national) co-operative, which provides regional actors and their stores with centralised management systems. However, there is contact with customer-owners through their feedback in purchases and communication with staff, and the members' control through their voting for the regional boards. The central management decides on policies allowing the central co-operative to develop effective business concepts to be multiplied across regional co-operatives. The structure allows regional actors to have their say in business developments, but it is a delicate balancing act to manage from the centre, when there is also a bottom-up structure from the regions:

“.....it's not such an easy place to be CEO of S-group because the regional co-ops they own the central organization...it needs to be balanced.” [2]

The central management system particularly analysed the shopping experience and it was seen as the most important task of the co-operative store to enable shopping with least hindrances to support time management of customers, often struggling with pressures of work and family life.

“...you choose the store you go to and there are many things that affect your decision...it has to have things you want to buy, it's like an entirety, the concept of the store, so that it's pleasing, it pleases you, and it consists of many different things. A warm parking garage...Functioning elevator... you can have organic products...the cashier smiles at you when you are leaving and packs the frozen food in bags, it's the little things that make it...the customer's process has to work. Think about a mother of a family, who after work goes to a store to pick up the ingredients for supper, before picking up her children from kindergarten. You have to be able to find the products with your eyes closed, and then what irritates the most is if there's some anomaly. A product is missing from the shelf, someone dawdles along so that you can't get past him with your cart, or the cashier line is too long. Just like little things, but they become larger than life at that moment.” [3]

In the background is the co-operative process, invisible to the customer, ensuring a pleasant shopping experience. The centralised business support by the “second-level co-operative”, in the service of its regional co-operatives, is divided into chain direction units dealing with IT management, product management, space management, selection and business concept management as well as marketing and environment. The strategy to serve the customer-owner is broadly understood as the task to “understand and recognise the needs of Finnish customers.”

“....if you think about what's in the background....it's the centralized planning of selection and then the purchases...and then the huge systems of information technology that push the

goods to the store, and the logistics machinery that collects the goods...the background process is made as efficient as possible, and you try to use the economies of scale...the price of goods, of the process, makes it possible to sell the goods at the store at the lowest price possible..." [3]

More recent success at S-Group was based on developing the use of commercial space from location planning of the stores to the use of their shelf space, allowing even a store specific customizing of selection. This practice, a combination of selection and space management, was the result of nearly two decades of business development, whereby collaboration was done with a US based business intelligence company. Here consumers were seen as individuals rather than representatives of particular consumer segments, and the individualization of consumers in terms of their needs was seen to continue into the future. Advanced IT systems and new possibilities of mathematical modelling were seen to be needed in order to serve the customer and ultimately, to communicate with customers through their shopping.

"...we saw at a very early stage, in the beginning of the 21st century, that from the point of view of the store's value chain, the driver [of] ...the whole supply chain ... is the use of space. And to execute that ...in the way that it optimises the value chain in relation to every store, the use of space has to be done individually for every store. And to do that by hand is impossible...So we started looking for a program that can do that, tailoring automatically for every store." [1]

International collaboration is conducted

with other large retailers, in order to exchange learning outcomes pertaining to consumer behaviour. However, as the increase of market share has limits in terms of new retail sites and selection, there seems to be two particular lines of action ahead for S-Group; to increase productivity by solving the "productivity equation" and by focusing on particular customer interests such as ethicality, ethnic, local and sustainable food. These options are feasible due to combination of customer analytics, and sensitivity to trends of the food business, enabled by long-term business development strategies, due to the co-operative's economic strength and ownership structure. The future developments are also a key interest for the group as there may be different kinds of solutions for environmental and logistic needs in terms of population's service demands:

"...we don't know what the situation will be like in 20 years. If you don't know the price of oil or do we even have any petrol cars? ...do we have anymore these supermarkets...they could be local distribution centres...if you are buying through internet...a collecting hub?" [2]

The emphasis on local food is notably seen not as something new to co-operatives, but rather as a very normal state of affairs. In other regional co-operatives than the one in the capital region, many customer-owners were producers and it was natural for them to sell their products through their co-operative store. The regional co-operatives of S-Group (outside of the capital area) were seen to be more inclined to selling local food, as the provenance of goods was obvious for local actors. The customers could be "very inward oriented", as they, for example, would not

buy bread from other areas in Finland. For them, it would be a “ridiculous idea” because they “have their own breads.” By contrast, the selection policy of the capital region co-operative is rather idiosyncratic; the co-operative sees that “forerunners” live in the capital region, and therefore, new ideas, trends and experiments are needed to satisfy and please these consumers. For instance consumers’ interest in ethicality is signaled through twice as much organic sales compared with other regional co-operatives across the country. The organic selection is given particular attention in all business concepts, and furthermore, an association “Pro-Luomu” (“Pro-Organic”) has been established with a number of actors such as competitors, an agricultural producers’ organization, organic suppliers’ organization and promotional bodies to increase availability of organic food. Marketing experiments have shown that particular centralized and nominated product display areas in the stores enable consumers better to identify and buy organic products. Some stores have developed a concept close to the ‘farmers’ market’ displaying local and organic food.

Developing selection seems like a “long road and a slow one” but more determined efforts have been made to introduce local food into selection. A previously valid basic principle held that the selection was to fulfill two criteria: it must be stable in the way that the products are available at all times for the consumers, and the product quality must be good. However, it was noted by co-operative managers that competitors had “courage” to advertise a product which was on sale for a limited time only. This observation allowed some flexibility in the concept of stable chain selection, which was developed into a more variable one, allowing unique local products to be sold at particular stores for limited time periods only. However, the “built-in, long-time span basis” to do

business is preferably applied to local suppliers, who are promised shelf space for about a calendar year, in order to allow customers to discover the new product. The decisions may not always be that quick, but they are reliable.

“...when you promise to add something to the selection it will then be found there, the decision making may take some time, but when it’s done, it does go through distribution according to the process to the stores where it was supposed to go to.” [3]

“Of course if it succeeds, it will get a wider distribution at a faster pace, but if it doesn’t it will still be given the chance.” [3]

The cooperative executives were concerned about the vagueness of the concept of local food. It was perceived a difficult concept:

“But local food - what is it, what exactly is local food?” [3]

Consensus among industry, researchers and public authorities would be desirable, but for the co-operative, the consumer’s understanding about local food was simultaneously elusive, but very important in terms of business. The regional selection executive, being forced by her position to interpret local food, came to see it as produce of maybe smallish food businesses, because very large industrial plants nearby did not seem to represent local food. Rather, local food meant food produced within reasonable distance from consumption, through a less automated processes; like bakeries using starter dough and baking by hand, as well as in general food production “with a face”. But, the concept felt painfully ambiguous.

“...it has to be something like, produced in Finland, made from Finnish materials, made with a small production scale, traceable... so you can find the producer or find the production facility through the internet. And it's like, a face... Who made it, the baker has a face, or the family has a face, or the group that bakes there has a face or the farm, the cattle ranch has the producer's face, then it is seen on the internet and the cows can also be seen there.” [3]

The co-operative executive also viewed small businesses as necessity, as there must be some room in the market for small and medium sized enterprises (SMEs). Although agricultural policies drive towards larger units and centralization, this development was seen also to introduce risks such as heightened potential for animal diseases. Small scale production was seen as an alternative, a healthy alternative to large scale activities.

“...I don't see big industrial business and management as the one and only choice. There also has to be operation by small producers. ...there has to be the opportunity for different types of operation. Just in the same way, if we can have big operators in retail, the small ones are just ok too. So the same thing in food production, we need smaller operation and production....” [4]

The co-operative view on local food emphasises its character as a SME product rather than as concerning geographic distance between production and consumption. The inclusion of smallish producers' food in co-operative stores was supported by offering advice about how to sell one's products in a local store. All the regional co-operatives organised marketing

events for local producers, however, the condition for selling was that producers aligned themselves with food and packaging laws and regulations. Furthermore, they were offered a chance to promote their businesses as “fairly traded food”, whereby all the actors, independent of size, were treated on equal terms.

“This is our message to the small suppliers that you can operate with us whether you're small, medium sized or large. And we make the path to grow from small to larger possible. So you can start with one store, if it feels like the customers like it and buy the product, then you can go to the neighbouring store. Then it may be that we have it in the selection across regional co-operative stores. If it still feels like the customers are buying it, then it may be for sale in the neighbouring region [co-operative]. And then if it still feels like you could be bigger, then you can start considering becoming a nationwide operator.” [1]

“You can go to your local supermarket manager and discuss and he or she may say okay...if it is selling it will stay, if not, we take it off...in one local supermarket there is a very large selection of organic food. But that's...because of a particular committed school in the village.” [2]

While responding in the first instance to consumers' demand for good products, the regional executive saw that they were a huge buyer for the domestic food industry, both large and small, and their way of doing business also benefitted local suppliers. However, rather than specifically supporting SMEs, the co-operative aimed at firstly selling good products. There was seen to be no particular benefit in being Finnish in itself, but rather the quality and

price of the product were decisive for consumers.

“... buying Finnish products just because they are Finnish and placing them before the ones from a foreign country, that then wouldn't be right. But...if the supplier has supplying capacity and the product, product quality, price in order, we have centralized logistics, through which even a small supplier can, can get a product to our distribution channels. You don't have to be a big operator.” [3]

Eventually, the small local food businesses were also a concern for the co-operative, as it regarded itself as responsible for the consistent product quality sold on its shelves. For the executives, there has to be clear supervision criteria for small businesses. The co-operative executive collaborated with food authorities and other experts such as veterinarians. The small scale producers were seen to need particular guidance as means to get their products on the market.

“I try to keep us updated on what the legislation demands, how we respond to the demands, how we respond to the safety of our food...when you think about the Finnish farmer... how much they need that support to run agriculture, as these days it's probably one of the most bureaucratic industries...I run the same system of administration here. But who runs it for the small producer?” [4]

Furthermore, the costs of this supervision as co-operative audits were considerable and comparable to large food businesses. The quality criteria meant that all raw materials and the processes had to be known, and the case of using subcontractors made the supervision even

more demanding.

“We must ensure the reliability of the operator, on many levels, so that we know who we're buying the bread from, and that he pays his taxes, and the employees' salaries. And we know which raw materials are used...Traceability, everything. And then a big challenge are the subcontracting chains, as their numbers have grown very much also with small suppliers. So these supply chains are very long.” [4]

The co-operative has also identified “ethnicity”, introduced by customers and workers, as a commercially important phenomenon. For instance, an Estonian bread – “mustleib” baked in Estonia by a Finnish company – has been very popular as well as a sour cream product “hapukoor”, both of which have been introduced through workers' suggestions. Furthermore, other ethnic products currently sold in small family businesses, often run by non-Finnish personnel, are being considered to be launched to serve immigrants' needs.

“We had members of our staff, with us explaining, as there are products there that don't even have a Finnish name... I think it's a... small stream that's going to grow, ten years from now it will be something else entirely”. [3]

The availability of life cycle assessment data of food in research collaboration with a large national research institute made it explicit for the executives, that local food by itself was not sufficient as a concept to hold on to many important green characteristics of food. Furthermore, the executives saw that there were classic examples of having ambiguous environmental information as the basis of choosing appropriate lines of action; for instance, the plastic bag could

be more environmentally friendly than the paper bag, and some products labeled as environmentally friendly were not necessarily better. In that sense, than the ones not labeled as such. The executives were aware of their responsibility in offering consistent information to consumers, in order to avoid misleading them. This responsibility was understood in terms of a challenge to develop standardized ways to compare products with one another. Therefore, they were looking into future developments, whereby more characteristics of food such as carbon footprints and producers' profile visualizations could be displayed to consumers through bar codes and smart phones.

"We believe in that transparency, so, for example, if I want to know the responsibility of a product, I take a picture of its bar code with this phone, so it is possible to immediately identify things that have to do with it, its carbon footprint or its, its producer's picture, of his home and children and what else can of course be built in a marketing sense. ... traceability is built for the consumers' eyes and the consumer expects the information to be available easily." [1]

As such this consumer information, including life cycle assessments and social and economic data, made the sustainability seem as an entity which must be constructed by consumers themselves based on their preferences.

"There was a comparison, there were a few errors but as an idea: where a tomato has been produced, how ethical it is or what are they?. Whether it's an organic tomato produced in a greenhouse in Finland, or a conventional tomato, or one brought from Spain, or from Holland, and the

comparison gave viewpoints and the outcome was that what's important to you (the customer). Is it important to you that the tomato tastes good, or that the person who picked the tomato was paid a fair salary, or that the soil doesn't get that polluted or cause carbon dioxide emissions? ....you (the customer) can then choose a tomato...So there wasn't (only) one good, only many different choices. And according to your own values you can then evaluate what your (ideal) tomato is." [4]

### Bakeries

Recently, small and medium sized bakeries have been an interesting starting point for the large regional consumer co-operative in their efforts to sell more local food. Bread is very important in Finland and for some reason, according to selection managers' the bread selection is only seldom satisfactory. Dealing with local bakeries has to do with size and functional logistics.

"There are big ones, very big ones [bakeries] that can operate with these big retail chains, and then there are smaller ones [bakeries], and the medium sized ones have almost disappeared. And the medium sized ones that have made it have had to specialize, had to or been allowed to specialize, they've made it because they've found a corner to hold on to, and from the remaining bakeries there are the two big ones and a handful of medium sized ones. For them, the way to grow at the moment is getting their products to nationwide distribution, or that they start to supply own labels. If you think about bakeries, for them the challenge is always logistics. The logistics of the central storage takes one day from the freshness of the product no matter what you do." [3]

There are, in co-operative's view, many good bakeries in Finland but they "are good only locally". They exhibit local sentimental value which is hard to transfer to other localities and co-operative stores. Rather, a product to be sold at the capital region co-operative store has to be of very good quality, different, and maybe there would be a provenance to go with it. The method to identify products to be tested has been through the proving ground of group regional co-operatives, whose bread managers have suggested suitable bakeries to be contacted:

"With one of my colleagues we visited in the autumn the opening of a local food factory...I had said earlier to stop there [a local bakery]...I said good day at the counter and asked if the owner was present, the baker himself present....And when I told who I was, what I'd like to talk about, they served coffee and buns and we discussed. ... it has been rather many months since the visit, and there have been twists and turns... but next week their bread will be added to the selection of our stores."  
[3]

In the capital region the close relation between producers and co-operative was only seldom possible and more often than not, there was no personal relationship with suppliers. Rather, the customers in that region came from elsewhere and wanted to buy "that own bread of theirs". The customers have been impressed by the new bread varieties and given voluntarily good feedback, which is exceptional, as most often the feedback deals with things to improve rather than praise. Future developments were seen as still fuzzy, but 'ethicalness', organic and provenance of products were perceived as the continuous focus of consumer interest.

### Local food suppliers

These local bakeries, as representatives of SMEs, were approached by the regional consumer co-operative to increase their selection of local food items. The local bakeries often had rather long family histories with modest premises, as the parents or grandparents, even great grandparents had started the business. In one case, the business was traceable to a 17th century farm house with grain production. These businesses were well known locally in small municipalities, where their products gained the aura of local specialty. The familiar problems of SMEs were part of the struggle of these local bakeries; the customers perhaps numbered from one hundred upwards, and there were no signed contracts but only word of mouth or long-term practice for generations, between the bakery and these buyers. The ordering and billing were done in various ways and furthermore, a common problem was the large selection of different kinds of products. To say no to a familiar customer, was perceived very difficult, although one cake or a few pieces of bread caused disproportionately more work than profit. One local bakery made a firm decision to cut the selection to only the most profitable products:

"Mostly we deliver bread and struggle with too many products, but we have 3-4 products in larger volumes and also 20-30 others and some more unusual products. ... But we are fewer now [staff members] and we are dead tired with cakes so we have to finish with cakes, because it is such a slow demand. This is a small enterprise so I as a manager do everything, but mainly administration, planning, marketing." [7]

The local bakeries had had a long history of incremental growth, whereby eventually



successful business periods resulted in new investments, such as new premises, operations, more automated production lines or new of machinery. Sometimes the growth was propelled as a result of new labour safety orders.

“...the bakery, is 48 years old. Started in this municipality with one man, it has always been expanded little by little. With the new bakery building...this has been a big leap, so...for us, it is the biggest investment we've ever done. But we actually had two choices, either to downsize the operation or to make a new investment...The old premises were getting so confined that the work safety inspector interfered with that... the work environment is notably more pleasant and better for the employees.” [6]

The local bakeries were aware of their small size and its limitations in the competition, since small capacity did not allow response to large orders. However, there were those who felt that continuous product development helps competition on the market. The new products were sometimes created coincidentally with local buyers rather than by conscious engineering of product qualities. The demand for a particular festive product was sometimes a start for a successful new product line. Agricultural fairs in the locality induced a flour company to order new kind of buns by the bakery; a special product was developed which was immediately sold out by local stores. This “accidental” product became the volume product of the bakery. Some bakery executives reported about collaborative development of bakery products, whereby a new kind of method based on trial and error created a local volume selling product. Also, particular basic products with local history and ingredients, such as

rye bread and oat bread were strong.

“...our rye bread is one that has twice been chosen as the best in Finland...And it's completely 100% domestic grain, there's no wheat in it, so it's real rye. Water and salt in addition to that. It's a long-time favourite...So friends of rye bread who like real rye bread, they readily buy it....” [6]

Sadly, bread is a product whereby copying is very easy. A big local success was not local for long, as larger bakeries discovered it soon and started mass production, after which the margins became tight again.

“We had a customer, a sole trader type, looking for a product with shelf life of one week...we made it by a particular ‘after oven’ method...a boom stated and it lasted for two, three years...we noticed that others started to do the same thing...” [5]

The local businesses had interests to expand; how did it actually happen that a bakery grew to such a scale as the two big ones in Finland? One growth strategy was to subcontract other small bakeries' products and market them under a large bakery's own label as quality items:

“We would like to grow and become much more productive, we aim to have a new design for packaging with a design business in Stockholm, and we have a developmental project with a couple of our larger volume products. Also our strategy is that we aim at selling other producers' products in the future under our name in Sweden. So we set the quality of these products.” [7]

The work force was not seen to be a problem, as large bakeries automated their processes and shed workers, but the production system, oriented towards industrial processes, was supplemented by artisanal education from abroad. Only in Swedish speaking areas, was the labour force (particularly in marketing), more difficult to find, as the Finnish language was needed in addition to marketing skills. The Swedish speaking bakery executive consequently also marketed her products in Stockholm.

The three discussed bakeries were used to market their products to individual merchants, to be sold at their stores, and to consumer co-operatives. The regional consumer co-operatives were often the biggest customers, and with them the bakeries had agreed contracts. At a time when many small suppliers struggled to be viable, detailed practices of trade became crucial. Sometimes also overrider payments were asked by retail merchants, but this was concept was mostly resisted by SMEs and not asked by the co-operative. Also, often the returning of products was an issue with retail outlets. This concerned who was responsible for unsold items, the supplier or the merchant? The co-operative bakery executives had decided to refuse to send back their unsold items as it was seen an unhealthy way to do business. They saw that it was the retailer's responsibility and competence to take care of the demand and to order respective supply. The co-operative had made the decision to be responsible for the volumes ordered. They understood this as the hallmark of their trading skills to know how to match the demand with supply. The business negotiations with the co-operative were seen to be "nice" by bakery executives, and it was also easy to discuss about larger volume deliveries to the regional co-operative instead of needing to discuss

separately with each merchant manager of all the respective stores.

"Now the co-operative buyer takes my price and of course they set something on it, but then it is my responsibility if the bread does not sell. This is real and fair and clever competition. I don't feel myself pressed by prices, it depends on me." [7]

The local bakeries were happy to have the channel for possible future market growth, and they appreciated the co-operative approach in comparison with other retailers.

"I do understand why co-operatives grow in Finland, because they have been enterprising. I have always been impressed by how they work in their stores and when I have contact with bread buyers... you cannot say that they are just working there. They have really succeeded in leadership and knowledge of how to build the group and its store. We visited last week all the 11 stores [in the capital region] ... the bread departments and they were all well kept. They are really professional...but the big picture of co-operative is that they have an organization which functions." [7]

"It is very good that we are with the co-operative and their logistics, we have dialogue with the markets and they are willing to develop our products. Also through their storage and logistics company we can deliver to the whole of Finland, so it's very good. It's a big breakthrough, a leap for us." [7]

The bakery executives had ecological oriented concepts in their minds. Often they were interested to purchase organic ingredients, which were, however, considerably more expensive than

conventional ones. There had been periods when a big customer paid for the ecological quality, but when other interests such as economic development became predominant, these products were dropped. The lack of demand caused the bakery to use the organic flour their farm produced in the conventional products, without price premium. Another route to more ecological products was perceived as the use of strictly locally produced grain, but sometimes the quality and quantity did not match to the needs of the bakery. Therefore, flour mixtures were bought both from local mills and more distant large ones, which made the raw material basis of local bakeries rather complex and difficult to report.

“... it would be nice to do everything with organic and local, but as the price side is what it is, as basically we're always living on the margin, what kind of profit we're making, is it positive or negative. So well that places boundaries for us. You'd have to get to the point where the consumer actually

pays enough more for it, and then that the interest is real and not just talk about being interested.” [5]

The energy issue was also central to bakeries, as the price of fuel had fluctuated strongly recently. One solution was to build a container for liquid natural gas and use that for ovens and again, their extra heat was used for premises. The modern and energy efficient process and transport was considered as a marketing issue, and an added value was perceived in carbon footprint calculations.

“... our bakery and ovens are heated with propane...We have heat salvage systems in our chimneys, and until -25 degrees Celsius we are self-sufficient in heat...we've planned a fuel station there next to the propane tank, so with our next equipment change, we'll be using propane fuelled trucks... I also have made my own calculations about the carbon footprint of our products to be used in the future.” [6]

## Discussion

This paper has considered the patterns of local and sustainable food trade between a consumer co-operative (S-Group) and the local food businesses. The investigation here is based on in-depth interviews with four central and regional consumer co-operative executives and executives of three local bakeries. While there were obviously some vested interests to be discussed by these actors, the analysis of their mutual exchange relations in terms of trade of local and sustainable food disclosed relevant roles regarding business developments.

The retailers' role in selling local food seems very important particularly when

other routes for local food are rather limited; the situation in UK (Jones et al., 2004) applies to Finland, where a few large retail chains have such a high market share. Therefore, it seems that the exchange relations of local SMEs with the big retailer offer a chance for viable business (Hingley, 2010; Hingley et al., 2011) and even expansion for these SMEs (Mikkola, 2008). This pattern is realized by the co-operative, which has policies to take SME products into selections across the scale from single stores to nation-wide distribution. Eventually, the economic viability of SMEs could increase if the market channel opened by the co-operative would encourage SMEs to cut

their unprofitably extensive selection through limiting the product range to their volume products. Furthermore, these interesting local products could be turned into marketing tools of large international supply chains (Watts et al., 2005, in Morgan & Sonnino, 2008, 30). This 'turning point' occurred as local bakery skills and food culture received attention by large bakeries, which quickly copied the product development of SMEs, thereby reaping the benefits of local food culture through their mass production. Eventually, not all of these small businesses stood up for the challenge of delivering their products into the larger market, as they needed to show reliable ability to deliver reasonable volumes for the capital region co-operative stores. Clearly, the very small operators had only limited supply power and they played their role as truly local actors. Importantly, the co-operative played an essential role in supporting an open market for diversity from local to national scale.

Eventually, the consumer co-operative approached SMEs both through public supplier gatherings as informal educational events and through more targeted business contacts. Most importantly, they offered logistics support to the SMEs, enabling affordable transport across Finland. This approach to local food complies with the expansion of the concept of 'local' to 'regional' and 'national' (Hingley et al., 2011), with 'local' understood by the consumer co-operative in terms of the size of the company rather than its location.

Fair trade within the North (developed world) (Jaffee et al., 2004) seems to best take place between the local and co-operative actors in these particular business encounters. Intriguingly, in this Finnish context the price given by the

SMEs was accepted as such, with no further haggling, and no threshold money (overrider payments for shelf space) was asked for by the co-operative. It may be assumed, that this way of organizing economic exchange relations diverts considerably from the one reported to be presented by a large US discount retailer, which bargained the price during subsequent delivery years to the damage of the SME (Fishman, 2007). The SMEs were reasonable when setting the price, which they understood to be part of the local food package; the quality and its price needed to match one another for the consumer. As a price leader, the consumer co-operative may not be the best scene for premium priced products. However, it is reported that Finnish retail chains generally ask for threshold money and marketing expenses, particularly regarding bakeries (Björkroth et al., 2012); the exception from this practice in these cases may signal the determined interest by the co-operative to offer local food in the capital region stores.

However, the approach of the co-operative to local food aligned with the framework of competitive markets, which the co-operative is of course subject to. The Weberian market competition was channelled to impact on SMEs' production through consumer satisfaction and the benefits perceived by consumers. The 'support' for SMEs was not 'social' or 'partnership' by nature (Mikkola, 2008) but rather made use of and increased their technical competences and ability to add local value to the consumer co-operative's selection. This approach ensured simultaneously the delivery of the promise by the co-operative to offer a better selection at lower prices than the competitors. Furthermore, the co-operative also saw itself responsible for the selection and food safety of individual

items. This caused additional costs of auditing which was done in close collaboration with food safety officials, who benefitted of the 'pruning' of SMEs done by the co-operative. Finally and crucially, the customers and the co-operative were the beneficiaries of these auditing activities as the food safety standards were ensured, in order to keep up the customer trust in co-operative retailing.

Local food was not the one and only food trend identified by the co-operative, but was accompanied by the ones of ethicality, environment and ethnicity, which also gained attention by the co-operative executives. Furthermore, as a growing but undefined trend, local food was seen as a fuzzy concept in the light of evidence of life cycle assessments. The combination of the "face" of the product as its socio-economic life worlds and additional environmental impacts can be seen as an elusive aim to be used in consumer communication. To implement this aim, research efforts were underway with research institutes and advanced business intelligence companies. The use of modern IT systems and modelling approaches may enable implementation of information systems of this kind (Mikkola, 2011) through smart phones for consumers (Grocery Manufacturers Association and Pwc, 2011). Here the Finnish consumer co-operative may have a unique chance to participate in the development of sustainable food system as without IT capacities the selection cannot be customised. However, the individual support by the consumer co-operative, such as auditing for the SMEs would enable them to upgrade their processes in terms of their carbon footprints and other environmental impacts. Here the communication and learning with the supply chain actors by the retailer offers a new model for upgrading supply chains

(Spence & Bourlakis, 2009). There was interest by the SMEs in this direction, which would obviously present itself as huge developmental process towards sustainable food system (Mikkola, 2011). These efforts towards consumer communication about sustainable food actually represent extensive societal interests to curb climate change and other environmental issues (Carter, 2007, 58-60, in Morgan & Sonnino, 2008, 1-19; HM Government, 2010), whereby co-operatives are able to connect local food with these developments.

However, this approach by consumer co-operative and the SMEs exhibited mostly market discourse features. Here the market demand – the currently evident customer interest in environmentally friendly and sustainable food – can be seen to be inductive for the development of the selection by the co-operative, rather than their independent orientation to sustainability and its promotion through the market (Mikkola & Risku-Norja, 2012). The sustainability discourse as an overall modifier of the selection, for instance as active identification and reduction of extensively large selection to avoid food waste (Mikkola & Risku-Norja, 2011) was not in sight, as the satisfaction of consumer needs were seen to rather increase the selection. So, while the consumer co-operative struggled with ambiguous life cycle assessment data and knowledge of the local products' provenance features, the co-operative had readiness to modify both 'real' and virtual product displays and distribution systems, also to benefit the market of local and sustainable food. The co-operative and the SMEs understood themselves to trade in 'dialog' with the consumers across the market. Therefore, to facilitate this dialog about sustainability seems to be crucial for future developments and the heavily

and the heavily equipped actor, such as the co-operative, could be very influential in future food trade for sustainability.

The role of the consumer co-operative in support of a sustainable food system seems to be firmly based on the co-operative's character as the actor-promoter of consumer interests in the first place, rather than any other interests. If the market is to facilitate sustainability, the consumer dialog needs to be enhanced and therefore, the educational institutions (Mikkola et al., 2011; Roos & Mikkola, 2010) as well as the extensive and proliferating discourse of local and

sustainable food system (Hingley, 2010; Hingley et al., 2011; Mikkola & Risku-Norja, 2012; Morgan & Sonnino, 2008) need to play their societal role as an effective background for modifying consumer behaviour. Clearly more research and experimental marketing is needed to facilitate consumers to realize local and sustainable food system through the market surface; however, a consumer co-operative with extensive and advanced capacities by its management combining centralization and decentralization is in a unique position to support these developments.

"The role of this consumer co-operative in support of sustainable food system through its selection is firmly based on its character and ownership structure as a consumer co-operative"

### Concluding remarks

The role of this consumer co-operative in support of sustainable food system through its selection is firmly based on its character and ownership structure as a consumer co-operative, rather than representation of other interests such as the ones of the SMEs or large food businesses. From this position, the co-operative in case here promoted fairly traded food within the North of Europe, as it connected increased consumer benefits with those of food businesses of various sizes and locations; the featured Finnish co-operative offered businesses similar chances to supply its stores, enabling them the expansion of their business. However, the expansion was seen to be done on consumers' own conditions.

Furthermore, the co-operative offered support in competence development rather than 'social' support for local food businesses. The co-operative saw the concept of 'local food' as undefined and preferred rather the concept of sustainable food. Particularly, the IT and advanced modelling capacities available to the co-operative through its research and business partners seemed to suggest that the focus on consumer behaviour for sustainability could be made more possible in the market than currently seems to be the case. This dialogical approach considered here emphasises both consumer communication and education as the basis for such a future.

## Notes

- <sup>1</sup> A version of this paper was presented at: New Opportunities for Cooperatives, ICA Global Research Conference, 24-27 August, 2011, Mikkeli, Finland.

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# Co-operative Solutions in the Area of Renewable Energy: Evidence from Austria

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## 1. Introduction

Rising concerns over ecological sustainability and security of supply put the energy system under increasing pressure. This situation has brought forward the development of energy co-operatives as well as other forms of local or community-based ownership of renewable energy technologies. Typical ways of energy provision usually bear highly centralized energy infrastructures, whereas locally and co-operatively owned models can constitute a different model of energy provision and distribution (e.g. Olesen/Maegaard/Kruse 2004).

In public-citizen-partnerships (PCP; Karner/Roessl/Weismeier-Sammer 2010), local politicians and citizens try to adequately provide a public service, thus promoting a culture of self-help rather than a culture of dependency (Mayo 1997; Pestoff 2009). Citizen participation seems to be a fruitful approach not only for the provision of public services, but for the implementation of renewable energy in local communities as well. With its specific governance structures and commitment to self-help (Spear 2004), the co-operative represents a suitable form for promoting

citizen participation (Somerville 2007; Lang/Roessl 2009). Against this background, we pose the following research question: *How can organizations built on co-operative principles contribute to the diffusion of renewable energy in Austria?*

For our study we chose a qualitative research approach (Stake 1995), particularly with regard to existing research gaps regarding co-operative governance structures (Cornforth 2004; Spear et al. 2009), in order to gain insights into the structures of local energy co-operatives. Our case study is situated in the Austrian region of Vorarlberg. The energy initiative under investigation, *v-energie*, was founded two years ago with the overall target to establish a platform for investors, activists, and customers in Vorarlberg. The analysis of our case study allows for deeper insights into several aspects of co-operative energy production on local or community level.

Our paper is structured as follows: First, we discuss the status quo in Austria and

Germany regarding renewable energy provision with citizen participation. Secondly, we present the methodological approach and afterwards provide a detailed description of our case, the v-

*energie*. The presentation of our case analysis builds the core section of our paper, and is followed by a conclusion and suggestions for further research in the field.

## 2. PCP in renewable energy provision: Status Quo in Austria and Germany

We focused on Austria and Germany as the renewable energy domain in the German-speaking part of Europe. This part has developed under different circumstances as other European regions like Scandinavia (Schreuer/Weismeier-Sammer 2010).

In Germany, energy co-operatives have already been established in the early twentieth century to ensure electricity provision in rural areas (Flieger/Klemisch 2008). Wind parks emerged in the 1980s with citizen participation. A certain tradition of local energy activism in Germany is based on the anti-nuclear movement (Toke/Breukers/Wolsink 2008). In Austria, – due to institutional restrictions that will be discussed in detail later on – the renewable or alternative energy domain developed more slowly and in different forms. In the mid 1980s, biomass district heating (BDH) emerged as an innovation and is viewed as an important outcome of both local initiatives and public policy (Madlener 2007).

Today, especially Germany exhibits specific innovations in the renewable energy system, such as “bio-energy villages” (*Bioenergiedoerfer*) and “citizen wind parks” (*Buergerwind-parks*), which improved the political profile of renewable and sustainable energy production (Toke/Breukers/Wolsink 2008). In Germany, more than 140 energy co-operatives have been recently founded (Mueller/Rommel 2010). Compared to

other European regions and Germany, in Austria rural biomass district heating systems currently are the main locally owned renewable energy installations, which are typically organized as co-operatives (Schreuer/Weismeier-Sammer 2010). Some exceptional cases are presented for example by Enzensberger, Fichtner and Rentz (2003) in the area of wind power. Nevertheless, such initiatives are typically organized in the legal form of a “GmbH & Co. KG”, which can be described as a hybrid of a limited liability company and a partnership, or totally private investor-owned (in form of portfolio companies, where citizens can buy shares from).

In a recent explorative study, Mueller and Rommel (2010) identified several factors as being important for co-operatives compared to other organizational forms. Above all, the revised German co-operative law, product differentiation (green electricity, where does electricity come from?), rising interaction between consumers and producers, as well as increasing civil society activities turned out to be most important for the strong growth of electricity co-operatives in Germany. Additionally, framework conditions in Germany are favorable for renewable energy projects especially regarding the following aspects (Schreuer/Weismeier-Sammer 2010)<sup>1</sup>:

- Feed-in tariff system
- Tradition of local energy activism

- General tradition of acting in political groups and associations
- Availability of loan capital at preferential conditions
- Sufficient number of investors

Unfortunately, the situation in Austria is much less favorable, as our case study will show. Regarding co-operative renewable energy projects, no best practice-example could be found in the literature (Schreuer/Weismeier-Sammer 2010).

Nonetheless, the co-production of public services through public-private-partnerships (PCP) has recently increased in Austria and Germany (cf. Flieger 2003 for German examples), although in

different areas such as childcare, education, and recreational facilities. In general, the term PCP defines organizational forms of cooperation between municipalities and their citizens for the co-production of public services (Karner/Roessler/Weismeier-Sammer 2010). PCPs further seem to be a promising organizational form for the provision of renewable energy, as they are rather social capital-based organizations (Lang/Roessler/Weismeier-Sammer 2010), which is reflected by the social orientation of their governance principles such as mutual self-help, democratic control, voluntary and open membership or community orientation (Valentinov 2004; ICA 2006; Somerville 2007; Spear 2004).

**"framework conditions in Germany are favorable for renewable energy projects"**

### 3. Methodological approach

The aim of this paper is to gain deeper insight in the contribution of organizations built on co-operative principles to the diffusion of renewable energy in Austria. Particularly with regard to existing research gaps regarding co-operative governance structures (Cornforth 2004; Spear/Cornforth/Aiken 2009), we chose a qualitative approach in order to gain first in-depth insights (Stake 1995) into the structures of co-operative energy organizations with citizen participation.

After a desk research to track suitable cases in Austria, we quickly got aware of a co-operative called *v-energie* in the Western Austrian province of Vorarlberg. We conducted four interviews with relevant actors in Vorarlberg. Basically, interviews were semi-structured with a mix of single and group interviews. Interviewee 1 is the

chairman of *v-energie*, Interviewee 2 works at the *Vorarlberger Energieinstitut* (Energy Institute of Vorarlberg), Interviewee 3 is the owner of a consultancy and chairman of the *Talentgenossenschaft*, which is affiliated with *v-energie*, and the last interview was arranged as a group interview. Interviewees were the director of the *Arbeitsgemeinschaft Erneuerbare Energie Vorarlberg* and one member of the *Talentgenossenschaft*. Furthermore, we were able to access some archival data (mainly press articles and internal reports). Data was collected in May 2010, when also an on-site visit at the central office of *v-energie* took place. All interviews were tape-recorded and transcribed afterwards, in order to have a solid database available for the following qualitative content analysis in line with Mayring (2008).

## 4. Case description: v-energie

### 4.1 Context: renewable energy production in Vorarlberg

Within this section, we present the situation in the Austrian province of Vorarlberg where our case study is located in. Afterwards, we present the different actors directly or indirectly connected with *v-energie*.

Vorarlberg is one of nine provinces in Austria. It is located in the West of the country, bordering Switzerland and Germany. It covers an area of 2,061 km<sup>2</sup> and has about 370,000 inhabitants. In terms of size and population, Vorarlberg ranks 8th out of nine Austrian provinces. Energy consumption in Vorarlberg amounts to approx. 9,400 GWh per year. Currently, almost 30 % of energy consumed stems from renewable energy sources, such as wood, water or solar energy; an amount which bears the potential to be increased by 35 % (Land Vorarlberg 2011). In general, Vorarlberg focuses more on energy conservation than on the expansion of renewable energy systems, as the reduction of the energy-demand is considered to exhibit a greater impact on the environment. Energy efficiency is aimed to be achieved through improving the thermal insulation of existing private buildings or by funding new buildings with energy-efficient insulation (Land Vorarlberg 2010). Furthermore, the city of Bregenz (the capital of Vorarlberg) for example is heavily engaged in supporting a greater diffusion of renewable energy. Since 2008, Bregenz is member of the *e5-network* of energy-efficient communities, a project assisting municipalities in modernization and enhancement of their energy politics (e5-Gemeinden 2011).

In 2010, the city council decided to

promote the use of renewable energies. In doing so, small-scale biomass installations in residential buildings, district heating network lines, solar thermal systems in residential buildings, photovoltaic and other “green” installations are encouraged and actively supported. For the next 20 years, the city of Bregenz pursues a distinct energy strategy promoting and supporting renewable energy (Bregenz 2011). However, the explicit target of Vorarlberg is energy autonomy, achieved through both approaches: the development of renewable energy systems as well as through improvement of energy efficiency (Land Vorarlberg 2011). A big share of power production in Vorarlberg is delivered by large hydropower plants (90 %). In 2009, the following green-electricity plants were in use in Vorarlberg: 912 photovoltaic plants, 12 small hydroelectric power plants, 31 biogas plants, 8 (solid and liquid) biomass plants, and 7 sewage and landfill gas plants (Energiebericht 2010). The largest feed-in capacity is delivered by biomass plants (44.3 GWh), whereas the big group of photovoltaic plants feeds in only 7.4 GWh.

### 4.2 v-energie and related actors

Figure 1 gives a brief overview of relevant actors and their relations with *v-energie*. As it will be shown, all actors aim at involving citizens in some way. The *Energieinstitut* plays the role of an intermediary between politics and the citizens. One of the most important actors is the *AEEV* (Arbeitsgemeinschaft Erneuerbare Energie Vorarlberg). The AEEV is also the operator of the *Oekostromboerse*, which is providing a platform for gathering donations to support renewable energy facilities.

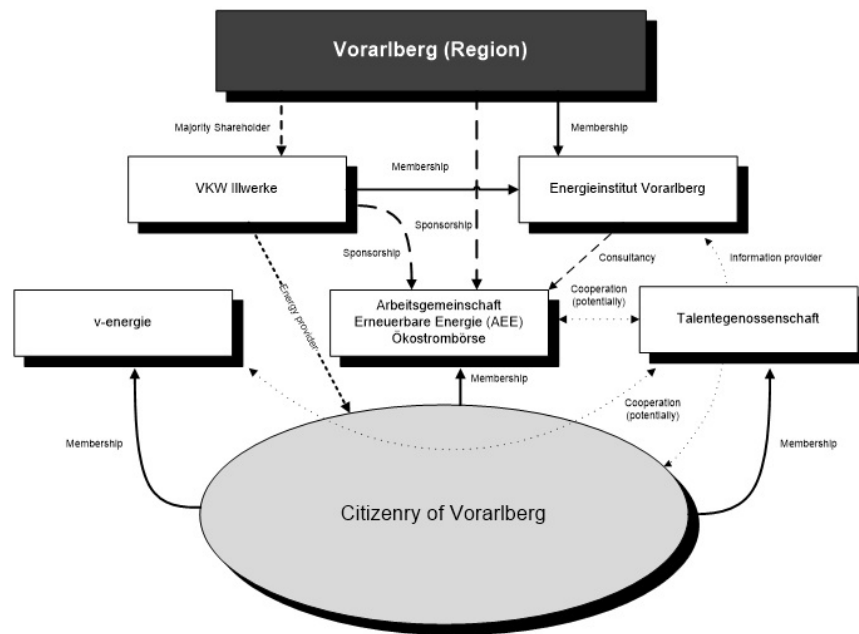


Figure 1: The relevant actors in the field

Many people support green energy by using the *Oekostromboerse* or get their own small-scale energy generation facilities supported. Remarkably, the *Oekostromboerse* is also sponsored by the *VKW Illwerke* and the regional government. Nevertheless, the *Oekostromboerse* wants to actively change the energy policy of the region, which is quite surprising given such involvement of the main energy actors. At the moment, it is not clear if the “grassroots organizations” – which all have the same target group – will cooperate and if so, in what way. In order to untangle the network presented in figure 1, we present the relevant actors in more detail:

- The *VKW Illwerke* is the largest energy service company in Vorarlberg. In 2001, it took over the *Vorarlberger Kraftwerke AG* (VKW, approx. 170,000 customers) and now acts as the main provider not only in Vorarlberg, but also in parts of Southern Germany. The principal owner of *VKW Illwerke* is the province of Vorarlberg, holding 95.5% of all shares.
- In 2001, the *Illwerke Alternative Energie* (Illwerke Alternative Energy) was founded as a 100% subsidiary of *VKW Illwerke*. The company's strategic objectives are “the long-term use of indigenous energy sources in the province of Vorarlberg, the exploitation of the water as food and the regional implementation of measures of energy efficiency.” (Vorarlberger Illwerke AG 2011).
- The *Energie Institut Vorarlberg* (Vorarlberg Energy Institute, EIV) was founded in 1985 and is registered as an association with a declared non-profit character. Currently, the EIV has 40 employees. The total budget in 2008 was 3.4m Euros. The declared objective of EIV is: “We advise, educate and conduct research for sensible energy use and renewable energy sources.” Several institutions from Vorarlberg are members of the EIV, such as the province of Vorarlberg, the VKW and the chamber of commerce. In general, anyone may become a member of the institute, but particularly institutional members are aimed for. The work of the EIV is financed by membership fees, fees for services, project funding, fees for

programs of participants / members, other incomes and sponsor contributions.

- The *ARGE Erneuerbare Energie Vorarlberg* (Consortium Renewable Energy, AEEV) was founded in 1999 to act as a regional advocacy for all producers of renewable energy. In other provinces of Austria, there are also spin-offs of the national parent institution *ARGE Erneuerbare Energie*, AEE, which was founded in 1980 to promote solar energy. The *AEEV* is organized as a charitable organization, funded by membership fees, services and sponsorship (primarily from the province of Vorarlberg and the *VKW Illwerke*). Supporters of the association are also the *European Agricultural Fund* and *leader austria* (a funding scheme for regional development by the European Union in collaboration with Austrian counterparts).
- The *AEEV* is politically independent and thus tries to cover a wide range of interests. The areas of engagement of *AEEV* are diverse: public relations, networking, education and the implementation of the projects. It also acts as an operator of the *Oekostromboerse Vorarlberg*.
- The *Oekostromboerse* (an exchange for green electricity) is an essential pillar of the *AEEV*. Currently, there are three such energy market institutions in Austria: Besides the *Oekostromboerse Vorarlberg* and in Salzburg there is the nation-wide *Oekostromboerse Austria*. The *Oekostromboerse Vorarlberg* is the oldest and most established one. The main idea behind the set-up of such an exchange is to enable the financing of green power plants and to provide

transparency in funding issues. This is achieved through voluntary surplus payments that customers make with respect to their electricity bills. This money is used for supporting small-scale producers of green electricity. It is important that customers can decide which system they want to support with their additional payment. The *Oekostromboerse* serves as the respective marketplace where such payments are settled and cleared. (ARGE Erneuerbare Energie Vorarlberg 2011).

- The *v-energie* was founded in 2008 as an association by two politicians of the Green Party. It has been designed as a project to promote the use of renewable energy. For a short time, it was considered to set up an own co-operative. The establishment of such a co-operative failed though because of the excessive costs that would originate from an appropriate set up process, particularly at the legal level. Thus, from the start an association proved easier to handle. Another reason that worked against the set up of a co-operative was the fact that at the same time in Vorarlberg there was a so called *Talentegenossenschaft* (talent co-operative) that was appealing to a similar group of (potential) members. It was considered unfavourable if there were two similar co-operatives. Nevertheless, it was considered to merge in order to "join forces". Meanwhile, cooperation between the *Talentegenossenschaft* and the *v-energie* exists. The association *v-energie* is now responsible for developing project-ideas which are then wind up by the co-operative. The main field of activity is the support of pv-systems and small hydro power stations.

## 5. Case analysis

Our case study aims at answering the research question: How can organizations built on co-operative principles contribute to the diffusion of renewable energy in Austria? Therefore, we analyzed the data gathered from qualitative interviews with members of *v-energie* by applying a qualitative content analysis (Mayring 2008) along the following categories:

- General framework conditions (5.1)
  - Situation in Austria (5.1.1)
  - Changes needed (5.1.2)
- Resources (5.2)
- Actor roles (5.3)
  - Promoters (5.3.1)
  - Investors (5.3.2)
  - Co-operative members (5.3.3)
- Organization of renewable energy projects and initiatives (5.4)
  - Objectives (5.4.1)
  - Supporting factors for renewable energy projects (5.4.2)
  - Problematic areas in renewable energy projects (5.4.3)
- Co-operative (5.5)
  - Problematic areas concerning co-operatives (5.5.1)
  - Comparison of the co-operative with other legal forms (5.5.2)

The analysis of our case study allows for deeper insights into several aspects of co-operative energy production on local or community level. Therefore, we focus on determinants of the developing process of *v-energie*, by describing the relevant framework conditions for the establishment of the *v-energie* project. After that, we elaborate the resources relevant for this development and identify different roles of actors involved in this process. Furthermore, we concentrate on the organizational forms renewable energy projects might exhibit and elaborate on objectives as well as supporting factors

and problematic areas in this field. Finally, we focus on the legal form co-operative in order to elaborate distinct requirements occurring for energy projects from choosing this legal form.

### 5.1 General framework conditions for renewable energy projects

#### 5.1.1 Situation in Austria

In general, renewable energy in Austria comprises a great investment volume (BR28<sup>2</sup>). Nonetheless, projects in this area are facing a rather hostile environment, with many decision makers criticizing the general conditions they are embedded in (in our case this is the energy market in Vorarlberg/Western Austria). This is mainly true for pv-panels. Contrary to this fact, Austria plays an important role in the field of solar energy and biomass.

However, by now there is no really free market for electricity available, as large energy providers try to defend their position in the market and possess great influence on it (BR2). Additionally, the federal state policy of Vorarlberg is affected by its business actors, which means that large companies also influence energy policy in Vorarlberg (BR21). Although the federal state government does not avert alternative energy projects, it does not support them intensely either. In general, the federal state government does not seem to support such projects until they are successful (BR45). Therefore, it is not surprising that projects in their initial phases (without having a solid basis) are facing problems getting funds from the government (BB61). Although there are initiatives possible like the *v-energie* or the *AEEV*.

Compared to other European countries

(e.g. Germany, Italy or Switzerland), the conditions for green electricity projects are underdeveloped due to hold-ups in the development of renewable energy alternatives over the past decades (BB39). The basic conditions in Germany are interpreted as being completely different (JM18) due to attractive feed-in tariffs. For example, pv-plants have boomed over the last years (BR24) and therefore initiated a whole new line of business (e.g. installation, maintenance). The underdeveloped situation in Austria already shows negative impacts on the national economy: German installation businesses provide better conditions for private pv-plants, which has already been recognized by Austrian consumers (BR25).

Regarding the legal conditions for green electricity in Austria (or more precisely in Vorarlberg) it can be stated that the Austrian **Oekostromgesetz** (green electricity law) constitutes a major obstructive factor for the diffusion of renewable energy plants and the development of a free energy market (BB4, BB38, BR3). Furthermore, legal conditions in Austria seem to block out private initiatives in renewable energy (BB37). Legal conditions constrain the diffusion of alternative energy projects and policy actors show a low level of interest in topics like renewable energy or energy efficiency (BB51). For Austrian supporters of renewable energy the motivation of political actors is incomprehensible, as other countries (like Germany) provide evidence that capital spending in renewable energy can be profitable in the long run (BB74). Therefore, activists blame political parties for being “short-sighted” regarding renewable energy projects (BB74). One interview partner, working for **AEEV**, describes the problem as follows:

"The problem is not the feasibility [of

renewable energy diffusion in Vorarlberg], as this has been proved several times. It is the allocation of power. [In such cases] it's about new power structures, new power dispersion and new dependencies" (BR29).

Although amendments and alignments of the Austrian law to the German example are planned, their implementation is not intensely supported so far as there are in fact no influential lobbies for renewable energy (BB41). Large energy suppliers in Vorarlberg possess a kind of monopoly in the state and are closely intertwined with the federal state government, which affects the development of a market for renewable energy negatively (BR21). The large energy suppliers have a long tradition in Vorarlberg and are interested in assuring their strong position, as the energy market in Vorarlberg is built around them. Therefore, they block out approaches for decentralized supply and show no interest in a change of the market situation they are embedded in. Decentralization seems to be only favorable for these large suppliers if it is arranged by means of their own supply channels (BB72). At the same time, private energy suppliers are dependent on them, as they do not possess direct market access for their green electricity (BR7). The chairman of **v-energie** describes this as “building a glass-ceiling” by the federal state government and large energy suppliers (BB73):

“This dispute is located behind the scenes. On the one hand [large energy suppliers] allow for decentralization to some degree, in order to prevent a ‘bad mood’ of people actively engaged in energy initiatives. On the other hand, they try to delimitate it, so that the admission [of alternative projects] does not endanger their position.”



Therefore, the relationship between private energy initiatives and traditional energy suppliers is problematic (BB34), as the latter view private suppliers as an immediate threat (BB35). Besides institutional constraints for private renewable energy projects, several other obstructive factors could be determined:

- Citizens notice little emotional pressure to assume responsibility for the diffusion of renewable energy. Energy is perceived as cheap and of unlimited availability, so the great proportion of the population does not recognize any need for a change in the energy system (BS2).
- Investment in pv-panels in Austria seems to bear no economic benefit (JM5), which is probably due to the limited public subsidies.
- Austrian politics focus more on energy efficiency than on renewable energy (BS7).
- In economically difficult times it is difficult for alternative energy suppliers to find sponsors for their projects (BR50).

### 5.1.2 Changes needed

The general conditions for renewable energy in Austria described above imply a number of proposals for change. Nevertheless, it currently seems as if the legal conditions for renewable energy projects will not change significantly within the next years. Therefore, such projects require promotion on a federal state- or community-level in order to enable their implementation (BB60). There have been many changes of the *OekoStromgesetz* in the past, but they were not appropriate to support green electricity. Furthermore, a broad change in perception of the population as well as a certain linking-up of activists will be needed (BB70) to build a “strong backbone” for renewable energy

diffusion in Austria.

Another approach for sustainable energy usage is to first and foremost increase energy efficiency, as the responsible usage of energy shows immediate outcomes (JM21) and is able to provide a solid basis for further discussion of the implementation of renewable energy throughout the country. It will be important to start a broad public discussion and of course controversy about renewable energy (BB71) in order to change conditions for such projects. At the same time, the installation of best practice plants may as well encourage political actors to join the discussion about renewable energy. Furthermore, positive examples for renewable energy tend to bring forward follow-up projects in this area (JM21).

Small private suppliers need to actively contribute to a change in conditions for renewable energy, instead of passively wait for this change to come (BB31). Additionally, a change in the general conditions is dependent on the support of large energy suppliers on the federal state level. Support is especially needed in the formation of a decentralized energy supply-system which includes small private suppliers as well (BR59). Nonetheless, a change in the general conditions for renewable energy needs to be initiated by politics in the first place. Instead of staying dependent on conventional energy, resources of regional renewable energy have to be made useable (BR22).

## 5.2 Resources

The analysis of the interviews conducted in the case of v-energie yielded to a number of resources required for the implementation of renewable energy (with citizen involvement) in Austria.

First of all, social resources play an important role for projects initiated by citizens as alternatives to conventional energy supply. Social capital, which in the case of *v-energie* is defined as the intensive interconnectedness of activists and people interested in the topic, serves as a crucial prerequisite in order to ensure guidance for comparison of perspectives and for the evaluation of options for implementation (BB49). Furthermore, networks of promoters and other activists are needed to attract investors in alternative projects (BB59). Nevertheless, it is difficult to include institutions dependent on the (federal state) government in such networks, as governmental and non-governmental groups regularly have different views on what changes in the general (legal) conditions for renewable energy are needed (BB70).

Regarding technological resources necessary for the diffusion of renewable energy, it can be noted that in general the technical implementation of renewable energy plants or tools for single households is not problematic (BR51), as the appropriate technologies are available. Especially photovoltaic systems can be implemented easily (BB52, BB66). Nevertheless, it is important to involve architects in the issue of renewable energy, in order to ensure that photovoltaic systems are included in the concept for new buildings from the beginning (BR5). In Vorarlberg there is a large market for single family houses with high design standards, but aspects of green electricity such as the integration of photovoltaic panels have often been ignored by architects so far (BR5). There is also a big market for passive houses.

Besides the installation of photovoltaic panels in individual housing, small-scale

hydro power might serve as an interesting and reasonable alternative in Vorarlberg (BB65). Nonetheless, small-scale hydro power does not seem to be suitable for projects like *v-energie*, as it requires high financial investment, which cannot be guaranteed by initiatives in their start-up phase (BB67).

Furthermore, it has to be said that Vorarlberg would also have the potential for wind energy projects (cf. Dobesch et al. 2003). The interviews and the case study still focus on pv-panels, since these are the most important renewable energy sources used in the small-scale segment yet.

Projects in renewable energy require high financial investment in the beginning and are expected to amortize after approx. 15-25 years or later (photovoltaic systems) (BB29, BR52). Therefore, projects need a long-term financial background and require investors who are willing to provide capital for the long run (BR46).

### 5.3 Actor roles

In general, the analysis of the case of *v-energie* resulted in the differentiation of three different types of actors fulfilling different roles in the formation process of renewable energy projects:

(1) Promoters are people who initiate projects in renewable energy and are highly involved in the (pre) start-up phases of energy co-operatives. They promote the idea of renewable energy and support projects by using their personal networks to attract members and investors.

(2) Investors: Their main task is to provide a solid financial background for new projects. Investors in renewable energy

are predominantly driven by the idea of renewable energy, and not solely motivated by possible profits.

(3) Co-operative members join the energy co-operative and are personally interested in consuming renewable energy.

Promoters, investors and co-operative members in renewable energy projects can frequently not be separated accurately. Hence, promoters can act as investors and co-operative members at the same time or vice versa. In this case study, we decided to separate the different actors from each other analytically, which enables us to present the characteristics of each type more precisely. They share three basic characteristics:

- First of all, the three types of actors involved have a high level of dissatisfaction with the current situation on the Austrian energy market (BB2).
- Secondly, they all seem to feel an urgent “need for achievement” and are ready to get their projects started (BB8).
- Thirdly, it seems that a politically predominant “green” attitude can be found in all of the three types (BB2).

Additionally, each type of actor exhibits distinct characteristics which are described in the following sub-sections.

### 5.3.1 Promoters

Promoters of renewable energy projects possess certain alertness for urgent problems in their surroundings and have a “feeling” for attracting the right people for their projects (BB5). New projects are dependent on the active commitment of promoters, especially in their (pre)start-up phases (BB20). If the commitment of promoting people gets lost, the whole

(new) project is at risk (BB20). Promoters of projects may not be single persons but occur in teams (BB9), who need to have a high degree of interconnectedness in order to build up and make use of social capital (BB49). This social capital, e.g. in the form of personal contacts of promoters, can be used to acquire investors for new projects (BB59) in order to assure a solid financial background. Furthermore, members (activists or potential co-operative members) can be found via the promoter’s network (BB53). Therefore, promoters need to extensively make use of their personal contacts to attract enough activists and members for new projects.

The involvement of political parties (or members of political parties as promoters) might be a special challenge for projects in renewable energy, as even projects (or promoters) initialized by political parties need to prove their reliability to people interested in the topic and of course in the project (BR46).

### 5.3.2 Investors

Attracting investors (and activists) for new projects is a main task of promoters (see above), although this seems to be one of the most difficult endeavors, particularly at the beginning of new projects (BR52).

Investors share a common attitude towards renewable energy projects: They are convinced that green electricity (*Oekostrom*) “makes sense” and that quick, decentralized and independent energy supply is important (BB45). Investors know about the problems regarding the general (legal) conditions concerning renewable energy; they know that their investment will not lead to high earnings (BB30). To summarize, the idea of producing renewable (“green“)

electricity is a general attitude in their life (BB45). To put it in the words of the chairman of *v-energie*:

“Investors say: ‘It [renewable energy] is so important for me, it is worth to me.’ Therefore, they have a certain readiness – well, that’s the main thing for them” (BB45).

Therefore, investors show great idealism when it comes to renewable energy, high earnings and profit is no important reason for their commitment (JM4), as projects amortize after 15-25 years at the earliest (BB29, BR 52). Nonetheless, some investors hope that energy tariffs will rise significantly over the next years and therefore invest in renewable energy (BB31).

Comparing investors to “ordinary” members of energy co-operatives or activists in renewable energy projects, it has to be noted that investors might also be persons who do not directly benefit from the energy produced (as consumers) (JM3). As mentioned above, they simply want to financially support such projects because of a “shared vision” for the future.

Renewable energy projects require a great number of investors in order to ensure an appropriate financial background for the construction of renewable energy plants (BR46). Therefore, projects in their start-up phase need to be built on a solid basement (promoters, supporters); the involvement of political parties might be helpful to attract investors (BB59).

### 5.3.3 Co-operative members

First of all, co-operative members are interested heavily in renewable energy

and energy efficiency (BB2). It seems that activists (like investors) are first and foremost attracted by the idea of renewable energy and do not have concrete expectations beforehand (BB16, JM4). Of course they act as investors by paying a certain membership fee. Co-operative members can choose between two alternatives of earning a profit from the project: (1) their membership enables them to directly obtain electricity (e.g. from their own photovoltaic system installed – extra electricity not consumed can then be compensated by feed-in to the main electricity network or (2) enhancement in value of their co-operative share (BB32), which puts them into the role of investors (see above, JM3).

### 5.4 Organization of renewable energy projects and initiatives

In order to organize renewable energy initiatives with citizen participation, first of all an organizational framework for coordination and planning is needed (BB13). In this respect, it might be helpful to found a platform, giving investors and other interested people space for information exchange and project planning (BB7), as otherwise the forming of a tight network structure cannot be ensured. Furthermore, it seems to be fruitful in terms of cost efficiency to combine related projects (BB19); special care has to be taken that this step takes place only when the platform is already established and “built on solid ground” (BB21). In doing this, special care must be taken to ensure balance between weaker and stronger projects and initiatives (BB20). Platforms organizing renewable energy projects furthermore need to ensure that all institutions involved share the same goals and do not perform as “solitary actors” (JM22). Nevertheless, they need to beware their own identity

(BB28) and maintain a strict regulation between investors and plant owners (BR68).

#### 5.4.1 Objectives

Platforms for renewable energy projects can be viewed as networks, containing single projects and initiatives, which share one vision and combine their resources and contacts in order to achieve their goals. In the initiating phase of such platforms, this goal might be to realize a certain amount of plants and of course cost recovery (BB14). Further objectives might be:

- Establishment of flagship projects to show a broad public what renewable energy is able to achieve (BB50).
- Kicking-off a political discussion about renewable energy (BB50), enabling citizens to participate the design of general conditions (BR16).
- Overcoming political shortfalls by initializing new models and instruments for renewable energy-production (BR3).
- Enabling successful private initiatives to gain a better basis for negotiation against big energy suppliers (BR16).
- Changing structures in a way that cooperation with private energy suppliers becomes a real alternative for energy customers (BR16), so that market structures change as well (BR 21).
- Achieving renewable energy facilities to become a “matter of course” for individual housing (BR6).

Summarizing, it can be noted that initiatives like v-energie do not primarily focus on nation-wide (or federal state-wide) diffusion of renewable energy, but target an advancement of general conditions and acceptance towards renewable energy projects by setting a

positive example (BB68).

#### 5.4.2 Supporting factors for renewable energy projects

First of all, cooperation between interested citizens and institutions seems to be a crucial prerequisite for achieving a common goal in renewable energy (BR48). Additionally, the interviewees considered it to be of utmost importance that citizens start to demonstrate their values concerning renewable energy in public, in order to enable a change of values and initiate the involved dynamics (BR58). Regarding renewable energy projects it is important to underline the common ground that connects interested citizens and officials (BR73): (1) the independence from other forms of energy (nuclear power or oil), and (2), ecological aspects in general. Especially the situation in Japan after the nuclear disaster and the resulting discussion on energy efficiency and nuclear power might present a promising starting point for renewable energy.

Another factor supporting renewable energy project is seen in the participation of women in related initiatives: A great proportion of voluntary services (especially regarding citizen participation) is dominated by men (BS3). Women might be able to contribute a different perspective on the topic (BS4). Therefore, it is recommended to aim for a women’s quota in renewable energy projects, as this seems to be a fruitful approach for the success of such projects (BS3). Furthermore, women are said to embrace the “co-operative thought” more than men and appreciate solidarity (BS5).

#### 5.4.3 Problematic areas in renewable energy projects

In the first place, projects need to be autonomous, as dependence from official

funds puts projects on a politically influenced level, which might affect processes negatively (BR57). Furthermore, initiatives have problems capturing a clear position towards renewable energy, as the initiatives are dependent on the “good will” and/or funds from communities or the federal state (BB70), as political institutions might stop funding without further notice, if they do not agree with the project’s goals or the initiative becomes too powerful (BB58). Additionally, political influence might result in disturbance through power games of the political parties (BB70). On the other hand, assistance from political parties or institutions might of course help to put the project on a higher level (BB70). In renewable energy projects, because of the close cooperation among different people and institutions involved, some social problems on a personal level might occur (BR49), especially regarding mutual trust and the formulation of common targets (BR70).

## 5.5 Co-operative

In general, common objectives do not necessarily need a strict contract, even though it may be helpful in many cases. For renewable energy projects it is important to build mutual trust early. Nonetheless, in case of conflicts it may of course be useful to use a contract to support the initiation of a larger project (BR71). The legal form of a co-operative might be such a kind of “contract” to ensure common achievement of objectives (BR40).

The co-operative bears huge potential for the organization and governance of renewable energy projects (BB10, BB17, JM12). Especially, it enables collective decision making (BR33) within a large number of members. One big advantage

of the legal form co-operative is the easy handling of the access /emission (without extra costs) of their members. Hence, the co-operative offers valuable opportunities for public participation, which is a big issue in the field of energy co-operatives.

Anyhow, it is without doubt that the costs of the legal form are a critical point. Regarding the annual costs of a co-operative in Austria (approx. € 3,000), co-operatives in the area of renewable energy need a certain “critical size” in order to ensure cost efficiency and the building of a useful structure aligned to its objectives (BB53). If this critical size is reached though, the opportunities to generate involvement are relatively high compared to other legal forms. Each member has to sign at least one co-operative share and participates thus in the value of the co-operative. The co-operative share enhances the members’ commitment to the project.

In Austria, only little interest in the legal form of the co-operative exists (JM9). This is mainly the result of an antiquated image (BR33) and the relatively high costs of the legal form. Furthermore, there are particular advocacy groups behind the co-operative in Austria (the so called *Genossenschaftsverbände*), which also act as a one-stop shop in services for the foundation and development of already existing co-operatives. This makes this legal form rather unique compared with other options like various forms of companies or associations.

The auditing associations (*Revisionsverbände*) of course would have the opportunity to reduce these costs and thus to contribute in making this legal form more attractive even for smaller projects, e.g. in renewable energy (JM8, see below). Naturally, the many

co-operatives in the field of biomass mainly in rural areas where co-operatives have a long tradition should keep in mind.

### **5.5.1 Problematic areas concerning co-operatives**

In general, there are two main problematic areas regarding co-operatives as a legal form for renewable energy projects : (1) The costs of the legal form, and (2) the co-operative law and the auditing associations.

#### **a) Costs of the legal form**

The Austrian co-operative law (*Genossenschaftsgesetz/GenG*) stipulates that each co-operative has to be member in an auditing association. In general, co-operatives have high fixed costs for annual auditing and membership fees in these auditing associations (BB11). These costs amounting to approx. € 3,000 per year are obstructive for smaller renewable energy projects (JM1) when choosing a legal form (JM11, B11). The obligatory membership in the auditing association acts as an advantage and disadvantage simultaneously: On the one hand, the legally intended audit guarantees reliability for the co-operative members and their business partners. On the other hand though, in comparison to other legal forms the fees sometimes may cause a problem, in particular for small co-operatives. Nevertheless, it has to be considered that each legal form causes certain fees. E.g. most of the registered associations or companies of limited liability also need cost-causing legal and tax advices or marketing consultancy, although they are not obliged to be a member in an association.

This in turn means that even if the co-operative principles provide an adequate

governance structure for renewable energy projects, initiators or responsible persons might choose another legal form (e.g. an unincorporated association, cf. 8.2).

#### **b) Co-operative law and auditing associations**

The co-operative law in Austria is viewed as being obstructive in the area of renewable energy projects (BB11) or in areas with citizen participation in general. Furthermore, auditing associations are said to impede the foundation of co-operatives in innovative areas, like in renewable energy (JM3) because of antiquated structures (JM7). The founding of a co-operative in Austria is time-consuming, although founders get support from auditing associations (JM6).

### **5.5.2 Comparison of the co-operative with other legal forms**

The co-operative as a legal form bears some advantages over other legal forms (JM15, JM16):

- Members can easily join the cooperation (entry and exit of members)
- External control through auditing associations
- Lower capital assets necessary in the founding process (compared to other legal forms like limited companies; in future, the so-called “small limited company” might become a “rival” for co-operatives in renewable energy (JM14))

On the other hand, it turned out according to our interviews that founding an unincorporated association is viewed as being superior to the co-operative (BB12). For instance, co-operatives are interpreted as being more “formal” or “official” than

associations, and interested people are frightened off because they fear responsibility (BR35). Furthermore, unincorporated associations are rather typical for citizen initiatives in a broad range of areas (BR36). Nonetheless, co-

operatives and unincorporated associations are sometimes viewed as having long and complicated ways of decision making due to member participation (BR38).

## 6. Discussion

The results of our case study show that there are several problematic areas that impede the dispersion of renewable energy plants and projects in Austria.

Although Austrian municipalities claim to increasingly seek the support of citizens in the delivery of public services (Moedlhammer 2009), it seems as if the production of renewable energy is heavily affected by “big players” in the electricity sector, trying to maintain their market share and influence. Members of alternative projects like *v-energie* therefore call for more support from the federal state. Furthermore, legal restrictions for green electricity seem to block out private initiatives and therefore constrain the diffusion of alternative energy. Results show that a number of changes in the general framework conditions of Austria are needed to support the installation of alternative electricity plants. Most prominent, a call for a change in the legal conditions (*Oekostromgesetz*) could be noted.

Concerning an appropriate resource basis for energy projects, our results show that social resources (e.g. in the form of social capital) play an important role for the participation of citizens. Furthermore, this holds true if energy projects are to be organized based on co-operative principles. In the case of *v-energie*, social capital serves as an important prerequisite for the linking-up of interested people, as it is of utmost

importance for citizen-based organizations whether citizens who are initially involved can access complementary resources through their own personal networks (Lang/Roessler 2009). In doing so, initial members – promoters – use their networks to attract members and investors, helping to build a solid basis for future work.

Results of our case study demonstrate the importance of considering the personal component of PCPs in the renewable energy sector. Actors in renewable energy projects share common characteristics, no matter if they are promoters, investors, or “just” co-operative members. Together with a commonly shared high level of dissatisfaction with the current energy market, actors feel an urgent “need for achievement” and share a predominantly pro-green political attitude. The production and consumption of green energy collectively gives a certain additional “sense” in their lives, as Mueller and Rommel (2010) note: “Producing one’s own electricity seems to make a difference. The electricity produced by a co-operative feels different from electricity purchased from a private company” (p. 9). A change in consumer-producer relations can be noted, and the co-operative might provide an adequate organizational framework for reducing information asymmetries, giving members and consumers the possibility to know how and by whom their electricity is produced (Mueller/ Rommel 2010).



To summarize, our study provides evidence that co-operatives provide an adequate legal form for the organization of renewable energy projects. The easy handling of entry or exit of members offers important opportunities for citizen participation. Still, there is little interest in the foundation of co-operatives in Austria due to an antiquated image and high costs of the legal form. Nevertheless, empirical

studies (e.g. Karner/Roessler/Weismeyer-Sammer 2010; Lang/Roessler/ Weismeyer-Sammer 2010) provide evidence that citizen participation in the form of co-operatively organized public citizen partnerships (PCP) bears a huge potential in public service delivery. As our case study of *v-energie* shows, this seems to hold true for the provision of renewable energy as well.

## 7. Implications for practice and suggestions for further research

The organization of renewable energy projects with citizen participation is a relatively new field of co-operative research. Furthermore, in particular regarding the situation in Austria, there is little to no empirical evidence regarding co-operative energy projects. Therefore, our case study has an explorative character in order to elaborate generally how co-operative principles might contribute in diffusing renewable energy projects with citizen participation in Austria. Furthermore, results of the case study might be helpful for other countries or areas, where the initial situation in the area of renewable energy co-operatives is comparable to the one in Austria (especially regarding problematic general framework conditions).

Analysis of the gathered qualitative data show that five major subject areas seem to be highly relevant for the diffusion of renewable energy with citizen participation in Austria. These categories might provide important input for other regions or countries as well by raising the following questions:

- General framework conditions: How do legal and political circumstances impact the foundation of co-operatives in the renewable energy sector?
- Resources: How does social capital support the development of co-

operatives in the renewable energy sector and to which extent might it be useful?

- Actor roles: What are the characteristics of actors involved in renewable energy co-operatives? How might they be attracted to join projects?
- Objectives: Which objectives might platforms or networks for renewable energy provision follow? Which objectives seem to be fruitful in order to push the diffusion of renewable energy projects?
- Co-operative: How can co-operative governance structures support the organization of projects for renewable energy production and consumption? Which problematic areas arise regarding the legal form of co-operatives?

As can be seen from the categories above, results of our case study bear implications for practice as well. For example, it seems to be fruitful to concentrate on the legal conditions in Austria to support renewable energy provision. Therefore, a revision of the Austrian co-operative law might encourage more activists to choose the co-operative as an appropriate legal form for their projects. Furthermore, auditing associations (*Revisionsverbände*) might initialize campaigns assuring citizens that

co-operatives are a modern and democratic way for organizing citizen participation.

Nonetheless, our case study has a strong explorative character. For further research,

it might be fruitful to analyze other good practice examples, e.g. in in-depth multiple case studies to draw a more fine-grained picture of the role of co-operatives in renewable energy production.

## Notes

<sup>1</sup> Furthermore, Mueller and Rommel (2010) give a detailed overview of the political, economical, social and technological factors impacting electricity generation and trading in Germany.

<sup>2</sup> Initials and numbers in brackets after statements refer to interpretations of the single interviews.

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# How viable are Spanish credit co-operatives after the recent bank capitalization and restructuring regulations?<sup>1</sup>

by Gemma Fajardo

## Characteristics of Credit Co-operatives in Spain<sup>2</sup>

### 1. Recognition in the Constitution

The Spanish Constitution, in force since 1978, establishes in article 129.2 that the public authorities (Parliament and national, regional, and local governments) shall foster co-operative societies through suitable legislation. The scope of this mandate embraces all co-operatives, including credit co-operatives<sup>3</sup>.

### 2. Credit Co-operatives as Credit Institutions

The Royal Legislative Decree 1298/1986 of

28 June, 1986, states that together with banks and saving banks, credit co-operatives are credit institutions. As credit institutions, credit co-operatives are subject to banking regulations, mainly Law 26/1988 on the Discipline and Intervention of Credit Institutions; Law 13/1985 on Investment Ratios, Own Funds and Reporting Requirements of Financial Intermediaries; and Royal Decree 2606/1996 on Deposit Guarantee Funds.

Credit co-operatives are the smallest and most numerous of Spain's financial institutions:

<b>2011</b>	<b>Banks</b>	<b>Savings Banks</b>	<b>Credit Co-ops</b>
<b>Number of Institutions</b>	71	35	80
<b>Assets (in millions of €)</b>	1,718,940	1,252,424	125,259

Source: Bank of Spain, Register of Institutions (April 2011) and Statistical Bulletin (2011).

### 3. Special Legislation: Substantive and Fiscal, National and Regional

Credit co-operatives are not only financial institutions but also co-operatives, and as such they are subject to laws concerning co-operatives.

In Spain, the nation (the State) and the regions (Autonomous Communities) share the power to legislate on co-operatives, but the basic rules on banking and credit matters are the responsibility of the State.

Credit co-operatives are governed by the

national Law 13/1989 on Credit Cooperatives and their pursuant regulations (Royal Decree 84/1993). They are also governed by the applicable Cooperatives Act (national Law 27/1999 of 16 July, 1999, or the regional co-operative law). Some regions have further developed legislation of credit co-operatives (Law 5/2001 in Extremadura and Decree 83/2005 in the Valencia region).

Lastly, Law 20/1990 of 19 December, 1990, on the Tax System for Cooperatives also applies to credit co-operatives, particularly articles 39 and 40<sup>4</sup>.

#### 4. Peculiarities of their Legal Status

Credit cooperatives can also be called rural savings banks (*cajas rurales*) when they provide financial services in rural areas. Setting up a credit co-operative requires authorization from the Economy and Treasury Ministry following a report from the Bank of Spain, as well as registration with the Co-operatives Register, the Company Register, and the Bank of Spain's Register of Institutions.

Credit co-operatives can engage in the same transactions as other financial institutions. They have to give priority to attending to their members' needs and their transactions with non-members must total less than 50% of their funds. The Government sets the required level of capital for establishing and operating a credit co-operative with consideration given to the area in which it will operate and the population of that area.

Credit co-operative members can be individuals or legal persons. Every member must hold at least one registered certificate of contribution to the co-operative's capital with a value of no less than €60. The total contributions of each member may not exceed 20% of the co-operative's capital, in the case of a legal person, or 2.5% for an individual. Under no circumstances may a group of legal persons that are not co-operatives hold more than 50% of the co-operative's share capital.

The shareholders' return on paid-up capital may not be greater than 6 points above the legal rate of interest. After covering the losses of previous years and subtracting taxes and compensation, a minimum of 20% of the profit has to be allocated to the indivisible Obligatory Reserve Fund and between 10% and 30%

to the co-operative's Education and Promotion Fund. The remainder can be allocated to dividends or voluntary reserves.

Each member has one vote at the General Meetings, although the articles of association can specify that the vote will be weighted in proportion to the capital or work contributed. The majority of the board of directors must be members and their liability is equivalent to that of the directors of a *sociedad anónima* (approximately equivalent to a public limited company) if the post is remunerated.

From a taxation point of view, credit co-operatives are fiscally protected; their profits are subject to a 26% company tax compared to 35% for banks.

#### 5. The Organization of Co-operative Credit in Spain

The Spanish Association of Credit Cooperatives was founded in 1989 and changed its name to the Spanish Association of Rural Savings Banks (*Asociación Española de Cajas Rurales*) in 1995. Practically all of the rural savings banks belong to it. This association is the core of the Grupo Caja Rural, which also includes a bank (Banco Cooperativo Español) and other organizations set up in the 1980s to provide services to the group, such as Rural Servicios Informáticos (IT services) and Rural Grupo Asegurador (insurance).

All credit co-operatives also belong to the National Union of Credit Cooperatives (*Unión Nacional de Cooperativas de Crédito*), which represents them and defends their interests.

It should be pointed out that credit

co-operatives usually maintain a distance from the co-operative federations and that of the social economy (CEPES). Of 80 credit co-operatives in existence in 2011, 76 are rural savings banks and the rest are credit co-operatives set up by professional groups (engineers, lawyers, architects) or as part of a co-operative group (Grupo Mondragón's Caja Laboral Popular).

## 6. Credit Co-operatives as Social Economy Institutions

The Spanish Parliament recently passed Law 5/2011 on the Social Economy on 29 March, 2011. Its purpose is to establish a shared legal framework for all organizations that make up the social economy, with full regard for the specific rules that apply to each of them, and to determine measures to foster their growth, in recognition of their aims and principles (Article 1).

This law defines the social economy as

the body of activities carried out by organizations that pursue the collective interests of their members and/or the general public, whether economic or social or both, and operate according to certain guiding principles. Article 5 identifies co-operatives as social economy organizations and its preamble justifies this insofar as different types of co-operatives, including credit co-operatives, share the guiding principles of the social economy.

In accordance with the ultimate purpose of this law, Article 8 considers the promotion, encouragement, and growth of social economy organizations and their federations to be in the general interest. This direction should be actualized through actions such as removing the obstacles that prevent social economy organizations from starting and expanding, or through the promotion of the principles and values of the social economy.

## Recent Changes in the Law with an Impact on Credit Co-operatives

### 1. Changes to the System of Conversion of Credit Co-operatives

Law 3/2009, passed on 3 April, 2009, regulates structural changes in commercial companies (conversions, mergers, splits, and the general assignment of assets and liabilities, including international relocations of registered offices). It does not affect co-operatives directly, as by law they are not considered commercial companies, but some of the provisions are applicable to them. One of these is the Fourth Final Provision, which modifies the Credit Cooperatives Law by establishing, among other things, that when a credit co-

operative is converted into a different type of credit institution, its Obligatory Reserve Fund becomes part of the share capital of the resulting company.

This rule has subsequently been affirmed by Law 2/2011 on the Sustainable Economy of 4 March, 2011, which specifies that the balance of the Obligatory Reserve Fund of a converted credit co-operative may become part of the share capital of the resulting company in the 2011 financial year (Ninth Transitory Disposition).

## 2. Banking Sector Reorganization and the Recapitalization of Credit Institutions Involved in Integration Processes

The Royal Decree Law 9/2009 on bank restructuring and credit institution equity reinforcement was passed on 26 June, 2009. This instrument aims, on the one hand, to increase the solvency, and strengthen the management, of credit institutions that find themselves in difficulty due to an orderly reorganization of the banking system and, on the other hand, to support integration processes among credit institutions that are not in difficulty but wish to improve their medium-term efficiency. According to this law, such integration processes can include, among others, what are known as Institutional Protection Systems, which have aims that can be considered similar to those generated in a merger as regards the way they operate, the adoption and execution of policies and strategies by the organizations in question, and the implementation and use of their internal and risk management controls.

To carry out both processes (restructuring and recapitalization), this law set up the Fund for Orderly Bank Restructuring (*Fondo de Reestructuración Ordenada Bancaria*, or FROB). This fund has an initial

endowment of € 9 billion and can seek external funding of up to 10 times this initial sum on the equity markets. It will provide assistance by buying convertible preference shares with a five-year conversion date<sup>5</sup>.

## 3. Recapitalization of the Credit Institutions

The Royal Decree Law 2/2011 for the reinforcement of the financial system was passed on 18 February, 2011. This law takes measures that aim to reinforce the capital of credit institutions. Its preamble justifies these measures on the grounds that doubts have been expressed about the soundness of Spain's financial system; in order to dispel any uncertainty, it must be ensured that all institutions in the Spanish banking system possess top-quality capitalization levels.

The measures set out in this Royal Decree Law are:

- a) Reinforcement of capital through the early application of the new international capital requirements (Basle III).
- b) Adaptation of the FROB as a public policy instrument to facilitate the attainment of the required capitalization levels.

## Credit Co-operatives and the Bank Recapitalization Process

The law on the reinforcement of the financial system (RDL 2/2011) requires financial institutions that can take deposits of repayable funds from the public to possess a core capital of at least 8% of their total risk-weighted assets, rising to 10% when these institutions meet the following two conditions:

- a) They have a wholesale funding ratio of over 20%.
- b) They have not placed certificates of equity ownership or voting rights representing a percentage of 20% or more of their capital with their members or shareholders (Article 1).

Core capital is defined as including, among other things, contributions to the capital of the credit co-operatives and their fees and reserves, whether statutory or required by their articles of association (Article 2).

The new core capital level was to be reached by 10 March, 2011, and if an institution was unable to meet the requirement, it was required to submit to the Bank of Spain within 15 calendar days a strategy for completion by 30 September, 2011. The strategy could involve attracting funds from third parties, a stock market listing, or resorting to funding from the FROB (First Transitory Provision).

The 10% core capital requirement is aimed at savings banks that have a wholesale funding ratio in excess of 20% because their legal form is that of a foundation; they have no members and although it is possible for them to issue participation shares, such issues have been neither frequent nor sufficient. The reason the preamble to this law gives for this discriminatory treatment is that these institutions find it more difficult to raise capital when they need to do so.

The higher capital requirement to be achieved within 6 months is giving rise to mergers between savings banks and their conversion into banks in order to be able to offer shares to third parties, including the FROB. Whichever option is taken, whether seeking private capital investors (institutional or otherwise), stock market listings, or a public shareholder, the savings banks have to be converted into PLCs (they must become banks, in essence) or set up banks and transfer their business to them.

The only savings banks that will be

allowed to retain their present form are those of limited size that have not had recourse to a high percentage of wholesale funding. The savings banks of Ontinyent (Valencia) and Pollença (Mallorca) are in this situation.

In the case of credit co-operatives, all of their capital is shared among their members and they have barely used any wholesale funding to meet their needs. Consequently, the core capital ratio required of them is 8%.

On 10 February, 2011, the Bank of Spain revealed the solvency ratios of Spanish banks, noting that all of the credit co-operatives were above the required 8%. Even if they needed to increase their capital, they could seek funding from their members and third parties without needing to become banks. Furthermore, if they needed to turn to the FROB to obtain the necessary funding, this body could subscribe capital contributions in accordance with Royal Decree Law 9/2009, Article 9, (which we shall discuss in a moment) without necessitating the credit co-operatives' conversion into banks.

"In the case of credit co-operatives, all of their capital is shared among their members"



## Credit Co-operatives and the Reorganization of the Banking Sector to Rescue Institutions in Difficulty

One of the purposes of the above-mentioned Royal Decree Law 9/2009 is to strengthen the solvency and management of credit institutions that find themselves in difficulty through the orderly reorganization of these institutions.

The preamble to this law recognizes that the viability of some medium or small credit institutions could be jeopardized by the current recession, which is characterized by a hardening of conditions for obtaining funding on the market, deterioration of property-based asset values, increases in bad debts, and a shrinking business sector.

Under normal circumstances, this situation would be remedied by the measures provided by law, such as Royal Decree 2606/1996 on the legal regime of Credit Institution Deposit Guarantee Funds. However, the present situation is not considered normal, as it affects numerous institutions and could potentially generate systemic risks, so additional instruments and public resources need to be available in case they need to be used. This was the reason for setting up the FROB, with the mission of managing credit institution reorganization processes and helping to reinforce the institutions' equity.

The restructuring process comprises three successive stages (Articles 6 and 7):

1. Private solutions must be sought to reinforce the solvency of the institution at risk.
2. If it has not proved possible to solve the situation privately, an action plan for one of the following must be submitted to the Bank of Spain: reinforcement of

the institution's assets and solvency; its merger or takeover; or the total or partial transfer of its business or of business units. These measures will have the support of the sector's Deposit Guarantee Fund.

3. If the institution's weakness persists despite the above measures, the FROB will intervene.

In this last stage, the institution's management will be replaced by administrators appointed by the FROB, who will draw up a plan to restructure the institution through merging it with one or more institutions of recognized solvency, or by transferring part or all of its business to other institutions through general or partial reassignment of its assets and liabilities. This plan must set out the form that the FROB's support will take in terms of both financial support measures and management measures.

The financial support measures can consist of providing guarantees, loans under favourable terms, or subsidiary funding; support can also take the form of acquiring assets shown on the institution's financial statements or subscribing or acquiring securities representing its equity ownership.

The investments made by the FROB in executing a restructuring plan will not be subject to certain legal limitations or obligations, such as restrictions on attending general meetings, voting rights, etc.

Should a credit co-operative undergo a banking reorganization process, the FROB

may contribute to its funds by subscribing or acquiring contributions to its capital (Article 7.3a). In this case, legal limitations on the acquisition of contributions to credit co-operatives' share capital by legal persons shall not apply and the right to vote in the assembly shall be in proportion to the share capital represented by the contributions acquired (Articles 7.6c and 7.9).

Credit co-operatives have also suffered

the consequences of the recession,<sup>6</sup> but unlike the savings banks they have had higher levels of equity, have not had recourse to international funding, have been conservative about opening new branches outside their native areas, and have played a smaller role in funding the real estate sector, which was the cause of the crisis in Spain. As a result, to date they have not created solvency issues that would subject them to the reorganization process we are examining<sup>7</sup>.

## Credit Co-operatives and Integration: The Institutional Protection System

### 1. Integration: Resizing Credit Institutions

One of the most salient features of the Spanish banking system has been the small size of its institutions. The financial authorities consider this a weakness and have tried to combat it by encouraging mergers and takeovers. The first bank mergers took place in the 1980s. Currently only two Spanish banks, Santander and BBVA, are of a size that could be considered internationally competitive<sup>8</sup>.

Integration between savings banks and between credit co-operatives mainly occurred in the 1990s. The credit institutions being integrated nowadays are ones with different legal forms. Law 12/1989 on Credit Cooperatives and its pursuant regulations (Royal Decree 84/1993) made it possible for credit co-operatives to integrate with banks and savings banks, mainly through global assignments of assets and liabilities<sup>9</sup>. Despite the viability of these integration processes, at the end of 2008 there were 66 banks, 46 savings banks and 83 credit co-operatives registered in Spain<sup>10</sup>.

Royal Decree Law 9/2009 was passed in 2009, as previously mentioned. As well as regulating the reorganization of struggling banking institutions, it also provided for measures to support integration between credit institutions that are not encountering difficulties but wish to improve their efficiency in the medium-term.

The preamble to this law considers that in the present climate, integration is necessary in order to obtain equity on the wholesale markets. Experts emphasize that when wholesale capital markets are called upon to provide funds, the cost of these liabilities varies according to each institution's credit rating, and the rating agencies' calculations are based not only on solvency but also on size. The international markets are said to distrust small financial intermediaries more than large ones. Solvency alone is not sufficient to achieve a good rating; it needs to be accompanied by volume, and it is the credit institutions with the best ratings that find it easiest to obtain international loans<sup>11</sup>.

Integration, with support from FROB

funds, can take the form of a merger or can be carried out through an Institutional Protection System (SIP), which has similar aims.

Measures to support the integration of credit institutions are aimed at all types: banks, savings banks, and credit co-operatives. According to the Governor of the Bank of Spain, it makes no sense to have credit institutions with assets of under €70 billion<sup>12</sup>.

From December 2009 to December 2010, integration processes between savings banks reduced their number from 46 to 35. These processes took the form of mergers and takeovers. Savings banks also integrate through Institutional Protection Systems (SIP), whereby they preserve their legal identity but set up banks and transfer their business to them<sup>13</sup>. These processes will continue if the Banks of Spain's objective, as has been stated, is to ensure that there are no more than 17 savings banks in no more than 6 groups with assets of around €80 billion each.

Some smaller banks will probably also use the SIP system to merge with each other and with other credit institutions in the coming months. Credit co-operatives are the smallest and most numerous of the credit institutions. Over the past 10 years their number has fallen from 94 to 80, but the Bank of Spain still considers them too numerous and too small. In total, the 80 credit co-operatives have assets worth €125.259 billion, of which over €30 billion belongs to the Cajamar group and €21.21 billion to the Caja Laboral Popular, the two largest. Credit co-operatives are also involved in integration processes, mainly mergers and SIPs.

## 2. Credit Co-operative Integration

Credit co-operatives are also being called

upon to integrate. Indeed, given their limited size, they are the institutions that most need to do so, according to the authorities and officials within the sector itself<sup>14</sup>. They can employ various methods: mergers, general assignments of assets and liabilities, co-operative groups, or institutional protection systems<sup>15</sup>.

### a) Mergers

Traditionally, co-operatives have been allowed to merge, but only with other cooperatives<sup>16</sup>. Law 13/1989 of 26 May, 1989, on credit co-operatives appeared to allow mixed mergers, but did not expressly say so<sup>17</sup>. This possibility was confirmed when the regulations pursuant to this law (Royal Decree 84/1993 of 22 January, 1993) were approved, as Article 30 regulated the authorization requirements for mergers involving credit co-operatives and allowed various types of mergers. As well as mergers between credit co-operatives and with co-operatives in other sectors, it provides for mergers with other deposit-takers when a merger proposal has not been taken up by other co-operative-sector companies within a stated period of time. Later, the Cooperatives Act currently in force (Law 27/1999 of 16 July) expressly allowed co-operatives to merge with partnerships or commercial companies of all kinds, provided that no legal rule prohibited it<sup>18</sup>. According to this law, the legislation that applies to these processes is that concerning the company that absorbs the other or others or that is founded as a result of the merger. As regards the adoption of the agreement and guarantees for the members and creditors of the co-operatives taking part, the provisions of co-operative law apply. Lastly, if the company formed by the merger is not a co-operative, the obligatory legal reserves, which are indivisible, do not become assets of that company (Article 67).

### b) *General Assignment*

Mergers are allowed between institutions with members or shareholders (banks and credit co-operatives), but not between credit co-operatives and savings banks, as the latter are foundations. As a result, the mechanism used in these cases is a general assignment of assets and liabilities. The credit co-operatives' regulations envisaged this possibility, but it is not regulated in the co-operative laws<sup>19</sup>. For commercial companies, general assignment of assets and liabilities is regulated by Law 3/2009 of 3 April, 2009, on structural modifications (Articles 81 to 91). While Law 3/2009 does not apply directly to co-operatives, in the event of legal omissions such as this it can be applied by analogy.

### c) *Second-Tier Co-operatives and Co-operative Groups*

Another way that co-operatives can integrate is to set up second-tier co-operatives and co-operative groups. Second-tier co-operatives have to be set up by at least two co-operatives, but they can also have members that are other types of legal persons, public or private, up to a maximum of 45% of their total membership. Their purpose can be to promote, coordinate and carry out the shared economic aims of their members. No member of a second-tier co-operative may hold more than 30% of its share capital (Cooperatives Law 27/1999, Article 77).

Co-operative groups were first mentioned in Spanish law when the arrangements for taxing the consolidated profits of groups of companies were adapted to cover groups of co-operatives (Royal Decree 1345/1992 of 6 November, 1992). Shortly afterward, co-operative groups were

regulated by Cooperatives Law 27/1999 (Article 78), which defined them as groups formed of several co-operatives, whatever their class and whatever the organization heading the group that exercises power or issues instructions that the co-operatives in the groups are obliged to carry out. The issuing of instructions can involve the spheres of management, administration, or governance of the co-operatives and the agreements in this regard can consist of, among other things, the establishment of common rules through the articles of association or through internal regulations. These rules can govern the relationships of association among primary-tier co-operative members or the undertakings to supply resources.

### d) *Institutional Protection Systems*

An Institutional Protection System or Institutional System of Protection (*Sistema Institucional de Protección*, or SIP) is a contractual mutual assistance mechanism. It was introduced into the Spanish financial system by Royal Decree 216/2008 of 15 February, 2008, concerning shareholders' equity in credit institutions and the Bank of Spain's Circular 3/2008 of 22 May, 2008, concerning the regulation of the minimum level of equity of credit institutions. These have the effect of incorporating into Spanish law Article 80.8 of the European Parliament and Council Directive 2006/48/CE of 14 June, 2006, relating to the business of credit institutions, which, in turn, gives concrete form to the Basle Agreement on Banking Supervision (Basle II).

The primary objective of the SIP is not integration but protection in crisis situations. As Martín de Vidales<sup>20</sup> says, it does not emerge from a reading of the

SIP rules that this system is an integration mechanism, but rather it is meant to reinforce solvency and liquidity, whereby some institutions take responsibility for others, and to establish common rules on risks and risk control. The SIP rules require united decisions on certain matters but do not require institutions to share human or material resources.

While the SIP is not necessarily an integration mechanism, it can become one; scant regulation makes it possible to reach agreements for greater involvement among participants. A gradation makes it possible to differentiate among:

- Soft or regulation SIPs, which only aim to strengthen their solvency and liquidity through a mutual guarantee mechanism and centralization of risk management, without mutualizing profits.
- Strong or reinforced SIPs, in which, in addition to the above undertakings, at least 40% of the equity and profits of each of the institutions taking part is mutualized and an institution is set up to head the group.
- Highly reinforced SIPs, with mutualization of 100% of the participants' profits.

An SIP can constitute a consolidated group, bearing in mind that control over another company can be achieved not only by holding the majority voting rights or the right to appoint the majority of the directors of controlled companies, but also through integration and shared control agreements such as those set out in an SIP. In fact, as Mínguez points out<sup>21</sup>, the formulae credit institutions are being offered do not answer to the idea of an SIP but to the better-known concept of the contractual group.

For instance, Law 13/1985 of 25 May, 1985, on investment ratios, proprietary funds, and

reporting requirements of financial intermediaries states that a group of credit institutions can be considered a consolidated group if it forms an SIP through a contractual agreement and meets certain requirements: that a central institution makes binding decisions on the group's business policies and strategies as well as its internal and risk management control levels and measures; that the contractual agreement setting up the SIP contains a mutual solvency and liquidity undertaking among the participant institutions that covers at least 40% of the equity of each; that a significant proportion (at least 40%) of their profits are pooled and distributed in proportion to the share of each; and that the agreement establishes a minimum 10-year term of participation in the SIP; etc. (Article 8).

However, the law that most clearly identifies the SIP as an integration formula is likely Royal Decree Law 9/2009, to which we referred earlier. This set up the FROB, with aims that include support for processes to integrate credit institutions. As the law's preamble states, these processes can comprise (among others) SIPs that have similar objectives to those generated during a merger as regards operating methods, the definition and execution of participant institutions' policies and strategies, and the introduction and implementation of internal and risk management controls.

The similarities observed in this Royal Decree Law has led to these processes being described as 'cold fusion' (*fusión* is also the Spanish for 'merger'). However, unlike a merger, an SIP does not dissolve and extinguish the legal persons that comprise it, nor do they lose their legal identity. Also, mergers unite the entirety of the assets of all companies involved, whereas the institutions participating in an SIP are under no obligation to hold their

assets in common; even in an integration SIP they only share the assets they have agreed to share, not their equity in its entirety.

This institutional integration system can be employed by any group of credit institutions and therefore also by credit co-operatives<sup>22</sup>. In 2005, the Bank of Spain tried to persuade all credit co-operatives to consolidate their balance sheets with the Banco Cooperativo Español, but the proposal did not succeed<sup>23</sup>. Later, in 2008, following the approval of its Solvency Circular (3/2008), the Bank of Spain urged the credit cooperatives to set up an Institutional Protection System (SIP).

Up to that point, co-operatives in the Caja Rural group had not only the statutory Deposit Guarantee Fund but also an internal solidarity fund to tackle insolvency among its members. However, this mechanism could only be activated if there were sufficient consensus within the association. An SIP makes it possible to

act more swiftly, as it does not necessitate a decision by the Spanish Association of Rural Savings Banks to begin operations. Also, the SIP controls non-compliance by its members and conducts its own risk assessments.

On 8 May, 2009, four rural savings banks set up the first SIP in Spain, the Grupo Cooperativo Cajamar. It is a soft SIP, with no mutualization of profits. Since then a number of mergers have taken place; new SIPs have been set up and existing ones have grown as new credit co-operatives have joined them. The Bank of Spain is now only authorizing SIPs that mutualize all of their profits and give one another unlimited support.

To date, the SIPs set up by credit co-operatives have either made an existing credit co-operative their central institution or have formed a second-tier co-operative, but it would also be possible for them to create SIPs based around banks and transfer their business to these, as the savings banks have done.

## **‘Bankization,’ Or Converting Credit Co-operatives into Banks**

The rules discussed earlier have led most of the savings banks to set up banks and transferred their entire business to them, which in the medium-term could bring about the disappearance of savings banks as a legal form of corporation. This process, which has been justified by the need to recapitalize, has been termed the ‘bankization’ of savings banks.

As the credit co-operatives have no solvency, liquidity, or bad debt issues, do not use the international wholesale markets for funding, and have share capital that can be acquired by members and others, for the time being they have not found themselves compelled to

become banks or to set up banks and transfer their business to them.

Owing to their size, however, they do find themselves obliged to undertake integration, and while these processes do not require them to become banks it is certainly possible for them to merge with banks or to set up a bank to head the Institutional Protection System group and transfer their business to it.

The risk of bankization has been exacerbated by a new rule, approved on the grounds that the equity of credit institutions needs to be reinforced, which constitutes an incentive to convert credit

co-operatives into banks. Law 3/2009 on structural modifications to commercial companies has modified credit co-operative law by introducing a rule that stipulates that when a credit co-operative is converted into a different type of credit institution (a bank), its Obligatory Reserve Fund becomes part of the share capital of the resulting institution.

The main question this raises is, who owns the shares that correspond to the fund that has become part of the share capital? In the Spanish Parliament it was argued that these shares should be distributed among the co-operative members-turned-shareholders. We argue that the ownership

of these shares belongs to those who would be the assignees of these funds in the event of conversion of the co-operative, in accordance with co-operative law and the articles of association of the co-operative<sup>24</sup>.

Subsequently, Law 2/2011 on the Sustainable Economy has extended the possibility of assigning the Obligatory Reserve Fund to share capital in cases in which a credit co-operative has already been converted into a bank, irrespective of how this fund had been assigned. This is a retroactive rule and its interpretation and application may create serious problems.

## Conclusions

There have been credit co-operatives in Spain since the end of the 19th Century. They have been regulated by special laws that are common to them all, despite the plurality of Spain's co-operative legislation. These laws have respected co-operative principles (although they have allowed voting rights in proportion to capital) and have permitted credit co-operatives a tax regime of their own in accordance with their particular characteristics. As credit institutions, credit co-operatives are subject to the control and supervision of the Bank of Spain and, like banks and savings banks, they can conduct all kinds of banking activities. According to Spanish law, credit co-operatives should be encouraged, because they are co-operatives (Spanish Constitution, Article 129.2) and because they belong to the Social Economy sector (Law 5/2011).

Over the past three years, major reforms have been approved in Spain that entail restructuring the banking sector. The

purpose of these reforms has been to reinforce the solvency of credit institutions through recapitalization and integration into larger organizations.

Credit co-operatives have not presented any solvency problems that would justify these measures being applied to them. The problem that the financial authorities have identified is their limited size. As a result, credit co-operatives are immersed in an integration process that does not revolve around the Banco Cooperativo Español (BCE) or the Spanish Association of Rural Savings Banks, as might be expected, but is taking place through mergers and the establishment of co-operative groups.

While credit co-operatives have not been victims of bankization, as the savings banks have been, new ways of becoming banks have opened up for them. Time will tell whether these reforms will help to strengthen the co-operative credit sector or whether they will hinder its growth.

## Notes

- <sup>1</sup> This paper is part of a research project funded by the Spanish Ministry of Science and Research, *La economía social en las políticas públicas: Perspectiva de política económica* [The Social Economy in Public Policy: An economic policy perspective] (DER2009-14462-C02-02). It has been translated into English by Mary Georgina Hardinge.
- <sup>2</sup> General studies on credit co-operatives in Spain may be found in Sanchis, 1997; Palomo, 2000; or Palomo & Valor, 2001.
- <sup>3</sup> Font de Mora & CONDE, 2003.
- <sup>4</sup> For more information on credit co-operatives in the Spanish legal system, see Vicent, 1994, and Valenzuela & Valenzuela, 2007.
- <sup>5</sup> This assistance is subject to the limitations and conditions set out by the European Commission in several communications since 13 October, 2008. It was approved by the Commission and its closing date was subsequently extended. On the compatibility between this assistance and Competition Law, see Uria, 2010.
- <sup>6</sup> According to data supplied by the Bank of Spain, credit co-operatives' profits fell from €774 million in 2007 to €256 million in 2010.
- <sup>7</sup> Some recent writings on the financial crisis and credit co-operatives include: Calvo & Paul, 2010; Seguí & Server, 2010; and Encinas & Escribano, 2011.
- <sup>8</sup> According to a financial report the Spanish Banking Association (AEB) published in March 2011, as of December 2010 the Santander group had consolidated assets worth over €1.217 trillion (\$1 trillion USD) and those of the Banco Bilbao Vizcaya Argentaria (BBVA) group exceeded €552 billion. See <http://www.aebanca.es/internet/groups/public/documents/publicaciones/18-201101144.pdf>.
- <sup>9</sup> On these processes, see Vañó, 2001.
- <sup>10</sup> All of the data on the number of registered credit institutions cited in this paper have been published on the Bank of Spain website. See <http://www.bde.es/webbde/es/secciones/servicio/regis/regent.html>.
- <sup>11</sup> The Bank of Spain report of December 2010 on the situation and prospects of the Spanish banking sector (Situación y perspectiva del Sector Bancario Español) analyzes the legislation to support integration among credit institutions and emphasizes that their aim is to create larger institutions that, among other things, will enjoy lower funding costs, as greater size makes it easier to obtain funding on the market.  
<http://www.bde.es/webbde/es/secciones/prensa/situacion/actualizacionsectorbancarioesp122010.pdf> (see p. 21).
- <sup>12</sup> Remarks published on 28 February, 2011, in the Spanish business newsletter *Intelligence & Capital News Report*, no. 692.
- <sup>13</sup> Banco Financiero y de Ahorros (Bankia), Banco Base, Banca Cívica, or Banco Mare Nostrum.
- <sup>14</sup> According to the Secretary General of the National Union of Credit Cooperatives (UNACC), "The credit cooperatives do not have a solvency or bad debt problem but a size problem, and they are already laying the foundations for a more solid future, which will allow them to gain competitive strength" (<http://www.finanzas.com/noticias/bolsas/2011-02-18>).



- <sup>15</sup> On credit co-operative concentration, see Belmonte & Cortés, 2010. On co-operative integration instruments, see Vicent, 2010, p. 47.
- <sup>16</sup> Article 94 of Spain's Cooperative Law 3/1987 of 2 April, 1987, provided for co-operatives' merging to form a new co-operative, or one or more co-operatives being taken over by an existing co-operative.
- <sup>17</sup> Article 10 states that “in the event of the institution resulting from the merger ... being a credit cooperative ...” which implies that the result of the merger could be a different type of organization.
- <sup>18</sup> For more details on co-operative mergers, particularly in the case of credit co-operatives, see Fajardo, 2006.
- <sup>19</sup> An exception was the Valencia region's Cooperative Law 3/1995 of 2 March, 1995, which regulated the general assignment of assets and liabilities. It required the agreement to be assented to with the same type of majority required to change the articles of association and to set out the conditions of assignment, taking into account an independent expert's valuation of the assets and liabilities assigned. This agreement had to be made public and had to recognize the right of the assigner's and assignee's creditors to oppose it, under the same conditions and with the same effects as in the case of mergers (Article 67).
- <sup>20</sup> Martín de Vidales, 2010.
- <sup>21</sup> Mínguez, 2010, p. 9.
- <sup>22</sup> On the application of these systems to credit co-operatives, see Palomo & Sanchis, 2010.
- <sup>23</sup> Among the reasons mentioned for this failure are that consolidation of the accounts was more demanding as it required solidarity and involved setting up a central body to manage the solvency of the institutions, with the power to issue binding instructions, and that neither Cajamar nor DZBank (both large BCE shareholders) took part in the initiative to consolidate the accounts.
- <sup>24</sup> Fajardo, 2010, p. 91. As the European Commission maintains, asset-stripping and ‘de-mutualisations’ must be avoided, and upon the conversion of a co-operative, its assets should be distributed according to the principle of disinterested distribution (Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee, and the Committee of the Regions on the Promotion of Co-operative Societies, 2004).

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# Satellite Accounts for the Co-operative Economy of the Republic of Serbia, 2009: A New Approach for Measuring the Success of the Co-operative Economy

by Dragan Vukmirovic, Andra Milojevic, Suzana Karamarkovic, Mirjana Smolicic, Rade Ciric, Vesna Simonovic, and Marina Pavlovic

## The History of Co-operative Entrepreneurship in Serbia

In its long history, co-operative entrepreneurship in Serbia has had its ups and downs, depending on the socioeconomic and political conditions of the time. The first co-operative in Serbia was established on 29 March, 1894, in a village called Vranovo, near Smederevo, as an agricultural credit union. It was founded immediately after the establishment of similar co-operatives in European countries, resulting from the growing need of poor peasants to defend themselves from loan vultures, i.e. usurers and trade speculators. The following year, the Association of Serbian Agricultural Cooperatives was founded, and together with other national co-operative associations, this association participated in the 1895 foundation of the International Co-operative Alliance (ICA) in London. Only three years later, the first law regulating this area, the Law on Handicraft and Agricultural Cooperatives, was adopted. By 1900 over 650 craft and agricultural co-operatives had been established.

In the early 1930s, youth and students' co-operatives were established in order to foster co-operation among members performing casual or temporary work. The first youth and students' co-operative in Belgrade was founded in 1931 on the initiative of prominent professors. The usual jobs that were offered to members were: milk delivery, book-selling, tax stamp delivery, and other similar jobs. At the same time the number of craft, consumer, and especially agricultural co-operatives

increased, hence up to the beginning of World War II there were more than 3,500 co-operatives. Several factors had contributed to the large number of co-operatives in Serbia. The great economic crisis of 1929 had a negative effect on the Serbian economy, especially on agriculture and co-operatives operating within the agricultural sector. In 1931, the state partly wrote off debt and partly refinanced debt with new loans that bore favorable credit terms. This certainly does not mean that the Kingdom of Yugoslavia significantly improved the situation in the agricultural sector, but it somewhat alleviated the consequences of the global economic crisis, enabling the rural population to organize through co-operatives in order to survive and, at least to a certain extent, to improve its economic situation.

In 1949, The Basic Law on Agricultural Cooperatives was adopted, and it recognized the co-operative as "an economic organization in which the working peasantry allies to improve agricultural production, raise their living standards and to construct socialism in the countryside." This law envisaged two forms of co-operatives: general agricultural co-operatives and rural working co-operatives, which were established in the fashion of the Soviet kolkhozy, or by the simple union of peasant holdings.

After 1957 the nature and role of co-operatives in agriculture and rural development were starting to change. General agricultural co-operatives that had

grown sophisticated in their various activities played a more significant role in the improvement of the overall life of the village – economically, culturally, and socially. Moreover, these co-operatives introduced a number of innovations into agricultural production by strengthening co-operative funds, which significantly improved the quality of life in rural areas.

Housing co-operatives have been established since the beginning of the 1960s. Their main purpose was to provide housing to their members. Their development was very fast, so the number of co-operatives in the former Yugoslavia at the end of the 1960s reached 1,400. At the same time, prevalence of consumer co-operatives was decreasing due to the development and growth of trade unions.

The period after 1965 was one of the most unfavorable in the history of agricultural co-operatives in this region. It was a “dark age” for co-operatives in Serbia. Co-operatives of that time were used as a political instrument for the forced collectivization of farmers and the socialization of their assets, resulting in a strong and long-term negative impact on co-operatives and their membership. Economic reforms from 1965 onward allowed agricultural producers, i.e. farmers, to establish economic relations with other business entities engaged in manufacturing and trade, and all business entities were obliged to abide by economic principles in their operations, which resulted in a significant reduction in the number of co-operatives. Smaller co-operatives, and those not operating successfully, went bankrupt and became a part of larger co-operatives or other organizations, thereby losing their identity in the process. During the 1960s, equally, co-operative unions were not better off. After the adoption of the Law on Unique

Chambers of Commerce in 1962, co-operative unions lost their legal identity and began to function as co-operative divisions within chambers of commerce, which, as stipulated by the law, became the legal owners of the valuable property of co-operative unions. After the new Constitution was adopted in 1974, based on which the Law on Association of Agricultural Producers (i.e. farmers) was passed in 1976, co-operative unions regained the status of legal persons, although without property.

Economic and social reforms in 1989 brought major changes to the economic and political systems of the country. The concept of sustainable economic development, the integrated development of rural areas, was accepted. Within agricultural policy, agricultural holdings began to play an important role as independent economic entities, since all limits that had impeded their economic development had been abolished. In the new plurality of forms of property ownership, co-operative property was revitalized and the free assemblage of holdings into agricultural co-operatives was permitted. Accordingly, the Federal Law on Cooperatives of 1990 provided that co-operative property would be returned to its previous owners because it had been seized without compensation or for other reasons. The Law on Cooperatives of 1996 confirmed this provision.

The period of transition and accelerated privatization resulted in a set of new problems related to co-operative property, and thus to co-operatives and the co-operative movement in general. The Law on Cooperatives of 1996 is unambiguous on the issue; the property ought to be returned to the co-operative whose property it was. If the co-operative no

longer exists, the property goes to a co-operative of the same type that operates on the territory of the former co-operative. The courts that were to resolve disputes over the return of co-operatives' property mostly insisted on establishing the facts, i.e. whether a co-operative was an owner, or only a user, of the claimed property. This makes it difficult to deal with this issue, especially if we take into account the fact that from 1953 to 1988 all legal persons were regarded as mere users of social property as the means of production. There is another difficulty to be mentioned here – the 1992 Republic Law on the Instructions, Method and Procedure for Determining and Recording of Agricultural Land under state and public ownership does not mention co-operative property, or land under co-operative ownership. Therefore, a huge number of co-operatives faced a very difficult economic situation,

with chronically insufficient capital to conduct business activities.

The present Constitution of the Republic of Serbia recognizes three forms of ownership – public (state), private, and co-operative. This creates a good foundation for the revitalization of co-operatives and the co-operative movement in Serbia, as well as for the improvement of the business operations of co-operatives. In official strategic documents and press releases we can often see calls for the revival of co-operative entrepreneurship and the proliferation of, as it was called by the Serbian Ministry of Agriculture, the “new generation” of co-operatives founded according to international principles and the best practice of European co-operatives – co-operatives that are efficient and market-oriented, socially active, and environment friendly.

## The Legal Framework for Business Operations

### 1. Co-operatives

The basic legislation in the area of co-operatives and the mutual economy in Serbia includes the Law on Cooperatives, the Law on Insurance, and the Law on Accounting and Auditing. All co-operatives and co-operative unions in Serbia are subject to the Law on Cooperatives that was adopted in 1996. It represents the major legal framework for co-operative entrepreneurship and regulates the establishment, membership, registration, management, and other aspects of co-operatives' business operations. As stated in this law, a co-operative is defined as an organization of individual persons (co-operative members) that operates on the co-operative principles of volunteerism and solidarity, democracy, economic participation, equal rights to

management, autonomy, and independence, and thereby realizes members' economic, social, and cultural needs and aspirations.

According to the law, a co-operative is a legal person and exists as a legal entity upon its registration with the registry. In doing business with third parties, a co-operative can act on its own behalf and for its own account, on its own behalf and on its members' account, or on behalf and account of its members.

Co-operatives can be:

- Agricultural co-operatives
- Housing co-operatives
- Consumer co-operatives
- Craft co-operatives
- Healthcare co-operatives
- Youth and students' co-operatives and
- Other kinds of co-operatives

Banking co-operatives can be established if the founders contribute cash amounting to a minimum of €200,000. The Law on Banks and Other Financial Institutions regulates their business. Agricultural, trade, housing, and other co-operatives, as well as individuals and legal entities that are members of these co-operatives, can establish banking co-operatives. Banking co-operatives perform the following tasks: they collect special-purpose savings deposits and the deposits of individuals, make loans, make payments in accordance with the law, and perform other banking services for individuals in accordance with the law.

Agricultural co-operatives process and sell agricultural products and other goods of the co-operative and its members, supply members with inputs for production, trade goods made by the members, and organize savings and credit activities within the co-operative. Agricultural co-operatives can be general or specialized (eg. crops, fruit, vineyards, or livestock co-operatives, etc.). A minimum of ten farmers and other individuals who have the right to utilize land, facilities, or the means of agricultural production are required to establish an agricultural co-operative.

Housing co-operatives, which involve investors and contractors, organize construction and maintenance, and build and maintain dwellings, apartment buildings, and office premises for their members by engaging the funds and labor of members and other individuals and legal entities. Housing co-operatives must be established by a minimum of thirty individuals.

Consumer co-operatives provide their members, and members of other consumer co-operatives that are members

of the same co-operative association, with consumer goods. A minimum of ten individuals can establish this type of co-operative.

Craft co-operatives produce and sell their products and products of their members, render craft services, and supply members with reproduction materials and fixed assets. Craft co-operatives can be established by a minimum of ten individuals, provided that those persons have the professional qualifications required to perform activities within the industry in which the co-operative operates.

Health co-operatives support members and their families through the procurement of medicines and the provision of other health services. At least ten individuals, of whom at least one must be a medical doctor, can establish a health co-operative.

Youth and student co-operatives provide for their members casual, temporary, and similar jobs for which an employment contract has not been signed between the parties, i.e. the employer and the employee. This is carried out in an organized manner to meet the needs of employers, with the aim of acquiring funds for youths' education and meeting the basic economic, social, cultural, and other personal and common needs of members. At least ten individuals, such as students and unemployed persons, are required to establish a youth and/or student co-operative.

Co-operatives' management includes the assembly, board of directors, supervisory board, and director. Furthermore, the Law on Cooperatives governs the aforementioned bodies of the co-operative, the minimum number of

members, the scope of their activities, and other regulations specific to co-operatives.

## 2. Co-operative Unions

The Law on Cooperatives defines unions as independent, interest-oriented, and professional business organizations of co-operatives that are established to improve the activities of co-operatives and to protect their mutual interest. This law establishes the manner in which funds for the operations of the unions must be raised. Usually unions are financed by the contributions of its members, the amount of which is determined by the union's assembly. Unions can raise funds from other sources or in other ways, if such options had been envisaged by agreement on the establishment of the union.

The main tasks of co-operative unions are to provide expert assistance in establishing and upgrading the operations of co-operatives; to represent the interests of co-operatives before government bodies and organizations, banks, and other financial organizations, i.e. procurement businesses; to organize and support professional development, research, and media publishing and marketing activities; to decide, in accordance with the law, on the transfer or usage of properties that have been turned over to the association after the closing of a co-operative; to adopt the rules/provisions of the association and organize its arbitration process; and to collect data necessary for publishing co-operative statistics, etc.

## Data Sources

### 1. Financial Statements

According to the Law on Accounting and Auditing, co-operatives, co-operative unions and mutual societies, as well as other enterprises, are obliged to maintain their books and prepare and submit financial statements and business reports in a manner prescribed by legislation. Financial statements consist of:

- Balance sheets
- Profit and loss accounts
- Statements of cash flow
- Statements of changes in equity
- Statistical annexes

Balance sheets and profit and loss accounts include information on assets, liabilities, revenues, and expenditures. They are compiled using the accrual accounting method, which is prescribed by accounting legislation. A specific feature of Serbian financial statements is

the existence of very detailed statistical annexes as extended notes on accounts including a number of details concerning capital, fixed assets, inventories, revenues, and expenditures. The statistic annex is quite similar to the standard Structural Business Survey (SBS) questionnaire. Enterprises are obliged to prepare annual financial statements and a copy must be submitted to the Business Registers Agency. Deadline for submission is 28 February of the current year for reporting on the previous business year. The Statistical Office of the Republic of Serbia regularly receives, in electronic form, the individual financial statements of all legal entities in Serbia, including co-operatives, thus making statistical calculations of macroeconomic aggregates and derivation of statistical indicators much easier. These annual financial statements are the major data sources for compilations of national accounts.

## 2. Survey of the Business Activity of Co-operatives and Co-operative Unions

Data required for satellite accounts compilations that are not available in the financial statements were collected through the survey. The first step was to design the questionnaire. In order to customize the questionnaire as much as possible to reflect the current conditions of co-operatives and their business operations, suggestions from representatives of the National Union of Cooperatives were taken into account. In addition, input from experts from the Agricultural Statistics Division were of great help because they already had a specialized model of the questionnaire for agricultural co-operatives.

The draft version of the questionnaire was tested through a pilot survey of 19 co-operatives and one co-operative union, which were selected applying the sample frame. The main objective of the survey was to determine whether reporting units had the required data available in their records. As a result of the pilot survey, certain questions were more precisely and defined and the final version of the questionnaire was created<sup>ii</sup>. Questions in the questionnaire are divided into five groups. The first group contains identification data. Data on employees by category, by sex, by salary, etc. are in the second group. In addition, this group contains data on the number of co-operative members and their shares. Data on capital and current transfers, received and paid out, are in the third group. The fourth group of questions contains data on gross fixed capital formation by type of investment. Specific data on financial assets and financial liabilities are covered in the fifth group.

Supervisors were divided into two groups:

supervisors-methodologists and supervisors-controllers. Training courses for supervisors-controllers as well as for interviewers were organized just before the field activities started. Training for supervisors-controllers was held in Belgrade, while the courses for interviewers were organized in 14 Statistical Office of the Republic of Serbia (SORS) regional offices, as well as in Belgrade. Most of the interviewers and supervisors-controllers displayed satisfactory knowledge since they had experience from earlier engagements in regular SBS and agricultural surveys.

The training courses' agenda covered the following topics:

- Survey objectives
- Tasks and duties of interviewers
- Tasks and duties of supervisors-controllers,
- Address book usage
- Detailed instructions for filling out the questionnaire

The survey for 2009 was conceived and implemented on a full-scope basis. It was carried out in June 2010 and covered 2,314 units (2,296 co-operatives and 18 co-operative unions) that submitted financial statements for 2008.

Co-operatives and co-operative unions were rather interested in taking part in the survey, as well as getting feedback. They were informed that the results of the survey were to be presented to the representatives of the Ministry of the Economy and the Ministry of Agriculture, so this survey was expected to create a strong argument for creating economic policy that ensures the future development of the co-operative economy in Serbia. The main difficulty in conducting the survey was the large number of small agricultural co-operatives situated in



distant rural areas. In this regard, it was difficult to contact representatives with sufficient competence and knowledge to provide reliable answers. In order to collect the data from these co-operatives, the interviewers received additional instructions – to visit co-operatives several times when necessary, to leave messages to contact the interviewer, to try to get information on certain co-operatives' operations from the local authorities, and the like.

The response rate was 80.2%; 11.4% reporting units refused to participate in the survey, 8.4% reporting units were not contacted due to inadequate identification data or an inability to get in touch with co-operative representatives. An analysis of financial statements for 2009 determined that the turnover of co-operatives that responded to the questionnaire accounted for 81.4% of all co-operatives' turnover.

This provides an indication as to what extent the survey was representative and its results reliable.

The data entry team accomplished their task under the constant supervision of the appointed supervisors-methodologists. The data were entered with the application written in Blaise (a type of software). For the survey, CADI (Computer Assisted Data Input) was used, which introduced the maximum possible number of controls in order to eliminate the errors that operators make in entering data. Logic controls are integrated into the application so that when false data are entered the operators were notified with a warning ('minor' error) or with a ban on further entries until the error is eliminated ('major' error). In the course of entering data for this survey, only 'minor' errors appeared and they were eliminated upon the operators' obligatory consultation with the supervisors-methodologists.

## Performance and Key Business Data

### 1. Trends in the Co-operative Economy

As can be seen in Table 1, the co-operative economy in Serbia in the period 2007-2009 displayed a downward trend. Namely, the total number of co-operatives and co-operative unions decreased from 2,337 in 2007 to 2,140 in 2009. The number of members decreased from 125,551 in 2007 to 122,192 in 2009 and the number of employees decreased from 10,863 in 2007 to 8,563 in 2009. The highest turnover was recorded in 2008; however, in this year the net loss was the highest, at 18,527,000,000 RSD (Serbian dinars). Net losses were also recorded in 2007 and 2009.

**Table 1: The Co-operative Economy, 2007-2009**

	Number of Co-operatives and Co-operative Unions	Number of Members	Number of Employees	Turnover (in millions of RSD)	Net Profit (in millions of RSD)
2007	2,337	125,551	10,863	48,793.9	-620.1
2008	2,314	125,493	9,853	57,069.4	-1,852.7
2009	2,140	122,192	8,563	49,835.7	-900.9

Table 2 indicates that in 2009 only 2.4% of enterprises in the non-financial sector were registered in the co-operative economy. Co-operatives' share of the turnover of the non-financial sector equaled 0.9% and totaled 0.8% of employment. The aggregate figures for the co-operative economy can be considered relatively insignificant, and they reflect a long period of institutional negligence and the negative effects of transitional restructuring of the Serbian economy on co-operative businesses.

**Table 2: Co-operatives' Share of the Non-Financial Sector, 2009**

Co-operative Economy Aggregates	%
Number of Units	2.4
Turnover	0.9
Number of Employees	0.8

## 2. Analysis of Turnover and Profit

Although in 2009 the co-operative economy as a whole recorded net losses in the amount of 9,009,000,000 RSD, it should be noted that 926 co-operatives and 6 co-operative unions recorded net profits totaling 9,357,000,000 RSD. The average net profit rate of the latter was 2.2%. Net losses recorded by 780 co-operatives and 8 co-operative unions totaled 18,366,000,000 RSD. Their average net profit rate was -28.7%. The remaining 418 co-operatives and 2 co-operative unions recorded neither net profit nor net losses. The co-operative economy as a whole recorded a negative average net profit rate of 1.8%.

**Table 3: Co-operatives and Co-operative Unions by Profit/Loss, 2009**

	Number	Net Profit/Loss (in millions of RSD)	Net Profit Rate: % of Turnover
Units with Net Profit	932	935.7	2.2
Units with Net Loss	788	-1,836.6	-28.7
Units that Broke Even	420	0.0	0.0
Total	2,140	-900.9	-1.8

Table 4 presents data classified according to defined turnover intervals. Co-operatives and co-operative unions in the turnover interval "0-1,000" recorded the most negative average net profit rate: 174.9%. The negative net profit rate, however, was much lower in all other intervals except in "100,000+." Co-operatives turnover in the "100,000+" category recorded net profits in the amount of 3,258,000,000 RSD and an average net profit rate of 1.0%. It should be noted that these 114 co-operatives employed 3,342 employees, which is almost 40% of the total number of employees engaged in the co-operative economy.

**Table 4: Co-operatives and Co-operative Unions by Turnover Interval, 2009**

Turnover Intervals (in thousands of RSD)	Number of Units	Turnover (in millions of RSD)	Net Profit/Loss (in millions of RSD)	Net Profit Rate: % of turnover	Number of Employees
0	618	0.0	-81.8	-	156
0-1,000	415	133.8	-233.9	-174.9	468
1,000-5,000	369	955.2	-316.8	-33.2	964
5,000-20,000	315	3,475.0	-250.4	-7.2	1,243
20,000-50,000	202	6,691.2	-276.2	-4.1	1,393
50,000-100,000	107	7,504.9	-67.6	-0.9	997
100,000+	114	31,075.6	325.8	1.0	3,342
Total	2,140	49,835.7	-900.9	-1.8	8,563

It is interesting to have a look at the distribution of co-operatives within the given intervals. The number of co-operatives within each turnover interval is in inverse proportion to the size of each interval, meaning that the greatest number of co-operatives fell within the first interval (618 co-operatives). As we move to the next interval, this number drops. This indicates that co-operatives in Serbia do not operate on the principles of economies of scale, which makes for poorer results. In addition to this, the majority of employees in co-operatives in Serbia (5,221) are within intervals suffering from losses, which raises not only economic but also social concerns.

Based on analysis of turnover and net profits, in the co-operative economy two types of co-operatives can be clearly distinguished. The first type is efficient and market-oriented co-operatives, which belong to a “new generation of co-operatives”. These co-operatives continuously improve their business and have very good prospects. On the other side, there are co-operatives that are not adapted to the market-oriented economy. These co-operatives continuously suffer decreases in turnover and their future is rather uncertain.

### 3. Ratio Analysis of Financial Statements

Financial ratios reveal very useful information about liquidity, operating activity, and the profitability of the co-operative economy. These financial ratios can also be used as a base for comparison with data from individual co-operatives. In Table 5, some of the most important ratios for the co-operative economy as a whole, and for co-operatives and unions that recorded net profits in 2009, are presented.

**Table 5: Financial Ratios, 2009**

	Co-operative Economy (in toto)	Units with Net Profit
Current Liquidity Ratio	0.95:1	1.12:1
Quick Liquidity Ratio (Acid Test)	0.64:1	0.72:1
Debt Ratio	0.7	0.6
Inventory Turnover	4.5	4.8
Days Sales in Inventory	81.4	75.3
Accounts Receivable Turnover	2.9	3.7
Average Collection Period	125.8	98.8
Accounts Payable Turnover	1.8	2.7
Days Purchases in Accounts Payable	199.7	133.8
Fixed Asset Turnover	2.2	3.2
Gross Margin (%)	-2.1	1.0
Profit Margin (%)	-1.8	2.2
Return on Operating Assets (%)	-1.9	1.2
Return on Total Assets (%)	-1.6	2.6
Return on Equity (%)	-4.6	6.9

The above liquidity ratios show that the liquidity of the co-operative economy as a whole was not at an adequate level in 2009. The current liquidity ratio and quick liquidity ratio indicated that each RSD's worth of short-term liabilities was covered by only 0.95 RSD's worth of current assets and with 0.64 RSD's worth of the most liquid of current assets. The values that are usually considered normal for these ratios are 2:1 and 1:1 respectively. Ratios for operating activity were also not at an adequate level. For example, these ratios showed that inventory is sold, or “turned over,” 4.5 times per year on average; that accounts receivable were collected 2.9 times per year on average; and

that accounts payable were paid 1.8 times per year on average. Regarding profitability, all ratios such as gross margin, net profit margin, return on operating assets, return on total assets, and return on equity had negative values. On the other side, co-operatives and co-operative unions that recorded a net profit in 2009 had better financial ratios values. The current liquidity ratio and quick liquidity ratio of this group of co-operatives indicated that each RSD's worth of short-term liabilities was covered by 1.12 RSDs' worth of current assets and 0.72 RSD's worth of the most liquid of current assets. They also displayed greater health in terms of operating activity ratios. For example, these ratios showed that inventory is sold, or "turned over," 4.8 times per year on average; that accounts receivable were collected 3.7 times per year on average; and that accounts payable were paid 2.7 times per year on average. As opposed to the co-operative economy as a whole, all profitability ratios had positive values.

## Social Accounting Matrices

The main role of social accounting matrices is to display data on non-monetary activities of companies, such as the number and size of companies, employment, remuneration by type of employment, the number of members, etc.

### 1. Number of Co-operatives and their Size

The co-operative economy in Serbia in 2009 comprised 2,124 co-operatives and 16 co-operative unions, totaling 2,140 units.

**Table 6: Number of Co-operatives and Co-operative Unions, 2009**

	Number of Units
Co-operatives	2,124
Co-operative Unions	16
Total	2,140

Agricultural cooperatives accounted for the greatest share of co-operatives in total: 67.1%. Youth and students' co-operatives comprised 17.8%, housing 6.9%, craft 4.1%, and all others 4.2%. It should be noted that in 2009 there was not one banking co-operative.

**Table 7: Number of Co-operatives by Type, 2009**

Type of Co-operative	Number of Units	% of Total
Agricultural	1,425	67.1
Youth and Students'	378	17.8
Housing	146	6.9
Craft	87	4.1
Consumer	8	0.4
Other	80	3.8
Total	2,124	100.0

The distribution of co-operatives across industries (NACE, rev. 1) was noticeably unequal, such that 60.6% of co-operatives operated within section A (Agriculture, Hunting, and Forestry) and 20.2% within section K (Real Estate, Rentals, and Business Activities), totaling over 80% of all co-operatives.

**Table 8: Co-operatives by Industry Type, 2009**

Industries	Number of Units	% of Total
A: Agriculture, Hunting, and Forestry	1,287	60.6
B: Fishing	4	0.2
C: Mining and Quarrying	3	0.1
D: Manufacturing	94	4.4
E: Electricity, Gas, and Water Supply	2	0.1
F: Construction	132	6.2
G: Wholesale Trade, Retail Trade, and Repairs	112	5.3
H: Hotels and Restaurants	2	0.1
I: Transport, Storage, and Communications	13	0.6
J: Financial Intermediation	-	-
K: Real Estate, Rentals, and Business Activities	430	20.2
L: Government	-	-
M: Education	4	0.2
N: Health and Social Work	2	0.1
O: Other Community, Social, and Personal Services	39	1.8
Total	2,124	100.0

It should be noted that all unions were included in section O (Other Community, Social, and Personal Services).

The distribution of enterprises by size was carried out in two ways. The first followed the Law on Accounting and Auditing, and the second respected international recommendations. Pursuant to national legislation, the criteria for categorization were as follows:

- Average number of employees (50 to 250)
- Total annual income (2,500,000 to 10,000,000 EUR, as expressed in RSD)
- Average property value (1,000,000 to 5,000,000 EUR, as expressed in RSD)

Legal persons expressing lower values than the minimum for at least two of the stated criteria are classified as small, those that meet at least two of the criteria are classified as medium-sized, and those with higher values for a minimum of two of the stated criteria are classified as large legal entities.

According to these criteria, 98.2% of all co-operatives are small, 1.7% are medium-sized, and 0.1% are classified as large. All 16 co-operative unions are small.

**Table 9: Co-operatives and Co-operative Unions by Size (according to national legislation), 2009**

	Number of Units				% of Total			
	Small	Medium	Large	Total	Small	Medium	Large	Total
Co-operatives	2,085	36	3	2,124	98.2	1.7	0.1	100.0
Co-operative Unions	16	-	-	16	100.0	-	-	100.0
Total	2,101	36	3	2,140	98.2	1.7	0.1	100.0

Table 10 presents a breakdown by type and size of co-operatives according to national legislation. Agricultural co-operatives account for a majority in all three categories by size.

**Table 10: Type of Co-operative by Size (according to national legislation), 2009**

Type of Co-operative	Number of Units			% of Total		
	Small	Medium	Large	Small	Medium	Large
Agricultural	1,387	35	3	66.5	97.2	100.0
Youth and Students'	378	-	-	18.1	-	-
Housing	146	-	-	7.0	-	-
Craft	86	1	-	4.1	2.8	-
Consumer	8	-	-	0.4	-	-
Other	80	-	-	3.9	-	-
<b>Total</b>	<b>2,085</b>	<b>36</b>	<b>3</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

The classification of enterprises by size according to international recommendations is carried out only with reference to the number of employees: 0-9 (micro), 10-49 (small), 50-249 (medium), and 250+ (large). According to these criteria, 90.7% of co-operatives are micro, 8.0% are small, and 1.3% are medium-sized. In contrast to results according to national legislation, there are no large co-operatives. Fifteen co-operative unions are micro and one is small.

**Table 11: Co-operatives and Co-operative Unions by Size (according to international recommendations), 2009**

	Number of Co-operatives					% of Total				
	Micro	Small	Medium	Large	Total	Micro	Small	Medium	Large	Total
Co-operatives	1,926	171	27	-	2,124	90.7	8.0	1.3	-	100.0
Co-operative Unions	15	1	-	-	16	93.8	6.2	-	-	100.0
<b>Total</b>	<b>1,941</b>	<b>172</b>	<b>27</b>	<b>-</b>	<b>2,140</b>	<b>90.7</b>	<b>8.0</b>	<b>1.3</b>	<b>-</b>	<b>100.0</b>

Table 12 presents a breakdown by type and size of co-operative according to international recommendations. Similar to the breakdown according to national legislation, agricultural co-operatives constitute the majority in all categories by size.

**Table 12: Type of Co-operative by Size (according to international recommendations), 2009**

	Number of Co-operatives				% of Total			
	Micro	Small	Medium	Large	Micro	Small	Medium	Large
Agricultural	1,265	134	26	-	65.7	78.4	96.3	-
Youth and Students'	372	5	1	-	19.3	2.9	3.7	-
Housing	139	7	-	-	7.2	4.1	-	-
Craft	69	18	-	-	3.6	10.5	-	-
Consumer	8	-	-	-	0.4	-	-	-
Other	73	7	-	-	3.8	4.1	-	-
<b>Total</b>	<b>1,926</b>	<b>171</b>	<b>27</b>	<b>-</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>-</b>

## 2. Employees

The total number of employees in the co-operative economy amounted to 8,563, of whom 8,524 were employees of co-operatives and 39 were employees of co-operative unions.

**Table 13: Number of Employees, 2009**

	Number of Employees
Co-operatives	8,524
Co-operative Unions	39
Total	8,563

The majority of employees, 79.1%, worked in agricultural co-operatives. Other types of co-operatives had shares in the total number of employees as follows: youth and students' co-operatives 8.3%, craft co-operatives 6.8%, housing co-operatives, 3.6% and others 2.2%.

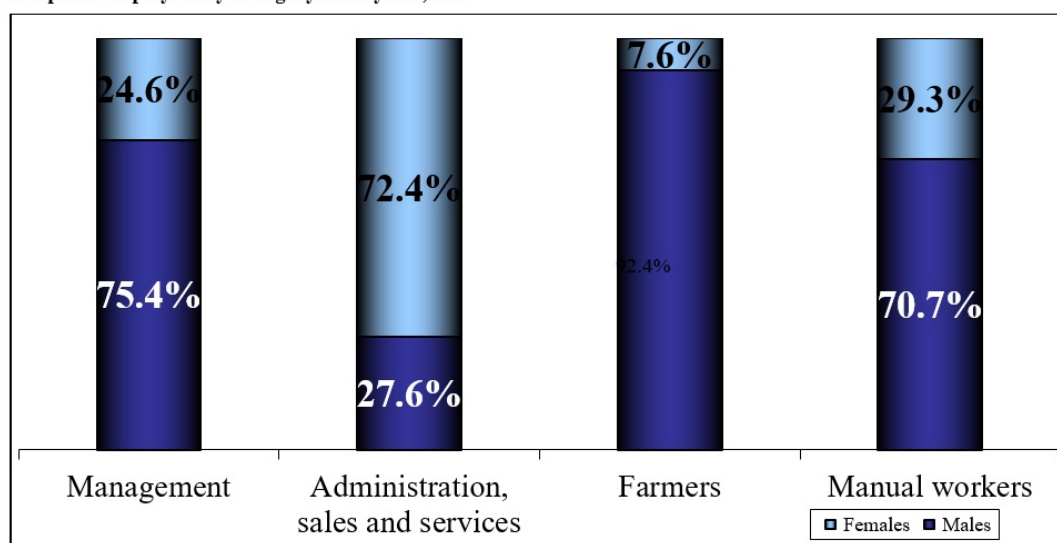
**Table 14: Number of Employees by Type of Co-operative, 2009**

Type of Co-operative	Number of Employees	% of Total
Agricultural	6,744	79.1
Youth and Students'	706	8.3
Housing	307	3.6
Craft	581	6.8
Consumer	3	0.0
Other	183	2.2
Total	8,524	100.0

**Table 15: Labor Market Data, 2009**

Classification of Employees by Category	Men	Women	Total	Costs by Category			Hours worked (in millions)	Costs per Hour Worked (in RSD)
				Wages and Salaries, gross (in millions of RSD)	Social Contribution of Employer (in millions of RSD)	Total (in millions of RSD)		
Management Administration, Sales, and Services	723	236	959	603.9	112.9	716.8	1.7	411.8
Farmers	547	1,437	1,984	886.5	149.8	1,036.3	3.3	311.7
Manual Workers	885	73	958	368.2	77.7	445.9	1.8	246.2
Total	3,296	1,366	4,662	1,723.5	306.7	2,030.2	8.4	241.6
	5,451	3,112	8,563	3,582.1	647.1	4,229.2	15.3	276.4

According to Table 15, blue-collar workers accounted for the greatest number of employees in the co-operative economy in Serbia – 54.4% of the total. Employees in Administration, Sales, and Services made up about 23% of all employees. Management staff and farmers contributed equally to the total, at 11.2% each. As per Graph 1, below, the only category in which females comprised a majority share of the total number of employees was in the Administration, Sales, and Services category (72.4%). In all other categories (Farmers, Management, and Manual Workers), the share of male workers came to 92.4%, 75.4%, and 70.7%, respectively.

**Graph 1: Employees by Category and by Sex, 2009**

In terms of co-operatives' labor costs, certain discrepancies appear among the categories. Looking at costs per hour of work, manual workers (241.6 RSD/hour) and farmers (246.2 RSD/hour) were in a worse position in relation to employees in the "Management" and "Administration, Sales, and Services" categories, at 411.8 RSD/hour and 311.7 RSD/hour respectively. The average cost per hour of work for the co-operative economy as a whole was 276.4 RSD/hour.

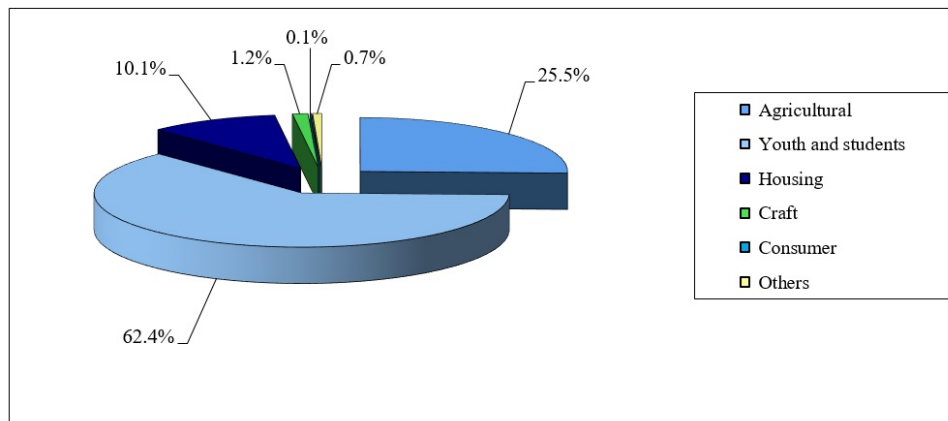
### 3. Co-operative Members

Co-operatives' members numbered 122,192 in 2009. Although the majority of co-operatives were agricultural, their share in the total number of members was not the largest. The largest share was that of youth and students' co-operatives, at 62.4%, while the share of agricultural co-operatives was 25.5%. All other co-operatives had 12.1% of members.

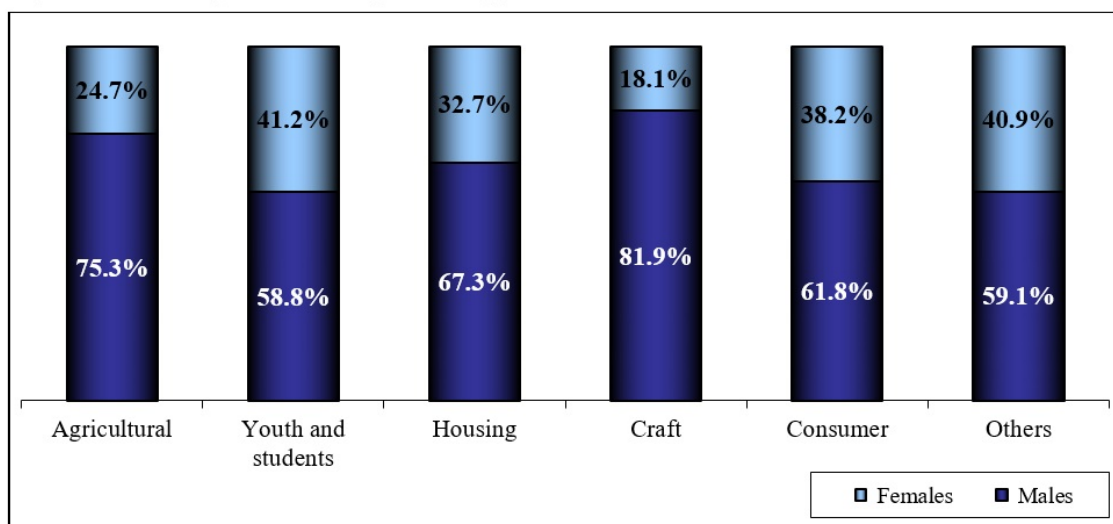
**Table 16: Members by Sex and Co-operative Type, 2009**

Type of Co-operative	Number of Members		
	Males	Females	Total
Agricultural	23,413	7,700	31,113
Youth and Students'	44,807	31,435	76,242
Housing	8,343	4,056	12,399
Craft	1,251	275	1,526
Consumer	47	29	76
Other	494	342	836
<b>Total</b>	<b>78,355</b>	<b>43,837</b>	<b>122,192</b>



**Graph 2: Members by Type of Co-operative, 2009**

Fully 64.1% of co-operative member were male and 35.9% were female. Females' share is smaller than males' share for all co-operative types. The largest share of female members was found in youth and students' co-operatives and consumers' co-operatives, at 41.2% and 38.2% respectively.

**Graph 3: Members by Sex and Co-operative Type, 2009**

## Analysis of Macroeconomic Aggregates of the Co-operative Economy

In the system of national accounts, gross value added (GVA) is one of the basic and most important macroeconomic aggregates. Table 17 indicates that the GVA of co-operatives and co-operative unions continuously decreased in the period 2007-2009. The decrease from 2007 to 2008 equaled 3.4%, and from 2008 to 2009 the decrease equaled 16.4%. The share of GVA of the co-operative economy as a whole decreased from 0.27% in 2007 to 0.18% in 2009.

**Table 17: Gross Value Added of the Co-operative Economy, 2007-2009**

	GVA (in millions of RSD)	Growth Rate, Year to Year, %	GVA Share of the Economy as a Whole, %
2007	5,265.2	...	0.27
2008	5,088.3	-3.4	0.22
2009 <sup>iii</sup>	4,256.2	-16.4	0.18

As can be seen in the satellite accounts tables for the co-operative economy as a whole, below, GVA was the only item in the satellite accounts in 2009 that displayed a positive value (42,561,000,000 RSD). Co-operatives' gross operating surplus was negative and amounted to 1,955,000,000 RSD. This means that the GVA was not sufficient to cover compensation for employees and net taxes on production. Another indicator of the insignificance of the co-operative economy in Serbia is expressed in terms of gross fixed capital formation (GFCF). In 2009, co-operatives' GFCF amounted to 13,585,000,000 RSD, only 0.26% of the total. Finally, according to the capital account, the co-operative economy borrowed 13,258,000,000 RSD in 2009.

**Table 18: Total Co-operative Economy, Production Account**

Uses			Resources		
Code	Transactions and Balancing Items	Total	Code	Transactions and Balancing Items	Total
P.2	Intermediate Consumption	12,159.5	P.1	Output	16,415.6
<b>B.1G</b>	<b>Value Added (gross)</b>	<b>4,256.1</b>			
	Total	16,415.6		Total	16,415.6

**Table 19: Total Co-operative Economy, Generation of Income Account**

Uses			Resources		
Code	Transactions and Balancing Items	Total	Code	Transactions and Balancing Items	Total
D.1	Compensation of Employees	4,229.2	<b>B.1G</b>	<b>Value Added (gross)</b>	<b>4,256.1</b>
D.2	Taxes on Production and Imports	222.6			
D.3	Minus Subsidies	0.2			
<b>B.2G</b>	<b>Operating Surplus (gross)</b>	<b>-195.5</b>			
	Total	4,256.2		Total	4,256.1

**Table 20: Total Co-operative Economy, Allocation of Primary Income Account**

Uses			Resources		
Code	Transactions and Balancing Items	Total	Code	Transactions and Balancing Items	Total
D.4	Property Income Paid	1,351.5	<b>B.2G</b>	<b>Operating Surplus (gross)</b>	<b>-195.5</b>
<b>B.5G</b>	<b>Balance of Primary Incomes (gross)</b>	<b>-1,095.0</b>	D.4	Property Income Received	452.0
	Total	256.5		Total	256.5

**Table 21: Total Co-operative Economy, Secondary Distribution of Income Account**

Uses			Resources		
Code	Transactions and Balancing Items	Total	Code	Transactions and balancing items	Total
D.5	Current Taxes on Income/Wealth	37.6	<b>B.5G</b>	<b>Balance of Primary Incomes (gross)</b>	<b>-1,095.0</b>
D.62	Social Benefits	-	D.61	Social Contributions	-
D.7	Other Current Transfers Paid	166.7	D.7	Other Current Transfers Received	129.2
<b>B.6G</b>	<b>Disposable Income (gross)</b>	<b>-1,170.1</b>			
	Total	-965.8		Total	-965.8

**Table 22: Total Co-operative Economy, Use of Income Account**

Uses			Resources		
Code	Transactions and Balancing Items	Total	Code	Transactions and Balancing Items	Total
D.8	Adjustment for Changes in Net Equity of Households in Pension Fund Reserves	-	<b>B.6G</b>	<b>Disposable Income (gross)</b>	<b>-1,170.1</b>
<b>B.8G</b>	<b>Savings (gross)</b>	<b>-1,170.1</b>			
	Total	-1,170.1		Total	-1,170.1

**Table 23: Total Co-operative Economy, Capital Account**

Uses			Resources		
Code	Transactions and Balancing Items	Total	Code	Transactions and Balancing Items	Total
D.9	Capital Transfers Payable	6.6	<b>B.8G</b>	<b>Savings (gross)</b>	<b>-1,170.1</b>
P.51	Gross Fixed Capital Formation	1,358.5	D.9	Capital Transfers Receivable	10.1
P.52	Changes in Inventories	-1,249.5			
K.2	Acquisitions, Less Disposals of Non-Financial Non-Produced Assets	50.2			
<b>B.9</b>	<b>Net Lending (+) or Net Borrowing (-)</b>	<b>-1,325.8</b>			

**Table 24: Total Co-operative Economy, Financial Account**

Changes in Financial Assets		Changes in Financial Liabilities and Net Worth	
Total	Code	Transactions and Balancing Items	Total
		<b>Net Lending (+) or Net Borrowing (-)</b>	<b>-1,325.8</b>
		Net Omissions and Errors	-90.7
<b>1,226.3</b>		<b>Change in Financial Position</b>	<b>-1,416.5</b>
		<b>Total Net Acquisition of Financial Assets</b>	
		<b>Total Net Incurrence of Liabilities</b>	<b>2,642.8</b>
-209.7	F.2	Currency and Deposits	-
24.4	F.3	Securities Other than Shares	3.6
58.5	F.4	Loans	660.0
131.6	F.5	Shares and Other Equity	-
-	F.6	Insurance Technical Reserves	-
1,221.5	F.7	Other Accounts Receivable/Payable	1,979.2

The industry with the largest share of GVA in the co-operative economy was Section A (Agriculture, Hunting, and Forestry), with a total of 34,672,000,000 RSD, or 81.5% of the co-operative economy GVA. Section A's share of GVA in the economy as a whole equaled only 1.5%. Section K (Real Estate, Rentals, and Business Activity) accounted for 5,217,000,000 RSD, or about 12.5% of the co-operative economy's GVA and only 0.1% of the GVA of the economy as a whole. The GVA of Section F (Construction) amounted to 2,978,000,000 RSD, or 7.0% of the co-operative economy's share of GVA and only 0.2% of the GVA of the economy as a whole. All other industries accounted for a very small share of the co-operative economy's GVA. It should be noted here that Section G (Wholesale Trade, Retail Trade, and Repairs) even posted a negative GVA figure -2,294,000,000 RSD.

Section A had the highest gross operating surplus, at 4,500,000,000 RSD. Industries in Section B (Fishing), Section C (Mining and Quarrying), Section E (Electricity, Gas, and Water Supply), Section F (Construction), and Section M (Education) posted GVA sufficient to cover compensation of employees and net taxes on production. In all other industries under study<sup>iv</sup>, the gross operating surplus displayed a negative value and the GVA was not sufficient to cover compensation of employees and net taxes on production.

**Table 25: Linking the Co-operative Economy's Production and the Generation of Income Satellite Accounts to Industries (values in millions of RSD)**

Industry	Output P.1	Inter-mediate Consumption P.2	Value Added B.1G	Compensation of Employees D.1	Taxes on Production and Imports D.2	Subsidies D.3	Operating Surplus (gross) B.2G	Gross Capital Formation P.5
A	10,991.6	7,524.4	3,467.2	2,846.4	171.0	0.2	450.0	-591.5
B	7.8	5.8	2.0	0.5	0.1	-	1.4	2.2
C	18.0	11.4	6.6	3.2	0.0	-	3.4	-6.9
D	695.7	605.6	90.1	195.8	3.3	-	-109.0	-19.8
E	14.8	7.0	7.8	7.6	0.1	-	0.1	-0.9
F	1,843.6	1,545.8	297.8	280.1	11.8	-	5.9	-409.1
G	923.3	1,152.7	-229.4	194.5	4.4	-	-428.3	1,316.0
H	-	-	-	-	-	-	-	-
I	121.3	111.6	9.7	12.2	0.1	-	-2.6	2.4
J	-	-	-	-	-	-	-	-
K	1,673.2	1,151.5	521.7	603.5	29.8	-	-111.6	-186.0
L	-	-	-	-	-	-	-	-
M	8.0	1.8	6.2	5.9	0.0	-	0.3	0.0
N	0.1	0.0	0.1	0.1	-	-	0.0	0.0
O	118.2	41.9	76.3	79.4	2.0	-	-5.1	2.6
<b>Total</b>	<b>16,415.6</b>	<b>12,159.5</b>	<b>4,256.1</b>	<b>4,229.2</b>	<b>222.6</b>	<b>0.2</b>	<b>-195.5</b>	<b>109.0</b>

We should note here that these figures do not represent the real economic capacity and potential for the future economic development of co-operatives in Serbia, especially in agriculture. Considering the fact that agriculture accounts for a relatively significant share of GDP (about 9%) and that there are around 778,000 farm households in Serbia, of which some have set extraordinary high harvest and output records that are comparable to those achieved by top producers in Europe, we can imagine the potential of co-operatives in the future. In addition, although they are often small in size, in some rural areas agricultural co-operatives represent a major force in agricultural production. Most dairy products, grains, and fruits in those areas are marketed by agricultural co-operatives. It can be said that the current economic performance of co-operatives in Serbia does not match their true capacity and potential.

## Notes

- i This paper is derived from the study "Satellite Accounts for Cooperative Economy of the Republic of Serbia, 2009," which was published by SORS. The study was written by the aforementioned authors and was created as a result of a project that was supported and funded by the European Commission.
- ii For a copy of the questionnaire, see Appendix 1.
- iii Estimation.
- iv Except in section N (Health and Social Work), in which case the gross operating surplus was equal to zero.

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# Multi-stakeholder Cooperatives: Engines of Innovation for Building a Healthier Local Food System and a Healthier Economy

by Margaret Lund

## Introduction

Multi-stakeholder co-operatives (or solidarity co-ops, as they are often known) are co-ops that formally allow for ownership and governance by representatives of two or more “stakeholder” groups within the same organization. Such co-ops, which may include consumers, producers, workers, volunteers and/or general community supporters in their ownership and governance structure, are generating increasing interest and experimentation in both Europe and North America. In Europe and Canada, multi-stakeholder co-ops are typically formed to pursue primarily social objectives and are particularly (although by no means exclusively) strong in the areas of healthcare and social services. In the U.S., however, sustainable food systems have been a particular area of interest and activity for multi-stakeholder co-operative enterprises.

Economists and business practitioners have long used the metaphor of a “supply chain” linking producers, processors, distributors, retailers and consumers when describing how particular goods come to market. A more recent development is the concept of the “value chain,” which recognizes not only the transactional relationships that take place along a typical supply chain, but also the “value” that can be created and maintained (or destroyed) in the wider context of social and environment impacts inherent in production, sourcing and distribution activities.

Co-operatives in general, and multi-stakeholder co-operatives in particular, have much to contribute to the discussion of healthy food value chains. Co-operatives recently formed in the U.S. are now successfully bringing together farmers, workers, consumers, food processors, distributors and community members in common ventures designed both to ensure safe and healthy food and to support a vibrant local economy. While still a very new development, the use of such a shared ownership and governance structure represents a fundamentally shift in the movement of food products from farm to table, with tremendous potential for creating effective enterprises and for contributing to broader economic and social goals.

## U.S. Consumer Food Co-operatives and the Rise of Multi-Stakeholderism

Like most co-operatives, early co-ops in the U.S. were primarily formed as single-member entities (only producers, for example, or only consumers). They were focused not on changing technology or production processes (let alone the world), but rather simply on correcting immediate and blatant market failures; these co-ops concentrated much more on questions of “what” “where” and for “whom” rather than “how.” Bringing electricity to rural America in the 1930’s is an example of the work of one such earlier substantial co-operative movement in the U.S., and in fact remains one of the most successful and cost-effective economic development interventions in U.S. history.

Beginning with the passage of special enabling legislation in 1922, U.S. farmers have banded together in producer co-operatives to purchase inputs (seed, tools, and fertilizer) and to sell their products in the wider marketplace. Many of these co-operatives became very successful. A recent study by the University of Wisconsin Center for Co-operatives (Deller, 2009) found that, collectively, farmer co-operatives in the U.S. control over \$4 billion USD in assets, have annual sales revenue of close to \$120 billion USD, and represent several of the largest corporations in the U.S. For the most part, these co-operatives all participate in, and indeed contribute to, an “industrial” model of agriculture, acquiring other firms and practicing vertical integration on occasion to keep up with their investor-owned competitors while producing a standardized and uniform product in commodity numbers for sale to the widest audience possible<sup>i</sup>.

Consumer-owned food co-operatives in the U.S., on the other hand, have long positioned themselves as practitioners and representatives of an alternative economic

model. Unlike in Europe and most other countries in the world, consumer food co-operatives in the U.S. do not resemble large, investor-owned food stores. Instead, they emerged in the 1970’s and 1980’s<sup>ii</sup> specifically as an alternative<sup>iii</sup> to such enterprises. In contrast to conventional supermarkets, U.S. food co-ops represent smaller, neighborhood-based specialty retailers with an emphasis on bulk items, organic foods, environmentally sustainable practices and alternative products, often served with a dose of anarchy, or at least direct democracy of a type seldom practiced by farmer co-ops.

Thus, from its very origin the modern U.S. consumer co-operative movement has promoted alternatives to conventional industrial, business and economic processes as well as products, concentrating on issues of “how” (how food is produced, etc.) as much as on issues of “what” food is offered for sale. While the first part of this message has found some limited appeal in the broader U.S. market and society, the second part has had enormous resonance with the U.S. consumer at large. The robust and sustained growth of the market for natural and organic food is one of the great American business success stories of the last twenty years, and consumer food co-ops have had a lead role to play in its development. While the rest of the food industry grew at a rate of less than 4% annually during the period 1990-1997, for example, sales of organic foods increased by an average of 18.6% during a similar period (Howard, 2009) and have grown by at least double-digits every year since then with the exception of 2009. What was little more than a \$1 billion USD industry in 1990 had grown to \$26.7 billion USD by 2010 (Organic Trade Association, 2011).

Other grocers could not help but notice the fat margins and healthy growth of the natural foods sector and have provided significant and often well-executed competition to the co-ops. Sophisticated and professional specialty natural foods stores like the publicly traded Whole Foods Market began appearing on the scene all over the country starting in the 1990's, while conventional food retailers increased their offerings of natural and organic product as well. The year 2000 was the first in which more organic food was purchased in conventional supermarkets than in any other venue. Today, while the food co-op sector remains healthy and growing, the fact remains that the largest organic retailer in the U.S. (2007) is Wal-Mart.

The commodification of the natural foods market has taken place in step with a general consolidation of food production and distribution systems in the U.S. and much of the rest of the world. Such consolidation is happening through both horizontal and vertical integration. Pioneering work by Dr. William Heffernan and colleagues at the University of Missouri started documenting the concentration of various industries in the hands of four or fewer companies starting in the mid-1980's. Research suggests that when 40% or more of an industry is dominated by four or fewer firms, it ceases to be competitive, giving these large firms disproportionate influence not only on price, but on quantity, quality and location of production. Even a decade ago, the concentration ratio in key food industries such as beef- and pork-packing, flour milling, soybean crushing and poultry production exceeded this 40% ratio, sometimes exceeding 80% concentration, and today the ratio is even higher (Howard, 2006; Hendrickson & Heffernan, 2007). Vertical integration has

intensified as well, with the same small number of companies often owning or controlling production, packing, distribution and even retail. The implications of such concentration for the American farmer are significant. The implications for the consumer are troubling as well. In addition to increasingly fewer choices and higher prices, such industrial concentration has raised questions about food safety and the limited available public information about practices such as genetic engineering.

Despite its origins in the alternative economy, the U.S. organic food industry has not escaped these trends of consolidation, commercialization and industrialization. Particularly in the processing sector, the North American organic foods sector has become increasingly concentrated. While retaining their familiar brand names, almost all<sup>v</sup> pioneering names in organic and natural foods have now been acquired by giant multi-national food corporations, including Kraft, General Mills, Heinz, Kellogg's, Coca-Cola and Pepsi. One-third of the top 30 North American food processing firms now own an organic brand, and 14 of the top 20 do. While some of this activity began as early as 1984, the large majority of these acquisitions happened between 1997 and 2002, when the first national organic standards went into effect. This was a precursor of the emergence of significant corporate activity in what had previously been a niche industry (Howard, 2009). There is no question that organic products and natural food in general are big business today.

Thus, while the "what" message of the natural foods consumer co-operatives has been successfully mainstreamed (some would say co-opted) over the last 20 years

by investor-owned corporations, there is some evidence that the “how” message of the co-ops (how we produce our food, how we treat others in pursuit of our product objectives) is now at last gaining a wider audience as well. Some of the evidence for this is the growing interest in local foods.

The Oxford American Dictionary made “locavore” their word of the year in 2007, giving name to the rising mainstream interest in locally-produced food. Fifteen years ago, local food was, if not a novel concept, not a clearly articulated goal even within the natural foods community. Today, local food has been called “the new organic” – the new shorthand for safe, healthy and tasty food, produced in a manner that is safe for the environment, good for the growers and supportive of the local economy. That the move toward local foods is happening at a consumer level is perhaps not so surprising, given the continued success of organic products that eschew price as the dominant factor in a purchasing decision in favor of more subjective considerations such as quality, flavor and environmental stewardship. That institutional buyers such as hospitals, schools and nursing home are also now asking for more local product is, however, a noteworthy market shift. It is also noteworthy that the demand for local foods (whether characterized as market preference or romantic yearning) has implicit within it requirements related to not only product but also process – not just the “what” but the “how.” This implies a desire, at least on the part of a segment of the American populace, for a different kind of product, certainly, but also one produced under a different set of transactional relationships with an expectation of different social relationships. Thus the local food movement harkens back in many ways to the early days of the U.S. consumer food movement, with its

objectives to not only be a different kind of company, but contribute to a different kind of economy and society as well<sup>4</sup>.

The rising interest in local food represents a significant opportunity for small producers seeking an alternative to corporate consolidated agriculture to achieve the kind of scale and consistent demand they need to make their enterprises successful. Like any market, the market for local foods is subject to the parameters of supply and demand; when demand goes up, supply should follow. The simplicity of this equation belies the sometime complexity of its execution, however. Even with a willing group of purchasers located close by, for many small farmers, the challenges inherent in scaling up agricultural production and expanding into new markets are often overwhelming. Small producers face issues not only of process reliability, product standardization, and quality control but also distribution, marketing, and limitations on the variety and seasonality of products that can be offered by a small producer. In the U.S. food market, multi-stakeholder co-operatives are emerging as one means to meet the broader economic and social objectives of the local foods movement in an efficient and business-like manner.

Multi-stakeholder co-operatives are the fastest growing type of co-op in Quebec, which itself is home to one of the most productive and vibrant co-operative development sectors in the world. While it is only in the last 20 years that this model has had formal legal recognition nationally or regionally, the idea of involving a broader community in a co-operative venture is of course much older than that. Italy was the first country to adopt a multi-stakeholder statute in 1991 after two decades of experimentation on a local

level. Quebec's law permitting "solidarity" co-operatives was first passed in 1997 and amended in 2005. In 1998, the first full year of the new provincial law, 32 solidarity co-operatives were established, representing 17% of all new co-ops. Last year (2010), 70 new solidarity co-operatives were established in Quebec, making up over 60% of all new co-operatives (Girard, 2011). In a very short time, it is truly becoming the dominant form of new co-operative development in Quebec.

The growth of multi-sector co-operatives has not been nearly so dramatic in the U.S., but what has been noteworthy is not only the number of multi-stakeholder co-operatives that have emerged in the last decade, but more specifically the dominance of the sustainable food production and distribution sector among these new co-operatives. Unlike in Europe or Canada, there is no specific enabling legislation for multi-stakeholder co-operatives in the U.S. at either the federal or state level. Some state co-operative statutes, in fact, even prohibit their formation in certain instances. There are no special funds to finance this kind of co-operative development, there is no specialized technical assistance available, and there are no widespread examples of their use in food systems, either domestically or abroad. Yet against the odds these co-operatives are springing up, often in isolation and generally with little support, in an attempt to address a fundamental dissatisfaction with existing food production and distribution systems and, more importantly, to build a positive alternative to it.

While there is scant firm data about this emerging phenomenon, a recent study from the United States Department of Agriculture of 70 "food hubs"<sup>vi</sup> (Diamond,

2011) is enlightening. This study found that the majority (60%) of the food hubs studied were of recent vintage, having been launched within the last five years. More than a quarter (27%) were formed as co-operatives, while another 22% were limited liability companies (LLCs), a legal form often used by farmers in the U.S. to create co-operative-like organizations with fewer restrictions on capital. These organizations were started by entrepreneurs, farmers, local non-profits and, interestingly, frequently a combination of these parties coming together in a multi-stakeholder format.

The phenomenon of multi-stakeholder co-operatives in the U.S. should not be overstated. Because there are no federal or state statutes governing these kinds of co-operatives it is impossible to track their numbers, but all would agree that the figure is still very small. However, interest is rapidly growing. Of the 7 domestic case studies identified for the first ever study of multi-stakeholder co-ops in the U.S. (Lund, 2010), 6 of these operated in the food sector and 5 played some role as a food hub. Five of the 7 were less than 10 years old, and several others not included in the study for reasons of being too new also identified as their core functions the linkage of various players in a sustainable local food system. While all were related to food systems in some sense, they did not take the same form. Some were joint ventures between consumer and producers, some between employees and producers, some between consumer and employees, and others embraced representatives of the whole chain, including food processors and distributors. The common theme was that each sought to link seemingly disparate groups in the ownership and governance of a common enterprise.

## Transformational vs. Transactional

Due to the emerging nature of the sector, little empirical research has been done on multi-stakeholder co-operatives specifically. The limited number of studies that have been conducted, however, support the idea of multi-stakeholder co-operatives as a mechanism for the transformation of economic relationships in a manner that is supportive of certain social objectives – just what U.S. food co-op members sought when they first started their co-operatives 30 or 40 years ago.

Traditional economic theory would largely predict the downfall rather than the growth of something as unwieldy as a multi-stakeholder co-operative movement. Challenged with the high transaction costs necessitated by the involvement of so many parties, these theories would predict, multi-stakeholder organizations would soon revert to domination by a single stakeholder group or else fall apart entirely under the weight of stakeholders' competing objectives. As Catherine Leviten-Reid & Brent Fairbairn deftly note in a forthcoming paper (Leviten-Reid & Fairbairn, 2011), however, this does not seem to have been the case. Leviten-Reid & Fairbairn posit an alternate theory whereby instead of thinking of the high transaction costs of involving multiple parties, it may be more appropriate to think of multi-stakeholder enterprises as more highly evolved mechanisms for the collection and coordination of disparate information in the pursuit of common goals. Other researchers agree, acknowledging the reduced transaction costs that ultimately emerge through increased levels of information, trust and involvement resulting from the multi-stakeholder approach (see, for example, Girard, 2009).

A 2004 survey of 79 multi-stakeholder co-operatives in Quebec revealed that co-op members had a very high level of satisfaction with their co-operative's governance process, with the co-ops reporting both a high level of engagement on the part of members and a clear ability to reach consensus in decision-making. When asked to identify future challenges, most members cited economic issues rather than problems with board governance (Leviten-Reid & Fairbairn, 2011), indicating that the multi-stakeholder governance model did not present the insurmountable challenges that some theorists would fear.

Indeed, contrary to what cynics might suppose, there does not seem to be any evidence that multi-stakeholder co-operatives are any more contested or less efficient than single-constituency co-operatives, and there is even a bit of evidence to the contrary. The admittedly sparse empirical evidence of any kind suggests that the wellbeing of various constituencies within a multi-stakeholder co-operative does not give rise to a zero-sum game – one set of members does not need to lose to allow another to win. In a large comparative study involving over 300 co-operatives, Borzaga & Depedri (2010) found that by both social and financial measures, workers fared equally well in co-operatives organized as multi-stakeholder and worker-only co-operatives; the addition of other stakeholder groups in this sample did not take away at all from the ability of co-op workers to achieve their aim of meaningful and remunerative employment.

In addition to this specific evidence, the practice of multi-stakeholder co-operatives in fact fits very well into a number of emergent theories that have posited the

characteristics necessary for organizations to be successfully transformative at the level of the firm, the economy, and society.

While a traditional price-driven business model (whether co-operative or not) may be seen as primarily transactional, the multi-stakeholder co-operative enterprise aims to be more transformational. These co-ops are not so much reacting against a conventional investor-driven or government-controlled marketplace as they are bypassing this arid dichotomy entirely in favor of a creating a whole new system. Multi-stakeholder co-operators are not interested in single transactions or even seasons of transactions, but rather in building long-term relationships with each other based upon on a stable foundation of fair pricing and fair and transparent treatment of all parties. This strategy requires all members to look beyond their immediate short-term interests and join with their business partners to envision a system in which everyone's interests are considered and balanced in different ways over the short-term and the long-term. Such an approach has clear benefits for the economy and society. In addition, some have persuasively argued that this is a superior way to build a company to maximize its long-term competitive prospects.

Transformational systems such as multi-stakeholder co-ops incorporate several elements that differentiate them from traditional transactional systems:

- They are built upon relationships – relationships are assumed to be a good that has value and that must be nurtured and fostered
- They are dependent upon transparency and the free flow of information – unlike a transactional system, in which price and production

cost information is carefully protected for competitive advantage, multi-stakeholder co-ops freely (and by necessity) share information among parties in search of a common solution

- They share a systemic perspective – having many parties at the table allows for the joint consideration of supply and demand
- They specifically adopt a long-term perspective – they strive in service of mutual long-term interests as much as or more than (although not instead of) short-term gains

At the firm level, such a perspective is often referred to as creating a “value chain” rather than a “supply chain.” Economists and business practitioners have long used the metaphor of a supply chain linking producers, processors, distributors, retailers and consumers when describing how particular goods come to market. Typical links in a food supply chain include:

Producer > Processor > Distributor > Wholesaler > Retailer > Consumer

Characteristics of a traditional supply chain include the following:

- Inputs are often interchangeable
- Relationships are transactional
- Participants are competitive
- Price rules
- The system represents a zero sum game (I win, you lose)
- Advantage is manifested through the control of inputs, dominance of markets, or both
- Benefits are unevenly distributed
- Risk is generally borne by the least powerful (passing risk on to another is considered to be adequate mitigation of risk)



A more recent development, first described by Professor Michael Porter of the Harvard Business School in the mid-1980's and popularized over the next decade in a variety of management books and articles, is the concept of the "value chain." This concept encompasses not only the transactional relationships that exist along a typical supply chain, but also the wider context of stakeholder relations and social and environment impacts inherent in production, sourcing and distribution activities.

The basic idea behind Porter's value chain concept is that too many times, firms fail to differentiate between operational effectiveness and strategy (Porter, 1996). Value can be created or lost at every stage of production, and differentiation among companies arises from both the choice of activities and how they are performed. Concentrating simply on input prices or other measures of operational effectiveness leads to activities that are easily imitated by competitors, yielding no long-term advantage and in fact contributing to a race to the bottom. Strategic companies, in contrast, display disciplined focus, a consistent "fit" with the mission, a systems perspective in all things, and a planning horizon of a decade or more rather than a single year.

Characteristics of a value chain approach include:

- Examination of the entire production process and the full range of activities, together and in order (working closely with suppliers, employees and customers)
- Recognition that at each stop/activity the product gains/loses some value
- Working toward the objective that a chain of activities together add more value than the sum of the independent activities
- Understanding that the cost of an activity is not synonymous with its value

The advantages of such an approach, as practiced by enlightened companies, could include better long-term strategic planning, better information flow both upstream and downstream between manufacturers and suppliers, support for quality enhancement activities, and increased flexibility through vertical coordination rather than vertical integration. A company that embraces a systemic perspective with a long-term planning horizon, Porter argues, will be a more successful and profitable company.

The value-chain concept, when operationalized, however, does not fundamentally challenge either the power or risk relationships among parties in the chain. Any new partnerships that evolve from such an approach may be profound or may be superficial. A more recent illustration of this concept that is particular to the food industry is the "values-" as opposed to simply "value-"based chain put forward by nonprofit organizations interested in sustainable agriculture. This values-based chain approach adds these important differentiators, which go a long way toward addressing the power imbalance of a traditional supply chain, "value-based" or otherwise. In the context of a values approach one would see:

- Links in the systems that are between strategic partners (although not every link is a partner)
- Long-term relationships with a win-win orientation
- High levels of collaboration and trust
- Partners with articulated rights and responsibilities in regard to information, risk-taking, and decision-making

- Commitment to “fairness” and the welfare of all in terms of pricing, wages, contracts, etc.
- Decentralization, often (room for local input and control)
- Recognition of the need for common values and vision

The potential advantages of such an approach in the emerging local foods movement are clear. An effort like this would allow the enterprise to combine scale with product differentiation at a local level. It could achieve high levels of quality while maintaining the consumer trust that has been frayed by the recent incursion of corporate interests into the organic and natural foods sectors. With its high levels of information exchange, it could be particularly adept at outperforming other business models in a rapidly changing market, such as that of the natural foods marketplace of the last two decades. Although this point is not made in any of the published work on values-based food chains, it is also the perfect environment for the growth of multi-stakeholder co-operatives. By embracing diverse partners in formal ownership and governance roles responsible for a system of production and delivery activities, rather than allowing a firm to concentrate only on its particular link in the chain, multi-stakeholder co-operatives create very fertile ground for the kind of structural elements that values chain proponents propose.

Porter’s work addresses the perspectives and activities necessary to create a “strategic” company and foster successful at a firm level. Many (although certainly not all) co-operative members, however, are also interested in promoting the success of their local economy and of the co-operative way of doing business; the 6th co-operative principle emphasizes co-operation among co-operatives.

From a macro perspective, in the pages of our business press and the pulpits of our political arenas, we are often offered the false dichotomy between a self-seeking, investor-driven market economy and one in which all authority and control of assets is held by the government. In fact, of course, there are many other means of effectively coordinating and distributing opportunities and resources, an observation that has only recently garnered some of the attention it deserves with the conferral of the 2009 Nobel Prize in Economics on Elinor Ostrom. In her challenge to the reductive simplicity of the “tragedy of the commons” lament – the contention that shared resources will always be over-used in situations in which costs are shared but benefits are individualized – she found many examples across the world in which scarce resources were, in fact, efficiently and effectively stewarded by those who depended on these resources for their livelihood. Amongst the eight design principles that Ostrom (see Ostrom, 2000) identified as characterizing effectively self-managed systems are some that will be particularly familiar to co-operators:

- Users design their own rules
- Users enforce their own rules
- Users have the right to effectively define who has rights to membership
- Costs are proportionate to benefits
- In larger systems, there are multiple levels of nested enterprises

The other three design principles (graduated sanctions, access to conflict resolution, government recognition) are also eminently compatible with successful co-operation. Thus, while Ostrom did not explicitly address co-operatives in her research, what she did put forward could hardly be a more effective blueprint for building a co-operative economy.

Another point that Ostrom made elsewhere that is particularly germane to multi-stakeholder co-operatives is that simply enabling participants in a venture to engage in face-to-face communication (as members of a multi-stakeholder co-operatives would necessarily do at regular board and general membership meetings) enhances the quality of co-operative decision-making (Ostrom, 2007). Thus the practice of bringing together stakeholders on a regular basis around shared responsibilities is a mechanism for reinforcing the kind of behavior that, in turn, leads to the kind of efficient and effective use of common economic resources that is to the benefit of all participants in a local economy.

A summary of relevant research would not be complete without a mention of the important work of Robert Putnam on the topic of social capital and the tangible value of social networks for the effective functioning of society at large. In his seminal collaboration with Lewis Feldstein on the topic (Putnam & Feldstein, 2003), Putnam makes an important distinction between the complementary notions of “bonding” and “bridging” social capital. Bonding social capital is what happens when networks link people who share crucial similarities; these tend to be inward-looking. Bridging social capital describes the power of the networks and relationships that emerge when people with essential differences join together; these types of networks are more outward-looking. While bonding social capital partners are who we depend on in times of strife, bridging social capital is what keeps a diverse democracy vigorous and inclusive.

Healthy societies need both, but bridging social capital – the kind that brings diverse groups together – is, Putnam & Feldstein

point out, much harder to create than bonding social capital. Bonding can be a precedent to bridging but in some instances it can also preclude it. Both kinds take time to create, and are by necessity a local phenomenon. While overall Putnam & Feldstein claim the level of sociability and civic participation in the United States is declining, they also conclude that this overall trend masks a tremendous amount of variability at the local level.

Working together fosters bridging social capital, as does civic engagement. In his 2003 book of case studies, Putnam points out that social capital is most often the byproduct of the pursuit of some particular shared goal (a business or a co-op could be one), rather than a goal pursued in and of itself. Taken together, these observations support the conclusion that multi-stakeholder co-operatives could indeed be important vehicles for the building of that elusive bridging variety of social capital that differentiates flourishing pluralistic democracies.

Dr. Porter has recently entered the discussion of the link between firm behavior and structure to the broader issues of the economy and society. In a recent (2011) article in the Harvard Business Review, Porter & Kramer promote the benefits of a “shared value” approach by businesses. In their view, the presumption of a trade-off between economic efficiency and social progress is a false one, and that the next wave of social and economic progress (however that is defined) will be driven by companies embodying their long-term view of strategic management. While stopping quite short of inviting these parties to actually participate in firm governance and ownership, Porter & Kramer’s article is noteworthy for its

specific mention of suppliers, employees, and the local community as actors in their vision – not just as beneficiaries of corporate largess, but as partners and participants in the creation of a more successful company, creating more “value” for all.

## Conclusion

The growth of multi-stakeholder co-operatives in the emerging sustainable foods movement in the U.S. is still so new that it can hardly be called a trend, yet it is an important phenomenon nonetheless. Viewed in the context of recent research on such diverse topics as economic competitiveness, resource management, and social capital, it appears that the emergence of the multi-stakeholder co-operative structure is not due to happenstance. Rather, it is the outcome of a search, by disparate parties across the country, for an economic model that will support and enhance participants’ goals. These goals go beyond the success of their own enterprise, instead embracing support for and nurturing of an economy and society that values and promotes environmental stewardship and human relations. In an increasingly polarized and caustic political environment in the context of an economy increasingly dominated by multi-national corporate interests, these co-operatives represent something different. An increasingly popular co-operative structure worldwide, multi-stakeholder co-ops in the U.S. are at the forefront of a nascent movement to institutionalize the relationship between people and their food based upon a framework of shared values and respect.

Of course, the adoption of a particular ownership or governance structure can of course never guarantee a specific outcome. However, it is clear from the evidence that the governance structure of economic enterprises has clear implications not only for the firm itself, but also for the local economy and society. These observations have resonance well beyond the food sector. As we improve our ownership and governance structures, so we will be empowered to determine our own fate.

## Notes

- <sup>i</sup> There are, of course, notable exceptions to this rule. Organic Valley Dairy Cooperative, for example, has over 1,300 members operating small family farms with annual sales (2008) in excess of \$500,000,000 USD and is a leader in sustainable agriculture.
- <sup>ii</sup> The U.S. is currently experiencing another major surge in interest in consumer food co-operatives. According to the Food Cooperative Initiative, a national nonprofit, there have been over 50 new food co-operatives started in the period 2007-2011, with almost half that number opening their doors in the last 12-18 months.
- <sup>iii</sup> An earlier generation of more conventional consumer-owned supermarkets did exist at one time in the U.S., but almost all had disappeared by the 1980’s.
- <sup>iv</sup> Interestingly, some of the most prominent “hold-outs” – that is, natural food companies that have remained independent rather than selling to a large competitor – are those structured as co-operatives.
- <sup>v</sup> There is an emerging movement within U.S. food co-ops to more specifically brand products that meet specific local economy criteria as “P6” which stands for the 6th co-operative principle of co-operation among co-operatives.
- <sup>vi</sup> A food hub is defined as “a centrally located facility with a business management structure facilitating the aggregation, storage, processing, distribution and/or marketing of locally/regionally produced food products.”

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