

# CO-OPERATIVES TO - DAY

**Selected Essays from Various  
Fields of Co-operative  
Activities**

**A Tribute to Prof. dr. V. Laakkonen**

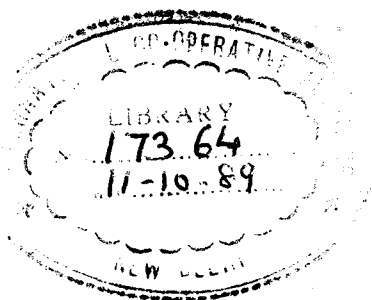


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# CO-OPERATIVES TO-DAY

(Selected Essays from Various Fields  
of Co-operative Activities)

*(A Tribute to Prof. dr. V. Laakkonen)*



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## **PREFACE**

by

**Mr. Robert L. Beasley**

Director

of

International Co-operative Alliance

*This book gives voice to the concerns of the many co-operative movements that want a clear picture of where co-operation stands to-day at. The ICA Congress in Hamburg in 1984 stressed the need for research into the latest developments and trends of the co-operative movement.*

*The World is changing, so are the co-operatives, we need to understand the change, if we are to cope with it.*

*ICA is very grateful to Dr. Juhani Laurinkari, a docent of the Helsinki University, who initiated this collection of articles on co-operative activities. Our gratitude goes also to those professors and researchers, who volunteered to write these articles that enrich our understanding of co-operation. The authors enjoy international reputation for their work on co-operative questions. The overwhelming majority of the book's authors work for Universities and research institutes. They take a scientific approach to the concerns of to-day's co-operatives. At the same time, the opinions and conclusions expressed in these articles, reflect the private convictions of their authors, not necessarily those of ICA. Perhaps, some will not agree with some articles, so be it. But if the book provokes further discussions, it will have reached its objective and performed a service valuable to co-operatives.*

*Geneva, July 1986.*



## PREFACE

Co-operation is economic activity, on one hand, when it relates to economic problemacy. On the other hand co-operation is social viz. common activity. In the latter case it relates to socio-political problem-setting. And additionally: co-operation is distinctly commercial and industrial policy; it is a.o. closely related to private households, land and forest industry. *Is it possible for co-operation, then, to have an independent special problemacy of its own*—or is it “only” the intersecting point of many different activities?

International co-operative research, going to be launched, has the important task to try and find out if there is a common paradigm which will provide the basis for the establishment of co-operation as a scientific branch of its own (cf. the German term *Genossenschaftswissenschaft*). There is a possibility to analyze the fundamental function and role of co-operation, in which case later compounds will not influence the characterization of the nature of co-operatives.

One would, in any case, arrive at the questions of *living* (subsistence), *preservation* (continuity) and *naturalness* (capacity for living). Problemacy of use value would be weighed against exchange value. Above all the role of co-operation in welfare policy and satisfaction of needs would be scrutinized.

The problemacy of use value and need value extend the research to the question of species of man. To what extent is man social and to what extent economic? Is man, by nature, at all egoistic-economic, or is he a collective economy creature?

The most essential question, however, seems to be the value of labour. To what extent is the basic idea of overall co-operation the idea of *collaboration*? Is it so that co-operation is “rebellion” of the value of work and labour against capital? At least initially it has held a critical attitude towards it.

Perhaps the crisis of consumers' co-operation can be explained by the fact that this activity has no idea of working together. Consuming together does not, obviously, motivate us very far-reachingly. Whereas working, producing, collecting, refining and marketing together seems to be more motivated than mere consumption. Will this also be an explanation to the fact that co-operation is rather popular in socialist countries, to the extent that collaboration on the basis of small capital will often succeed better than full collective ownership viz. "lack of ownership". It would be important to deal with these questions in the future.

The field of co-operative research to be carried out is at present narrow but there is much work still undone. The present publication has made an effort to respond at least to a few questions and goals of co-operation. The task has not been easy but an expert group in the field of co-operation has dealt intensively with up-to-date problems of co-operation.

This publication has been made possible by discussions and unbiased dialogues upon the initiative of the Head of the Department of Co-operative Studies, University of Helsinki, Professor in Social Policy, especially Co-operation, *Vesa Laakkonen*, within the course of many years. My editorial work has been possible thanks to a researcher and teacher team who has been open-minded, respectful of diverging opinions beyond national borders. The International Co-operative Alliance has made a most valuable contribution in this context. When working with my former teacher, present co-researcher *Prof. Vesa Laakkonen*—who will celebrate his 60th anniversary on February 11, 1986—in the ICA Research, Planning and Development Group and in the Agricultural Co-operatives Project subventioned by the Nordic Council I have been fully convinced of the need of co-operational research.

I wish to thank the Alexander von Humboldt-Foundation for having given me the possibility, as visiting research-worker, to carry on research at the Department of Co-operation, Friedrich-Alexander University, led by *Professor Oswald Hahn* during the years 1983–1985. I am also indebted to the Academy of Finland for a scholarship in 1985. These possibilities and the stimulation and support given to me by Professor *Hahn*, his business manager *Wolfgang Pelzl* und *Mr. Lajos Varadi*, leader of the research department of the ICA have been indispensable during editorial work.

The articles of the German area of this publication will be published separately at the Institute of Professor *Hahn*. In this way we have tried to serve—within limited frames and resources—both vital linguistic territories in co-operative research. The practical implementation of this

publication reveals something about the international character of the project: editorial work has been done in the German Federal Republic and in Finland, part of the articles have been translated into English in the German Democratic Republic, the printing has been done in Hungary and the country of publishing is Switzerland.

Erlangen, January 1986.

Juhani Laurinkari

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**PUBLICATIONS**

- 1958 Työntekijä ja teknillinen uudistus. Väitöskirja. 329 s. (Employee and technical innovation. Thesis. 329 pages).
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**Bruce L. Anderson\***

## **The Impact of Democratic Control on Co-operative Decision-Making**

### **INTRODUCTION**

Democratic control by members is a fundamental characteristic of co-operative organizations.<sup>1</sup> Over the years co-operative practitioners and researchers have spent a great deal of energy extolling the merits of democratic control, but have given attention to its potential problems. Only recently have co-operative researchers begun to recognize that the political aspects of co-operative decision-making have an important impact on economic performance.<sup>2</sup> While our understanding of the political economy of co-operatives is still in its formative stages, one must applaud these efforts and encourage their continued development. Moreover, for co-operatives to arrive at the best decisions it is imperative that co-operators have a thorough appreciation of both the advantages and the disadvantages of democratic control.

The purpose of this paper is to examine the impact of democratic control on co-operative decision-making. It will explore the dynamics between various groups of members as well as between the membership,

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<sup>1</sup> Throughout this paper the co-operative principle refers to "democratic control" rather than "one-member-one-vote". The former is broader than the latter and includes such forms of decision-making as voting based on patronage, voting based on equity and mixed forms of voting.

<sup>2</sup> *Vitaliano (1978), Ladd (1982), Knoeber and Baumer (1983), Staatz (1983), and Buccola and Subaei (1985).*

the board of directors and management. This is done through the presentation of two conceptual models. However, every attempt is made to make the paper applied and practical through the presentation of several co-operative examples. It is hoped that both co-operative decision-makers and researchers will find the discussion interesting and useful.

In the next section decision-making rules for co-operative and non-co-operative firms are presented. The remainder of the paper is then devoted to analyzing the problems of democratic control that could arise in co-operative organizations. In addition, strategies to deal with the weaknesses of democratic control are identified.

## DECISION-MAKING IN CO-OPERATIVE AND NON-CO-OPERATIVE ORGANIZATIONS

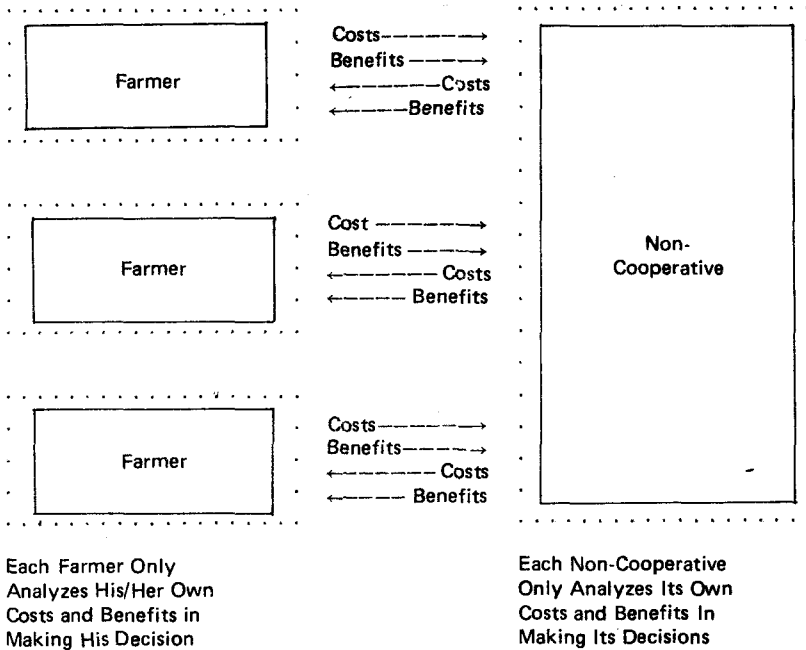
The general goal of a co-operative organization is to improve and maximize the economic well-being of its members. This section is concerned with the decision rules required to attain this goal. In addition, decision-making rules of co-operative organizations are compared to those used by non-co-operative firm.<sup>3</sup>

### *Decision Making In Non-Cooperative Firms*

The goal of non-co-operative firms is assumed to improve the economic well-being of its owners by maximizing profits. Figure 1 illustrates the factors profit-maximizing farmers and a non-co-operative firm would consider when each makes their decisions to achieve this goal.

<sup>3</sup>The term "non-co-operative firm" is used throughout this paper to distinguish all other types of firms from co-operative associations. Non-co-operative firms include public corporations and partnerships as well as individual proprietorship.

## *The Impact of Democratic Control*



*Figure 1. The Relationship Between Farmers and a Non-Co-operative Firms*

The dotted lines around each farmer and the non-co-operative firm (Figure 1) indicates that each party only considers the costs and benefits a decision imposes on their individual operations. For example, before a farmer decides whether or not to accept a proposal made by a non-co-operative firm, the farmer only studies the private costs and benefits that accrue to him. Likewise, the management of the non-co-operative firm will only consider the private costs and benefits associated with the decision alternatives it faces. Both farmers and non-co-operative firms should accept those proposals where the private benefits exceed the private costs, and reject those where the reverse is true.<sup>4</sup>

<sup>4</sup> When the time dimension is incorporated the decision-making rule becomes: Accept all independent alternatives where the net present value of the private cash inflows and outflows are positive. For mutually exclusive alternatives, the firm should select the alternative with the largest net present value based on its private cash inflows and outflows.

In a non-co-operative relationship each party is only concerned with its own personal costs and benefits. No party is interested in the impact a proposal or decision has on the other parties involved. In a non-co-operative relationship the parties assume a very provincial view. The purpose of the dotted lines surrounding each party is to illustrate this provincialism.

### *Decision-Making in Co-operative Organizations<sup>5</sup>*

How does decision-making differ in co-operative organizations? Figure 2 illustrates the ideal relationship between members and their co-operative.

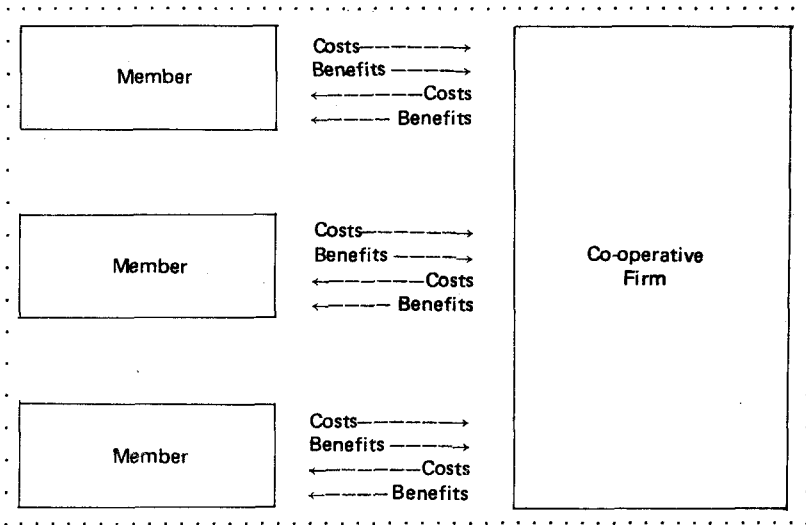
Rather than consider the impact of a decision on any individual party, a co-operative organization should consider the total impact of a decision on the co-operative firm and all its members. The dotted line that includes all parties in Figure 2 indicates co-operatives should consider the costs and benefits of a decision on all members as well as the co-operative firm. Consequently, the appropriate decision rule for a co-operative organization is to accept those proposals where the total benefits accruing to the co-operative firm and all its members exceed the total costs imposed on the co-operative firm and all its members. Conversely, the organization should reject proposals where the total costs are greater than the total benefits.<sup>6</sup>

The unique characteristic of co-operative organizations is that they consider the impact of a decision on all concerned parties rather than merely focusing on the effect of any individual entity. This should only

<sup>5</sup>The term "co-operative organization" refers to both the co-operative firm and its membership.

<sup>6</sup>To incorporate the time dimension, the decision rule is to accept all independent alternatives where the present value of the total benefits of all parties exceeds the present value of the total costs imposed on all parties. For mutually exclusive alternatives, the organization should accept the alternative with the largest net present value, based on the costs and benefits of all parties.

apply to decisions that have economies of scale or economies of scope and are related to the general mission of the co-operative. If these conditions are not met, it is probably better to leave the decisions to individual members or to other types of organization.



In Making Decisions Co-operative Organizations  
Should Analyze the Costs and Benefits of All  
Members as Well as the Cooperative Firm

*Figure 2. The Ideal Relationship in Co-operative Organizations*

At first glance it does not seem troublesome that a co-operative organization should analyze the total impact of its decisions. Recognition of interdependence is a major reason for the existence of co-operative organizations. Moreover, this interdependence in decision-making results in three unique situations co-operative organizations must confront. They are the following:

a) Some issues impose different patterns of costs and benefits on different groups of members.

b) With some types of issue the co-operative firms bears a disproportionate share of the direct costs, while it members receive a disproportionate share of the direct benefits.

c) With other types of issue members bear a major share of the direct costs, while the co-operative firm garners a disproportionate share of the direct benefits. (While the co-operative receives the benefits in the short run, members should benefit in the long run as patronage refunds are passed along to members.)

These three situations, it should be noted, only arise in co-operative organizations. When parties are looking out for their own individual interests, as is the case in a non-co-operative relationship, they will never be faced with these three dilemmas. The consequences of each of these unique situations are analyzed in the following sections.

## **DIFFERENT PATTERNS OF COSTS AND BENEFITS AMONG MEMBERS**

Before analyzing the impact of different patterns of costs and benefits among different groups of members it is first necessary to outline the assumptions used in the analysis.

Throughout the analysis it is assumed all members are solely interested in their own individual welfare and they can perfectly estimate the impact of a proposal on their welfare. Consequently, when a proposal is presented, the member will analyze the impact of the proposal on his or her own farm operation by estimating the personal costs and benefits it implies. Whether a member will favour or oppose the proposal will depend on the individual benefits and costs experienced by the member. Decision-making rules for individual members are assumed to be the following:

Favour proposal if:  $\text{Member's Benefits} > \text{Member's Costs}$

Oppose proposal if:  $\text{member's Benefits} < \text{Member's Costs}$

Further suppose all members vote on all proposals or perfect



representation prevails.<sup>7</sup> In addition, assume democratic control involves one-member-one-vote and a majority (i.e. 50+ % of the membership) is required for any proposal to be adopted. Finally, for every issue suppose there is a majority opinion (represented by more than 50% of the membership) and a minority opinion (represented by less than 50% of the membership). The primary difference between the majority and minority is the relative magnitude of the costs and benefits experienced by each group.

Before proceeding, two points concerning co-operatives majorities and minorities are worth noting. First, the issue being considered determines which members constitute the majority and minority. A common division in many co-operatives is for small-volume producers to assume the role of the majority and large-volume producers to assume the role of the minority. But, depending on the issue, other divisions are also possible: younger versus older members, diversified versus specialized producers, members located close to major markets versus those located some distance from markets, farmers interested in the highest possible prices and no co-operative services versus those interested in a multitude of incorporated services and lower prices, etc. Second, the composition of the majority and minority will change as issues change. Any given individual can be a member of the majority on one issue and a member of the minority on the next issue.

Table 1 illustrates six different types of membership issues faced by co-operatives. The issues are identified by capital letters in Column (1). Column (2) indicates the relationship between the costs and benefits experienced by the majority on each issue. Column (3) illustrates the costs and benefits relationship for the minority. The impact of each proposal on the total membership is shown in Column (4).<sup>8</sup> Issues A through C have a

<sup>7</sup> Perfect representation implies that co-operative delegates and directors can perfectly analyze, aggregate and summarize the impact of an issue on the membership, and that elected representatives vote in the same proportions as the members would have, if they had voted.

<sup>8</sup> For the time being, assume the proposals are only concerned with the distributional impact of costs and benefits on different groups of members, and have no direct impact on the co-operative firm. The effect of decisions on the co-operative firm will be discussed below.

*The Impact of Democratic Control*

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Table 1  
*The impact of majority rule, vote-trading and interest groups  
on a co-operative's performance*

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Type of Issues	Net Impact On:			Ideal Decision	Simple Majority Rule	Majority Rule Plus Vote-Trading	Majority Rule-Vote-Trading + Interest Group
	Majority	Minority	Membership				
A	B > C	B > C	B > C	Pass	Pass	Pass	Pass
B	B > C	C > B	B > C	Pass	Pass	Pass	Fail
C	C > B	B > C	B > C	Pass	Fail	Pass	Pass
D	B > C	C > B	C > B	Fail	Pass	Fail	Fail
E	C > B	B > C	C > B	Fail	Fail	Fail	Pass
F	C > B	C > B	C > B	Fail	Fail	Fail	Fail

positive net effect on the organization, while proposals D through F have a negative impact.<sup>9</sup> Column (5) indicates the ideal decision for the organization as a whole and is based on the decision rules discussed above.

## THE IMPACT OF SIMPLE MAJORITY RULE

With simple majority rule only those proposals where the benefits exceed the costs for the majority will pass. Conversely, if the costs exceed the benefits for the majority the proposal will fail. The results of applying simple majority rule to each policy proposal is illustrated in column (6) of Table 1.

With simple majority rule all decisions will correspond to the ideal decisions, except Type C and D proposals. Simple majority rule will result in suboptimal decisions for Type C and D issues.

Although the proposals are of net benefit to the co-operative as a whole,

<sup>9</sup> It is possible for an issue to have a positive net impact on the organization when the costs exceed the benefits for the majority (i.e. *Type B* proposals), if the net benefits that accrue to the minority outweigh the net costs imposed on the majority.

Type C issues are rejected because the costs experienced by the majority are greater than their benefits. The proposals should pass because the net benefits derived by the majority outweigh the net costs borne by the majority.

A few years ago a U.S. milk co-operative realized that its average costs of handling milk was above of the competition. Upon further examination its board and management came to the conclusion that the higher costs were due to the fact that the co-operative's producers were, on average, smaller and more expensive to serve than those of the competition. The co-operative leadership endorsed a change in the structure of membership fees. The change involved moving from a uniform per hundredweight charge to a uniform monthly charge and a lower per hundredweight fee. The purpose of the proposal was to lower the total cost of membership for high-volume producers and thereby make it more attractive for them to join the co-operative. However, the proposal also increased the total cost of membership for low-volume producers. When the proposal was presented to the co-operative's delegates it failed, as the model predicts, since small producers made up a majority of the membership.

Since Type C Proposals fail they are not enduring issues. However, during the periods they are being considered by the membership, these issues usually provide for lively co-operative meetings.

With simple majority rule Type D, proposals pass since the benefits exceed the costs for the majority: but the issues are of net detriment to the co-operative as a whole because the net costs imposed on the minority exceed the net benefits accruing to the majority.

Type D proposals are difficult to identify, not because they do not exist, but because they have existed for so long they are assumed to be a normal part of a co-operative's normal operations. In fact, many Type D decisions are made when an organization is founded. These decisions are detrimental in two ways: they are suboptimal to some current members, and they limit future membership by discouraging non-members from becoming members.

The original fee structure in the co-operative discussed above was a Type D decision when it was initially adopted.

Many co-operatives offer an array of general services that are used by a large portion of the membership. The reason for high usage is because the services are either free or highly subsidized by the co-operative. Subsidization can be so subtle that few are even aware of it. It involves not allocating the full costs of labour, capital and facilities to the service. Competitive alternatives usually exist for these services, but due to subsidization the co-operative's prices can be so favourable a member is foolish not to take advantage of them. In practice the services are paid for by lower than necessary prices or patronage refunds. If this is the case, large-volume producers pay a higher price for these services (through lower total income or patronage refunds) than small-volume producers. This may explain why large producers often give insufficient price and patronage refunds as their major reasons for not joining co-operatives.

An example of such a service is the supply departments of many marketing co-operatives. In discussing the supply department in his marketing co-operative, a director indicated how price-competitive his co-operative was compared to the regional supply co-operative. When asked about the pricing policies in the supply department, it became readily apparent that the price of supplies was essentially the variable cost of the supplies. Mark-ups were minimal, and covered only a portion of the total labour costs involved, while no consideration was given to capital and facility costs.

Another marketing co-operative had an aggressive product distribution programme for members. The programme was so highly regarded by the membership that no one questioned whether its revenues covered its costs. I understand they did not, and I would assume the co-operative was not allocating all associated costs to the operation.

Another co-operative recently discussed whether or not to provide membership signs to its producers. This proposal was extremely well received by the general membership, because there was an implicit assumption that the signs would be free, or highly subsidized. In private the chief executive officer expressed his reservations but admitted that it was a sensitive issue, and one on which he would probably need to make concessions.

## WAYS TO CORRECT THE PROBLEMS WITH SIMPLE MAJORITY RULE

Since simple majority rule can result in suboptimal decisions, it is essential for co-operatives to have a set of strategies to correct the potential problems. The following are strategies co-operatives can adopt to deal with the problems outlined above. Co-operators will not find the list surprising, since many co-operatives already use these measures.

As the strategies are discussed, keep in mind how they could change the results of simple majority rule outlined in Column (6) of Table 1. The purpose of these strategies is to convince members of the majority to refrain from the natural instinct of pursuing their individual welfare at the expense of the long-run performance of their co-operative.

The first, and most important, strategy is for the co-operative to carry out a thorough and objective analysis of issues. The analysis should include an examination of the impact of the proposal on different groups of members, as well as the co-operative as a whole. While this suggestion seem obvious, many co-operatives spend too few resources analyzing internal decisions, especially member services and long-established policies. In addition, few co-operatives have a well-developed data base and objective methods to analyze the impact of a proposal on different groups of members.

Not all issues can, or should, be analyzed. In some cases, a study may cost more than it will save. However, the easiest part of any such analysis is determining the impact of the proposal on the co-operative. It is more troublesome to estimate the consequences of a decision on the membership, to say nothing of the difficulty and uncertainty involved in predicting the effect of an issue on different groups of members. For decisions with a minor impact, it may be sufficient to only compute the economic impact of the issue on the co-operative firm and express the results on a per member basis or as a percentage of projected patronage refunds. Co-operatives should be cautioned against expressing the impact only on a per unit basis (i.e. per bushel, per hundredweight, per ton, etc.) or as a percentage of the producer prices. In the latter case, there is a tendency to make the impact

of a proposal seem inconsequential. It is “the little things” that distinguish excellent organizations from average organizations and management should be encouraged to magnify the impact of “the little things” to the extent possible.

It is essential that the evaluation includes all the costs and benefits associated with the specific proposal. This includes overhead costs as well as variable costs. Both long-run and short-run costs and benefits should be incorporated. Long-run costs and benefits even involve the impact of a proposal on membership trends and the co-operative’s market share, since these factors often have an important effect on the co-operative’s economies of scale and economies of distribution.

A second strategy is to institute an aggressive member-education programme. For members, perceived costs and benefits are more important than the real costs and benefits. When data is lacking there is a tendency for members to underestimate the costs and overestimate the benefits associated with decisions they favour. The reverse is true for proposals they oppose. Therefore, it is essential that members have an accurate idea of the likely economic consequences of proposals. Member education should be based on information generated from the analysis.

When presented with objective information farmer-members generally act in the long-run interest of their co-operative, but not always. Consequently, a third strategy is to keep reintroducing proposals that initially fail but are expected to improve co-operative performance. The co-operative discussed above, that tried to change its fee structure, reintroduced the proposal two or three times before it was finally adopted. The last time it was presented it was accompanied with an aggressive member education programme that included substantial supporting data.

A fourth strategy is to accompany the above activities with pleas of solidarity and loyalty. The role of solidarity and loyalty is to say: Listen, this proposal will adversely effect you personally, but it is for the good of the co-operative and it should benefit you in the long-run. For members to respect requests for solidarity and loyalty, the predicted results of previous calls must be generally realized. Consequently, even this strategy is dependent on a sound analysis of the issue.

Continually reviewing the co-operative's existing policies is a fifth strategy. Since most Type D proposals have already been adopted, it is necessary for the co-operative to have a built-in mechanism to review established operations and services that are taken for granted. If this is not done, existing operations and services will only be reviewed when they start causing major economic problems. This single strategy can be a significant source of improved performance for many co-operatives.

The final strategy to correct the problems associated with simple majority rule is to transfer decision-making responsibilities from members and delegates and to the board of directors. Many agricultural co-operatives have already done this. There are three primary reasons to transfer decision-making responsibilities to the board of directors. The first reason is to increase the speed of decision-making. The second reason involves the fact that members have a greater tendency to look after their own individual interests, while the board has the legal responsibility to promote the long-run interests of the co-operative. Since vote-trading requires a small number of decision-makers, the final reason for moving major decisions to the board is to increase the probability of vote-trading.

The concept and impact of vote-trading are analyzed in the next section.

## VOTE-TRADING AND SIMPLE MAJORITY RULE

Vote-trading involves various members of a group exchanging votes on different issues to arrive at a decision different from, but preferred to, the one that would have been made with simple majority rule. In the public choice literature, vote-trading is also referred to as logrolling and hypothetical compensation.<sup>10</sup>

Ideal vote-trading can correct the problems associated with simple majority rule. Vote-trading is most easily explained in the context of hypothetical compensation.

<sup>10</sup>See, for example, *Buchanan and Tullock* (1965).

Hypothetical compensation operates in the following manner: If net benefits can be derived from a proposal, the members who benefit should be willing to completely compensate the members who experience increased costs since, if the proposal is approved, those who benefit will still be better-off by the amount of the net benefit. Conversely, if a net cost is involved the members that would experience the loss should be willing to completely compensate the members that would benefit. In so doing the members who would lose are still better-off by the net cost of the proposal if the issue is rejected. The concept is illustrated below using the suboptimal Type C and D decisions that resulted from simple majority rule.

Assume a co-operative consists of three members (X, Y, and Z) and the proposals have the characteristics presented below. Note that with the Type C proposal a majority of members (X and Y) are opposed to the issue although it is of net benefit to the organization as a whole. The exact opposite is the case for the Type D proposal.

Type of Issue	Impact on Members			Net Impact	Impact of Vote-Trading	
	X	Y	Z		Without	With
C	-1	-1	+5	+3	Fail	Pass
D	+1	+1	-5	-3	Pass	Fail

In the case of the Type C issue, Member Z should be willing to pay Members X and Y one dollar each to make them indifferent to the proposal and abstain from voting against the issue. Although Z pays the other members a total of two dollars, Z is still three dollars better off if the proposal is adopted. With the Type D issue Member Z stands to lose five dollars if the proposal is approved. Therefore, Z should be willing to pay X and Y one dollar each to make them indifferent and abstain from voting for the proposal. If successful, it has cost Z two dollars, but he has avoided losing five dollars.

Naturally, money never really changes hands. That is why one of the names of this concept is "*hypothetical compensation*". In practice, votes



are traded. In the case of the Type C issues the scenario would be similar the following: X and Y agree to vote for the proposal in exchange for Z promising to vote for proposals that are of major interest to X and Y when they arise. Vote-trading works best in small groups. It can work at the board level, but would be difficult if not impossible to implement at the delegate and membership level. At the board level, it assumes that directors act as perfect representatives of the entire membership.

At this point, a few words of caution are in order. The idea of vote-trading usually conjures negative connotations, and directors will vehemently deny that they, or their boards engage in vote-trading. In reality, vote-trading is a very subtle, implicit and personal process. Rarely are votes explicitly traded. Rather, board meetings involve the presentation of various factual and emotional arguments. When a board vote is taken there is usually greater unanimity than the previous discussion would have suggested. Moreover, there is a personal, often unspoken, realization among directors that some parties won and some parties lost, and that somehow the board will need to make it up to those who lost in the long run. Put differently, vote-trading is the act of compromise, and most directors freely admit they must constantly compromise their original positions.

If vote-trading functions perfectly, all Type C proposals will be approved and all Type D issues will fail. In other words, ideal vote-trading has the potential to completely correct the problems associated with simple majority rule. This is illustrated in column (7) of Table 1.

The above conclusion only applies to *ideal* vote-trading. There are several reasons why vote-trading may not operate perfectly. The following are a few of those reasons:

- a) Members and directors may not correctly estimate the impact (i.e. the costs and benefits) of a proposal. A thorough and objective analysis of the proposal, as well as sufficient member information, is required to correct this problem.
- b) Appropriate information may not be available because it is costly and time-consuming to carry out an accurate and thorough analysis.

c) Directors may not choose to, or be capable of, accurately representing the aggregate opinions of the membership.

d) One or more parties may try to capture all the benefits of vote-trading. In the case of the Type C issue above, Member X may try to convince Z that the proposal will really cost X three dollars instead of the actual one dollar.

e) Different issues involve different magnitudes of net costs and benefits. For example, if Proposal C is approved, Z is obliged to vote with X and Y on issues that will cost Z one dollar each. However, on the next issue X may ask Z to vote for a proposal that will cost Z three dollars. How does Z react?

f) Coalitions change, and it may be difficult for the obligations of the various parties to achieve political equilibrium. For example, Z may constantly find himself asking Member Y to vote with him on issues of major concern to Z and never have the opportunity to vote with and "repay" Y.

g) Finally, interest groups may arise. Interest groups can cause serious problems and are discussed in the next section.

Although several situations may arise that inhibit ideal vote-trading, the purpose of this section has been to indicate the ability of perfect vote-trading (i.e. compromise) to improve the economic performance of co-operatives.

## THE IMPACT OF CO-OPERATIVE INTEREST GROUPS

An interest group is a small minority of the membership which could experience relatively large and concentrated benefits or costs from a decision.<sup>11</sup> It has a strong incentive to ensure proposals of net benefit to the group are passed and those that are of net detriment fail.

<sup>11</sup> See: *Olson* (1965) for a comprehensive discussion of interest groups.

Consequently, an interest group is willing to invest considerable time, effort and resources assuring its proposals are acted on appropriately.

In the presence of interest groups the majority is docile. It is docile because the costs and benefits experienced by the majority are relatively small and dispersed. In co-operatives, the majority usually consists of the entire membership, excluding members of the interest group in question. The costs and benefits experienced by the majority are dispersed because they are spread over the entire membership. Members of the majority are docile and have little or no incentive to aggressively fight for beneficial issues, and vigorously oppose detrimental proposals, because the per member costs and benefits are so small and dispersed.

To illustrate the role of interest groups an international trade study example will be used. In testimony before a regulatory body a group of producers of a certain household product was trying to increase import restrictions on its product to enable it to charge higher prices. The numbers that follow are hypothetical, but thought to approximately represent the relative costs and benefits involved.

By increasing import restrictions, the five firms would increase total industry revenues by \$5 million annually. At first, it was surprising to read in the hearing testimony how many times the firms appeared before the regulatory body. It was also surprising to find no one representing the interests of consumers. However, this is an excellent illustration of the operation of special interest groups. The average benefit of the increased import restrictions would amount to \$1 million per firm per year. The firms could afford to invest significant time, energy and resources promoting their interests. The average annual cost of the proposal for the 200 million U.S. consumers amounted to 2.5 cents per person. Even if consumers were aware of the hearings, and there was no incentive for them to try to keep informed, it was not worth the time or energy of any individual consumer to write to their legislative representative, much less to make a personal appearance to oppose the increased trade restrictions. The example illustrates the large and concentrated benefits accruing to the minority and the small and dispersed costs experienced by the majority.

The effect of powerful interest groups in the presence of vote-trading

and majority rule is *minority* rule rather than majority rule. Column (8) in *Table 1* indicates the impact of interest groups. Note that Type B and E proposals deviate from the ideal outcome.

Type B proposals fail although they are of net benefit to the organization as a whole. An example of a Type B issue is a marketing co-operative that tried to adopt a different method to charge members for transportation. The board proposed changing from a uniform per-unit fee to a system with a stop-charge and lower per-unit fee. Through an intensive educational programme the co-operative was able to convince the general membership that the change was desirable. However, a small group of low volume producers in one local area became extremely upset by the proposal. Although the proposal was approved, the board adopted a much lower stop-charge and higher per-unit fee than originally intended. The board planned to raise the stop-charge at a latter date. That was several years ago. Despite *five* outside studies recommending a significantly higher stop-charge, the group is still causing such a disturbance that the co-operative has yet to adopt the recommended fee structure.

Consumers' co-operatives seem particularly susceptible to interest groups. This is due to their members having a wider range of expectations concerning co-operative activities, including several non-economic expectations. Some years ago, a U.S. consumer co-operative decided to establish day-care rooms in each of its retail stores, where members with children could leave their children, free of charge, while they shopped. It was viewed as an important service to members with children, and was expected to attract additional customers. When the service was originally proposed it was a Type E issue. After several years of losses, the board of directors proposed limiting the hours of operation of the day-care services, and possibly eliminating the service in a few stores. Since the co-operative served the entire community, members with children were in a minority. However, when the board made its recommendation, the negative reaction was so strong that it withdrew its motion. But the losses continued, and a short time later the board again proposed cutting back the service. Again, members with children reacted violently. Rather than withdrawing its proposal, this time the board proposed studying the issue.

The study revealed the day-care centers were an extremely expensive service. In fact, at two of its stores the *per child hour* cost of the service was approximately six times higher than the cost of a private baby-sitter. When this information was presented, it was easier for the board to reduce the service. The proposal to limit the service was a Type B issue.

Consumer co-operatives also provide examples of Type E issues. One U.S. consumer co-operative approved the boycott of a popular brand name beer due to the brewer's poor labour-relations. Shortly after implementing this policy, the co-operative discovered that particular beer was an important determinant of customer traffic and significant losses in the category resulted when the beer was removed. In fact, the co-operative was forced to cancel the boycott because of the issue's negative economic impact on performance. One of the major factors causing the demise of another consumer co-operative was attributed to high carrying-costs and low turnover resulting from an unusually large product assortment. The wide product assortment was a deliberate co-operative policy to cater to the varied desires of its members.

### *Strategies Used By Interest Groups*

It is necessary to recognize their strategies in order to effectively deal with co-operative interest groups. The following are some of the short-run and long-run strategies used by interest groups.

When an issue of concern arises an interest group will be over-represented at co-operative meetings. The group will typically "make a lot of noise" and attempt to dominate the discussion. In its presentations, the group will most likely appeal to emotional arguments as well as co-operative ideology and principles. Often it will present extreme cases showing the negative consequences of not accepting its proposal. If resources are available, the interest group will even attempt to present its own "objective" estimates of the impact of the issue, which naturally support the group's position. Finally, interest groups will exert considerable effort lobbying co-operative officials (delegates, directors and management), individually and as a group.

Those involved with co-operatives probably recognize the above strategies. In fact, co-operators are more likely to consider these activities as essential characteristics of vibrant democratic control, and something to be encouraged, rather than the cynical ploy interest groups; something to be avoided. The point is: It is difficult to distinguish Type B issues from Type D issues and Type C issues from Type E issues. In all four cases the minority is trying to promote its positions by lobbying directors and management, as well as attempting to recruit the majority to its point of view. The only difference between the issues is their impact on the total organization. The first issue in each set will have a positive impact, while the latter issue will have a negative effect. The only way to distinguish between the proposals is through objective analysis. Moreover, given their strategies, it is often difficult to determine whether an interest group represents the interests of the majority or the minority.

Interest groups also use long-term strategies to achieve their objectives. One is to nominate and attempt to elect their candidates to co-operative decision-making bodies, especially the board of directors. Other long-run strategies include trying to change the attitudes of the majority and recruiting new members that share their point of view.

The short- and long-run strategies of interest groups are a legitimate element of democratic control. Moreover, it is important to keep in mind that interest groups do not always have a negative impact on the co-operative. They are necessary for Type C issues to pass and Type D issues to fail. Consequently, it is essential to know whether the issues they support are beneficial or detrimental to the co-operative organization as a whole. Once this is known, the leadership should encourage those issues that enhance the co-operative's performance and try to defeat issues that are likely to be detrimental. The strategies in the next section can be used by co-operatives to guard against the negative impact of interest groups.

*Strategies For Co-operatives*

There are several strategies a co-operative can use to deal with the short-run efforts of interest groups. The first is to try to ensure a high degree of attendance at co-operative meetings. Second, the leadership should make sure that the majority, as well as the minority, is well informed about the issue, and that the majority is prepared and willing to argue its position. Third, management, directors and members of the majority should not be hesitant to also use emotion, ideology and co-operative principles in making their case. Fourth, since the extreme examples used by interest groups are often also the result of unrelated external factors, the leadership should try to determine the external factors and discount the example appropriately. Fifth, co-operative officials should keep thoroughly informed, and be prepared to defend the position that is in the best interest of the organization. Finally, co-operative leadership should take the offensive, rather than be forced into taking a defensive position when dealing with interest groups.

There are also long-run strategies co-operatives can adopt. One is for the co-operative to have a well-structured nominating system. While minorities have the right to be represented, the system should ensure that interest groups do not become over-represented. Second, the co-operative should develop a workable two-way communication system that serves as a feedback and an early-warning system for member attitudes as well as a method to communicate information to members. Third, members should be made to realize that the purpose of a co-operative is to improve the long-run economic well-being of members, and that in the short-run, democratic decision-making means that any given member will win on some issues and lose on others. Finally, the above discussion again suggests that it is essential for modern-day co-operatives to develop a data-base and analytical techniques that can assist in analyzing the impact of various decisions on different groups of co-operative members.

## SUMMARY CONCERNING DIFFERENT PATTERNS OF COSTS AND BENEFITS

The purpose of the above discussion was to identify the impact of democratic decision-making on different groups of members. The discussion suggests that democratic control can result in suboptimal decisions. A question that arises is: of the decisions a co-operative makes during any given year, what proportion corresponds to the ideal and what proportion is suboptimal as a result of the influence of simple majority rule or the activities of co-operative interest groups?

Up to this point we have merely examined how different groups of members react to different types of proposals. It was assumed the issues considered had no or, only an indirect, impact on the co-operative firm. In the next section we examine what happens when costs and benefits are unevenly distributed between the membership and the co-operative firm.

## CONFLICTS BETWEEN CO-OPERATIVE MEMBERS AND MANAGEMENT

In discussing the decision-making rules for co-operative and non-co-operative organizations it was pointed out that co-operatives should consider the total costs and benefits of a decision. Three primary differences between co-operatives and non-co-operative firms were identified. One difference has been discussed. The other two differences concern the uneven distribution of costs and benefits between the membership and the co-operative firm, and will be addressed in this section.

In co-operatives, there are issue decisions where the co-operative firm bears the costs and members receive the benefits. There are other decisions where the membership bears the costs and the co-operative receives the short-term benefits. In the latter case, members will receive the benefits in the long-run through higher patronage refunds.

In exploring the impact of the uneven distribution of costs and benefits between the membership and the co-operative firm, it is necessary to make



a few simplifying assumptions. Assume the membership is a homogeneous entity, and the problems of majorities and minorities discussed above do not arise. Also, suppose members are only concerned with the impact of a proposal on their individual operations and they ignore its effect on the co-operative firm. Consequently, the membership will:

Favour proposals if:

**Total Membership Benefits > Total Membership Costs**

Oppose proposals if:

**Total Membership Benefits < Total Membership Costs**

Further, suppose the primary goal of management is to only promote the economic interests of the co-operative firm. In other words, management ignores the impact of an issue on the membership. This implies management focuses on maximizing the financial results of the co-operative firm in the same manner as the management in a non-co-operative firm. Consequently, assume that management adheres to the following decision-making rules:

Favour proposals if:

**Benefits to Co-operative Firm > Costs to Co-operative Firm**

Oppose proposals if:

**Benefits to C-operative Firm < Costs to Co-operative Firm**

*Table 2* presents six alternative relationships between co-operative members and management. The alternatives are identified in Column (1) by Roman numerals. The reader will note *Table 2* is somewhat similar to *Table 1*, except the headings have changed. Column (2) indicates the relative costs and benefits experienced by the membership for the six different proposals. The cost and benefit relationships experienced by the co-operative firm (i.e. management) are presented in column (3). Column (4) shows the net impact of each proposal on the total organization (i.e. the total costs and benefits of both the membership *and* the co-operative firm). The ideal decision for each proposal is present in Column (5).

*The Impact of Democratic Control*

Table 2

*The impact of member-dominated, management-dominated and board-dominated co-operatives on the organization's economic performance*

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Type of issues	Total Membership	New Impact On: Co-operative Firm	Total Organization	Ideal Decision	Co-operative Members	Dominated By: Management	Board
I	B > C	B > C	B > C	Pass	Pass	Pass	Pass
II	B > C	C > B	B > C	Pass	Pass	Fail	Pass
III	C > B	B > C	B > C	Pass	Fail	Pass	Pass
IV	B > C	C > B	C > B	Fail	Pass	Fail	Fail
V	C > B	B > C	C > B	Fail	Fail	Pass	Fail
VI	C > B	C > B	C > B	Fail	Fail	Fail	Fail

Before continuing our analysis, it is appropriate to make a further comparison between co-operative and non-co-operative firms. Non-co-operative firms will primarily limit their activities to Type I and VI issues. With Type I proposals, both farmers and the management of the non-co-operative firm agree that the issues are of net benefit, and they are implemented. In the case of Type VI issues, both parties agree that the proposals are detrimental, and they are not implemented. Co-operative organizations will make the same decisions when confronted with these issues.

A primary difference between co-operative and non-co-operative firms, however, is that co-operatives will be forced to consider Type II, III, IV and V issues. Due to the inherent nature of these four issues, there will always be conflict between co-operative members and management with respect to the appropriate decision. This conflict will not normally arise in non-co-operative firms. If a party, whether it be a supplier, customer or provider of capital, is in disagreement with a non-co-operative firm's policies, the party can easily cease its relationship with the firm, at least with respect to the policy in question.

Non-co-operative firms will most likely ignore Type II and IV issues

because they only benefit farmers. However, there are exceptions. The astute management of a non-co-operative firm may realize that if Type II proposals are adopted, they will generate such benefits to farmers that the non-co-operative firm may be able to capture some of the economic rents that would otherwise accrue to farmers.

On the other hand, farmers will most likely ignore Type III and V proposals made by non-co-operative firms. If competitive alternatives are available, exit is easy and farmers can refuse to deal with non-co-operative firms that institute such proposals. While non-co-operative firms are likely to adopt Type III proposals, only farmers who are in agreement with the issues will deal with the firm or take advantage of the product or service.

Unlike non-co-operative firms, co-operative organizations must confront the internal conflict associated with Type II, III, IV and V issues. Moreover, co-operatives have the opportunity to increase the economic well-being of their members if they adopt the appropriate decisions. However, there is the possibility that democratic control will result in the wrong decisions, and the economic well-being of members will deteriorate.

#### *A Member-Dominated Co-operative*

Let us first examine the performance of a member-dominated co-operative. A member-dominated co-operative is defined as one in which the desires of the membership always prevail. This is likely to occur in co-operatives with a strong board of directors and a weak management team. Although the board is sincerely interested in the welfare of members, it goes to extremes advocating member interests.

Column (6) of *Table 2* illustrates the decisions that would be made by a member-dominated co-operative. There are two deviations from the ideal; Type III and Type IV issues.

Type III issues should pass, but in a member-dominated co-operative they fail. For the organization as a whole, the total net benefits outweigh the total net costs. Since the co-operative firm derives the majority of the benefits and members bear the short-run costs the proposal is defeated.

The history of marketing co-operatives is rich with examples of organizations that could not convince their members of the need for a constant supply of high-quality products. Several fruit and vegetable co-operatives have failed because their members refused to agree to volume contracts and rigorous quality standards. The co-operatives were victims of Type III issues. Without commodity contracts, the co-operatives were flooded with products when prices were low and alternative outlets few, while they could not obtain sufficient products when markets were strong. In addition, the products these co-operatives received were typically of low quality since members would save their high-quality products for the best markets. Co-operative management was often aware of the benefits of a constant supply of high-quality products, but members were not willing to assume the short-term costs the policies implied.

The need for strong equity financing and aggressive marketing programmes are well recognized in the co-operative community. However, many co-operatives have an extremely high degree of leverage, and few co-operatives have marketing programmes as aggressive as those of their non-co-operative counterparts. One explanation is that members are too concerned with the short-term costs these issues imply. In other words, the co-operative may be member-dominated and these become Type III issues.

In a member-dominated co-operative Type IV issues pass, although they should fail, since they have a negative impact on the organization as a whole. The reason they are approved is that members derive the benefits and the co-operative firm bears the costs.

At several annual meetings of a U.S. marketing co-operative, members proposed and adopted a resolution requesting the association to initiate a member distribution programme of the co-operative's products. Management studied the issue and found that it is cheaper for members to buy the co-operative's products in any grocery store than through a member distribution programme. Since membership resolutions of this co-operative were only advisory and not binding, the programme has not been instituted. However, the issue kept coming up for several years and, if members had had their way, the co-operative would currently have a

costly member service. Fortunately, the leadership was finally able to convince the membership that the programme was not worth the cost.

The subsidized supply department and membership signs of the marketing co-operatives discussed above are additional examples of Type IV issues that can arise in co-operatives.

The above discussion suggests that co-operative membership does not instinctively know what is best for the co-operative as a whole. It is ironic that member-dominated co-operatives will not always make decisions that are in the best interest of the membership. However, many co-operators recognize this possibility, and realize that to improve the long-run economic well-being of members, co-operatives must be operated in a business-like manner. In fact, one will even occasionally hear someone suggest that co-operatives should operate in the same manner as non-co-operative firms. We now turn to an examination of this alternative.

### *Management-Dominated Co-operatives*

A management-dominated co-operative is one where management proposals always prevail. Management-dominated co-operatives usually arise when an organization has a strong management team and a weak board of directors. One possible sign of a management-dominated co-operative is when one hears: "This co-operative is run just like Corporation X." This does not imply cynical motives on the part of management. Strong management is often sincerely interested in the welfare of the association. However, it primarily focuses on improving the financial performance of the co-operative firm. A management-dominated co-operative does this by adhering to the management decision rules outlined above, and ignoring the impact which proposals have on the membership.

The type of issues approved and rejected in a management-dominated co-operative is illustrated in Column (7) of *Table 2*. The results indicate that all decisions correspond to the ideal outcome, except for Type II and Type V issues.

Type II proposals fail, although they should have been approved. The issues are of net benefit to the organization as a whole, with the majority of the benefits accruing to the membership. But management vetoes the proposals because they impose a net cost on the co-operative firm.

The number and level of member services are typically more limited in management-dominated co-operatives than in other co-operatives. In fact, this type of co-operative may not offer services that are of major benefit to members. Such services include: member education, technical production advice, and a reasonable assortment of products. Moreover, management-dominated co-operatives may be so concerned with the firm's performance that members experience an antagonistic attitude from management. These are examples of Type II issues in a management-dominated co-operative.

Lack of co-operative strategies to improve long-term planning, increase member equity and strengthen marketing programmes are other possible examples of Type II issues. Although contemporary co-operative management is aware of the advantages of these strategies, management may not feel the personal rewards are worth the enormous effort required to implement them.

Although they should fail, Type V issues are approved in management-dominated co-operatives. They are of net detriment to the organization, but of net benefit to management or the co-operative firm. Management ignores the fact that a major proportion of the costs are borne by the membership.

Management emoluments (such as corporate aircraft, country club memberships, luxury automobiles, and excessive staff) are examples of Type V proposals. It is interesting to note that co-operative managers generally have fewer perks than their non-co-operative counterparts. Perhaps the career paths of co-operative managers have taught them not to expect, or ask for, management perks. However, Type V issues can also take other forms. Managers of management-dominated co-operatives can pursue strategies and operational alternatives that enhance management income, prestige and power at the expense of the membership. For example, co-operative growth or diversification for its own sake are Type

V issues. Moreover, management-dominated co-operatives may be more likely to use unallocated equity (i.e. tax-paid retained earnings) as a major source of capital. The use of unallocated equity rather than allocated member equity may reduce member interest in the activities and performance of the co-operative, and thereby give managers greater decision-making freedom.

It is now possible to conclude that not even a management-dominated co-operative will guarantee that the organization is operated in the long-run economic interests of its members.

### *The Role of the Board of Directors*

The key to an effective co-operative organization is an independent and analytical board of directors. The above discussion suggests the role of the board may be even more important than previously thought. The board must balance the interests of members and management, as well as the different majorities and minorities within the membership (Figure 3). The analysis can also assist in identifying the general factors a board should consider when making decisions, the type of studies the board should request, and the temptations the board should resist when establishing co-operative policy.

Co-operative corporation law gives the board of directors ultimate responsibility for the survival and well-being of the organization. The board cannot merely represent the interests of the membership; nor can it automatically approve the recommendations of management. The board of directors is the only entity that can, and must, consider the welfare of the total organization. It must balance the interests of different groups of members as well as the interests of the total membership and the co-operative firm. Since the primary goal of the board of directors should be to maximize the net benefits of the total organization, the appropriate balance, as suggested in Figure 3, depends on the relative magnitude of costs and benefits experienced by the various parties. Consequently, the board must have an accurate estimate of the impact of various proposals on the membership as well as the co-operative.

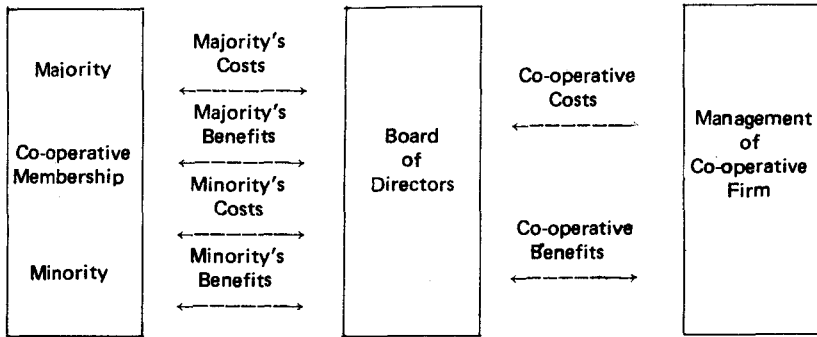


Figure 3. The Relationship Between a Co-operative's Members, Board and Management

To achieve the ideal decisions indicated in Column (8) of *Table 2*, a co-operative must have an informed, analytical and independent board of directors. To maximize the net benefits of the total organization, the board must also be willing and able to determine and make the appropriate compromises between management, the membership and various groups of members. At times this may result in conflicts and tensions between the board and management, and between the board and the membership. In fact, healthy and creative conflicts and tensions may be the true sign of vibrant democratic control in co-operative organizations.

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**Torben Bager\***

**State Policies and Legislation  
vis-a-vis Co-operatives**

**INTRODUCTION**

The question of legislation on co-operatives is now an object of fierce discussion in Denmark. Hitherto Denmark has not had any co-operative law, but naturally a number of special laws encompassing co-operatives. This legislative trait traditionally has been seen as an advantage by co-operative leaders, as it is presumed to promote the self-help character of Danish co-operatives.

Some co-operative leaders, however, do not support this view. Particularly leaders of co-operatives controlled by workers' unions welcome the legislative plans, mainly because of the problem of workers' representatives in the committees of the co-operatives. It is argued that most modern marketing and retail co-operatives have developed into large corporations which have to be controlled by law. Also some supporters of the "new wave" co-operatives (collectives, workers' co-operatives) welcome the plans, arguing that government support and a law fitting their type of co-operatives is desirable.

Until now the discussion has been rather confused. Particularly, the question of a general co-operative law and the question of government support to co-operatives are being mixed up. Nevertheless, the discussion has pointed at least two important questions that need further clarification:

— can co-operatives preserve their self-help character if they receive government support or take care of government policies?

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— are the needs of “traditional” co-operatives and “new wave” co-operatives vis-à-vis legislation and government support in contradiction with one another?

## THE PROBLEM OF AUTONOMY

Legislation on co-operatives vary tremendously throughout the world, Denmark is the one extreme with no co-operative law and government support of only marginal importance. Some developing countries and some socialist countries are the other extreme with detailed laws and massive government intervention vis-à-vis co-operatives. Furthermore, the character of the co-operative laws varies a lot from country to country. Some countries like Germany, Sweden and the Netherlands have genuine co-operative laws, while in other countries the co-operative law is built upon legislation concerning limited liability companies.

The huge variations in the international pattern make it difficult to reach clear conclusions, but both theoretical and empirical research results make the following two assumptions reasonable:

— *Co-operatives cannot be developed solely by law and government support.*

— *The consequences of co-operative legislation and government support depend on its character, but usually the consequence is a perversion of the co-operatives.*

In order to illustrate these assumptions Kenya, Tanzania and Denmark will be used as examples.

In the 1960's the movement for independence in Kenya was accompanied by a wave of new co-operatives. Every year hundreds of co-operatives (mainly marketing co-operatives) were established, and it is understandable that such a rapid process in a country with a majority of illiterates was characterized by mismanagement, inefficiency and corruption.

The response of the Government to these problems was to tighten the law and government control. The Government intended—at an early

stage at least—to support the co-operative movement through reorganization of the numerous co-operatives which suffered severe problems. But the result was that also the healthy part of the co-operative movement was restrained in its development. Important co-operative principles were violated: membership was made obligatory, co-operative surpluses were extracted through marketing boards, and Government officers intervened in the day-to-day affairs of the co-operatives. (Maini, 1972.) Now these activities and violations have been running for approximately 15 years, and in spite of recommendations from researchers, evaluation missing, and others, a withdrawal of the massive government control and intervention has still not taken place. Thus an arrangement which at the outset was thought of as temporary, has seemingly become permanent and has by and large resulted in a loss of the self-help character of co-operatives. Members of the marketing co-operatives do no longer see themselves as members of a co-operative, but more as suppliers to a parastatal organization. (Bager, 1980).

Tanzania also experienced a wave of co-operatives in the 1960s, but the Socialist Government looked at co-operatives with suspicion. They were seen as semi-capitalist organizations and as a base for political opposition. In 1967 the Government suddenly dissolved all marketing co-operatives and based this upon accusation of inefficiency and corruption. In their place the Government established parastatal organizations. This move, however, created more problems than it solved, and since 1982 the Government has attempted to reestablish the co-operatives.

The experiences from Kenya and Tanzania clearly show the dangers of government intervention, whatever its motives may be. Undoubtedly, the co-operatives in Kenya and Tanzania suffered from severe problems in the 1960s which justified some kind of government activity. But the emphasis on control and intervention rather than on support combined with violation of co-operative principles, created a new, grave problem: co-operatives lost their self-help character. Furthermore it seems as if this process almost is irreversible. Evidently, it is difficult to reawake enthusiasm for co-operatives when most people—on basis of historical experiences—see them as a failure.

The development in Kenya and Tanzania confirm the statement by many researchers that co-operatives cannot be developed from above. (Thornley, 1981. Münkner, 1974.) With the words of H. H. Münkner, state "provision tend to perpetuate the dependence on government assistance. After the years of experience in many countries there is a reason to believe that the main objective of government sponsorship of co-operative development, to promote the growth of self-help organizations, will not be achieved in this way". (Münkner 1974. p. 18.)

The case of Denmark is entirely different. As mentioned above, the traditional marketing and retail co-operation developed rapidly without a co-operative law without government support. This does not mean that co-operatives were left without any legislation. Naturally Denmark has laws which encompass the co-operatives, but Denmark has no specific co-operative law. Furthermore, it does not mean that co-operatives in Denmark have avoided interaction with the state. On the contrary, Danish co-operatives have a long tradition for interaction with the state.

The interaction between agricultural co-operatives and the state has been intensive since the 1930s. Gradually corporatist structures have developed within the agricultural sector, partners of which are the state, the co-operatives and the farmers' unions. Nevertheless, agricultural co-operatives have not abandoned their self-help character.

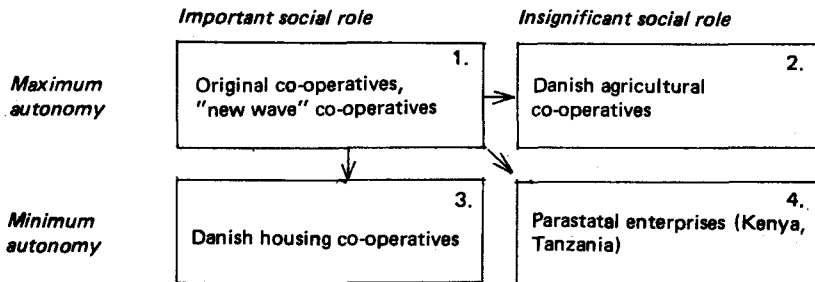
The administrative and political activities by agricultural co-operatives have continuously been subordinated to their economical tasks, and the agricultural co-operatives have never been directly dependent on substantial government subsidies.

The story of Danish housing co-operatives is entirely different. They receive substantial subsidies, and the Government regulates their development intensively, fixing building rates, quality standards, etc. Consequently, the housing co-operatives have gradually developed into a means of promotion of the members' interests.

Housing co-operatives, however, have preserved their original social role, a role which agricultural co-operatives gradually have cut off. Originally co-operatives were formed to solve social problems and the co-operative principles can be read as social-liberal manifesto. In a market

economy, however, regardless of their organizational character, it is difficult for enterprises to preserve a social role. It therefore seems as if co-operatives must choose between preservation of their social role and autonomy vis-à-vis the state. The housing co-operatives have on basis of state subsidies preserved a social role, but have largely lost their autonomy. Agricultural co-operatives, on the contrary, have lost their social role, but preserved their autonomy.

Consequently, it is important to clarify if government support necessarily must go hand in hand with a loss of autonomy or to put the question in another way: must co-operatives in modern societies with market economy and heavy state intervention gradually move from their original position (cell 1 in diagramme 1) to positions where they either lose their autonomy or their social role? Particularly for the “new wave” co-operatives which often struggle for government support, the answer to this question is important.



*Diagramme 1.* The dilemma of co-operatives in societies characterized by market economy and state intervention.

## THE PROBLEM OF VARYING NEEDS AMONG CO-OPERATIVES

As mentioned above, the needs of traditional co-operatives and “new wave” co-operatives concerning legislation and government intervention seem to differ from each other. Based on historical and present experiences it is reasonable to assume that

*traditional co-operatives may develop without a co-operative law and without government support, but for "new wave" co-operatives government support is important.*

A number of authors have pointed at the importance of support structures in order to develop "new wave" co-operatives, both support organized by the co-operatives themselves and government support. Studies of the Mondragon-co-operatives in Spain have shown the importance of a co-operative banking and advising system for setting up of new co-operatives. (*Thomas & Logan, 1982.*) In Great Britain the local Co-operative Development Agencies which are mainly financed by public funds have influenced the growth of workers' co-operatives from 300 in 1980 to 900 in 1984. In the period 1980-1982 the number of workers' co-operatives grew 131% in areas covered by Co-operative Development Funds compared to only 24% in other areas. (*Cornforth, 1984.*) In Italy and Sweden similar experiences show a growth in the number of workers' co-operatives in the 1970s and 1980s due to consultancy systems, favourable credit-systems, etc. In Denmark public funds have been important for the development of social rehabilitation collectives, but apart from those "new wave" co-operatives have not been supported by public funds.

International experiences are thus quite convincing concerning the effects of support structures, but a number of questions remain unanswered: firstly, why are the needs of different types of co-operatives so different; secondly, why can "new wave" co-operatives not develop their own resources; and thirdly, how may these co-operatives avoid losing their autonomy, in case they are supported by public funds?

The variation of needs among co-operatives is largely explained by essential characteristics of the different types of co-operatives. As indicated earlier, co-operatives may be divided into two main types: trade co-operatives (marketing/retail co-operatives) based on trade (exchange of money and goods) between members and co-operatives, and work co-operatives ("new wave" co-operatives) based on the work and activities of the members. (*Bager, 1983.*) Members of trade co-operatives often have substantial financial strength, whereas in work co-operatives members



usually are weak financially, both in the job-saving type and in the collectivist type. As a consequence, work co-operatives are often set up in areas of the economy which are characterized by small-scale enterprise and low capital intensity. This is illustrated by an investigation of workers' co-operatives in Great Britain, showing that most workers' co-operatives employ less than 10 people and may be characterized as labor intensive rather than capital intensive. (*Cornforth, 1984.*)

Thus, the reason why trade co-operatives are financially better than work co-operatives is that while trade co-operatives usually have many members with considerable resources, work co-operatives only have few members with scarce resources. This explains by and large why work co-operatives need public support in order to develop by their own means.

## LEGISLATION, STATE SPONSORSHIP AND THE PROBLEM OF AUTONOMY

The autonomy of co-operatives may both be limited by legislation and by the control which follows state subsidies.

The Danish discussion on a co-operative law has gradually moved towards two conclusions on the character of co-operative legislation. Firstly, a frame law is seen as preferable compared to a law which describes statutes, accountancy and auditing procedures, etc. in detail. In other words the desirable type of law is a law outlining some broader frames for co-operative activities, but avoiding the ambition of detailed prescriptions concerning almost all thinkable circumstances and matters. The second conclusion is that the law should be built upon the characteristics of co-operatives instead of copying the law concerning limited liability companies. Consequently, law makers should, with the words of *N. P. W. B. McAuslan*, consider how a co-operative law can "be framed so that the government has the power to act when necessary yet the enthusiasm and democracy of the co-operative movement is not crushed by the ever present threat of government intervention" (*McAuslan, 1970, p. 109.*)

If co-operative legislation is followed by government subsidies the problem of autonomy is without doubt aggravated. Government subsidies always seem to lead to some kind of control measures. The intensity of such measures, however, varies tremendously. In countries like Kenya and Tanzania the intensity is very high, even encompassing day-to-day affairs, while in other countries the control measures are more remote and indirect in character.

In order to avoid massive and hampering control-measures *McAuslan* suggests a distinction in the law between “ordinary” and “extra-ordinary” powers. The latter should be used only in exceptional cases where the co-operation between government and co-operatives has failed, whereas in normal situations supervision should largely be left to co-operatives themselves. Following this line of thought it may be added that government support should primarily be given to apex organizations promoting education, information, auditing, etc. Government support to such activities through apex organizations are without doubt much less risky than direct government loans or grants to productive activities of primary societies.

*In this way it is—in theory at least—possible to reduce the effects of government support. The problem, however, is not only juridicial in character, but also political.* It is not only a question of reasonable rights for the state as an investor or a creditor, but also a question of state interests and policies. In Kenya and Tanzania an interpretation of development could be that reasonable rights of the state as an investor and a creditor have been used as a platform for accomplishment of government policies. The government subsidies have so to speak opened the doors to the co-operatives for government influence. Similarly in Denmark it seems as if the support to the housing co-operatives has gradually intensified the influence of the Government.

Therefore, the “new wave” co-operatives must carefully consider the problem of government support. They must consider both government policies on co-operatives in general and policies in their field of operation. Even if the government in power aims at preserving the self-help character of co-operatives and pursues a policy which is in harmony with the

objectives of co-operatives, government support is still problematic. It may oblige future generations and make co-operatives an object of changing policies of changing governments. Thus it seems wise for the co-operatives, regardless of the present government policies, to attempt to minimize the control-measures and the future obligations accompanying government support.

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**E. B. Blümle–R. Purtschert\***

## **Co-operatives, Associations and Co-operative Associations — Differences and Common Features**

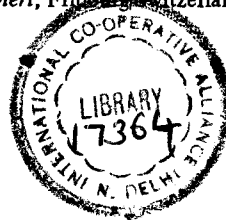
### **1. PROBLEMS**

In principle, the development of management science followed that of the industrial enterprises. With the growing complexity of the organizational structure of big enterprises, management science has concentrated on solving problems occurring in larger capitalistic organizations (1). Service enterprises hardly paid any attention and other forms of enterprise such as associations and cooperatives were of only marginal importance for management science. The enterprise with a hierarchical structure and profit-orientation continued to be the dominating object of research in the institutional and function-oriented scope of management science.

Recently, we have observed a strong specialization of management science with regard to enterprise types in the service sector (bank and insurance management, management of tourism). Furthermore, the management science of public enterprises and administrations has also gained importance; this is proved by the creation of special chairs at universities.

Another new topic of research in management science is the problem of co-operation in both enterprises and households. In addition to management science for co-operatives (2) (*Dülfer*, 1984), management science for associations has developed (3) (*Grochla*, 1959, *Schwarz* 1979, 1984). This trend towards giving more importance to the problem of co-operation in enterprises and households in the field of economic and social

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science is shown in the subtitle of the periodical “Zeitschrift für das gesamte Genossenschaftswesen” as “Organ für Kooperationsforschung und -praxis” (Organ for research on co-operation and co-operative practice).

The “Kooperation der Kooperationsforscher” (Co-operation of co-operation researchers) combines the findings on several types of co-operations to teaching on non-profit organization. Co-operative science can add to this approach findings on their organizational types and overcome its isolation within management science.

## 2. CO-OPERATIVES AS THE OBJECT OF COGNITION IN MANAGEMENT SCIENCE

The predominance of the big industrial enterprise as mentioned above (in the form of the incorporated company) leads to the ideal type of organizational form with an explicitly or implicitly hierarchical structure. The fact that, in addition to organizations with a hierarchical structure, organizations with a democratic structure existed within the market in all economic fields (forestry and agriculture, industry, trade, banking, insurance energy and transport), were pushed aside in management science. Co-operative science dealt with this different object of cognition. The complexity of the type of co-operating “Co-operative” resulted in co-operative science perceiving itself, and developing as an interdisciplinary theory combining applied economics and management science, law and sociology.

Democratically-structured “co-operative” bodies—co-operations derived from enterprises and households (consumers’ co-operatives and housing co-operatives)—bring the same goods to the market as their competitors. The essential differences lie in the objectives (predominant material target: promotion of the members), and in the structure of this social system.

## DIFFERENCES BETWEEN ENTERPRISES AND CO-OPERATIVES. COMMON FEATURES

**Features**

**Characteristics**

*A) Common features*

Organization	Purposeful social system with a formal structure
Material objective	Satisfies the demands of other persons by taking uncertain and risky decisions with scarce means, goods and services
Open system	Adapts to change in the environment through a permanent linkage to it, and carries out changes/innovations
Kinds of goods	Production of marketable private goods

*B) Differences*

	Enterprise	Co-operative
Structure of the social system	hierarchy	democracy
Positions of members	member/owner ≠ customer/user	member = user/beneficiary
Expectations of owners	profit from invested capital	promotion of members through performances
Own capital funds	fixed in the case of incorporated companies (original stock)	variable (changing with entry or withdrawal of members)
Predominant objective	formal objective (profit) prevails over material objective	social objective should usually prevail over formal objective (profitability of the institution)

Control over success	quantitative indices (market share, return on investment)	it is difficult to gauge success by measuring the well-being of members
Distribution of profit	-self-financing -according to number of shares	-self-financing -according to business shares or other criteria (turnover)

The survey (4) shows the similarities and differences between profit-oriented enterprises (incorporated companies) and co-operatives. Two essential differences should be mentioned.

1. In management science, more attention should be paid to the fact that not only enterprises with a hierarchical structure, but also enterprises with a democratic structure can be the object of study.

2. In addition to public services, there exist a number of other enterprises that are designated as non-profit organizations in principle and/or practice (5).

### 3. ASSOCIATIONS AS THE OBJECT OF RESEARCH IN MANAGEMENT SCIENCE

The phenomenon of co-operation among enterprises and households is dealt with by using terms such as co-operative, joint enterprise, fusion of enterprises, pool, vertical and horizontal co-operation, lobby etc.

The holders of responsibilities in enterprises or households use co-operation in their attempt to jointly achieve common objectives and/or implement values. This integration of interests covers the broad scope of positions and expectations of people within society, i.e. in the social field (public welfare), leisure-time activities (sports), or cultural and political affairs.



According to the material objective or the main beneficiaries (Blau/Scott, 1970) (6), there exist four kinds of associations:

1. For the benefit of members. By co-ordinating their actions on the market and/or influencing economic and social policies, and through negotiations with other groups, the associations strive in the fields of economy and labour in order to support their members.

2. For the benefit of a third party. Individuals or groups who are not members of the association are generally beneficiaries of material and/or other forms of assistance from associations in the social field (for instance the Red Cross, development aid organizations).

3. For the benefit of both members and non-members. In the case of many associations in the fields of sport, music and culture; both members and non-members are beneficiaries.

4. To achieve objectives and promote specific values within society. Political, religious or humanitarian associations in particular try almost exclusively to maintain or change the values and objectives of society. The members of these organizations are involved in maintaining or changing system-based values (religious associations, for instance: abortion; political associations: nuclear power).

So far, management science has only dealt with certain economic associations sporadically, that is with those whose work is focused on the economic assistance of members.

The following are the essential *common features* of economic associations and co-operatives:

- a) the democratic structure of the social system,
- b) the identical position of members (users)beneficiaries,
- c) the objective which is the support of members.

Essential *differences* exist with regard to performance objectives and the kind of goods produced. Primary co-operatives act on markets; they produce private goods and services. Economic associations, however, produce both collective and private goods; in respect of collective goods, the principle of exclusion cannot be applied. This entails essential differences as to financing. Generally, primary co-operatives can be financed by their revenues, whilst economic associations depend primarily on the contributions of their members.

#### 4. CO-OPERATIVE ASSOCIATIONS

During the growth of co-operatives and the organizational development of the co-operative sector, a rather complex pattern of compounds and associations emerged:

1. In the field of *co-operative economy* (i.e. in the commercial part of the overall organization), primary co-operatives, mainly consisting of individuals ("individual co-operatives"), merged to form secondary institutions in order to strengthen their market positions; this was made materially—supraregionally as a rule—or regionally in terms of branches. These "central co-operatives" are often given the legal form of a capital society (incorporated company, limited company); examples of these are the regional central banks of credit co-operatives, or the commodity centres of rural purchasing and sales co-operatives.

Some of these secondary co-operatives merged to form tertiary institutions ("multiregional top institutes") so that a group of co-operative economic units—called a "multi-stage co-operative compound" in specialized literature—came into being through several market stages. Examples of this vertical integration are the complex trade groups that began as purchasing co-operatives and consumers' co-operatives.

2. In a similar way, regional auditing associations of rural and handicraft co-operatives joined to form associations in the *system of co-operative associations* in order to improve the opportunities to support and represent members and their specific affairs and economic policy at the highest level. In the case of specialized auditing associations, however, their typical field of action is a supraregional one.

The members of auditing associations are registered co-operatives, or enterprises having another legal form as long as they are—partially or completely—in the hands of registered co-operatives, as is the case for central co-operatives. The classical complex structure of the co-operative economy is based entirely on its voluntary status. In contrast to this, several associations—such as auditing associations in Germany and Austria—were created in response to legal requirement (compulsory associations). In reality, however, there is a continuum between these two

forms in the co-operative sector, owing to the existence of different degrees of economic independence.

Different legal forms can cause structural differences with regard to the elaboration of objectives strictly speaking when the members of co-operative associations have different numbers of votes, equal rights of the members do not exist. According to the distribution of votes, the social system can be characterized as an oligarchy, as a hierarchical system manifesting essential structural differences.

Essential differences, however, result from performance objectives.

Primary co-operatives act on markets, i.e. they produce output which can be sold on the market. The market position is to be strengthened by uniting the potential of several primary co-operatives, by the delegation and co-ordination of functions. Insofar as co-operative associations produce competitive commodities, they are to be designated as market associations; there is no difference between co-operatives and co-operative associations as far as the kind of commodity produced is concerned. Co-operative associations can also produce competitive commodities and services for their members, but cannot submit these to market control (audit, circulars, press, training and advanced training for example); they can give them to their members free of charge or for payment, something which also occurs in primary cooperatives.

The activities of associations, and thus of co-operative associations also, are not limited, however, to the production of private goods and economic achievement; they improve the degree of organization among members (co-operative advertising for example), co-ordinate their members' actions on the market, defend their interests in the political system (influence in the revision of co-operative law and taxation law), and negotiate with other associations (collective wage agreements for example).

*Differences between co-operatives and co-operative associations.*

*Common features*

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	Co-operative	Co-operative association
Merger	voluntarily	voluntarily and by legal compulsion
Structure of the social system	democratic structure	according to the distribution of votes
Programme of performance	production of marketable private goods that may or may not be subject to market control	= market associations  non-market associations (principle of exclusion not applied) -organizational performances -to defend interests against public authorities -to negotiate with other associations (employees'-employers' organizations) -to coordinate members' actions

The essential differences between economic and co-operative associations are the following:

a) Economic associations are the result of a voluntary merger, while co-operative associations can come into existence through legal compulsion (auditing associations for example) on the basis of a voluntary merger.

b) Compulsory associations have a legally binding task and a corresponding programme of performance. Voluntary co-operative associations are to be regarded as economic associations. However, their activities are not limited to the production of private goods, i.e. that production of marketable achievements to which the principle of exclusion is applied. Such associations carry out their main activities in the field of non-market economy, for example organization (co-operative advertising, fairs) co-ordination of their members' marketing, negotiations with other associations (collective agreements) and defend interests at a political level (for instance co-operative law, taxation laws).



**E. Boettcher\***

## **Housing and non-profit housing—common features and contradictions**

For about three years, persons engaged in non-profit housing in the FRG have been worried about the future of this system. This concern emerged when the state spoke about changes in non-profit housing jurisdiction more or less loudly. Meanwhile, a number of projects have been presented to the public; comments given by representatives of non-profit housing or scientists have been widely different and even contradictory.

What's all about it?

All statements deal with the question how far the influence of the state on the tenants and members as well as on administration offices of housing must and can go. Many persons seem to be adapted to an already fixed relationship to the state. As subsidiaries of state housing offices so to say. They are informed about the number of the flats available in the areas under their competence, and then they distribute these flats to applicants according to the lists of the housing offices. *In praxi*, it is surprising how easily all regulations work, irrespective of the fact whether the distribution is made in a co-operative or a collective economic body so that they merge increasingly according to their internal understanding, and distinct differences are not seen any more from outside—beginning with the community up to the Federal government and the Bundestag. This also explains the contents of the new drafts of the non-profit housing law. They are evaluated quite frequently as aiming at nationalizing non-profit

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housing. I will not deal with the motives of the state here, may be it is the Federal Minister of Finance who tries to find new possibilities of access making it possible for him to economize in connection with regulating the budget.

However, this is not a statement but only the suggestion of an assumption. Here we should not be interested in so much the motives of the representatives of the state because these may only reach a point where the representatives of housing are ready to join them. Let us deal with the ideas of the persons acting in housing and their actions more comprehensively. Because it will depend on them what will happen. There are still persons in this sector who have not yet lost their trust—on the contrary, they link the existing concern with the hope that it may result in remembering the original private economic or self-economic principles of the organization.

## 1. WHAT IS NON-PROFIT-MAKING?

To remember the principles, it would be necessary to agree on some basic terms again undoubtedly. The fact that some positions are so different today is also due to insufficient knowledge about specific but also legal matters. This begins with different views on the term 'non-profit-making'.

The general understanding is that one activity is beneficial to others, public utility or what you may call it. Naturally, the actions are directed towards the benefit of third persons consciously and not accidentally or incidentally. Because this would mean that every employer acted in the sense of non-profit-making when producing commodities that can be sold on the markets. The more non-profit-making, the higher the prices are? Because high prices are an expression of evaluation by the purchasers so that the seller would have created the more benefit, the more purchasers had a benefit. The more widespread the benefit, the more non-profit-making is production? No, this is not possible evidently because this would mean profit maximization was an expression of non-profit-making.



If one wants to understand it like in every-day life, one will have to go to a supply under the market price or at least to filling a market gap. To say it in other words: Non-profit-making exists when demanders are provided with commodities under the market price. This also applies to breaking monopolies or the provision of commodities that would not be supplied otherwise.

This ought to be a rather precise definition of the term ‘non-profit-making’. This was made in order to show that the application of this term has nothing at all to do with the term used by the state for substantiating its non-profit law.

Because that definition is not derived from the activity of its citizens but from its own obligation—in the state form of a parliamentary democracy at least. It is up to the state only to decide which content is chosen. This state—our present-day state—is neither proceeding point nor target of its action. Totalitarian states always have an objective separated from the citizens, and they force their citizens to fulfil it, to strive for a sense of history, for example, irrespective of the fact whether they are called “racial struggles” or “class struggles”. Our state has nothing to do with all this, it dissociates itself consciously from all these ideas because according to our constitution, the Basic Law, it is only an establishment of its citizens for themselves, for fulfilling the demands of its citizens exclusively.

Its property and fixing concrete targets are up to the state, that is, they are a matter of its representatives in parliament and government, financing is made through contributions, taxes and fees, but it is also obliged to use all this only for what is beneficial to the public—it has to promote all its citizens without difference.

It is the same, although expressed in other words, that the state in the constitutional form of a parliamentary democracy is something like a public-legal co-operative.

Because its citizens are subordinated to it only in the sense of membership because and as long as they think that their individual interests can be satisfied in the best way.

To be able to serve the interests of its citizens, our state is using certain economic establishments—we will designate them as *supply establishments*

for the sake of simplicity. They are varied nature, that must be admitted, financing may be based not only on fees and taxes (measures of infrastructure, for example) but also on profits (the Bundesbahn railway system, for example).

But we will not deal with further details concerning the character of our state. What has been said is enough to classify *non-profit-making* by itself. We want to say which has forced itself upon our mind after the last mentioned facts the task of our state is to serve the general public, the public welfare. Therefore, it has to know the common interests of its citizens. The similarity with the co-operative has to be underlined again: The members of a co-operative instruct the elected executive board to promote them, and the citizens instruct their government to do the same. In this sense, the state per se is non-profit making.

Now the decisive second step. When solving its tasks and in view of doing what is necessary, the state will see first of all whether other bodies, enterprises, for example, already exist that provide performances to the service of the public so that its obligatory tasks are relieved or supplemented.

This is the central point of our considerations. The term *non-profit-making* used by the state in its legislation only applies to this context.

When the state recognizes *non-profit-making*, this only means to relieve or supplement the state as far as these tasks are concerned. And this is honoured by the state, in the form of tax allowances or subsidies, for example.

According to this other term of non-profit-making derived from the tasks of the state—otherwise, the state had to do it for itself, now this is made by others and the state is ready to help them by means of paying money—, this applies to most different addresses in a broad palette. There exist promotion societies of state research institutes, for example, but commercial enterprises can also serve public utility and can support or replace the state by promoting environment protection or maintaining jobs, for example. These and many other facts can give rise to recognize state non-profit-making and support it by the state.

## 2. NON-PROFIT-MAKING HOUSING

Let us come to non-profit-making housing now. It is a little bit strange that they are using this term. Because supporting the state in its activity is not a label characterizing somebody sufficiently, but it is misleading as we shall see soon.

*Therefore once more:* According to non-profit-making law, the state defines what it wants to be recognized as non-profit-making purpose. The question is whether the purpose of accepting this designation was to bow to state regulations right from the beginning.

Now we have to unravel the plot before we can make progress. For solving the question whether the term non-profit-making can be applied to this part of housing without problems, we have to realize that it consists of two most different parts—collective economic bodies on the one hand and co-operatives on the other. To compare them, we have to deal with them in detail first.

### *Collective economic body*

Collective economic bodies differ from other establishments by the fact that they have an agency that provides capital for joint ventures. They can be registered in the legal form of a limited liability company or incorporated company because the legal form of the respective enterprise is of no interest for the fixed objective. The company law is only of interest for the functioning (thus the differentiation according to forms of bodies) and liability. Therefore, we can define a collective economic body as follows: it is a group of supporters with an enterprise, and the enterprise is given a fixed objective by the group of supporters. But what is this fixed objective? To find it, we come across something we have just discussed about. It is the general view of non-profit-making and at the end of our discussion we had said that the state is also using it but in a completely different sense.

We may express it in other words, too: The group of those supporting

collective economic bodies does not want to promote individual interests as allowed by all the other legal forms of social law but its definite aim is to promote third parties. Therefore, the supporters are the proceeding point but not the aim of promotion—*promotion is aimed at others, at third parties, exclusively.*

Therefore, a personal overlapping between the supporters and the promoted is not possible generally. The characteristic of the collective economic body is that the supporters are using means in order to achieve advantages or benefit *for others.*

Further, we can classify collective economic bodies by two sub-groups:

1. Charity association or promotion society,
2. Charity enterprise.

Only the last mentioned subject is relevant for us. Supporters link it with their aim to promote third parties through the transfer of profit made on the basis of economic activities of the joint enterprise.

The decisive point is that the group of supporters does not take the individual interests of others as orientation. In contrast to the charity association, it uses an enterprise for this purpose. The enterprise is used to make profit for achieving the aims of the association or to prevent monopoly profit of competitors.

The profit is used to develop the enterprise according to the fixed objective of the collective economic body.

Many forms of such collective economic bodies exist: the bank for collective economic bodies, hospitals run by parishes, housing associations and others. I was just inclined to say—non-profit-making housing, but in order to separate the terms clearly, I say: only one part, that is *collective housing*. Characteristically, this is mixed up in the second draft of the housing non-profit-making law of 10 August 1984. One additional fact has to be mentioned, however: When the state links its recognition of public utility with the obligation to construct, then this can be linked with the actual objective of this partial field in an outstanding manner.

*The co-operative*

This all is quite different in a co-operative. First, we have the law on the registered co-operative. It is a pity that we have no law on collective economic bodies because this would make clear the correlations. Therefore, what we have said so far may not sound so convincing as desirable.

But we have such a law for the *co-operatives* so that all facts can be proved in a better way. The essential difference to the collective economic body (supporters promote third parties) is that the group of the supporters is the group of the promoted. The same people support and promote the co-operative, or to say it more precisely—the co-operative promotes itself, that is, its members. A group has founded a housing co-operative, for example, not for third parties, however, but for itself so that each member of the group gets a flat.

A co-operative uses its own enterprise not to serve others but itself. The co-operatives concentrate their efforts not at the interests of others but at their own.

Thus the co-operative is very close to private economy because it is private property—not individual property but group property and this means not individual housing property but collective property of the whole co-operative.

Life-long right to housing and inheritance of this right are based on these facts.

Therefore, one need not pay a rent—this would be an anachronism—but a rental fee.

This distinction between co-operative and collective economic body shows that their different aims—

— to promote the members of the co-operative on the one hand and  
— to promote third parties based on public utility on the other  
exclude each other, are incompatible and thus they cannot be achieved by using the same enterprise.

Whether they can be represented by one organization or not, this depends on the ability of this organization to represent two different groups and to satisfy their interests.

Parents may also have quite different children and then they also must learn to be impartial. One fact is sure: the obligation to construct houses cannot be imposed very easily in housing co-operatives. When members have their own flats, they are satisfied. Why should they want to construct more flats?

Can this mixture be eliminated?

This depends on the work of the management.

Whether they recognize such a task in co-operatives as more important. On the other, it should be made clear to the state what living in one's own house means. In housing co-operative, too, living is living in one's own house.

The state will not be able to provide all citizens with private houses but it should facilitate living in a housing co-operative because this is close to it.

This would be a far more appropriate aim to be achieved by the housing policy of our state.

Sven Ake Böök\*

## In Search of an International Co-operative Research Programme

### SOME REFLECTIONS FROM THE PERSPECTIVE OF “CO-OPERATIVES IN THE YEAR 2000”

I have met *Vesa Laakkonen* many times during the last few decades in various ICA contexts; at the congresses, at the Central Committee meetings and in the *Working Party for Research*. I know that *Vesa*, among other things, is much engaged in developing international collaboration in co-operative research. That is why I want to choose some reflections about this as a theme for my contribution to his book.

As a starting point, I use recent ICA documents about the co-operative future. These all draw attention to the importance of increased knowledge and understanding. I have chosen to use the global co-operative development perspective of Alex Laidlaw as a general framework and basis:

From the perspective of 1980, we see humanity at as dangerous a point as it has ever been in all recorded history. Of one thing we can be quite certain: co-operatives will be obliged to operate in a world that is largely not of their own making. But this is not to say that people working through co-operatives cannot help to make the future, for indeed this is the central purpose of the co-operative movement: to help make a different and a better kind of world. The history of the future has not been written, and co-operators must be determined to have a hand in writing it. In short, co-operators can be active participants in the planning, and indeed creators, of the future, if they only have a mind and a will for it.

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Certainly, there is a need for increased knowledge and understanding the implementation of these long-term prospects of co-operative development, planning and decision making! We all agree on that.

But what are the contributions of co-operative research in such a context? What are the essential areas and issues for research? And what kind of knowledge is needed?

These are surely big questions. Anyhow, all those involved in co-operative research and development must take responsibility for the answers.<sup>1</sup>

## 1. BASIS FROM THE REPORTS AND THE RESOLUTION 1980

As we know, the 1980 ICA congress dealt with two reports on the future: one by *Alex Laidlaw*, "Co-operatives in the Year 2000", and one by the Co-operative organizations of the Eastern European socialist countries "Co-operation of the Socialist Countries in the Year 2000". The resolution was adopted unanimously and, among other things, member organizations were asked:

"to study and, if necessary, set up a research programme to examine future development throughout all sections of the co-operative system;"

Without doubt, the two reports and the resolution contained lots of challenging questions, discussions, observations etc for such programmes and for an international programme. In particular they identified very broad *essential objectives* for future co-operative development.

Alex Laidlaw and the resolution gave the highest priority to the following areas:

<sup>1</sup>Some parts of this paper have been presented at the ICA Working Party for Research and at the ICA Congress (1984).



### **1) Increase in food production**

The development of agricultural co-operatives, including agricultural producer co-operatives among small farmers, particularly in developing countries, with a view to increasing food production and raising the real incomes of primary producers;

### **2) Reduction in unemployment**

The promotion of industrial co-operatives and the conversion of existing industrial enterprises to the co-operative form of organization so as to contribute to an increase in incentive and productivity, a reduction in unemployment, an improvement in industrial relations and the development of a policy for a more equitable distribution of incomes;

### **3) Development of democratic consumer control**

The further development of consumers' co-operatives in such a way as to emphasize the features which distinguish them most clearly from private traders and sustaining their independence and effective democratic control by members;

### **4) Creation of neighbourhood communities**

The creation of clusters of specialised co-operatives or a single multipurpose society, especially in urban areas, in such a way as to provide a broad range of economic and social services: housing, credit, banking, insurance, restaurants, industrial enterprises, medical services, tourism, recreation etc, within the scope of neighbourhood co-operatives.

In my follow-up study 1982 (see below) these areas and objectives were confirmed as crucial for future co-operative development planning and allocation of resources, hence I regard them as a good basis for an international co-operative research programme.

## *1.2. Concepts of development*

Alex Laidlaw also expressed very clearly, in my interpretation, some crucial concepts of long-term co-operative development. I will regard them as a value basis for an international co-operative research programme:

### **1) Global perspective**

Co-operative development at local, national and regional levels must, as far as possible, be considered in its global consequences.

### **2) Relevance for the community**

Co-operative development must be considered in relation to the needs, problems and objectives which are relevant to the (majority of) people within the communities. Co-operation must not be an end in itself.

Co-operative development must be evaluated in its capability to satisfy the needs, and to solve the problems, of the people within the community.

### **3) Co-operatives in many forms**

All the needs, problems etc of the community cannot be catered for and solved by only *one type* of co-operative. There are many types and forms of co-operative for the many-sided needs, problems etc of the community.

### **4) Co-operation between co-operatives**

Co-operatives must systematically try to develop the basic principle of mutual aid and support between co-operatives. (This is a potential power in co-operative development, especially important in relation to the development concept in 3).

These concepts of co-operative development are not new as such; of course not. What is new is that they were so generally accepted.

### *1.3. Crucial issues*

In his report, Alex Laidlaw concluded by summing-up 10 major issues and crucial questions for development:

- 1) Where are the leaders for future development?
- 2) Will co-operatives be able to communicate their message?
- 3) Can education be stimulated and enlivened?
- 4) What is the proper role of government?
- 5) Where will the necessary capital come from?
- 6) Will a special kind of management be needed?
- 7) What of the place and role of women in co-operatives?
- 8) Who will aid Third World Co-ops?
- 9) What of the ICA in the future?
- 10) What is the relevance of co-operatives to the future?

Each of them might very well be formulated in terms of research. We recognize most of the questions as crucial in our national co-operative development contexts. In Sweden, e.g., there is some research work; but to a very limited extent.

## **2. FINDINGS AND EXPERIENCE FROM MY FOLLOWUP REPORT**

My follow-up study in 1981/82 was not in the first place aimed at going deeper into the need for knowledge and understanding; I just tried to "answer" two main questions:

- 1) What is the situation now, some years later, in co-operative work with regard to these priorities? What are the problems, the experience etc at the present stage of planning?
- 2) What is most important now and in the immediate future, to bring into our process of planning?

In question 1) I tried to grasp the empirical picture of the situation. In question 2) I wanted to establish a co-operative norm in order to bring in some judgements on development needs. I expressed these judgements in

the form of 7 recommendations to the Central Committee in 1982. They were accepted. Because of the character of my findings, I emphasized the need for education, information and research.

### *2.1. Development needs and problems*

I am not going to enter into details. My findings are mainly based on answers to a questionnaire with 10 extensive questions, sent to all the ICA member organizations in late February 1982. I got about 50 answers, mostly from National Federations and/or apex organizations. In general, one can say that the answers cover most countries with a majority of individual co-operative members.

As I mentioned before, my findings confirmed the established "priorities" as the essential objectives and areas for long-term co-operative development. Some answers identified "priorities behind the priorities"—among other things about production and distribution of energy—but the overall picture was clearly supported the resolution.

The picture of problems, and developmental needs etc in relation to question 1) was briefly the following:

— Many asked for a review of the role of the ICA in long-term development perspectives.

— Several emphasized the crucial need to strengthen co-operative democracy and the members' possibilities for participation. The involvement of young people, as members and employees, was particularly stressed, as was the role of women.

— Many stressed the importance of developing socio-economic relations (links) between co-operative movements in developing countries, and in more developed countries: commercially, educationally and economically.

— Most of the answers indicated problems and developmental needs in relation to co-operative finance. Co-operative collaboration was wanted and so was suitable financing for various developmental needs. 'Let us

develop an international co-operative banking system', some organizations said straight away.

— Many stressed the need for education, especially in respect of professional training. Co-operative leadership in particular was mentioned.

— Some were searching for experience of structural reforms (organizational and commercial) when looking into the future. This was particularly true for co-operative retailing and wholesaling, and for organizations planning to revise their organizational structure (relations between primary and secondary societies).

— A few stressed the need for long-term development of co-operative research departments in independent forms.

— Some expressed the need for collaboration with closely-related organizations, especially with trade unions and voluntary organizations.

— Some announced problems in relation to government, e.g. lack of understanding of co-operative developmental needs. Some highlighted problems of collaboration within the co-operative sector. There is a lack of common co-operative concepts.

— Particularly in relation to priority 2) and priority 4), several announced a lack of experience, knowledge and of proper legal and financial preconditions.

— Finally, there were various concrete and practical problems such as lack of sufficient storage facilities, and difficulties in getting good sites for offices, etc.

This is, as states a very basic picture. When looking at this list, one might say that these are quite conventional answers. The picture was probably the same in 1962 and 1972 as in 1982. This is simply because these are problems etc which will always exist in the co-operative work of the future.

That is not, however, to say that these developmental needs should be less urgent! On the contrary, they represent crucial "priorities behind the priorities" for the future. Now it is urgent to define them in the many-sided context of implementation.

In my opinion, the previous picture of developmental needs etc ought to be of interest for further research; at least as a starting point. Research is

relevant in these contexts as a basis for educational activities, as well as for decision-making. I also think that it is possible to immediately define questions for research from some points in the previous list.

But there might be a problem: this list reflects reactions, experience, ideas of problems etc from inside the co-operative organizations, and often from people in top positions. Certainly, observations from persons outside the movement, particularly from independent researchers and from research departments, and from “the grass-root members” would have highlighted some other problems etc, according to their different knowledge and experience of contexts etc.

This is important, and it could give rise to a very long discussion but, to make it brief: it is crucial for further research to seek answers to the question “Which are the most important areas for increasing co-operative knowledge?” to bring in other and many perspectives on co-operative development. The way in which we define questions for research is crucial, and we must avoid the danger of becoming shortsighted.

## *2.2. The mobilizing perspective*

The lists above contain many tasks for research. Since resources are always short: What is it *most important*, now and in the immediate future, to include in our planning process?

In considering this step, a main perspective emerges, in my opinion, as a *common denominator* behind the priorities. This is a need for inputs of various kinds in order to *mobilize* co-operative members, co-operative employees and co-operatively interested people for, by and through co-operative activities.

In other words, there is a need for inputs to develop and strengthen the social base of co-operative organizations. This is without doubt the main developmental problem for large parts of the co-operative movement for the present and the long-term prospects of the priorities. This social basis also has to become more international in its basic qualities. The old co-

operative idea of universality has to be strengthened when looking at the world about one.

This was, and still is, my principal judgement of developmental needs in relation to question. From this basic perspective there are many approaches for further specifying the inputs: there are economic, administrative, organizational, educational, action-oriented inputs etc on local, regional and global levels. And, in relation to them all, research is needed.

In my report I selected three approaches as crucial for the 80s and the 90s:

— There is a need to increase the co-operatives' willingness and ability to "see" and to "understand" co-operative applications in the community, particularly in areas of priority. In other words, we need to develop and to make concrete the meaning of *the co-operative relevance*. What is the actual and potential relevance in various contexts of development?

— There is a need to bring forward the co-operative prerequisites and qualifications to create power for development and stability by the inherent capacity of co-operative self-reliance. It is a question of developing forms of self-help and mutual help, the latter expressed in the application of *the idea of the co-operative sector*.

— There is a need to strengthen *international co-operative solidarity* and unity. It is particularly, important to develop the role of the ICA, but it is also a question of the conditions and possibilities for the co-operative movement to become more active as a movement for peace and global justice.

I look upon this mobilizing perspective as a kind of superior perspective when searching to establish an *international co-operative research programme*. The findings of my study have convinced me even more of this.

### *2.3. Lack of current empirical descriptions*

I would like to mention an experience of another kind before I go on. In my follow-up study I intended to draw an overall quantitative picture of the world co-operative movement, some main lines of development, organizational patterns of importance within the community etc. But that was not an easy task; I had to give it up. It takes at least one or two years to reach a result that is tolerably satisfactory. I had not got enough time.

Well, I will not be too negative. We have statistical figures by the ICA (on the other hand they are quite old, with many imperfections). Of course, there are monographs for many countries and, to some extent, for regions and, finally, of course you can get empirical descriptions straight from the member organizations.

But I was looking for easily available *current* descriptions of trends etc from a global point of view. And, moreover and particularly, descriptions where co-operative activities could be considered in relation to the community. For the time being we have not got that kind of empirical description and that is a little embarrassing.

## 3. SOME ORGANISATIONAL ASPECTS

In my opinion, and very generally expressed, I believe that the ICA ought to have a more pronounced responsibility for global perspectives on co-operative research. That is to reasonable demand of an international co-operative organization for the future.

### *3.1. The complexity of the concept*

On the other hand, one has to be aware of the difficulties. One basic part of the problem is, of course, built into the international co-operative movement: *the enormous complexity of its structure*. There are so many different questions for research, which are relevant to the various types of



co-operative and to the co-operatives operating within various socio/economic and political settings. It is possible to ask the question: is there any research of common interest and usefulness to all members of the ICA? I will illustrate that question with the following diagram:

## PERSPECTIVES ON CO-OPERATIVE RESEARCH

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Consumer co-ops    Producer co-ops    Other co-ops

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Co-operatives in  
socialist countries

---

Co-operatives in  
capitalistic countries

---

Co-operatives in  
developing countries

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It is possible to examine this figure in more detail and thus have an even more complex picture. In each square there are special needs for research and special approaches etc. This clearly illustrates the difficulties of effectively communicating in research questions with global perspectives. It also illustrates the problems of the ICA, which will cover the whole figure above. What, then are the common denominators, besides the evident fact that all research deals with co-operatives and co-operators?

Well, in the previous parts of my paper I have tried to draw your attention to some basic and crucial contexts behind research. In part 4 I will try to be a little more concrete and sketch out such areas of research as *may* be of common interest to the majority of the world co-operative movement. Before that, however, some more organizational reflections.

### *3.2. Essential tasks at the international level*

What then, are, the necessary tasks at international level, appropriate at the ICA level for developing knowledge through research? Well, above all one must consider efforts aimed at furthering interesting research in global co-operative perspectives and at making relevant research findings available to the member organizations and the interested general public. This may be formulated in greater detail in this way:

— It is necessary to be able to state the essential knowledge requirements. In other words, to *identify* the important areas where additional knowledge is needed.

— It is essential to be able to *initiate* and *encourage* research efforts in these areas and *collect* the results.

— There is a need to *convert research findings* into useful and usable forms for meeting the various requirements in the context of co-operative education, opinion-forming and practice. The knowledge gained from co-operative research must be integrated with co-operative practice.

— To a limited extent, one must be able to carry out certain research-oriented efforts at the international level, especially current statistical surveys of the global co-operative sector.

Item 4) must be emphasized; the task at the international level cannot be to carry out research.

The essential resources for research must, of course, consist of research institutes, of the member organizations' own efforts and of their relations to research activities inside and outside the co-operative movement. The main responsibility of the resources at the ICA level will be to *coordinate the work* relating to the tasks 1)–4). If the ICA could act as a kind of "clearing house" for research efforts concerning global co-operative development perspectives, it would be a big step forward.

### *3.3. A long-term programme*

In fulfilling these tasks, it is essential to identify a long-term programme at the ICA level. In this context it is important to bring in “external researchers”, especially for the work on tasks 1 and 2 in 3.2. We must avoid the danger of becoming short-sighted and we need this knowledge and these contacts with research institutions, etc. Maybe there is a need for a more permanent advisory group of “external researchers” at the ICA level, which would meet a couple of times a year to discuss co-operative research on long-term possibilities.

It will surely take some time to establish such a programme. A suitable starting-point might be some international seminars and a major conference on research of interest to co-operatives, arranged by the ICA. The purpose should be *to give a review* of existing research in fields of importance to the co-operative movement, and of the research that is in progress and/or being planned in various contexts, by universities, co-operative research departments, institutions, societies for co-operative studies, etc. These reviews are to be related to the reports and the resolution on “*Co-operatives in the year 2000*”.

The purpose should also be *to provide a basis* for discussion and analysis of urgent needs for development of knowledge, thus establishing the foundation for an outline of a co-operative research programme for the coming decades, and *to particularly illuminate* a number of essential areas for co-operative development and the research that exists in progress/is being planned in these areas.

Surely it is necessary to repeat such major conferences every second or third year in order to develop the programme.

#### 4. AREAS OF RESEARCH

What then, are, the essential areas of research? As a starting point for discussion, I will suggest the following:

Each of them needs to be defined and specified within the various perspectives, that I pointed out in the figure above.

##### **1) Descriptions and surveys of co-operative development**

There is today no current description of the co-operative sector in the world, at least not easily, available. We lack empirical and quantitative descriptions of, among other things, the organizational patterns of growth of co-operatives in various parts of the world; the organizational structure of the co-operative sectors, various types of co-operatives etc; current patterns and trends of development on various levels, etc. . .

Certainly, there is much work done and much material available within the organizations. But there is a need to collect these materials and to systematically put them together create an overall picture.

##### **2) Co-operative relevance in the areas of priority**

This is concerned with co-operative activity as a part of society, in order to contribute to society's problems. What importance (actual and potential) do co-operative solutions have to goals in the priority areas?— Experience, successful and unsuccessful lines of development, etc. What are the necessary prerequisites for good co-operative development?— Possible future co-operative applications, ideas and future-oriented analyses?

There are lots of tasks for research and lots of opportunities to use imaginative methods. The main purpose is to increase the capability to “see” and to “understand” co-operative possibilities for contributions.

### **3) Structural economic/social change and co-operative development**

We need to know more about the relationship between structural changes in society and structural changes in the preconditions for co-operative development. There are many points of departure for “case studies” of the past decades, which may provide experience and knowledge for the future. Among essential areas are: descriptions and analyses of crucial structural changes and patterns; analyses of federal models compared with the integrated models; conditions and possibilities to combine large and small scales within co-operative organizations; leader functions in co-operative organizations.

### **4) Co-operative behaviour in situations of crisis**

During the last decades, and even today, we have witnessed co-operative organizations in crisis situations for various reasons. We have also seen various ways of tackling such crises, among other things many organizations have introduced new patterns of organizational development. We need research about e.g.: the causes and nature of crises, ways of detecting them, co-operative consciousness of crises . . . ; “Case studies”, successful and unsuccessful ways of responding. What are the qualities of organizations in success and in failure?

Of course, the motives are the same as in 4): to learn for the future. Certainly, these are quite sensitive questions for research, nevertheless they are essential for our future knowledge.

### **5) Applications of the co-operative sector idea**

For the future we have to examine more of the possibilities (our “hidden reserves”) for co-operation between co-operatives. It is partly a way to create increased stability, partly a way to support activities at early stages of development. It is a question of co-operative self-reliance, expressed and practised through the idea of “the co-operative sector”. Tasks for research e.g.: Problems and advantages of increased collaboration

according to the idea of the co-operative sector, perceived and real obstacles; Preconditions and possibilities to expand existing interco-operative forms, suitable forms for various parts of the world, for various types of co-operative etc.; Inventories of ideas and practical models, local systems of co-operatives in villages and towns, in urban and rural districts. Support for young co-operatives.

We have talked a great deal about the need for “co-operation between co-operatives”. How does it function in practice? This area of research contains essential questions for knowledge and action for the future, but they are relatively unexplored.

#### **6) Co-operative financing**

My impression from the follow-up study is very clear-cut. The questions of finance interest and/or bother most of the member organizations in the long term. They have been given a crucial role. Some tasks for research: Ways and means of increasing the co-operatives' own capital (self financing); Experience of co-operative systems which allocate and to raise capital; Ways of co-operative borrowing from outside sources. Relations with the state and with state financial sources; Need for financing in future perspectives. International collaboration, preconditions, possibilities, problems. An international co-operative banking system? *Ingeba?*

Co-operative financing is a central area for development, and hence for co-operative research. To a large extent, this kind of research has to be action and decision oriented. We need action now.

#### **7) Co-operative mobilization**

As I said above, this area is like a common denominator, a common perspective behind all the questions about the future. Areas of research are e.g.: Organizational models and solutions for absorbing and encouraging involvement and willingness to participate; The involvement of young people in co-operative activities; Women, an “unused resource” in co-operative mobilization.

The relevance of co-operatives for the future stands and falls with the ability to mobilize people by co-operative ideas and practice.

### **8) New co-operative forms and lines of development**

In many countries many new co-operatives are emerging outside the established co-operative movement. They are often formed in areas which are not common co-operative activities. Why do they emerge? Some questions for research: Surveys of the existence and patterns of development of such new forms of co-operative, motives etc.; Preconditions and possibilities for contributing to the objectives in areas of priority, needs for support, advice etc.; Relations with the established co-operative movement.

In this context, we also perceive for a review of co-operative principles to include, among other things, "pre-co-operatives".

### **9) Co-operative innovations**

The ability to innovate is important for co-operative organizations, whether they are working within a market economy or within a planned economy. Currently, there are new experiments, successful and unsuccessful. One way of spreading knowledge between co-operatives is by research: The "climate" of innovations in co-operative organizations. What are the special characteristics of co-operatives? Surveys of essential innovations, product development, administrative development etc. "Case studies".

This area of research is partly action-oriented, but it also contains more back-ground research. Of one thing we can be sure: we cannot afford not to shave the information about innovations amongst co-operatives!

### **10) Co-operatives and the media/data technique**

Development in these fields is rapid indeed. Futurological studies say that this kind of technique will revolutionize our societies. And, as usual,

there are bad and good prospects. Where do we stand as co-operative organizations with regard to such prospects of development? Contributions from research are e.g.; The use of data and media technique within co-operative organisations, experience, ideas, advantages and disadvantages; Possibilities for new co-operative solutions? New patterns of co-operative organization? Small scale, decentralized activities, democratic communication etc. . . ; Dangers. Are the co-operative ideas of the community consistent with the various visions of the "data community"?

*We have to approach these questions, but in a co-operative way!*

### **11) Co-operative relations with government**

This is an old area in co-operative development, and very much discussed. Anyway, it is also important for future prospects, although the situation is very different for the various parts of the world co-operative movement. Some areas of research: New state or municipal bodies dealing with co-operative development; State and municipal activities in co-operative forms; Co-operative laws, and co-operative needs for development in relation to the priorities; Co-operative relations with parliament, political parties, state bureaucracy etc.

We need a preliminary study in order to structure this area.

### **12) The social responsibility of co-operatives**

Co-operatives unite economic activities with social responsibility. This social responsibility has different meanings in different contexts of development. In global contexts, three main areas are crucial: Economizing on scarce natural resources; Co-operatives and the poor; Conditions for peace.

This area is a challenge for co-operative will and action. But there is also a need for research, particularly as a basis for education and information.



## 5. SOME CONCLUDING REMARKS

As I said above, these 12 areas have to be specified in the many and different perspectives within the movement. And of course, the research must, as usual, be performed within those perspectives. Nevertheless, I do think that parts of the findings etc of decentralized research could be of interest to most of the co-operative movement worldwide.

### *5.1. Usefulness*

*The usefulness of research must always be created and developed in interaction between researchers and users.* This is a long story, but there are at least two important aspects in this context.

*One aspect* concerns the selection of areas, questions, problems etc for co-operative research. Of course, as co-operators we must be active in expressing what kind of knowledge we need for future development. *Another aspect* concerns the process of implementation; in other words when results and findings of research will be brought into planning and decision-making. It is a question of making research available in appropriate forms for the user; a question almost as important as research itself.

The question of usefulness is crucial, research findings are only the raw materials. Methods and processes must be continually developed for converting research in co-operative fields into forms useful for co-operative activity. In other words, efforts must be made to bridge the gap between “theory and practice”.

### *5.2. Co-operative doctrines, co-operative theory and co-operative history*

Maybe my action-oriented approach has left the impression that I have forgotten co-operative doctrines and theory, and that I have neglected co-operative history.

If so, I must apologize for that. In fact, I regard co-operative doctrines as important approaches to all areas of research. Moreover, I regard

theories. As to co-operative history: our co-operative history is our collective memory. Without it, we cannot understand the future.

### *5.3. The actual situation*

In 1984 there were some steps forward. Among other things there is a resolution by the ICA Congress in Hamburg 1984, which:

RECOGNIZES	that adequate research is vital to generate co-operative knowledge and progress;
CALLS FOR	the ICA Central and Executive Committees to take appropriate steps to develop a long-term policy and programme for research and to that end;
ASKS	that the Central Committee direct Auxiliary Committees and member organizations to undertake research in fields in which they are active, and in close collaboration with the Secretariat;
URGES	collaboration with appropriate research centres at academic and other institutions where there is interest and activity in co-operatives;
RECOMMENDS	that an ICA Research Conference be held in 1986 or 1987 and that a report on developments in co-operative research be submitted to the 29th Congress in 1988;
REQUIRES	the ICA Director to draw up annual and long-term research plans and budgets.

So, it is high time to take the next step forward.

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**J. G. Craig\***

## **Business Success and Democratic Process**

The purpose of this paper is to explore the relationship between long-term business economic success and long-term democratic processes. The focus is on processes and not structures. Inappropriate structures can prevent democratic processes, but merely having appropriate structures does not ensure that democratic processes will emerge and flourish. For this reason, simply having a particular democratic structure isn't enough; one must look at the involvement processes over a long period of time.

To explore this topic I have selected the two most successful agricultural co-operatives in Canada, plus the two most successful financial co-operative systems. These are compared to and contrasted with three recent failures or near-failures of large co-operatives. There are about 40 large co-operative systems in Canada experiencing various degrees of financial success and using various democratic processes. The analysis in this paper is concerned with providing case material on the most successful and those that have failed or are failing. A following paper will analyse all the co-operatives and compare the long-term business success with their democratic processes using the quantitative measures of these two sets of variables.

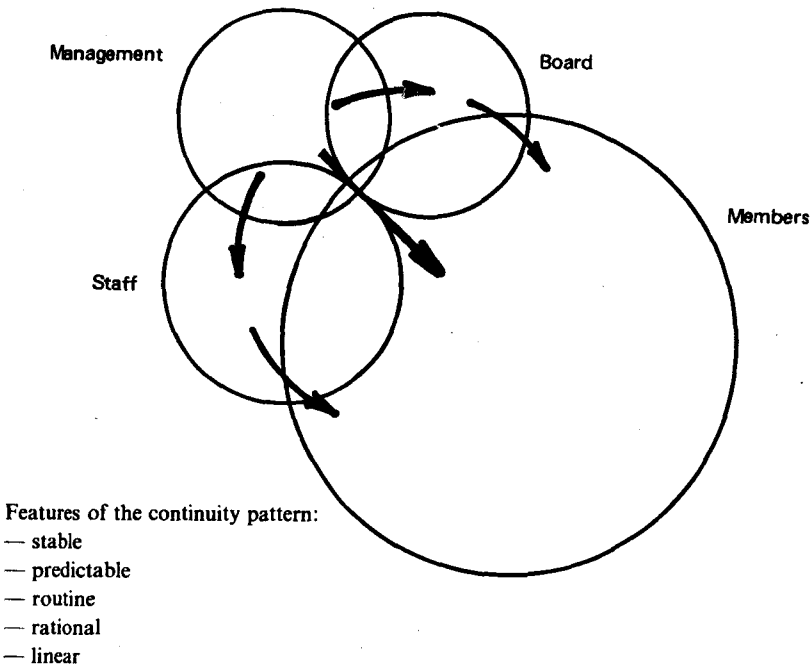
The logic of striving for business success in co-operatives stems from their purpose. A co-operative, or co-operative federation is created to supply goods and services to its members. Boards of Directors are

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delegated power from the members. They in turn hire management and delegate power. The purpose is to develop an organization to achieve the goals of the members.

Organizations routinize work. To do this they have a division of labour in order to work efficiently, and management has a great deal of power to plan, organize and co-ordinate these diverse parts so the organization works smoothly and efficiently. The process of co-ordination is achieved through a flow of information as illustrated in Figure 1. There is a continuity to the patterns. They are stable, predictable, rational and linear, and routine. Members want these characteristics in their co-operatives as this makes them well-organized, efficient and economically successful.

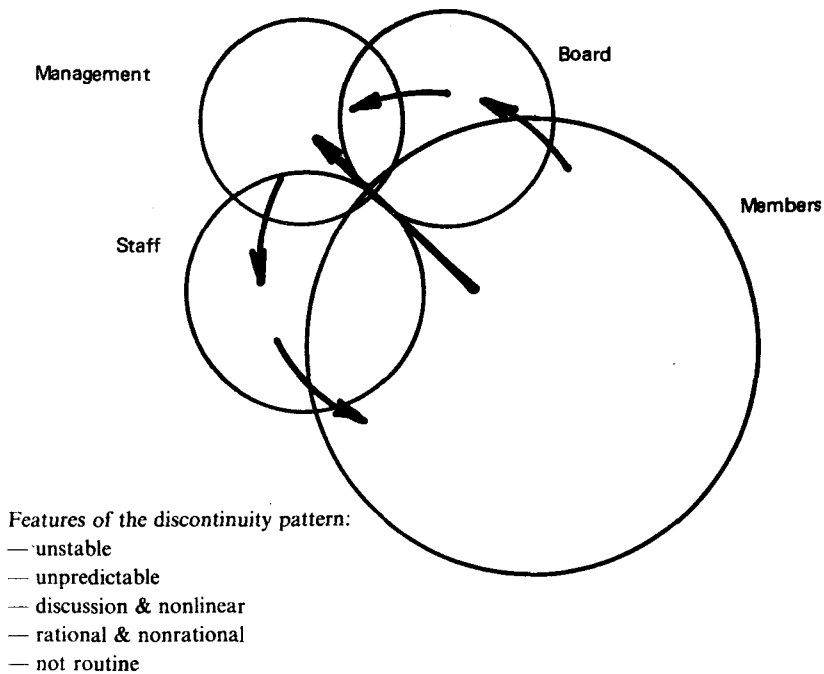
*Figure 1*  
The logic of information flows in organizations



There is a variety of measures of economic success in any business. These include long-term profitability, growth, size of assets, market share, or return on capital employed. Co-operatives would add some other dimensions, like economic returns to members, transformation of the market for the benefit of members and helping to improve their quality of life.

Members also want their co-operatives to be responsive to their changing needs. Within market economies it is assumed that people can show displeasure with an organization by voting with their feet. Sales change and the organization adjusts. However, this is a very blunt and imprecise feedback mechanism. Co-operatives have built in an influence

*Figure 2*  
The logic of Democratic Processes in organizations



and control process around the general principle of democratic control. This enables members to make changes in their co-operatives when they perceive that changes are needed. But the democratic pattern illustrated in Figure 2 is one of discontinuity for managers.

In Figure 2 the information-flow changes. Managers and Directors are expected to listen and learn. The situations are unstable (anything can happen); they are unpredictable, there are rational and emotional elements, the pattern of discussion is non-linear and often goes in circles as people explore ideas and argue, and routines are temporarily suspended. In short, it is the reverse of the day-to-day continuity patterns. This reversing pattern of information flow is inherent in co-operatives and is an essential feature with which managers must learn to develop, and which they must nurture.

## SUCCESSFUL CO-OPERATIVE SYSTEMS IN CANADA

### *Saskatchewan Wheat Pool (SWP)*

The Saskatchewan Wheat Pool (SWP) is the largest co-operative in Canada with an annual sales volume of 2.7 billion Canadian dollars in 1983 and earnings of 47 million. It is one of Canada's largest corporations. It was founded in 1924, has 4,200 employees and about 71,000 members. It has marketed the majority of the wheat and oilseed grown in the Province of Saskatchewan for the past 50 years. By any standard it is a very successful business.

The SWP also has a rather unique democratic structure. When it was organized the province was divided into 16 districts and 160 sub-districts, with a delegate from each sub-district and the delegates electing 16 directors. Over the years, as the farm population decreased, the number of sub-districts has declined to about 120. From 1924 until 1966 every delegate was elected annually. Five farmers can nominate a delegate, and a postal ballot is held. Each shipping point has a committee of farmers.

However, these formal mechanisms are not what makes democracy work. It is the processes that are built into the operations that are the key to democracy. In SWP each delegate meets with the delivery-point committees several times a year and the directors also meet with the delegates in their district several times a year. There are lots of meetings and many ongoing discussions. This activity culminates with a delegates' meeting each November, lasting for two weeks.

The delegates do not spend all this time and effort just on SWP business. They also concentrate on agricultural policy in general and, since the 1920s, SWP has been a major voice for Saskatchewan agriculture.

In order to assist the flow of information from farmers to the Board and senior management, the organization has an Extension Division which works with the local directors and delegates. This division reports to the secretary of the Board rather than to the general manager.

Each shipping-point (about 700) has a committee elected at an annual meeting of members in the area. There are 5 to 10 members on each committee. They meet about 8 times a year and discuss the business of SWP, plus agricultural policy in general. If they want something changed they draft a resolution, discuss it, and vote. If approved, it is sent to head office for action. About 1,200 to 1,500 resolutions are sent in each year. A senior staff member reads them and, if they deal with operations, sends them to the right manager for action. If they are about policy matters they go to a resolutions committee made up of directors and delegates. They combine similar resolutions and prepare them for debate at the delegates meeting.

SWP have 6,000 to 7,000 farmers in elected positions on an annual basis. The majority of farmers in Saskatchewan have been Wheat Pool Committee Members at one time or another.

A study in the early seventies (Craig, 1971) found that the democratic process provides a forum for a wide cross-section of farmers' views and that delegates are very sensitive to the changing views of farmers. If they are not in touch, they can be defeated in the fall election. Over the years when SWP policies were out of step with farm opinion there has been an increase in the number of delegates seeking election, and SWP policies have changed.

*Agropur*

Agropur is the largest dairy co-operative in Canada and the sixth largest co-operative in Canada. Sales were 618 million Canadian dollars in 1984. Agropur has dominated the dairy market in Quebec for several decades and moves Quebec dairy products into neighboring provinces to expand the market. By any standard it is economically successful.

Like Saskatchewan Wheat Pool (SWP), it has a unique way of involving members. Agropur have an animator for each 10 dairy producers. These are not exactly the same as a delegate. They needn't try to represent the views of their constituents, but are expected to react and discuss issues from their own perspective (which most delegates do anyway). Because they come from the countryside and interact with their neighbours on a daily basis they reflect the views of the vast majority of members.

The animators are not elected. They are appointed on the invitation of the elected Board of Directors. To an outsider this seems undemocratic, but when the process started over 40 years ago it complemented the social and cultural environment of rural Quebec.

Three or four times a year Agropur holds a meeting for all the animators in the city of Granby, where its head office and main plants are located. Buses are sent out along the milk routes to pick them up. They meet all day and return in time to do the evening chores. The annual meeting is open to all members and is the policy-making meeting. The Board of Directors is also elected at this time. The animators' meetings are a way to tap members' views and provide guidance to the Board of Directors and senior management. When major issues arise during the year, the animators debate them and the management and directors listen and learn...then they make decisions. The animators do not make the decisions...the directors and management do...but they always know if they are in tune with the thinking of the membership. This is the essence of democratic processes.

In conclusion: the important point in these two examples is that neither the SWP approach nor the Agropur approach can or should be replicated elsewhere. Both emerged to fit the unique social, political and economic



environment of rural Saskatchewan and rural Quebec decades ago. Over time, they have evolved as conditions changed. They are unique to their environment, and when placed in other environments may not work.

There are several key aspects:

1. The co-operative logic of democratic involvement is present, but the way it is applied reflects the unique environmental circumstances of each organization. That is the key to their success.

2. The organizations have had a long commitment to learning from their members. The channels are used for two-way communications and are respected by directors and managers.

3. This is a long-term process and is not implemented or changed quickly. Both organizations work at keeping the democratic processes working.

#### *Confédération des Caisses Populaires et d'Economie Desjardins du Quebec*

“The Confédération des Caisses Populaires et d'Economie Desjardins du Quebec” is successful by any criteria used for financial institutions. It has about 4 million members in about 1,400 local Caisses (banks). Assets are over 22.6 billion Canadian dollars which represents about 40% of the personal savings deposited in the province. It is continuing to grow and expand its market share, with both deposits and loans increasing by more than 12% in 1984. Reserves are large, and earnings over the years have been consistently strong. As a system it is the second largest employer in the province of Quebec.

The founder, Alphonse Desjardin was a reporter in the Canadian parliament. He became disgusted with the financial system's treatment of the poor. After listening to extended debate by politicians, he concluded that the government of the day would not act and so he decided to do something about it. He visited the Co-operative banks in Europe and designed the Caisse Populaire (People's Banks) to fit the socio-economic environment of working class and rural Quebec at the turn of the century. In 1900 he started the first Caisse Populaire in his home town of Lewis,

Quebec. The Caisses Populaires were started to provide saving and loan services to the working class. They were parish-based and often supported by the clergy.

Emphasis was placed on organizing local Caisses Populaires which were managed by volunteers. As they grew, 7 regional federations were organized and worked closely with the local banks. The regional federations are members of the Confederation. As the local banks grew in number and size many differences emerged and over the years six centrals were organized by split away or newly organized banks. These were often critical of each other and provided many lines of communications and options to members and potential members. If a system was not responsive, there were other caisses populaires only too happy to provide services. Although outsiders have criticized the democratic process as being paternalistic, there has been an active debate and dialogue for over 80 years. The base for the Caisses Populaires was the church parish. Historically, people have known one or more directors, every Caisse sent delegates to the regional meetings and each region sent delegates to the provincial organization.

The 1400 Caisses Populaires are relatively small in size, but can provide economy of scale because they are closely integrated with the 'central'. Because of their small size the organizations can provide more services by being operationally integrated, yet being autonomous in making policy. There are 18,700 elected positions. The most recent annual meeting of the Confédération drew over 2,300 delegates. The structure is not unusual and many credit union systems in North America have similar ones. (Others have copied their structure). What is unique is that the processes work on a regular basis as illustrated in Figure 2.

Debate has been lively. Caisses Populaires are the most important financial institutions for the Québécois and there has been lots of competition for the 18,700 elected positions.

*Credit Union Central of Saskatchewan (CUCS)*

Saskatchewan, like Quebec, was a “have not” province until very recently. The local credit unions were first organized in 1937 and numbers increased until the mid 1950s. During this time the chartered banks were closing branches. Agriculture was depressed and farm loans were hard to obtain. Western alienation against the financial centres in eastern Canada was a major motivator for people to support the credit union (Bromberger, 1976).

Once again, by any standard, the Saskatchewan Credit Union system is financially successful. The 225 local credit unions have over \$3 billion in assets which, as in Quebec, represents about 40% of the personal savings in the province. It has a strong financial base and has helped several other provinces over the past 15 years when they were faced with financial problems.

Like most other credit union systems this one was started with a structure that worked and is working well in Quebec. The problem was that the structure didn't fit the conditions in Saskatchewan. Distances were greater and the size of the member credit unions varied considerably. Things happened too fast for one meeting a year to keep members informed. Delegates needed to be more active and have more responsibility. This was achieved by reducing the number of delegates from one per member credit union to having the number of delegates reflect the membership size in the credit unions. Delegates now represent districts and, in some cases, a delegate will represent several small credit unions.

Since 1970 the system has had a very active delegate structure that combines planning with the activities of the delegates. The delegates hold an annual meeting each year to conduct the business of the organization (i.e. reviewing operations and financial statements, and setting policy). A convention is then held, and all delegates and any other interested person can attend. The agenda focuses on critical issues facing Saskatchewan in general, and CUCS in particular. It is forward-looking, with presentations by experts and workshop sessions so that participants can discuss the ideas. This generates ideas that then are discussed in the regional and local

meetings. During this process, policy is discussed and debated, and when decisions are needed the delegates and directors of local credit unions are well-informed and in a position to make them.

Both Quebec and Saskatchewan systems have a long tradition of involving local delegates in the long-term planning process. Debate is often heated and lively but, out of the series of meetings, plans evolve which reflect the changing needs and aspirations of the members.

## A PORTRAIT OF SOME FAILURES

### *Fédération des Magasins Coop (Federation of Co-op Shops)*

The "Fédération des Magasins Co-operatives" was a federation of local consumer co-operatives in Quebec. They had developed a strong base in the rural and small cities in the province, but they had not penetrated the market potential in Montreal and other cities. They developed the Cooprix as a mechanism to penetrate this market. The Cooprix was a large store offering a wide variety of products, a spartan interior, laid out so as to discourage impulse buying, consumer counselling by professionals, and the promotion of local products. Growth was rapid and the new organizations were linked to organizations rather than to the new urban consumers.

In June 1982, the Fédération des Magasins Co-operatives' assets were liquidated by the secured creditors. The federation supplied 210 co-operative stores in Quebec. It lost \$6.7 million on sales of \$363 million. The result was that all the local consumer co-operatives lost their investment in the Fédération. This was a fatal blow to the newer urban Cooprix co-operatives, like the one in Montreal, and they also went into receivership.

In his study of the fall of the Fédération, *Claude Bariteau* (1983, 2-6) notes that the Fédération had adopted an accelerated development plan in an attempt to break into the urban market.

“In a race against time, it had depended on the constant support of financial capital from both co-operatives and other sources, to raise its business volume in order to generate profits.”

Growth needed to be rapid, so the Fédération launched a plan relying on rapid development financed by organizations and little involvement of the local co-operative members or individual consumer co-operators. They built stores, then had them incorporated as co-operatives. Since growth was urgent, support from financial organizations “rather than active membership of consumers was sought.”

Membership was \$1 and shoppers were attracted to the stores on the promise of patronage refunds. As the number of stores grew, the integration of the \$1 members with the long-term co-operators created tensions.

“The debate definitely created losses for the Fédération. The artificially created co-operatives, had a tendency to rapidly develop a sense of autonomy often in contradiction with the interests of the Fédération.”

The new directors developed a vision of the local stores that differed from the original, and went outside the Fédération for supplies. The federation responded by developing a regional organization controlled, not by consumers, but by a Board of Directors from financial institutions, the Fédération and local co-operatives. This countered the demands for more autonomy from the new co-operatives and provided a greater pool of capital as the financial organizations had representation on the board.

“These two elements are of primary importance. Through them the Fédération could openly ally itself with capital, be it co-operative or local, while transforming its members into simple clients, the most dynamic of which were appointed as advisors to the managers of the local sales outlets.”

*(Bariteau, 1983,6)*

The Fédération and Cooprix didn't have time to educate the new members or involve them. The little involvement that did occur caused problems, as

the new directors wanted more autonomy from the Fédération. The Fédération's response was to increase their power and that of the financial organizations by giving representation on the boards. This further reduced democratic processes. In the end it proved fatal, as the individual members lacked the necessary loyalty and commitment to help them financially through the crisis.

### *Co-operative Trust Company of Canada*

The Co-operative Trust Company of Canada was started in 1952 in the province of Saskatchewan to manage trust and wills for co-operative members, and to provide a longterm financial facility for the Co-operative movement. The first manager was a long-time co-operator with a vision. The board shared his vision and the organization grew rapidly and expanded to the other prairie provinces and to all of English-speaking Canada in the 1970s. The control structure was often criticized because every co-operative, large or small, had one delegate. The delegates met for 2 or 3 hours on a regional basis and listened to the Board and Management. The system was consistently in a continuity mode, as illustrated in Figure 1. This worked as long as the Management and Board had a co-operative vision.

The original general manager retired in 1972. His successor became ill in 1974 and a new manager was hired from a competing trust company. He developed plans to move into the housing market. He bought a real estate company in Ontario, giving it 16 branches in the Toronto-Hamilton area; an area "where the movement was traditionally weak" (*MacPherson*, 1978, 65). As its liquidity increased, it needed to invest its funds. Instead of working within its membership base to develop a demand for its long-term capital, it purchased a luxury resort in Northern Ontario without involving its members. It plowed large amounts of capital into large suburban housing projects in smaller Ontario cities. These were dependent on employment by the manufacturing sector, particularly the North

American automobile industry. Delegates were told these things at meetings, but there was seldom enough time for discussion.

Also, during this era, a number of long-term employees left the company because of the uncooperative activities senior management were engaged in. They told their story to friends elsewhere in the movement, but the members were unable to make changes. Their voices were not heard.

With the slowing down of the automobile industry in the late 1970s and early 1980s the Co-operative Trust Company of Canada was in deep financial trouble. It went back to its membership base in rural Canada for support and, instead, found hostile members. In order to cut loses, its management was contracted to one of its members and its largest shareholder, the Credit Union Central of Saskatchewan. It has been scaled down, shifted back to its more basic purpose, and survives.

On the surface, its failure was for economic reasons, and these reasons were external to the organization in the general economy. However, if the democratic processes had worked, management would never have been in such a high risk position in the new ventures. Many of its members were concerned about the risks and tried to change it. Their concerns were easily pushed aside as the democratic processes were inadequate. The activities had grown away from the interests of its membership.

#### *United Co-operatives of Ontario (U.C.O.)*

UCO is one of the oldest co-operatives in Canada. Its roots go back to the last century when the Patrons of Husbandry were organizing farmers. The United Farmers of Ontario had a purchasing department and were actively engaged in politics. In 1923 their candidates gained power in the Ontario election and formed the provincial government. At the end of the first term they were defeated and their supporters became disillusioned by the political process. The functions of the political party, farm organization and commercial co-operative were divided, and United Co-operatives of Ontario was created as a federation of local co-operatives.

UCO supplies farm products (i.e. fertilizer, chemicals, feed, and fuel, building supplies and farm hardware for a total of over 10,000 products and services) to its membership. It also markets corn, wheat and other cereal crops, and owns a corn breeding station to supply seed, and a poultry processing plant.

During the 1960s, UCO reorganized and merged many of the local co-operatives and operated them as branches. In 1983 it had 148,600 direct farmer-members, with more than 100 retail outlets. It is also the wholesaler for 48 local co-operatives. Its sales volume is in excess of \$500 million, with assets of \$182 million. During the 1970s UCO grew quickly on borrowed money. The soaring interest rates of the early 1980s were hard to absorb with shrinking margins. In early 1984 the co-operative filed with the courts for protection against its creditors. The courts appointed a management consulting firm to oversee the operations, while management developed new financial plans. It is still operating and opinion varies on whether it will survive the crisis. It is scaling down its operations by selling the poultry plant and other fixed assets.

UCO has developed a complete control structure to involve farmers in the local branches, delegates elected on a regional basis with regular zone meetings and an annual delegates' meeting. The structure provides for democratic processes but the practice falls short. For nearly two decades, the evening branch meetings, the one day zone meetings, and the one day annual meeting have been seen as information meetings where the agenda is filled with information about the organization, produced by the management and Board, with little time for the delegates to communicate to UCO officials. Discontent was high during the 1970s and senior management was seen as distant and uninterested in the members' views. These attitudes were documented when UCO went on a sales campaign to increase member equity. At this time many members told the canvassers that they had not appreciated having been ignored for so many years.

The membership has been involved since the financial crisis, but it is too early to tell if new patterns are being set or whether the old "tell them as little as possible" attitude will again surface.



## A SUCCESSFUL EXAMPLE FROM AROUND THE WORLD

### *Japanese Consumer Co-operative Union (JCCU)*

Consumer co-operatives grew rapidly after World War II during the reconstruction period and American occupation. By the mid 1950s the small, inefficient shops were facing strong competition from the private retailers and they came together to organize the Japanese Consumer Co-operative Union (JCCU) to pool their purchasing power. They started a programme to build better shops and develop managers. In 1960 they sent a study team to the United States and started opening self-service shops. During the 1960s they started a programme to amalgamate weaker societies, integrate the system and strengthen their management abilities.

In 1970 several of the consumer co-operative societies ran into financial difficulties. The chains were opening supermarkets, and the urban food retailing industry was highly competitive. For example, one of the urban co-operatives had about 65,000 members, with an annual sales volume of \$27.5 million. The management went to the membership to raise more investment capital. In the process the members told them what they saw as the problems, and the management listened. They set up a framework to have regular discussions with housewives and in the process, encouraged housewives to examine the operations of local stores and to suggest ways to increase the efficiency of the stores by changing the assortment of merchandise, the pricing system and the shop layout. Numerous changes were implemented and, within four years, the sales volume rose to more than \$100 million (Yoshida, 1975).

The involvement of members is part of the philosophy of co-operatives, but large consumer co-operatives elsewhere in the world maintain only token involvement. A few shops in Japan started what they called "Han groups" in the early 1960s to involve housewives. That was the model that the large societies adopted in the 1970s. With this development came a rapidly increased market share plus a transformation of urban food shopping during the recession in the 1980s.

“The Han meeting is the place where members talk about the plans of co-operatives, and make the concrete plans to strengthen the society, make complaints as to shop management and the quality of goods and get answers from the society, talk about matters of concern, exchange experiences and help one another. We hear from lots of members who are participating in Han groups that Han meetings are enjoyable and useful. . .” (*Yoshida*, 1975. 2-3)

The Han is a small group of about 10 housewives who meet periodically to talk about their food store and provide input to the local management on what they like and dislike. They do not have any formal control, rather they are encouraged to talk about the stores to other members and, most importantly, they are listened to and taken seriously. Communications are not just one way, rather it is a joint learning exercise by housewives, store employees and management.

The leadership of the Japanese co-operatives know that they must become more efficient to increase their market share. They are aware that individual shoppers who use their retail outlets have many ideas on how they can be improved. To capture these ideas they must have a learning process between shoppers, directors, staff and management.

There are now 539 consumer co-operatives, with a total membership of 7.8 million. The increase in Han groups has been dramatic, from a few thousand in the mid 1960s there are now 323,000 such groups, involving about 2,350,000 active members (30% of the total membership). The growth has come at a time when more and more women are entering the labour force. With this change in the family structure, changes suggested and implemented by the han groups and management are transforming food shopping in Japan.

When housewives do not work outside the home, food shopping can be fun. They meet neighbours and have conversations with adults. In short, it is an outing away from household chores and the children. However, when wives enter the world of work on a full-time basis, grocery shopping takes on a different aspect. It shifts from being an enjoyable outing to drudgery. This change in womens' role is also a problem for stores. Rather than a

regular flow of shoppers all day, the stores become underutilized during office hours and overcrowded in the evenings and on Saturday mornings.

As more and more women who were involved in the han groups went into the labour force they proposed changes in their consumer co-operatives. Those who lived some distance from the store proposed that their group become a buying club. This innovation was viewed favourably and, together with management, an innovative and efficient home shopping programme has been developed through a learning process. The result is a win/win situation. The stores can become more efficient and solve some of management's problems and food shopping is much easier and convenient for women.

Han groups that have become buying clubs now meet for a short time each week. At this time they pick up their groceries which were delivered earlier that day and leave their next week's order with the member who has the "on-duty-member" role. Since han groups are small and only involve about ten people each it means dropping in to see ones neighbours one evening per week and using a small amount of time. The store receives bulk orders for about ten families (each han group) one week in advance. They can fill the orders during slack times, at the staff's convenience. They can also schedule delivery routes in an efficient pattern around the city. Because of the lead time these routes can be efficient and convenient to the co-operative.

In the early stages, the women who acted as on-duty-member had to combine all the orders, price them and collect the money. With computerization and some innovative ideas this is changing. Stores have introduced pre-paid accounts. Now the on-duty-member merely collects the order forms which the members have made up from the bulk-buying catalogue and gives them to the delivery person. The group order is filled in lots of about 10 (the han group) but orders are individually entered into the cash register and paid from the prepaid account. Each member receives a personal statement of their account with each order. This means less tedious work for the on-duty-member, more information for the members, and immediate payment for the store. The delivered merchandise can come directly from the warehouse and does not need to be

stocked on the shelves. The volume per square foot of display space can be increased and more efficiently utilized.

The people who deliver the groceries are much more than junior employees. They are the liason between the co-operatives' Board of Directors and management, and the han groups. In this way they receive weekly reports from the groups and provide a direct face-to-face linkage. Problems, concerns, ideas, etc. go straight to the top and can be acted upon quickly. Once again a quick, convenient way to maintain responsiveness to changing consumer needs and interests.

Does this example of action learning make sense? In 1982 overall retail sales dropped by 1.5% in Japan. The consumer price index increased by 2.7%. Chain department stores and supermarkets increased their sales by 5% to 6%, but the consumer co-operatives managed a 9.1% increase. A close analysis shows that the consumer co-operatives that increased the most were the ones with buying clubs in the han groups. The others had a growth rate comparable to the chain stores.

The total sales of the Japanese consumer co-operatives are now in excess of 7 billion Canadian dollars. The system is now the largest retailer in Japan. However its market share is only 1.8%, as Japan is a nation with over 1 million retailers.

### *Conclusions*

The examples and discussion above focus on the processes to enable members to communicate with the board and management. However, employees are also stakeholders in a co-operative and they collect a lot of information in the course of doing their jobs. Good managers develop processes to have a two-way flow of information with the staff. In principle these processes are similar to the ones needed to enable management and Boards to learn from the members. However, the practices are very different and are the topic of another paper.

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**Abraham Daniel\***

## **A New Model for Producer Co-operatives in Israel**

### **I. PRODUCER CO-OPERATIVES IN THE WORLD-RESEARCH REVIEW**

Among the well-known pioneering researchers in this area—Producer co-operatives—are Webbs (1920, 1921) and Potter (1891). The Webbs argued vehemently against founding producer co-operatives on an ideological basis. On the basis of their research, the Webbs claimed that the producer co-operative is not a stable form of organization, stated that “democracies of producers could not successfully organize production”. Potter also had a rather pessimistic outlook. He saw three reasons for the failure of producer co-operatives: lack of capital, lack of customers, and the absence of organizational discipline.

In another study, the Webbs give two additional reasons for the lack of efficiency of producer co-operatives;

1. Because of their narrow perspectives, they are more aware of their own needs than the demands of the economy and, therefore, provide inadequate service to their customers; they reject technological innovations which are likely to affect the job security of their members.

The Webbs' claims were investigated by *Jones* (1976, 1978), who examined how long co-operatives survive, how they function, and different levels of participation in traditional producer co-operatives. In his opinion, producer co-operatives can survive for extended periods of time. Jones examined the participation level of workers in co-operatives

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using the following measures: the proportion of workers on the board of directors, the proportion of shares bought by workers, and the proportion of workers who were members of the co-operative. His findings indicate that, while in 1890 workers had a majority of shares on the Board of Directors in only 28% of the co-operatives in his sample, the proportion increased to 47% in 1936 and to 62% in 1954 (the study covered the years 1895 to 1963).

*Jones* tested the *Webbs'* claims about producer co-operatives' lack of efficiency by comparing work methods in co-operatives and in capitalist companies. He didn't find any significant differences. *Jones* even disproved the *Webbs'* claim regarding the rejection of technological innovation; he found examples of producer co-operatives, such as those in the clothing industry, which had adopted such innovations. In addition, he showed that at least some producer co-operatives are able to exist for extended periods of time and that they manage just as well as private businesses.

Despite these findings, one fact remains indisputable. Many producer co-operatives have indeed failed. Four main causes of this phenomena have been identified in studies by *Potter* (1891), *C. Webb* (1928) and *J. Thornley* (1981):

1. *Undercapitalization*—Many producer co-operatives, founded at the initiative of workers, relied upon the savings of their members and upon the good will of consumer co-operatives and trade unions for the purpose of obtaining capital and development. As a result, they depended on the whims of the quickly changing market.

2. *Lack of Management and Business Skills.*

3. *Lack of Discipline.*

4. *Poor Management-Worker Relationships.*

According to *Thornley*, there are two additional reasons for the failure of many producer co-operatives: 1. the lack of a serious approach to development and the lack of a concerted effort in this direction. 2. The absence of political support ("from workers' parties") which made it difficult to obtain resources for the purpose of expansion and development.



Another question is why the more recently founded producer co-operatives are better off than the early producer co-operatives. This issue has not been examined in depth, but there are a number of possible explanations: 1. the “new” co-operatives have learned from the experience of their predecessors which failed; 2. many of the “new” co-operatives are of a participatory type and are supported by consumer co-operatives enabling an increase in the level of industrialization and development, and providing a large market for their products; 3. the participation of outside influences on the Boards of Directors of co-operatives may decrease, and perhaps even prevent, conflicts between workers and management.

*Wilson* (1982) examined the design and development of producer co-operatives, and identified the difficulties which they face. His findings are based on a questionnaire completed by 72 producer co-operatives in England which asked, among other things, for the respondents to rank the ten most important problems which affected their co-operatives—both at the time of their foundation and today.

*Present problems:*

1. Obtaining capital and resources
2. Development of markets
3. Obtaining necessary skills
4. Recruitment and absorption
5. Decision-making
6. Obtaining necessary Equipment
7. Buying suitable buildings
8. Determining organizational structure
9. Determining which service/product to supply
10. Buying supplies and raw materials

*Problems at the Time of Foundation*

1. Obtaining capital and resources
2. Buying suitable buildings
3. Obtaining necessary Skills
4. Development of markets
5. Determining organizational structure
6. Obtaining necessary equipment
7. Buying supplies and raw materials
8. Determining which service/product to supply
9. Recruitment and absorption

Based on the responses to his questionnaire, Wilson concluded that producer co-operatives face the same problems as small businesses: lack of capital and resources, problems of organizational structure, the burden of taxation which restricts capital recruitment and development, difficulty in obtaining suitable buildings in adequate locations and at reasonable prices, and especially: the lack of necessary skills, business sense and administrative contacts. Additional difficulties according to Wilson are: a sceptical and threatening environment and the absence of suitable markets.

*Chaplin and Crowe (1977)* present findings similar to Wilson's. They also are of the opinion that the problems of producer co-operatives are characteristic of all small businesses. Nevertheless, Chaplin and Crowe claim that the main problem does not lie in the lack of capital and resources, but rather in organizational structure and in the interpersonal relationships which develop in co-operatives.

### *Typology of Producer Co-operatives*

Research indicates that new producer co-operatives are not homogeneous in their organizational design. They differ both in their objectives and in the circumstances under which they are founded. *Jones (1978)* points out that an operative typology of co-operatives would enable an analysis of the circumstances under which they are founded from an economic perspective. *Paton (1978)* developed a typology based on how co-operatives are founded and on their objectives. The five types of producer co-operatives presented here are based on this typology (which is based primarily on the British experience).

#### *1. "Endowed Co-operatives"*

In this type of co-operative, firms are transferred by their original owners to the workers. The reasons for such transfers are varied and include: philanthropic motives (Christian Socialist) and pragmatic motives (ensuring the continued existence of the firm in the absence of an

inheritor—or in the event of the death of the owners). Most “endowed co-operatives” are well established economically and are in the marketing field (because they usually grow out of competitive companies), but they are vulnerable to problems of control and democratic supervision within the organization.

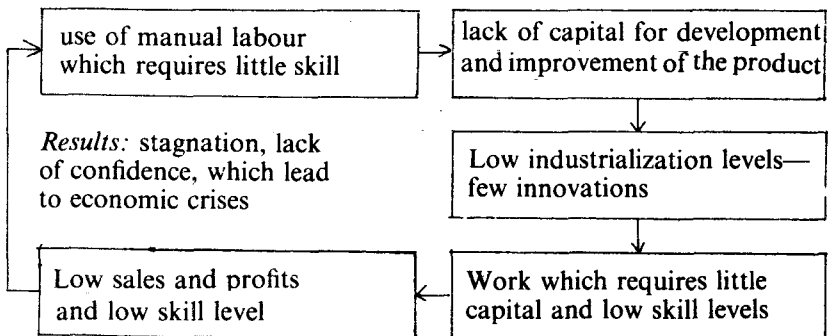
### 2. “Worker Buyout” Co-operatives

There are firms bought by the CDA (Co-operative Development Association) which have been converted to co-operatives.

There is currently very little data about this type of co-operative.

### 3. “Defensive” Co-operatives

Defensive co-operatives are established by workers about to lose their jobs in order to create or maintain jobs. They are established in times of depression and high unemployment. Such co-operatives often face economic difficulties (due to low industrialization levels, cheap imports, poor management and insufficient investment) and structural difficulties of organizational control and supervision. The leaders of “defensive” co-operatives are usually leading members of local trade unions. In a study of Fakenham enterprises, Lockett (1978) briefly analysed the economic difficulties characteristic of this type of co-operative. He finds three principle problems: 1. a small market for the products of the co-operatives; 2. lack of managerial and business experience; 3. lack of capital. These economical difficulties are presented graphically:



*Mackie* (1976) draws similar conclusions from his study of the Scottish Daily News' as does *Eccles* (1976, 1981). It is worth noting however, that "defensive" co-operatives recently established in Scotland have proven successful. Their success can be attributed to the help they receive from the local co-operative development agency in the form of financing (loans on good terms), practical training and managerial advice.

#### *4. "Alternative Co-operatives"*

This type of co-operative includes co-operatives founded in the 1960s as a result of movements for change. Members are generally middle-class, well-educated and identify deeply with social democratic values. Most producer co-operatives in England are of this type (300 to 400). They are generally less than ten years old, relatively small, and the problems which they face stem from these characteristics. "Alternative Co-operatives" differ from conventional businesses in that: 1. their production aims mainly at providing for social needs. 2. the members believe that their product or service is vital. 3. there is a commitment to democratic supervision and an abhorrence of hierarchical management.

*Aston* (1980) studied 69 "alternative" co-operatives over a 3-4 year period. She found that only a few of these co-operatives (e.g. language schools, printing shops, and publishers) paid adequate salaries to their workers and were profitable and stable. *Aston* summarizes her findings by stating that "most producer co-operatives of this type remain in existence thanks to a combination of dedication, zeal and social aid." Other experts attribute the financial problems of these co-operatives to the following: 1. most of them operate in markets that are not profitable enough—i.e. small shops selling food, radical books, etc.; 2. most of the founders and leaders lack any business experience whatsoever; 3. lack of a clear hierarchical structure of management and a preference for group work (thought by these experts to be less efficient); 4. a belief in production to satisfy social needs more than to make profits. Despite these problems, researchers believe that these cooperatives will outlast conventional small businesses, mainly because of the members' dedication and of the importance they attach to the social objectives.

*“Job-Creation” Co-operatives*

These are co-operatives established in order to create new places of work due to a high unemployment rate. Their problems include: attainment of capital, obtaining knowledge and market development, finding efficient forms of democratic supervision in organization. There are two ways of establishing such co-operatives:

- a) philanthropists have established co-operatives and then recruited workers (“Paternalistic Job-Creation Co-Operatives”).
- b) by the potential work force of the co-operatives (“Grass-roots Job-Creation Co-operatives”).

In England, there are approximately ten co-operatives of the first type. *Tynan* (1980, a, b) and *Rhodes* (1980) examined the successes and failures of the co-operative and found that: 1. in all cases the initiator lacked experience in the co-operative’s speciality and therefore had difficulty in assessing problems and in dealing with them. In all three co-operatives studied, very little attention was paid to marketing studies and to examining the ability of the co-operative to realize its plans. 2. Attempts by these co-operatives to train unskilled workers led to inefficiency and financial difficulties, which decreased life expectancy. 3. Problems emerged in developing an effective system of democratic supervision in the organization.

## 2. LESSONS FROM CO-OPERATIVE DEVELOPMENT IN ISRAEL

In reviewing the development of producer co-operatives in Israel, a number of issues were raised from which a number of lessons can be learned. In this summary chapter we attempt to further clarify the most significant causes of the distress of the producer co-operatives and their inability to deal with their problems.

Firstly, it is worth noting the disaster-laden turning point in the principles of producer co-operatives which took place in the early stages of development. The first established co-operative, “Achdut Printing

Shop”—which in fact symbolizes the birth of producer co-operatives in Israel—was built on principles totally different from those which were formulated later and which became, with time, the identifying mark of producer co-operatives in Israel. The latter formulation is characterized by the following principles:

1. Every member of the co-operative owns one share whose value changes as the real value of the co-operative's capital changes: as net assets increase, the value of the share held by each member of the co-operative increases.

2. The salary is egalitarian in most cases, with no consideration for the member's professional status or relative contribution to the co-operative.

3. De facto, there is no prohibition against employing hired labour.

4. Hevrat Odim<sup>1</sup> is guaranteed supervisory rights over the activities of the co-operatives even though it has no part in their ownership.

5. In the event of the dissolution of the co-operative, the property is divided amongst the members (after paying off the debts)—thus preventing any possibility of renewed activity.

There are no examples of similar principles in any other countries. The Israeli “model” even contradicts the entire theoretical framework of the co-operative sector. In fact, these characteristics were to no small degree the cause of the ideological degeneration of some co-operatives and the disintegration of others.

In its existing form, the economic success of a co-operative leads to enclosurement and a preference for hiring labour rather than accepting new members. At the same time it becomes impossible for the hired worker to buy a share because the value of a share has risen to unaffordable levels. Franz Oppenheimer's “Law of transformation” celebrates full victory in this case, Egalitarian salaries—a source of pride for many co-operatives—creates in fact many distortions: it fails to reward outstanding employees; it has a negative effect on motivation to professional advancement and

<sup>1</sup> Holding company of the Labour enterprises and the economic arm of the General Federation of Labour in Israel (Histadrut).

increased productivity; and it leads to a tendency for professionals who are not adequately compensated to leave the co-operative.

It is interesting to note that the basic principles of "Achdut Printing" are surprisingly similar to the model of producer co-operatives expounded by Louis Blanc.

The following description outlines the symptoms of the crisis: The mortality rate of producer co-operatives is very high, and there is little or no initiative to establish new co-operatives.

The problem of hired labour continues to grow at the values of producer co-operatives and all attempts to solve this problem have failed, resulting in a stalemate.

The Co-operative Center, in all the stages of its functional and structural development, has been unable to successfully deal with the dominant problems of the producer co-operatives: hired labour; financial aid; the authority of Hevrat Haovdim; coping with technological challenge; management difficulties. It may be assumed that each of these problems contributed in part to the process of disintegration.

To the credit of the leaders of the Co-operative Center it can be said, that they did attempt to deal with the problems as best they could. These attempts are attested to by occasional structural changes in the Co-operative Center, the institutions established to help the co-operatives such as "The Co-operative Fund", and the decision taken at the convention and Congresses. But beyond the goodwill intended by these actions there was a shadow of confusion.

Finally, a few words about "Hevrat Haovdim". It seems that the relationship between Hevrat Haovdim and the Co-operative Center was plagued by serious weaknesses: Helpless attempts by Hevrat Ovdim to exercise its authority over producer co-operatives, lack of potency in dealing with acute problems when involvement for the purposes of finding an appropriate solution was vital, perplexity in the face of continuous erosion threatening to cut off another co-operative branch.

The credit co-operative and housing co-operative had already failed. It seems that the new change in the management hierarchy of the Co-operative Center where it totally gives up its hegemony in this institution, expresses the weakness of Hevrat Ovdim.

### 3. A NEW MODEL FOR PRODUCER CO-OPERATIVES IN ISRAEL

The basic questions about the future of producer co-operatives in Israel falls into three categories:

1. The nature of the co-operative—the basic principles upon which it is based and by which it operates.
2. The link with Hevrat Ovdim and the fabric of relationship between the co-operatives and Hevrat Ovdim.
3. The structure and objectives of the institution responsible for establishing and developing producer co-operatives.

The starting point in relating to a possible reform in the co-operative sector is to determine the nature of the desired co-operative—i.e. a voluntary association of groups of workers aspiring to improve their economic, social and cultural situations on the basis of independent labour without exploiting others, with co-operation and mutual help and by democratic management.

This definition encompasses all of the underlying principles of co-operatives; any deviation from them could distort or disturb its purpose and nature. This definition also suits the ideological stance of Hevrat Ovdim, as expressed in its constitution. Therefore, these principles and values can form the basis for relations between Hevrat Ovdim and the co-operatives.

Because the establishment of every new co-operative requires support (especially financial aid), it will be possible to strengthen the system of relations if Hevrat Haovdim takes part in the financial-economic activities of co-operatives.

It is also clear that Hevrat Ovdim must establish a special institutional framework to cope with the new challenges of the 1980s—the technological challenge, penetration of unconventional economic branches, and the social challenge: social integration of different segments of the population. Ten basic assumptions lie behind the concrete proposals spelled out in the next section:

1. Producer co-operatives enable the worker to become economically



independent, and benefit from the fruit of his labour by receiving a share of the association's capital on the basis of his own work and democratic management.

2. Producer co-operatives are an integral part of the Workers' Economy as organized by Hevrat Ovdim; they must, therefore, be bound by the constitution of Hevrat Ovdim and heed its authority.

3. The relationship between Hevrat Ovdim and the co-operatives must be based on their common ideological outlook and the interests which are common to both of them.

4. The share must have a relatively low value, so that any person who identifies with the principles of the co-operative and meets the occupational requirements can join as a member—with equal rights and duties.

5. Self-employment must be guaranteed and the employment of wage labour absolutely prohibited.

6. The system of rewards to the members must be based on three components: his professional level, the number of hours worked, and the extent of his share in the association's capital.

7. In addition to guaranteeing that members' benefit from privileges in the state social security system, co-operatives must provide appropriate pension insurance and social benefits for members and their families.

8. In the event of a member leaving the co-operative or the co-operative dissolving, the real value of their monetary investment in the association's capital must be returned, but the assets of the association always remain in the hands of Hevrat Ovdim or its representatives.

9. The Producer co-operative framework cannot be expected to expand, even if the proposals presented in this paper are adopted, unless a comprehensive educational program is undertaken, especially directed at potential co-operators (students in vocational high schools, discharged soldiers, development towns).

10. The kibbutz movement should be an active partner in establishing producer co-operatives, by participation in the capital, work and organization, both directly, in the various co-operatives, and also by means of the special body which Hevrat Ovdim will establish.

#### 4. PRELIMINARY PROPOSALS FOR DISCUSSION

1. The association's capital will be made up of shares of relatively low value: one share will be worth 3 monthly salaries, according to the national average salary.

Upon joining the co-operative, the worker must acquire at least one share, but he is obligated to acquire additional shares until he reaches an amount equivalent to the cost of one work station in the enterprise. Naturally, the cost of a work station varies among co-operatives according to the type of occupation and quality of equipment. Until the entire equivalent of one workplace has been reached, the management of the co-operative will deduct a set percentage of the worker's salary. After reaching the equivalent of a workplace, the member will have the right to increase his share in the association's capital (see section on "investment compensation"). In the event of a member leaving the co-operative or the dissolution of the co-operative, the member's investment will be returned on the basis of linkage of the value of the shares to the cost of living index.

Hevrat Haovdim, the kibbutz movement, and other public bodies are permitted to have a share in the association's capital through the special institution (see below) which will be established for this purpose. In return for participating in the financing of co-operatives, public organizations will be guaranteed certain rights to be outlined below (see section "Management of the association and its institutions").

2. *Salary.* The salary of the member of a co-operative will be determined on the basis of rates accepted by the trade unions. Every advance in occupational level will be accompanied by an appropriate change in salary.

Changes in collective agreements in the area of salaries and social conditions will also apply to co-operative members.

##### *Surplus Distribution*

At the end of the budget year the surpluses (the balance of the profit-loss account) will be divided as follows:

30% to a reserve account

30% investment compensation. Every share will be credited according

to the formula:  $\frac{30\% \text{ of the surpluses}}{\text{Total number of shares}} \times \text{The number of shares held by each member.}$

30% work bonus. This bonus will be directly related to the number of days of each member, according to the calculation:

$$\frac{30\% \text{ of surpluses}}{\text{Total number of work days}} \times \text{The number of workdays of the member.}$$

10% of the surplus will be devoted to a "culture fund" for the purposes of social, educational, and cultural events.

The "investment compensation" and "work bonus" will not be paid to members who have yet to reach their share quota (the equivalent of the cost of a work station); instead, their personal account with the association will be credited.

*Pension Insurance:* it is obligatory to guarantee the rights of every member to a comprehensive pension.

*Management structure:* The supreme institution of the co-operative is the general assembly which is made up of all members according to the principle: one member = one vote. The number of shares held by a member shall not have any influence in the general assembly or in the other institutions of the co-operative.

The assembly will meet at least once a year, at the end of the financial year, to vote on the budget and to elect representatives to the management board and to other committees.

Members of kibbutz who actually work in co-operatives and for whom shares are acquired by the kibbutz, will be eligible to vote and to be elected to the association's institutions on the principle of democratic equality.

Representatives of Hevrat Haovdim will retain their right—specified in the producer co-operative's constitution—to supervise the maintenance of the co-operative principle and Hevrat Haovdim ideals.

*A framework for the development of co-operatives:* Hevrat Haovdim, in conjunction with the kibbutz movement and the co-operative center must establish a special institution, whose purpose will be to organize and develop co-operatives (Co-operative Development Corporation). This institution will serve as a holding company for the co-operatives which will be established according to the new mode. Its activities will be focused on four areas:

A) Preparation of the *financial structure* of new co-operatives and recruitment of public resources. Its majority participation in the capital of each new co-operative must be based on full ownership of the assets.

B) *Technological Development*—including preparation of projects for establishing factories and examination of proposals for establishing co-operative enterprises, with an emphasis on market opportunities, competitiveness and production possibilities. In this role, the Co-operative Development Corporation will be helped by state and public bodies and can co-operate with Hevrat Ovdim.

C) *Human Resources*. Helping in consolidating groups for establishing co-operatives; training and advice in management; organizing educational activities and professional training, in co-operation with state and public bodies working in this field.

D) Planning and coordination of co-operation between factory-owning kibbutzim and the hired labour working in these factories. The new mode of producer co-operatives is designed to facilitate a solution to the problem of hired labour in kibbutz factories and to act as a catalyst in the process of social integration.

Generally, it is necessary to create a new co-operative framework, which is unconventional—a kind of superstructure for activities between the kibbutz as a complete co-operative unit and another co-operative unit which also includes those who work on kibbutz but are not kibbutz members. This solution creates a dialectic development for the kibbutz: on the surface, part of its completeness, autonomy and totality is lost; within the kibbutz framework, there will be two types of members: kibbutz members (who are the members of integrated co-operatives)—and members of a different kind of co-operative which is co-operative only

in the area of production (or perhaps in other areas such as credit), but in any case, not a kibbutz. The kibbutz member will not stand as an individual in his relationship to the general framework; this relationship will be mediated by the kibbutz. Non-kibbutz members' relationship to the general framework may be direct, or indirect through individual associations paralleling the kibbutz.

As we have pointed out, this is a dialectical development—a reform in the traditional kibbutz framework, specifically in order to maintain the original essence and quality of kibbutz for the long term.

Many co-operative movements in the world are adopting non-conventional methods. It is, therefore, possible to envision a general framework of co-operatives in which workers receive salaries according to different pay scales—including kibbutz members who belong to a different co-operative framework. From this point of view, the co-operative movement in Israel can be seen as a framework made up of a wide range of sub-frameworks with different functions, methods and stages of development; kibbutz, moshav, producer co-operatives, service co-operatives, etc. Each sub-framework contributes its share from a different direction to the development of the general framework, which is the big community of "Hevrat Haovdim"—based on co-operative and egalitarian principles. This outlook, which relates to the macro-co-operative level, can also be adopted to the micro-co-operative level—that is, a basis of principle, for an assembly of units such as a kibbutz, industrial enterprise, and perhaps other units, all of which are autonomous to a significant degree, but which also overlap with each other in wide areas.

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Eberhard Duelfer\*

## A System Approach to Co-operatives

### 1. DRAHEIM'S CONCEPT OF THE "DOUBLE NATURE" OF CO-OPERATIVES

The reconstruction of the German economy after the foundation of the Federal Republic provided co-operatives working in different fields (handicraft, agriculture, consumers' co-operatives, housing) with a new chance of development that had to be used within the new framework of Erhard's "social market economy". Consequently, business policy had to continue to be based on the specific demands for promotion of different groups of members but also to be adapted to steadily growing competition with other enterprises concentrating on service for the customers, and to maintain the position of co-operatives in this respect. In fact, co-operative undertakings were able to participate in the big boom of reconstruction but only with qualified managements, that means, an element that would have not been expected to be found in co-operatives in the past (as the "children of plight" at that time). Thus voluntariness in management disappeared quickly and was replaced by expanding professionalism, brought in from other economic branches rather often.

The more the offer-oriented boost of market economy resulted in a more normal development, the more strongly the necessity occurred to reconsider basic conceptions of co-operative business policy. Many things seemed to be anticipated by the lawful regulation of the legal form of the "registered co-operative (eG) in the German Co-operative Law introduced by *Schulze-Delitzsch* in 1867; this especially applies to the regulations of § 1 saying that the legal form of eG is open only to those

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societies whose aims are to promote the living or economy of their members. A *dilemma* occurred increasingly between this legally fixed “promotion order” of members and demands on performance in the competition of the market economy; in the long run, its solution could not be left to the pragmatic improvisation by individual managers. Positive and negative slogans were formulated in this context; one example is the “economization of co-operatives”. At that time, Georg Draheim’s book entitled “Die Genossenschaft als Unternehmertyp”<sup>1</sup> was published; within and outside the German-speaking co-operative system, this book was taken as the only conceptual solution for this problem.

The core of Draheim’s ideas is to take co-operative undertakings from their earlier, purely “economic assistance” functions and positions in connection with the members, and to give them the profile of full “enterprises” in the market economy. At the same time, however, promotion lines determined by the groups of members were to be maintained as business policy orientation, and related personal aspects as specific features of this type of undertaking were to be respected. Thus Draheim came to his well-known *thesis* saying that co-operatives are characterized by a *double nature*: “the association of persons” with external economic components and social features on the one hand, and the “economic undertaking” to be managed like all the other private enterprises in the market economy on the other hand.<sup>2</sup> Some of his formulations suggested the assumption that he envisaged a different approach to these two fields—a more sociological one for the association of persons and a purely economic one in the neo-classical sense prevailing at that time for the economic enterprise.<sup>3</sup>

Undoubtedly, we have to appreciate in a review that Draheim, by making the above-mentioned conceptual classification, pointed out these characteristics linked with the economic units “co-operative” and

<sup>1</sup> Draheim, G.: Die genossenschaft als Unternehmertyp, second edition. Goettingen, 1955.

<sup>2</sup> See: *ibid.*, p. 16 ff.

<sup>3</sup> *Ibid.*, p. 18; 77.

influencing its business policies. However, the structure of his co-operative model is too simple. It provokes the danger that in case of a different disciplinary approach, the two aspects of the “double nature” are separated completely so that satisfactory reality-related findings as to the actual conditions prevailing in co-operatives and their behaviour in economic life cannot be achieved.

## 2. REASONS FOR A SYSTEM-THEORETICAL APPROACH

The resulting weak point of Draheim’s approach<sup>4</sup> is based on the fact that—in pragmatic adaptation to common use in business practice and firm designation, for example—it assigns the term “co-operative” to the co-operative enterprise as such and—similar to the legal approach—sees the members only as the “association of persons” of the “co-operators”. However, the most essential characteristic of co-operative association is that the members (in case of consumers’ co-operatives or housing co-operatives) represent their households or individual undertakings and that they establish a “joint business enterprise”—as called in legislation—or participate in them—in order to promote their households or enterprises. The members do so because they expect economy-promoting performance relations between their individual enterprises and the co-operative enterprise supported by them jointly (“identity principle”). This means, however, their *individual decision-making behaviour* in their own enterprises is different from that without adherence to such a co-operative because they expect and use relations of promotion to the co-operative enterprise.

That is the reason why the complete significance of co-operative co-operation for individual economies, even seen from an economic point of

<sup>4</sup> This applies to subsequent specialized literature with reference to Draheim—see Henzler, R., *Die Genossenschaft, eine fördernde Betriebswirtschaft*, Essen 1957—even more strongly than with Draheim himself.

view only, cannot be studied only with regard to the co-operative enterprise but also with regard to the interaction between the co-operative enterprise and member enterprises. Not without good reason, practice also speaks about co-operative association that does not only apply to the members as persons but also to individual enterprises represented by them. Thus, "co-operative" is not the co-operative enterprise for itself but the whole *co-operative complex* consisting of member enterprises on the one hand and co-operative enterprises on the other hand. In the following, this overall complex will be designated as "co-operative combine"<sup>5</sup> for the purpose of terminological clarification in contrast to common usage. Thus it is appropriate even in case of big and modern co-operative enterprises to call them "co-operative executively operating enterprises".<sup>6</sup>

In recent developments of applied economics and organization theory, it proved to be helpful to present such correlations of individually operating units by means of *system theory*.<sup>7</sup> Then we can say the overall co-operative complex is a "system" making individual member enterprises and the joint business enterprise recognizable as sub-systems already at a first glance. The scientific interest (also called "co-operative science") is focussed on analysing relations of interaction between these sub-systems of the system "co-operative" and on the practiceological elaboration of optimum decisions with taking the respective system relations into account.

### 3. THE INTERPRETATION OF CO-OPERATIVES AS "SYSTEMS"

Like individual enterprises, the complex of co-operative co-operation is a system consisting of persons and technical means (artefacts). Such systems are designated as "socio-technological systems". Further, there

<sup>5</sup> *Duelfer, E.*: Betriebswirtschaftslehre der Kooperative. Goettingen 1984, p. 18 ff.

<sup>6</sup> *Ibid.*, p. 53 ff.

<sup>7</sup> See: *Fuchs, H.*: Systemtheorie und Organisation. Wiesbaden, 1973.; *Ulrich, H.*: Die Unternehmung als produktives soziales System, Bern, 1968.

exist relations to the environment so that it can be designated as an “open system”. The system aims at targets and is confronted with the shortage of resources to be used. Thus the *co-operative combine* is

- a socio-technological system as to its substance
- an open system as to its environment,
- a target-based system as to its mode of function and
- an economic system as to the use of its resources.<sup>8</sup>

All operations within the overall complex and with external effects must be influenced by system relations (also from a purely economic point of view). Therefore, it does not suffice to make economic operations of co-operative enterprises alone subject of studies in terms of applied economics and to deal with interpersonal relations within co-operative groups and between the members and the management of co-operative enterprises in another field, that is sociology. Thus the most essential aspect of the co-operative combine, the influence on individual decision-making in individual enterprises (sub-systems) of co-operatives (in the sense of the co-operative combine), would be excluded. That is the reason why the model of the “double nature” of co-operatives does not suffice to cope with the complexity of the system “co-operative” in the above-mentioned sense of a “co-operative combine”.

The question must be answered which interactive relations between individual sub-systems of the co-operative combine (member enterprises, co-operative enterprise) influence or determine decision-making within them. In this context, three different kinds of communication relations can be distinguished;<sup>9</sup> they connect certain elements of individual economic sub-systems of the co-operative combine respectively. For the expert in system theory, they are also specific sub-systems. For the sake of facilitating their differentiation from the above-mentioned individual

<sup>8</sup> See: *Duelfer, E.*: Betriebswirtschaftslehre der Kooperative. Ibid., p. 36; *Duelfer, E.*: Guide to Evaluation of Cooperative Organization in Developing Countries. FAO Rome, 1981., p. 72 ff.

<sup>9</sup> It is dealt with more comprehensively. In: *Duelfer, E.*: Betriebswirtschaftslehre der Kooperative. Ibid., p. 36 ff.

economic sub-systems, however, we are going to call them *communication systems*.

In the following, we want to concentrate, due to the admissible limited scope of our contribution, on *undertaking co-operatives* and not to deal with household co-operatives. Insofar and with regard to the overall co-operative complex, we can also use the term "co-operative enterprise combine" (at the first stage). Typical examples of such combines are: agricultural supply and/or marketing co-operatives, possibly in the form of multi-purpose co-operatives (Raiffeisen type); commercial supply or marketing co-operatives (handicraft or small industrial enterprises predominantly), buying groups of specialized retailers, foodstuff retailers in particular, and others. In all the above mentioned examples, we have "service co-operatives" evidently (Draheim designated them as supplementary co-operatives that is, co-operatives in which individual enterprises of members exist apart from the co-operative enterprise).

Additionally, there exist agricultural and commercial (industrial) *production co-operatives*. However, we can consider them as marginal types of the respective service co-operatives such as the varied forms of "group farming" in English-speaking Africa or in commercial or small industrial enterprises with self-administration. Specific problems resulting, in case of production co-operatives, from this complete integration of original member enterprises into the co-operative enterprise, make a respective modification of the above-mentioned findings necessary; however, this cannot be presented within the present paper.<sup>10</sup>

<sup>10</sup> As to a more detailed coverage of production co-operatives. See *ibid.*, p. 98 ff.

#### 4. THE BUSINESS-FUNCTION COMMUNICATION SYSTEM BCS<sup>11</sup>

The system of business relations between member units and the co-operative enterprise is the best known communication system within the co-operative combine; it has been subject of scientific studies already for a long time. It refers to the performance of the co-operative enterprise for member units in several functional fields of the enterprise. We designate it as *business-function communication systems* BCS. In case of supply co-operatives, its structure is opposite to that of marketing co-operatives. In case of multi-purpose co-operatives, these two structures are combined. In addition to these basic differences in the structures, there exist modifications as to the concrete shaping of branches; this applies, for example, to credit co-operatives or trading co-operatives, etc.

On the member-related side, BCS covers performance relations of co-operatives while on its other side, we find normal markets relations like in all the other enterprises. This is the basis of the well-known thesis of co-operatives' *unilateral market linkage* in contrast to bilateral market linkage of individual enterprises. In the context of the present paper, we cannot deal with possible variations as to multi-purpose co-operatives or the above-mentioned production co-operatives. We only want to mention the fact that these modifications are especially relevant with regard to developing countries.

BCS analyses also have to determine the kinds and quantities of performance (created by the member units themselves or through the co-operative management on the basis of evaluating the demands of the members, for example). The possibilities of variation inherent in BCS also explain the three well-known *structural types* of co-operatives (traditional co-operative, market co-operative, integrated co-operative).<sup>12</sup> When

<sup>11</sup> As to the following description of the four communication systems of co-operative combines, see detailed coverage and substantiation, in *Duelfer, E.: betriebswirtschaftslehre der Kooperative. Ibid., pp. 67-247.*

<sup>12</sup> *Duelfer, E.: Organization und Management im kooperativen Betriebsverbund. In: ZfgG/special volume 1970., pp. 76-103.*

using generalizing terminology that is also to include co-operative structures in the non-co-operative legal form purposefully, we speak about “executively operating co-operative”, “market-linkage co-operative” and “integrated co-operative”.

Differences, laid down in these structural types in a simplified manner, in the performance relations between member units and co-operative combines are not only based on different aspects of branches, enterprise types or performance objects. The difference between an integrated purchasing co-operative of trade and a classical agricultural supply co-operative in the sense of the traditional co-operative, for example, becomes evident only when various business policies, codes of conduct and the distribution of functions are taken into account. Finally, it is also of importance that this is often reflected in different legal stipulations.

This shows that far-reaching system relations have to be taken into consideration—reaching beyond pure performance relations—when we want to explain the influence of being integrated into the co-operative combine on the individual performance of economic sub-systems.

## 5. THE ORGANIZATIONAL-LEGAL COMMUNICATION SYSTEM OCS

BCS promotion-based economic performance relations (within co-operative combines and in their external relations) bring about a permanent sales-functional or purchase-functional flow of commodities corresponding to a payment flow going in the opposite direction. The stability of co-operatives is ensured when there do not occur any disturbances, neither stowage nor deficiencies caused by diverging supply or sales. To ensure this stable situation designated as “*flowing balance*” in terms of system theory, participating individual economic sub-systems—that is, persons working within them, too (system elements)—have to coordinate their action. For this purpose, certain preconditions are necessary, especially a critical minimum conformity of interests. Otherwise, *conflicts* may occur and mechanisms for solving conflicts must



be applied. As the avoidance of such conflicts and their solution is not only in the interest of the persons concerned but it is also necessary to protect third parties in economic and legal transactions, this is a task in terms of civil law. In terms of organization theory, stipulations, elaborated by legislature in order to prevent conflicts, result in the fact that in addition to the factual communication system of enterprise performance relations, co-operative combines have a *second-sub-system* containing mechanisms to be used for solving these conflicts: the code of conduct created by legislature or statute law, that establishes certain relations, in the form of claims or obligations, between various individual economic sub-systems of the co-operative combine and thus between persons acting within them. This is the “*organizational-legal communication system OCS*” of co-operative combines. However, the fact has to be taken into account that the persons involved (natural persons or legal ones) are not elements of this system with their material substance but with regard to rights and duties. That means, relations to be maintained by them are stipulated *normatively*; what matters is not what actually happens, how rights and duties are implemented, but what had to happen according to the stipulations of legislature, which rights and duties had to be implemented.

A specific feature of OCSs is that normative regulations contained in them are part of respective national legal orders. Therefore, they may differ considerably: On the one hand, this may result from different demands for regulation due to different social structures; on the other hand, systems of different legal orders may have different effects. Under German law, for example, “eG” is considered to be part of private law exclusively while in law of co-operative societies in the sphere of English law also shows public-legal elements. Finally, differences may result from the organization of legal institutions due to different dogmatic bases. Competences of eG-bodies under German co-operative law, for example, differ from those according to the Code de Commerce or English co-operative model law. Differences within the framework of OCSs may also occur with regard to freedom of organization in terms of statute law and law of contract.

Experts working in practice know very well how varied correlations are

between enterprise performance relations BCS and pre-given or partly optional legal structures OCS. In practice, we find the view too often that the complex of legal stipulations is a complicated and essential matter but it must be seen apart from practical life. As this is a wrong point of view obviously, it is relevant for co-operative practice, too, that both aspects can be linked through the assumption of overlapping elucidation in terms of system theory.

However, experience has been made showing that system elements frequently do not act in reality in accordance with normative regulations contained in the OCS. Thus the question arises whether the scientific observer can content himself with stating the existence of deviations (you may often hear in practice that "everything is quite different, you see") or whether he must try to find the causes substantiating and determining deviating behaviour.

## 6. THE INTER-PERSONAL COMMUNICATION SYSTEM ICS

These problems lead to a third kind of analysing system relations with regard to their influence on individual decision-making. We can proceed from the fact that within co-operative combines, individuals are tied up in a network of interpersonal relations influencing their individual behaviour in a varied manner. In applied economics, this finding was made through the well-known Hawthorne experiments at *Elton Mayo* in 1927–1933. Since its continuation in human relations theory and its extension in research work dealing with motivation theory (Maslow, Herzberg, McGregor, etc.), it proceeds from the fact it is not realistic to see man in organization as a mechanically acting element. His behaviour is not only controlled by tasks and respective orders but also influenced essentially by interpersonal relations to the social environment (group). The finding saying man must be seen as "participant in organization" (*Simon, March*) brought about far-reaching changes in applied economics and organization theory, and to basically new attitudes in practice like, for

example, the orientation of the whole personnel economy towards the model of thinking inherent in the stimulation/contribution theory. For this purpose, however, a certain reception of models of thinking and options of research from the field of sociology in applied economics was necessary.

If interpersonal relations do play such an important role in individual enterprises and must be taken into account when explaining individual decision-making behaviour, the more important they are for being involved in the analysis of co-operative combines. In contrast to individual enterprises, performance relations between largely autonomous individual economic sub-systems of co-operative combines are not based on hierarchic relations of management and order. Earlier, experts in microeconomics (Ohm)<sup>13</sup> tried to solve this question of co-operation—internal co-ordination by means of the Hedonistic principle of individual economic profit maximization; the operating co-operative was taken into consideration mechanistically as an element of auxiliary economy. This model is coherent logically but it has premises that do not exist in reality frequently so that it is not appropriate for explaining actually existing modes of behaviour. What is actually necessary is the analysis of another communication system in co-operative combines, that neither results from the exchange of performance nor is regulated normatively. These are interpersonal relations between acting persons in member units and the operating co-operative, called *interpersonal communication system* ICS of co-operative combines.

As already shown in diagrams of the target system and relating to decision-making, presented in earlier publications,<sup>14</sup> ICS also covers the formation of the target system within co-operative combines. In the following, this specific system-based correlation is to be shown:

<sup>13</sup>Ohm, H.: Die Genossenschaft und ihre Preispolitik. Karlsruhe, 1955.

<sup>14</sup> See: Duelfer, E.: Die Effizienz der Genossenschaft — Kriterien und Voraussetzungen. In: ZfgG. Vol. 22, 1972, pp. 324–340; Duelfer, E.: Guide to Evaluation of Co-operative Organizations in Developing Countries. Ibid., p. 73 ff.

## 7. THE MANAGEMENT-MEMBER INFORMATION SYSTEM MMIS

The variety of advantages of cognition resulting from an approach in terms of system theory to the complicated interlocking of the three communication systems of co-operative combines could be shown in the present paper only to a limited extent. We want to point out, however, that the integration of various aspects of different scientific disciplines into the overlapping (meta-theoretical) assumption of system theory is not and cannot replace specialized considerations in various specific disciplines with regard to their specific problems. Problems of co-operative law will continue to be studied by lawyers, and social relationships by sociologists. For explaining individual decision-making behaviour in co-operative combines, however, an interdisciplinary, integrative approach is indispensable.

We have seen that the three functional communication systems serve to provide the smooth functioning within co-operative combines, that is, the *co-ordination* of existing system elements. It became also evident that this co-ordination in co-operative combines is especially important because individual economic sub-systems (member units, co-operative enterprises) are of a stronger relative autonomy than departments of an individual enterprise with a hierarchic structure, for example.

Co-ordination is always made through information and thus it requires the appropriate organization of *information relations*. Information relations are caused and given through relations of performance, normative regulations and interpersonal contacts. Their technical organization, however, may bring about considerable problems with regard to the choice of appropriate instruments, their installation, financing, and maintenance. These problems are well-known from individual enterprises where—in connection with the development of data processing, last but not least—they were attacked under the slogan “management-information system”. Today, “computer-based” decision-making is common use in enterprises generally. Technical means of co-

operative-specific information systems reach from simple telephone links up to management dialogue systems or data telecommunication.

Basically, additional requirements in co-operative combines come into being in this context: The task is to achieve a balance between different information levels of individual economic sub-systems (member units) on the one hand and the co-operative combine on the other. Like in connection with all the other problems, this requirement is different in the various structural types of co-operative combines. Especially in case of highly developed integrated co-operative combines, its solution puts high demands in terms of technology and personnel.

Therefore, it is necessary to identify and summarize all material and personnel-related elements of this specific information system for analysing correlated organizational relationships and subsequent considerations on possible optimum solutions. Thus we come to the "management-member-information system": MMIS of co-operative combines; obviously, it occupies another position than the three above-mentioned communication systems. MMIS is the technological organizational consequence of analysing and interlocking BCS, OCS and ICS. It has an *instrumental* function.

## 8. THE SITUATION THEORY OF CO-OPERATIVE COMBINES

The above-mentioned analysis in terms of system theory, covering the co-operative combine, makes the variety of influences on individual parties participating in decision-making understandable; this variety is to be attributed to the scope of variety of the co-operative structure. In view of such a variability, earlier attempts to derive the co-operative association from one or a few basic *principles* become less interesting. Even the principle of identity must be limited due to a possible purposefulness of non-member business, and the formation of the target system for the co-operative operating enterprise cannot be derived exclusively from the order of promotion any more. Now motivation-theoretical aspects of

managerial behaviour<sup>15</sup> and legal stipulations governing regulations of co-determination<sup>16</sup> are also playing a decisive role.

Thus for the structure of co-operative combines, the same applies that had been recognized in recent organization science with regard to the organizational structure of individual enterprises: There is not only *one* optimum structure but a variety of possibilities in dependence on factors of internal and external influence. As to individual enterprises, this assumption of organization theory was designated (and is being expanded) as "situation theory of organization".<sup>17</sup> To explain the situation-based character of organizational structures, the influence of setting tasks, environmental influence and the constellation of participants in the organization, and also factors like organizational size and technology are indicated.

Following these considerations, it is of interest to classify a given organization in empirical individual cases according to relevant criteria. For this purpose, different *catalogues of dimensions* have been proposed. The dimensions must be measurable by means of operational indicators.

Transferred to the case of co-operative combines, such an assumption in terms of system theory may contribute to bring the discussion about the comparison of co-operatives and similar organizational types away from the limiting question "genuine" or "not genuine" that had played an essential role in economic policy frequently.<sup>18</sup> A quite similar trend had already existed in the theory of the types of structure as mentioned above. To develop a set of more flexible tools, it is necessary to establish an expanded system of variables. In this context, we want to propose six

<sup>15</sup> See: Conflict theory of the co-operative. In: *Eschenburg, R.*: Genossenschaftstheorie als Konflikttheorie. Tuebingen, 1972.

<sup>16</sup> See: *Duelfer, E.*: Arbeitnehmer-Mitbestimmung in genossenschaften aus betriebswirtschaftlicher Sicht. In: *ZfgB*, Vol. 26, 1976, pp. 302/319.

<sup>17</sup> See, for example: *Staeble, W.*: Organisation und Fuehrung sozio-technischer Systeme. Stuttgart, 1973.; *Kieser, A.* and *Kubicek, H.*: Organisation, second edition. Berlin, 1983.

<sup>18</sup> Especially after the petition presented to the Deutscher Bundestag in 1953, that provoked long-term discussion about the reform of the co-operative law.

*structural dimensions of co-operative combines*<sup>19</sup> that may be used to differentiate actual co-operative features according to quality and intensity.

## 9. THE STRUCTURAL DIMENSIONS OF CO-OPERATIVE COMBINES

### *Dimension I: "Individual economic configuration"*

The above-mentioned explanation of individual economic sub-systems has already shown that assigning co-operative enterprises to member units with the aim of sales or purchase (system-based basic structure) is a characteristic of all co-operative combines. It is mostly expressed in such terms like purchasing association, sales co-operative, etc. and seems to be almost trivial. On the other hand, however, *individual economic configuration* creates the basis for further developments so that it must be taken into account. It is the scope and manner of *assigning functions* that are of specific importance; for example, when distinguishing between one-purpose co-operatives and multi-purpose co-operatives.

### *Dimension II: "Characteristic of members"*

In individual cases, individual economic configuration is determined by the kind of members but not generally; neither the quality of performance relations can be derived from it. Therefore, it is necessary to know further characteristics of members—of *persons* or *member enterprises*. They apply to functions of member units in the overall economic process as well as the occupational positions of members and, closely linked with them, the enterprise type of member units. As to some kinds of co-operatives, the scope of the members' legal and/or economic

<sup>19</sup> See: *Duelfer, E.*: Systemcharakter und Strukturdimensionen des Kooperativsgrundgedanken zu einer erweiterten Betriebswirtschaftslehre der Genossenschaften und vergleichbarer Institutionen. In: *ZfgG*, Vol. 31, 1981, pp. 93–107.

independence as well as the size and equipment of member units are also important.

*Dimension III: "Intensity of co-operation"*

Already in earlier specialized literature, the importance of the *degree of intensity* of co-operative relations among the members (persons or units) was mentioned. In this context, the degree of specialization of internal co-operation is of importance. Intensity is obviously gaining in importance with the *number* of enterprise functions of member units, involved in co-operation, especially when this also covers functions of consulting and management (examples are production-promoting co-operatives in developing countries).

Further, the intensity of co-operation is influenced by the relative importance (value) of that function of member units within the framework of their overall action, that is subject of co-operation. Because this value is of decisive importance for the fact to which degree the overall situation of the member unit depends on the success of co-operation.

The extent to which co-operative combines are used by member units, *co-operation frequency* and the *share of member business* in the overall business of co-operative combines are also important with regard to intensity of co-operation.

*Dimension IV: "Distribution of competence in terms of setting targets and decision-making"*

As to this dimension, the most important factors are the kind, number and constellation of relevant *target subjects*. When analysing target systems of co-operative combines and their correlations, the following *aspects* are relevant:

- The degree of concretization of the target system of the co-operative group or the scope of its interpretation by the management,
- the kind of communication process through which the target system of the group comes into being,



- the scope of decision-making for the management of the co-operative enterprise,
- the kind and size of influence exercised by the personal-private targets of the management;
- objects and dimensions of co-determination by staff members or their representatives in co-operative enterprises,
- style and constellation of management in co-operative enterprises,
- number of decision-making levels at co-operative enterprises, responsible for member communication,
- kind and influence of business interaction and informal communication with combined enterprises at higher levels,
- kind and scope of legal supervision and, if necessary, technical intervention by state authorities,
- kind and influence of co-operation-external centres (examples are social groups, economic associations, political parties, trade unions).

The binding character of *recommendations on decision-making* from co-operative enterprises for member units is of specific importance. In this context, the degree of acceptance by the members plays its role.

*Dimension V: "Degree of formalization of co-operation"*

In the field of tension between the wish to maintain co-operation on a long-term basis and the requirement to be flexible and able to adapt to changing situations, the detailed code of conduct is of decisive importance for the members. Such a *code of conduct* may be based on legal stipulations and statute law and, in addition, may include occupational, professional and general social norms of behaviour.

Additionally, co-operation-internal relations are also formalized by contractual and intraorganizational regulations governing *processes of solving tasks* (franchising contracts, for example). The kind of *documentation* of intraco-operative communication processes (forms and data processing software) is instrumentally relevant in addition to traditional regulations of trade law and practical variants of accounting.

*Dimension VI: "Stability of co-operation"*

We have already mentioned the fact that owing to their composition of relatively autonomous individual economic units (sub-systems), co-operative combines are less "stable" than individual enterprises in principle. In most cases, individual economic units do not depend on co-operation generally, and it may happen that they act in contrast to group interests. However, they are necessary rather frequently. In some countries (Federal Republic of Germany, for example), an impeding fact is that *competition policy* assumes a critical or even rejecting attitude against intensive co-operation patterns. Finally, the *internal stability* of co-operative combines is threatened by the fact that according to social law, members get their business shares when they leave co-operatives. The enterprise capital floating in such a manner can be complemented by the formation of not repayable assets only partly.

The relevant *degree of stability* in co-operative combines (co-operatives) depends on the following:

- the motivation of members to take part in co-operation (Draheim),
- the need of member units to take part in co-operation,
- the readiness of members to co-operation-internal adaptation,
- the readiness to accept recommendations on decision-making by the co-operative enterprise and
- the readiness of the co-operative enterprise management to use group targets as orientation.

In addition to internal stability, a sufficient *capability of adaptation* to environmental changes must be given through:

- a sufficient information system of the co-operative enterprise,
- sufficient qualification of the management with regard to demands arising from competition and
- a certain degree of co-operation-internal capacity reserves.

W. W. Engelhardt\*

## The Position of Co-operative Science Within the Overall System of Sciences

*Fundamental remarks based on older and new contributions to co-operation science*

### I. DIFFERENT SCIENTIFIC APPROACHES IN CO-OPERATIVE SCIENCE AND THEIR EVALUATION

*Georg Draheim* was one of the first, in his lecture held in Cologne in the post-war time, to raise the question 'which approaches are possible basically when efforts are taken in order to make scientific findings relating to co-operatives'.<sup>1</sup> In this context, he had findings or sentences in mind, that have to be close to reality, first of all, but must also be systematic and applicable.

First *Draheim* rejects the "exclusively empirical approach" that has a long tradition in specialized co-operative literature as we know. 'Taking some dozens of these books, it is almost impossible to establish a comprehensive relationship of their approaches. There are essential facts and unessential ones, and definitions and orders applied there proved to be applicable only to a very small extent. For solving basic problems of the co-operative system, the empiristical approach offers the advantage that it is directly linked with reality but it is not systematic enough in order to allow generally valid statements' (p. 52).

However, *Draheim* also rejected the purely economic theory—designated as rational theory, operating theory or catalactics rather

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<sup>1</sup>*G. Draheim*: 'Die morphologische Betrachtungsweise der Genossenschaften im Verhältnis zu anderen Betrachtungsweisen, in: Weisser (editor): Die Morphologie der einzelwirtschaftlichen Gebilde und ihre Bedeutung für die Einzelwirtschaftspolitik. Bericht ueber die Koelner Tagung 1955, Goettingen 1957, p. 49–63; republished in *G. Draheim*: Zur Oekonomisierung der Genossenschaften, Goettingen 1967, p. 38 ff.

often.<sup>2</sup> This is based on abstraction, that is procedures of thinking that neglect the individual, the accidental consciously in order to achieve generally valid results of research work. To achieve this, the rational theory has to proceed from certain generalizing assumptions, from human beings, for example, 'who behave rationally as consumers and who strive for making maximum profit as entrepreneurs. Conclusions are drawn logically on the basis of these assumptions. Undoubtedly, the formal logical and exact nature of rational theory overcomes the subjectivity of empirists but it pays a high price for the logical correctness and generalizability of its findings—this price is its more or less great distance from reality. Truths derived from rational theory are rational truths but not factual truths' (p. 52 ff).

As a summary and pointing out the approach supported by himself, the author says that 'both the empiristical approach and economic rational theory cannot be evaluated as appropriate for recognizing the essence of co-operatives in such a manner that on the one hand, the results satisfy demands of scientific systematics, and on the other hand, can be designated as close to reality. According to *Draheim*, the 'exclusion of all noneconomic factors' in catalactics must bring about an insufficient result. 'If you want to recognize the essence of co-operatives close to reality and to deal with correlated specific problems, you cannot abstract from the sociological and social, psychological determinants of co-operatives.'

'We hold these demands can only be satisfied at the same time if you have an approach that, as the morphology and stylistics of individual economies, strives for a kind of 'overall approach'.<sup>3</sup> Morphology seems to

<sup>2</sup>It also comprises essential parts of the New Political Economy or the economic theory of policy and of coalition theory; see: *W. W. Engelhardt Allgemeine Ideengeschichte des Genossenschaftswesens*, Darmstadt 1985, p. 49 ff.

<sup>3</sup>In this context, *Draheim* refers to his preceding essential work: *Genossenschaft und Erwerbsunternehmung—Versuch einer Abgrenzung* (in: *ZfgG*, vol. 4, 1954, republished in *G. Draheim*: 1967, p. 12 ff.), and to *G. Weisser*: *Form und Wesen der Einzelwirtschaften. Theorie und Politik ihrer Stile*, first vol., second edition, *Goettingen* 1949, and *E. Spranger, W. Sombart, G. Weippert* and *G. Mackenroth*. As to the interpretation of the entity as an 'organised structure' or 'figure', see especially *K. R. Popper*: *Das Elend des Historizismus*, Tübingen 1965, p. 61.

be especially appropriate for analysing the structure of co-operatives because this individual economic form is necessary to cope with its double nature as an economic unit *and* community of persons and the respective correlations. However, the “morphological approach” requires the careful and comprehensive collection of material based on experience and systematic comparisons by using order-based points of view as this ensures closeness to reality (p. 58 ff.).

According to *Draheim*, the morphology of individual economies, that has to proceed from purpose-oriented motivation, attitudes, behaviour, and that makes it possible to work with a variety of real types in addition to ideal types, is ‘just at the beginning of its development’. ‘Laudable attempts to become acquainted with co-operatives in various countries by means of systematic comparisons are just at the beginning although basic findings could be made when knowing differences or common features’. The author especially addresses empirical social research and thus sociology and calls for support based on co-operation which would be possible within the framework of applied economics. ‘In case of the careful application of the methods of empirical sociology (questionnaires, field studies etc.), the results, evaluated and applied appropriately, would be of great benefit’ (p. 61).<sup>4</sup>

<sup>4</sup>According to *Draheim*, the attempt of *Seraphim* to establish a theory close to reality was not in line with his methodological demands; see *H.-J. Seraphim: Wie muß eine wirklichkeitsnahe Theorie das Wesen der Genossenschaft erfassen?* In: *ZfgG*, vol. 8, 1958, p. 56–60; *G. Draheim: Die Genossenschaft als Forschungsgegenstand*, in *ZfgG*, vol. 8, 1958, p. 201–145, esp. p. 221 ff. and 233 ff. (Republished in *G. Draheim: 1967*, p. 53 ff.). Later, we have improved works like that of *D. von Oppen, J. A. Banks and G. N. Ostergaard*. From recent time, see *B. Deppenkemper: Mitgliederversammlungen und Willensbildung in Genossenschaften, Gelsenkirchen 1984; J. Laurinkari/V. Laakkonen: Zur Identität der Genossenschaftsbewegung — Bewertung der Gegenwartssituation im Lichte empirischer Felduntersuchungen*, in: *ZfgG*, vol. 35, 1985, p. 30–38; *J. Laurinkari: Typisierung von Funktionsträgern in Genossenschaften — am Beispiel der Landwirtschaftsgenossenschaften in Finnland, Nuremberg 1985; the same: Typisierung. . .*, in: *ZfgG*, vol. 35, 1985, p. 109–115.

In one of his last scientific and strongly practice-related works,<sup>5</sup> *Draheim* has not abandoned the above mentioned position but he expresses the opinion that the time has come to examine whether, in view of considerable changes in the environmental conditions for the co-operatives in the Federal Republic of Germany, it would be necessary 'to think about an adaptation of theory, too'. If one continues to aim at achieving an applicable theory close to reality and completely in line with the competition as the "major motive force" of processes of social changes, he can imagine that such a theory would have to be divided into two parts: '1. a general part that would be conceivable only at a very high degree of abstraction and that may be derived from a theory of co-operation or the theory of organisation, and 2. specific theories of credit co-operatives, housing co-operatives etc.' (p. 5 and p. 18).

For *Draheim*, the "member-related co-operative" (having been the real type and the centre of his individual economy-related morphological arguments in all his earlier works), may be substituted by a 'new flexible type of enterprise that may be certified 'similarity to a co-operative'. Basically, it would have to be classified between the profit-making enterprise and the traditional co-operative. Whether its economic sociological weight may stabilize itself in the direction of the co-operative, is still an open question' (p. 11).

<sup>5</sup>G. *Draheim*: Aktuelle Grundsatzprobleme des Genossenschaftswesens, Marburg 1972, republished in G. *Draheim*: Grundfragen des Genossenschaftswesens, Francfort 1983, p. 147-160. As to a critical appreciation of *Draheim's* works and his approach, see: W. W. *Engelhardt*: Unternehmensgestalter und Unternehmensmorphologie, Goettingen 1974; the same: Aktuelle Grundsatzprobleme des Genossenschaftswesens. *Georg Draheim* zum Gedenken, in: ZfgG, vol. 33, 1983, p. 161-175.

## II. AN ALMOST CONFUSING MULTITUDE OF EPISTEMOLOGICAL SUBJECTS FOR CO-OPERATIVE SCIENCE

On the occasion of his 65th birthday, *Georg Draheim*, presumably the most important co-operative scientist of our century and outstanding expert in practice, was honoured by a festschrift. It was elaborated by experts in social, economic, agricultural and legal sciences as well as leading personalities of co-operative economy, and was published by *Gerhard Weisser*. The comprehensive work is intended to provide a survey on structural, procedure theoretical, historical and systematic aspects of co-operatives and co-operative research in the 19th and 20th centuries.<sup>6</sup>

In his review on this festschrift, *Winfried Stoerrle* was correct in saying that not less than thirteen authors dealt with the "problem of fixing the epistemological subject" either exclusively or in the introductions of their papers at least. He correctly says with regard to these positions, that are not to be presented here in detail, that 'scarcely one view is identical with the other; in addition to the two large groups of authors defending a legally-oriented and practice-oriented term of the co-operative on the one hand and the representatives of an economic term of the co-operative based on applied economics on the other hand, other authors especially try to integrate specific structures of organisation like kolkhozes or kibbutzes into co-operative science'.<sup>7</sup>

While theoretical co-operative research since the scientific work of *Draheim* and despite his programme of morphological cognition,

<sup>6</sup>*G. Weisser et al.*, v. *W. W. Engelhardt* (editor): *Genossenschaften und Genossenschaftsforschung*, Goettingen 1968, second edition, 1971.

<sup>7</sup>*W. Stoerrle*: Inwieweit ist die Genossenschaftslehre eine Betriebswirtschaftslehre? Gedanken zur Festschrift fuer *Georg Draheim*, in: *ZfgG*, vol. 20, 1970, p. 31-45, here p. 34. As to the variety of aspects in determining co-operative epistemological subjects, see *W. W. Engelhardt*: *Genossenschaftslehre als morphologische Strukturtheorie* (in der gleichen Festschrift) and the same author: 1985, p. 36 ff.

developed in favour of an economization of co-operatives,<sup>8</sup> research work relating to practice-oriented co-operative work would still be based on legally defined co-operatives to a large extent. Progressing economization of co-operative work and the emergence of “problem-oriented” research would have pushed sociological aspects into the background.

*Stoerrle* adds an essential question to this statement; basic research in co-operative science has been strongly engaged in finding an answer to the question whether a closer relation to economic sciences and the science of business administration in particular can be derived from it; this requires a more careful examination of the scientific character of co-operative science in comparison with business administration’ (p. 36). Many representatives of co-operative science would derive independence of co-operative science from business administration from the specific position of the co-operative target system that is partly understood to be “directed sociologically”.

According to *Stoerrle*, findings of general business administration can be used for co-operatives only in a modified manner. But if co-operative science is oriented towards the economic targets of co-operatives increasingly and deals with problems of economization on a practice-related basis, it will suggest itself to classify co-operative science as specific business administration. Such a classification can be justified both from the point of view of an institutional classification of specific teachings of business administration and under the aspects of individual target functions. Because ‘the co-operative enterprise can be an industrial enterprise (full productive co-operative), bank enterprise (credit co-operative) or another enterprise in other economic branches’.

<sup>8</sup>In addition to *Draheim*, see *Reinhold Henzler* and his followers *A. Baensch* and *G. Ringle* in particular; the book written by *R. Henzler*: *Die Genossenschaft — eine foerdernde Betriebswirtschaft*, Essen 1957, is of fundamental importance; as to its review, see: *W. W. Engelhardt*: *Zum wirtschaftlichen Standpunkt und morphologischen Ansatz in der Betriebswirtschafts- und Genossenschaftslehre*, in: *K. Alewell* (editor), *Betriebswirtschaftliche Strukturfragen*, Wiesbaden 1967, p. 29–40; from the same author: *Grundsatzliche Bemerkungen zur Oekonomisierung und zum Oekonomismus*, in: *Wisu*, 5th year, 1976, p. 13–17 and 61–65.



'If existing specialized fields of business administration are classified by their individual target functions, one will recognize that a classification by target functions already exists in such forms of purposeful organisational economic units like households, armed forces, public enterprises, trade and other associations etc.; this is based on a tendency for extending research on these forms neglected so far . . . The independent target system of co-operatives limits neither the possibility nor purposefulness of characterizing economically oriented co-operative science as specific' business administration (p. 42 ff.).

### III. TAKING THE SOCIAL DIMENSIONS OF CO-OPERATIVES INTO ACCOUNT AGAIN

In his contribution to the *Draheim* festschrift, *Friedrich Fuerstenberg* writes that in specialized literature on the co-operative system, its "social dimension" is mentioned rather frequently, that cannot be dealt with in purely economic terms. Apart from basic discussions of a historical sociological and ideal-type phenomenological kind, however, co-operatives have been treated as a stepchild of sociological research since the second world war.<sup>9</sup>

The author says that the subjects of a "sociology of the co-operative system" are the 'respective historically and social-culturally determined real forms of the co-operative principle of jointly organised self-support'. In modern economic society, this covers all voluntary unions of persons that serve the promotion of their members by means of joint economic establishments. The basis of action in the sense of solidarity are 'arrangements of persons having equal rights'; *Georg Weippert* may be

<sup>9</sup>*F. Fuerstenberg*: Ansatzpunkte einer Soziologie des Genossenschaftswesens, in: G. Weisser and M. W. W. Engelhardt (editor): 1968, p. 42-51. One of the authors using historical-sociological arguments in Germany at the time between the wars was *E. Gruenfeld*, *F. Toennies* and *J. M. Back* are scholars from that time and the time after 1945, who did ideal type-related and phenomenological research work.

one of the first who recognized this as a constituent characteristic of third economic orders.<sup>10</sup> 'Co-operative sociology examines specific, integrated kinds of social action, especially directed towards the economic field'.<sup>11</sup>

In detail, sociologists deal with the following problems in this context: '1. The emergence and change of co-operative types as a result of different objectives in view of changing situation-based demands, 2. the internal structure of co-operatives as a network of organised and spontaneous social relations and their dynamics, 3. relationships of effect between co-operatives and their social environment, 4. the analysis of emerging processes of social change' (1980, p. 677). In connection with the third problem, one can also speak about the analysis of the 'co-operative organisation scope'. The fourth complex can be divided into 'the relationship between co-operatives and social structure' and problems of "co-operatives in the process of social change", that is, at the different stages of preindustrial and industrial development.<sup>12</sup>

When analysing the sociological aspects of co-operative targets, the interest is focused on the respective regional-temporal dimension of the 'principle of the promotion of members as the basic co-operative objective in the sense of *Henzler* first. 'Sociologists do not strive for making abstract logical studies relating to the different dimensions of this basic principle or its phenomenological development as a contribution to clarifying the essence of co-operatives generally but they are occupied with concrete ideas, declared or taken to be binding in respective situations, about the

<sup>10</sup>See: *G. Weippert*: Vereinbarung als drittes Ordnungsprinzip, in: *Jahrbuch fuer Sozialwissenschaft*, vol. 14, 1963, p. 169–178.

<sup>11</sup>*F. Fuerstenberg*: Genossenschaften, Soziologische Merkmale, in: *E. Maendle/H.-W. Winter* (editor): *Handwörterbuch des Genossenschaftswesens*, Wiesbaden 1980, Sp. 677–687, here Sp. 677.

<sup>12</sup>See: also *F. Fuerstenberg*: Die Genossenschaft als sozialer Integrationsfaktor, in: *Jahrbuch fuer Sozialwissenschaft*, vol. 15, 1964, p. 243–255; the same author: Probleme der Mitgliederpartizipation auf verschiedenen genossenschaftlichen Entwicklungsstufen, in: *E. Duelfer/W. Hamm* (editor): *Die Genossenschaften zwischen Mitgliederpartizipation, Verbundbildung und Buerokratietendenz*, Sonderheft der *ZfG*, Goettingen 1983, p. 104–116.

question of what is to be accepted as co-operative promotion of members' (1968, p. 43 ff.).

When considering the different stages of preindustrial and industrial development and the respective co-operative developments, *Fuerstenberg* sees some "striking development tendencies". They especially make him discover again, in addition to the basic principle of the promotion order, a second basic principle, that is the participation of members; it had been the centre of classical co-operative theory. Although participation is applied as the key concept in Political Science predominantly, it is also of importance for economic life and for the co-operative system in particular. Participating persons more or less actively take part in shaping their social relations which are subject to participation. Basically, two forms of participation by members can be distinguished based on the fact whether there are subject-matter, purpose-rational problems or interest-related, value-rational ones.

Both for *Fuerstenberg* engaged in studying these problems for a long time and *Robert Hettlage* participating in these studies for the last few years and being one of the most active and productive co-operative sociologists,<sup>13</sup> there exist two evaluations: 'It means that their behaviour is orientated not only towards the functional fulfilment of regulations but also the adaptation of contents to interests and targets. This may even bring about innovative behaviour' (1981, p. 105). When dealing with the domestic structure of organisation, it also becomes evident that co-operative sociology continues to support *Draheim's* double nature thesis basically although the value of cognition of respective findings is seen in dependence on the respective regional-temporal dimension of this basic dualism.<sup>14</sup>

<sup>13</sup>See especially *R. Hettlage: Genossenschaftstheorie und Patizipationsdiskussion*, Frankfurt/M. and New York 1979. See also the same author: *Genossenschaftssoziologie. Ein verdraengter Ansatz wirtschaftssoziologischer Forschung*, in: *ZfgG*, vol. 31, 1981, p. 279–294.

<sup>14</sup>*F. Fuerstenberg: Sozialstruktur der Genosschaftsorganisation*, in: *E. Maendle/H.-W. Winter* (editor): 1980, Sp. 1512–1520; *R. Hettlage: 1981*, p. 286 ff. Other important contributions on co-operative sociology were written in the last ten years by *D. v. Brentano, M. Elsaesser, B. Finis, J. Joesch, J. O. Mueller, M. Patera, R. Roehm, R. Vierheller* and *A. Weuster* (see also sections VIII and IX).

In all these studies clarifying, according to *Fuerstenberg*, the “over-determinacy of the co-operative type” as a form of social integration *sui generis* (1964, p. 250 and p. 254), co-operative sociologists try to find, last not least, possible alternatives to centrally controlled and increasingly bureaucratic purpose-based institutions. It is not admitted so often, but another aim is to reduce phenomena of alienation in modern market-oriented society, under the auxiliary condition not to limit their capacities of performance. In this context, co-operation with business administration is advisable. ‘Under the influence of social scientific research, situative and motivational conceptions are becoming more frequent in business studies because without them, the construction of a performance-oriented organisation remains abstract model formation. The interaction of different partners in action is thematized more and more. This must lead to the question of the scope of internal and external control of behaviour and their consequences. In this situation, participation-oriented co-operative research may make an important contribution’ (1981, p. 105).

#### IV. THE INSTITUTIONALIZATION OF CO-OPERATIVE SCIENCE AND ITS EXPANSION INTO CO-OPERATION SCIENCE

In contrast to *Draheim*, *Horst Seuster* dealt with problems of co-operative science and its expansion into co-operation science less in the sense of discussing the empirical contents of their findings but he concentrated his efforts at the new definition of their epistemological subjects and also the designation of measures taken so far in order to institutionalize this discipline.<sup>15</sup>

The institutional expression of the development of co-operative science in the German-speaking region after the Second World War is said to be the successive foundation of co-operative institutions at several univers-

<sup>15</sup>*H. Seuster*: Von der Genossenschaftswissenschaft zur Kooperationswissenschaft, in: *ZfgG*, vol. 27, 1977, p. 392-400.

ities,<sup>16</sup> the joint organisation of sessions of co-operative science, the publication of the "Zeitschrift fuer das gesamte Genossenschaftswesen" and the foundation of the "Arbeitsgemeinschaft genossenschaftlicher Institute" (working team of institutes of co-operative science) AGI. The epistemological subject of this science and its various aspects are also covered and analysed, for example, by legal science, national economics business administration, agricultural market economics, agricultural policy and sociology.

*Seuster* puts special emphasis on the statement that co-operative or co-operation science is a "real science" and deals with a permanently changing subject. This fact demanding a 'new reflection on the epistemological subject from time to time at least' becomes evident when passing the most important stations of post-war discussions in the Federal Republic of Germany in review. The author holds there were six stations until 1975: '1. the co-operative as an enterprise, 2. secondary organisation, 3. the co-operative as a union of persons and as business enterprise 4. the economization of co-operatives, 5. co-operative theory as conflict theory and 6. co-operative and concentration.' (p. 393 ff.).

In conformity with *Stoerrle*, *Seuster* also says that when dealing with the epistemological subject 'co-operative', it is not enough to proceed from § 1 of the Co-operative Law and the constituent criteria of the legal co-operative term as stipulated there. Because co-operatives are 'economic institutions that must manifest themselves through economic characteristics more strongly and clearly (than through legal ones. *W. W. Engelhardt*)'. But especially: 'Externally, that is at the periphery of the co-

<sup>16</sup>The fact has to be mentioned, however, that the oldest German establishments of co-operative science at universities were seminars in the period before the First World War and between the wars. The oldest university-owned co-operative seminar at German universities is probably the seminar at the Luther University Halle/Saale (GDR), founded in 1911; as far as I know, it is closed. The second oldest seminar was founded by *Wilhelm Vleugels* at the University of Cologne in 1926. After its forced closure by the National Socialists, this centre of research and teaching, where the author is working now, was reactivated by *Gerhard Weisser*.

operative system, remarkable changes have taken place in the course of time, that could not be without influence on co-operative science' (p. 394).

The example of agriculture clearly shows that in the last few years, a large number of 'forms of co-operation' or 'forms of community' have come into being in addition to the 'already historical Raiffeisen co-operatives or may be even older but not institutionalized forms of neighbourly help'.<sup>17</sup> As to the 'forms of co-operation' or 'community' Ulrich Werschnitzky gave the number of 40,978 'co-operations' in the agricultural field in 1976. In the sector of Raiffeisen co-operatives, there were about 6,400 registered co-operatives in 1975 without credit co-operatives (p. 395 ff.).<sup>18</sup>

According to Seuster,<sup>19</sup> the numerical development of 'co-operations' showing a strong expansion is based on two opposite tendencies: '1. strong concentration of older 'co-operations' (co-operatives, for example), that is, the transition to less and thus bigger units with increasing membership (stage of consolidation)—the structural change of these institutions must not be neglected in this context—and 2. a visible increase in younger 'co-operations' (examples are varied forms of group agriculture, machinery communities) with increasing membership (stage of expansion)' (p. 397).

Generally, the development in the 1970s has been remarkably dynamic. Seuster saw the possible decisive reason for the different development of co-operation in temporal and subject-related differences in the demands of the members' economies. There was a temporal advance of the fields of

<sup>17</sup>Strictly speaking, co-operatives of the pre-industrial period were designated as 'historical co-operatives'; see *W. W. Engelhardt*: 1985, p. 85 ff.

<sup>18</sup>See *U. Werschnitzky*: *Neue Kooperationsformen in der Landwirtschaft*, Hiltrup 1970. As to other economic fields, see, for example *W. Benisch*: *Die kartellfreie Kooperation nach der GWB-Novelle 1973*, in: *Wirtschaft und Wettbewerb*, 24th year, 1974, p. 69–80; *D. Louis*: *Zu einer allgemeinen Theorie der oekonomischen Kooperation*, Goettingen 1979; *N. Eickhof*: *Strukturkrisenbekämpfung durch Innovation und Kooperation*, Tuebingen 1982.

<sup>19</sup>*H. Seuster*: *Neuere Kooperationsformen in der Landwirtschaft der Bundesrepublik Deutschland und Westeuropas*, in: *Neuere Entwicklungen von Organisation und Technologie der Landwirtschaft in Ost und West, Agrarwirtschaft, Sonderheft 61*, 1975, p. 256.

purchase and sales against the production field. In addition to the variety of new forms of co-operation in economic terms, a variety of legal forms was also symptomatic. In his studies, *Werschnitzky* registered not less than eleven different legal forms.

In his paper, *Seuster* wrote the time was ripe for initiating a discussion about the epistemological subject within co-operative science in the sense whether an expansion from the (too small) 'co-operative' should be made into the (bigger) 'co-operation'; the *Zeitschrift fuer das gesamte Genossenschaftswesen* and the AGI have already complied with these developments to a large extent.<sup>20</sup> 'Co-operation' is the general term also subsuming the classical 'co-operative'; that is, 'co-operative' is to be defined as a certain kind of 'co-operation'. To summarize, the expansion of the epistemological subject as represented in this context would have the following consequences: 1. a clear expansion of the field of scientific work at the national level, especially for legal science, 2. an improved connection with international developments both in the field of scientific research and practical phenomena, and 3. a certain de-ideologization of the old co-operative term. . . ' (p. 399). A fourth consequence could be to take problems into consideration more strongly that are characteristic for co-operatives with no or merely limited business activity and, in connection with it, 5. to deal with problems of the emergence or foundation of co-operatives or 'co-operations' more strongly again.

<sup>20</sup>Meanwhile, the sub-title of ZfgG is 'Organ fuer Kooperationsforschung und -praxis' (organ for co-operation research and practice); the Marburg "Institut fuer Genossenschaftswesen in Entwicklungslaendern" (Institute of the co-operative system in developing countries) was given the name "Institut fuer Kooperation in Entwicklungslaendern" (Institute of co-operation in developing countries); the "Institut fuer Genossenschaftswesen der Universitaet Muenster" gives the title "Schriften zur Kooperationsforschung" to its series, etc.

## V. CO-OPERATION SCIENCE FOR A SPECIFIC TYPE OF PRODUCTIVE SOCIAL SYSTEMS

*Ernst-Bernd Bluemle* and *Peter Schwarz* in particular may belong to those authors who, in scientific programmes<sup>21</sup> and their scientific works, have decisively implemented *Draheim's* ideas about the desired contents of statements on the one hand and *Seuster's* suggestions to expand epistemological subjects externally on the other hand. One can come to this conclusion at least when not taking the major work of *Draheim* and his wishes for expansion by using empirical social research into account.

By analogy with *Hans Ulrich* and *Erwin Grochla*, last but not least, *Bluemle* and *Schwarz* analyse the co-operatives in the economic sense and the correlated 'co-operations' as a 'specific type of productive social systems' or 'a specific type of organisation'.<sup>22</sup> This type has the privilege of having been the subject of independent, institutionally limited science already for a long time. Both authors hold, however, that the epistemological scope of this science is heterogeneous under two aspects: "On the one hand, it is an inter-disciplinary conglomerate of business administration, national economics, legal science and sociology. On the other hand—if we limit ourselves to the aspect of business administration—different scientific approaches or 'schools' have developed proceeding from different conceptions and conceptual-analytic complexes of instruments" (p. 306).

Generally, the authors make a difference between two assumptions of explanation following different strategies: '1. business studies of the co-operative system in the narrower sense as used by *Draheim*, *Henzler*,

<sup>21</sup>*E.-B. Bluemle/P. Schwarz*: Die Genossenschaft als kooperativ-bedarfwirtschaftlicher Organisationstyp, in: *ZfgG*, vol. 27, 1977, p. 306–315.

<sup>22</sup>See especially *H. Ulrich*: Die Unternehmung als produktives soziales System, second edition, Bern and Stuttgart 1970; *E. Grochla*: Betriebsverband und Verbandsbetrieb, Berlin 1959. The works of the Swiss author *J. F. Schaer* on applied economics and co-operatives may also provide background knowledge.



*Dueljer* and others. This assumption is concentrated on the real subject 'co-operative' and develops systems of statements oriented towards this type of enterprise exclusively. 2. business administration proceeding from more comprehensive epistemological relationships and considering the co-operative as a specific phenomenon right from the beginning, as a type of their studies.' Their systems of statements would imply a broader field of application. Co-operatives would be integrated into the relationships of explanation as one real subject among others. *Bluemle* and *Schwarz*, with reference to the last mentioned approach, enumerate such different teachings like, for example, the teaching of free enterprises for public benefit in the sense of *Weisser*, *Thiemeyer*, *Hesselbach*, *von Loesch*, *Grochla's* teaching on the 'business association', the 'co-operation theory' of *Boettcher* and *Eschenburg* following the New Political Economy and, last not least, the market-oriented business administration of 'non-profit organisations' by *Kotler*, *Anthony/Herzlinger* and *Raffée* (p. 306).

Business administration proceeding from more comprehensive epistemological relationships is said to cover real subject fields of different scopes. This would mean for applied economics of co-operatives that its scope of knowledge was expanded proceeding from changing and differently limited subject relationships. However, statements developed in the above mentioned more limited business studies of the co-operative system would be integrated 'as a counter-movement, and would be applied to co-ordinated co-operatives and functional communities, for example. Such a mutual enrichment is evaluated as positive: "These correlated tendencies of expansion, transmission and generalization can be used in business administration of the co-operative system by integrating their research efforts into the above mentioned more comprehensive relationships consciously" (p. 307).

In their programmatic work, *Bluemle* and *Schwarz* try to limit the "purposeful" field of real subjects in terms of definitions and classification. Since then, this definition has been expanded and improved in several comprehensive works written by *Schwarz* in particular with applying the morphological method but also typological epistemological means

purposefully.<sup>23</sup> First, *Schwarz* dealt mainly with promotion co-operatives proceeding from three different aspects; less attention was paid to productive co-operatives. 1. They are on out of several non-profit or non-commercial organisations, 2. They co-ordinate business units in the form of an association 3. They represent inter-enterprise co-operation forming co-operative enterprises based an need. Upon this classification of promotion co-operatives, *Schwarz* makes the far-reaching attempt to make the variety of individual phenomena transparent and to describe them by means of a morphological matrix through "dissolution of forms". He succeeds in doing so by means of six groups of characteristics, 34 individual characteristics and an infinite number of sub-characteristics (1979, p. 102 ff.).

In his new work on 'success-oriented management of associations', *Schwarz* tries to justify a specific 'association business administration'. As this can also be used *cum grano salis* to legitimize a "co-operation" science, we want to deal with it here. The author writes that according to traditional views, a difference can be made between problems of enterprise structure (morphology) and operating procedure (catalactics) in the field of business administration.<sup>24</sup> To find out whether a specific business administration of associations is necessary or not, one has to start with

<sup>23</sup>See: *Schwarz*: *Morphologie von Kooperationen und Verbaenden*, Tuebingen 1979; the same author: *Erfolgsorientiertes Verbandsmanagement*, St. Augustin 1984, from *E. B. Bluemle*, see especially: *Zur Zielproblematik der Wirtschaftsverbaende. Versuch einer Systematik*, in: *Jahrbuch fuer Sozialwissenschaft*, vol. 16, 1965, p. 337-360; the same author: *Probleme der Effizienzmessung bei Genossenschafteln*, Tuebingen 1976. Specific analyses of co-operative unions were also made by *G. Aschhoff*, *W. Jaeger*, *W. Weber*, *J. Werner*; from *W. Weber*, see also his programmatic remarks on the co-operative auditing, in: *ZfgG*, vol. 27, 1977, p. 373-385.

<sup>24</sup>See: here *G. Weisser*: *Wirtschaft*, in: *W. Ziegenfuss* (editor): *Handbuch der Soziologie*, Stuttgart 1956, p. 1047 ff.; Th. *Thiemeyer* *Unternehmensmorphologie. Methodische Vorbemerkungen zur Bildung praxisbezogener Betriebstypen*, in: *Archiv fuer oeffentliche und freigemeinnuetzige Unternehmen*, vol. 9, 1972, p. 92-109, here p. 100; *W. W. Engelhardt*: *Die Unternehmens- und Betriebsmorphologie als Teildisziplin der Allgemeinen Betriebswirtschaftslehre*, in: *Jahrbuch fuer Absatz- und Verbrauchsforschung*, 19th year, 1973, p. 311-332, here p. 317. See: also *B. Tietz* *Grundlagen der Handelsforschung, Marketing-Theorie*, Zuerich 1969, p. 161 ff.

morphology or structure science. Only if congruence in the structural elements of different types of organisation exists, the same stores of knowledge can be applied to the other type'. However, between profit-oriented enterprises and non-profit enterprises, among them in particular association that are based upon needs of the group, considerable structural differences exist . . . therefore, the application of the same models, assumptions and recommendations for organisation to other fields is limited' (1984, p. 99 ff.).

In continuing the considerations of *Stoerrle* so to say, *Schwarz* writes that 'the classification of business administration' is made according to well-proven traditions in most cases. A difference is made between general and specific business administration. Basically, general business administration is dealt with on the basis of a functional classification. In some cases its functions are also said to be management functions (planning, decision-making, organisation, control, supervision of staff members) . . . but always operative functions . . . like supply, production, sales, finance, materials economy, plants economy . . . Specific or particular business administration is based on an institutional classification, that means, it relates to individual economic branches or activity-oriented enterprise types (industry, trade, banks, insurance companies etc.).<sup>25</sup>

Now the question is whether associations, other economic units based upon need (like co-operatives—note of *W. W. Engelhardt*), caritative economies and collective economies can be added to this listing of institutional enterprise types or whether a break has to be made with the traditional classification' (1984, p. 102).

An 'expansion' of the existing listing of institutional business administration would be especially difficult with regard to public enterprises and enterprises run by public administration like schools or hospitals. The same would apply to co-operatives and 'co-operations' of a non-corporation kind. "Owing to their great variety in practice, these organisations would have to be placed in many categories of activity'. Co-operatives work as trade enterprises, insurance companies or banks, for

<sup>25</sup>See: *E. Castan*: *Typologie der Betriebe*, Stuttgart 1963, p. 43.

example. It is evident that the 'co-operative' is a structural form that, matrix-like seen, goes across the economic branches". However, as there exist general co-operative studies expanding to 'co-operation studies' today—designated above as business administration of the co-operative system in the narrower sense—, they "must be placed outside existing institution studies as studies of specific structural forms' (1984, p. 102 and 104).

## VI. 'CO-OPERATION' SCIENCE AS PART OF BUSINESS ADMINISTRATION?

'Do co-operatives need their own science of business administration?' Under this title, AGI members discussed papers of *Helmut Wagner*, *Oswald Hahn* and *Eberhard Duelfer* in 1983; the main contents of these will be presented and evaluated here with reference to our topic.

### *1. No independent business administration of co-operatives*

In his theses,<sup>26</sup> *Wagner* tries to show that such separate business administration seems, at least at universities with comprehensive research and training in the field of general business administration and a differentiated spectrum of specific business studies, to be neither necessary nor profitable in terms of systematic science or practical points of view.' This view of the author differs from the theory of the other two authors; he holds that preference should be given to an inter-disciplinary-oriented co-operative science'. With reference to *Gerhard Weisser* and *Erik Boettcher*,<sup>27</sup> he conceded that sociology, national economic science,

<sup>26</sup>*H. Wagner*: Brauchen die Genossenschaften eine eigene Betriebswirtschaftslehre? In: *ZfgG*, vol. 33, 1983, p. 233–239.

<sup>27</sup>See: *G. Weisser*: *Georg Draheim 65 Jahre*, in: the same author and M. v. W. W. *Engelhardt* (editor): 1968, p. X; *E. Boettcher*: Zielsetzung und Anspruchsniveau der Genossenschaftswissenschaft, in: *E. B. Bluemle/P. Schwarz* (editor): *Erwartungen der Genossenschaftspraxis an die Wissenschaft*, Sonderheft der *ZfgG*, Göttingen 1979, p. 43 ff.

applied economics and legal science could deal with the phenomenon 'co-operatives'—with 'changing centres of gravity'—at present and in the future with special emphasis put on business administration (p. 233 ff.).

Business administration of the co-operative system, however, can only be 'a sub-discipline' of business administration or a 'special' business administration but never an 'independent' field. In far-reaching factual conformity with *Stoerle*, he argues that it cannot be limited either by functional, institutional or input factors (personnel policy or materials economies, for example). The introduction of a special business administration would only be justified if the students learned facts that are not taught within the framework of general or special business administration, that is, if they were not instructed in the subjects of legal forms, target orientation and enterprise philosophy there; but this is not so. Additionally, *Wagner* says that as a consequence, university graduates would have to be provided with 'new occupational fields and improved professional chances' (p. 235).

The author admits that the science of general business administration could get a precious impetus from an inter-disciplinary co-operation theory 'integrating findings of national economics applied economics, behavioural science and legal science'. Like *Schwarz* or *Rainer Vierheller* and *Helmut Lipfert*<sup>28</sup> in particular, he states an epistemological and methodical deficit in management theory. In other words, he holds that in addition to further research on intra-enterprise co-operations, that is forms of team management, the development and evaluation of inter-enterprise co-operation strategies and their comparison with competition strategies are urgently necessary. However, he does not support the assumption of system theory as this has not yet proven its efficiency so far.

<sup>28</sup>See: *R. Vierheller* Demokratie und Management, Goettingen 1983; *H. Lipfert*: Genossenschaftliches Konkurrenz- und Kooperationsmanagement als Forschungsobjekt, Hamburg 1984. See also the same author: Genossenschaftliches Konkurrenz- und Kooperationsmanagement, in: *E. Boettcher* (editor): Die Genossenschaft im Wettbewerb der Ideen, Tuebingen 1985, p. 155–189.

2. *Independent business administration of co-operatives (I)*

First, *Hahn* makes a difference between a business administration 'for' co-operatives, described as a co-operative subject of co-operative schools, from a business administration 'of' co-operatives.<sup>29</sup> He holds only the latter seems to be in demand today, and the author supports the right of existence only of this theory although he is in favour of a vitalization of general business administration with pointing out more definitely "loans" from co-operative science taken for a long time already.

In contrast to *Wagner*, he supports a specific business administration of co-operatives because it is 'a supplement to one or more disciplines'. It has to deal with 'co-operative particularities exclusively' but it is to be based on general business administration and also institutional business management and functional studies. Its scope is determined by the development of general business administration and all kinds of specific business management. When proceeding from the assumption of a high level of development, business administration of co-operatives would be a relatively closed discipline that could find its example in business administration of public enterprises. Unfortunately, this is only wishful thinking (p. 241 ff.).

Proceeding from these statements, the science of business administration of co-operatives has the following contents: 'The first element is an independent sub-system—co-operative objectives'. In this context, the discipline or sub-discipline has to analyse the same task of promotion for which co-operatives had been founded 120 years ago.<sup>30</sup> Secondly, some problems of financing belong to this discipline from the special field of finance of the sub-system of performance function. And thirdly— independent of the above mentioned—our special business administration

<sup>29</sup>*O. Hahn*: Brauchen die Genossenschaften eine eigene Betriebswirtschaftslehre? Zusätzlicher "Foerderungsauftrag" als Konsequenz zum Niedergang der "Allgemeinen", in: *ZfgG*, vol. 33, 1983, p. 240–246. See also the same author: Die Konzeptionen der Speziellen Betriebswirtschaftslehre, in: *ZfgG*, vol. 34, 1984, p. 19–26.

<sup>30</sup>See also *O. Hahn*; Die Unternehmensphilosophie einer Genossenschaftsbank, Tübingen 1980, p. 7 ff.

of co-operatives has to put the question of the importance of co-operatives in different branches.'

With regard to special business administration developed so far, *Hahn* distinguishes between four essential assumptions: 'branch-related business administration, functional emphases, core function typical for a branch, and typological approach' (p. 20). In large conformity with *Schwarz* and the *author* of the present paper, *Hahn* considers the typological approach to be the central point which offers itself for such business studies in particular where 'there is no homogeneity among the component of a branch'. This has already been evident in the first developed business administrations of industry, public enterprises and administration and, last but not least, service enterprises. Allegedly, it was not so—or to a reduced extent—in the cases of bank enterprises, insurance companies and trade enterprises.<sup>31</sup>

### *3. Independent business administration of co-operatives (II)*

Undoubtedly, the most comprehensive discussion made so far of the question whether we need an independent applied economics of co-operatives comes from *Duelfer*. Like *Hahn* he supports an affirmative view on this problem he dealt with in a very differentiated manner. Last but not least, his statements are important because he deals with the views of other authors explicitly, with those of *Draheim*, *Henzler* and *Boettcher* in particular.<sup>32</sup>

<sup>31</sup>See typological differentiation, for example, in: *O. Hahn*: Struktur der Bankwirtschaft. 1. Teil, Banktypologie und Universalbanken, Berlin 1981; as to the commercial field, see: *B. Tietz* Bildung und Verwendung von Typen in der Betriebswirtschaftslehre, dargelegt am Beispiel der Typologie der Messen und Ausstellungen, Cologne/Opladen 1960; *W. W. Engelhardt*: Morphologie der Absatzwirtschaft, in: *B. Tietz* (editor): Handwoerterbuch der Absatzwirtschaft, Stuttgart 1974, Sp. 1504–1522.

<sup>32</sup>*E. Duelfer*: Brauchen die Genossenschaften eine eigene Betriebswirtschaftslehre? — Kritik und konstruktiver Vorschlag —, in: *ZfgG*, vol. 33, 1983, p. 247–257.

*Duelfer* rejects the position of *Draheim* to orient morphology by a system of objectives together with the double nature hypothesis, although—following *Grochla* like *Schwarz*—he is receptive to organisational structure differentiations at least. The *author* supports *Henzler's* position about the co-operative as a promoting enterprise in principle but he is fully justified in pointing out that it is related to the co-operative enterprise too much and not to co-ordinated co-operation between member economies and the joint enterprise. Consequently, in the approach of *Boettcher* his reference to the overall co-operative complex is supported. However, the legal-‘legislatory’ framework making an axiomatic-deductive derivation of the co-operative possible, is not followed.

*Duelfer* also proceeds typologically but he largely refers to external-organisational structures including the dimensions of their environmental relations. In concrete terms, the author holds the characteristic of the task of promotion is “not the expression of a different economic conception or mentality but it is the logical organisational consequence from the organ-economic connection between the ‘collective’ business enterprise and the economic enterprise-related demands of the respective members’ economies” (p. 248) and not the members. The targets and interests of the members’ economies are said to be not changing at all through the co-operative cohesion and therefore it is held to be opportune to eliminate problems relating to the psychological sociological approach of the members and their groups except problems of members’ efficiency.<sup>33</sup>

According to *Duelfer*, co-operatives need the science of business administration as being offered today as the science of ‘decision-making in management’ because ‘1. members’ enterprises and also the co-operative enterprise act purposefully, 2. there is a shortage of means to achieve the

<sup>33</sup>As to the opposite position, see: *G. Weisser* Die Unternehmensmorphologie — nur Randgebiet? In: Archiv fuer oeffentliche und freigemeinnuetzige Unternehmen, vol. 8, 1966/67, p. 1–48; *Th. Thiemeyer*: Die Idee der Gemeinwirtschaft und deren ordnungs- und gesellschaftspolitischer Standort, in: *E. Boettcher* (editor): 1985, p. 49–71; *W. W. Engelhardt*: 1985, p. 116–145. The position of *Duelfer* had already been represented by *R. Liefmann*, the opposite position by *E. Gruensfeld* and, *G. Draheim* after the last war.



targets (resources) also for the co-operatives, 3. in view of this situation, the science of business administration can suggest modes of action ensuring optimum solutions' (p. 249). So far, there is conformity with *Wagner* but additionally, *Duelfer*, like *Hahn*, is in favour of 'an own specific' business administration to be established, similar to organisation science 'on the basis of an own selection principle', as a science of satisfactory theories and programmes. Selection is based on the 'typical structure of the "co-operative" with promotion relations between the members' economies on the one hand and the co-operative agent enterprise on the other hand' (p. 250 and p. 252 ff.); this structure is situated between the overall economy and the individual enterprise.

In conceptual terms, such a partial discipline is not fully anticipated by present-day business administration but it has been made possible methodologically by means of several extensions. In this context, the author quotes the analysis and development of multivariable target systems instead of univariable ones, the use of man-models being more realistic than in past enterprise philosophy, a stronger behavioral-theoretical, real-scientific orientation with regard to the owners and coalition partners instead of purely decision-logical derivations, and, last but not least, the reception of a general system theory that is to offer the final framework of all studies.

Then the scientific programme of such a partial discipline—that is based on modern social science and philosophy despite the above mentioned processes of elimination—is determined more closely under the aspects of the subject to be studied, existing problems and research methods applied.<sup>34</sup> The fact should be mentioned in particular that according to *Duelfer*, too, it is not only co-operatives in the legal sense that should be integrated into the studies but also all economic co-operatives called "Kooperativ", if possible; however, the forced foundation of such enterprises

<sup>34</sup>The programme of science was dealt with comprehensively in *E. Duelfer: Betriebswirtschaftslehre der Kooperative*, Goettingen 1984. See also the preparatory work of the same author: Systemcharakter und Strukturdimensionen des Kooperativs-Grundgedanken zu einer erweiterten Betriebswirtschaftslehre der Genossenschaften und verwandter Institutionen, in: *ZfgG*, vol. 31, 1981, p. 93–107.

is regarded as 'abuse'. The scope of problems of this discipline with regard to the second precision does not only result from the basic purpose-rational question "How can optimum decisions be taken (or acted upon) with regard to given targets?" but also from the above mentioned question: "What does exist and why?"

## VII. CO-OPERATIVE SCIENCE AS A SPECIFIC FIELD OF ECONOMIC SCIENCES?

In his "Genossenschaftslehre" written together with *Reinhard Schultz, Juergen Zerche* has dealt with the difference between subjects of experience and epistemological subjects in this science in a manner that is worth of notice. Additionally, he was fully correct in adding the science of history to the sciences mentioned so far as dealing with co-operatives.<sup>35</sup>

In his introduction, *Zerche* says the academic subject covering the different aspects of co-operatives is called 'co-operative system' traditionally. However, it would be more realistic to designate 'co-operative science' as a 'special field of economic sciences'. This discipline examines not only problems of business administration with regard to joint enterprises and the relations between the members but also legal, social aspects and aspects of national economics of these specific forms of co-operation and their secondary organisations' (p. 17). With regard to the term 'special field of economic sciences', the author obviously leans on the practice—connected with some problems—of the Faculty of Economic and Social Sciences of the University of Cologne (where *Zerche* and the author of the present paper give lectures), that puts co-operative science into the catalogues of lectures and examination orders under this designation.

As far as the epistemological subject of co-operative science is concerned, *Zerche* is fully right in saying that this results from putting

<sup>35</sup>R. Schultz/J. Zerche: *Genossenschaftslehre*, second newly prepared edition, Berlin and New York 1983, p. 17–20 and 130 ff.

'certain questions' to the subject of experience 'co-operative'. 'The subject of experience can be the object of several specialized disciplines but the epistemological subject is object of only one discipline due to the specific questions related to it. In their importance for co-operative science, the most important disciplines dealing with our subject of experience are business administration, national economic science, legal science, sociology and science of history'. However, co-operative science as a specific field of economic sciences focusses its interest on 'business administration and national economic science' (p. 19), and in contrast to the above mentioned statement, also on interdisciplinary epistemological subjects.

Questions in terms of applied economics to the epistemological subject, to the subject of experience to say it more correctly, deal with problems such as liability, taking risks, distribution of profit, powers of management, financing, tax. Even legal problems are mentioned here although they are of specific interest to legal science naturally. Apart from social aspects involved here,<sup>36</sup> national economic problems are, for example, the relevance of co-operatives for competition, the differentiation between them and trade associations, the importance of the co-operative sector for the overall national economy. In detail, this also applies to price policy and distribution policy aspects of co-operatives, their relations to the economic order and the state, their economic importance for the Federal Republic of Germany. As to social problems, there are aspects of distribution policy and, last but not least, special problems of co-determination by the staff-members.

According to *Zerche*, problems existing both in applied economics and national economic science, that is interdisciplinary problems, are part of a 'general science of economic action'. This more modern science is strongly application-related and designated as "Praxeologie" rather frequently; it is said to be of great importance for specifying the leading function of co-operative management. Like *Duelfer*, *Zerche* dissociates himself from classical enterprise theory considering the enterprise as a 'monolithic

<sup>36</sup>In the sense of an economics-oriented social policy teaching, see: *J. Zerche/F. Gruendger Sozialpolitik*, Duesseldorf 1982.

decision-taking unit' and neglecting its 'personal complexity'. In contrast to this, general science of economic action or "Praxeologie" turns away from the one-centre character of the organisational structure and also non-existence of conflicts with regard to decisions relating to targets and action to achieve them, and tries to 'help different decision-taking persons master complex situations and take rational decisions' (p. 130).

The stimulation-contribution-theory is the proceeding point of these considerations regarding the enterprise as a multipersonal organisation. This assumption also implies each enterprise to be a 'coalition' of different groups of participants. It should not be mistaken for the older co-operative-specific trusteeship theory. However, *Zerche* takes specific applications and findings especially from the more modern decision theory and system research, and the author considers the decision-logical character of the decision theory and its general applicability to be especially advantageous.<sup>37</sup>

The result is the designation of the co-operative as a 'system of several co-operating groups' of internal and external participants in the coalition who try to satisfy their interests through certain targets (nominal indices)' (p. 133). For the purpose of clarification, *Zerche*, by analogy with *Duelfer*, interprets the selected systematics of internal and external groups of participants in the coalition by means of control circuits. This provides a 'control circuit model of the co-operative' uniting four partial groups—members of board of directors, members of the supervisory board, members, staff members, or secondary co-operatives, suppliers, customers, the public—to an overall system in the sense of cybernetics.

<sup>37</sup>J. *Zerche*: Entscheidungsorientierte Genossenschaftsforschung, in: the same author (editor): *Aspekte genossenschaftswissenschaftlicher Forschung und Praxis*, Duesseldorf 1981, p. 117–125, here p. 125. See also the same author: Entscheidungs- und systemtheoretisch orientierte Genossenschaftslehre, in: *ZfgG*, vol. 34, 1984, p. 74–80. The system theoretical assumption of *P. Schwarz* as mentioned above and more recent works of *Ph. Herder-Dornreich* cannot simply be equated to the assumption presented here see: *Ph. Herder-Dornreich* Aufgaben und Bausteine einer oekonomischen Systemtheorie, in: *H. Albert*: *Oekonomisches Denken und soziale Ordnung*. Festschrift fuer *Erik Boettcher*, Tuebingen 1984, p. 63–82.

In these primarily purpose-rational economically oriented problems of constituent interdisciplinary epistemological subjects, possibilities of behavioral scientific integration with social scientific disciplines in the narrower sense of the term remain unused to a large extent. This applies not only to sociology but also to social psychology, politology and social policy science with social economic and political economic orientations. In evaluating this work, the fact cannot be ignored that the basic model of coalition presents the dominating interests and power relations even in co-operatives only insufficiently, not to speak of their empirical theoretical analysis. The decision theory applied provides 'model platonistic' (*H. Albert*) logical-analytic assumptions and not empirical-theoretical ones; this is also due to "simplified projections" (*H. Raffée*) of reality in too narrowly limited epistemological subjects.<sup>38</sup>

Integrating economic scientific and social scientific problems are not dealt with further here; they have been subject to co-operative science since the double nature hypothesis of *Draheim* and have led to the construction of the multidimensional "morphological matrices" of *Schwarz*.<sup>39</sup>

### VIII. PLEADING FOR CO-OPERATIVE SCIENCE OR CO-OPERATION SCIENCE ON A HISTORICAL BASIS

In his above mentioned book, the author dealt with problems of co-operative science again that had been in the centre of interest in co-operative science in the last century and up to the second world war in

<sup>38</sup>See: *H. Albert Marktsoziologie und Entscheidungslogik*, Neuwied/Rh. and Berlin 1967, p. 245 ff. and 331 ff.; *H. Raffée: Grundprobleme der Betriebswirtschaftslehre*, Goettingen 1974, p. 55 ff. and 114 ff.

<sup>39</sup>However, see also the above mentioned work of *B. Deppenkemper*, a follower of *Zerche*: 1984; it has a multidimensional structure, and an empirical behavioral theory-based approach is used predominantly as well as methods of empirical social research.

Germany at least, but had been replaced by other problems increasingly.<sup>40</sup> However, he did not want to do strictly historical research but to make the basic lines of events in the past—the present time is also part of it—understandable from a theoretical point of view, and to contribute to their explanation as much as possible.

Thus the author supports a co-operation science in the sense of a science of co-operative history on a theoretical basis, thought to be a 'corrective for primarily system-related research'.<sup>41</sup> It is to be able to cover social scientific problems in the narrower sense of the word—like those mentioned above by analogy with *Fuerstenberg*, for example in addition to economic scientific problems, traditional and, last not least, emotional problems. This is based on a perspective of universal history which allows the integration not only of co-operatives in the industrial period but also historical co-operatives in the preceding time.

Co-operation science as a science of history of this kind is understood as statements on empirical types instead of the analysis of significance and effects preferring pure ideal and real types. 'It correlates characteristics or relations from the level of entities of significance, individual targets and measures with those of behaviour and the achieved structure of effects of the respective agents, where unintentional side effects and late effects may also be significant' (1985, p. 55). It can be distinguished from more or less social-national economic statements of a totalitarian, metaphysical and ideological character and from statements of business-pragmatic, cybernetic and decision-logical kind.<sup>42</sup>

<sup>40</sup>See: *W. W. Engelhardt* 1985; one of the last important studies of the history of co-operatives in Germany in the period between the wars was the work of *G. Jahn*: *Wandlungen der Genossenschaften in der Volkswirtschaft des 19. und 20. Jahrhunderts*, in: the same author (publisher): *Das deutsche Genossenschaftswesen der Gegenwart*, second extended edition, Leipzig 1937. After the second world war, *H. J. Seraphim*, *G. Weippert* and *H. G. Schachtschabel* made essential historical studies as part of the research of co-operative institutes.

<sup>41</sup>Formulation according to *W. J. Mommsen*: *Die Geschichtswissenschaft jenseits des Historismus*, second, rev. edition, Duesseldorf 1972, p. 41.

<sup>42</sup>See: *H. Albert*: 1967, p. 249 ff.; *E. Grochla*: *Erkenntnisstand und Entwicklungstendenzen der Organisationstheorie*, in: *Zeitschrift fuer Betriebswirtschaft*, 39th year,

*Draheim* and *Schwarz* have shown in an outstanding manner that such a co-operative science or co-operation science differentiates characteristics and develops relations from a broad and diversified scope of characteristics. Similar to a primarily national economic empirical co-operative theory of a social-economic or political-economic kind and analogous to the organisation theory of business administration concentrated on structures and functions morphologically and typologically with statements on decision behaviour or sociotechnical systems, it combines quite different properties and relations of co-operative-like co-operations. . . .’ (1985, p. 55 ff.).

In detail, the following groups of characteristics containing many individual characteristics and sub-characteristics can be distinguished: 1. subjective significance-based properties of action, especially of the owners concerned, 2. objective circumstances of the living conditions of persons participating in action actively or passively, 3. institutionally laid-down objectives of action, 4. the action or behaviour of the persons participating actively or passively, 5. unintended or intended effects of behaviour. An alternative classification which places more emphasis on application, distinguishes between acting persons, bases of action, individual targets, means and measures, emerging structures of effect.

More strictly, the main problems of theoretically substantiated co-operation research in terms of science of history, that tries to take the history of co-operative ideas, reality and teaching and their interdependencies into account, can be said to be the following: 1. utopia-conception-approach as proceeding point for the history of co-operative ideas, 2. the approach of living conditions of members as a basis of the history of co-operative reality, 3. emergence-development-approach as main subject of the history of co-operative reality, 4. the approach of aspects and dogmas as main subject of the history of co-operative teaching (1985, p. 64 ff.).

1969, p. 1–21, *the same author*: Organisationstheorie, in: *the same author*: (editor): Handwoerterbuch der Organisation, second new edition 1980, Sp. 1795–1814; *W. W. Engelhardt*: Genossenschaftstheorie, in: *E. Maendle/H.-W. Winter* (editor): 1980, col. 812–838, here: 815 ff.

So far, the most important works of the author of the present paper as well as several studies made by graduates and doctoral candidates stimulated by him dealt with the utopia-conception-approach. But published studies or unpublished examination works also exist relating to all the other approaches. We want to mention here only the extendable typology of pure and mixed 'devotion types' relating to the emergence-development-approach of co-operatives in the industrial period; it is composed of the following types: 1. profit-making co-operatives, 2. co-operatives as promotional enterprises, 3. group economy co-operatives, 4. foundation-like co-operatives, 5. co-operatives for public benefit and 6. centralised administration oriented co-operatives (1985, p. 32 ff.).<sup>43</sup>

<sup>43</sup>See: *W. W. Engelhardt/Th. Thiemeyer* (editor): *Schriften zum Genossenschaftswesen und zur Oeffentlichen Wirtschaft*, Duncker & Humblot, Berlin 1980 ff. As to the utopia-conception-assumption especially see the works of *D. von Brentano*: *Grundsatzliche Aspekte der Entstehung von Genossenschaften*, Berlin 1980; *A. Weuster*: *Theorie der Konsumgenossenschaftsentwicklung*, Berlin 1980; *B. Finis*: *Wirtschaftliche und ausserwirtschaftliche Beweggruende mittelstaendischer Genossenschaftspioniere des landwirtschaftlichen Bereichs am Beispiel F. W. Raiffeisens und W. Haas*, Berlin 1980; *M. Elsaesser*: *Die Rochdaler Pioniere*, Berlin 1982; the same author: *Soziale Intentionen und Reformen des Robert Owen in der Fruehzeit der Industrialisierung*, Berlin 1984. *D. von Brentano* and *A. Weuster* also dealt with the approach it living conditions of members effectively; see also *K.-H. Stuchlik*: *Die Arbeitsverhaeltnisse in deutschen Konsumgenossenschaften von den Anfaengen bis 1933*, Berlin 1983. As to the emergence-development-approach, see: *W. W. Engelhardt* *Der Funktionswandel der Genossenschaften in industrialisierten Marktwirtschaften*, Berlin 1971, and from the series especially *K. Gretschmann*: *Steuerungsprobleme der Staatswirtschaft*, Berlin 1981; *J. Joesch*: *Konsumgenossenschaften und Food-Co-operatives*, Berlin 1983; *E. G. Schumacher*: *Grundprobleme der Entstehung von Selbsthilfeorganisationen in Entwicklungslaendern*, Berlin 1985; *K. Kluthe*: *Genossenschaften und Staat in Deutschland*, Berlin 1985. The works of *Gretschmann* and *Joesch* were not written at the co-operative seminar of Cologne As to the approach of aspects and dogmas, see *W. W. Engelhardt*: 1980, Sp. 819 ff; *Th. Thiemeyer*: *Gemeinwirtschaftlichkeit als Ordnungsprinzip*, Berlin 1980; *the same author*: *Gemeinwirtschaft in Lehre und Forschung*, Frankfurt/M. and Cologne 1974; the same author: 1985, p. 49 ff. Authors who wrote essential works with regard to the above mentioned problems recently, are, for example *Chr. Eisenberg*, *M. Hoppe*, *J. O. Mueller* and *K. Novy*.



## IX. THE COVERAGE OF PROBLEMS OF CO-OPERATION SCIENCE IN MANY SCIENTIFIC DISCIPLINES

As to the problems of co-operatives and related similar to the co-operatives, they were assumed to be subject of an independent co-operative or co-operation science or at least an independent specific science of business administration or a special field of economic sciences. When taking no account of this assumption any more, the fact remains that problems in connection with co-operatives can be dealt with and are being dealt with in very different scientific fields and individual disciplines. Not taking many possibilities of overlapping into account, this covers the following scientific fields that have not all been mentioned yet: basic disciplines, legal science, science of history, social sciences, economic sciences, agricultural science. Finally, we want to make some more or less random remarks.

### *1. Basic sciences*

In basic sciences, it was social philosophy and anthropology in particular—explicitly or probably implicitly more frequently—that dealt with co-operatives and related forms of co-operation. This did not happen so frequently in state philosophy, for example, because generally, co-operatives can be considered and have been interpreted as populist orders emerging from the bottom and, to a certain degree, as antipodes to authoritative state orders.<sup>44</sup> Studies on the emergence of co-operatives under aspects of utopia as mentioned above can also be considered as sub-cases of anthropological analyses that, as it is well-known, have dealt with the phenomenon of sympathy and humanist action in their philosophical

<sup>44</sup>See for example, *Th. Ramm: Die großen Sozialisten als Rechts- und Sozialphilosophen*, Stuttgart 1955. *O. von der Gablentz: Einführung in die Politische Wissenschaft*, Cologne/Opladen 1965, p. 65 ff.

branches already at an early stage.<sup>45</sup> Co-operative phenomena and problems can also be dealt with when proceeding from value philosophy, ethics, theory of science or methodology; this can be shown in connection with value-rational action, basic values like 'community', 'solidarity' and 'justice', the construction of economic and social indicators for covering items of co-operative significance.<sup>46</sup> or—as indicated by *James P. Warbasse*—the 'trial and error' method.

## 2. *Legal sciences*

In legal sciences, it has been and continues to be legal history in particular, that, since *Otto von Gierke* and other great scholars of legal historicism, is fully justified in dealing with co-operatives and correlated forms. Because many institutions founded in the Middle Ages in particular—marks, communities, towns, monasteries, universities, guilds, Hanses—showed a more or less great number of co-operative properties.<sup>47</sup> However, other legal disciplines such as positive constitutional law, municipal and administration law, present-day commercial and economic law should not be forgotten or neglected in comparison with legal history. Constitutional law and legal comparison were the basis of proving, for example, that the principle of co-operative order has not disappeared but determines the state structures of many people even today. Now as before, co-operatives of public law play a considerable practical and scientific role in addition to co-operatives of private law. In the last few

<sup>45</sup>See also *R. Hettlage*: *Humanisierung der Arbeit—ueber einige Zusammenhaenge zwischen Wirklichkeitsbildern und Wirklichkeit*, in: *Die Betriebswirtschaft*, 43th year, 1983, p. 395–406.

<sup>46</sup>Basic ideas in this context in *D. Richter*: *Moeglichkeiten der Operationalisierung des genossenschaftlichen Foerderungsauftrages*, Duesseldorf 1981. See also *E. Bakonyi*: *Zur Operationalisierung des genossenschaftlichen Foerderungsauftrages*, in: *ZfjG*, vol. 30, 1980, p. 316–327.

<sup>47</sup>See: *H. Planitz*: *Germanische Rechtsgeschichte*, second, revised edition, Berlin 1941, especially p. 175 ff. and 206 ff.

decades, and with regard to co-operatives in the Federal Republic of Germany and the EC member-countries in the industrial time, lawyers of various specialized disciplines dealt with reforms of co-operative law, problems of secondary co-operatives, the legal basis of the promotion of members, its differentiation from public orders and the co-ordination of legal regulations within the EC.<sup>48</sup>

### *3. Science of history*

In the science of history mentioned in the present paper already several times, main emphasis has been placed either on the history of the Middle Ages with taking cultural aspects also into account,<sup>49</sup> or on the social and economic history of modern times or the industrial era; the 19th century is regarded as especially important for the co-operative system. Recently, *Christiana Eisenberg* showed that many discoveries can still be made and many correlations can be explained in connection with that century. This applies in particular when co-operative history and the history of the trade unions, the history of social movements in general, of social policy and of general policy are studied to the same extent, as this was also shown, for example, in the contributions of *Klaus Novy* mainly on more recent

<sup>48</sup>See: also *H. Westermann*: Rechtsprobleme der Genossenschaften, Karlsruhe 1969; *G. Baumgartl*: Die Funktion des Foerderungsauftrages in § 1 Genossenschaftsgesetz, Nuremberg 1979, p. 56 ff.; *H.-W. Winter*: Genossenschaftswesen, Stuttgart etc. 1982, p. 165 ff.; *L. Schnorr von Carolsfeld*: Zu den Grundfragen des Wesens der eingetragenen Genossenschaften, in: *ZfgG*, vol. 32, 1982, p. 1-6; *H.-H. Muenkner*: Selbstverstaendnis und Rechtsverfassung von Genossenschaftsorganisationen in EG-Partnerstaaten, in: *E. Boettcher* (editor): 1985, p. 87-116; *B. Grossfeld/Th. Noelle*: Harmonisierung der Rechtsgrundlagen fuer die Genossenschaften in der Eruopaesichen Gemeinschaft, *ibid.*, p. 117-154.

<sup>49</sup>See: *B. Kuske* (economic and social historian working in Cologne) *Die kulturhistorische Bedeutung des Genossenschaftsgedankens*, Halberstadt 1928. Recently more *K. S. Bader*: *Dorfgenossenschaft und Dorfgemeinde*, Weimar 1962; *the same author*: *Das mittelalterliche Dorf als Friedens- und Rechtsbereich*, Graz/Vienna/Cologne 1967; *J. Kuczynski*: *Geschichte des Alltags des deutschen Volkes*. 1. vol., Berlin 1980, p. 246 ff.

periods in the 20th century.<sup>50</sup> In line with the perspective of universal history as postulated before, however, pre-Middle Age periods should be involved in the studies more comprehensively, up to the transition from the animal societies to the first social units of man. According to our knowledge, these units had a co-operative-like structure, and the way of life of Primates was characterized not only by the struggle for existence and the individual search for food but also by co-operation. The further development of the original social units was also determined by co-operation, assisted by means of simple tools.<sup>51</sup>

#### *4. Social sciences*

Especially with regard to the last mentioned problems, there are a number of old points of contact with ethnology as it is surely well-known since *Peter Kropotkin* and *Margret Mead*. Recently, there is also an overlapping with the slowly emerging social scientific social policy teaching as it can be proven by the examples of Germany or Finland.<sup>52</sup> Although co-operation has been interesting under aspects of instinct and spontaneity already very early, political and pedagogical studies have been made only very late.<sup>53</sup>

<sup>50</sup>See especially Chr. *Eisenberg*: *Fruehe Arbeiterbewegung und Genossenschaften*, Bonn 1985; K. *Novy*: *Genossenschafts-Bewegung. Zur Geschichte und Zukunft der Wohnreform*, Berlin 1983.

<sup>51</sup>See: W. W. *Engelhardt* 1985, p. 75 ff. See also: M. *Hildebrand-Nilsson* *Die Entwicklung der Sprache*, Francfort/New York 1980, p. 127 ff. and 134 ff.

<sup>52</sup>These views are represented by *Albrecht and Weisser*, German research workers in social policy and the co-operative system, and by *Laakkonen* in Finland; see G. *Albrecht*: *Die soziale Funktion des Genossenschaftswesens*, Berlin 1965; G. *Weisser*: *Genossenschaften*, Hannover 1968; V. *Laakkonen*: *The Co-operative Movement in Finland 1945-1974*, Helsinki 1977; *the same author* / J. *Laurinkari*/R.-V. *Patiälä*: *Die Auswahl der Vertrauenspersonen in Genossenschaftsbanken fuer die Verwaltungsorgane*, in *Duelfer/W. Lemm* (editor): 1983, p. 276-311.

<sup>53</sup>Exceptions to this are R. *Owen* and J. H. *Pestalozzi*; see: M. *Elsaesser* 1984; E. G. *Schumacher* 1985. For recent contributions from political science, for example, F. A. *Hermens*: *Verfassungslehre*, Cologne/Opladen, 1968, p. 38 ff.; H. U. *Brinkmann*: *Public Interest Groups im politischen System der USA*, Opladen 1984.

Only sociology—it had already been mentioned above—was an exception in this context before its grave decision for the domination-sociological paradigm.<sup>54</sup> Sociology and social psychology used to deal with co-operative problems positively and critically since the classical beginnings of *Emile Durkheim* and *Ferdinand Toennis*. It is often misunderstood that for the first, the co-operative called ‘association’ was not ‘a futile phenomenon only developing external relations between established facts and constituent properties. On the contrary, it is the source of all new phenomena emerging in the course of the general development of life’.<sup>55</sup> At present, contributions of sociology in the fields of religion, development and general systems involve co-operative topics increasingly and to the point if these contributions are predominantly oriented towards decision behaviour or related to socio-technical application.<sup>56</sup>

### 5. *Economic sciences*

In economic sciences, it was first and foremost Political Economy or national economic science that, beginning with the early Socialists and late classical authors, began to show an interest in co-operatives. Highlights were the British Fabians influencing neoclassical authors decisively, and

<sup>54</sup>See for critical attitude towards *Max Weber* and *R. Hettlage*: 1981, p. 280 ff.

<sup>55</sup>*E. Durkheim*: *Die Regeln der soziologischen Methode*, second edition, Neuwied/Rh. and Berlin 1965.

<sup>56</sup>See with regard to religion sociological aspects *W. W. Engelhardt*: 1985, p. 102 ff.; as to development sociology, see: *E. G. Schumacher* 1985 and especially *J. O. Mueller*: *Voraussetzungen und Verfahrensweisen bei der Errichtung von Genossenschaften in Europa vor 1900*, Goettingen 1976. As to recent cooperatives ‘systems sociology’ relating to *B. Finis*: *Zur Problematik der Eigen- und Fremdbestimmung von foerderungswirtschaftlichen Genossenschaften in alternativen Wirtschafts- und Gesellschaftssystemen*, in: *Archiv fuer ...*, vol. 13, 1981, p. 123–141; *H. Willke*: *Entzauberung des Staates*; Koenigstein 1983.

the 'school of Nîmes'.<sup>57</sup> Later and in recent times in particular, as dealt with comprehensively above, the main interest changed to the science of business administration increasingly. Since *Johann Friedrich Schaer*, *Wilhelm Vershofen*, *Karl Roessle* and many other authors, this discipline became the centre, not by accident, of very different analyses of co-operation after co-operative members had established special enterprises by transferring functions, and developed these enterprises in the course of time into independent or adapted enterprises and systems of enterprises. Together with business management for public enterprises and trade associations, partly overlapping it with regard to the aspects of public utility or public benefit,<sup>58</sup> business administration developed specialized branches more or less strongly characterized by morphology and catallactics; these branches are to explain or give practical advice. Recent national economic teachings are linked with a part of catallactic teachings through the economic theory of organisation and New Political Economy; they are relevant for explaining co-operatives that have developed into profit oriented enterprises.<sup>59</sup> There are also other national economic teachings that, like recent works of the science of finance, are useful for discussions about the above mentioned co-operative types,

<sup>57</sup>See, for example: *P. Lambert*: *La doctrine co-operative*, third edition, Brussels 1964; *M. Hoppe*: *Die klassische und neoklassische Theorie der Genossenschaften*, Berlin 1976; *K. Greitschmann*: *Zum Verhältnis von einzelwirtschaftlicher und gesamtwirtschaftlicher Allokation und Distribution in der rationalistischen Gemeinwohlkonzeption der Fabier*, in: *Archiv fuer oeffentliche und freigemeinnutzige Unternehmen*, vol. 13, 1981, p. 142-162.

<sup>58</sup>See: *W. W. Engelhardt* *Gemeinwirtschaftliche Genossenschaften als typologisches wirtschafts-, sozial- und rechtswissenschaftliches Problem*, in: *ZfgG*, vol. 34, 1984, p. 179-196; *E. Boettcher*: *Die Idee des Genossenschaftswesens und dessen ordnungs- und gesellschaftspolitischer Standort*, in: *the same author* (editor): 1985, p. 27-48; *Th. Thieme*: 1985, *ibid*.

<sup>59</sup>Of basic importance was *R. Eschenburg*: *Oekonomische Theorie der genossenschaftlichen Zusammenarbeit*, Tuebingen 1971; see also *E. Boettcher*: *Kooperation und Demokratie in der Wirtschaft*, Tuebingen 1974.

especially for present-day discussions about economic order, competition and participation.<sup>60</sup>

### *6. Agricultural science*

As far as agricultural science is concerned, statements on co-operation can already be found in the works of *Johann Heinrich von Thuenen* at the beginning of agricultural management studies and later in the works of *Friedrich Aereboes*, either in the form of warning or prediction.<sup>61</sup> More comprehensive and systematic studies in this field, however, have only been made in the present time. In this context, scientific activities seem to exist, in addition to Western countries, in the countries of really existing socialism, too. There are many differences but also some common views. Most probably, they may not be found in original guide-lines and other utopias of agricultural co-operatives having been or being linked with individual economic patterns here and class-oriented relations there.<sup>62</sup>

<sup>60</sup>To quote some of many authors: *W. Hamm*: Wettbewerbspolitische Aspekte genossenschaftlicher Aktivitaet, in: *E. Boettcher/H. Westermann* (editor): *Genossenschaften, Demokratie und Wettbewerb*, Muenster 1972, p. 465–496; *E. Boettcher* (editor): *Genossenschaften im Systemvergleich*, Tuebingen 1976; *J. Zerche/W. W. Engelhardt* (editor): *Kreditgenossenschaften*, Duesseldorf 1983; *J. Kosta*: *Wirtschaftssysteme des realen Sozialismus*, Cologne 1984; *K. Gretschmann/R. G. Heinze/B. Mettelsiefen* (editor): *Schattenwirtschaft*, Goettingen 1984.

<sup>61</sup>See also *F. Aereboe*: *Allgemeine landwirtschaftliche Betriebslehre*, sixth edition, Berlin 1923, p. 229; *W. W. Engelhardt*: *Zum Situations- und Problembezug von Entscheidungsmodellen bei Johann Heinrich von Thuenen*, in: *Zeitschrift fuer Wirtschafts- und Sozialwissenschaften*, 103rd year, 1983, p. 561–588; *the same author*: *Aspekte des Ausgleichs und der Relativitaet bei Johann Heinrich von Thuenen* in: *Jahrbuch fuer Sozialwissenschaft*, 1986, Heft 1.

<sup>62</sup>As to this differentiation, see: *W. W. Engelhardt* 1985, p. 96 ff.; as to guidelines for agricultural co-operatives, see: *J. O. Mueller* *Utopie und Wirklichkeit der Genossenschaftsidee und des Gruppenkonzepts von Raiffeisen*, in: *Zeitschrift fuer auslaendische Landwirtschaft*, 10th year, 1971, p. 135–162; *B. Finis*: 190; the same authors: *War der Tatchrist Friedrich Wilhelm Raiffeisen ein Gemeinwirtschaftler?* In: *Archiv fuer oeffentliche und freigemeinnuetzige Unternehmen*, vol. 12, 1980, p. 155–170.

Comparative agricultural policy and agricultural sociology research, however, seem to recognize that in addition to remaining essential divergencies, there exist partially common characteristics in forms of co-operative collectives that are increasingly interpreted as 'production systems', with more or less autonomous working teams. Production systems frequently organised within the framework of co-operatives also exercise functions of supply, sales, financing and management.<sup>63</sup>

<sup>63</sup>See: *H. Seuster Funktionsteilung zwischen Landwirtschaftsbetrieb und Genossenschaft im Rahmen der modernen Agrarproduktion*, in: *G. Weisser and M. v. W. W. Engelhardt* 1968, p. 415-431; the same author: *Die Landwirtschaftsunternehmung als System*, in: *Berichte ueber Landwirtschaft*, vol. 1975, p. *Th. Bergmann/P. Gey/W. Quaisser: Sozialistische Agrarpolitik*, Cologne 1984.



**Werner Grosskopf\***

## **Concentration in the Co-operative System—the Abolition of Co-operative Principles? <sup>1</sup>**

### **1. THE FORCE OF CONCENTRATION**

Co-operatives founded as mere self-assistance enterprises provided their members with the possibility of entering the market and of increasing division of labour and specialization. Characteristic features in the years of foundation were that the size of membership was not too large, one member knew the other, work was concentrated on local markets or specific tasks, and there was a certain satisfaction with oneself and isolation.

However, with increasing stability and consolidation of the co-operatives, they became essential counterbalances in the market relatively speedily; they realized their competitive functions and made the development of workable markets (*Kantzenbach*) with involving the co-operatives possible. The transition of functions fulfilled by the member economies to the co-operative enterprises was followed by the transition of the co-operatives' functions to compound enterprises. Increasingly, the majority of co-operatives developed as part of the national economic process based on division of labour. They broke away from isolation and were fully integrated into competition. Market conditions determined the possibilities and necessities linked with their economic activities.

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<sup>1</sup>I want to express my acknowledgement to the scientific workers of the Research Centre of the Co-operative System at the University Hohenheim for the stimulating and critical comments.

National economic development is also characterized by increasing enterprise specialization. This process is embedded in a concentration of the economic forces. In all their fields, co-operatives have followed this way (*Maendle*). Through their full integration into the market, this route had been traced out for them. The force of concentration and growth was counteracted by expanding their turnover—from inside practically—on the one side, and by combining independent co-operatives to form new and larger co-operatives on the other.

The results of this way, that is, present-day real phenomena, are well-known. They are evident in larger business enterprises of the co-operatives, in a number of subsidiaries and auxiliary enterprises of smaller local primary co-operatives that had been independent before, and in bigger sizes of membership in co-operatives. All available statistics covering the co-operative system prove such a development even when they only deal with one decade. The end of this way towards increasing concentration and the transition of functions into the compound can't be foreseen yet.

The consequences and results of this development are discussed in co-operative practice and theory; emphasis is laid on different points but the tendency is quite similar and the summarized opinions are as follows: Undoubtedly, concentration in the co-operative system has brought economic advantages but these are linked with increasing alienation of the members from basic co-operative principles, self-administration, identification and participation.

This relationship between the necessity of concentration because of the necessary adaptation to the market and the probably resulting problems of identity for the members, this dichotomy—which is underlined and assumed frequently—is to be the proceeding point of the following analysis. The attempt is made to deduce statements on 'optimum' strategies of concentration and compound to be used by co-operatives from microeconomic theory. An answer to the question has to be found whether and how it is possible to counteract the alienation of members, that may occur in the course of necessary concentration. The initial hypothesis is that the number of members per individual co-operative and

thus the degree of heterogeneity of the members' interests are increasing. A close relationship is supposed to exist between the size of a co-operative and the number of its members.

## 2. CO-OPERATIVE ADVANTAGES OF A MEMBERSHIP

We proceed from the assumption that homo oeconomicus in the strict sense of the word, that is an objectively reproducible rational behaviour, is not given but that an individual prevails who acts rationally and on the basis of self-interest, and embeds the structure of his decisions in cost-benefit categories. This individual takes part in co-operation when the expected advantage from participating in co-operation is substantially higher than individual costs arising from membership.

The generally valid statement can be made that economy means co-operation, that is co-ordinated action. However, this co-ordination of individual plans and this co-ordinated action generally take place in markets and among different economic fields. Prices are central tools of co-ordination. In addition to this vertical co-operation through markets, there also exist a number of different forms of horizontal co-operation in economy. Co-operatives are a central form of possibilities available for this purpose. They are the place for the independent co-ordinated action of individuals (*Eschenburg*). As far as co-operative is concerned, decision-making is the right of the co-operating members themselves; they make use of this right or delegate it.

When the normative assumption of individual benefit maximization is accepted, one can assume that the reason for co-operation is that the individual can satisfy his demands to a higher degree than through individual, isolated action.

From an individual point of view, returns of co-operation can result from using size effects—always on the basis of comparing co-operative and individual work. These size effects may result from production technology or the market importance of co-operation. A great number of

available technologies and their economic importance depend on the extent of utilization. This extent depends on the size of production or services. When the use of specific technical aggregates, special skilled workers or specific systems of information is necessary, the size effect is always to be interpreted as returns of co-operation.

On the other hand, we have the development of the market position. In case of co-operating behaviour, market power—either with regard to purchasing or selling—promises benefit from co-operation compared with individual action.

Figure 1 shows returns of economic co-operation in dependence on the size of membership. First, they extend with an increasing size of membership considerably. However, with a further increasing size of membership one has to expect a weakening of the marginal returns of co-operation so that they approach a value where the effects of size, based on technology, cost or market power, cannot be expanded any more even if the size of membership increases. Additionally, two-stage compound co-operation (MV) is mentioned as a variant of increasing the returns of co-operation. The assumption is made right from the beginning that returns of co-operation by compound co-operatives are higher than returns from isolated co-operative economic activities because even more distinct size effects can be taken from “double” co-operation. It is to be expected that the possibility of taking advantage of size effects improves with the transition of functions and co-operation to the next stage, to the compound, but with the increasing size of co-operatives, the distance between the returns of isolated co-operation and compound co-operation will diminish.

The finding is important saying that economic advantages of co-operation are given and increase with a decreasing “increase in returns”.

Social benefits of co-operation are said to be individual benefits that have to be interpreted in such a manner that first, when the beginning co-operation, they emerge from an elite-consciousness and then from the feeling of “being in on it”, of being a member. This benefit decreases with an increasing size of membership. Membership is not seen any more as a distinction compared with non-members. These considerations linked

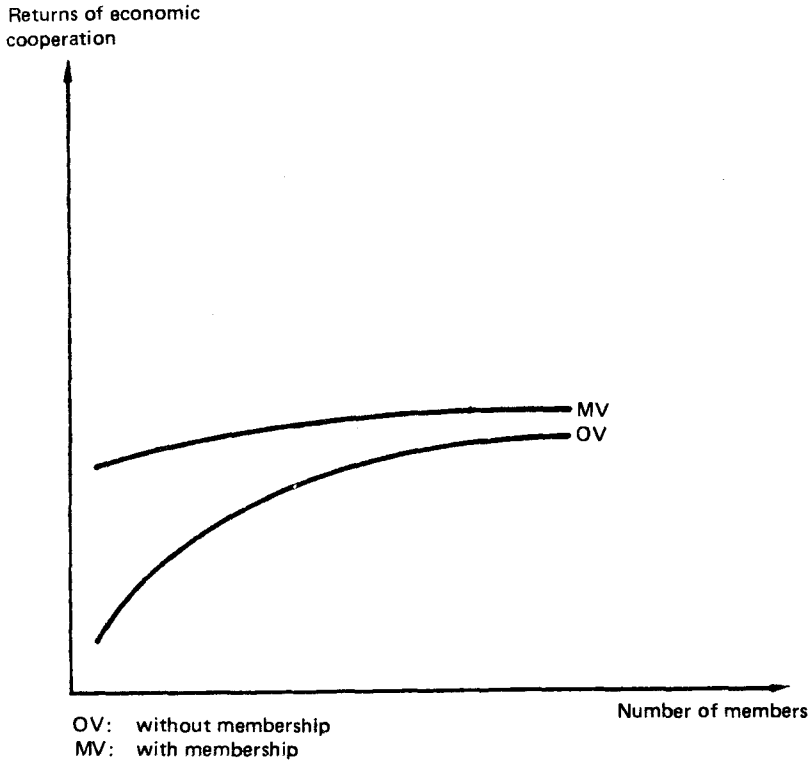


Figure 1.

with the social benefit are also connected with individual ideas of benefit from altruistic action, with the feeling to have more security through joint action or with general social engagement. Thus we hold that in dependence on the size of membership, the social benefit of co-operation proceeds as shown in Figure 2.

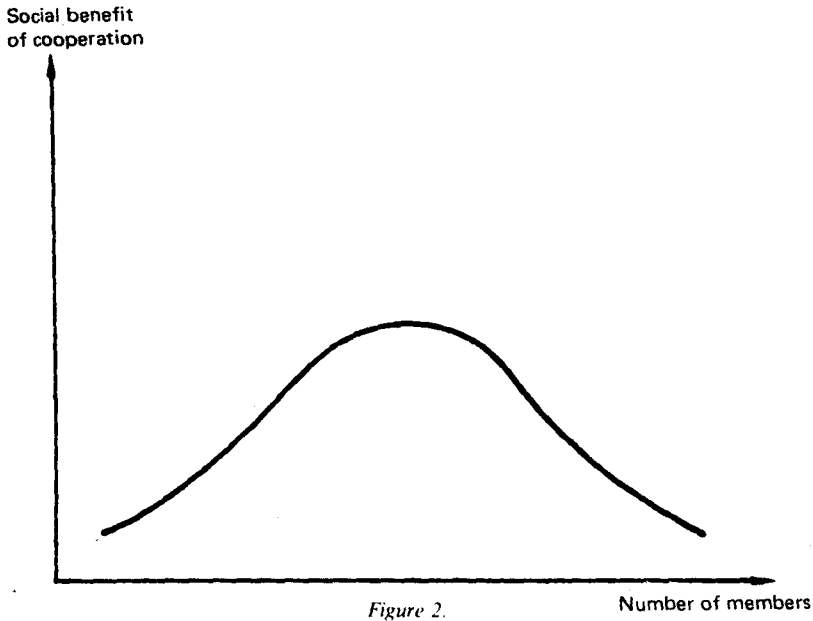


Figure 2.

### 3. THE COST OF CO-OPERATIVE BEHAVIOUR

By analogy with the general co-operation theory (see *Buchanan, Olson*), cooperation costs are classified by costs of finding a consensus, compromise costs, organization and information costs.

Costs of finding a consensus result from the process of negotiations in the co-operation. They can be interpreted as temporal and material expenditures for the process of achieving an agreement. The more members exist, the higher will be the costs of finding a consensus per agreement or decision with the same regulations of voting.

Compromise costs, also designated as external costs, result from the difference between individual interests and joint solutions. When compromises have to be found—and this happens in a co-operative solution generally—the individual interests are always satisfied to a smaller extent. This is especially evident as to the outvoted minorities. One

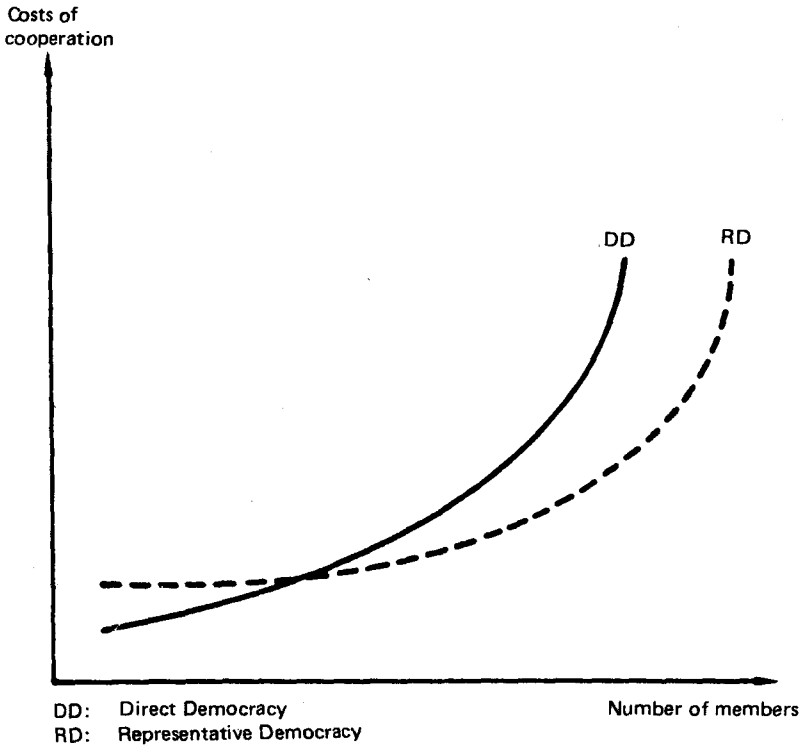
has to assume again that compromise costs increase with an increasing size of membership but this increase diminishes in dependence on the size of membership. We want to recall the above mentioned assumption that the degree of heterogeneity of the group increases with more participants in co-operation, that is, the members. Thus compromise losses in connection with an increasing size of membership can also be interpreted as a decrease in the possibility of exercising individual influence.

Finally, we want to mention the costs of organization and information. They also occur when decisions are not taken or when an agreement is not achieved. Naturally, the costs of organization linked with the decision-making process increase in dependence of an increasing size of membership in case of the same stipulations of voting. Costs of information are also supposed to increase with an increasing size of membership because the complexity of the decision-making process is bigger, and information about contrary points of view must be evaluated. However, the fact has to be taken into account that the level and offer of information can increase through co-operation so that the same degree of information can be achieved through co-operative action more profitably than through individual action.

Despite the reservation as to the costs of information, one has to assume that total costs of co-operation increase with an increasing size of membership. Figure 3 shows a possible course of this relationship. As complexity, loss of compromise and scope of organization increase with an increasing size of membership, the assumption of the presented course of cost development seems to be justified.

When comparing direct (DD) and indirect (RD), that is representative, democracy in connection with the decision-making process, one has to expect that up to a certain size of membership, the costs of co-operation in connection with indirect democracy are higher than those in connection with direct one. In this case, the compromise costs must be supposed to be higher than costs of organization, information and costs of finding a consensus. However, one has to expect that with an increasing size of membership, the costs of finding a consensus but also the costs of organization and information in the direct democratic decision-making

*Concentration in the Co-operative System*



*Figure 3.*

process will increase considerably. Cost reduction in this context is possible through a transition to representative democracy. This decrease is more evident than the increase in compromise costs through decreasing possibilities of influence connected with the transition to representative democracy. Respectively, the course of costs of co-operation in a representative democratic decision-making process beginning with a certain size of membership has to be placed under that of direct democracy (see Figure 3). In the representative democracy of co-operations, the members elect representatives who are either members or are considered especially appropriate for representation despite non-membership (except co-operatives).



#### 4. OPTIMUM SCOPE OF COOPERATION

The overall survey of benefit and cost as shown in Figure 4 demonstrates that with an increasing size of membership, the individual net benefit from co-operation (NN) increases at the beginning. A maximum is achieved where the marginal values of the two courses (N,K) are equal (MZ 1). When the size of membership goes beyond a certain limit (MZ 2), the individual net benefit from co-operation becomes negative. In the case of the size of membership MZ 1, the individual gets optimum net

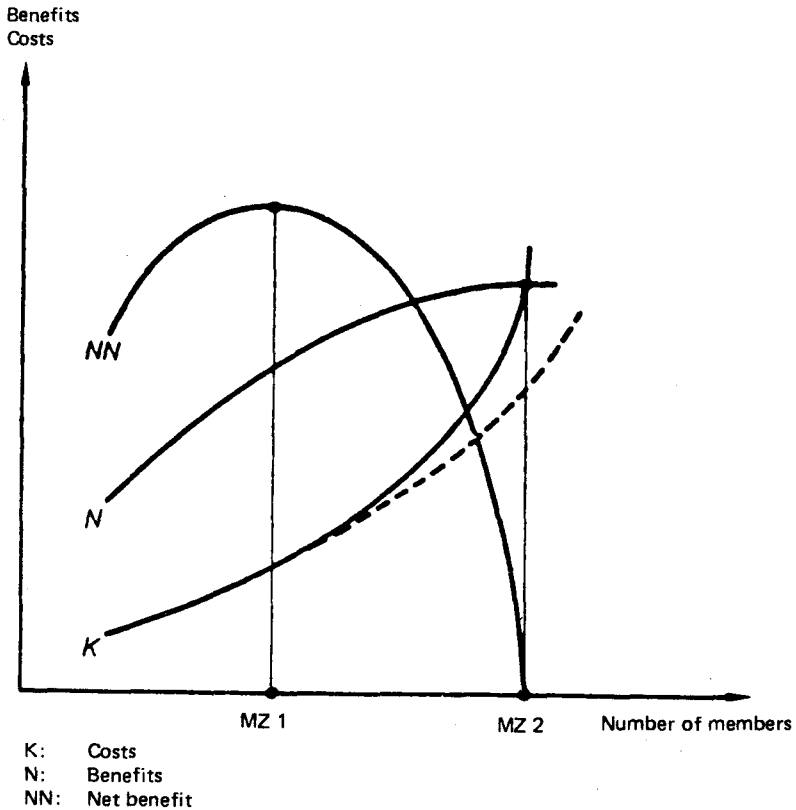


Figure 4.

benefit from his participation in co-operation. But he will continue to take part in co-operation also up to the size of membership MZ 2. Up to this size, he will continue to get advantages from co-operation per balance.

The field between MZ 1 and MZ 2 is to be seen as a critical one; especially when the size of membership goes in the direction of value MZ 2. Then co-operation becomes instable. From an individual point of view, optimum participation in co-operation is achieved in case of MZ 1 because the individual benefit is the greatest one there.

When exceeding the size of membership MZ 1, the benefit for the member decreases. It is still positive but is diminishing. The fact has to be taken into account that except the basic course, the position and gradient of a curve can be different for all members. To estimate the benefit and also cost of co-operation is a subjective phenomenon.

## 5. CONCLUSIONS FOR CO-OPERATIVES

Co-operatives can be considered to be typical forms of co-operation without restriction. The purpose of co-operatives is to use the joint business enterprise in order to support the gains or the economy of their members. This is made on the basis of freely elected self-administration and self-responsibility of the members, that is, in self-assistance. Hence it follows that the work of co-operatives is aimed at free members who bear responsibility and are ready to co-operate.

With regard to the order of co-operatives to support their members and the 'optimum' size, one could ask the question whether the size of a co-operative, being an optimum one in terms of benefit from the individual point of view, compared with the size of membership, differs from the size of a co-operative, that would be possible in terms of subsistence. The size of a co-operative, being possible in terms of subsistence—that is, when the individual still admits the right to exist—may be far bigger than the size of a co-operative, that is considered to be the optimum one. Undoubtedly, prime importance has to be attached to the individual support of the members. It seems to be doubtful whether § 1 of the Co-operative Law

dealing with the order of promotion also recognizes the differentiation between optimum and general promotion. In connection with concentration, these cost-benefit-models derived from co-operation theory have to show that concentration per se does not impede the implementation of basic co-operative principles. On the contrary, Figure 4 shows that increasing concentration can result in increased individual promotion as long as the 'degree of concentration' MZ 1 is not yet exceeded. Even when concentration goes beyond MZ 1 up to MZ 2, the co-operative can provide individual promotion, although not the best possible one. The fact has to be taken into account, however, that the interest of the members in the co-operative is decreasing with increasing concentration. When a concentration exceeds MZ 2, specific measures have to be taken in order to maintain long-term co-operation. These measures may be a change in legal forms in order to try to decrease the costs of co-operation; graphically seen, this is to shift the K curve to the right downwards (Figure 4). To avoid such necessities—and it should deserve all efforts taken by experts of co-operative practice and co-operative theory to achieve it—, the following fields of action exist in order to maintain the economic efficiency, self-administration and self-responsibility of co-operatives despite an increasing necessity to concentrate.

## 6. THE USE OF SIZE EFFECTS

The assumption is made that the process of concentration is due to market conditions to a more or less high degree. In efficient competition, one cannot remain in a certain position. Developments are caused either by the competitors or by one's own initiatives. Let us recall Figure 4 and we will see that co-operatives also have to solve the task without reservation to advance the economically beneficial use of size effects. In this context, the possibility to establish compound co-operatives in all branches where co-operatives do important work offer the most essential basis undoubtedly. The compound offers the most important possibilities—in the market, in production, as to the collection of

information or safety against risks—to shift (graphically seen) the curve of benefit N (Figure 4) upwards and thus to move the points MZ 1 or MZ 2 to the right. Many fields have already been integrated into the compound system successfully. However, there is still a large field for increasing compound aimed work in all branches, in credit, trade or service co-operatives, for example.

## **7. TO INCREASE THE SOCIAL BENEFIT OF CO-OPERATION**

Practical co-operative promotion must also concentrate on the social benefit of co-operation, a field of many variants. In addition to economic gains of co-operation, this field also covers social advantages in the broadest sense of the word. The fellow feeling and the respective “additional benefit” have to be increased. In this field, a broad necessity of action will be given for the co-operatives in case of increasing concentration. Corresponding preceding points are invitations to events organized by the co-operative, understandable and comprehensive information about developments in the co-operative and the compound as well as “preferential treatment” against non-members.

## **8. TO REDUCE COSTS OF CO-OPERATION**

On the one hand, to reduce costs of decision-making is possible from an individual point of view. A member who has got the impression that his economic and social advantages from co-operation are considerable but the costs of decision-making are high when he wants to take part in the overall decision-making process, may react by the attempt to reduce the costs of co-operation through non-participation in the decision-making process. This attitude, also designated as apathy of the members, may be based on rational reasons. In case of this mode of behaviour, all kinds of decision-making costs decrease except the external costs, that is

compromise costs. If the possibilities of taking influence are evaluated as very small in case of a high degree of concentration, the members will take the costs of the compromise loss as not so important. The term "lethargy of the membership" is used frequently; however, non-participation in the decision-making process seems to be rational when the member can reduce his costs of co-operation in this manner without influencing his benefit from co-operation negatively.

On the other, rules of cost-reducing decision-making may emerge from the co-operative's point of view. We want to recall the fact that cost-

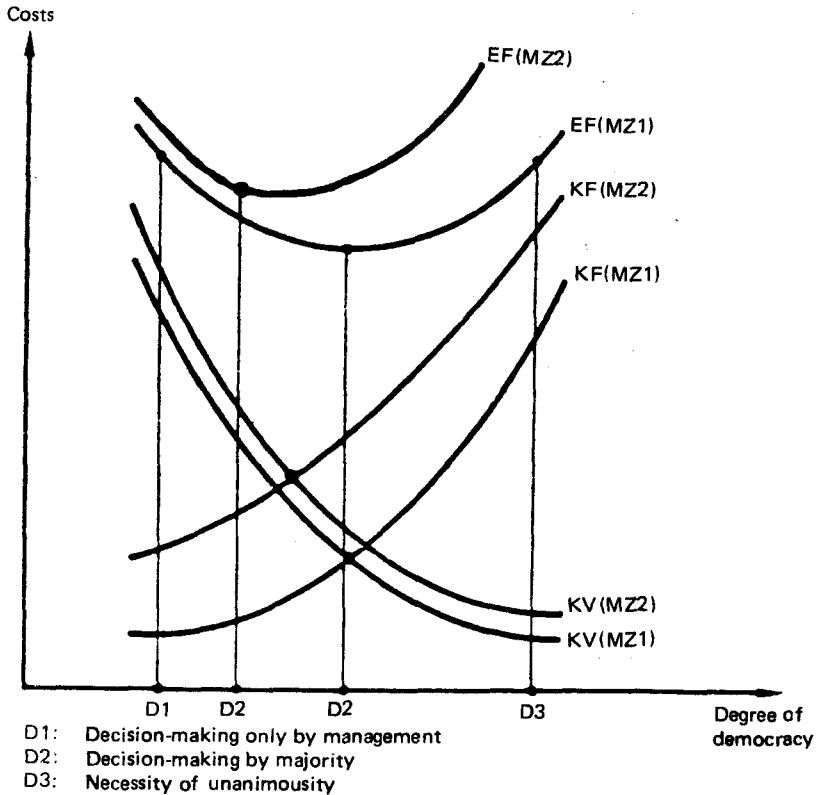


Figure 5.

optimum co-ordination exists when the total costs of decision-making as shown in Figure 5 are at a minimum level.

The total costs of decision-making are composed of costs of compromise losses (KV), that decrease with increasing democratization and the same size of membership, and the costs of finding a consensus (KF), that clearly increase with increasing democratization (see *Buchanan, Tullock, Kirsch*). In case of the rule of unanimity, the costs of the compromise loss will approach the value zero. But when all members are aware of the fact that their ability of taking decisions is limited due to such a rule so that the existence of the institution is endangered, they will be ready to bear the costs of a compromise loss. Therefore, majority vote has been symptomatic in the co-operatives right from the beginning. When taking the course of costs of finding a consensus into account, it becomes evident that they are higher, if the share of votes is bigger than it is necessary for the decision-taking. Thus the minimum of the costs of decision-making will be where the increase in the costs of finding a consensus is just compensated by the decrease in the compromise costs. We have to point out once more in this context that the course of these costs will be different for each member; this is based on the fact whether a member is influenced in his interests and objectives more or less strongly by joint decisions. With increasing heterogeneity of the members, one has to expect very different conceptions also with regard to the individual evaluation of the costs of decision-making.

Based on this cost structure of decision-making, it is possible to reduce the costs of co-operation through changing from direct democracy to representative democracy. This change is fully compatible with the principle of co-operative promotion, it is even necessary with an increasing size of membership when taking the above mentioned remarks into account. A change from D3 to D2 (see Figure 5) by limiting direct democratic processes is purposeful. It helps improve overall promotion of the individual (*Vierheller*).

Another measure is to contribute to reducing the costs of decision-making through respective formations of groups within the co-operatives, within the framework of representative democracy. The compromise costs

decrease with increasing homogeneity of the members' interests. The costs of finding a consensus decrease with smaller groups. When taking these two aspects into account, this results in the formation of branch-related, location-related or subsidiary-based groups in larger co-operatives. Decisions taken in the groups will institutionalize the formation of objectives by the groups and can strengthen the co-operative's policy of promotion comprehensively. Despite a great number of members, the management has a speedy bilateral flow of information linked with knowledge about performance structures to be expected. This results in increased identification of the members and a closer performance-based relationship between the members and the co-operative enterprise.

Figure 5 also shows, however, that a change to "more" democracy, from D1 to D2 in Figure 5, will bring about a reduction of costs of decision-making. In this context, a redelegation of rights from the management to the members is necessary. Another possible measure is to provide the members with more information about the preparation of decisions, the decision-making and their control. A second step is to integrate the members into the decision-making process more strongly. Management autonomy is to be removed.

It can be decided only from case to case whether a "more" or "less" of democracy may contribute to reducing the costs of decision-making. This is a process of attempts and making experience. It seems to be more realistic, even necessary in many cases, to initiate more democracy again in order to help reduce the costs of decision-making. However, the cost structures presented here also show that the strengthening of the management is necessary due to the course of concentration. With an increasing size of membership (from MZ1 to MZ2), the two cost curves (K,N) move upwards but not to the same extent. The curve of compromise costs moves far less because changes in the compromise costs decrease with an increasing size of membership but those in the costs of finding a consensus increase. One can assume that with an increasing size of membership, the KF-curve (Figure 5) will move upwards more distinctly than the KV-curve; therefore, the "minimum cost" degree of democratization (D 2) will move in direction D 1. Management autonomy must

not increase in such a manner that in Figure 5, for example, point D 1 (MZ 1) or D 1 (MZ 2) would be realized because this would cause high costs of decision-making. Generally, these relationships show, however, that within the framework of the process of concentration, the strengthening of management is logical. In this context, it is of great importance that the members continue to recognize partial participation in the decision-making process as advantageous for promotion.

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Oswald Hahn\*

## Trends towards a New Co-operative Movement

We hold a new complex of co-operative ideas, competing with the traditional co-operative organization so to say, originates from two sources. On the hand, there is the worldwide alternative movement considering the co-operative as a possibility of implementing its ideas. In this context, it is not important whether these are ideas relating to a "third" way or whether this is only an alternative to market economy. On the other hand in Central Europe we can deduce the ideas about a "new" trend within co-operative science from the Fribourg theses of Erik Boettcher who urged our discipline to find back to its original positions and show readiness to accept reforms at the same time.<sup>1</sup> Between these fields, there exists the fact that most of the co-operative organizations have achieved their objectives completely owing to decade-long activities, they prepared the ground for activities of the market that had not been interested before, and thus they made themselves superfluous with regard to the original order of promotion<sup>2</sup>—taking no account of the majority of sectors of merchandise co-operatives: this is shown in a great number of

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<sup>1</sup>See: *Erik Boettcher*, Zielsetzung und Anspruchsniveau der Genossenschaftswissenschaft, in: *Ernst-Bernd Bluemle* und *Peter Schwarz* (editor), *Erwartungen der Genossenschaftspraxis an die Wissenschaft*, Tagungsbericht der IX. Internationalen Genossenschaftswissenschaftlichen Tagung 1978. in Freiburg/Schweiz, Goettingen 1979, p. 43 ff.

<sup>2</sup>We have tried to prove it by the example of credit co-operatives. See: *Oswald Hahn*, *Die Unternehmensphilosophie einer Genossenschaftsbank*, Tuebingen 1980. p. 19 ff.

attempts aimed at operationalizing and accounting on the order of promotion.<sup>3</sup> First we want to show the new characteristics and fields of demand of co-operative activities generally. Further we have to determine the co-operative share in the Alternative Movement and to show its activities in this economic field. In the third section, we are going to deal with three complexes of problems resulting from efforts of the Alternative in connection with co-operative work. The first points are the recapitulation of general problems of productive co-operatives and the evaluation of the thesis of instability. Then general remarks relating to the conflict situation between Alternative ideas and co-operative conceptions will follow. Finally, we will deal with the conflict situation between Alternative banks and bank enterprise assumptions.

## I. OPEN FIELDS OF CO-OPERATIVE ACTION

When discussing about new co-operative activities, ideas about new fields of co-operative action seem to come from the Alternative scene exclusively. But this is not so—the public has also developed demands that can be satisfied neither by the market, traditional co-operatives nor the state. Like the first bias, it would also be wrong to imagine that co-operative activities are only carried out in the legal form of a registered co-operative. This may be justified for the lawyer; the economist, however, must proceed from the economic fact of the “Ko-Operative”<sup>\*</sup> and the principle that co-operative ideas can be implemented in all legal forms except individual firms.<sup>4,5</sup> Otherwise, the economic part of co-operative

<sup>3</sup>See: the last fifteen years of the *Zeitschrift fuer das gesamte Genossenschaftswesen* or works of scientists and experts working in practice, presented at congresses or annual meetings in the same period.

<sup>4</sup>See: *Eberhard Duelfer*, *Betriebswirtschaftslehre der Kooperative. Kommunikation und Entscheidungsbildung in Genossenschaften und vergleichbaren Organisationen*, Goettingen 1984, p. 36 ff.

<sup>\*</sup>“Ko-operative”—organization similar to co-operative.

<sup>5</sup>See: *Gerhard Weisser* and many others. Subject of cognition and valuation of co-operative science are in the economic sense all co-operatives. In: the same (editor) *Genossenschaften und Genossenschaftsordnung*, Festschrift on the occasion of the 65th

science would be nothing else than the economic teaching of a specific legal form. We hold such an approach is fully in line with the works of Scandinavian co-operative scientists, that can also be identified with the works of *Vesa Laakkonen* and *Juhani Laurinkari*, one of his followers. In many talks with the author of the present paper, Vesa Laakkonen pointed out how important it is for him and the Finnish co-operative movement to focus their interest on economic facts.<sup>6</sup> According to *Vesa Laakkonen*, legal forms and legal norms are only instruments to be used for providing economic facts with a legal basis—but neither he nor we want to diminish the importance of jurisprudence by this evaluation.

In addition to ideas presented by the Alternatives,<sup>7</sup> three fields of economic life have to be mentioned in particular that require a co-operative engagement that does not exist within the traditional co-operative organization:<sup>8</sup> consumer protection, modern forms of consumer trade and services in short supply.

#### *a) Consumer protection*

The consumer needs two kinds of co-operatively based protection as an alternative to respective state institutions: in his direct capacity as

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birthday of *Georg Draheim*, Goettingen, 1968, p. 3 ff. Another opinion—*Lothar Kugler* for many others—*Die Bedeutung der Rechtsform fuer genossenschaftliche Zielsetzungen, dargestellt am Beispiel der eingetragenen Genossenschaft und der Aktiengesellschaft*, doctoral thesis, Erlangen Nuremberg, 1978.

<sup>6</sup>Co-operative housing in Finland is a typical example for the implementation of co-operative activities in the legal form of the Alternative Co-operative (*Oswald Hahn*, in: *ZfG*, vol. 33 (1983), p. 142 ff.). The same stipulations apply to them and many commercial purchasing associations in the Federal Republic of Germany.

<sup>7</sup>The term Alternative or Alternative Movement is still too young to have a clear definition. The term 'counter-economy' does not solve the problem—Within the framework of the present paper, Alternative is used as 'another' form of economic activity than the usual one in market economies and economies with central administration.

<sup>8</sup>We use the term 'traditional co-operative movement' for the following groups in Western Europe:

- Consumers' co-operatives (co-ops) as retail shops,
- housing co-operatives as (present-day) establishments providing housing
- co-operative banks offering bank performances and.

consumer—that is consumer protection in the actual sense of the word—and as saver—as a protection against inflation.

In the first field, the state wants to abstain from respective activities as much as possible when this exceeds industrial police supervision—the danger of dirigism would be too great. In the second field—protection against inflation—co-operative intervention is required because the state has failed. So far, co-operative organizations could not yet been established in these two fields—the respective nonprofit-making organizations—associations of consumer protection<sup>9</sup> and community of saver protection<sup>10</sup>—are based on unions in which the consumer is represented only symbolically. As far as the consumer protection is concerned,<sup>11</sup> this shortage results from the insufficient capability of consumers to establish organizations, and from the institutional overcharge of bank economy with regard to the protection against inflation.<sup>12</sup>

### *b) Modern forms of consumer trade*

1. Owing to consumers' co-operatives, workers coming from rural districts and living in industrial regions did not die from hunger<sup>13</sup>—only an unwordly appeasement could smile at this statement.<sup>14</sup> Meanwhile, the

<sup>9</sup>See: *Wolfgang H. Gloeckner* Konsumentenvertretung, in: *Handwoerterbuch der Absatzwirtschaft*, Stuttgart 1974, Sp. 1044 ff.

<sup>10</sup>Union for the protection of German savers as a cohesion of saving institutions (Stuttgart, 1956).

<sup>11</sup>See: *Peter Hunziker*, Sozialstrukturelle Hindernisse einer Selbstorganisation der Verbraucher, in: *ZfgG*, vol. 32, (1982), p. 40 ff.

<sup>12</sup>See: *Oswald Hahn*, Inflationsschutz als genossenschaftliche Aufgabe, in: *ZfgG*, vol. 24 (1974), p. 20 ff.

<sup>13</sup>See: *Erik Boettcher*, Genossenschaft oder Gemeinwirtschaft, in: *ZfgG*, vol. 32 (1982), p. 256.

<sup>14</sup>We refer to the informal and inofficial dispute at that time relating to *Erik Boettcher's* thesis on the lip service of the order of promotion. See: *Oswald Hahn*, In eigener Sache: Zum Abschluß der Debatte *Aschhoff-Viehoff/Boettcher*, in: *ZfgG*, vol. 33 (1983), p. 9 ff.

consumers' co-operatives and their original objectives have become superfluous in the majority of industrialized countries due to an increased income of the masses and the fierce competition of all suppliers for the customers. Today, the modern order of promotion is reflected in the possibility of the members to participate. However, it may emerge again in Central Europe as a consequence of the elimination of small shops due to regulations concerning the closing time of shops and the construction of supermarkets: then the task of the consumers' co-operatives would be to organize retail trade for the immobile inhabitants of the flat regions and many suburb settlements.<sup>15</sup>

The specific situation of consumers' co-operatives in Communist countries can be neglected here. Unfortunately, in developing countries, (private) consumers' co-operatives have developed only for those who had already been privileged (civil servants generally and military persons especially)—independently of state institutions for the privileged. The following situation exists in industrialized countries: Especially there where special consumers' co-operatives would be useful—to satisfy the demands of students<sup>16</sup> or conscripts,<sup>17</sup> for example—the heterogeneity of the persons concerned and especially the very short period of membership, make an independently registered institution of self-support impossible and require state-supported or subsidized alternative institutions (students' unions, home enterprise societies).

2. As a substitute for staff-oriented consumers' establishments in large enterprises, institutions of self-support have been developed in other economic enterprises as 'staff trade'.<sup>18</sup> Similar forms of "trade based on

<sup>15</sup>Despite the competition of supermarkets, a great number of small retail shops are flourishing in all residential areas in Belgium and Great Britain—they work in the market recess time left open by the competitors—before 9.00 a.m. and after 5.00 p.m.

<sup>16</sup>See: *Helmut Wagner*, Hat eine studentische Beschaffungsgenossenschaft Chancen?, in: *ZfgG*, vol. 32 (1982), p. 263 ff.

<sup>17</sup>See: *Oswald Hahn*, Die Unternehmungen der Bundeswehr, in: *ZögU*, vol. 3, 4/1980, p. 412 ff.

<sup>18</sup>See: *Johannes Bidlingmaier*, Art. Werks-, Betriebs- und Belegschaftshandel, in: *Handwoerterbuch des Personalwesens*, Stuttgart 1975, Sp. 2046.

relationships” were installed in the form of help among neighbours or friends: all these non-institutionalized (and, without any exception non-incorporated) establishments are co-operatives in the economic sense; the reason for the lack of formal organization is to be seen in their work in “grey zones” and also in economic considerations.

This kind of co-operative cohesion allows all those consumers benefit from considerable price reductions in many cases, who are unable to participate in direct trade with friendly enterprises and/or (in the form of the private household of/an entrepreneur) the closed markets on the basis of wholesale prices.

*c) Service establishments*

In the Federal Republic of Germany, short supply in the service sector resulted only very rarely in the foundation of new self-support institutions reaching beyond neighbourly help in its various forms.

1. As a reaction to reduced service and enormously increased fees in hospitals, German private health insurance companies happened to plan the construction of their own hospitals for their members. The co-operative influence on these ideas was evident.<sup>19</sup> However, the ‘mountain of beds’ that came into being afterwards, prevented the implementation of this idea. ”

2. The (avoidable numerus clausus . . .  
. . . on the one hand and complaints about decreasing standards in medical training provoked discussions in various medical organizations about the establishment of private medical colleges. This was also linked with co-operative-oriented considerations. However, the big demand for capital has prevented the implementation of these plans.

3. Most of the “Effektenclubs”<sup>20</sup> registered as associations using a firm

<sup>19</sup>See: *NN*, Private Krankenversicherer erwägen fuer ihre Mitglieder eigene Kliniken, in: *Welt* 26.6.1973.

<sup>20</sup>See: *Oswald Hahn*, *Struktur der Bankwirtschaft*, vol. II/1, Berlin 1984, p. 323 ff.

name proved to be successful: especially successful clubs supported by the activities of their members considered these successes as having achieved their objectives, dissolved and caused their members to make their own security transactions.<sup>21</sup> Thus the thesis, supported in the co-operative system quite often, was rejected saying that co-operatives were oriented towards existing “for a long time”—read: “for ever”—and that every liquidation would be a proof of failure. Reversely, one could argue that the voluntary liquidation of a co-operative is also the consequence of the fulfilled order of promotion.

4. On the market of insurance payment, shortages in the demands of the customers occur only very rarely—in Central Europe at least: competition led to a great readiness of the offerers to make innovations reaching every market recess. The most topical example is the insurance of persons in need of care. Regulations relating to future burial could be said to be an exception—various funeral undertakings have been established in the Federal Republic of Germany while in the United States, “funeral co-operatives” gained in national importance.<sup>22</sup>

## II. SURVEY ON THE ALTERNATIVE CO-OPERATIVE MOVEMENT

The Alternative Movement<sup>23</sup> sees itself as an answer to environment pollution, arms race and economic crisis but also as a reaction to alleged insecurity with regard to personal future prospects and as a reaction to loneliness. It may be classified as the successor of protest groupings in the late 1960's. To ignore them would be wrong to the same extent as

<sup>21</sup>Completed ‘investment education’ of the members by the club, see: *Christian Boss*, *Die Investmentclubs in der Bundesrepublik Deutschland*, doctoral thesis, Erlangen-Nuremberg 1973, p. 105 ff.

<sup>22</sup>See: *Kenneth R., Reeves and David Klugmann*, *Portrait of a Funeral Co-Op*, in: *Review of International Co-operation*, vol. 2, No. 2/1984, p. 40 ff.

<sup>23</sup>See: *Winfried Schläffke* and many other authors. *Abseits. Die Alternativen—Irrweg oder neue Weltkultur*, Cologne 1979.

overestimating their importance.<sup>24</sup> For the topic we are dealing with, it is important to know that the members of the "Alternative scene" have established groups that want to create values together that they have in mind. Their ideas are focused on constructive wishes and thus they differ from gang criminality and fringe groups like Rockers, Punks etc. with basically destructive attitudes.

In the following, sociological and also overall economic points of view cannot be taken into account to a large extent: we have to limit ourselves to take the results of this research work as fixed dates in our co-operative-related work.<sup>25</sup>

Primarily, co-operative scientists are interested in the motives of the founders, the emergence and shape of the groupings and the numerical importance of these groupings in this context.

#### *a) Motives of founders*

The motives for the emergence of alternative groupings can be classified by three groups:

1. Co-operative engagement has always been developed on the basis of economic plight primarily—this thought runs like a red thread through the whole history of the emergence of co-operatives. Relating to the Alternatives, two essential reasons for foundation can be shown: on the one hand, there are takeovers of enterprises as reorganization measures taken by the staff—they fail in most cases, however, due to the late

<sup>24</sup>The identification of a relatively small group of protesting young people in 1965 and later (a maximum percentage of 7.5 per cent of the respective generation) as 'protesting youth' with the whole young generation by the public opinion and all state bodies had fatal consequences that were also responsible for the economic crisis beginning in 1978. The share of Alternatives including their sympathizers in the respective generation may be below five per cent.

<sup>25</sup>That is why we can neglect the answer to the question to which extent the Alternatives are to be seen as part of the shadow economy or parallel economy. See: *Klaus Gretschmann, Wirtschaft im Schatten von Markt und Staat, Frankfurt/M. 1983, p. 21 ff.*



engagement.<sup>26</sup> Additionally, it is questionable whether the respective staff generally or in individual cases can be said to belong to the Alternative. Only the smallest number of productive co-operatives emerge in this manner: today, efforts of the unemployed prevail who try to find a job in this way: the classical reason for the emergence of productive co-operatives.<sup>27</sup>

2. The actual reason for the emergence of Alternative economic forms, however, is the rejection of the traditional economy—the “refusal” and efforts aimed at escaping from the force of work determined from outside by creating new forms of “enterprises with self-administration”.<sup>28</sup>

3. A third reason for emergence is based on ideological motives: on the one hand, there are economic considerations, and on the other hand, there are socialist-communist ideas about a “clean” world.<sup>29</sup>

It is not always easy to distinguish in praxi between the second and third motive: the internal motive of refusal is often preceded by an ideological substantiation.

While the considerations of the first group can be attributed to the economic sphere without hesitation, it is not so easy for the normal observer to classify the motives of the second and third group. If the co-operative expert refuses to link these considerations with an economic background, this will not exclude a co-operative-specific justification: in the last few years in particular, leading experts of co-operative practice are not weary of designating the extra-economic function of the co-operatives as extremely important.

<sup>26</sup>See: *Matthias Weber*, *Sanierung durch Arbeitnehmer*, vol. 32, published by Banklehrstuhl Nuremberg, Nuremberg 1984.

<sup>27</sup>See: *Georg Draheim*, *Die Genossenschaft als Unternehmungstyp*, second edition, Goettingen 1955, p. 174 ff.

<sup>28</sup>See: *Peter Christ et al.* (editor), *Gegenwirtschaft — Die Firma ohne Chef: Oekonomie der Alternativen*, Munich 1982.

<sup>29</sup>See: *Marlene Kueck*, *Alternative Oekonomie in der Bundesrepublik. Entstehungsanlaesse, wirtschaftliche Bedeutung und Probleme*, in: *aus politik und zeitgeschichte*, Beilage Parlament, vol. 32/85, 10.8.1985, p. 27 ff (with bibliography).

An expert on business management interpreting the subject of his discipline rationally,<sup>30</sup> may not have difficulties in attributing the activities of a group inspired by the second and/or third motive of emergence to economic activity—to reinterpret the activities into economic facts is unnecessary. The supporters of market economy also must tolerate the two motives because the economic system dictates to nobody how his activities are to be carried out provided he acts within the framework of the valid legal order.

*b) Forms and sizes*

1. The traditional ideas about Alternative economies can be summarized as follows: to dwell, to live and to work together—the total full co-operative in economic terms. Actually, however, this demand is satisfied only in the smallest number of groupings. The majority of Alternative groups probably belongs to the groupings of common dwelling-economic activities. A minority—the most interesting one in overall economic terms—numbers among productive co-operatives, and the last group—Alternative banks—is very important with regard to its net product but there exist only five institutes at present so that it is the most insignificant one numerically; as to its importance for research, however, it is superior to all the other groupings (see section IIIc).

In the following, no account is taken of the great number of social projects<sup>31</sup> that can be attributed to corporation activities primarily thus not belonging to the co-operatives.

2. According to *Burkhard Flieger*, there exist 3,500 Alternative profit-

<sup>30</sup>See: *Oswald Hahn*, *Allgemeine Betriebswirtschaftslehre im Abseits?*, in: *Wilhelm Buehler* et al. (editor), *Die ganzheitlich-verstehende Betrachtung der sozialen Leistungsordnung. Ein Beitrag zur Ganzheitsforschung und -lehre. Festschrift Josef Kolbinger*, Vienna—New York 1985, p. 177 ff.

<sup>31</sup>See: *Christoph Badelt*, *Sozioökonomie der Selbstorganisation*, Frankfurt/M. 1981.

making enterprises.<sup>32</sup> *Marlene Kueck* says there are 4,000 'enterprises with self-administration' with 24,000 jobs<sup>33</sup> while five years ago, *Joseph Huber* gave the number of 12,000 projects with 80,000 members.<sup>34</sup> In a more recent IAW study, we find the same number.<sup>35</sup>

*Joseph Huber* estimates there are 400,000 sympathizers of this movement—all together small minorities, and their economic significance is far smaller than their numerical one. It would go beyond the frame of our present paper if we dealt with the various forms of Alternative productive co-operatives in detail—a survey of branches or a survey according to types of performance. We only want to draw your attention to respective specialized literature.<sup>36</sup> Only a typology developed by *Henrik Kreutz* seems to be important for conclusive characterization: he distinguishes between economically-oriented and ideologically-oriented Alternatives with either internal or external orientations. This results in four types of Alternative groups. The economically-oriented Alternative with an internal orientation (first type) works for the market but it takes the demand for alternative life into account strongly—a car repair shop, for example, that only accepts 'non-polluting', cars, or the locksmith's community that does not accept 'concerns' as customers, or the bookshop of solidarity that boycotts a large part of books on the book market for ideological reasons. These limitations on economic activities do not exist in case of the 'customer-oriented' economically thinking Alternative enterprise with an external orientation (second type): examples are natural foodstuff shops. The ideological Alternatives with an internal orientation (third type) can be found in ecological farming, for example: the primary objective of their action is not the distribution of their ideas

<sup>32</sup> *Burkhard Flieger*, *Kritisches Plaedoyer fuer die genossenschaftliche Rechtsform*, in: the same (editor), *Produktiv-Genossenschaften oder der Hindernislauf zur Selbstverwaltung*, Munich 1984, p. 265.

<sup>33</sup> *Marlene Kueck*, *ibid.*, p. 27.

<sup>34</sup> *Joseph Huber*, *Wer soll alles aendern? Die Alternativen der Alternativbewegung*, Berlin 1980.

<sup>35</sup> *Henrik Kreutz* and *Gerhard Froehlich* and *Dieter Maly*, *Die Bedeutung alternativer Taetigkeitsfelder und Taetigkeitsverlaeuft fuer den Arbeitsmarkt*, Nuremberg 1983.

<sup>36</sup> See the respective works of *Joseph Huber* and *Marlene Kueck*.

towards the outside. The fourth type consists of ideologically-oriented groups with an orientation to the outside primarily. The best known representatives of this type are the Alternative newspapers.<sup>37</sup> Especially this group (examples are TAZ or Plaerrer) is very successful in working as welcomed suppliers of established enterprises (Sueddeutsche Zeitung, for example).

3. Most of the Alternative groups are acting in housing. However, there do not exist even estimates with regard to their number. All "conventional" shared flats have to be excluded from the Alternative group. Originally, half of the remaining part may have been situated in the scene of house invaders. Surely, it is not exaggerated to say that half of the co-operative-like housing communities belong to the category of 'full co-operatives' (to dwell, to live and to work together). Only a very small part of housing activities has the co-operative form at a higher level with a certain institutionalisation (legal form, for example): the majority is to be attributed to the category of loose, more "informal" groups without a definite organizational structure and with a very loose linkage. Without exception, these represent a first type of performance occurring as tenant for the members of the group. The "Wohnbund" (Darmstadt) may be taken as a kind of 'franchise example': an association for the promotion of housing policy initiatives, that has developed conceptions and basic lines of modern common housing for its members (institutionalized Alternative housing co-operatives) and defends their interests. The second type of performance—not so widespread as the first one—is concentrated on the maintenance of municipal or municipally rented projects for its members. The third type of performance proceeds from the classical housing co-operatives whose members constructed their own homes on the basis of common work. However, this third type of performance seems to be the exception in the Alternative Movement.<sup>38</sup>

<sup>37</sup>See: *Henrik Kreutz*, *ibid.*

<sup>38</sup>See: *Klaus Novy*, *Genossenschaftsbewegung. Zur Geschichte und Zukunft der Wohnreform*, Berlin 1983 (and also the review of *Werner W. Engelhardt* in *ZfgG*, vol. 35 (1985, p. 80 ff.) and *Klaus Novy et al.* (editor), *Anders leben. Geschichte und Zukunft der Genossenschaftskultur*, Bonn 1985.

c) *Forms of emergence*

1. By analogy with *Stefan Laske et al.*—who based their work on a not yet published paper written by *Cosyns* and *Loveridge* (1980)—a difference can be made between the two pairs of types “transition’ and ‘new foundation’ on the one hand, and active foundations and passive foundations on the other.<sup>39</sup> In the following, transition as active foundation can be neglected. It is the implementation of the programme of one of the various Green groups and of some experts in economic sciences supporting them, who want to transform all enterprises into productive co-operatives according to the ideas of Proudhon and/or Yugoslav models. *Duelfer* designates it as a ‘positivistic’ approach to the enterprise of self-administration by the workers.<sup>40</sup> The transition as passive foundation (takeover of insolvent enterprises by the workers) had already been presented as an exception (sub-section IIa.). In contrast to this, active new foundations are the rule.

2. The smallest number of Alternative foundations strive for a legal form of the co-operative—this is based on different reasons. First, the legal formalities and the demands linked with the control of foundation seem to be an insurmountable obstacle for many of such groupings because the prescribed bodies collide with ‘self-administration’ (total democracy). Secondly, resistance by established corporations is obvious; they oppose not only the Oekobank (see sub-section IIIc.) but impede other projects of foundation, too.<sup>41</sup> In 1984, about twenty “market” enterprises in the legal form of a co-operative were found in inquiries covering 3,500 Alternative enterprises; this is less than half a per cent.<sup>42</sup>

To solve the problems linked with foundations, the credit co-operative INTEGRA (Munich) in Bavaria, for example, strives for the establish-

<sup>39</sup>*Stephan Laske et al.*, 2. Arbeitsbericht zum Forschungsbericht “Begleitforschung einer Arbeitsproduktivgenossenschaft”, Innsbruck 1983, p. 18 ff.

<sup>40</sup>*Eberhard Duelfer*, Betriebswirtschaftslehre, *ibid.*, p. 103 ff.

<sup>41</sup>*Burkhard Flieger*, *ibid.*, p. 254 ff.

<sup>42</sup>*Ibid.*, p. 265. *Flieger* presents six enterprises (*ibid.*, p. 162 ff.).

ment of its own corporation. In the future, this could result in an organization parallel to the co-operative one and showing a reverse development as, for example, in Asia and Africa with the coexistence of “modern” groupings (established on the basis of recent legislation) and “old” groupings (based on customary law).

However, the bulk of these groupings will have to remain outside the legal co-operative form due to the extremely big discrepancy between the profitability of the enterprise and legislative demands. However, these statements do not alter the fact that, irrespective of the legal form, a target conflict emerges between Alternative ideas and entrepreneurial conditions, which we are to deal with in the following.

### III. THE PROBLEM OF ALTERNATIVE CO-OPERATIVE ENTERPRISES

When dealing with these problems, we limit ourselves to the economic aspect and concentrate our considerations on the capability of these groupings to survive. The confrontation with the legal form touches upon these questions only marginally—jurisprudence, for example, has to consider the problem, whether the particularities of Alternatives require to take them into account in co-operative law.

For the economist, three complexes of co-operative-specific problems arise from Alternative groupings: the productive co-operative, specific features from the Alternative Movement generally and special problems for finance economy institutions on the Alternative scene.

#### *a) Problems of productive co-operatives*

1. There exist a variety of phenomena in reality, whose success is questioned right from the beginning due to experience made in the past but it happened quite frequently that historical attempts had been made by the opponents of the respective constructions, who organized the projects in

such a manner that they kept the upper hand. The 'militia' thought is a classical example.<sup>43</sup> This reproach cannot be made against historical productive co-operatives. However, negative experience made with regard to productive co-operatives<sup>44</sup> was based on the fact that the preconditions necessary for maintaining the capabilities of such organizations to survive did not exist in many cases.

The preconditions for successful work of productive co-operatives are homogeneity, a small number of members, the readiness to subordinate to an—elected—management and high self-discipline, last not least.<sup>45</sup> Thus the essential production co-operative-specific reasons for failure are given.<sup>46</sup> Other reasons for the failure of such projects are of a boom-specific and/or enterprise-specific character: capital shortage and underdeveloped marketing.<sup>47</sup>

2. The above mentioned three positive preconditions for the success of productive co-operatives existed in the old-Russian MIR and the Israeli productive co-operatives, the Kibbuz in particular. Special emphasis is laid on the great readiness of many highly-qualified members to renounce all claims: *Yehuda Don* speaks about the acceptance of high costs of opportunity.<sup>48</sup> A second example are Hungarian industrial co-operatives.

<sup>43</sup>See: *Oswald Hahn*, Probleme der Reservisten '85, in: the same (editor), Ueber einige Fragen zum Reservistenproblem der Deutschen Bundeswehr, vol. 34, published by Banklehrstuhl Nuremberg, Nuremberg 1985, p. 32 ff.

<sup>44</sup>See: *Christine Eisenberg*, Fruehe Arbeiterbewegung und Genossenschaften, Bonn 1985.

<sup>45</sup>See: *Eberhard Duelfer*, Betriebswirtschaftslehre, *ibid.*, p. 104 ff (Die strukturellen und funktionalen Maengel der Produktivgenossenschaft und ihre praktischen Konsequenzen).

<sup>46</sup>See: *Peter Christ*, *ibid.*, p. 10 ff.; Norbert Klugmann, Die Hoffnung, ein Kleid anzulegen (Alternativ-Szene), in: Der Spiegel 25/1980; *Joerg-R Mettke*, "Schweinebande" mit Qualitaetsarbeit, in: Der Spiegel (1985).

<sup>47</sup>See: *Rogelio Villages Velásquez*, Die Funktionsfaehigkeit von Produktivgenossenschaften, Tuebingen 1975, p. 47 ff.

<sup>48</sup>See: *Yehuda Don*, Wirtschaftliche Aspekte des Uebergangs von landwirtschaftlicher zu agro-industrieller Produktivgenossenschaften—Der Fall des israelischen Kibbuz, in: *Eberhard Duelfer* (editor), Die Genossenschaften zwischen Mitgliederpartizipation, Verbundbildung und Buerokratietendenz. X. Internationale Genossenschaftswissenschaftliche Tagung 1981 in Marburg, Goettingen 1983, p. 500 ff. (here: p. 5–11 ff.).

In this context, however, special impetus arises from the fact that the—voluntary—foundation of such co-operatives is the only possibility of carrying out entrepreneurial activity in a communist economic system; the entrepreneurial scope of action is determined by the sellers' market.<sup>49</sup> Indochinese refugees in Central Europe also provide ideal preconditions for the foundation of handicraft productive co-operatives.<sup>50</sup> As to alternative foundations, too, many negative experiences cannot be taken as a proof of that fact that present-day productive co-operatives had no prospects: established organizations are afraid of possible competition<sup>51</sup> so obviously, and this is already shown in discussions about illicit work among those who have their share in this development, that is, the representatives of craftsmen's interests. The dissolution of various agricultural productive co-operatives founded in the 1960's and the fact that new co-operatives were not founded,<sup>52</sup> were the result of the finding that specialization is the more profitable alternative to the universal agricultural family enterprise that is not capable of survival any more. This statement does not change the fact that agricultural productive co-operatives are appropriate for new foundations now as before.<sup>53</sup> It is a

<sup>49</sup>See *Zur Begründung der Erfolge von — auf freiwilliger Basis arbeitenden Produktivgenossenschaften Karl-Heinz Hartwig*, Konzeption der Genossenschaften in Osteuropa, in: *Erik Boettcher* (editor), *Die Genossenschaft im Wettbewerb der Ideen — eine europäische Herausforderung*. Bericht der XI. Internationalen Genossenschaftswissenschaftlichen Tagung in Muenster, Tuebingen 1985, p. 213 ff.

<sup>50</sup>In the summer of 1980, the Kolping Bildungswerk in Augsburg made a respective initiative of foundation. We know nothing about experience made afterwards.

<sup>51</sup>See: *Thomas Koester and Georg Cramer*, *Arbeitsloseninitiativen — eine Konkurrenz fuer das Handwerk?* Dialog Handwerk 2.85, Duesseldorf 1985. Various projects, evaluated positively by different public authorities and recognized by the Rheinisch-Westfaelischer Handwerkerbund RWHB as productive projects, were evaluated negatively because handicraft loses offers (p. 7), they could develop as competitors (p. 8, 10 and 15) or could link their offers with dumping prices (p. 16).

<sup>52</sup>See: *Friedrich Wilhelm Fricke*, *Die landwirtschaftliche Produktivgenossenschaft. Ihre Eignung als Rechtsform fuer landwirtschaftliche Betriebszweig- und Betriebsgemeinschaften*, Cologne et al. 1976.

<sup>53</sup>See: *Klaus Kuchlmaier*, *Die Eignung der Produktivgenossenschaft fuer landwirtschaftliche Unternehmen*, thesis submitted for a diploma, Erlangen-Nuremberg 1981.



debatable point whether productive co-operatives are suitable for entrepreneurial activities generally or whether this suitability must be determined by an examination of the individual case:<sup>54</sup> certain preconditions must exist at the time of the foundation.

3. If the above mentioned ideal constellations are not given, the life of a productive co-operative will be only a short one. Now as before, the statement of *Franz Oppenheimer* is valid who said that only very seldom, a productive co-operative came to its height, but when it came to its height it stopped being a productive co-operative.<sup>55</sup> Either it becomes a profit-making enterprise employing non-members as staff members and the emergence of two categories of staff members or the rise of members to managerial positions—the ‘transformation law’ works—, the transition of the co-operative into an incorporated company.<sup>56</sup> Or the members dissolve the co-operative and continue to carry out the same activities as self-employed persons.

We want to repeat: an order of promotion is not valid for ever—like every order, it ends with its fulfilment. The productive co-operative ends its activity when its order of promotion is fulfilled, then it has lost its right to existence. In case of a productive co-operative, it will never be necessary to look for a new order of promotion.

*b) Target conflicts between co-operatives and Alternative ideas*

Entrepreneurial preconditions for the success of a co-operative generally and of a productive co-operative in particular are almost exclusively diverging with the ideas of Alternative ideologies generally and the “mentality of withdrawal” in particular.<sup>57</sup> This target conflict is shown at three levels.

<sup>54</sup>In this context, we refer to recent statements made by *Eberhard Duelfer*, *Gibt es eine Renaissance der Produktivgenossenschaften?*, in: *Genossenschaftsforum* 1985.

<sup>55</sup>*Franz Oppenheimer*, *Die Siedlungs-Genossenschaft*, third edition, Jena 1922, p. 45.

<sup>56</sup>See the example of French workers’ productive co-operatives (*Eberhard Duelfer*, *Betriebswirtschaftslehre*, *ibid.*, p. 106) or the Software Partner GmbH Darmstadt (founded in 1972).

<sup>57</sup>See: *Klaus Kuchlmaier*, *ibid.*, p. 96 ff.

1. First, the entrepreneurial engagement requires discipline and subordination. The first collides with the mentality of withdrawal, the second with the conception of self-administration.

2. Secondly, specialized knowledge is in demand. In most cases, Alternative enterprises fail because of this demand as they had been established by unemployed persons with insufficient or inappropriate qualifications. Almost three quarters of all Alternative enterprises are established by persons having no special professional experience.

3. Thirdly, market orientation is necessary: the Alternatives must produce products which are in demand and not those they want to produce. This contradicts the ideas of 'self-realization', the mentality of amateur craftsmen<sup>58</sup> and also ideological ideas ("political marketing").<sup>59</sup> All those Alternatives achieve great success, that discover a market recess. However, this is linked with the 'entrepreneurial risk' of immediate imitation by established enterprises and the 'productive co-operative' danger of dissolution. By the way, market recesses are dominating in the fields of personal services today; they require the one-man enterprise or family enterprise strongly on the one hand and are suspect to many members on the Alternative scene on the other hand.

The discrepancy seems to be the smallest one within purely 'housing' Alternatives—large common flats without common work. However, this is not entrepreneurial activity. A lack of adaptation of Alternative ideas to reality, however, created many psychic problems resulting in the dissolution of communities with big economic problems for a part of the former members.<sup>60</sup> The success of enterprises is limited by reservations Alternatives have to make with regard to entrepreneurial ideas. As a consequence, the slogan 'Hard work, little money—withdrawal into statute labour' holds true for many productive co-operatives.<sup>61</sup> This

<sup>58</sup>See: *Paul Schnitker*, *Handwerk und die Alternativen*, in: FAZ 5.1.1985.

<sup>59</sup>*Marlene Kueck*, *ibid.*, p. 33.

<sup>60</sup>See: *Mathias Horx*, *Die abgekuehlte Gemeinschaft. Alternativbewegung in der Krise: Was aus den sozialen Experimenten geworden ist*, in: Zeit 20.4.1985.

<sup>61</sup>See: *Peter Christ et al.*, *ibid.*, p. 10; *Thomas Koester and Georg Cramer*, *ibid.*, p. 18 ff.

means nothing else than self-exploitation. Many studies result in the following statement: Only a very small number of Alternative enterprises allow their members to maintain full existence—most of them depend on a supplementary income or support from outside. On the one hand however, these Alternatives are a positive phenomenon compared with unemployment benefit (key note—the effect of creating jobs,<sup>62</sup> and on the other hand, the success is reflected in the learning process of the members of the Alternative scene—the Alternative is not yet a good alternative. A third positive effect would be the price-reducing effect on the established offerers—when speaking about a lack of these enterprises' competitiveness,<sup>63</sup> one ignores the fact that market economy requires not only an adaptation of wages downwards (prevented by the trade unions and required by the enterprises) but also a respective adaptation of the entrepreneurs' incomes.<sup>64</sup>

Even when the Alternatives are subsidized partially, one ought to refrain from calling them 'parasites' or 'boarders' of the society generally; it has been proven that Alternative enterprises of self-administration misuse the social network not more than many honorable citizens.<sup>65</sup> Additionally, a large part of subsidies come from the private sector.

### *c) The problems of Alternative banks*

For understandable reasons, most of the Alternative enterprises do not fulfil the demands of established banks in connection with credit worthiness.<sup>66</sup> Thus history seems to be repeated: In the last century, the

<sup>62</sup>*Marlene Kueck*, *ibid.*, p. 31. The relative importance of this effect is small (see: *Henrik Kreuzt*, *ibid.*) but this does not speak against the Alternatives. This fact is only to warn against overrating. See Hearing of the SPD Bundestag fraction about 'local employment and training initiatives' of 25 March, 1985, and NN, *Entstehung von Genossenschaften*, in: PPP 29.8.1984.

<sup>63</sup>See: *Thomas Koester* and *Georg Cramer*, *ibid.*, p. 16.

<sup>64</sup>This refers to the 'basic right of self-employed craftsmen' to finance their high living standard (as a habit from the boom) by higher hourly rates to be paid by the customers.

<sup>65</sup>See: *Wolfgang Gehrmann*, *Die nuetzlichen Parasiten*, in: *Zeit* 17.12.1981.

<sup>66</sup>See: *Marlene Kueck*, *Neue Finanzierungsstrategien fuer selbstverwaltete Betriebe*, *Francfort/M.* 1985.

foundation of credit co-operatives and the invention of examining personal credit worthiness were the consequence of a respective shortage.<sup>67</sup> In principle, the same can be said about the present-day situation: On the one hand, Alternative credit institutions have to mobilize the savings of the Alternative consumers (of the sympathizers, above all), and on the other hand, they have to solve the problem of providing Alternative enterprises with capital and maintaining them. Thus Alternative banks are *not productive* co-operatives as described by the author in connection with the future of co-operative banks<sup>68,69</sup> but enterprises granting credits to other enterprises.

1. *Three "strata" in Alternative bank economy can be distinguished:*

— Social reformers can be said to be the oldest form; they have existed in established bank economy already for a rather long time—examples are INTEGRA Munich as a foundation of Catholics (in 1972) and the anthroposophical GLS Gemeinschaftsbank eG Bochum bank (in 1974). Both institutes have become members of regional audit associations and both of them clearly devote their activities to the support of kinds of Alternative economy.<sup>70</sup>

— Outside established credit economy, "Netzwerkselfthilfe e.V." (Berlin) was founded in 1977 as funds for political and Alternative

<sup>67</sup>See: *Oswald Hahn*, Unternehmensphilosophie, *ibid.*, p. 20 ff.

<sup>68</sup>See: *Oswald Hahn*, Einige Mußmaßungen ueber die Zukunft der Genossenschaftsbanken, in: Raiffeisen-Rundschau 1/1973, p. 24 ff.

<sup>69</sup>See: *Oskar Betsch*, Die Kreditgenossenschaft als Mitarbeiterunternehmung, in: ZfgG, vol. 24 (1974), p. 307 ff. and Entgegnung von *Manfred Muench*, Die Kreditgenossenschaft als Mitarbeiterunternehmung, in: ZfgG, vol. 25 (1975), p. 206 ff.

<sup>70</sup>See the short portrait of INTEGRA Spar- und Kreditgenossenschaft eg Munich: It was founded in 1972 by members of the Integrierte Gemeinde parish. The Integrierte Gemeinde is a parish of Catholic laymen and priests who try, on the basis of their common faith and private initiatives, to develop and test alternatives in all fields of life, in the social, pedagogical, economic and cultural sectors, by establishing new forms of development aid and resocialization, smaller economic enterprises, their own schools etc. Thus the Integrierte Gemeinde is a community based on solidarity and open for everybody who supports its initiatives, who is considered to be worth promotion and wants to participate.

projects;<sup>71</sup> practically, it works on the basis of its own capital funds coming from the contributions of its members. Formally, however, this enterprise is subordinated to the German KWG law in its present-day version.<sup>72</sup> As we know, this institution is being tolerated by the Bundesaufsichtsamt fuer das Kreditwesen according to § 2, sect. 4 of the KWG law. Idea and institutions have been established in all larger towns in the Federal Republic.

— By means of the “Verein der Freunde und Foerderer der OEKO-Bank”, the third stage of Alternative bank economy is to be achieved in March 1987; these efforts have been made since the summer of 1984:<sup>73</sup> to collect minimum own capital funds (recent estimates speak about six million DM) by means of appeals of foundation.<sup>74</sup> For BAK and the audit association, certain difficulties seem to be connected with the foundation of the bank, and both sides reproach each other.<sup>75</sup>

<sup>71</sup>See: *Richard Gaul*, Bank ohne Zinsen. Netzwerk Selbsthilfe sammelt Geld fuer alternative Projekte, in: *Peter Christ* (editor), *ibid.*, p. 76 ff.; as well as NN, Selbsthilfe: Fuer Kraut und Rueben, in: *Der Spiegel* 40/1980.

<sup>72</sup>The credit law valid until 1961 interpreted bank business as the ‘acceptance and supply of money’, that is, the granting of credits from borrowed money and deposits but not from one’s own capital. The KWG law from 1961 designated monetary loans as credit business and thus bank business irrespective of the origin of the capital—this would have been in line with the economic policy objectives of the Drittes Reich while the objectives of the credit law in the Federal Republic of Germany had to protect the depositing parties so that the granting of credits from one’s own capital or borrowing credits from banks would not have to be declared as business subject to control.

<sup>73</sup>See: *Carl Graf Hohenthal*, Kredite mit einem oekologischen Zins. Verein sammelt Geld fuer “Gruene” Bank — Politische und andere Kriterien, in: *FAZ* 9.2.1985; NN, Alternative: Aufgeklaertes Geld, in: *Spiegel* 32/1985; NN, Wir stellen uns vor: Oekobank, in: *Plaerr* 6/1985; NN, Oekobank/Umweltfreundliche Technologien und selbstverwaltete Betriebe sollen finanziert werden: Viele Huerden auf dem Weg ins Bankgeschaef, in: *Handelsblatt* 26/27.7.1985.

<sup>74</sup>See leaflet ‘Oekobank Gruenden’, edited by friends and promoters of the Oekobank e.v. Oberursel. One year before, groups of the Alternative Movement had initiated the leaflet action (author: *Karl Schaaf*, Waiblingen) “Den Banken das Geld wegnehmen”; its objective had not been the mobilization of capital for establishing an OEKO bank but the withdrawal of missiles stationed in the Federal Republic.

<sup>75</sup>See: NN, Oekobank: BVR weist Kritik zurueck: Der Verband sieht noch kein konkretes Ergebnis, in: *Handelsblatt* 8.8.1985.

2. For all Alternative banks entrepreneurial problems typical of all Alternative enterprises exist increasingly at the beginning, especially the demand for a hierarchical structure colliding with the idea of 'self-administration'. Additionally, bank-specific conflict situations occur.<sup>76</sup>

— First, the examination of credit worthiness, necessary before granting credits and/or portfolio investment, collides with ideological objectives. There exist credit demanders with a positive estimation of prospective returns whose projects do not comply with Alternative objectives. Reversely, some Alternative projects do not pass an even very generous examination of credit worthiness. Within the ideological objectives, there are also target conflicts between the demand for implementing self-administration and for ideological worthiness of promotion as to the credit-taking Alternative enterprise.

— In all Alternative bank projects, there is a tendency for the co-operative legal form allowing to diminish demand for admission in terms of bank supervisory law to a certain extent. Further concessions by the BAK with regard to the required own capitals funds in particular can be expected in case of a participation in co-operative deposit safety organizations. However, OEKO bank is not allowed to join the audit association at present because the promotion of Alternative enterprises collides with the objective of the board with regard to "promote middle class enterprises".<sup>77</sup> The foundation of an own association would be an alternative. However, the acceptance to the deposit safety funds would require concessions as to the ideologically-oriented credit policy, and the renunciation of it essentially bigger own funds or even a danger to the deposit business.

— Further difficulties may arise from finding such managers who correspond to the demands of the KWG law (§ 33, sect. 1, para 2 and 3):

<sup>76</sup>A survey on present-day problems can be found in NN, Oekobank/Umweltfreundliche Technologien und Selbstverwaltete Betriebe sollen finanziert werden: Viele Huerden auf dem Weg ins Bankgeschaef, in: Handelsblatt 26./27.7.1985.

<sup>77</sup>See: Peter Muthesius, Oekobank: Genossenschaftliche Zurueckhaltung, in: Kreditwesen 16/1985, p. 751 ff.

As the work of the Bundesaufsichtsamt board in the last decade has shown there may exist considerable obstacles.

3. These obstacles may result in the necessity for Alternative banks to seek new ways.

a) On the one hand, Alternative banks can be perfect development banks in the sense of *Adolf Weber* ('speculation bank') with regard to their objectives or—to use more modern terms—, they can be perfect capital holding companies. To achieve this, many methods may be applied. In all cases, the major problem is that lenders take the risk. While one can expect rich sympathizers of the Alternative Movement to show a higher degree of readiness to make sacrifices for their own ideology than in connection with respective projects in the bourgeois camp, the supply of capital is impeded by additional commitments. As to solving the problem of liquidity facing the shareholders of the OEKO capital holding company, science and practice have developed different models so far.

b) Another method has been used by the "Berliner Stadtwerke" since the beginning of 1984—Alternative direct credit supply DKV.<sup>78</sup> It establishes contacts between rich lenders ready to make investments from the scene of sympathizers, and Alternative enterprises as borrowers. It assumes tasks of liaison between direct lenders and borrowers. To reduce the risk of lenders, a guarantee institution is to be established—although with state support.<sup>79</sup> In contrast to credit guarantee unions, the planned "Haftungsassoziatiön" envisages participation in liability also by the Alternative enterprises and thus it is similar to landscapes and models of industrialized societies in the 1920's.<sup>80</sup> The funds are to be produced by state countersecurities (60 per cent), the Evangelische Landeskirche church (20 per cent) and the Alternatives (20 per cent).

c) This leads to a third possibility—the participation by the state that could finance Alternative projects within the framework of a policy aimed

<sup>78</sup>See: Informationsmaterial der Stadtwerke, Paul-Lincke-Ufer 44 a, 1000 Berlin 36, for example, in the irregularly published "Rundbriefe".

<sup>79</sup>See: "Geschäftskonzept der Haftungsassoziatiön", without year, Copy Stadtwerke 1985.

<sup>80</sup>See: *Oswald Hahn*, Struktur der Bankwirtschaft, vol. II/1, Berlin 1984, p. 36 ff.

at providing jobs. Due to this demand, the Alternative Movement abandons the conceptions of total state independence and must also make concessions, in connection with the implementation of projects, as far as ideological ideas are concerned. This state involvement is substantiated by overall economic promotion that is also granted to established enterprises in certain situations.

#### IV. CONCLUSION

We want to end by making three remarks.

First, we have tried to present the co-operative activities of the Alternatives. It was not necessary to deal with the co-operative phenomenon in detail because it is undisputed in the end.

Alternatives are a reality, both per se and with regard to being a member of the co-operative family, that cannot be ignored.

Secondly, established and Alternative co-operatives should respect each other. Due to considerable differences between Alternative co-operatives and established institutions, Alternative co-operatives cannot expect to be allowed to join the existing organization—irrespective of the fact that the cause of the Alternative has become a ‘broad’ political affair meanwhile.<sup>81</sup> According to co-operative traditions, the Alternative co-operative movement is urged to establish its own institution—nothing would speak against a respective organization. On the other hand, the existing co-operative organization is expected to accept the new organization as a partner and member of the big co-operative family if it is ready to follow the principles of co-operation.

And the third statement: When comparing all parties concerned, the easiest task is that of science—it has to make objective considerations and show a neutral approach to evaluation.

<sup>81</sup>Until recently, the Alternative ideas were only supported by the Green politically (see: *Guenter Doeding*, *Gewerkschaften und Gruene*, in: *FAZ* 24.5.1984). Meanwhile, the SPD also took some ideas of the Alternatives. See *NN*, *Entstehung von Genossenschaften*, in: *PPP* 29.8.1984; and *Peter Philipps*, *Die SPD entdeckt ihre Wurzeln neu*, in: *Welt* 15.8.1985.



Surely, national economists should be engaged in the research subject 'Alternatives' more than co-operative scientists because the Alternatives offer a solution for the main problem with which economic theory and economic policy have dealt with increasingly for five years—to reduce unemployment. But co-operative science is also challenged directly: Thus we come back to the beginning of our work when mentioning the exhortation of *Erik Boettcher* relating to the task of our discipline in the field of social reforms.<sup>82</sup>

<sup>82</sup>*Erik Boettcher, Zielsetzung und Anspruchsniveau, ibid., p. 62.*



**Kaj Ilmonen\***

## **Co-operative Members and Their Movement**

The Finnish Consumer Co-operative Movement came into being at the turn of the century as a self-help organisation formed by workers, farmers and the rural proletariat. Despite its modest beginning it soon grew into a mass movement. It attracted members from all strata of society, but above all the growing working and farming classes. The political polarization of Finnish society and the aggravation of social problems which were characteristic of the 1910's had a profound effect on the Co-operative Movement. As the forces which held it together disintegrated, a split appeared and the Movement divided into two parts. Since then each of the consumer co-operative groups has continued its own independent existence, one as the SOK organisation and the other as the E Movement.

The two branches of the Movement have gone through those stages of development which E Dülfer found to be characteristic of the German consumer co-operative movement (Dülfer 1967, 8-19). The co-operative societies were at first buying groups or associations for joint purchasing. At this stage they did not yet take part in commercial competition. However, this was in general a short period, as it was, too, in Finland. Even before the split the societies, facing competition, had almost become like ordinary retail enterprises. After the Great Depression they were organically linked to the central organizations which they had established. This close connection stimulated economic activities and distribution became more effective than that of the competitors. The drawback was a

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gradual loss of independence. In the last phase, after the Second World War the federative complex was consolidated, societies were merged and a growing part of their functions transferred to the central organizations.

It is also possible to divide the development of the Finnish co-operative movement and later of the E Movement in another way. The first thirty years of its existence (approximately 1900–1930) were a time of fermentation. Characteristic of this was that more stress was laid on the movement's character as a mass organization than its role as an economic entity. Its decisions were much influenced by political factors. In a way this phase culminated with the peak of the fascist Lapua Movement. Since then outside political factors have little influenced the E Movement. During the Second World War it consolidated its position in society, becoming a part of the Establishment. Internal party political conflicts also culminated when the fascist movement was at its strongest in Finland but virtually disappeared after the war.

If the first three decades of the Finnish co-operative movement were characterized by political events, the following three decades (1930–1960) were a time of growth and expansion. The E Movement became an established trading group and economic factors began to predominate. This does not mean that it lost its importance as a community of its members. However, the member relationship was burdened by management's repeated demands for increased membership and concern about passivity.

The beginning of the E Movement's third phase (1960–1975) coincided with a fundamental structural change in Finnish society. Characteristic of it was that the Movement's peripheral areas (the societies) were merged into its centre (Central Co-operative Society OTK) and more stress was laid on economic than organizational factors. Member relationships weakened at the same time as the rapidly changing division of labour in society eroded the social basis of the movement.

Whichever basis of division we choose, we find that the member relationship has been different at each stage of the movement's development. This is a result of changes in its way of pursuing its activities, in its mode of administration and its social basis.

## CHANGES IN THE SIGNIFICANCE OF MEMBERSHIP AND IN THE MEMBER RELATIONSHIP DURING THE DEVELOPMENT OF THE E MOVEMENT

Generally speaking, ever since the early days of the Finnish co-operative Movement until the split membership derived its significance from the prevailing crisis in Finnish society. The Finns were searching for new fields of activity and were striving to gain independence from Czarist Russia. Membership of the co-operative movement was linked to the crystallization of a national identity at the beginning of the century. A still more important reason why people joined co-operative societies was, however, the internal social situation. On the one hand the working class was growing, its ideology was spreading and class antagonism intensifying. On the other hand the farming class occupied a strong position in society and the class consciousness of the bourgeoisie was increasing. These were the conflicting circumstances from which membership in the consumer co-operative movement sprang. In these conditions membership had a politically ostensive meaning, an identity. The significance of membership was further increased by the community character of the small local societies. The co-operative society as an organization was a social outlet with a unifying effect on its members.

Although the co-operative movement at the beginning of the century was highly political, this was by no means the only foundation of membership. Other reasons for establishing and using co-operative societies were unsatisfactory living conditions, abuses in the retail trade, the spread of the co-operative idea and the weak economic position of convinced co-operators. Economic factors also attracted people to join the societies and maintain their relationship as a customer relation. The societies were in a way extensions of the members' households.

The close connection of the societies with their growth environment, their character as communities and the direct democracy exercised were a guarantee that they took the interests of their members into account. The members were genuine subjects of the co-operative movement. Broadly speaking, this probably held true as regards both the consumer interests

and the political interests of the members. The active members of each co-operative society were able to set objectives concerning both its everyday, economic activities and society as a whole. If this was not the case, the members withdrew and the society perhaps ceased operating.

After the split the E Movement became the focal point for the defeated side in the *Civil War* (1917–18), the Socialists. It experienced great difficulties in holding its own against the victorious bourgeois forces but gradually was able to consolidate its position in Finnish society. At the same time it grew into an economically viable federative entity. In this there was a clear distinction between the centre (the Co-operative Union KK and the Central Co-operative Society OFK) and the peripheral areas, the societies. As the E Movement grew and the significance of its economic activities increased in relation to its social basis, its members, the centre of the movement gradually occupied a stronger position than its peripheral areas. Before the split the co-operative movement was chiefly a popular political and economic movement, but between the two world wars it developed into an economic enterprise with a secondary role as a popular movement.

When, especially after the Great Depression, the societies grew from local units into regional ones, and when the whole E Movement took on a federative structure, they were gradually detached from the member households and began to form entities outside them. Although there were committees operating at shop level, the members actually no longer took part in the commercial activities of the societies. According to the division of labour of those days these activities were concentrated inside the societies and the role of the member was reduced to that of a shopper. Instead of being subjects of the co-operative movement the members became objects of its economic activities. As a consequence their purchasing loyalty declined. During the worst years of the fascist Lapua movement this could also be attributed to political pressures.

There is, however, no reason to exaggerate this lack of purchasing loyalty. To a relatively large degree the member relationship was obviously also a customer relationship as late as between the wars, even though this may have shown signs of weakening. Although the members

of the E Movement were in fact largely reduced to objects of its commercial activities, the societies continued to have many ties with the workers' communities. They had a central status in these communities and served both as a forum and an outlet for their activities. As a matter of fact, the societies offered the only legitimate outlet for the Leftist members,<sup>1</sup> and together with the labour clubs they arranged cultural and social activities for the workers. This was one reason why there were organizational links between the members and the societies in the interwar years.

Another reason was the fact that from an organizational point of view the members were decision-makers in their societies and thus in the whole E Movement. The societies had a democratic mode of administration, even if it gradually conformed to Michels' "Iron Law of Oligarchy". This development was largely the result of two factors, one being the increasing importance attached to the economic activities and the other the rivalry between the two parties of the Left.

Organizationally the member relationship was above all characterized by party politics in the inter-war years. This was a result of the E Movement's commitment to the workers' communities and their organized activities and also depended on the mode of administration of the co-operative societies. The fact that these communities were divided into Social Democratic and Leftist groups was reflected both in the workers' other organized activities and in the E Movement's activities. In the 1920s there was an intense struggle between these two groups as to which of them would obtain the leading position in the various societies and thus the whole Movement. Though at first lying dormant, it became an open struggle as the societies changed over to indirect democracy.

In the reactionary atmosphere after the Civil War, culminating in the anti-communist laws, the Leftists lost the struggle for control of the E Movement. This was partly because of their greatly reduced opportunities for open action. Another reason was that the Leftists were only strong in certain localities. Although they were still in power in many societies, the central organizations were controlled by the Social Democrats. The advantages which the Social Democrats derived from this became more

clear as time went by. The stronger the E Movement became in Finnish society, the more attention was paid to economic factors in its management and the more influential the central organizations became. By exercising the authority vested in the central organizations and through economic sanctions the Social Democrats were able to maintain and even improve their controlling position.

After becoming economically strong, the E Movement was a significant channel for influence in Finnish society. For this reason the Movement provided a jumping board, especially for members of the ruling party, who could make a political career for themselves and rise to the top of the Establishment. Several Social Democrats in the administrative and operative branches of the E Movement have in fact reached key positions on the service of the State, in Governments and Ministries. The possibility to advance in position was one of the reasons why at least some of the members maintained their organizational relationship during the inter-war years.

The deeper the political conflicts penetrated into the internal activities of the E Movement, the more vigorous efforts were made to separate the administration of the Movement from its operational activities and the lay elite were channelled into the operative management. The E Movement was in a way divided into two units, one economic and one organizational. As the mode of administration became more centrally directed, the organizational interests which were connected with politics and with the demands for increasing capital. The E Movement, indeed, remained a channel for articulating and pursuing the consumer interests of its members but their implementation was blocked by "economic realities".

This same conflict was repeated in the E Movement's relation to the local communities on which the societies had depended. The E Movement provided for the material, social and political needs of these communities but no longer only on the terms of the members. The demand for increasing capital was continuously emphasized. It acquired a "business-like" character. The fact that the E Movement was "capitalized" and outgrew the financial strength of its members necessitated increasing sales and recruiting new members (Ilmonen 1979, 107). But as the demands for



increasing restricted capital could only be met through the workers' communities they were more or less concealed from sight. They were as the awakening "other nature" of the E Movement.

The commitment of the societies to the workers' communities and their role as centres of activity as well as the geographic and social isolation of these communities formed the main background against which the social meanings of membership developed. Membership of the E Movement revealed a person's position in the class society and became a part of the worker's identity. At that time membership still had an ostensive, identifying meaning. As the societies were also able to attract their members to take an active part in organized events and provided the forum for various social and economic pursuits, membership also had a unifying effect.

The third period of central importance to the member relationship question coincided with profound changes in Finnish society and the integration of the E Movement. The social foundation of the Movement showed signs of collapsing and it found itself incapable of favourably developing member relationships.

The main reasons why the social basis of membership gradually eroded were: the break-up of the old workers' communities and the appearance of suburbs, the Fordistic way of life, the spread of new ideas to the working class, the demolishing of socio-political barriers between the workers and the rest of society, and the weakening of the organizational position of the E Movement in relation to other worker's organizations. The E Movement ceased being a forum for the worker's communities. To an increasing extent the workers pursued their activities in organizations other than the E Movement. In the 1970s the phenomenon of privatization typical of all postindustrialized societies began to make itself felt among the Finnish workers. They either withdrew from their organizations or remained there as passive members. In the highly privatized society of today membership in the E Movement no longer has a unifying meaning. Neither do the members any longer identify themselves with it. What is left is the ostensive meaning of membership. Yet there are still those who believe that membership in the E Movement is part of the worker's role.

Secondly, with the disintegration of the worker's communities the old norm of purchasing loyalty was undermined and in spite of all its effort the E Movement has been unable to maintain it. Its failure in this respect is due to the extension of commodity relations in Finnish society, the capitalization of society, which has led to a new consumption morale. This ignores the social aspects of shopping and encourages people to look for cheap prices or convenience. Furthermore, the E Movement has merged societies and shops, it has been unable to offer sufficient economic advantages, it has withdrawn from the workers' communities and become inflexible. These factors have resulted in the Movement no longer offering a genuine alternative even to its members. The ideological code of thought which the members have adopted for historical reasons and the everyday code based on the new consumption morale have diverged from each other. Members may continue to believe that a member or a worker should shop in the E Movement but in practice an ever smaller number of them do so. The member relationship no longer functions as a customer relation.<sup>2</sup>

The elements which maintained the organizational relation of the E Movement's members also weakened after the Second World War. Other organizational forums than the E Movement became more important to them in pursuing their social aims and realizing their personal social ambitions. The party-political interests connected with the administration of the E Movement remained, but their character changed on account of the intensified collaboration on account of the intensified collaboration between Social Democrats and Communists.

The consumer interests of the E Movement's members remained. But the fact that the peripheral areas of the Movement were merged into the centre as well as the centrally-dictated mode of administration obstructed their implementation. Although the E Movement articulates consumer interests more distinctly than the other retail groups and although it participates in drafting consumer legislation and also in the formation of opinion in consumer organizations, these activities do not fully penetrate the everyday trade of the Movement. The E Movement is not considered

to be more consumer-oriented than the rest of retail trade (e.g. Hyvärinen 1979).

Generally speaking, during its development the E Movement has passed from a stage in which membership had a clear social meaning and sound basis to that where its meaning has faded and the member relationship has become looser than ever. On the eve of the formation of the completely integrated, nation-wide society, the Eka Co-op, it may well be asked why the majority in fact remain members. The answer is by no means a simple one. In order to find it, research work should be directed to social phenomena of a more general nature than the member relationship in its strict sense. It is in fact likely that the changes which have occurred in the membership of the E Movement are reflexions of general changes in people's social consciousness. Membership in the E Movement should probably be looked into against the background of changes in the way of life of those people who are in principle favourably disposed towards it.

#### *The E Movement's two alternatives*

The history of the E Movement may serve as a good example to those alternative forms of economic activities which are being experimented with in various parts of Europe and North America. The history of the Movement is part of those civilizing tendencies which also appear in the Finnish capitalist system. Especially in its initial stages the E Movement was an emancipatory movement, taking a critical stand on the socio-political problems of Finnish society. However, its economic activities have become increasingly dependent on social capital, the State has assumed many of those tasks which it has regarded as its own (consumer policy etc.) and commodity relations have spread widely in society. As a result, the E Movement has lost much of its emancipatory character. This is also reflected in its relationship to its members.

We may summarize the development of the E Movement as follows: In its first stage Finnish consumer co-operation constituted an extension of households. It formed an organic part of its members' everyday life and

gave an impulse to social change. In the inter-war years we meet a co-operative movement which is already detaching itself from its basis and becoming a factor outside member households. It regards its members more as the objects than as the subjects of its activities. The commitment of the Movement to the workers' communities, however, attaches it to the everyday life of its members. After the last war the activities of the E Movement are to a growing extent determined by economic realities. It detaches itself from its social basis at the same time as the basis itself shows signs of collapsing. Both in its economic and organizational activities the Movement sees its members as objects, as terminals of its own activities. As its instruments are blunt (ineffective commercial machinery as compared with its competitors, purchasing loyalty etc.) and as its members reject their role as mere objects, it is incapable of achieving its economic goals. On the contrary, its own activities prevent it from achieving them.

In viewing the E Movement's stages of development it is advisable not to draw functionalistic conclusions. Finnish capitalism does not always produce economic activity based solely on the logic of capital. If this would be the case, it would not be worth while starting any economic self-help activities, which would anyhow develop into an external, subordinating force. We must bear in mind the contradictory nature of capitalism. It is characterized not only by repression but it also creates its own counter-instances<sup>3</sup> and instruments for liberation. Only by being active and making use of these instruments is it possible for people to change their circumstances.

A pessimistic view also conflicts with the final result of this study. The fact is that the members do not yield to the demands of the E Movement, which has gradually developed into a force outside them and alien to them.

They are not content with being mere objects of the commercial and organizational activities of the Movement. Like others, the members of the E Movement are "free bourgeois" who reproduce themselves with the aid of their salary (Noro) and make their own choices, even if they do so under the pressure of trade.

What about the great merger in the E Movement? Will it result in a

change in the Movement's policy in general and especially in relation to its members? I would, in conclusion, like to express a few remarks on this subject.

If the merger is nothing but a formal or technical gesture the question must probably be answered in the negative. Merely by reducing costs and changing the organizational set-up it will not be possible to solve the operational problems. Much depends on its strategy and objectives. Today there are two possible strategies in view.

We can find examples of one of them in European consumer co-operation (Denmark and Austria). It is a continuation of the merger development and functionally complies with the demands for increasing capital. This strategy involves restructuring of the market, buying out competing companies, which are allowed to operate under their own names as apparently independent units, and changing over to more profitable branches. In practice this strategy means that the co-operative society once and for all breaks away from its social basis. If this should happen in Finland, it seems obvious that the E Movement will no longer have aims differing from those of other retail groups.

The other possible strategy would be approximately the opposite of the one described above. It would aim at strengthening the society's contact with its social basis, paying attention to those very trends which are at the moment clearly seen in working life. One of those who have written about them is A. Gorz in his book "Farewell to the Proletariat".

Gorz departs from observations made known by work sociology according to which a) the possibilities for autonomous activities have been reduced in wage work and b) selfrealization outside the sphere of work is the most important purpose in the life of today's wage-earner. On the basis of these observations, which he takes for granted, Gorz drafts the model of a society where the share of limiting, compulsory work is minimized and the area of self-realization maximized (See Gorz 1981).

Without entering into the weaknesses of Gorz's train of thought it must be admitted that the scenario which he drafts for the future is certainly thought provoking. As, furthermore, working time will most likely be shortened in the near future and the number of economically inactive

people, "B-citizens" (children, unemployed, retired etc.), will probably grow, spare time and thus the *prerequisites* for autonomous activities will be improved. To what degree these preconditions will be used to increase autonomous activity may depend both on how much the new experiments will affect our way of life and how effectively the culture industry and the sphere of compulsory work will penetrate our spare time.

If we assume that the area of autonomous activity will grow in people's everyday life, we might think that this area would be a natural field of work for the E Movement. From a functional point of view this would mean at least two things a) The E Movement should invest in its activities at shop level and develop the interaction between the shop and its near surroundings. This should, however, not be done haphazardly but in such a way that the shop would again become an extension of households, a kind of supplement to the autonomous sphere. In practice this would mean that shop activities would not be planned merely with the economic conditions of the shops and their suppliers in view but also and above all with regard to the *needs* of the environment in which the shop operates. (The new business idea-based shop operations are a sign of this). The E Movement should see its social links in a new way and make it the basis for its activities. In fact, the E Movement has declared itself to be part of the Labour Movement. If the Labour Movement is taken to mean the organizations of the workers it will not provide the functional basis needed. This has been proved by the history of the E Movement. The same holds true if the Labour Movement is regarded as a monolithic class which bears the mask given to it by capital. Not until we understand that the Labour Movement is made up of concrete *individuals*, each with a historical background, who spend their everyday lives in a certain social position and maintain existing social structures through their everyday lives will we find a basis for the Movement's activities. In other words, as a *trade group* the E Movement can serve neither organisations nor a class but concrete beings with a certain pattern of needs. The activities of the E Movement must be brought back to its starting point, i.e. the everyday life of the people who live by their labour.

I know that the alternative scenario for the E Movement's development

which I have broadly outlined seems utopian. Its implementation will be counteracted by all those forces which have so far put insurmountable obstacles in the way of every alternative movement. They are above all the habits through which the forces of capital penetrate the family and its leisure through the medium of work, the State, bourgeois publicity and commodities.

On the other hand it can be seen that people refuse to accept the future passively. Signs of this are the new mass movements (peace, environmentalist etc.), various budding forms of collaboration (village activities etc.), even of co-operation (Longo May in Austria and Switzerland, Mondragon in Spain, the cultivation and sale of biodynamic products in Sweden etc.). They are strongly linked to the way people handle their everyday problems. That is also what the members of the E Movement seem to expect from their membership today.

#### Notes

<sup>1</sup>Communists and their sympathizers.

<sup>2</sup>Strictly speaking, the member relationship is a customer relationship to those who have recently become members. But the longer one has been a member, the more likely it is that membership becomes a habit and purchasing loyalty diminishes (a study of this has been made in the Helsinki Elanto Society).

<sup>3</sup>In fact it is being discussed what these counter-instances are as, contrary to expectations, it has been seen that as a class the workers do not automatically overthrow the capitalist system.

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**Tore Johanson\***

**Raiffeisen—the Man and the Co-operator**

**INTRODUCTION**

No co-operator has his name so closely associated with his life-work as *Friedrich Wilhelm Raiffeisen*. In his native country there are Raiffeisen banks and Raiffisen warehouses in almost every village and small town. Also outside Germany his influence was and still is considerable. The Raiffeisen co-operative movement is still vital and vigorous and Raiffeisen himself is an interesting personality even though our knowledge of him is entirely based on the written word.

The purpose of this essay is to present *Raiffeisen* as a person and co-operator. His co-operative work was, to an unusual extent, an outflow from his personality and his conception of life and society, and also his experiences of farmers and their conditions during twenty years as a rural burgomaster in Westerwald in Hesse. All this contributed to making *Raiffeisen* the principal pioneer of agricultural co-operation.

The following description is based mainly the fifth edition of *Raiffeisen's* book on credit societies, published in 1887—the last to be issued during his lifetime. It constitutes the abstract and epitome of Raiffeisen's thinking and work. *Willy Kreb's* book on Raiffeisen and "The Co-operative History" by *Helmut Faust* have also been used.

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## THE MAN

The life and work of *Friedrich Wilhelm Raiffeisen* were based on a desire to serve the common good. In his first official task Raiffeisen proved his public spirit by erecting schools and constructing a road from Weyerbusch via Flammersfeld, Heddesdorf and Rengsdorf to the Rhine. This was almost symbolic as in the years to come, Raiffeisen was literally destined to walk that road in his development as a co-operator. The place-names constitute the land-marks on Raiffeisen's path from the principle of charity to that of self-help.

*Raiffeisen* was born in the small village of Hamm an der Sieg in 1818. His father died when *Raiffeisen* was still young and he was partly raised by the vicar of the village, who provided him with an education beyond contemporary standard. In 1835 he entered military service at Cologne and remained there for eight years, after which he became an official.

Opinions about *Raiffeisen's* personality are controversial. However, his contemporaries agree that he was a convinced and serious Christian. *Raiffeisen* was a Protestant, but he had excellent relations with other religious communities. The conceptions of fraternity and mutual aid were the very basis of his thinking and acting. Thus, it was natural that *Raiffeisen* put great emphasis on the ethical aspects of co-operation. He regarded his credit societies as a means for raising people morally and mentally. Abuse of power and injustice upset him. He hated the numerous usurers who ruined many farmers in his home district.

*Raiffeisen* has not been described as intellectually brilliant like for instance *Victor Aimé-Huber*, *Hermann Schulze-Delitzsch* or *Ferdinand Lasalle*, who were his contemporaries in German co-operation. His education was defective and he did not do very much to improve it. Nor was he an eminent public speaker. It was his social conscience, his strong will, persistency, engagement and hard work that counted. He had a practical and pragmatic nature. Simplicity, diligence, order and punctuality were his personal features. However, he has also been described as rigid and relentless and he could scarcely bear contradictions. One of his friends nicknamed him "*Little Bismarck*".

His life was totally devoted to his co-operative efforts in favour of the rural population and the farmers showed him their gratitude and respect by honoring him with the “Father *Raiffeisen*”

## RAIFFEISEN'S VIEW OF SOCIETY

*Raiffeisen* was critical of the age in which he lived. Society had reached a degree of technical development and prosperity that was previously unheard of, but this had not secured real welfare for mankind. On the contrary, the hunting for profit and property increased among the rich and simultaneously the envy and hatred against them grew. The love of pleasure and extravagance spread and the lack of personal activity and thrift caused misery. As a result the socialists gained ground for revolutionary activities.

To *Raiffeisen* it was obvious that the spirit of the times had to be changed. He was firmly convinced that social evil was a result of secularization and that Christian values had to be spread and strengthened. Christian brotherhood had to be applied in economic and public life as the only way to improve social conditions and avoid revolution.

Like many others, *Raiffeisen* regarded the solution of the so-called social question as the most important task of his times. Many projects were presented. Some thought that rescue should come from the state while others felt that first of all should the influence from usurers and capitalists be abolished. There were even those who wanted to create a compulsory co-operative system. *Raiffeisen* opposed such propositions. He emphasized that all kinds of associations had to emerge from popular needs and develop freely. Otherwise it would be impossible to create lasting associations to counteract capitalism and socialism. The main task of legislation—and of the state—was to approve such associations and remove obstacles to their activities.

*Raiffeisen* thus strongly opposed solutions based on compulsory legislation. However, he was just as critical of capitalism. Within economic life the guild system had been replaced by complete freedom.

A collective way of living with built-in security mechanisms was replaced by an individualistic system, leaving people isolated and unprotected. According to *Raiffeisen* the first-law had returned. Money ruled and its power undermined society.

*Raiffeisen* considered the widespread usury system to be the most dangerous social evil in contemporary Germany. This was why he committed himself to improving the living-conditions of the rural population. Never is the language of *Raiffeisen* more expressive or his indignation stronger than when he described the evils of usury. It is no exaggeration to say that *Raiffeisen* hated usurers and this attitude occasionally caused difficulties in distinguishing between usury and successful business. He sometimes gave the impression that he considered private business as a whole to be profitgoverned beyond the limits of decency. He was looking for an alternative which would combine popular action and popular control with mental and material welfare.

*Raiffeisen's* general conception was no doubt conservative. That is particularly true of his view of his times as evil and degenerated and to the idea that old, Christian virtues should be restored. He was equally critical of unrestrained capitalism, which enslaved the poor, and socialism, which was hostile to religion and wanted to confiscate private property. His conservatism, however, found no political expression. He always had a sceptic attitude towards politics.

*Raiffeisen* was deeply conscious of the injustices of society. As a social reformer he wished to gather all positive powers. He was especially keen on starting a social revival among the rich and engaging them in the efforts of reform. He did this both for their own sake and that of society as a whole, but also so as to make use of their competence and experience.

*Raiffeisen* considered it possible to reform the existing society if adequate ideas and principles were applied. In this process, all citizens were welcome to participate on equal terms. *Raiffeisen* might have agreed with the thesis of *Marx*—his contemporary—that the liberation of the working-class had to be carried out by the working-class. However, he believed that this could be achieved through co-operation not combat.

## THE FIRST ATTEMPTS

In Europe the 1840s have been recorded as “the famine decade”. In Weyerbusch, where *Raiffeisen* was working, the winter of 1846–47 was particularly hard. In order to alleviate the suffering of the people, *Raiffeisen* formed a commission in order to sell meal to the famine-stricken population from the royal magazines. And contrary to instructions he granted credit to the poor. As the need was urgent he also formed a society for the common purchase of potatoes and seed. The society also opened a bakery known as the “bread-association”, which sold bread at half the local price. The society’s success was considerable but it was entirely based upon the charity of wealthy people. However, it gave *Raiffeisen* proof of what could be achieved through co-operation.

Nevertheless, it was clear that there remained many problems to be solved for the rural population. Usurers constituted the most urgent one. In order to counteract them, *Raiffeisen* formed another society in Flammersfeld in 1849 based upon charity and participation of about 60 well-to-do people. Though originally intended for the common purchase of cattle, it was soon transformed into a credit society in which the absence of capital was replaced by unlimited liability for the members. The society was successful but ceased to exist after *Raiffeisen* had been appointed burgomaster of Heddesdorf in 1852.

*Raiffeisen’s* third attempt is represented by the charity society of Heddesdorf in 1854. This society concentrated on social issues such as raising orphans, finding employment for people unwilling to work and for released prisoners, setting up a library as well as buying cattle and granting credits to poor farmers. On again *Raiffeisen* succeeded in engaging respected citizens for this purpose and again the credit activities soon became predominant. An innovation of the Heddesdorf-society was the raising of a fund from the surplus. The fund was meant to be permanent and indivisible. Though successful in the beginning, the programme had to be gradually abandoned except for the credit. *Raiffeisen* then realized that it would not be appropriate in the long-run to make use of people’s readiness to help without compensation. Reluctantly he was forced to admit that self-interest was generally stronger than fraternity.

## FROM CHARITY TO SELF-HELP.

In 1862 *Raiffeisen* formed four societies, partly upon new principles. The society of Anhausen, formed in March 1862, has been looked upon as a prototype for the later *Raiffeisen* societies. It had no admission-fee, no share-capital or distribution of surplus. The surplus was transferred to a fund, which remained the property of the society and was not available for the members even after decision of the general assembly. Credit could only be granted to members and had to be repaid regularly. The Anhausen society also provided co-operative buying.

In May 1862 *Raiffeisen* also established contact with *Herman Schulze-Delitzsch*, who was the best known co-operative leader in Germany at that time and convinced *Raiffeisen* that co-operative societies had to be based upon self-help and mutuality. *Schulze-Delitzsch* also advocated the principles of the credit societies, which he had created for the artisans of the cities and which, at the time, already numbered over 500. When *Raiffeisen* reorganized the Heddesdorf-society in 1864 *Schulze-Delitzsch's* influence was manifest. Admission-fees, share-capital and distribution of surplus were introduced and credit was granted to members only. In 1865 the society also decided to join *Schulze's* organization, but the decision was cancelled in 1866.

*Schulze-Delitzsch's* influence on *Raiffeisen* at this time can be seen from the fact that he made an attempt to reorganize the society of Anhausen according to the principles of Heddesdorf. However, the members refused. Vicar *Renckhoff*, *Raiffeisen's* brother-in-law, played the leading role in this context. *Raiffeisen* then backed down and recommended the Anhausen-type for pure rural districts and the Heddesdorf-type for economically developed rural areas and for cities. However, in 1869 the Heddesdorf-society, which comprised 14 parishes with a total population of 9,000, was divided into smaller societies, which were adapted to the Anhausen-model. That ended *Schulze-Delitzsch's* ideological influence on *Raiffeisen*.

*Raiffeisen's* break-through came when he published his experiences and principles in 1866. As a result *Raiffeisen* was appointed leader of a

department for credit societies within the agricultural society of the Rhine Province in 1866. He was successful in the position. At the end of 1871 there were 77 credit societies in the province. Raiffeisen had finally brought forth a co-operative movement.

## GUIDING PRINCIPLES

From the beginning *Raiffeisen* did not concentrate exclusively on rural areas. The first two editions of his book, published in 1866 and 1872, were also addressed to the artisans and workers of the cities. *Raiffeisen* considered it especially important to meet the need for good workmen's dwellings and to provide credit for them. But since he was not successful in the cities, the third edition of his book (1881) as well as the two previous editions solely applied to the rural population.

The chief aim of the *Raiffeisen* societies was to abolish poverty and improve the moral and material conditions of their members. The principle of self-help was the means to reach that goal. According to this principle, the resources of land and population should be utilized and developed and a sense of public spirit promoted. In order to achieve this the credit societies had to follow certain principles which *Raiffeisen* made compulsory for the members of his organization.

One principle declared that a credit society should restrict its area geographically. This rule was dictated by the necessity of a close, mutual, personal and economic knowledge among the members, in order to avoid losses and to achieve an uncomplicated administration and optimal possibilities of realizing the ethic goals.

Only people residing within a society's area of operation were admitted to membership. Any person of good character had the right to join, but those who were in contact with usurers were expelled and each person could only be a member of one society.

The right to vote was equal and universal for male members. Women were not allowed to participate in the general assemblies. The justification

for this was partly women's position in society and partly because the credit societies apparently dealt with subjects of little interest to women.

Another principle stated that the credit societies were based on unlimited liability in order to make them solvent but also to stress the need for unity among the members. This principle was also well adapted to rural economic conditions, which were characterized by assets in real estate and shortage of cash. *Raiffeisen*, therefore, opposed admission-fees and shares and advocated them only when prescribed by legislation. The yield of the share-capital should not exceed the loan-rate.

Credits were granted only to members and only against security. Persons who furnished security for long-term credits had to possess real estate. The general assembly prescribed maximum limits to the credits.

The elected representatives were unpaid except for the cashier, who was an employee and not a member of the board of management.

The conception behind the indivisible fund was the following. The fortunes and properties of single families were always exposed to fluctuations. In order to secure the future of the parishes and villages it was, therefore, necessary to create a common and indivisible fortune for development efforts. But above all the fund was aimed to meet and beat the usurers with their own weapon: money. The fund also provided a guarantee for the permanence of the society itself. However even if the society should be dissolved, the fund was not to be portioned out. It was either to be disposed of for charity or to be the nucleus of another society. *Raiffeisen* intended the fund to be in money economy the equivalent for the common grounds of the natural economy. This was also his conception of the credit society itself; it was "the economic unit of the village" and meant to function as an "enlarged family". Like the farms and the villages it was to last when farmers and inhabitants changed.

The capital-yield was meant for benefit-institutions such as schools, popular education, hospitals, homes for the aged and poor-houses. Thus the communal taxes could be reduced. It would also make it possible to start small-scale industries on co-operative basis. An additional effect was increased resistibility during famine years.



## THE PERIOD OF FOUNDATION—A SUMMARY

*Raiffeisen's* development as a co-operator up to 1870, when he was finally established, can be characterized as slow and tentative. From 1847 to 1862 the principle of charity was predominant. This principle was obviously deeply rooted in *Raiffeisen's* profound religiousness and he defended it as long as possible. It was not until fifteen years of practice had made him doubtful about its tenability that he reconsidered the essential conditions of his societies, tried to apply new principles and consulted *Schulze-Delitzsch*, who convinced him that self-help and mutual were fundamental in co-operation. Thus 1862 was a crucial year in *Raiffeisen's* development as a co-operator.

*Schulze-Delitzsch's* influence also appears in the reorganization of the *Heddesdorf*-society in 1864, and in the establishing of the conception of membership in the *Raiffeisen*-system. That *Raiffeisen* was himself at this time uncertain of his principles is evident from his attempt to reorganize the *Anhausen* society according to the *Heddesdorf* model. When the members in *Anhausen* refused, two different types of societies were for a time advocated for differently developed areas. This "two-model system" came to an end in 1869, when *Raiffeisen* became so established and self-confident that he dared to abandon principles that did not suit the farmers and their conditions.

From 1849, when the *Flammersfeld* society started, credit activities occupied a central position. They were connected with unlimited liability for members while membership was not yet compulsory for borrowers. In order to finance his social program, *Raiffeisen* introduced the indivisible fund in *Heddesdorf* in 1854. This turned out to be a corner-stone in the *Raiffeisen*-system. The purpose of this fund show the great importance *Raiffeisen* attached to the social side of co-operation. It can even be argued that the fund represented *Raiffeisen's* way of preserving the principle of charity within his self-help societies.

Both the *Flammersfeld* and the *Heddesdorf* societies covered considerable areas and a great number of members. Geographic restrictions were not defined until the *Anhausen* and other societies revealed the suitability and value of this principle during the 1860s.

One consequence of the fact that the principle of self-help was established was that credit was reserved for members. The question of admission-fees, shares and distribution of surplus was solved in theory—but not, as we shall see, in practice—after the reorganization of the *Heddesdorf* society in 1869. *Raiffeisen* returned to his original, rurally adapted ideas, which implied among other things the preservation of unlimited liability. After the success of his book in 1866, his appointment in the agricultural society of the Rhine Province and his successful organizational efforts, *Raiffeisen* felt strong enough to follow his own course. By 1870 he had created a working organization at the local level.

## THE SECOND STEP —CO-OPERATIVE FEDERATIONS

*Raiffeisen* was aware that the principle of a limited area of operation (on an average 1,500 persons) was, in some respects, disadvantageous. Individually societies were too weak to fight the usurers and to develop the potential effects of the co-operation of their members. To function optimally a society had to receive all the savings of the members and to meet all their credit needs. Consequently it was necessary to balance the fluctuations in the movement of capital. As the idea to form an organization of his own seemed too risky, in 1869 *Raiffeisen* turned to the authorities and to the savings-banks for co-operation, but in vain.

The only option left to him was to start a bank of his own and, in 1872, eleven societies formed the Rural Cooperative Bank of the Rhine Province. This was followed by similar banks in the provinces of Westphalia and Hesse in 1874 and, in the same year, the three provincial banks formed a national bank situated in Neuwied. *Raiffeisen* was now firmly determined to expand his organization throughout Germany. These steps made *Raiffeisen* a world pioneer. He was the first co-operator to form a co-operative federation on three levels. However, this was to give him many problems and setbacks, not because of functional weaknesses, but through external influences.

## INSURANCE

An attempt to start a mutual society for life-insurance in connection with the national bank was thwarted by the authorities. *Raiffeisen* considered that insurances were too rare among the rural population. They also offered possibilities to free people from debts. *Raiffeisen* planned that the surpluses of his life-insurance society should be reserved for members' pensions. This again was a manifestation of *Raiffeisen's* ambitions to form a social security system on a self-help basis. The reasons why the authorities stopped the insurance project are not obvious, but their refusal represented the first serious set-back in *Raiffeisen's* organizational work. He was forced to improvise and, instead, his bank became principal agent for a mutual life-insurance company in Stuttgart. The members could insure their lives in the local banks, but the additional social benefits that *Raiffeisen* had foreseen were reduced.

## THE STRUGGLE BETWEEN *RAIFFEISEN* AND *SCHULZE-DELITZSCH*

This first set-back was to be followed by others. In 1875 *Schulze-Delitzsch* issued a publication in which he criticized the *Raiffeisen* banks for lending money a long-term which had been received on short-term deposit. According to *Schulze-Delitzsch* this was incompatible with the fundamental rules of banking. He also regarded the provincial and central banks as a violation of the co-operative law, which he had himself written and which was adopted by the German Empire in 1871. Since *Schulze-Delitzsch* strongly advocated the principle of decentralization, the law did not recognize co-operative federations. This was not to be altered until 1899. The antagonism between *Schulze-Delitzsch* and *Raiffeisen* is known as "the battle of the systems" and led to an investigation by the Prussian ministry of agriculture. The decision was favourable to *Raiffeisen* but *Schulze-Delitzsch* did not give up. In 1876 he addressed an interpellation to the Prussian parliament in which he challenged the co-operative federat-

ions, the terms of borrowing and the absence of share capital in the Raiffeisen banks. He declared it wrong on principle that members who had unlimited liability for local banks should also be responsible by cumulative solidarity for co-operative federations, which they could not influence.

*Raiffeisen* argued that federations ought to be regarded as “lengthened arms” of the members, since they were intended to serve the local banks within a compact system and to have no activities of their own. *Raiffeisen* further regarded his federative system as more reliable than *Schulze-Delitzsch*'s big societies with local branches beyond member control. The parliament, however, supported *Schulze-Delitzsch* and *Raiffeisen* was forced to dissolve his federations and to introduce share-capital in his societies. In 1876, the regional bank of the Rhine Province was transformed into a joint-stock bank, with the local credit societies as shareholders and with equal allotment of shares and voting. No outsiders were allowed to be shareholders but there were also a number of societies that did not join. The bank worked as a clearing-central for the credit societies. Though he was thus able to save essential parts of his achievements, the struggle with *Schulze-Delitzsch* represented a considerable set-back to *Raiffeisen*. It also divided the German co-operative movement for a long time.

## RAIFFEISEN'S NON-PROFIT ORGANIZATION

In 1877 *Raiffeisen* formed a non-profit organization to spread the idea of co-operation, support the credit societies and represent them externally. This worked in connection with the bank and was also meant as a meeting-place for societies which had not joined the bank. Co-operative dairies and wine-co-operatives were also admitted and provincial and local sections were foreseen. Audit was one main task, statistics another as well as annual gatherings and common purchase of necessities. The members also received the “Agricultural Co-operative Paper”, which first appeared in 1879.

*Raiffeisen* realized that members of the credit societies needed knowledge about both co-operation and the best ways to use the credit they received. At the same time he realized that the societies themselves were not able to furnish continuous education. For that purpose he recommended the so-called casinos. They were meant to arrange lectures and discussions, spread agricultural literature, identify agricultural defects and find remedies for them, adjust agricultural progress locally and get hold of requisite. The casinos were, therefore, supposed to have their own libraries and to arrange some kind of agency for purchase, selling, services and rents. To judge from *Raiffeisen's* presentation, the casinos seem to have concentrated more on improving agriculture than promoting co-operation. It is, therefore, doubtful whether *Raiffeisen* ever found a satisfying solution to the crucial question of co-operative education.

## RAIFFEISEN AS A PIONEER OF CO-OPERATIVE FEDERATIONS — A SUMMARY

When *Raiffeisen* created local credit societies he clearly realized the need for provincial and national co-operation. He was the first co-operator to form a co-operative federation on three levels. In this he appeared to be ahead of his time. Neither legislation nor authorities had foreseen such an organization, a fact which was used by his opponents, especially *Schulze-Delitzsch*. This, in combination with a lack of experience of co-operative federations, caused *Raiffeisen* a serious set-back, which considerably delayed co-operative development as a whole. Only the co-operative law of 1889 offered the possibilities that *Raiffeisen* had implied already in the early 1870s. His life insurance project failed in a similar manner.

Therefore, the mid-1870s represent a watershed in the co-operative development of *Raiffeisen*. The opposition from *Schulze-Delitzsch* and the authorities forced him to take alternative and partly non-co-operative solutions, such as the joint-stock bank, and caused a division of the German co-operative movement and later also of the agricultural co-operative movement when *Wilhelm Haas* and others formed their own organization.

However, the non-profit organization that was formed in 1877 had an important mission to fill during a difficult period of time. The number of member societies rose from 24 in 1877 to 423 in 1888, the year *Raiffeisen* died. The auditing activities were also important. They were made compulsory within the organization in 1883, six years before they were regulated by official legislation. The organization was also intended to provide popular education which *Raiffeisen* regarded as most important both for the farmers and for the co-operative spirit.

## RAIFFEISEN AND THE CO-OPERATIVE SOCIETY

*Raiffeisen* considered it desirable that credit societies were supplemented by other co-operatives. In the fifth edition of his book (1887) he devoted special chapters on wine growers' co-operatives, dairies and cattle-insurance societies. He regarded the first two as most rational from both a production and a business point of view and considered them as applications of the principle of division of labour. But he emphasized the importance of competent management as the crucial prerequisite for success; it was necessary to secure good management and co-operatively minded members before the start of a society.

Principally, *Raiffeisen* looked upon these co-operatives as subordinate to the credit societies. But he did not explain the nature of that subordination and the co-operatives were to be formed and run as independent enterprises without any formal tie to the credit societies, of course, close economic co-operation was foreseen and *Raiffeisen* underlined that a credit society should always be started in order to handle the economic administration before other co-operatives were formed.

*Raiffeisen* thought that supplementary co-operatives ought to be run by the members themselves and dissuaded leasing. Since this type of business was complicated and time-consuming he recommended that the management—i.e. the manager, secretary and cashier—should be remunerated.

Considering that these enterprises also required considerable equip-

ment such as buildings, machines, tools, stocks, etc., the co-operatives had to build up a capital of their own by admission fees, shares and funds. In this case *Raiffeisen* had no objections to fees and shares. Compulsory delivery and payment by quality had to be applied. *Raiffeisen* also pointed out that these societies—however useful they might be—were not really production co-operatives since they only gathered products and did not run co-operative production of raw materials. To ensure that credit would be optimally used, *Raiffeisen* advocated the common purchase of fertilizers, fodder, seed, coal and tools. He thought that purchases could be made either by independent co-operatives or by the credit societies. Common purchase had started already in the 1860s and increased considerably during the 1870–71 war. In 1881 *Raiffeisen* started a private firm which included the common purchase of his organization, his personal wine-trade, the insurance agency and later also a printing-office. This enterprise has been much discussed because of its non-co-operative character and *Raiffeisen* has been accused of using it for private benefit. This is, however, contradicted by the stipulations about the distribution of surplus, which was designated for charity and for the creation of new credit societies. In fact *Raiffeisen's* firm represented an emergency solution in order to finance the expansion of his organization, but it was apparently an obstacle to the development of an adequate co-operative purchasing agency.

Farmers' income was of equal importance. The rural marketing conditions were very defective and middlemen—who very often were also usurers—made great profits. *Raiffeisen* advocated marketing societies as a means of counteracting these people. He found grain, cattle, milk, wine etc. well suited for co-operative marketing.

He judged it especially important to control prices. It would also constitute great progress if the credit societies bought balances for weight-controls.

*Raiffeisen* regarded these as ideas for the future, which—with single exceptions—could be carried out when co-operation had grown and strengthened and the co-operative spirit had developed.

According to *Raiffeisen*, the cattle-insurance societies should also be

subordinate to the credit societies and co-operate closely with them. They were recommended to work within the same geographic areas and create capital of their own by admission-fees and premiums. In cases of compensation the society supplied 75 percent of the loss while the member was responsible for 25 percent as a guarantee against impostures.

*Raiffeisen* showed great interest in supplementary co-operatives. He regarded them rational from the division of labour point of view and useful in the struggle against usurers. But he always looked upon the credit societies as the nucleus of co-operative growth. Within the credit societies he advocated shares as well as distribution of surplus according to the results produced. He emphasized the importance of self-administration and proper management. The fact that he believed the elected representatives capable of managing such co-operatives shows what great confidence he had in them.

*Raiffeisen* foresaw multi-co-operative communities with locally adapted enterprises. But this vision was not to be realized until much later. It is, however, worthy to record that, like many of his contemporary co-operators, *Raiffeisen* had a vision of a co-operative commonwealth, although his vision was primarily a rural one.

## THE RAIFFEISEN-VISION

Like many co-operators *Raiffeisen* concentrated on human conditions. He regarded it to be his mission in life to lighten and abolish obstacles to a good and dignified existence for ordinary people. To *Raiffeisen* this meant both moral and material improvements. He never lost sight of this aim and he devoted his life to trying to reach it. His path was long and toilsome.

*Raiffeisen* was firmly convinced that Christian principles must have more room in society in general and in economic life in particular. This conviction made him an opponent of compulsion, public or private. It is, for instance, obvious that *Raiffeisen* regarded unrestrained competition less as an economic freedom than as tyranny of the strong over the weak.



Religion meant charity and fraternity and *Raiffeisen* based his first societies on these principles. They worked well in cases of temporary assistance but for permanent activities the standard of Christian virtues among the population proved to be inadequate. Therefore, he had to shift to the less ethic but, in practice, more efficient principle of self-help. *Raiffeisen* then realized that if properly organized, self-interest could also be of public utility.

An example of *Raiffeisen's* Christian conception was that improvements should occur through co-operation between different social classes. Therefore, he rejected the proposals of *Marx* and his followers for confiscation and socialization of private property. However, he agreed that private capital should contribute to the improvement of the position of the poor. *Raiffeisen's* method was to engage wealthy people in his credit societies so that their personal liability would strengthen these organizations. In the long term the societies were intended to be independent through their indivisible funds. Thus, the fortunes of the wealthy were to work as a lever for this initial lift and in addition, their knowledge and experiences would be beneficial to the societies. *Raiffeisen*, however, was not inclined to abandon his social ambitions. He transferred them to the self-help societies by reserving the fields of their funds for social welfare. His ideas about co-operative insurance had the same object in view.

For the more distant future *Raiffeisen* foresaw a multi-co-operative rural environment congregated around the credit societies. But it is characteristic of his economic realism that he attached strictly economic tasks to the marketing societies and that the financial and administrative principles he recommended for them were adapted accordingly. He evidently regarded their capacity of improving the market conditions and of counteracting the usurers as social progress per se. To *Raiffeisen* co-operation remained the best means to “expel the hawkers from the temple” and make the rural population their own masters.

*Raiffeisen* was far-sighted. Like the farms and the villages his societies were intended to last and always work to the advantage and support of their members. They were not merely meant to secure their economic independence, they were also intended to broaden the concept of family.

*Raiffeisen's* social vision stretched beyond that of his fellow German co-operators. If we compare *Raiffeisen's* programme with the *Rochdale*-program we see that the ultimate goals of both were self-supporting local communities, but that *Raiffeisen's* model was probably more patriarchal than the English one. It represented an attempt to transfer the common possessions and local fellowship of the natural economy into the industrial society.

*Raiffeisen's* co-operative organizations were his own creations. In 1870 his local credit societies were theoretically and practically developed, as were his co-operative federations five years later. The struggle with *Schulze-Delitzsch* dealt partly with the superstructure of co-operation, partly with practical questions, which called for different solutions in cities and rural areas. It ended in a partial defeat for *Raiffeisen* at the expense not only of his organizations but of co-operative development as a whole. He was forced to make compromises, which were not necessarily bad, but which seem to have stunted his creative spirit as a co-operator. Among the essential questions which remained to be solved when *Raiffeisen* died, common purchase, insurance and education deserve to be mentioned. They were left as challenges to his successors.

**János Juhász\***

## **Systems Approach in Co-operative Research**

The essence of systems research is defined by Andrzej Kozminski as follows: "The cell, for example, is—among other things—an object of investigation for biology, physics and chemistry, while the enterprise is researched by economics, organization and management theories, sociology, psychology, law and other branches of science. Systems research means that the findings of all those branches of science are connected in respect to certain concrete objects."<sup>1</sup>

The complex scientific investigation of co-operatives is necessarily interdisciplinary. The systems approach seems to be the most suitable for simultaneously taking into account and utilizing the results achieved by the individual branches of science in respect to co-operatives.

### **1. THE CO-OPERATIVE AS A SYSTEM**

According to internationally accepted terminology, and mainly on the basis of the systematization of *B. L. Ackoff*,<sup>2</sup> the co-operative as a system has the following major properties:

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<sup>1</sup> *Andrzej Kozminski*: Szervezetek rendszerelemzése. (Systems analysis of organizations.) Közgazdasági és Jogi Kiadó, Budapest, 1980. p. 12.

<sup>2</sup> *Ackoff, B. L.*: Towards a system of systems concepts. Management Science, 1971. Vol. 17. No. 11. pp. 661–671.

Here, however, a short digression must be made to the field of systems theory. *Ackoff*—and professional literature closely follows him—calls every system in which events occur, a dynamic or multi-state system. Thus an organization is a dynamic system, and so is an engine. This approach is justified insofar as in both cases we are concerned with “mobile” systems. However, there are significant differences among the “mobile” systems, and one has a special significance from the point of view of our topic. This is the character of the “movement” of the system. If the movement does not change the relationships among the individual elements of the system, and consequently the elements themselves, it cannot be called dynamic. The only movement which may be considered as dynamic, is that which, beyond its functional aim, has some kind of ability to change itself. That is to say, parallel to the changes in the connections between the system and its environment, the events occurring in the system change the relationships among the elements of the system in addition to the elements themselves. The system able to perform such movement is unequivocally dynamic. The system which is not able to perform such movement may be called kinetic. In order to shed more light on the subject, let us return to the engine—organization parallel. According to our approach, the engine is a kinetic system (it is unable to change its own elements and their functions), while the organization is a dynamic system (e.g. an enterprise changes its elements and their functions)—it has a definite trend of change, it develops. It should be noted, however, that a dynamic system may also have a kinetic state, i.e. there are time intervals in which a dynamic system performs functional movement only. It is important to clarify this because it is inevitably necessary for research to investigate the kinetic states of a dynamic system. Dynamic changes may only be traced in this way, i.e. as the process of changes in the kinetic states.

Returning to the co-operative system, there is no doubt that it is dynamic. The co-operative corresponds to the following definition of the organization given by *Ackoff*: “The organization is a purposeful system which contains at least two purposeful elements and they have a common aim, for the achievement of which there is a functional division of labour in the system.

The co-operative is a concrete, open and dynamic system. It is concrete because its elements are mostly concrete matters. Agricultural or trade activities, which various types of co-operatives are involved in, are constituted by a chain of concrete matters and processes. On the other hand, the co-operative is an open system, i.e. in its interaction, with its environment. Therefore it also follows that the co-operative is a dynamic system—its state changes in time.

The partial groups within the system, although functionally separated from each other, react to each other's behaviour by way of observation or communication, and at least one partial group has the function of directing the system."<sup>3</sup> The co-operative is a form of organization, and every organization is a dynamic system.

In the systems approach to co-operative research, the really difficult question is to identify and define the elements and subsystems, and to separate the system and its environment. An attempt at the latter may only be made when the elements and internal subsystems of the co-operative as a system have already been accurately defined.

## 2. SYSTEM ELEMENTS AND SUBSYSTEMS IN THE CO-OPERATIVE

The co-operative is a rather "large" system. It has a good number of elements and their inter-relationship is very complicated. However, certain abstractions can be made. Let us take, for example, the production type agricultural co-operative, which is an institutional form of agricultural productive organization. It follows, from the above, that the elements of the agricultural production co-operative as a system do not differ from the elements of any other agricultural productive organization, be it a peasant family, feudal estate or state farm. The differences between the individual systems are identified by the different forms and according to which rules and in which environment the identical elements enter into

<sup>3</sup> *Ackoff, B. L.*: op. cit.: pp. 149-150.

systems connection with each other. The inter-relationship of the elements is defined and interpreted by institutions and relation systems. This is one of the essential factors constituting the system. The other is the presence, or lack, quantity, and quality, of the elements themselves. Thus the elements in themselves do not constitute a subsystem, but characterize the system, and have a decisive influence on the operation of the individual subsystems and the entire system.

The elements of the agricultural co-operative as a concrete system are also concrete matters and may be quantified. The elements of the system are the following: land, livestock, machinery and equipment, buildings, materials, capital, and manpower. As mentioned earlier, the quantity and quality of those elements characterize the system, e.g. the size and quality of the land belonging to it; number of members, their age structure and qualifications etc. A further qualifying factor is the presence, or lack, of the individual elements themselves, e.g. livestock or land. From that point of view, the extension of the elements of the system is extremely important, both in connection with agricultural production, and also in relation to non-agricultural activities.

The systems connection of the elements is manifested in an extremely complicated manner. The process of the creation of those connections contains the following: first of all, the system defines its objectives, develops an institutional system adequate for realizing the objectives and defines the inter-relationship of institutions, structure of activities, and system of incentives for its members. In accordance with this process, the characteristics and operation of the co-operative as a system are defined in five subsystems. They are the following:

- System of objectives
- Subsystem of institutions
- Subsystem of relations
- Subsystem of activities
- System of interests.

Beyond the above, decisive significance is, naturally, attached to the medium in which the system is operated, i.e. the environment of the system.

The main features of the five subsystems and the environment of the agricultural co-operative can be outlined as follows: "An ideal organization may come into being if at first its objectives are set and an organization best serving the attainment of objectives is established."<sup>4</sup> The *system of objectives* of the agricultural co-operative is very diverse. Among the objectives, the most important is, undoubtedly, agricultural production, which is itself divided into further objectives: "... the system of objectives of agricultural production has always been twofold. On the one hand, the requirements of the people active in the branch had to be satisfied, on the other hand, the claims of the market had to be met."<sup>5</sup> However, the objectives of the agricultural co-operative extend to non-agricultural fields as well. Furthermore, from another point of view, the system has objectives outside production: strategic and tactical objectives; objectives to achieve the highest possible revenues and to limit expenses to the minimum; objectives to increase productivity, etc. The system of objectives of agricultural co-operatives serves an ultimate objective, namely to promote the welfare of the members.

The *subsystem of institutions* includes all the institutional solutions established in the co-operative as a system and which serve its operation. In the agricultural co-operative, the institutional subsystem is built upon three types of institutions: The system includes institutions which are characteristic of enterprises and which have been adopted by the co-operative from enterprises. They may be called enterprise-analogous institutions. Furthermore, agricultural co-operatives have institutions which may be found in all types of co-operative organization, thus they are co-operative-analogous institutions. Finally, there are special, non-analogous institutions characteristic of the given organization only. Such is, for example, the institution of household farms in the agricultural production co-operatives.

<sup>4</sup> *András Pilling: A vezetési alrendszer a mezőgazdasági termelőszövetkezetekben. (The subsystem of management in agricultural co-operatives.) Közgazdasági Szemle XXX., December 1983., p. 1749.*

<sup>5</sup> *Tibor Tóth: Ellentét vagy kölcsönösség? (Contrast or mutuality?) Magvető Kiadó, Budapest, 1980. p. 112.*

The *subsystem of relations* is extremely complicated and diversified in agricultural and other co-operatives. It may, however, be approached in the following four partial systems: in view of the fact that, in the co-operative, the combination of individual and group property relations prevails, a significant part of the subsystem of relations is determined by them. The agricultural co-operative is also a hierarchial system, i.e. its activities are managed by a hierarchial system of connections. Production and other real processes are carried out within the system of functional connections. Finally, special mention must be made of the system of informal connections which interweave both the hierarchial and the functional connections.

The *subsystem of activities* include the entire structure of activities of the agricultural co-operative. Above all, it includes both agricultural and non-agricultural production. In addition, the system may also perform other economic activities which are of other than productive character, e.g. trade, servicing, etc. Finally, other-than-economic activities also belong to the subsystem of activities of the system. These may be social and socio-political activities, as well as cultural and sports activities.

The *system of interests* should be dealt with here in somewhat greater detail, and it is also necessary to make a few general remarks. As an axiom, it must be pointed out that only man has interests and systems of interest. Consequently, man is a specific element of any system. In the widest sense the final or "original" interest of man is to reproduce himself physically, biologically, socially and culturally on an improved scale. The social division of labour—living in society itself—and its complicated system of relations hides final interests. A secondary system of interests is established which may be called the momentary, relative or actual system. The actual system of interests is a means to satisfy final interests and it exists both at individual and subsystem, as well as system level. At whichever level the question is examined, the actual systems of interests appearing at individual, group or organization level do not necessarily coincide with each other. In the agricultural co-operative, as in any other organization, the interests form a diffuse system, i.e. they interweave all the subsystems of the system. Furthermore, it is characteristic that they are



manifested not in themselves but by the characteristics of other subsystems.

The *systems environment* of the agricultural co-operative includes the natural, geographical, economic, economic policy, political, social and the movement environment. The natural environment means the circumstances defined by the geographical situation and the climatic conditions. The economic environment which also includes economic policy may be subdivided into two main fields. One of them is the environmental influence exerted by other economic organizations and the infrastructure, while the other is the impact of economic management as an environmental factor. The political and social environment means the political situation, role and perspectives of co-operatives, as well as the attitude of the whole society towards the system. Finally, the movement environment is constituted by the secondary and tertiary organizations of the agricultural co-operative movement itself, their character, objectives, instruments and opportunities, first of all, in safeguarding and representing the primary co-operatives' interests. Movement environment includes, furthermore, the environment of agricultural co-operatives represented by non-agricultural co-operatives.

### 3. THE CO-OPERATIVE MODEL

The investigation of the co-operative as a system makes it necessary to examine a diversity of factors exerting their influence simultaneously. It is possible to investigate each of them in every detail but this would require an enormous apparatus and, from the social science point of view, multitude of partial results might hide essential connections. Therefore, it is necessary to simplify and make abstractions in such a way that the essential characteristics of the system be retained. Certain simplifications were already applied when defining the elements of the system, the subsystems and the environmental factors. The great number, diversity, and different environment of the co-operatives do not allow direct examination of the co-operative system as such. Each co-operative is a

different system. They have, however, essential common characteristics from the point of view of the system. Therefore, the model method seems to be the most suitable for the complex examination of the system.

*B. L. Ackoff* defines the models as follows: "Models are the depiction of states, objects or events. They are idealized in the sense that they are less complicated than reality, and thus they may be applied for research purposes more easily. It is easier to work with models than real objects, and it is easier to handle them as well. The simplicity of the model in comparison with reality originates from the fact that it takes into account only those characteristics of reality which are essential in the given situation."<sup>6</sup> (*Ackoff, B. L.: Scientific Method Optimizing Applied Research Decisions, New York, 1962. p. 108.*)

According to the definition of *András Kocsondi*: "... a model is a material or conceptual system reproducing or reflecting the object of cognition, being in an objective correlation with it and replacing it in the process of scientific research, the study of which makes it possible to obtain new information about the original object of cognition itself."<sup>7</sup> In other words, a better knowledge about the original object of cognition, is the most important function of the model method. In other words, and referring to the object of our investigation, the study of a co-operative model or models is not the aim in itself but the means to get to know the co-operative as a system. Naturally, there are also other good methods but "the advantage of the model method over other methods of cognition is ... that it enables us to investigate the object of research in a 'clear form', i.e. in a model form, as a consequence of which, in the process of modelling, the object appears as an abstract or idealized object."<sup>8</sup>

The investigation of co-operative models is carried out by analyzing the elements and subsystems as well as the systems environment defined above. The elements, subsystems of institutions, relations and activities, and the environment, must be analyzed in as much depth and detail as

<sup>6</sup> *Andrzej Kozminski*: op. cit. p. 164.

<sup>7</sup> *András Kocsondi*: *Modell módszer. (The model method.) Akadémiai Kiadó, Budapest, 1980. p. 164.*

<sup>8</sup> *András Kocsondi*: op. cit. p. 153.

possible, but through further abstractions if necessary. When investigating the system of interests, however, there is no need to deal with the question of the final or "original" interests. The emphasis should be put on analyzing the actual system of interests.

A specific field is the investigation of the systems of objectives of the individual co-operative models. The primary objective of the various agricultural co-operative model is to promote their members' farms and to provide their members with a livelihood which is not influenced by possible transformation of the model. In spite of this, in the case of certain model investigations, the detailed analysis of the system of objectives may gain primary importance. Such are the mathematical models about which Kozminski states: "The mathematical methods of modelling have no autonomous character in the systems analysis of organizations and their application is subjected to a more general concept, which may not be fully expressed in the language of mathematics. Mathematical methods serve the analysis and optimization of the material-technological subsystem of the organization."<sup>9</sup>

In their book: *Economics of co-operative farming*, *F. Fekete, E Heady* and *R. Holdren* describe the co-operative structure of Hungarian agriculture and its operation with a mathematical-economics approach, applying the method of quantitative analysis. The book proves the adaptability of quantitative analysis for the relations of socialist large-scale agriculture. The authors construct "quantitative models" of agricultural production co-operatives. Among the quantitative models, they deal in greater depth with behavioural models and linear programming models. In accordance with the logic of the optimization procedures, linear programming models differ from each other depending on what objective functions the economic objectives of the co-operative as an enterprise may be quantified in. Six alternative objective functions and six respective model groups are determined. The alternative objective functions are as follows:

<sup>9</sup> *Andrzej Kozminski*: op. cit. pp. 200-201.

1. maximization of the firm's net profits.
2. maximization of members' benefits in terms of a residual-income on their labour input
3. maximization of output per land unit
4. maximization of the total output of the enterprise
5. minimization of the production costs of a given level of output
6. maximization of the firm's net worth (capital value over time)

In accordance with these separable objectives, the optimizing behaviour may also be expressed by six models of the large-scale co-operative enterprises:

1. the pure enterprise model
2. the co-operative model of the family-farm type
3. the intensity model
4. the output-maximizing model
5. the efficiency models
6. the growth models<sup>10</sup>

The unique work of pioneer significance thus outlines the possible main mathematical models of agricultural co-operatives. Here, model means a strictly mathematical model, the application of which is of vital importance in co-operative management. For the purposes of a complex scientific research into co-operatives, however, the construction of verbal models seems more expedient. The verbal model serves the description of the structure and operation of the individual co-operative systems, which would only be made more difficult if connected with the optimization problems of the system of objectives.

As for the main characteristics of the co-operative model to be constructed, we may say the following: The verbal model to be constructed is a *conceptual model*, to be more precise, the conceptual model of a material object. The co-operative must be looked upon as a material object, although the model to be studied is to be constructed not from material elements, but from ideal symbols. Even more concretely,

<sup>10</sup> *Fekete-Heady-Holdren: Economics of cooperative farming.* A. W. Sijthoff, Leyden — Akadémiai Kiadó, Budapest, 1976. pp. 110–111.

this means that the *iconic model* of the co-operative is applied. The elements of the model are the reflections and abstract symbols of the elements of the co-operative as a system.

An *abstract and idealized* model may be constructed in this way. The reasons for, and the necessity of, abstraction have already been touched upon above, and it is obvious that they must be accepted, meaning that the unessential, unimportant connections must be ignored. However, in all probability, idealization must also be applied, i.e. a few characteristics of the co-operative, without which it could not exist in reality, must be also ignored.

It follows from the above that, in the co-operative model constructed according to the principles described, the character of *M relation* may only be analogy. The correlation between the object examined and the model is by no means too minor to question the method of investigation. A closer correlation than this may only be imagined in relation to partial investigations. For example, the cybernetical model of a single production line of a given co-operative may be constructed where the character of the *M relation* is isomorphism or even homomorphism. However, the analogy between the structure and functions of the co-operative and co-operative model, which is manifested in a complex, comprehensive manner, is more suitable for the objective of inter-disciplinary research.

Finally, there is no doubt that research carried out in accordance with the outlined methodological principles provides us with *probable* knowledge in respect of the co-operative as a system. This is what may be expected from analogous models. It is recommended that the method be applied as an intermediate link in the chain of empirical and theoretical informatics which may serve as a means of promoting progress in co-operative theory.



**Jerzy Kleer\***

## **The Co-operative System and Managerial Systems in Socialist Economy**

1. The present analysis proceeds from two theses. The first says that co-operatives are one of the permanent economic forms in the socialist society. Naturally, their scope of action, role and importance differ in various countries.<sup>1</sup> The reasons for this phenomenon are complicated, they reach from traditions of the co-operative system in the respective country, the importance of the private sector, the economic policy pursued by the state to managerial and administrative systems in the national economies as existing in various countries. There is almost no relationship between the level of economic development and the size of the co-operative sector; definite characteristics do not exist that would determine the emergence of different types of co-operatives in different socialist countries.<sup>2</sup> The second thesis deals with the state management of the socialist national economy, based on the central plan. The structural basis of the central plan—or the national economic management at a macro-economic level, to say it more broadly—is social property that prevails in the form of state property in all socialist countries with the exception of

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<sup>1</sup>As to the problem of the quantitative scope of the co-operative sector. See: *J. Kleer: Perspektiven der sozialistischen Genossenschaftsentwicklung*. In: *Genossenschaften und Genossenschaftswissenschaft*, Jäger, H. Paul, Wiesbaden, 1984.

<sup>2</sup>Only two co-operative types in socialist European countries are of a general character: consumers' co-operatives, and agricultural production co-operatives that are prevailing in countries where collectivization was carried out except Bulgaria. In that country, state-co-operative enterprises called agro-industrial complexes exist since 1972.

Yugoslavia. Although central control is of a general character, the forms of this control like the degree of independence of economic units (enterprises and co-operatives) are different. That means that today, there are no homogeneous systems of control and administration concerning national economies in socialist countries.

The conclusion from the above mentioned theses can be formulated as follows: Both the co-operative sector and the system of national economic control and administration are not of a static, unchangeable character but are subject to changes in the course of their evolution; consequently, a differentiation comes into being between socialist countries. This means the differentiation of administrative systems go different ways irrespective of the maintenance of certain general economic principles linked with the social system.

2. Under the socialist system, co-operatives are permanent social-economic organizations. This statement is more of a practical character rather than a theoretical one although many statements have been verified and modified in theory. It is not possible to deal with this evolution completely here, I only want to mention some problems that are important for our analysis.

An especially important problem that had been disputed for many decades, is the character of co-operative property as one of the forms of socialist property. Although it was not contested that co-operative property shows characteristics of socialist property, it was considered in the past—and even today one may read or hear this view—as a form of property less mature than state property seen from a socialist point of view. This less socialist character of co-operative property or of co-operative economic management, to say it more broadly, was based on three assumptions: first, it is of a group character, second, it is necessary to use stimulants of material interest within co-operatives, and thirdly, it is linked with the risk connected with the functioning of co-operatives that had been considered as 'alien bodies' in the socialist economy.<sup>3</sup> As there was a certain period when the socialist economy was taken as a "super

<sup>3</sup>See: *J. Stalin: Economic Problems of Socialism in the USSR*, Warsaw 1952.



concern" with technical division of labour exclusively while the exchange of commodities was of a direct character, co-operatives as a specific economic form could not find their place in this theoretical conception.

Two conclusions were drawn from this conception: First, co-operatives are to serve for the transition of individual small farmers to large-scale socialist agriculture. Thus the duration of this form was reduced to that period in which the consciousness of former farmers would change and conditions for complete technological equipment in agriculture and small production (handicraft) except agriculture would be created. Secondly, the village is the predominant field of co-operative action.

A practical consequence was "to drive" consumers' co-operatives to the villages where their scope of action was reduced to satisfying service demands of the rural population. In this sense, a certain theoretical intervention was made saying that the scope of action for the co-operative form of economy would be agriculture and its population. A certain theoretical and practical consequence of these considerations was the liquidation of other forms of co-operative economy like, for example, housing co-operatives or handicraft co-operatives. At present, however, we can see a renaissance of these co-operative types.

Although that model of the co-operative system was valid only for a short time, certain practical consequences and certain theoretical judgements, too, are of a rather long-term character. This especially applies to the superordinated character of tasks in the central plan, to be solved by co-operatives, and the subordination of their interests to overall social demands. This is an essential problem and thus it is necessary to make some theoretical remarks in this context.

In socialist economy, we classify by three targets: *the general ones covering the interests of the whole society*; they are not only of the broadest scope of action but also of decisive importance for the economic structure both in their productive expression and under the aspect of property; *group targets relating to interests of certain groups*; at the early stage of socialist construction, this applies to co-operatives almost exclusively while in the course of the system's evolution, it also covers state enterprises; *individual targets concerning the individual or households to*

*say it more broadly*; in the pure model of socialist economy—in the initial period and in its theoretical substantiation, at least—, there was no room for private property in means of production. What existed in practice, were only remnants from the past. The property structure of the socialist economy was to be a homogeneous one, that is, it should only cover different forms of social property.

This theoretical conception of targets and interests in socialist economy brought about certain consequences for the co-operative system. If the superordination of overall targets against the other ones is accepted, the targets, tasks and scope of action of co-operatives will also have to be subordinated to these targets. Therefore, economic activities of the co-operatives were integrated into the central plan and subordinated to the solution of tasks determining general economic developments. Both in theoretical conceptions and in practice, this resulted in the fact that the scope of liberty in economic activities was limited by the framework envisaged in the central plan. The degree of independence for co-operatives was always determined by tasks set from above, and the co-operatives were never independent.

When the central plan was the major mechanism determining trends of development and the distribution of means of production, co-operative interests as interests of a certain group were subordinated to the interests of the centre. But this situation provoked certain consequences for co-operative members. The economic theory of the co-operative system says that the target of co-operatives is to achieve maximum benefit for their members and/or their households.<sup>4</sup> That means, priority is given to the interests of the members so that the activities of co-operatives are to be subordinated to these interests. The theoretical conception, however, proceeding from most essential economic and social targets to be determined by the plan, said that the interests of co-operatives, even more the interests of their members, ought to be subordinated to superordinated interests naturally. In practice, the interests of the members were put aside

<sup>4</sup>See: *J. Kleer: Zarys ekonomicznej teorii spozielczosci w socjalizmie*. Warsaw, 1979. p. 123 ff.

and satisfied only to the degree which was possible in connection with solving the tasks of the central plan.

The system of relations in socialist economy was of a hierarchic character: this was expressed in the fact, for example, that the targets of lower units were subordinated to those of superior units.<sup>5</sup> This was reflected in the organizational structure being of a vertical character. The system of vertical relations reached from the centre (the state) through ministries and certain medium forms (central administrations, concerns) up to the enterprises. The co-operative sector was part of this hierarchic organisational structure that means, it was also of a hierarchic character: the central associations were at the top, then there were the regional units, and the co-operatives were at the bottom. The essence of such a structure was that the central units had to exercise two functions so to say: On the one hand, they were the representatives of the centre against the co-operatives, and on the other hand, they were the representatives of co-operatives against the centre. However, these two functions of central associations were not equal—neither in theory nor in practice. The above mentioned conception is expressed in the subordination of targets to be achieved by the co-operative sector to overall national economic targets. The interests of this sector were to be taken into account but only to the extent to which they were not opposite to targets stipulated in the central plan. In practice, this predominance of general interests and targets against the targets of groups or individuals was even greater.

3. Proceeding from this point of view, we are going to deal with the fully centralized model which at a certain period was said to be the only admissible solution in the field of the national economic administration and management. This model is well-known both in its theoretical version and practical shape. Here I only want to draw your attention to some characteristics which are of essential importance for the co-operative system.

Under the conditions of the centralized model of the national economic administration, the scope of liberty is limited with regard to decision-

<sup>5</sup>See: *O. Lange: Ekonomia polityczna*. Vol. 1, 1963.

making in basis enterprises. But this problem is even more complicated because tasks are not only set by the centre but firstly, they are also of an almost universal character, that means they determine *what, how much* is to be made *how*; and secondly, these tasks are set administratively, that is by order. The solution of economic tasks must not bring about fixed results in various units, in the form of profit, for example; they may even result in losses at the level of enterprises or co-operatives if such an economic activity had been accepted by the centre, that means if accounting made at that level proved the purposefulness of such deficitary activities. Accounting was made at the macro-economic level and not at the micro-economic one.

These two characteristics, however, are opposite to the economic principles of co-operatives that have to act in conformity with micro-economic efficiency; within the framework of direct or indirect democracy embodied in co-operative self-administration, the members are to decide what and how much is to be done how. That means, two basic co-operative characteristics are limited or even eliminated in the centralized model: co-operative self-administration that is put aside to insignificant functions, and the market that is of enormous importance for co-operatives and that is given only a marginal role in the fully centralized model. In another paper, I wrote that co-operatives are inclined to establish market relations,<sup>6</sup> in practice, the centralized model eliminated such relations, they didn't play any role as mechanisms of regulation at least.

4. The above mentioned theoretical principles are being applied in different models of socialist economy in a varied manner. I paid somewhat more attention to solutions linked with the fully centralized model; I did so because this was the first model in socialist economy historically seen, and it had been considered to be the only correct one in theoretical and practical terms for a rather long period.

The system of management in socialist economy is seeing a certain evolution since the middle of the 1950's; most generally said, this

<sup>6</sup>See: *J. Kleer: Państwo i spółdzielczość w socjalizmie. Warsaw 1978.*

evolution aims at the following: to make the central plan less rigid, to limit its character as a directive to a certain extent, to expand the independence of economic units, to differentiate institutional-organizational solutions and to use cost-accounting and marketing more efficiently. These facts are well-known so that it doesn't seem to be necessary to deal with them comprehensively here.<sup>7</sup> Let us try to generalize experience made in socialist countries so far with regard to national economic management. At the same time, we will try to construct certain model types and to classify the co-operative system by these models with taking its basic characteristics and principles into account.

Every system of national economic management shows three basic characteristics. First, these are mechanisms regulating the distribution of production factors among various fields of application. In socialist economy, we can distinguish between two major mechanisms of distribution—the central plan and the market; the character of these mechanisms can be and actually is different as to their scope of action and intensity. Secondly, these are instruments effecting managerial economic subjects; a dichotomic classification of economic and administrative instruments can be made but it must be said that in practice, this classification is far more complicated. Thirdly, these are institutions that can be classified as follows: institutions having power over other economic units, institutions of a representative character and representing the interests of economic units, and institutions for co-operation with other economic objects (that means, institutions of a complementary character). A most general classification of models of national economic management in socialist countries would result in the following four models:<sup>8</sup>

- I. Fully centralized model,
- II. Centralized model of a moderate character characterized by a

<sup>7</sup>See: *Wirtschaftspolitik im Systemvergleich*. Edited by D. Cassel Munich, 1984.

<sup>8</sup>This is not a purely theoretical classification because the models apply to various socialist countries at different stages of their developments. However, there is no order of models, that means, it is not necessary to pass from Model I to Model IV.

certain use of instruments and institutions providing basic economic units with a certain liberty,

III. Mixed model in which the central plan assumes strategic functions while the actual distribution of production factors is made through the market,

IV. Market model in which the market is the main mechanism of distribution while the central plan is given the function of information predominantly but that of distribution only to a limited extent.

Now we are going to deal with the models of management more in detail with taking their constitutive characteristics such as mechanisms, instruments and institutions into account especially.

### *Mechanisms*

*Model I:* The central plan is of a universal character, that means, it regulates all spheres of economic activity, determines the targets and tasks and distributes means to be used for their implementation in line with the centre's vision of development.

*Model II:* The central plan covers all economic spheres but it is not of a too detailed character. There is no overall interference in the work of enterprises, it is not determined what and how much is to be produced how; there is no overall distribution of production factors. There is a market, with regard to households at least; it exercises a limited influence on economic life.

*Model III:* The central plan determines long-term development trends and creates the general framework of distributing production factors; direct distribution, however, only relates to a certain part of these factors (central investment); the annual plan is binding only for the economic centre while economic organizations and enterprises prepare their own individual plans in line with their priorities. The market assumes functions of regulation with regard to the current work of enterprises.

*Model IV:* The market is the main mechanism of regulation while the plan influences the development of the infrastructure all over the country. If the current balance is disturbed, the centre may intervene (one example

is the temporary introduction of fixed prices for certain products). A quasi-plan-based mechanism of regulation exists in the regional system.

#### *Control instruments*

*Model I:* Control instruments appear in the form of orders and prohibitions elaborated by economic administration. Market categories such as the price have passive functions, they are used as data for accounting mainly. Prices are fixed centrally, and prices of products are adapted to a certain general vision of development and targets of the centre. The system of allocation and subsidies is developed comprehensively, the centre takes over the surplus (as part of profits) and concentrates it in its-hands.

*Model II:* In addition to orders of an administrative character, economic instruments influencing enterprises (price, profit, credit etc.) begin to play a certain role, the scope of allocation and subsidies is limited; the connection between investment and output in enterprises is of a more general character.

*Model III:* Instruments of an administrative character, orders as control instruments, are limited although they continue to exist; the centre guarantees the fulfilment of tasks in the central plan by applying economic instruments (that may be of a parametric or market character). Some prices are fixed by the state, some prices are formed on the market, and there is a tendency towards an increasing price-forming role of the market.

*Model IV:* Control instruments of market character prevail. The centre influences economic objects by determining the amount of credits and foreign exchange; orders are given only in a rudimentary form.

#### *Institutions*

*Model I:* The characteristics of institutions are as follows: there is a hierarchic structure of institutional relations; this structure is of a vertical character and classified by branches and economic fields; institutions at the lower level have limited powers or no powers at all. Generally, their task is to pass decisions taken at the supreme level to units subordinated to them. The way of decisions goes in one direction, from the top to the

bottom; decisions may concern production, personnel or technology. The role of the institutions is especially comprehensive because economy is controlled through administrative orders and prohibitions mainly. Therefore, institutions of an economic character such as banks, for example, assume more technical functions. Co-operative units are integrated into the system of institutional dependence with all principles of subordination.

*Model II:* Hierarchic dependencies between ranked institutions are less strict to a certain degree; this is achieved mainly by means of processes called “administrative decentralization” sometimes. Some fields of decision-making are given to the subordinated level. Institutions, some of them at least, begin to take economic accounting into account when they take decisions. The role of institutions of a functional character is gaining in importance, this applies to banks, overall economic ministries (finance, foreign trade etc.). Thus they are capable of pursuing their own economic policies to a certain degree; the overall framework of these policies is determined by the central plan, however. The same applies to co-operative unions that keep their powers against co-operatives subordinated to them.

*Model III:* Institutions are diversified largely, a difference is made between those where administrative orders and prohibitions continue to prevail, and those that are guided by economic rules. The latter begin to influence economic life increasingly. The system of hierarchic dependencies is decreasing largely, this especially applies to dependencies of a vertical character. Mutual relations between institutions and basic economic units (enterprises and co-operatives) are changing: first, they begin to be of an economic character and secondly, the powers at superior levels are decreasing or are eliminated.

*Model IV:* Overall economic institutions are guided by economic rules predominantly while regional institutions maintain a certain degree of administrative control as to fields subordinated to them.

As a proceeding point, I take the most general definition of a co-operative—the association of persons who established this association voluntarily; it has self-administration and a target of mutual benefit, of an



economic character predominantly.<sup>9</sup> Thus the characteristics of a co-operative are as follows: *voluntary* foundation and voluntary membership; *independent* co-operative work; *self-administration* as to their management and the *superordinated position* of the members' interests and the interests of the co-operative itself. These characteristics of co-operatives result in their internal relations that are based on marketing mainly.

5. There is no socialist country where the co-operative sector is of a dominating character, and therefore, it is always influenced by the system of national economic management. When confronting the general characteristics of co-operatives with the respective systems of national economic management, we will see that it is essential for co-operatives as group organizations based on self-administration and working at the regional level, under which system of management they develop.

Proceeding from the general characteristics of the system of national economic management on the one hand and the characteristics of co-operatives on the other hand, we see that for the latter, Model I is the most unfavourable one while Model IV creates most favourable conditions. These would be most general conclusions from the theoretical analysis. However, when studying actual situations in socialist countries, these theoretical conclusions cannot be confirmed fully. Model IV, referring to some aspects existing in Yugoslavia with greater or smaller deviations, has not created especially favourable conditions for the development of the co-operative system; one may assume that they are far more favourable in Model III (Hungary), in Model II in the 1970's (Poland) and in a variant of Model III existing in Poland today.

In this context, I want to make two remarks based on Polish experience, that are—as I think—of general importance. Under all conditions co-operatives have two aspects; on the one hand they are associations and on the other hand, they are enterprises. As there is no direct dependence between the scope of the co-operative sector in the national economy and its management, it may happen that the co-operative system is developed

<sup>9</sup>See: *J. Kleer: Zarys ekonomicznej teorii spółdzielczości w socjalizmie. Ibid., p. 7.*

with regard to its entrepreneurial functions (growth of economic potential, membership etc.) while their associational character remains underdeveloped (limited independence, no influence by self-administration on basic decision-making or only a small one, etc.). This is not only a theoretical statement—in the 1970's, we actually had such a case in Poland. For different reasons, the state was interested in the growth of the co-operative sector in its entrepreneurial functions (this applied to consumers' co-operatives, housing co-operatives and, since the beginning of the 1950's the sales and supply co-operatives in the villages). The associational functions, however, were developed only very weakly. The whole co-operative sector developed in conformity with logics determined by the central plan.

As the socialist state reserves the right to intervene in neuralgic fields—this is made in every model—, the actual scope of independence of co-operatives is limited, where they occupy dominating or even monopoly positions in neuralgic fields like the foodstuff market or housing (in Poland in the 1970's and at the present time). And this happens irrespective of legal or institutional conditions.

**Hugo Kylebäck\***

## **The Consumer Co-operative Movement in Sweden — Theory and Practice before the Second World War**

Since the late 1970s and the early 1980s much in-depth research has been carried out in Sweden to spread knowledge about the consumer co-operative movement. Although, political science and history have dominated this research, many problems remain to be discussed, not least the connection between co-operative ideology and economic history. Therefore, a contribution to the discussion about the historical ideology of the Swedish consumer co-operative movement during its first four decades seems to be appropriate.<sup>1</sup>

### **1. THE COMPLETE CO-OPERATIVE SOCIETY**

During the first decades of the twentieth century, the consumer co-operative movement was to reform aiming at an entirely co-operative society. This was expressed in the very first proposal for rules in connection with the foundation of Kooperativa förbundet (KF—The Swedish Co-operative Union & Wholesale Society) in 1899, and also in its very first programme draft in 1906. According to the proposal, the co-operative movement aimed at being an important link in the struggle of the working

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<sup>1</sup>*Sven Åke Bööck, Svensk kooperationsforskning (1984), s. 14 ff; Kooperationen i Sverige, SOU 1979:62; Kooperationen i samhället, SOU 1981:60, avsnitt 11:4; Kooperativa företag (John Skär), SOU 1981:54; Olof Holm. Kooperation i ofärd och välfärd, (1984), s. 7 ff.*

classes for a better and more dignified existence within society. However, the proposed rules were re-drafted to state that the co-operative movement should aim at the promotion of public awareness and education, and the amelioration of the situation of the people; morally as well as economically. The very first Secretary and Manager of KF, *G. H. von Koch*, skilfully succeeded in getting the co-operative movement to act in accordance with the principle of political and religious neutrality, which was not formally entered in KF's model statutes for co-operative societies until 1918, nor in the rules of KF until 1926. KF's status as a popular movement, open to all social groups, was decided at KF's first congresses. This important question has never since been discussed at any congress of KF.<sup>2</sup>

The main reason for this attitude during von Koch's period as secretary (1899–1905) was that KF had to avoid external, as well as internal administrative and commercial problems. Therefore, the principle of neutrality was considered to be self-evident. Political and religious disputes would only weaken the movement. Taking the British co-operative movement as a model, *von Koch* tried to reach all the classes of society. However, the response was not always positive. *Von Koch* regretted that his attempts to influence the educated classes often proved futile. However, there were some exceptions of great value.<sup>3</sup>

At the national congress in 1906, the Board of KF submitted the draft of a co-operative programme, which was extensive as well as Utopian. The movement should by no means be content with organization in the retail trade, wholesale-business and production, but should be the great and remoulding force, which was to lead to economic independence for consumers and a better social life altogether. Class differences and struggles were to be replaced by united efforts and understanding. In regard to the question of production, the congress maintained that

<sup>2</sup>*Hugo Kylebäck*, *Riktlinjer och handlingsprogram för den svenska konsumentkooperationen*, *Ekonomisk-historiska studier, tillägnade Artur Attman*, Göteborgs Universitet, (1977), s. 96 ff.

<sup>3</sup>*Social tidskrift* 1909, s. 323 ff; *Hugo Kylebäck*, *Den svenska konsumentkooperationens relationer till den politiska och fackliga arbetarrörelsen* (1968), s. 51 ff.

industrial production should be one of KF's main tasks and not a concern of the co-operative retail societies. The industry projects were not to be commenced until the sales of the societies and the wholesale-business had become larger and the financial resources more solid. However, after the question was also postponed at the national congress in 1909, there ensued a profound silence in respect of the programme draft.<sup>4</sup>

The force behind the draft programme of 1906 was the KF Secretary *Martin Sundell*, During the brief period when he was active within the movement 1905–1910, a temporary alliance between KF and the political Labour Movement took place. Sundell, who may be described as a radical social reformer, with pronounced anti-capitalistic opinions, considered that the consumer co-operative movement, the political and trade-union Labour Movement and the organized teetotallers were forces, which ought to act to eliminate the social injustices of society. The Utopian elements in *Sundell's* ideas about co-operation emanated from the co-operative society at Rochdale, which is considered to be the cradle of modern co-operation, from whence the idea about the fully integrated co-operative movement originated. According to the 'Great Rochdale Programme', retailing was only a mean to create resources in order to establish self-reliance. This dream of a better life, not only for co-operative members but also for the entire society, emanated from *Robert Owen's* Utopian ideas and *Jeremy Bentham's* utilitarianism. However, the co-operative activity in Sweden did not follow Utopian guidelines.<sup>5</sup>

The establishment of KF in 1899 became an important landmark in the development of the consumer co-operative movement, although KF mainly worked as an institution for information and a contact point for the often very poor societies during the first few years. From 1904 onwards, KF also started organizing joint purchases and, from 1921, on a large scale production. These new initiatives were part of the consolidation and cautious expansion of KF's activities and of its partner organizations.

<sup>4</sup>*Hugo Kylebäck*, *Konsumentkoperation och industrietkarteller* (1974), s. 75 ff.

<sup>5</sup>*Olof Ruin*, *Kooperativa förbundet* (1960), s. 75 ff; *Social tidskrift* 1909, s. 323 ff och 382 ff; *Hugo Kylebäck* (1968) s. 33 ff.

As early as 1907, KF drafted model statutes for retail societies at the local level to support them in their practical work, as the societies were mainly built up by workers and other people from the lower classes. The rigorous regulations of the model statutes, which among other things prescribed cash trade and the raising of capital shares and funds, have been of the utmost importance to the retail societies. In 1909 KF established a solidity department, which assisted the retail societies in economic matters, and also protected KF from losses by keeping an eye on the solvency of the retail societies. Seven years later, in 1916, KF also established an audit department, which further improved the economic activities of the co-operative movement. Gradually, the auditors also started to act as advisors in the technical business field. As regards production, it was very important that for a long time KF renounced the idea of far-reaching plans because of its limited resources. Moreover, it was evident that the co-operative movement could not integrate its activity with the labour production societies, which, according to a resolution of the congress in 1914, could not be accepted as members of the KF. Despite the fact that many attempts were made to consolidate the activity of the retail societies, not less than 300 societies left KF during the period up to 1918 due to bankruptcy or liquidation, caused by poor financial management.<sup>6</sup>

## 2. A SOCIETY OF THE CO-OPERATIVE COMMONWEALTH

In the beginning of the period between the two Great Wars, the most famous co-operative ideologist of our country was *Anders Örne*, a Social Democrat Member of the Riksdag and a cabinet minister and who may be considered as a liberal Social Democrat, who outlined a society of Co-operative Commonwealth. In his work, "Koooperatism", *Örne* main-

<sup>6</sup>SOU 1979:62, s. 38 f (indicates that one society out of three had gone into bankruptcy); *Hugo Kylebäck, Konsument- och lantbrukskooperation i Sverige* (1984), s. 14 f.

tained that a large percentage of economic resources should be owned and administered by organized consumers—a plan with certain similarities to *Martin Sundell's* Utopian society. The ideas of the Co-operative Commonwealth originated from England, but it got most of its supporters from France, Germany, Switzerland and Sweden. Its adherents chiefly considered the co-operative movement to be social in its character, and therefore something more than a commercial enterprise. The most important representative of this theory in Europe was the French co-operator *Charles Gide*, whose work “*Les sociétés coopératives de consommation*” was translated into Swedish by *Örne* as early as 1919. In *Gide's* ideal society all economic activity was to be run along co-operative lines. Even the most fundamental point of the socialist programme, the socialization of the means of production, was acknowledged by *Gide*. Co-operative activity was considered to lead to an elimination of middlemen and to establish direct contracts between producers and consumers. However, for the Swedish co-operative movement, the Co-operative Commonwealth was, and remained, a theory only. Neither the Utopian ideas nor the theories about the Co-operative Commonwealth made any impact on the daily occupations of the consumer co-operative movement in Sweden.<sup>7</sup>

### 3. THE CO-OPERATIVE SECTOR AND THE COUNTERVAILING POWER

The theory of the co-operative movement was succeeded by lines of thought about the co-operative sector, which divided society into three sectors: the privately owned, the state and community owned and the co-operative owned. This idea was carried out by many theorists; the most famous being *Georges Fauquet* with his work “*Le secteur coopératif*” (1934). During his epoch as a head of the co-operative section of the International Labour Bureau in Geneva, he found out that the co-operative

<sup>7</sup>*Charles Gide, Les sociétés coopératives de consommation* (1919); *Olof Ruin* (1960).

movement could not dominate future mixed economy society to such an extent as some other theorists had argued earlier. Therefore, the co-operative programme had to be reduced to one sector of economic life. In competition with privately and socially owned enterprises, however, the co-operative movement with its growing capital resources could exert a considerable influence on many different spheres.<sup>8</sup>

The representatives of the consumer co-operative movement in most countries accepted the major arguments that the movement had to act within a limited sector of commercial and industrial life with the task of reforming rather than replacing the private enterprise. The countervailing power of the movement was effective in many fields. The Swedish consumer co-operative movement had opened up an architects' office by the beginning of the 1920s, which improved the standard of shops by making them more hygienic and practical. The initiation of an efficient and well-implemented system of control for goods and money was of great importance. The work of local and district auditors was of a high standard. The co-operative movement also prompted a greater degree of collaboration with the private sector. Private retailers formed Sveriges Minuthandlers Riskförbund (The Swedish Association of Retailers) in 1908, and Sveriges Köpmannaförbund (The Swedish Retail Federation) in 1918, and private wholesalers formed Sveriges Grossistförbund (The Federation of Swedish Wholesale Merchants and Importers) in 1922. Joint buying was achieved through the forming of AB Hakon Svenson in 1917, AB Speceristernas Varuinköp (The Grocers' Central Purchasing Organization) in 1922, AB EOL and Nordsvenska Köpmanna AB (Northern Swedish Merchants) in 1938: these four associations collaborated in ICA AB from 1939. In 1937, private wholesalers formed AB Svenska Kolonialvarugrossister (Swedish Grocery Wholesalers). Even private manufacturers felt the need of forming their own interest organizations to balance the consumer co-operative movement, but also to counterbalance the sales and new establishment restrictions of the private

<sup>8</sup>*Georges Fauquet, Le secteur coopératif (1934); Ibidem, Konsumenter och producenter i samverkan, Kooperatören 1931:18*



trade and in 1932 Kemisk-Tekniska och Livsmedelsfabrikanters förening (KeLiFa=The Association of Chemico-Technical and Foodstuffs Manufactures) and in 1933 Svenska Textil- och Konfektionsfabrikant-föreningen (TeKoFa=The Swedish Association of Textile and Clothing Manufacturers).<sup>9</sup>

#### 4. THE CAREFUL DEVELOPMENT OF THE CO-OPERATIVE MOVEMENT

It is true that the real break-through in co-operation took place during the time between the two Great Wars, but development was very cautious. At that time, the market share of the retail co-operative societies was below 10%. The number of societies grew to 924 in 1920 but decreased to 693 in 1939, which was an indication of a conscious endeavour to group societies together in larger units, and to further develop the network of shops within the frame of the existing societies. The very first large co-operative societies were formed by the 1910s. This was done by amalgamations of small societies; first in Stockholm (1916), and later at Eskilstuna, Örebro and Göteborg. Large units were also formed in the countryside. This continued during the 1920s and 1930s. Further expansion led to the fact that the number of shops increased from 1,540 to almost 4,900, and the number of individual members rose from 234,000 to 635,000. On the financial side there was a stabilization. Thus, the average amount of own capital (shares and funds) in the consumer co-operative societies grew from 45 to 69% of total liabilities and at the same time KF's own capital together with loans from its members increased from 69 to 77% of total liabilities.

The success of the co-operative movement despite its having originated in environments which had no possibility of creating wealth rapidly, depended mainly on the private retail business being divided into a multitude of small and inefficient units. However, it was also due to the fact that a great communion began to develop between KF and the

<sup>9</sup> *Hugo Kylebäck* (1974), s. 46 f.

societies, and that KF became a stronger and stronger central organization of great importance with regard to the economy of the societies. Despite KF's attempts to consolidate the societies, there were many poor ones in the beginning of the 1920s. The number of bankruptcies among them reached 70 during the years 1919–1921 only. To help societies, in trouble, the national congress of 1922 decided to create Svenska Hushållsföreningen (SHF = the Swedish Auxiliary Organization), which started to operate in 1923. Its task was to take over the management of those societies which for some reasons had run into economic difficulties, and to help them back on a firm financial footing by different methods of rationalization. Thereafter, the members regained the management of their society. The reorganization obtained such fine results that only a few societies had to be wound up because of bankruptcy. The founding of SHF meant further centralization and greater economic responsibility on KF's part. However, the organization was wound up after completing its work.<sup>10</sup>

In other fields, the development of the co-operative movement is characterized by good planning and sound financial management. With regard to production, it was quite clear that the movement must influence different kinds of industry in order to act as an efficient consumers' organization. To integrate those levels below the retail business of the societies and the wholesale-business of KF, was considered to be not only natural, but also a necessary development for the consumer co-operative movement.<sup>11</sup>

<sup>10</sup> *Hugo Kylebäck* (1984), s. 18 ff

<sup>11</sup> *Hugo Kylebäck* (1974), s. 28 ff

## 5. KF—A CONSUMER CO-OPERATIVE ORGANIZATION, NOT INCLUDING LABOUR PRODUCTION SOCIETIES FROM 1914

When KF started up it was meant to be a central union for all types of co-operation. Therefore, it was natural that it originally comprised societies whose task it was to carry on co-operative manufacturing, organized by the producers. The idea was that consumer co-operative societies should concentrate upon distribution of goods, whilst production should be organized as producer co-operative societies of farmers and workers.<sup>12</sup>

The interests of the consumer and producer co-operative movements, however, conflicted over and over again, as the consumer co-operative societies devoted themselves to meet consumers' demands without making any profit, while the production co-operative societies wanted to attain the largest possible profit from their activities in the interest of the producers.

One of the most well-known labour production societies was the Kooperativa cigarr- och tobaksproduktionsföreningen Fram (The Co-operative Cigar and Tobacco Production Society Farm) at Gävle, founded by unemployed tobacco-workers, and Kooperativa syfabriken Linnéa (The Co-operative Sewing Factory Linnéa) in Stockholm, established by female dressmakers. These two societies well illustrate the problems that KF faced when it tried to co-ordinate the manufacturing of the labour production societies with the sale of the consumer co-operative societies' goods.

In a motion to the national congress in 1907, Linnéa stressed the fact that the society itself, together with similar ones, had been established as a complement to the co-operative distribution units. The consumer co-operative societies ought to appreciate "that the production would also be put under the umbrella of the co-operative movement and that they should therefore do their utmost to support it. Such support ought to be carried

<sup>12</sup> *Hugo Kylebäck* (1984), s. 131

out by selling co-operatively manufactured articles instead of those ones from factories outside the movement". The national congress urged the consumer societies to support the existing labour production societies, but pointed out that manufacturing of necessities should preferably be carried out in connection with KF's wholesale-business. In the beginning, the number of labour production societies grew rapidly, but after one decade KF's last hope of a solution to the question of co-operative production in the form of producer-owned factories was abandoned. The statutes of 1914 indicated that KF limited its activities to become a co-operative central organization. From then on, membership could only be gained by consumer co-operatives and insurance societies but not by labour production societies, which were considered "to have accepted the name of co-operative, but in fact lacked any connection with the co-operative movement, working in favour of consumers".<sup>13</sup>

## 6. THE DISTRIBUTION OF TASKS AMONG KF AND THE SOCIETIES

The distribution of work in respect of production among KF and the local consumer co-operative societies was agreed upon at the national congress in 1924. All manufacturing, with the exception of bread and meat-products, was considered to be carried on both centrally and regionally. This was particularly important for consumers and where co-operative production was considered to be more effective than purchase. It was also natural for KF, as a consumers' organization to organise production in order to deal with competitors and monopolies. As a guide for central production it was decided that KF should concentrate upon a few industries to exert a strong influence on the lines of production instead of dividing its activities between many different types of business. The movement had taken steps to build up its own resources its funds were not substantial.

<sup>13</sup> *Hugo Kylebäck* (1974), s. 69 f

During the 1930s, problems with co-operative production arose as many KF industries could not sell all their produce within the movement. In 1934 the national congress decided that KF should continue to make new industrial efforts but that emphasis should be put on the manufacture of goods for the consumer societies. From the middle of the 1930s KF also acquired shares in some private industrial enterprises. This was considered to be in the interest of the consumers, and to inform KF hints of any further steps to be taken.

Apart from direct invention, KF tried to influence legislation in respect of limitations of competition. KF's comprehensive information network regarding the monopolistic formation of prices no doubt had an effect on public opinion, but KF didn't succeed in getting its demand for the publishing of cartel agreements realized until after World War II.<sup>14</sup>

## 7. THE PROGRAMME OF ALBIN JOHANSSON

To discuss KF's development before World War II without mentioning *Albin Johansson* would be a mistake. This man, who was the most influential leader of the business part of the organization, was responsible for the implementation of industrial policy and the initiator of many well-known industrial establishments. As a result its splendid success within the field of production, the organization succeeded in reducing retail prices by no less than by 59% on the price of margarine, 47% on flour, 58% on canvas shoes, 37% on bulbs and 26% on the price of oatmeal.

Albin Johansson's production programme, based upon his experience of study travels in Germany in 1911 and 1913, was first presented in 1914. It was considered that the implementation of centrally managed production should not take place until there was a solid financial base for the retail and wholesale organizations. Thus central production should

<sup>14</sup> Hugo Kylebäck (1974), s. 72 ff

only be implemented when, and if, the co-operative movement could have a real influence upon qualities and prices. According to Albin Johansson, production must never be an end itself.<sup>15</sup>

## 8. SUMMARY

An examination of the consumer co-operative history of ideas shows that during the two decades around 1900 there was a great difference between the theorists and practical activity. During the years between the two Great Wars, on the other hand, theory and practice were more in harmony.

The authors of the programme behind KF's first draft statutes in 1899 and the first draft of the programme in 1906, and the supporters of the early labour production societies aimed at an all-co-operative society. Even *Anders Örne*, who was normally a realistic person, drafted a similar co-operative plan, where a great deal of economic activity was to be owned and managed by the organized consumers at the beginning of the epoch between World War I and World War II. Neither Utopian nor co-operative theories affected the daily activities of the co-operative movement. Instead, the movement accepted that it had to act within a limited sector of economic life, aiming at the reforms of private enterprise. In practice, implementation of theories about the co-operative sector was mainly carried out by *Anders Örne* and *Albin Johansson*.

The reason for avoiding social changes in a wide perspective, and instead following a more evolutionary development, lead to comprehensive internal problems: in 1903 a wholesale organization standing near KF went into bankruptcy; a severe struggle against a strong margarine cartel took place during the years 1909–1911 and reduced funds considerably; almost 300 consumer co-operative societies left KF during the era up to 1918—out of which more than 100 societies went into

<sup>15</sup>*Herman och Sven Stolpe*, *Boker om Albin Johansson 1* (1969); *Hugo Kylebäck* (1977), s. 99.

bankruptcy during the years of the margarine struggle, and furthermore, bankruptcies during the years 1919–1921 amounted to 70—and would probably have been even greater if Svenska Hushållsföreningen had not intervened.

The reason why the co-operative movement met with success depended to a great extent on the careful and patient expansion of retail and wholesale business and production. The latter was managed by KF and the consumer co-operative societies, while the labour production societies, each of them being hazardous economic venture, had to run their own businesses. It was of great importance that the movement was in no respect linked to any political party or religious community. Except for the *Sundell* years, *Axel Gjöre's* declaration was relevant: "The consumer co-operative movement is different from, and greater than, a class movement. It is based upon the co-operation of people as consumers and cannot be assigned to classes of society, which are more or less alien to the nature of the movement".

However, it must be remembered that doubtlessly the most important factor in the co-operative success was of external nature: the private retail business being divided into a multiplicity of small and ineffective shops.





**Juhani Laurinkari\***

## **Basic Co-operative Values**

### **1. INTRODUCTION**

The phenomenon 'co-operation' can be seen from different aspects. Proceeding from economic sciences, for example, co-operation is something else than social science or politics. In terms of applied economics, co-operation can be regarded as the economic form of co-operation organised in such a manner that it helps its participants. Sociologically seen, co-operation can be described as an organisation, for example, which serves beside other things to assume (production) functions of the society. Legally, co-operation is a legal person (co-operative) with its rights and duties.

Additionally, co-operation is a subject of the other scientific disciplines. Anthropologically seen, for example, co-operation is one of the forms of action carried out to maintain the society and its members. Modern organised co-operation was preceded by a variety of different forms of co-operation with the characteristic function of self-help in relation to the members of the society so that these were able to survive. In that case co-operation has deep socio-political, economic roots. Co-operation did not emerge to achieve economic success but to help survive.

Thus nowadays multi-dimensional character of cooperation seems to contain many historical elements. It may be almost impossible to understand co-operation without analysing the system of values. In value analysis, one tries to reveal the basic structure of the phenomenon concerned, that is, values being the basis of the respective phenomenon.

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Value analysis means to study motives or roots necessary for covering the 'sense' of the respective phenomenon more comprehensively. Value analysis does not mean that these studies must reveal new or epochal findings necessarily. The purpose is to achieve a 'conceptual mastering' of this phenomenon.

Many studies cover the principles and the specific character of co-operation (these problems have been dealt with for example *Aksnes*, 1982; *Bager*, 1984.; *Bluemle*, 1981.; *Craig*, 1980., *Duelfer*, 1984.; *Engelhardt*, 1983.; *Røkholt*, 1985.). In an earlier study in the form of a textbook (*Laakkonen-Laurinkari*, 1985.), I decided to point out the basic character of co-operation, to apply a so-called paradigm (*Kuh*, 1962.). I said, for example, that the crisis in the consumers' co-operative system may be due to the fact that these activities are not based on the idea of co-operation. To consume jointly does not result in motivation obviously. To act, produce, collect, process and be active in marketing provides more motivation than mere consumption. For co-operation, this provides opportunities of a social-political and functional-scientific character (see also the work of *Weuster* mentioned in the present paper). Which are the basic values of co-operation? On which hierarchies is co-operation based?

I do not make an analysis of values according to a pre-determined model but I limit myself to dealing with values of co-operation by proceeding from the contents, targets, their achievement and the means used for this aim. The analyses of the contents, targets and means in connection with values are based on ideas about co-operation as a purposeful unit.

## 2. "VALUE" AS A CONCEPTUAL ISSUE IN COOPERATION

### 2.1. The "material" value theory

The term 'value' as a basic term is used in many scientific disciplines. In national economy, the so-called value theory deals with the term of

exchange predominantly. Generally, value is understood to be the economic value of objects. The purpose of the traditional dispute is to find the essential of the term “exchange value”. The terms ‘labour value theory’ and ‘benefit theory’ are being used. As these problems are important in connection with co-operation, I want to start by dealing with the principles of these theories: In labour value theory, time used for the production of consumer goods (commodity) is considered to be its value of measurement (exchange value). Generally, labour is measured by means of the time used for the production of consumer goods. Especially in Marxist tradition, the labour value theory is the fundamental importance. However, the foundations of labour value theory were already laid in classical national economy of the 17th century.

A characteristic feature of labour value theory is the conceptual specification of ‘value in use’ and ‘value in exchange’. This specification comes from the period of Adam Smith. “Essential commodities” come from the nature directly (water, air, sunshine etc.) and have a great value in use, but only a very small value in exchange for example. A precious stone, for example, can have a great value in exchange but a very small (direct) value in use. Last, this specification indicates how useful the commodity is.

From a philosophical point of view, the problem of the labour value may have been mentioned already in the works of Aristoteles. His approach, however, is far from the Marxist labour value theory. Value problems were linked with views on correct and wrong human needs as developed in Stoic philosophy, for example (Riihinen, 1983).

The problem of value in use and value in exchange is also interesting in connection with the market character of co-operatives. Basically, products produced by co-operatives need not have a value of exchange but always a value in use. Generally, commodity goods and services produced or organised by co-operatives are goods to satisfy the needs of their members, so-called ‘utility value goods’.

At the initial stage of co-operation, the value in use was the predominant topic of co-operatives. Co-operation of consumers to produce foodstuff was carried out in mills and bakeries, for example. The so-called workers-co-operatives or subsistence-co-operatives may also be

closely linked with implementing the principle of value in use. Especially the representatives of the so-called pre-co-operative forms of co-operation implemented the principles of community and value in use (SOU, 1979).

In the course of time, co-operatives increasingly implemented the principle of exchange. Co-operatives became economic enterprises increasingly. The economic market mechanism “determined” the value in exchange of products. Naturally, essential goods also have their value in use. With the generalization of the principle of value in exchange, economic profitability has become an essential issue of co-operation. The transition from the principle of co-operation to the principle of competition became evident increasingly. This change was the logical consequence of so-called ‘full capitalization’ that took place in market economy countries, and in socialist countries to a certain extent, in the last few decades. In the course of time, co-operative products—essential goods—have become subject of laws governing the value in exchange, like all the other commodities or services. In this respect, co-operation has been ‘secularized’ with regard to its basic principles. Historically seen, some persons even hold the view that this kind of co-operation had fulfilled its task. The present time would provide new possibilities of co-operation (e.g. the so-called ‘smooth’ technology, new forms of co-operation etc.).

The view inherent in benefit theory on the value of essential commodities can be designated as utilitarian. Hedonistic features are also closely linked with the benefit theory. Applied economics has also been designated as “Genusslehre” (Genusslehre: *Gossen*, 1889.). The benefit theory is rooted in Epicurian philosophy on pleasure and the avoidance of pain (*Riihine*, 1983.). “To achieve maximum pleasure” has been considered to be the aim of national economy (*Jevons*, 1911.). *J. Bentham* and *J. S. Mill* are to be regarded as basic philosophers of the benefit theory.

National economy on this basis takes man as the ‘homo oeconomicus’ type. Such a ‘selective-behavioral theoretical’ view on man leads to “economic efficiency” among other things. Man selects such a combination of consumer goods, that occupies the supreme position in his own order of values; this is so-called preference-thinking. According to this

view, man strives for implementing his preferences (targets) and utilities (benefit rich in events) with great confidence.

The term of the so-called shortage/rarity has been incorporated in benefit theory. This is shown in the view, for example, that the size of a store is in proportion to the readiness to pay and to market value (*Galbraith, 1969.*). The benefit theory also used the term “need” but more in the direction of the term “wish” (*Niemelae-Routsalainen, 1983.*). In benefit theory, the measure of value of essential commodities is the demand. However, the term “demand” is not to be identified with the term “need”. It implies the term “wish” more closely; this may be linked with ideas of ‘genuine’ or ‘false’ needs.

Thus the most important problem of both benefit theory and the above mentioned labour value theory is the need. Conceptually seen, the value refers to the need, satisfying needs and its universality. In its conceptual form, it comes back to human needs and their satisfaction in this or that manner.

## *2.2. The theory of welfare*

In the so-called welfare economics, a more theoretical approach has been strived for more clearly than in the past and with critical remarks on the ‘homo oeconomicus’ views. (*Ng, 1979.; Riihine, 1983.*). This resulted in the fact, for example, that welfare problems are linked with classical national economics more closely than with modern economics.

A new method to deal with the term of welfare led to an even more profound analysis of the essence of the value. UN ideas on the living standard as a multidimensional phenomenon initiated a new approach to welfare. The enumeration of partial factors of the living standard showed, for example, that welfare as a blessing for mankind cannot be expressed in the terms of the macro-level exclusively. In social politics, endeavours have been manifested to provide all citizens with an appropriate living standard.

In addition to welfare, the problem of life quality has become an

interesting question. Gradually, one has understood the importance of subjective factors for welfare. On the other hand, the problem of life quality could have diverted attention from the living standard, namely from huge differences existing in this field—both at national and international levels.

The latest approach to living standard is the so-called view of the mode of living taking the whole human way of life as its research subject. Such an approach is in common use in socialist countries in particular.

As a term, 'welfare' has many different meanings. Seen from the point of view of value theory, the term 'need' is more appropriate. The terms 'value in use' and 'need' (coverage) are correlated closely. Under this aspect, the most important in co-operative research would be to deal with problems of need as this could lead to an (indirect) analysis of the value in use at the same time. As the 'value in use' seems to be more motivated—more original at least—than the term 'value in exchange' from a co-operative point of view, I'm going to deal with the theory of needs more comprehensively first as this reflects the problems of conceptual values.

### *2.3. Co-operation, welfare, needs*

In most cases, co-operation has been defined as working together/working team with the aim of creating welfare, that is, production, distribution etc. of goods and services which the members need to satisfy their demands. In Nordic co-operation literature, for example, the term 'needs' was an essential feature of the type 'co-operation' (*Moback, 1985.*).

In terms of value theory, the theory of needs deals with the question which needs are satisfied conceptually by the value. Within the framework of the theory of needs, the (material) value is only full of value when it satisfies essential needs existing in human life. With regard to the needs, the value is a derived term. A definition of value and needs per se is not productive. Only their correlation can be used to make conceptual statements. When co-operation is designated as organised working

together in favour of its members (*Henzler, 1960.*), this formulation implies the function of co-operation to produce/provide/distribute etc. such values satisfying the demands in the every-day life of its members. In this respect, co-operation has been so-called 'welfare policy' already before the emergence of the actual "welfare policy".

Man can be considered under various aspects. A co-operatively relevant proceeding point is surely the idea of man as an 'acting being'. Man acts on the basis of his motives. Motives can be deduced from the needs in many cases. Naturally, all motives cannot be explained so easily. Different wishes, intentions, expectations etc. must be added. The term 'needs' must be separated from the term 'purpose' although both terms are being used identically rather often. The fact that a man 'needs' something does not yet guarantee that there is a relevant 'actual' need in the background. The term 'needs' is used very generally rather often, and it is equated to the term 'purpose'. However, one should not confine the terms 'to need' and 'needs'. Such an identification was observed in the works of co-operative researchers recently (examples are *Moback, 1985.* and *Ilmonen, 1985.*). When *Ilmonen*, for example, criticizes the naturalistic theory of needs as non-social, he does not understand that 'Nature' (physis) is the most original form of societability. It is the society of the actual ecosystem.

In the true sense of the term, needs indicate how well or not well people are. Only living beings can be well or not well (*Wright, 1972.*). Therefore, only living beings can have needs (*Aldefer, 1972., Wright, 1984.*). Philosophically seen, the term 'needs' is a descriptive term. When observing living beings, you see how well or not well they are, whether they are able to satisfy their needs or not. Satisfaction means welfare, and consequently, dissatisfaction means a lack of welfare.

The question is of fundamental importance to which extent the term 'needs' is a term of causal relationship, that is, the relationship between cause and effect. According to the philosopher *Wright (1984.)*, the term 'needs' is a causal term because a cause-effect-relationship exists between the situation and the welfare of living beings, and the preconditions for this welfare. To study this relationship is difficult in many cases but basically, it is a physiological phenomenon that can be described.

Functions are covered by needs like hunger, thirst, to seek protection, movement etc. Various physiological perceptions like hunger or thirst, for example, play an intermediary role between needs and the strive for action expressing these needs.

The question of so-called 'genuine' or 'false' needs is relevant in terms of co-operative science. In the original meaning of the word, co-operation should be regarded as an organisational form based on 'genuine' needs undoubtedly. Less prosperous people have united so that they were able to satisfy their 'genuine' needs. This is shown in the fact, for example, that basically, co-operatives do not strive for making (huge) profit. In this sense, co-operation—in its original meaning—, has a social political scientific basis. Co-operatives are (only) means to satisfy the needs of their members. Co-operatives themselves—as enterprises—have no 'needs', that is, there is no strive for profit primarily.

When considering the term of needs more closely, the basic character of needs occupies an important position in addition to causality. When the term 'purpose' is an instrumental term, the term 'needs' may be a normative term. However, it does not imply any 'order' but only the fact that the relationship between needs and satisfaction is a normative one. When genuine (physical) needs are not satisfied, human beings are not well and must die in the end. In this sense, the term 'needs' is a normative one. The term 'needs' is explained best when goods are analysed indispensable for man. Good health is the most important one (*Wright, 1972.*). Good health is the natural condition of man and disease a disturbance of normal conditions. As natural beings, men have these needs in the actual sense of the word. They are indispensable because their satisfaction maintains welfare and this means the maintenance of good health respectively.

The term 'needs' has been understood as a rather comprehensive term quite frequently (for example, *Ilmonen, 1985.*). *Wright* writes (1984) how the term 'needs' was understood as a 'purpose-rational' term, for example. This is common practice in the benefit theory. It seems to be appropriate to analyse whether the purpose (target efficiency) is essential seen under the aspect of the basic needs of man. Whether it satisfies genuine needs or not. The wish is not yet a feature of genuine needs, on the contrary: wishes



often have another meaning than genuine needs. When strive for profit has become the target, this is not genuine needs any more but competition.

I have dealt with the term of needs so comprehensively because it is an especially important philosophical assumption as to analysing the order of co-operative values. Co-operation does not proceed from the term 'homo oeconomicus' axiomatically but from functionality (homo activus, see also homo co-operativus). Co-operation cannot be analysed only as an economic phenomenon. This would not correspond to the basic character of co-operation.

That means, the general term 'to need' is not part of the factors determining co-operation basically unless being based on the normative 'welfare' of man expressively. Therefore, it seems to be appropriate to assume a critical attitude towards the statement expressed by modern co-operation researchers who see a linkage of the *theoretical* term 'needs' with the *practical* term 'to need'. The connecting link between 'needs' and 'value' can be the term 'Nature' (physis). In ancient Greece, this term was an essential term used by the philosophers. By using the term 'Nature', they wanted to express a very essential thing in human beings (Riihinen, 1983). This term was linked with view of man as healthy entities. This was also linked with characteristics of justice, strength and courage.

Later, the Humanism of the Occident underlined the same virtues. It sees man as an autonomous being capable to develop. This autonomy is closely linked with freedom of action and freedom of will. The idea of man as implementing his 'nature' and developing permanently is linked with the term of 'dignity of man'. According to this assumption, a life worthy of a human being is a life in which one's own 'nature' is implemented and in which the personal development within the framework of the implementable is made possible.

How is the 'nature' of man expressed when linked with the term of needs (Riihinen, 1983.)? More clearly than ever before, the theory of needs has tried to draw a picture of man on the basis of human welfare showing the source and final result of satisfying needs. This is designated as the so-called ERG-model (Alderfer, 1972.). According to the ERG-model, the basic needs of man are existence, relationships and growth. It may also be

expressed otherwise. The terms 'physiological needs', 'need of love' or the 'need of self-realization' are also used. For reasons of homeostasis, that is the internal balance, it is necessary to satisfy physiological needs. Thus (material) values corresponding to physiological needs would be of prime importance for co-operation, too. To eat, to drink and to be protected are vital functions. Traditionally, co-operation has dealt with satisfying the needs of existence especially.

Co-operation as a form of working together is an expression per se of satisfying needs. Co-operatives are associations of people who want to achieve a common aim. As to its basic character, co-operation is the satisfaction of needs (of the community). In practice, it is not implemented very well. Basically, however, there are all possibilities to implement it.

Except consumers' co-operatives, co-operation can be a means to support the self-realization of co-operatives. Persons thinking and feeling in the same manner can organise to form an active community. Especially in the era of unemployment, co-operation could be a way to find work for oneself, that is, to act originally-naturally thus finding employment. Under ideal conditions, co-operation is an independent (also financially seen) association in terms of active-scientific, social and welfare policies. How this was implemented in practice, this is another question.

#### *2.4. The protection of needs*

To summarize, co-operation is

a) a means to organise the production/distribution etc. of those material values (goods and services) are indispensable for the existence or for satisfying physiological demands. In this context, co-operation may also partly satisfy;

b) the demands of the people to live in a community. In this respect, co-operation is not made at the primary level (family) but at the secondary one (community). Further, co-operation

c) can be the way to self-realization when people with identical targets create something together which they consider to be essential and valuable.

In many respects, co-operation is their 'basis of needs'. It has an orientation in terms of social and welfare theories in particular. To designate the core of the above mentioned problems by one term, this would be 'protection of existence' or 'protection of needs'. In terms of terminological theory, co-operation would be an organisation to guarantee the existence of its members in particular. Thus co-operation is an economic organisation of protection for satisfying needs primarily. As to its 'character of subsistence value', it has a social political-scientific-practical orientation.

The deeply rooted basis of co-operation is of an ethical nature in the end. This aspect is relevant also for the reason that in co-operation, business policy should be based on the organisation of working together in favour of the every-day life of its members and not, for example, at the cost of other co-operative action.

### 3. VALUE AS TARGET-ORIENTED THINKING IN COOPERATION

#### *3.1. General remarks*

Generally, values are considered as attitudes in the sense of entities. It happens frequently that the entity of values is determined and classified according to the kind of an ideology. Thus an analysis of co-operative values is an analysis of co-operative ideology in the end. Within the framework of the present study, we follow a more modest aim. We try to study those values which co-operation strives to achieve. In other words—we try to find those values that are inherent, either expressively or not expressively, in the ideology—the programme—of co-operation.

Values correspond to the orientation of human action in terms of final targets. In the ideological sense, value means an attitude to what is good and desirable or 'ideal'. Can such values be observed in co-operation? Can such value-related ideals of co-operation be found? Earlier, one has tried to show that co-operation has a firm 'substance of value'. Is this also true with regard to 'intentions of value'?

The targets and values of co-operation proceed from principles (programmes) manifested in co-operation although only indirectly. These principles had been subject of lively discussions. They have been examined, modified and deleted partly. The terms 'Raiffeisen principles', 'Rochdale principles' and 'general principles' are being used (see *Duelfer*, 1984., p. 122–125, for example). The principles of co-operation as adopted in Vienna in 1966 are: 1. open membership, 2. democratic administration, 3. limited payment of interest, 4. repayment of surplus according to participation, 5. permanent education and training and 6. co-operation at various levels.

These principles have been subject of critical remarks (examples are *Laidlaw*, 1980.; *Ramaekers*, 1983.). The basic problem is whether these principles are 'only' practical theoretization (idealization) or whether they imply an unexpressed *social philosophy*. We want to deal with this problem in the present chapter.

An analysis presupposes the substantiation of co-operative ideology in terms of value philosophy. Can certain, very general principles of value philosophy be "adapted" to co-operation? What's about the social philosophy of co-operation?

### 3.2. *Solidarity as justice*

In social theory, justice is an important philosophical problem (for example, *Rawls*, 1972.). As to its philosophical evaluation, justice is valuable per se. Thus the distribution of advantages and legal conditions would occupy the first position in terms of value philosophy. On the other hand, however, certain philosophical theories, utilitarianism in particular, do not hold justice to be valuable per se. Utilitarianism says only this is valuable what increases the benefit (of the society).

The principles of justice according to *Rawls* (1972.) (Everybody will have the same right to fundamental freedoms for all, being as comprehensive as possible.) shows some priorities. Justice is a basic value as efficiency or economic welfare. Justice would be more important than the

strive for maximization. Thus economic co-operation of people and solidarity would be more important than competition. The term 'solidarity' is very close to the term 'fraternity'.

This results in the fact that 'fraternal' co-operation is the most important thing in co-operation. At the level of values, this is shown as solidarity, as a form of mutual assistance. Thus co-operation and mutual assistance (solidarity) reveal the most important principle of value in co-operation.

If this principle was valid universally, this would mean obviously that—philosophically seen—economic action other than that based on solidarity would be difficult to be substantiated under the postulate of justice. In this sense, co-operation would be motivated philosophically as to its basic idea or ideology. Co-operation based on solidarity and it would be a just legal form of taking care of economy. Thus 'collectivism' compared with 'individualism' is a more primary philosophical principle.

As to the principles of co-operation, the idea of solidarity implements the two last principles in particular—permanent education and training, and co-operation at various levels, and partly the fourth principle—repayment of surplus according to participation. The principle saying that savings or surplus are to be distributed according to participation prevents the members from taking advantage at the cost of other members. On the other hand, nobody is privileged because the implementation of this principle depends on the person's concerned. When surplus created by the work of co-operatives is used to promote co-operative action or for common purposes, this is real solidarity. Thus action can have effects promoting the general welfare of the population. It has the effect of integrating the members of co-operatives especially.

The principle of education and training indicates that the members are ready to assume responsibility for their fellow men. In developing countries and other regions, co-operation takes efforts to improve the educational level of the population by the intensified communication of information. Right from the beginning, guidance and enlightenment have been characteristics of co-operation. They are concrete mutual assistance and solidarity. On the other hand, this action may result in a certain indoctrination in some cases. In co-operation, the principle of working

together runs through the whole system of ideology and organisation. Primary co-operatives and central co-operatives are organised according to the principle of co-operation. Working together at regional, national and international levels has a great importance, and it contributes to implementing solidarity in practice.

### *3.3. Freedom as justice*

According to the justice theory of *Rawls* (1972.), freedom is the regulative of justice (As to the theory of Rawls, freedom is so-called freedom of opportunities in the first place.) This view leads to the first principle of co-operation. The principle of open membership of a co-operative means voluntary membership which should not be impeded by artificial obstacles. Race, religion, social or political positions must not set barriers to the membership of co-operatives. Not only access is to be free but also leaving a co-operative should be a matter of being free. Thus a co-operative is 'free co-operation among free people'. In this sense, freedom must be given a position of prime importance in co-operation, too.

Another essential factor for this freedom is that membership in co-operatives does not require (huge) capital, property is not a precondition for (joint) action like in industrial economy, for example. The basis of free co-operation is the lack of means linked with the strive for action in most cases. Co-operation offers possibilities to organise action on the basis of free collectivism. The basic principle of co-operation contains the central idea of freedom, that is, so-called positive freedom, freedom *for something* → freedom to co-operate without (huge) capital. At the same time, the opportunity is given to be free from economic difficulties.

### *3.4. Equal rights as justice*

In terms of social policy, equal rights are the most important factors. What is the correlation between equal rights and justice? According to the ideas of Aristoteles, both terms are closely linked. According to his view, there exist two characteristics of justice: the purpose of the so-called distributive justice is to distribute advantages and difficulties—benefit and disadvantages—among the population. The so-called corrective justice exists in the legal relations between fellow citizens. According to Aristoteles, the principle of relative equal rights is connected with the first mentioned kind of justice, and the principle of absolute equal rights with the last mentioned one. Thus the term of justice is a global theoretical term. Its “partial factors” are solidarity (fraternity), freedom and equal rights.

Provided that absolute equal rights exist, the principles of democratic administration and limited capital interest payment demonstrate so-called corrective justice most expressively. Basically, the members of co-operatives have equal rights as to the administration of their co-operatives. Every member has one vote irrespective of capital invested. This principle of absolute equal rights is an important characteristic of the economic activities of co-operation (see *Aksnes*, 1982.; *Bager*, 1984.; *Røkholt*, 1985.). The principle of democratic administration of co-operation implies absolute equal rights in connection with democracy and corrective justice. The essence of the co-operative as a community of persons expresses absolute equal rights at the end. This principle of democracy has been subject of critical evaluation in the practice of co-operation now. Irrespective of this fact, it is the most important principle of co-operation at a theoretical level. Did it happen that practice created its own preferences with ideals falling into oblivion?

The principle of absolute equal rights is also expressed in the principle of open membership in co-operation indirectly.

Absolute *economic* equal rights of co-operation—are seen from the point of view of the members—are also shown in the principle of limited capital interest payment. It is possible to take part in economic activities

without investing huge capital. Ideologically seen, capital is not important in co-operation—on the contrary. Although a so-called appropriate remuneration is to be paid on co-operative capital, its importance in practice is extremely small because generally, co-operative capital is relatively small. That means, co-operatives are not 'joint-stock companies' principally. As to production co-operations, this may be different.

The principle of absolute equal rights also applies to co-operation—at an ideal level—in the form of economic association (However, this is more than theoretical nature—see chapter 4). This is in contrast to so-called aspects of industrial economy. It expresses the social policy character of co-operation in particular. The welfare of the members does not depend on capital decisively but on social aspects, their participation in co-operation. What matters is not achieving passive advantages but creating joint active positions.

The principle of relative equal rights or distributive justice is expressed in limited capital interests and the distribution of the surplus according to participation. The common feature of these principles is that the advantages correspond to the burden. Three principles are overlapping in this respect. Solidarity in connection with the distribution of the surplus and absolute equal rights in limited capital interest payment have already been mentioned here.

Ideologically seen, however, both capital interest and the distribution of the surplus (visible) express relative equal rights in the sense of so-called distributive justice. In co-operation, emphasis is laid on solidarity and not on the mechanistical principle of relative equal rights in case of distributive justice. These results in the specific character of co-operation; although economic activities are carried out, additional social aspects are also taken into account principally.

Generally, the business share is rather small except most of production co-operatives. In these, this share is connected with participation or possibilities of use more distinctly.

The principle of relative equal rights is followed as to the distribution of the surplus more distinctly than in connection with co-operative capital interest payment. Profit (result) is made by co-operatives to the benefit of



the members according to their participation primarily. A member that uses the services of the co-operative to a large extent also gets a high repayment. In practice, this is not implemented purely and distinctly because generally, the surplus is being used for supporting the co-operatives. Here the principle of solidarity finds its equivalent.

### *3.5. Comparisons*

The analysis of the range of values of co-operation based on the above mentioned studies brings about a somewhat different result from that of the analysis made by *Craig* (1980.); for example, with regard to the social philosophy of co-operation. Basically, however, the results are similar. *Craig* did not consider that it is necessary to see the first principle of co-operation as the outcome of freedom. He mentioned justice only generally.

*Craig* interprets equal rights isolated from justice. However, we have shown above that the joint analysis of equal rights and justice provide interesting results concerning co-operation.

## **4. THE PRINCIPLES IN THE LIGHT OF BUSINESS POLICY**

The analysis of values of measures or so-called strategies in the co-operative system does surely not bring about problems basically. In practice, however, this is not so easy due to the variety of forms of co-operation. What is correct in connection with analysing the co-operation of consumers, for example, may not be correct for the system of production co-operatives. The ways and means of co-operation are rather heterogeneous, and especially with regard to these ways and means, the change in the original character of co-operation becomes evident.

Most critical research workers say that the dual character of co-operation is not being implemented sufficiently in practice. Co-operation

is organised like all the other business enterprises. Many studies show that especially the business policy of co-operatives had adapted to the business policies of other enterprises. However, clear differences can be observed between several countries (for example, *Muenkner*, 1985., 110–111). At the end, the problem is which measures in co-operation are the most efficient ones. The problem of taking measures is closely linked with the general ideological and economic policy atmosphere. The co-operative system is organised according to the respective situation (environment). An analysis of co-operation in terms of system theory facilitates to understand its basic character as an organisation (see *Duelfer*, 1984.). The most important problem in this context is whether values or principles can be indicated that concern the organisational structure of co-operation clearly. Does co-operation apply certain functionally effective way and means in connection with organisation? Which ideas of value are implemented in this context?

Duelfer has made a systematic analysis of co-operation, according to which co-operation can be designated as an 'economic purposeful, open socio-technological system' (see *Duelfer*, 1984., p. 36). According to Duelfer, the term 'socio-economic system' per se would also not be wrong. It is only very simplifying.

The fact that co-operation as a system has economic, social and technological aspects shows the variety of ideas of values with regard to action in co-operation. The fact seems to be essential that co-operation cannot be social and economic to the same extent at the same time. In most cases, one factor prevails at the expense of the other.

The above mentioned analysis of co-operative target values shows that co-operation is a social policy system primarily. However, the analysis of organisation and the change in co-operation shows that the co-operative system—nowadays at least—is an economic system to the same extent. It may be a technological one in both cases. The technological element in the sense of industry is linked with efficiency especially. In the meaning of labour carried out by man, it is connected with the social element.

It has become an important problem to define what kind of co-operation is more based today on co-operation—economy or social

policy, that means a business enterprise or a 'self-help organisation'. Today, it is difficult for co-operation to implement its 'ideal' target values. In practice, it becomes a profit-oriented enterprise like all the other enterprises because to a large extent co-operation is acting on the same markets like the other organisations. The idea of co-operation is watered down by its adaptation to market conditions. One has to admit that this conflict has already existed since the beginning. In 'societies with values in exchange', co-operation loses its ideological basis inevitably. It is only implemented as it is common practice. To implement the principles of co-operation as a whole, it would be necessary to have a closed system that cannot be created in market economies.

In this sense, co-operation is forced to apply "real" means (strategies) like all the other "economic units" or "enterprises". For reasons of so-called 'economic realities', big co-operatives are forced to apply means of industrial economy and to compete with other enterprises. Thus their essence as communities of persons is often limited to the level of postulates. The double character is not implemented. Naturally, this question can also be seen differently. The co-operative is—if based on property and 'self-help'—a so-called 'private household' (*Boettcher*, 1985, 37).

Strictly spoken, only a co-operative strategy that implements co-operation at the concrete or working level, is a 'pure' original strategy; that is, co-operation in the social sense. Labour is done to create a value (use-value). As the implementation of such ideas is being difficult today undoubtedly, co-operation is 'doomed' to work like all the other business enterprises following the principle of competition.

As such analyses of measures have been made frequently, and their results coincide basically, new findings cannot be made when proceeding from that assumption. To summarize we want to say that today, the decisive principle of co-operation is competition in terms of industrial economy. In societies of open monetary economy, something different is difficult to achieve. Thus the character of business also changes the original contents and aims of co-operation. In Finland, for example, the movement of co-operation has clearly demonstrated its present-day tendency for being organised according to the principle of competition.

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Hans-H. Muenkner\*

## Co-operative Law as a Tool of Development Policy

### 1. INTRODUCTION

For more than 80 years, attempts have been made in developing countries to promote the development of co-operatives by means of governmental support, and reversely, the co-operatives are to serve as development tools of the state. However, governmental co-operative promotion has not yet developed beyond the experimental stage. Generally, experience so far is negative. Despite huge expenditure in the form of promotion institutions, development personnel and financial stimulants, they have not succeeded, in the majority of cases, to mobilize the target groups relevant in terms of development policy, namely the mass of the rural population, to take part in their own development in the form of actively participating in self-help organizations.

At a first glance, the theoretical conception of state sponsored co-operatives on the basis of a Co-operative Law elaborated for this purpose especially and an institution established for applying this law seems to be logical and implementable.<sup>1</sup> However, practical experience made so far in connection with this development policy and especially the fact that the output of governmental co-operative promotion is far beyond the

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<sup>1</sup>See: *Muenkner, Hans-H.* Die Organisation der eingetragenen Genossenschaft in den zum englischen Rechtskreis gehörenden Laendern Schwarzafrikas, dargestellt am Beispiel Ghanas, Marburger Schriften zum Genossenschaftswesen, Row B/vol. 5, Marburg 1971, p. 5 f.; *Muenkner, Hans-H.*: New Trends in Co-operative Law of English-speaking Countries of Africa, Institute for Co-operation in Developing Countries, Papers and Reports No. 4, Marburg 1971, p. 3 f.

considerable cost and expectations compels to reconsider the whole conception and to find possible weak points or sources of mistakes.

A more precise analysis of the conception of governmental co-operative promotion shows that development effects in the form of mobilizing self-help forces of target groups in co-operatives and the foundation of a self-supporting co-operative movement can only be expected when all preconditions for the implementation of this conception actually exist or are created. For this purpose, it is necessary that the policy makers responsible for governmental co-operative promotion know these preconditions and take them into account when preparing and implementing their policy of governmental co-operative promotion. But it seems to be the weak point in many cases as we are going to show in the following.

## 2. BASIC PRECONDITIONS FOR SUCCESSFUL GOVERNMENTAL CO-OPERATIVE PROMOTION

### *2.1. The problem of external help for self-help*

Many hold of the promotion of self-help organizations by external help is a contradiction per se. Experience has shown, however, that appropriate means, especially information, pedagogical measures, access to modern production techniques, supply and sales markets, can be used to create favourable conditions for the emergence of self-help while other measures, direct help in the financial field especially, may impede self-help more than promote it.<sup>2</sup>

The conception of external help for self-help contains a certain contradiction that becomes clear when taking the fact into consideration that generally, self-help can develop its full potential only when external

<sup>2</sup>See: *Mueller, and Julius Otto (editr.): Gesellschaftspolitische Konzeptionen der Foerderung von Selbsthilfe durch Fremdhilfe in Afrika—Theorie und Praxis im Test konkreter Vorhaben, Institut fuer Kooperation in Entwicklungslaendern, Studien und Berichte No. 13, Marburg 1981.*



help cannot be expected. Therefore, it is very important to distinguish between measures of promotion stimulating self-help, and those impeding or replacing self-help.

## *2.2. Groups capable of self-help*

Policy makers responsible for co-operative development must have a clear idea of the capabilities and limits of self-help organizations that can be founded with governmental assistance. Especially, a clear distinction must be made between welfare programmes for poverty groups on the one hand and self-help promotion programmes for target groups capable of self-help on the other hand. Promotion of co-operatives requires that future co-operative members are willing and able to invest their own resources (capital, manpower, materials, liability) that make it possible to establish a larger economic potential through integrating many low economic potentials.<sup>3</sup>

## *2.3. Predominance of the promotion of members*

Generally, self-help forces are only applied for achieving goals set by themselves for solving their own problems. Therefore, the promotion of self-help organizations fails in the majority of cases where objectives are to be achieved that had been determined from outside. When co-operatives are founded by means of promotion measures in order to achieve governmental development objectives, short-term success can be achieved by means of financial stimulants but the self-help potential cannot be mobilized permanently.

<sup>3</sup>See: *Muenkner, Hans-H.* Co-operatives for the Rich or for the Poor?—with special reference to co-operative development and co-operative law in Asia, in: *Asian Economies*, June 1976, No. 17, p. 32 ff., reprint: Institut fuer Kooperation in Entwicklungslaendern, Marburg 1976; *Verhagen, Koenraad:* Co-operatives and Rural Poverty—Eight Questions Answered, Plunkett Development Series No. 1, Oxford 1980.

Co-operatives have the chance to develop independently and based on the voluntary, organised co-operation of their members only when they satisfy the interests of their members primarily and bring about a perceptible improvement of their members' economic and social conditions.

When development policy makers establish co-operatives mainly for achieving their own development targets imposed on the co-operatives from above and from outside, and when governmental development targets do not coincide with the objectives and priorities of co-operative members or are to promote larger target groups and not only the members (all producers or consumers in a region, for example), but membership in the co-operative loses its actual importance, a circle of members motivated to implement self-help cannot be created or dissolves.

#### *2.4. Appropriate legal basis*

Promoted co-operation in co-operatives must be based on a stable and permanent legal structure that enables co-operatives to shape their internal organization purposefully, to protect their members against the co-operative management and the state as well as to protect the co-operative against discrimination and unfair treatment.<sup>4</sup>

Thus the Co-operative Law for state-sponsored co-operatives must be an organization law primarily providing self-help activities of the members with an appropriate legal basis. Furthermore, it must stipulate relations between co-operatives and governmental institutions as far as the promotion of co-operatives is concerned. Finally, the Co-operative Law must contain stipulations enabling the foundation of institutions for

<sup>4</sup>See: Internationale Arbeitskonferenz, Empfehlung 127 betreffend die Rolle der Genossenschaften in der wirtschaftlichen und sozialen Entwicklung der Entwicklungslaender (International Labour Conference, Recommendation No. 127 concerning the role of co-operatives in the economic and social development of developing countries), Geneva 1966; *Muenkner, Hans-H.*: Co-operative Law as an Instrument for State-sponsorship of Co-operative Societies, in: ILO Co-operative Information, 1/73, p. 27 ff.

the promotion of co-operatives (centres and societies) without which the emergence of a long-term powerful and autonomous co-operative movement is not possible.<sup>5</sup>

### *2.5. Appropriate structures of implementation*

The target groups of programmes of co-operative promotion must be made acquainted with the measures of promotion and the legal basis offered. To achieve this aim, a specific apparatus for implementation in the form of a co-operative authority or a co-operative development service is necessary in another form.

These structures of implementation must be appropriate to achieve the objectives by means of pedagogical measures, information, education, training and consulting. They must not be shaped such as normal administration offices enforcing the foundation of co-operatives and in compliance with regulations stipulated in the Co-operative Law by issuing orders, threat of punishment or force.<sup>6</sup>

Therefore, the Co-operative Law for state-sponsored co-operatives should stipulate, provided that in this case at all, the right of co-operative authorities to intervene directly, to take forced measures or to threaten with punishment only in exceptional cases.

<sup>5</sup>See: *Muenkner Hans-H.*: The Formation of Integrated Systems of Co-operative Societies, in: International Co-operative Alliance, Review of International Co-operation, Vol. 71, 1978, No. 2, p. 106 ff.

<sup>6</sup>See: *Muenkner Hans-H.*: New Trends in Co-operative Law ..., *ibid.* (Footnote 1), p. 34 ff.; *Muenkner, Hans-H.*: Die Rolle der staatlichen Entwicklungsbürokratie bei der Foerderung von Selbsthilfeorganisationen, in: *Rabels Zeitschrift fuer auslaendisches und internationales Privatrecht*, 44th year, vol. 1, p. 17 ff.

*2.6. Permanent tasks and temporary tasks of co-operative authorities*

In addition to permanent administrative tasks of governmental authorities with regard to all corporations and economic organizations, such as to make or delete registration in the co-operative register and to control compliance with legal stipulations, there are additional measures of governmental promotion in case of state-sponsored co-operatives (training, consulting, care), that have to be fulfilled by the officials of the state apparatus of implementation as long as co-operatives have not yet established their own structures of promotion.

Earlier, these temporary tasks had been solved as general tasks of co-operative authorities, not stipulated in the Co-operative Law; nowadays, they frequently appear in the Law as temporary tasks that have to be transferred to co-operative-owned organizations of promotion as soon as possible. Such a transition of tasks from governmental promotion institutions to co-operative promotion organizations requires systematic support for the establishment of co-operative promotion organizations so that the basic idea of the conception relating to state-sponsored co-operatives can be implemented actually.<sup>7</sup>

*2.7. Development promoters*

The efficiency of state programmes for the promotion of co-operative development stands or falls by the quality of the staff of co-operative authorities or other establishments of implementation. Especially great demands are made on the heads of governmental co-operative authorities (registrar, commissioner for co-operative development, director of co-operative development). In addition to rich experience in administration and comprehensive knowledge about the co-operative economic form, he must especially have the ability of a promoter respected by the target

<sup>7</sup>For example Empfehlung 127 der Internationalen Arbeitskonferenz. . . , *ibid.* (4) No. 26 (2), 27, 28, 30, 33.

group, who is able to contribute to creating a co-operative movement on a broad basis; he must act "as friendly advisor rather than . . . inspecting officer".<sup>8</sup> Additionally, he must be able to motivate the officials of the co-operative authority or other governmental bodies of promotion to see themselves as advisors and representatives of the co-operatives' interests primarily rather than inspecting officers or representatives of state power.

These specific demands on training, personal suitability and motivation of governmental promoters of co-operatives must be taken into consideration in courses of specific training, career and payment stipulations because otherwise, it would not be possible to find applicants with required qualification or to keep them after the training.<sup>9</sup>

### *2.8. Conscious promotion of efficient co-operative organizations*

Co-operative development is a lengthy process which cannot be accelerated artificially without danger. Therefore, the primary objective of every realistic policy of state-sponsored co-operative development must be to promote those co-operatives in particular that have genuine development chances. In this context, priority is conceded without restriction to the quality of the co-operatives to be founded and not to quantity. Like development of primary co-operatives, preconditions must be created for the foundation of co-operative centres and societies that will be capable of assuming tasks of promotion as soon as possible thus strengthening the independence of the co-operative movement and facilitating the work of governmental promotion institutions. Such a co-operative policy was pursued, for example, in Ghana, Gold Coast at that

<sup>8</sup>See: *Ibbetson Sir Denzil Approach to Legislation on Co-operative Credit, 1904*, in: *National Co-operative Union of India, Anthology of Co-operative Thought*, New Delhi, 1975, p. 107.

<sup>9</sup>This problem was dealt with comprehensively in: *Colonial Office, The Co-operative Movement in the Colonies*, Despatch dated 20 March, 1946 from the Secretary of State for the Colonies to the Colonial Governments, London (HMSO) 1946, Col. No. 199, Enclosure 1.

time, between 1944 and 1960, and implemented very successfully in practice.<sup>10</sup>

The substantiation of the respective law<sup>11</sup> shows that the pioneers of the first co-operative law on state-sponsored co-operatives in India in 1904 were fully aware of the above mentioned basic preconditions for successful governmental co-operative promotion, however, they did not appear the stipulations of Co-operative Law expressively. That is the reason, last but not least, why these basic preconditions fell into oblivion rather often in the course of time.

### 3. THE APPLICATION OF THE CONCEPTION OF STATE-SPONSORED CO-OPERATIVES IN DEVELOPMENT POLICY, CO-OPERATIVE LAW AND IN PRACTICE

The fundamental ideas on which the conception of state-sponsored co-operatives and a Co-operative Law appropriate for implementing this conception are based, were written down in documents and papers that are hard to get today.<sup>12</sup> In Geneva in 1966, the International Labour Conference adopted Recommendation No. 127 concerning the role of co-operatives in the economic and social development of developing countries; it contains the basic concept, particularities of co-operative law

<sup>10</sup>Published in: Plunkett Foundation, Year Book of Agricultural Co-operation 1945/46, p. 180 ff, see also *Muenkner, Hans-H.*: Die Organisation der eingetragenen Genossenschaft ..., *ibid.* (1), p. 25 ff.

<sup>11</sup>*Ibbetson Sir Denzil*: Approach to Legislation on Co-operative Credit, 1904, ... *ibid.* (8), p. 99 ff.

<sup>12</sup>For example: Government of India: The Growth of Co-operation in India, Resolution No. 12-287-1, Simla, 17 June 1914, quoted in *Mukherji, P.*: The Co-operative Movement in India, third edition, Calcutta and Simla, 1923, Appendix IV; *Calvert H.*: The Law and Principles of Co-operation, fifth edition, Calcutta, 1959; Colonial Office: The Co-operative Movement in the Colonies, Despatches dated 20 March, 1946 and 23 April, 1946, *ibid.*, (9); *Strickland, C. F.*: Co-operation for Africa, London 1933.

appropriate for its implementation and necessary structures of implementation in detail<sup>13</sup> but it has not been taken into account very much in practice.

When co-operative policies, co-operative laws and governmental co-operative promotion considering in practice in developing countries, the statement has to be made that misinterpretations and deviations from promising conceptions are the rule rather than the exception.

### *3.1. Conflicting nature of objectives and expectations in governmental promoters of co-operatives and co-operative leaders*

The contradiction between independent self-help and external help in the form of help for self-help as mentioned above is frequently reflected in the attitudes of governmental promoters of co-operatives and co-operative leaders; but in Co-operative Law and also in their application, the role of co-operatives is laid down as instruments for promoting the interests of their members or development tools in the hand of the state.

When governments promote co-operative development, they expect speedy results generally (increase in the number of registered co-operatives and membership, turnover etc.) although appropriate measures of promotion (adult education, training of business managers, assistance in the construction of institutions of co-operative promotion) can only have a long-term effects according to their nature.

They try to accelerate the slow development of the capability of self-help, readiness to active participation and specialized competence to run co-operative undertakings by means of financial stimulants (interest-low credits, subsidies, allowances, privileges) thus creating artificial conditions for growth; formally, their result in the foundation of co-operatives that, however, is not seen as self-help organizations by their members who are not their primary basis. In the Co-operative Law, co-operatives are designated officially as economic private law organizations based on the

<sup>13</sup>Internationale Arbeitskonferenz: Empfehlung 127..., *ibid.* (4).

voluntariness and co-operation of their members and having the general members' meetings as their supreme bodies. In fact, however, co-operatives are often treated like governmental development tools that have to achieve targets set from above; examples are the distribution and administration of small credits and means of agricultural production, the collection of products from small producers on behalf of semi-state supplies and marketing organizations.

In co-operative training programmes, members are educated to take part actively in planning and decision-making processes, and to defend their own interests together. In practice, however, development planners ignore the opinions of co-operative members in most cases.<sup>14</sup> In government declarations, the deofficialization of co-operatives is laid down as a long-term objective, in practice, however, the co-operative authorities right to intervene and take influence has been maintained or even increased.<sup>15</sup>

<sup>14</sup>"Government wants us to be democratic, but we have been left with very little to be democratic about" quoted according to *Westergaard*, P.: Co-operatives in Tanzania as Economic and Democratic Institutions, in: *Widstrand, Carl Goesta* (editor): Co-operatives and Rural Development in East Africa, Uppsala, New York 1970, p. 143.

<sup>15</sup>For example, in the report of the Presidential Special Committee of Enquiry into Co-operative Movement and Marketing Boards, Dar es Salaam, 1966, it is said, under the headline "Temporary Powers of the Co-operative Development Division", that: "Ordinarily we would not favour this degree of governmental intervention in co-operative societies. However, we are satisfied that the extraordinary growth of the number of societies . . . has resulted in so many cases of societies poorly equipped to perform their functions effectively . . . that governmental intervention is necessary to protect the farmers . . ." (p. 16). The comment of the Tanzanian government on this recommendation bears the same headline and reads: "The emergency powers proposed for the Registrar of Co-operative Societies are accepted and fully endorsed . . . but it is proposed that they shall be permanent." See Proposals of the Tanzania Government on the Recommendations of the Special Presidential Committee of Enquiry into the Co-operative Movement and Marketing Boards, Government Paper No. 3—1966, p. 5; Republic of Kenya: Department of Co-operative Development, Consolidated Annual Reports 1963—1967, p. 2 ff.: "The Co-operative Societies Act 1966 (No. 39 of 1966) . . . has given the Government increased powers to guide, supervise and generally to control the movement during the period of change and transition".



Theoretically, the importance of developing a top co-operative organization is recognized, in practice, however, small is done to promote the strengthening of co-operative centres and co-operative societies.

This conflicting attitude between theoretical conception and application in practice can also be seen among co-operative leaders. On the one hand, they demand efficient governmental support; on the other hand, they point out that co-operatives must be independent of the state.<sup>16</sup>

The demand for autonomy of co-operatives contradicts with the wish that the state may involve co-operatives in national development plans.<sup>17</sup>

### *3.2. Kinds of governmental co-operative promotion*

It happens rather frequently that governmental co-operative promotion is wrongly equated with officialization. In fact, however, many indirect possibilities of promotion exist that avoid officialization directly; examples are the creation of favourable economic, political and legal conditions under which co-operatives can develop.

These conditions are, for example, an appropriate Co-operative Law, a co-operative-promoting policy co-ordinated with the general development policy of the country concerned and providing co-operatives with the possibility of carrying out purposeful economic activities in the interest of their members as well as mechanisms of co-ordination. That can be used to solve conflicts between co-operative organizations and competing governmental development organizations.

Especially great problems occur in connection with measures of direct state promotion in the financial field because experience has shown that

<sup>16</sup>See, for example, Resolutions on State and Co-operative Development in the South-East Asian Region, 1973, in: International Co-operative Alliance, Regional Office and Education Centre for South-East Asia, Report of the Asian Top-Level Co-operative Leaders' Conference, October 25-27, 1973, Tokyo, New Delhi, 1974, p. 153, 154, 252, 393 and 394.

<sup>17</sup>See, for example, Resolution on Co-operative Legislation adopted at the 24th Congress of the International Co-operative Alliance, 24th ICA Congress Report, Hamburg 1969, p. 286.

they do not promote self-help activities and do not reach the target groups frequently.

To become effective in the sense of the conception and in line with the basic conception, such measures of direct promotion had to show the following characteristics:

— to be a preliminary character, to promote at the beginning through tax relief, allowances, reduced interest rates limited to a certain period of time after registration;

— to complement self-help efforts, to grant allowances in addition to the opening capital in relation to the own capital funds (matching funds), tax exemption for surplus not distributed, and

— to decrease in size in such a measure in which self-help capability is strengthened, for example, by five-year contributions to the wages of managers, reduced by 1/5th annually.

Most of such help cannot be stipulated in Co-operative Law but in subvention Laws or tax laws.

Generally, direct help in the form of information, training and consulting services for governmental promotion of co-operatives is better than direct financial help. An especially efficient kind of governmental co-operative promotion is the regular auditing of co-operative undertakings by qualified auditing officials.<sup>18</sup> Generally, different kinds of auditing are stipulated in the co-operative laws covering state-sponsored co-operatives:

— to audit foundations; this is especially important in order to avoid misfoundations,

— compulsory annual auditing,

— inspections and

— special auditing.

The auditing of foundations and compulsory annual auditing have special importance in the development of co-operatives based on the

<sup>18</sup>See: *Muenkner Hans-H.* Theoretical; Practical and Legal Aspects of Establishing Co-operative Audit Systems in Developing Countries, with special regard to ASEAN Countries, in: *Plunkett Foundation for Co-operative Studies, Year Book of Agricultural Co-operation 1983*, p. 130 ff.

members and capable of survival; but they are neglected frequently in practice because there is a lack of qualified auditors.

Legal stipulations are ignored in many cases. Although co-operative laws make the annual auditing of every co-operatives binding many developing countries are in considerable arrears with such inspections.<sup>19</sup>

Instead of giving advice to co-operative managements thus making them able gradually to run the co-operative business independently, and using regular auditing for providing necessary objective information about the position of co-operatives, the officials of co-operative authorities often act as inspectors and special auditors who are to reveal mistakes and shortages, to control decisions taken by the elected representatives of co-operatives or substitute officials and co-operative managers they hold to be unqualified by officials of the co-operative authorities for a certain time. All these rights, control and intervene are stipulated in Co-operative Law, and are being expanded permanently.<sup>20</sup>

<sup>19</sup>For example, Friedrich-Ebert-Foundation (FES) and Co-operative Auditing Department (CAD), Ministry of Agriculture and Co-operatives: Report on 2nd ASEAN Symposium on Co-operative Auditing, November 7-12, 1983, Bangkok, 1984, p. 24, 33, 34.

<sup>20</sup>See, for example, Co-operative Development Policy for Kenya, Sessional Paper No. 8 of 1970, p. 2: "... the Government is pledged to the strengthening and intensification of its machinery for guiding, supervising and controlling the movement..." and p. 7: "... Government has no intention of either killing the initiative in the spontaneous leadership, or of permanently interfering with the endeared co-operative principles of democratic control. Government intervention will therefore be relaxed as soon as the movement or any section of it proves to the satisfaction of the Government that it is capable of controlling its affairs...".

#### 4. EFFICIENT GOVERNMENTAL DEVELOPMENT POLICY IN THE FIELD OF CO-OPERATIVE PROMOTION, THE REFORM OF CO-OPERATIVE LAW AND THE CREATION OF BETTER STRUCTURES OF IMPLEMENTATION

##### *4.1. Deviations from the original conception*

During its practical application over several decades, the original model of state-sponsored co-operatives has been changed in the direction of state-controlled co-operatives gradually.<sup>21</sup> In this modified form, governmental co-operative promotion continues to be the basis of development policy pursued by many developing countries despite much negative experience.

The following typical constellations of problems show how far practical development policy in the field of co-operative promotion differs from the original model:

##### *4.1.1. Co-operatives are charged with co-operative-alien tasks*

In developing countries, co-operatives are often given tasks by the government, that they cannot fulfil. Within the framework of state development programmes, for example, co-operatives must distribute means of production, credits and consumer goods to and collect goods from members and non-members to the same extent; state-fixed prices and trade margins are lower than the price and do not allow to produce their own capital funds.

In the eyes of the population, co-operatives are state agencies when assuming such external tasks. The role of members in such co-operatives remains a fictitious one. Because there is no democratic control by the

<sup>21</sup>See: *Muenkner Hans-H.* New Trends in Co-operative Law of English-speaking Countries of Africa, *ibid.* (1), p. 12 ff.

members as envisaged in Co-operative Law, influential minorities are dominating, sometimes in collusion with the officials of co-operative authorities, and are using co-operatives for their own purposes.<sup>22</sup>

#### *4.1.2. Stricter control of co-operatives*

To counteract the emerging abuse, more comprehensive rights of governmental co-operative authorities to control and intervene were incorporated into co-operative laws, and the autonomy of co-operatives was restricted permanently; however, this did not help eliminate the actual reasons for this misdevelopment: insufficient motivation of co-operatives to satisfy the interests of their members, insufficient control by the members, a lack of qualified managers.<sup>23</sup> Nowadays, it is taken for granted that the permanent expansion of the legally substantiated rights of co-operative authorities to influence and intervene in the internal affairs of co-operatives was a wrong reaction on the undeniable existence of shortages and failures in co-operatives.

Instead of making all important decisions taken by co-operatives dependent on authorization by governmental co-operative authorities, and of providing co-operative authorities with the right to discharge elected officials and staff members of co-operatives and to replace them by temporary administrators, it would have been necessary to focus their attention for development politicians on the fact that co-operatives are freed from compulsory non-co-operative tasks to be solved under unfavourable conditions; development efforts had to be concentrated on information, training and consulting of members and their elected

<sup>22</sup>See: *Hyden Göran* Efficiency versus Distribution in East African Co-operatives—A Study in Organizational Conflicts, Nairobi, Kampala, Dar es Salaam, 1973, p. XI ff, 77 ff.

<sup>23</sup>See: *Odede, O. and Verhagen K.*: Organization of External Supervision as an Integral Part of Promoting Co-operative Development, in: *Konopnicki, M. and Vandewalle, G.* (editor): Co-operation as an Instrument for Rural Development, Ghent, London 1978, p. 98 ff.

representatives, and their faculty of judgement with regard to co-operative management had to be improved by efficient, objective and regular inspection.

*4.2. Recognizing of co-operatives as private law amalgamations for satisfying the interests of members*

Instead of bringing co-operatives under the control of the state completely and to expand the power of co-operative authorities in terms of Co-operative Law for this purpose steadily, it would have been necessary to lay more emphasis on the private law character of co-operatives as self-help organizations of their members.<sup>24</sup>

After a thorough and strict auditing of foundation, the autonomy of registered co-operatives in planning and implementing, their own business would have to be guaranteed in the Co-operative Law so that the members are given the opportunity to make their own experience and learn from their own mistakes.<sup>25</sup>

Instead of steadily introducing new and more comprehensive norms of order, prohibition and punishment into co-operative laws, it would have been necessary, according to the original conception, to maintain stipulations relating to organisational law and skeleton stipulations that make it possible for co-operatives to organise their work independently in the interest of their members and their business.

In this context, erroneous trends occurred in the last few decades so that a reform of Co-operative Law seems to be urgently necessary.

In another context, the Co-operative Law being valid in many developing countries also seems to require a correction: Irrespective of its contents, the Co-operative Law remains an unknown field for the mass of

<sup>24</sup>See, for example Report on the ACO-SNCF-FES Seminar on Co-operative Law in ASEAN, 10-14 April, 1984, Singapore, 1984, p. 68 ff.

<sup>25</sup>See Colonial Office: The Co-operative Movement in the Colonies, Despatch dated 20 March, 1946 from the Secretary of State for the Colonies to the Colonial Governments, London (HMSO) 1946, Col. No. 199.

citizens in developing countries. Even today, laws, regulations and statutes are written in the complicated specialized language of lawyers. In countries with several national languages, these laws only exist in the official language (English, French, Spanish) although it is not spoken by the majority of the people. It is co-operative laws in developing countries in particular where new ways must be found in order to make such regulations understandable for the population because they are to offer new rules for organized co-operation in self-help groups. This requires new techniques of legislation, a clear and simplified language for laws with a reduced degree of abstraction and appropriate for translation into the national languages of the respective countries<sup>26</sup> and the purposeful elaboration of a specialized terminology in those languages in order to allow the translation of such texts.

#### *4.3. The creation of appropriate structures of implementation*

The creation of appropriate structures of implementation may be even more important than an adjusted Co-operative Law for the application of the conception of governmental co-operative promotion in practice.

In this context, the decision in favour of a governmental co-operative authority with a package of different tasks proves to be problematic.

Proceeding from the conception, the co-operative authority was planned to work as a special typical authority that, in addition to solving long-term tasks of administration, was to assume special development functions and work as an institution promoting co-operative development as long as co-operatives are not capable of developing independently yet and constructing their own structures of promotion. For this purpose, special training centres for full-time co-operative promoters were

<sup>26</sup>See: *Muenkner Hans-H. Participative Lawmaking—A new Approach to Drafting Co-operative Law in Developing Countries*, paper presented at the International Consultation on Innovative Approaches for Co-operative Development in Asia, Coady International Institute, St. Francis Xavier University, Antigonish, Nova Scotia, Canada, September 30 to October 11, 1985.

established during the colonial time (one example is the Co-operative College in Ibadan, Nigeria, founded in 1942), special career regulations for technical officials of co-operative bodies were elaborated stipulating required special training as well as wage structures and career opportunities in line with the difficult work of consulting.

These specific conditions for governmental co-operative promoters, that are of decisive importance for the successful application of the whole conception of state-sponsored co-operatives, are not existing or not existing any more in the majority of developing countries.

Frequently, career officials are nominated as managers of co-operative bodies; they do this work for a short time, have not the necessary comprehensive knowledge about co-operative work and consider it as one of many stations in their careers.

It happens rather frequently that co-operative promoters and instructors, co-operative auditors and other specialists trained for this work in particular are graded as normal administration officers, taking no account of their qualifications while specialists working at other governmental bodies (agricultural advisors, for example) can expect higher grading and wages.

The result of such a personnel policy is a permanent migration of qualified and dynamic co-operative officials from the co-operative bodies to more lucrative positions so that co-operative authorities often have to work with a negative selection of officials.

With the political pressure to achieve success speedily, a Co-operative Law allows strong intervention in the self-administration of co-operatives, and co-operative officials with small wages and weak motivations, which often try to substitute the lack of specialized qualification by paternalistic behaviour, or recourse to the state power represented by them,<sup>27</sup> the conception of state-sponsored co-operatives cannot be implemented.

Additionally, the assumption has proved to be unrealistic saying that state authorities reduce the scope of their tasks of their own accord and

<sup>27</sup>See: Muenkner Hans/H. Die Rolle der staatlichen Entwicklungsbuerokratie..., *ibid.*, (6), p. 30 ff.



transfer some of these tasks to other organizations (co-operative institutions of promotion).

#### *4.4. Distribution of co-operative authorities' functions of administration and promotion*

Proceeding from the above mentioned facts, there is every reason to believe that the functions of classical co-operative authorities should be distributed and the temporary tasks of promotion of co-operative organisations should be transferred to semi-state or private co-operative development centres rather than governmental authorities; the duration of their work should be limited by their budget and respective legal stipulations (ten years, for example) so that the construction of co-operative organizations to be promoted must be finished after that time and the transfer of functions from development centres to co-operative organizations must come automatically.<sup>28</sup>

## 5. PROSPECTS

Thus a conception of the promotion for future, more efficient programmes of state-sponsored co-operative promotion comes into being that is not new insofar as it comes back to the basic premises of the model of state-sponsored co-operatives as elaborated in India; however, many developing countries may consider it to be innovative because its consistent application would bring about considerable changes in the present-day development policy in the fields of co-operative promotion,

<sup>28</sup>For example, development centres for co-operative undertakings of the International Labour Office in Africa and Asia, see *Muenkner, Hans-H.*: Die Rolle der staatlichen Entwicklungsbeurokratie bei der Foerderung von Selbsthilfeorganisationen—Beispiele aus dem frankophonen Afrika, in: *Muenkner, Hans-H.* (editor): Wege zu einer afrikanischen Genossenschaft, Institut fuer Kooperation in Entwicklungslaendern, Studien und Berichte, No. 11, Marburg 1980, p. 110 ff.

valid Co-operative Law, existing structures of implementation and the role of co-operatives for economic development. This is also the direction of ideas contained in the report (entitled 'Expectations for the Future') about the first Regional Conference of the International Co-operative Alliance on Co-operative Policy for East, Central and Southern Africa, in Gaborone in May 1984; it clearly shows the intention of the participating countries to correct the policies they pursued so far and to come back to the original model of state promotion for member-based co-operatives.<sup>29</sup>

<sup>29</sup>International Co-operative Alliance, Regional Office for East, Central and Southern Africa: Proceedings of the First African Ministerial Co-operative Conference, Gaborone, May 1984, Moshi, 1984, especially section 6.3.

**Pauli Niemelä\***

**Echo, Techno, Polito and  
Dialectics and System-Theoretical  
Reduction**

**1. DIALECTIC LOGIC AS A BASIS OF STUDY**

During different phases in history political planning and organization are in logical harmony with the organization of labour and the ecology. This is why, for example, a study on subsistence alone does not offer any possibility of interpreting the actual nature of the situation involved. The "mood" of different solutions concerning the preservation of the environment depends on the historical situation at that moment. *Ecological theory, Technoproduction and Polito-practice* form a changing systemic unit. A change in one factor produces pressure on other factors. The whole is more than the sum of the different part-factors. It is a rather independent system. Systems can be on many different levels.

At present the actual problem is whether there is, for the information/data society, a totally new system or "only" a remodelling of the old one. I argue that a totally *new system* is being set up. This conclusion is backed up by the observations of many research workers (e.g. Toffler). In Finland, for example, Kortteinen (1985) has written about "a new form of society". I agree with the term. However, unlike Kortteinen and many other scientists, I am not so readily convinced about the beneficial nature of the new system from the viewpoint of humanity. In its initial stage the data society might seem desirable: an open and impartial society. However, the vital question is: what does "open" mean in this context, what kind of equality is basically involved?

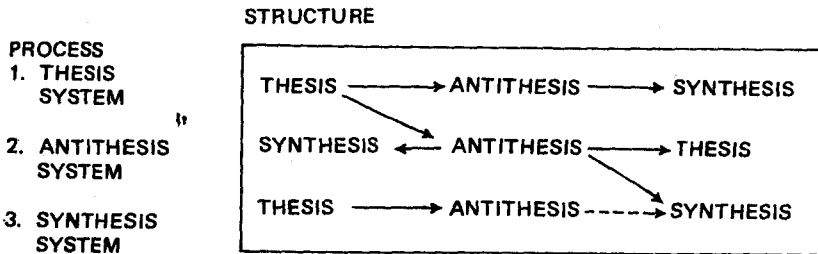
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I am going to outline, in brief, various basic systemic alternatives on a sociological level in the way of an ideal model. The nature of a data society is revealed if we know the related system dynamics, logic. I avail myself of the system-theoretical matrix and of the dialectic logic of change. The model is a preliminary outline, but it might offer a basis for, e.g., a study of co-operation.

A functioning system always has a meaning, goal and means. The general principles of system dynamics imply that there is a stream of change between two levels. The system, then, is a three-base system. Dialectically, the system consists of contrasting elements which adapt to and complement one another. The regression of the system manifests itself as negative feedback. This feedback is, no doubt, running in the opposite direction to the original system, or it would not be negative. In a given space, systems can run in different directions. During the next phase the feedback system establishes premises for a system on a completely new level. These systemic alternatives are always the prevailing possibilities.

Diagram 1 indicates system processes and structures based on dialectic logic. The terms “starting point”, “the opposite” and “point of connection” may be restored to the traditional terms “thesis”, “antithesis” and “synthesis”. The system implies all these factors.

Diagram 1 shows how the “thesis — antithesis — synthesis” works beyond systems. A new system level will result from the negative feedback of the initial system. The thesis system will provide the basis for the antithesis system, and a systemic synthesis might be expected. Technically



*Diagram 1. System-theoretical matrix – dialectic logic of change.*

the processes can be termed simply. They are probably universal: the general system theory contains a hypothesis about the conformity of structures on different levels, i.e. isomorphism.

Every system has its own rationality (logos). Analogously every system has a law of its own, a rule (nomos). Furthermore, every system has its own philosophy (sofos).

If we know the logos, nomos and sofos of the first (and now also the second) system, it also is possible to conclude, by reasoning, the analogous ones of other systems. Human systems of population are involved. A study of this type might be characterized as a kind of *anthropo- or social systematics*. Its basic idea is system-theoretic.

## 2. THE DIALECTIC LOGIC OF BIO-HUMANISM

From an initial social viewpoint the interrelationship of living creatures and their environment is the most important (Diagram 2). "Logos", i.e. sense comes from the word "oikos" which originally denotes a dwelling-place or domicile, i.e. an eco-physiological relationship with the nearest environment. When these concepts are combined, we must examine ecological questions. Nowadays this term is increasingly understood as a base of life. The difference between living and dead environments is perceived by logical "nature sense". Basic sense in life (on a macro level) is, then, understanding of ecological viz. *ecophysical* problemacy. It is a sort of "given logos". Man has been able to choose neither his evolution nor his natural environment.

On an individual level: what is the supreme law of living creatures, i.e. how should man (as an animal) develop according to the basic system? What is the most advantageous law or rule (nomos) for human life? Man has developed to the extent that he has been able to avail himself the different means of subsistence available in each phase of his life. Man has begun to develop the means of coping. Man's progress then, is described by the term "skill"; "skill to get along". Man is, in this sense, a creature who gets along by the aid of his skills (his work). Skill, then, is the key to

progress for man. The Greek term for skill "tekhne" is the basis for the term "technique". "Techno-nomos" (manual human labour, manual skill) seems to be involved. This is the "nature" of man (cf. *Riihinen*, 1983).

A premise for human life is the sensible administration of subsistence methods in harmony with nature. In other words, hunting and fishing skills contribute to man's survival when the environment is not threatened: the level of population cannot increase beyond that which the available natural resources can support.

A characterization of the third (community level) term is not difficult. It is, no doubt, related to wise community organization, to *social security*, *man-centered democratic policy*. The wisdom needed for such progress would be "polito-sofos" (cf. the term "philosophy"). Thus all that supports a community policy worthy of human beings, i.e. very broadly conceived social security, would be wise, and all that prevents it would be unwise. The wisest solution, no doubt, would be the satisfaction of human needs through collaboration. The term "polito-sofos" might be interpreted as including "conscious policy". The population elects wise representatives to top positions within the community. The term "democracy", on the other hand, points more to the goal than to the level of representation. Community policy would be man-centered and loyal (cf. the term "people's democracy").

Popular "common wisdom" (polito-sofos) would support the system and strengthen it. This leads to the idea of a geographical community as a "need community", a power community, working for the benefit of its members. To the population, it seems to be most advantageous if the community is small; otherwise it will not have the actual means to safeguard and oblige its members in a positive consolidating manner (cf. e.g. village communities, residential communities and cities). The term "polis" originally, denoted a city (a so-called city state). Nowadays the term "policy" is more broadly conceived.

Logos, nomos and sofos which support progress would be Eco-Logos, Techno-Nomos and Polito-Sofos, i.e. ecophysiology, manual human labour and democratic community policy. They would sustain life. They would be the basic system of life, a progressive and humane bioprocess,

PROCESS	STRUCTURE		
	Logos/-logy (sense)	Nomos/-nomy (rule)	Sofos/-sophy (wisdom)
BIO-HUMANISM	Eco- logos	Techno- nomos	Polito- sofos
SOCIO-BEHAVIOURISM	Polito- logos	Eco- nomos	Techno- sofos
THEO-POSITIVISM	Techno- logos	Polito- nomos	Eco- sofos

*Diagram 2.* Survival strategies of different systems – system-dynamic interpretation

“aimed” at human (anthropos) development to become “all the more humane”.

### 3. THE DIALECTIC LOGIC OF SOCIO-BEHAVIORISM

The negative feedback system starts with the linkage “techno-sofos” (Diagram 2). The element supporting wisdom is now skill. “Techno” replaces community (polito). Because techno (skill) has taken the place of sofos, know-how is established. The result is a (cultural) *professional institution, intellectual work*. The labour system specializes technically (division of labour). Cultural wisdom is organized in communities according to technical labour. Culture is, in many different ways, a system of professional credit-earning. Industry is the beginning of a new system. Know-how replaces polito-sofos.

The system rule, nomos, is important. It is, at the same time, a supersystemic antithesis. Techno-nomos of the previous system process is replaced by eco-nomos (economy). The legal status of the system is taken over by eco-nomos, viz. the monetary idea of the “*nature-like*” *competition*. Capital/money is now the law of the system. To this “new law” human labour (in later times, to a large extent, machines) is a means.

Nature is pure "material". The Greek equivalent to the term "money", "nomisma", is based on the word "nomos" (law). "Polito" now rises to the rank of "logos", viz. "sense", and a sort of *party power policy* or *security state* seems to be involved (see about this *Hirsch, 1983*). The system obtains "brains" as a byproduct. Here I mean the brains of the system—not (common) sense. Without "brains" the system would not function. Without any controlling system on a macrolevel, viz. a macro state, the system could not be maintained. It would find itself in a dilemma. Party-political state brains, from which the people are isolated are in this system "socio-behaviourism", i.e. conditional social policy. Various behavioural institutions are maintained (data instruction, wage labour and administrative loyalty). By the aid of sociology, the problems of this system, which appear to be naturally occurring, statistically-established problems, are examined: culture is studied like nature. Community is outlined in a natural way (logos), and on a social level we speak of society and social sciences (sociology).

It is essential that the (macro)state, because it is the synthesis of the system, cannot, even in principle, be critical of the economy. It needs it in order to be able to run the system. The problem of national income is a vital inalienable problem to the state. What it means to man, as a creature of nature, is another question. In this system the moderate Left and the moderate Right are interchangeable (= capitalism).

Intellectual and industrial work, money or law economy, and the party-political security state are systemically linked together. This system might be characterized as behaviouristic (for the difference between humanism and behaviourism see, e.g. *Riihinen, 1983*).



#### 4. THE DIALECTIC LOGIC OF PSYCHO- OR THEO-POSITIVISM

The rational premise for the synthesis, viz. the third system, is “techno”, i.e. we have arrived at the current techno-logos (Diagram 2). Within time techno-logos acquires a more significant role than polito-logos. In the future life it will be involved with techno-logos, “*artificial brains*”.

Much power has already been delegated to computers. The problem is how to supervise them. The computer and the robot are replacing human brains. One can speak of automatic robot work but when the brains of the system becomes “techno”, Technototalitarianism arises. The human population will, to a great extent, be at the mercy of artificial brains.

According to which rules does the system work? The system-logic alternative is “polito-nomos”, i.e. a power party based on some kind of total uniform companionship and led by a dictator. (Later on) it will take over the “security tasks” of the system. Some kind of “*national party power policy*” (one party) seems to be involved. An essential feature of this is the one-way direction of behaviour, behaviour security. This phase will take some time to become reality; it is the antithesis phase of the data society. It is difficult to forecast whether this phase will be good or bad from the practical point of view. It is, anyway, systemic logic (cf. the interpretation by Marx).

A party is involved system-logically if it takes possession of the State. Parties exercise leadership over the State. The supreme law of the system is a party based on some kind of national companionship which proceeds despotically and dictatorially (cf. national socialism in the past).

Artificial “eco-sofos”, by which behaviour of robots and, obviously, later even of human beings will be controlled, is at the end of the synthesis system. This phase is characterized by the term “teko” (artificial). Eco-sofos is, no doubt, fascism of the extreme Right. And to it leads a “cross-section” of corporative eco-nomos and techno-sofos. It might be that the extreme Left (?) “polito-nomos” and the extreme Right (?) “eco-sofos” will be alternatives in the future. Systemically they need not be far from one another. They might collaborate systemically, strange as it might, perhaps, sound.

Militarism is characteristic of systemic fascism. "Machine brothers" operate by the aid of data ecosophy. Robots and arms systems are so designed that the man in the street cannot undertake any action against them. The system might be broken up. Will it be a "new" creative act? Will that be mankind's last word in "eco-sofos", in this civilized world?

Capital eco-nomos has turned into "*artificial eco-sofos*": *all one knows can be and is done*. Because eco-sofos is the synthesis of the synthesis system, the result is that the system has "come to an end", at least with regard to civilization. In this respect, the antithesis phase of the synthesis system seems more desirable; the system can stop at it because there is no dictatorship. This seems to be some kind of "gravitation" for mankind. It seems unrealistic because the system should obviously comprise the whole world and, before it could do so, wars would probably have caused immense destruction. National dictatorships give rise to suspicion and to the arms race. And, most important of all, fascism tries to "cut across" its own "artificial eco-sofos". Liberalism can lead directly to fascism (*Kühnl, 1983*).

Is the only humane alternative an effort to return to the human system, to popular politosophy? How can this be done? Is socio-nomos, in the end, the only "real alternative"? Has "development" progressed this far?

This "theo-positivistic" system is, in every way, a system of clustering. It relates both to very automated labour, to concentrated "national party policy", and to data ecosophy. Unconditional assurance (positivism) is the prevailing viewpoint. This system might be characterized as sort of Theo-Deity-system for the reason that man develops brains other than his own, power (dictatorship) not in the control of the people and ecosophy which differs from human nature. The "objectification" of data viz. by means of a transfer to computers implies the isolation of truth from man.

Trying to avoid any kind of emotionally featured piety and so-called metaphysical positivism creates its own deity, its own church, its own catechism, etc. The conception of the Supreme Being is given the shape "Supreme Knowledge". Apostles of knowledge are the great names in science. The positivistic notion of the "Temple of Mankind" reflects the

rejected religious reasoning (cf. ideas of the Halls of the Kingdom). These are openly manifested in speeches about the Elected, etc.

I speak of Theo-Positivism as distinct from, e.g. the original Christian faith. Christian faith aims at the establishment of a community (Politosophy) through the revival of man. In this sense Christian faith was not a religion in the very beginning. What it is now is another story.

## 5. SYSTEM-THEORETICAL REDUCTION — TAKING POSSESSION OF THE WHOLE

It is possible to examine the above *scientific-philosophically*. The idea is that only system-theoretic reduction will enable an understanding of supreme system dialectics.

In scientific philosophy, arguments and conclusions are important. Lastly the problem of drawing a conclusion ends up in establishing the difference between inductive and deductive argumentation. Different methods emphasize, in general, one or the other. The Aristotelian notion of scientific argumentation, however, acknowledges both of them.

The difference between induction and deduction is generally characterized by a definition of induction as deduction “from the individual to the general” and of deduction as “from the general to the individual”. This characterization is, however, insufficient according to Niiniluoto (1983, 29–30). What matters is, the logic-effect relationship between initial conditions and their consequences. “Induction is not necessarily truth-preserving”.

The essential difference between induction and deduction is obviously related to the fact that, using induction, truth can be expanded by *deepening it analytically*. By deduction, truth can be expanded by *combining it synthetically* (dialectically). This division is important when outlining the scientific setting of questions.

The third mode of argumentation is reductive. Reduction implies reeling back, in fact “setting in place”. Often the term “reduction” is understood in a negative sense because “reductionism” has been used to

refer to aspirations which do not directly relate to explanation. Here the term “reduction” is used in a neutral sense; it designates a methodical possibility to expand truth by categorizing or *classifying* it *systematically*. Reduction, then, is an auxiliary of systemic categorization or systemic classification. With its help, it would be possible to handle problems which go beyond induction and even deduction.

Only reduction can be regarded as genuinely theoretical (in a deep sense). It is not a coincidence that the term “system theory” combines the idea of a study of systematics or systematism theory, beyond a study of empirism (and practice). Analogously, the inductive hold should be regarded as genuinely empiric, or analytically-empiric. In the same way, deduction should be considered—on an actual level—as practical, or synthesis-practical (thesis — antithesis — synthesis: Diagrams 1 and 3).

In this way the “system-theoretical reduction” makes possible the outlining, classification of various problem-settings of “analytical-empirical induction” and “synthetical-practical deduction”. The system theory would be “a holistic method” by which it is possible to reveal problem-settings of varying dimensions and on different levels. Their evaluation would otherwise perhaps be nearly impossible.

Ideas of a.o. analytics, dialectics and categorization were already to be found in Aristotle. Aristotle’s scientific ideal was the systematization of established truth. To Aristotle science was an optimistic idea of perfecting human knowledge; to arrange truths into harmonious and unambiguous units, to forming a true and exact image of reality.

It is essential that, alongside analytical (deepening) and synthetical (combining) truth, one has to speak of systemic (categorizing) truth. My study is limited to the latter. Diagram 3 shows “reduced” science-philosophical settings of basic questions which rely system-theoretically on analytical-empirical induction and synthetical-practical deduction. The classification which I use does not fully correspond with prevailing science-philosophical trends. There are numerous, partly-overlapping, variations. I have tried to establish different science-philosophical aspects in a *conceptually* differentiating system-theoretical classification for this study. How well I have succeeded is for the reader to decide. Present

philosophical trends—the logical-analytical, the existential-phenomenologic (nomic-analytical) and the critical-Marxian (sophic-analytical)—place themselves surprisingly clearly within the framework of this classification.

The systematization of *induction* is based on the general assumption of three-dimensional human nature. Man is a physical, psychical, social unit. As a physical creature, man is a creature of nature; as a psychical being, a creature of human relationships; and as a social being, a community creature (cf. *Purola*, 1981 and *Rauhala*, 1983).

On what grounds is the systematization of *deduction* carried out? According to dimension reasoning the system always comprises all system-logical alternatives. Deduction-systematics is also supposed to be three-dimensional at least in principle, “with regard to its possibilities” (*Niemelä*, 1985 a and b). The “surface” might appear three-levelled (Diagram 3). In the following, I use the terms “primary surface level”, “secondary surface level” and “tertiary surface level”.

The “*primary surface level*” is alive in the broad conception of the word (bio) nature. Basically, substance in the meaning of nature (*fysis*) is involved. By his physical constitution, man is a creature of nature. The biological problem is related to the basic questions of life, conservation and premises. Biological settings provide a natural, psychical and social aspect which takes shape e.g. in psychoanalytical and social-critical contexts.

Biological sciences (e.g. ecology) which study life inevitably produce, on a primary surface level, an axiomatic-deductive paradigm. “Natural laws” concerning life are self-explanatory premises (axioms), e.g. for a policy aiming at the welfare of human beings. Nature has produced basic systems on this level. Therefore, it is essential to consider these principles in all activities. They cannot and they should not be trespassed or nature will “revenge” itself against the human species (*von Wright*, 1985).

One speaks, too, of a second level surface; a sociological society. This “*secondary surface level*” appears as a level of cultural organizations and different creations by man, and as a level of relationships. This “secondary surface level” is the surface level of the “implementation” of cultural

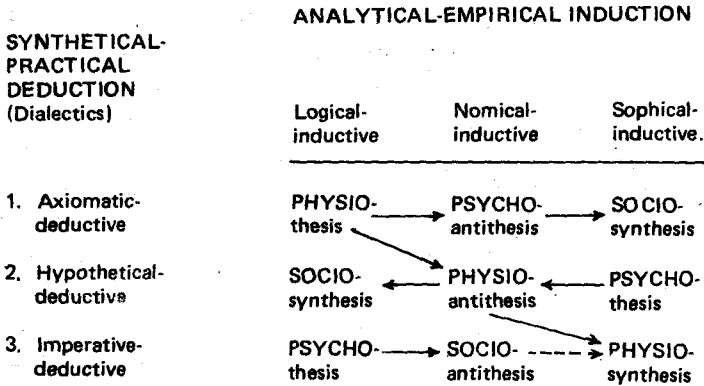


Diagram 3. System-theoretical reduction.

institutions. Often, the term “realism” is used to denote (only) “conformity with prevailing conditions”. However, the term “realism” has many different meanings.

On this level, a so-called hypothetical-deductive paradigm seems to be involved. In other words, most of the subjects of sociological research are hypotheses which are tested experimentally. One looks for causal legal authorizations, e.g. related to behaviour. It seems to be essential that, in this paradigm, it is the role of induction to prove, by testing, the validity of the hypothesis. This method may be called deductive because hypotheses are tested by deducing observational postulates (to be tested by induction).

The third, i.e. “*tertiary surface level*” is, in a way, the surface of an entirely new level. Technological “Panpsychism” (Techno-Psycho) is involved, as a kind of rational-total infrastructure to which the so-called data society leads. In a way, it is a level which is a ratio, a deity (Theo), created by man himself. On this level ecological theory technoproduction and polito-practice turn away from man. It is then a question of dictatorship into which one is “slipping” (cf. von Wright, 1985).

On this level a sort of imperative-deductive paradigm is involved. Unconditional obedience to orders/to the law is the premise. In the first

phase it appears as a technological imperative, then, obviously, as a (party) dictatorial imperative.

Thus deduction can, in principle, take place on three different levels. Usually the “primary surface level” has to submit to the “secondary surface level”, “the secondary surface level” will have to defer to the “tertiary surface level”.

The position of induction in relation to deduction is, no doubt, more basic (cf. the use of induction for tests in hypothetical-deductive methods): it is not possible to deduce if there is not anything to deduce. In principle, there are three possibilities for induction: logical, nominal and sophical induction (Diagram 3).

In a *logical-inductive* study one starts with a logically observable empirical sensory perception from which the premises for deduction are induced by data. This appears to be a fundamentally Aristotelian conception of science concerning nature, i.e. the physical (logos).

It is important to know what kind of “surface level” is involved. Logical-empirical induction produces, in its bearing, quite different premises on different “surface levels”. On a primary surface level, the premiss is nature (life), on a secondary surface level civilized society and on a tertiary surface level, techno-psychology. To speak of a logical-empirical or induction-problem, e.g. as a sociological or biological question, is to talk of two different matters (on the difference between biological and sociological problems as an explanation of behaviour, see: *Riihinen, 1983*).

One aspect should be checked. The term “logical” relates, within the context of “logical empirism”, mainly to a principle. The auxiliary of empirical methods is primarily quantitative. It manifests itself as a mathematical-statistical problem. Logic, however, has been formalized during the twentieth century and has tried to include mathematics. The basis of positivism, e.g. largely inspired by “mathematical logic”; the idea of mathematical logic as a method of philosophical research, is one of the premises of positivism.

In a *nominal-inductive* study, emphasis and interpretation of the impact of conformity (nomos = rule, law) of phenomena and experiences are

involved (cf. *Niiniluoto*, 1983, p. 166). In the so-called phenomenologic tradition, the concepts of "mind" and "conception" hold an important place: the subjective "world of experience" of mankind aims at fulfilling its purpose. When examining the ego, the exterior world is always present and purposeful.

This study emphasizes subjectivity when inducing statements by concepts for deduction. Basically, the term "conception" denotes experiences, images and impacts which are anchored in man as a psychical being. One speaks of humanistic and (historic-) philological sciences "on a primary surface level". With the aid of language, the experiences of an individual are analyzed (set free) and traits of human, natural life are outlined.

For example, psychoanalytic research is inductive human-level in depth research "on a primary surface level". It has brought forth essential aspects of growth premises in childhood. Analytic philosophy, which deals with natural language, is, indeed, as Wittgenstein (1981) realized, fundamentally therapeutic. The tool of analysis is language; language is, at the same time, an object of research for modern analytical philosophy (cf. mathematical logic as an object of research for logicians). Even here, it is important which "surface level" is involved. On a "secondary surface level" the nominal-empirical induction-problem is economic, "physical analysis" (materiality). Strangely enough, "physiqueness" is aimed at "liberation", *economy*. Money (cf. goods) is a sort of "a state of mind on a secondary surface level".

On a "tertiary surface level" the nominal-empirical induction is related to the effect of "setting free" socialistic tendency, policy. It probably denotes an attempt, conceived in an atmosphere of comradeship, to establish a dictatorial party. Party fellowship indicates some kind of "state of mind on a tertiary surface level".

The sophistic-inductive study relies on social knowledge (sofos = wisdom, understanding). Here, premises are inducted by evaluating (criticizing) and reasoning for deduction. In these cases, the term "social awareness" denotes a human trait to make, as a social being, certain choices, or differentiations in one's activities. The critical-social premise



presumes that man is in possession of intuitive intellectualism for arranging life situations. Marxian philosophy especially has emphasized the impact of (philo)sophy on activity change.

According to this paradigm, human (evaluating) nature is, in principle, able to perceive, by intuition, social life of the "basic surface level", e.g. so-called social problems. These would outline themselves not as technical "social problems" but as problems of what is or is not right. The critical sophistic-empirical method would, on that level, be exactly the philosophy which would open up possibilities for dealing with basic problems of social policy, co-operation and social work.

Problems occur, it is true, if the sophistic-empirical (induction) outlining takes place on a "secondary surface level". This means the explanation of psychic behaviour according to an exterior stimulus-response model. Among philosophers, Bacon and Mill based their view of science on the administration of an idealistic "Proper Method". An implicit presupposition of behaviourism is usually related. The same holds true for many ideologies.

The sophistic-empirical outline of the "tertiary surface level" appears to be the most problematic one. It is probably mere "obligatory action" on a physical level, viz. apparently, militarism, terrorism and, lastly, fascism. This is mere practical "artificial wisdom". The sophistic-inductive problem therefore, like other problems, differs widely at different levels.

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## Trends in Co-operative Theory

### 1. OUTLINE

During the early days of the co-operative movement, small groups of people, who were close to one another, socially and geographically, joined together in order to solve their common problems within the framework of a co-operative. They made great personal sacrifices, mainly disinterestedly, but the communion with the group and the importance of their social problems more than compensated for this. Within the group, a mentality of solidarity and equality developed. The entire work of the co-operative was characterized by norms of equity, mutual help and responsibility. In other words the co-operatives were based on elements of what I have chosen to call *sociality*, which are the foundations of the pure co-operative model—the *ideal type co-operative theory*.

Today's large co-operative societies have, however, lost a significant part of this sociality. They have degenerated co-operatively. (Entartung—see *Preuss* 1969, p 56 and *Eschenburg*, 1971, p 107.) because in order to survive they have been forced to adapt to environmental conditions, where traits of sociality have been continually decreasing. In other words, fundamental trends within the entire Western, industrialized world have induced the co-operatives to degenerate.

As the original characteristics of sociality have faded away, they have given way to elements of individuality and collectivity. Consequently, as co-operative theory should accurately reflect the actual co-operatives, this theory must also be based on presumptions of individuality and

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collectivity. Hence, different types of *real-type co-operative theory* have been developed during the post-war era. (See for example *Preuss* 1969, *Eschenburg* 1971, *Boettcher* 1980, *Engelhardt* 1980, *Eschenburg* 1980 and *Scheiter* 1982.)

*Individuality* means that the individual is in focus, rather than the group. The individual is strong enough to solve his own problems. He acts egoistically and independently, rather than altruistically and socially. Economic problems, to be solved within the market-place, overshadow social problems and concerns. There is a calculative attitude towards, and an instrumental view of other individuals. These are characteristics mainly associated with *capitalistic organizations*, but it is evident that they are also prevalent in the co-operatives of today.

*Collectivity* is characterized by a large mass of people in conjunction with a small but powerful elite. The mass is weak, alienated and almost apathic, so it cannot really manage without the elite who rules on its own conditions and in its own interests. Nevertheless, as the elite has superior knowledge and abilities, located as it is at the top of a hierarchy, the mass accepts the central planning of the leaders. This is the model, characterizing an extreme form of *bureaucratic, public organization*, but it is admittedly also found, at least to some extent, in today's co-operatives.

In social science literature, there are many analogies for this triad of sociality, individuality and collectivity. Hence, *Ferdinand Tönnies'* well-known distinction from 1887 between *Gemeinschaft* and *Gesellschaft* societies is clearly related to sociality and individuality, respectively. (Tönnies.) More recent examples are:

— Sorokin's cultural systems: idealistic, ideational and sensitive. (*Sorokin*, 1947.)

— Polanyi's principles of distribution of goods: reciprocity, market exchanges and redistribution. (*Polanyi*, 1947, pp 47 ff.)

— White and Lippitt's leadership styles: democratic, *laissez-faire* and autocratic. (*White and Lippitt*, 1960, pp 26–27.)

— Boulding's "social organizers": integrity systems, exchange systems and threat systems. (*Boulding*, 1970, pp 23–29.)

— Etzioni's concepts of power and compliance: normative power and

moral involvement, remunerative and calculative, coercive and alienated. (Etzioni, 1975.)

— Ouchi's control mechanisms: clans, markets and bureaucracies. (Ouchi, 1979.)

— Cujes' social philosophies: integralism, individualism and collectivism. (Cujes, 1982.)

The purpose of this article is to analyse the development of co-operative theory in terms of sociality, individuality and collectivity, thereby hopefully shedding some light over the formation of current co-operative theory. The co-operative theory referred to is the German tradition, as there is no real Scandinavian equivalent.

This task requires a review of the main stream of post-war co-operative theory which is characterized by ever-decreasing elements of sociality, both among the co-operatives themselves and within the theories, expressed in the transition from ideal type to real-type theories. (Section 2)

Among the real-world co-operatives, the elements of sociality have been substituted by those of individuality and collectivity, though in quite varying proportions. Hence, it is natural that the researchers have also developed different real type theories—one based on substantial presumptions of individuality and another on collectivity. (Section 3)

Modern co-operative theory has borrowed extensively from *Mancur Olson Jr*'s theory of "collective action". Because of this, an analysis of the presumptions underlying *Olson*'s theory would be interesting. Such a review reveals that the theory mainly presupposes norms of individuality, while sociality is completely rejected. (Section 4)

The fact that modern German co-operative research, influenced by *Olson*'s theory, has largely abandoned its formerly strong elements of sociality could give rise to deep concern. Co-operative theory has lost its co-operative characteristics. This might result in detrimental consequences both for co-operative research and the co-operative enterprises. (Section 5)

## 2. THE MAIN STREAM OF CO-OPERATIVE THOUGHT

In the earlier co-operative theory—developed in the 1940s and 50s but with roots way back—even further, came what has come to be termed *the ideal-type co-operative conception*. This is a theoretically-deductively developed theory, with a high level of abstraction and a substantial degree of generality. Hence, the theory does not purport to reproduce concrete reality but gives a general understanding of the phenomenon of co-operation. The theory is mainly based on presumptions of sociality, clearly seen from its concepts of co-operative inclinations, co-operative spirit, homo co-operativus, and others. (See e.g. *Draheim*, 1952.)

Among the proponents of the ideal type co-operative conception, there is, however, no unanimous agreement on which concepts and relations the theory should comprise—just as such diversity can be found in other branches of social science. Hence, there are certain divergencies concerning, for example, the essence of the co-operative and, especially, its self-righteousness, and the interrelationships between co-operators, and management. There are, in other words, some variants of ideal types. Some researchers are using quite extreme presumptions of sociality, while others accept certain measure of individuality.

The core of the ideal-type co-operative conception is that the essence of the co-operative is a group of people who have joined together to solve certain common problems. The group is small and homogeneous, and within it there is comprehensive communication but only moderate knowledge and other resources. This means that no conflict can occur between the co-operators. In discussions, they can easily reach unanimous goals and opinions. Some researchers do, however, modify these presumptions, accepting a certain degree of heterogeneity within the group of co-operators. Thus, conflicting interests and communication shortcomings may arise, but such problems are supposedly solved through various democratic structures and the majority's sense of responsibility towards to the minority.

As the co-operative, in its simple, elementary form is seen to consist of a

small group of people, some researchers do not even want to use the term "company". Instead, the co-operative is called an aggregate, an association of independent units, a centre for co-ordination or an agent for the co-operators. (See e.g. *Emelianoff* 192, part 2 and *Preuss* 1969, pp 19–22.) The co-operative is a firm (Betrieb) but not a company (Unternehmung). (*Boettcher* 1980, pp 2–4.) It has no existence in itself and no business of its own. Rather, it is united with the members and an integral part of their activities. There are no market relations between the co-operative and the co-operators, so the co-operative is only market-related on one side.

As the co-operative is not a unit in itself, it has neither goal of its own, nor proper management. Some simple administration is, however, necessary. This is conducted by the members themselves, by one of the stronger members or by an employee working for the interests of the members in an absolutely loyal way—like an "old family retainer". (The "Treuhänder" conception.) This employee is not a manager but an administrator, which means that he has no personal interest in the activities of the co-operative and his responsibilities are quite limited. His only task is to execute the desires of the co-operators (der Rendant) or, in a broader sense, to administer according to their guide-lines (der Geschäftsführer). (*Boettcher* 1980, pp 43–51.)

Consequently, there is no conflict between the co-operative and the members, nor between the various members. The ideal-type conception is totally characterized by consensus.

Some authors do, however, accept the concept of company and regard the co-operative as a separate unit. This is natural when the number of members is larger. However the consequences of these presumptions are only marginal, as they are supplemented with presumptions of the company goal being preserved member interests through democratic processes, and a manager, working as a "Treuhänder". So, consensus is still prevalent.

During the 1960s, the ideal-type theories have given way to the so-called *real-type co-operative conceptions*. It is the latter which, in various ways, are dominating co-operative research in Germany today. The pressures

from reality are gradually becoming so strong that the researchers can no longer stick to the presumptions of sociality on which the older theories were based. Real-type theories are deduced from actual co-operatives and the theory development is, therefore, based on the societal prerequisites, inherent in co-operatives today.

In order to achieve a better theoretical representation of real-world co-operatives, the researchers have had to relinquish some of the presumptions of sociality, replacing them with norms of individuality and collectivity. The fact that the real-type theory assumes that there will be individuality amongst both members and managers is evident, and the researchers state this explicitly in their reports. Hence, the real-type theory is an expressed conflict theory. The researchers, however, do not explicitly give voice to their presuppositions of collectivity, but it is possible to identify at a glance many expressions of this—lust for power, conspicuous bias in resource distribution, large-scale production and mass measures, central planning, etc.

Among the proponents of the real-type conceptions, there are many clear differences. This is not surprising, as the complexities of the real world make it possible to identify many essentially different phenomena, all requiring different explanations and different theoretical bases. It is, however, possible to distinguish a certain pattern in the development process of the real type theory—at first, the researchers only diverged slight away from the ideal-type theory but, later on, they themselves more and more from the presumptions of sociality.

If the ideal-type theory is used in an attempt to explain today's very large and complex co-operatives, enormous problems arise. The explanations are not logically consistent. Fundamentally different theories are required to reflect large, heterogeneous and anonymous member groups, large companies with considerable capital investment and with multiple and long-range activities, and managers who are highly professional employees.

A number of awkward questions arise. Among the most central are: how can the needs and interests of the large, heterogeneous and anonymous member group become goals for the co-operative, and how



can these goals be impressed on the co-operative? How can the co-operative identify concrete steps for action to further the interests of its member and how can it assess the effects of its actions? How can the members control the management so that it continually works in their best interests?

At first, these problems get a very simple solution, as the researchers only presuppose that the co-operative's main goal is an improvement in the welfare of its members (*das Förderungsauftrag*). What was earlier a conclusion now becomes a supposition of its own. The rationale is that this overriding goal was imposed on the company when it was established and cannot be altered. Only subordinate goals can be changed, due to influences from the company's environment.

Another solution is to presuppose that there is at least some degree of commitment, competence and activity among the members in order to enable them to control a management with interests and ambitions of their own and to force management to work in the interests of the members. With reference to representative democratic structures, the members can be said to control the goals and the entire business of the co-operative.

A related variant is that the researchers require the members' elected representatives to take an active part in the management function. If these representatives are just as competent and well-informed as the professional managers employed, it does not matter what characteristics the members or the managers have.

Another solution, also originating from the early years of the real type theories, is to presuppose that only managers with an ideological co-operative conviction are employed. In this way the main concern of the co-operative management is its members' welfare. (*Dienstgesinnung*). The concept of *Treuhänder*, which is a conclusion within the ideal-type tradition, becomes a presupposition. As management is presumed to serve its members, the problems concerning the goals and the control of the co-operative have simple solutions.

The *Treuhänder* conception becomes, however, increasingly difficult to maintain when explaining the real world. The comprehensive and complex business activities of the co-operatives mean that the need for professional

competence within the management overrides the importance of co-operative ideological consciousness. If the co-operatives are to survive and prosper in competitive surroundings, they must have managers who are just as competent (in business terms) as those of other companies. Hence, the co-operatives come to compete with other companies in the search for highly qualified managers.

The motivational structure of these new managers is fundamentally different from that of the old administrator. Strong elements of individuality emerge, as managers are motivated by salaries, interesting tasks, freedom of action, etc. There are, however, also elements of collectivity, as managers hope to further their own interests by seeking power and expansion for their co-operatives. Elements of sociality, i.e. the co-operative ideology, are, on the other hand, of minor importance.

Accepting that members and managers have diverging interests and are tied together through a conflict relationship, leads to difficulties in obtaining theoretically tenable answers to the question of how members can make the co-operative work in their interests. The researchers identify three fundamentally different principles of influence. First, if the management does not work in the interests of the members, the latter can find other trade partners and may even leave the co-operative. Second, the members can, through democratic elections, displace a negligent manager. Third, the members can protest against and reprove managers. Of these three alternatives, it is, however, only the first one, that can be used in today's large co-operatives. This can be explained as follows:

Among the members, an expressed mentality of individuality exists and at the same time, the members are very alienated from the co-operative. This means that as the members are many, they do not meet one another and often do not even know each other; they have different and divergent interests; they take responsibility for themselves only and they try to exploit one another. "

The managers also are characterized by a strong sense of individuality, though this is coupled with a certain spirit of collectivity. This means that the managers function as a power elite. They have superior abilities and superior knowledge; they have such personal goals as prestige, re-

putation, expansion and money and treat the members as grey, anonymous mass of distant objects. As a consequence of this, the members have really no arguments against the managers (*the information problem*), they have no incentive for action (*the motivational problem*) and they are not able to organize themselves in opposition to the management (*the institutionalization problem*).

The two last-mentioned principles of influence become impossible to follow, as they require organized action on the part of the members. The same holds true for the first principle, to the extent that it consists of organized boycotts or organized resignations from the co-operative. The only effective influencing channel, which the members have, is individual decisions on trade and membership. This is, however, practically identical with exchange relations on markets within capitalistic business.

The above discussion has implications for the formulation of the co-operative's overriding goal. Because of the members' deficient control capacity and conflicting interests, and the managers' superior knowledge and general power position, it is the managers who define the goals of the co-operative. Therefore growth goals are given high priority, as all the individual goals of the managers are supported by company growth. Consequently, the business of the co-operative will be oriented towards vertical integration, market share struggle, profitability calculations and capital accumulation.

In conclusion, it could be said that (German) co-operative theory has passed through a metamorphosis during the post-war period. Based earlier mainly on presuppositions of sociality, the trend of theoretical development has now turned in the opposite direction. Today's co-operative research is based on norms of individuality to a very high degree, and also collectivity, while there is very little left of the original traits of sociality. (Cf. also *Røkkholt* 1984, pp 33 ff.) This is also evident in the very central issue of why co-operatives exist at all. The *raison d'être* of co-operatives is either that the members can obtain individual benefits greater than their individual contributions, or that their membership is forced upon them by outside agents. The ideology of equality, equity and mutual self-help is no longer recognized as a motive for membership. (*Craig* 1980.)

### 3. TYPES OF CO-OPERATIVE THEORY

The development of co-operative theory and reality, described above, was pointed out by *Henzler* at an early stage (1962). With reference to *Tönnies*' well-known concepts, *Henzler* says that there are two extremes of co-operatives, characterized by *Gemeinschaft* and *Gesellschaft* (*Tönnies* 1963). The trend is that the latter becomes dominating, i.e. norms of individuality are expanding at the expense of sociality. Hence, *Henzler* does not include any elements of collectivity in his classification.

"We can now distinguish between two *types of co-operatives*—two real types, of which the first one coincides with the ideal type—as extremes within the co-operative field. Between these there is a variety of transitions and mixtures.

1. *The co-operative, the personal association of which exhibits traits of 'Gemeinschaft', and which consequently can be referred to as communion-related personal association.* Because of its close functional relation to the member activities, it is only market related on one side, and it therefore, conducts only a *subfunction of the trade function*—whether be procurement or sale.

2. *The co-operative, the personal association of which is a corporation (Gesellschaft) with mainly economic goals.* Its business works as market partner to member activities, and hence, it conducts the *entire trade function.*" (*Henzler*, 1962., pp 27–28.)

A similar classification is to be found with *Dülfer* (1966; pp 5–34), but he includes sociality as well as individuality and collectivity. Hence, it covers three types of co-operatives, viz. the traditional, the market oriented and the integrated co-operative. The first has characteristics of sociality, and so it corresponds to the ideal-type conception. This type is, however, said to have disappeared from the world of reality, and it is the two others that represent the real co-operatives. Table 1 presents *Boettcher*'s summary of the three types. (*Boettcher*, 1980, pp 59–65.)

Both the market-oriented and the integrated co-operative represent degenerated co-operatives of different kinds. They have in common that sociality, i.e. the co-operative characteristic, is sharply reduced, but they

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The Traditional Co-operative	The Market Oriented Co-operative	The Integrated Co-operative
<p>The member relies on the co-operative, i.e. the is completely loyal.</p> <p>The member exhibits a high voluntary propensity to trade with the co-operative.</p>	<p>The member does not rely on the co-operative.</p> <p>The member could, in extreme cases, have only marginal trade with the co-operative.</p>	<p>The member relies completely on the co-operative.</p> <p>Due to organizational compulsion the member, exhibits a high rate of trade with the co-operative. The member is controlled by the planning decisions of the co-operative.</p>
<p>The co-operative is managed by the members.</p> <p>The co-operative does not engage in outside business activities.</p> <p>The co-operative does not trade with non-members, or it does so to a limited extent.</p> <p>To a high degree the co-operative for its existence, depends on the members.</p>	<p>The co-operative is self-managed, i.e. by professionals.</p> <p>There are no limits to the co-operative's outside business activities.</p> <p>The co-operative trades with non-members, in principal to an unlimited extent.</p> <p>The co-operative becomes less dependent on the members if it has more outside business activities and non-member trade.</p>	<p>The co-operative is self-managed, i.e. by professionals.</p> <p>The co-operative is, if necessary, engaged in outside business activities.</p> <p>The co-operative does not trade with non-members.</p> <p>The co-operative is completely oriented towards and dependent on the members.</p>

*Table 1: Traditional, market-oriented and integrated co-operatives according to Boettcher (1980, pp. 60, 62 and 63).*

differ in the proportions of individuality and collectivity. The market-oriented co-operative has considerable traits of individuality, so that it resembles a capitalistic company. On the contrary the integrated co-operative has large elements of collectivity, which makes it similar to a public organization.

In the activities of the market-oriented co-operative, membership plays a subordinate role. All trade partners are treated equally, whether members or not, and the members' influence on the management of the co-operative is insignificant. The co-operative is devoted to the market mechanism as a principle of co-ordination. What products the company deals with and what customers and suppliers it trades with, are determined commercially.

The integrated co-operative applies central planning as a principle of co-ordination. There is a fairly autonomous management (almost a power elite) which controls, not only the co-operative itself, but also the activities of the members, these being strongly integrated with the company. In relationships with outside parties, it is, of course, impossible to conduct any central planning, so competition prevails. The co-operative has an expressed growth goal, and it is also very large and strictly formalized. (Cf. *Michels*, 1925.—“the iron law of oligarchy”—for a theory about how sociality-based organizations are transformed into collectivity-based organizations).

#### 4. COLLECTIVE ACTION THEORY

Modern co-operative theory is strongly influenced by *Mancur Olson Jr's* theory of conditions for human organization (“collective action”). (See e.g. *Eschenberg*, 1971.) *Olson* studies situations where an organization could bring common benefits to a larger or smaller group of people, i.e. benefits which may not be individualized but which benefit the entire group. (*Olson* 1965.) It could, for example, be people who establish a consumer co-operative in order to solve their common problem concerning supplies of certain goods. Contrary to this type of organization for a common gain are organizations where each participant gets individual benefits in exchange for his individual contributions.

Explaining the existence of the latter type of organization is considerably easier than obtaining a theoretical comprehension of how organizations for the common good could be established.

*Olson* starts with quite extreme presumptions of individuality, but he later modifies these to make room for some elements of collectivity (compulsion, reduction of freedom of action, elite power, hierarchies, etc.). Sociality is, however, completely dismissed as being exceptional, irrational and theoretically meaningless. (*Olson* 1965, e.g. p 1 and p 160 footnote.) *Olson* admittedly presents a review of sociological theories, comprising factors of sociality as ties between members of a group, but he then rejects that sociality could explain human organization.

“Any human action can be ascribed to an instinct or propensity for that kind of action, but this adds nothing to our knowledge. If instincts or propensities to join groups are ruled out as meaningless, what then could be the source of the ubiquitous groups and associations, large and small, posited by the traditional theory?” (*Olson*, 1965., p 19.)

The main message is that organizations for the common good cannot arise and persist under a supreme reign of norms of individuality even though all individuals would benefit from them. For an organization to conduct such activities, individual contributions are always necessary, while the benefits are not individual but common to all. Hence there is no unequivocal organizational/technological relation between contribution and benefit, so that each person can enjoy the benefits without having contributed anything at all.

The consequence of this is that all potential members want to reap the fruit of the organization's activities, but they want others to make the necessary contributions. Hence, no organization is possible. Everybody even tries to escape from establishing contacts to obtain the necessary coordination between potential members. All this is true to a varying degree—if the group is small, the barriers are lower, and an organization for the common good may be easier to found.

The presumption of individuality leads to a theory where each person tries to sponge on others, which leads to paralysis of action. In co-operative theory, known by such terms, as “the attractive outsider

position” and “free rider”. (*Eschenburg*, 1971., pp 61. ff and *Boettcher*, 1980., p 40, as well as *Olson*, 1965., p 76.)

To explain why organizations working for the common good of their members exist, *Olson* modifies his presumptions to include various kinds of characteristic of collectivity:

— In certain situations, an organization giving individualized benefits to its members, could also include some common benefits. The organization may have been established for the sake of these common benefits, but it exists because each member gets individual advantages greater than their individual contributions. Once such an organization is formed, its management could also engage in activities, leading to common benefit effects—though these are, and remain “by-products”. (*Olson* 1965, pp 132 ff.) The management, therefore, functions as a power elite, controlling the “by-products”—a certain trait of collectivity.

— If there is an expressed heterogeneity among a group of people, an organization for the common good can be established. It is formed by those who can obtain the greatest advantages from the organization. It is true that considerable efforts might be required on their side but, due to their dominance, the outputs from the organization could be of so great an individual importance that these efforts are still profitable. The other participants usually a minority established organization—the need for their contributions is reduced, but they have also smaller benefits to reap. On many occasions, they can enjoy the benefits without membership of the organization. Anyhow, it is the majority, who decide about the organization’s goals, structure and activities. Hence, there are several elements of collectivity in this case—bias in power distribution, the establishment of an eliteness and dominance. (*Olson*, 1965., pp 53 ff.)

— Organizations can always exist if there are elements of compulsion in them—evident expressions of collectivity. Hence, there is a powerful management which can force members to join and remain in the organization. Such an organization, based on compulsory membership, can eventually also work for certain common benefits for the members. (*Olson*, 1965., pp 133 ff.)

The conclusion to be drawn from *Olson*’s theory is that if presumptions



of sociality do not exist, or are not accepted, people can organize themselves in two ways, plus intermediary ones. In one situation, organizations are founded because each participant gets individual advantages greater than his contributions—capitalistic organizations. In the other situation, people participate because of external influence or even coercion—public organizations. These two have parallels to the market-oriented integrated co-operative.

*Olson's* theory has been very influential, not only within the co-operative theory development, but it has also been subject to very grave criticism, by *Russel Hardin* among others. In his extension of the theory of collective action, he also includes various factors of sociality as possible explanations of the existence of organizations for the common good. *Hardin* talks about irrational, altruistic motives. People are said to have idealistic conceptions and moral incentives. An active participation in a task, together with other people, could be satisfactory in itself. It is presumptions like these, which could explain the existence of the pure co-operative organization. (*Hardin*, 1982, ch 7.)

## 5. CONCLUSIONS

The discussions of the earlier sections have wide implications for co-operative theory building, as the essence that there are hardly any co-operative traits left in modern German co-operative theory. During the last decades, this research tradition has passed through a metamorphosis. Co-operative theory was formerly based predominantly on presumptions of sociality, resulting in an ideal-type theory. Elements of sociality are today practically absent from the co-operative theories. Instead, the theories are founded upon presumptions of individuality and collectivity in varying proportions, implying that such theories describe enterprises with capitalistic and public characteristics, but hardly any co-operative ones.

This development must, of course, be seen as the consequence of the researchers' ambition to understand and explain the real world co-operatives. The co-operatives have, undergone fundamental changes

during the post-war period, due to environmental forces so it is natural that the old ideal-type co-operative theory has proved to be increasingly incapable of reflecting the co-operatives of reality. As the co-operatives are now working under conditions, where the norms of individuality and collectivity are dominant another kind of theory is needed, based on presumptions where individuality and collectivity have got more prominent roles.

However, the similarity between the conditions of the co-operatives and the presumptions of co-operative theory hardly exists today. The modern theory is practically void of elements of sociality. In the co-operatives themselves there are still, however, significant elements of sociality, though less than there used to be. At least this is true of the (Scandinavian) co-operatives known by the author. Hence, the theory describes co-operatives as being more degenerate than they actually are.

One possible explanation of why modern co-operative theory has lost its elements of sociality is that researchers, in their attempt to explain the phenomenon of co-operative degeneration, have applied the theorems of *Olson's* "collective action" theory too uncritically. Lacking a thorough understanding of the basics of this theory, they came to exaggerate the trend towards degeneration. As *Olson* completely rejects elements of sociality, his theory is actually a denial of co-operative thought. It cannot explain how co-operatives are established and exist. When *Olson's* theory is incorporated within co-operative theory, it can contribute to the explanation of the totally degenerated co-operative—the ex-co-operative.

This is not to say that *Olson's* theory is incorrect or irrelevant to co-operative research. It could certainly be a valuable source of inspiration for co-operative researchers, if used with judgement, i.e. recognizing the limitations connected with its immanent presumptions. Uncritical borrowing from it means, however, that co-operative theory loses its very core—the co-operative character.

As the phenomenon of co-operatives is evidently a subfield within "collective action", it is evident that an approach like that of *Hardin* is more appropriate. This implies the recognition of sociality as well as individuality and collectivity.

The present trend in co-operative theory formation could also be expected to have some serious effects on the future development of the co-operatives, as well as on co-operative research itself. As to the future of the co-operatives, one could fear that the members, managers, other employees and trade partners regard non-sociality based co-operative theories as a legitimization of the degeneration process. So, with reference to these extreme real-type theories, the co-operatives degenerate even further, and finally the co-operative characteristics they have today will also vanish. The modern co-operative theories could, in other words, mislead the co-operatives. This is not in the interests of either the co-operatives or the researchers.

As for the co-operative research tradition, the dominance of non-sociality based co-operative theories could have some detrimental effects, as they actually remove the foundations for keeping this research as a special branch of social science. If co-operative theories abandon the co-operative characteristics, they cannot reflect the co-operatives any better than do ordinary theories of business management. So, there is no longer any use for a specific co-operative research tradition, and it will end as a relict.

The overall conclusion is that co-operative researchers should again incorporate co-operative characteristics, i.e. be based on presumptions of sociality. They should include co-operative elements at least in the same degree as they exist in the co-operatives, but preferably more, as they could thereby, could influence the co-operatives to moderate the trend towards degeneration. The pendulum could swing back again and—the trend in co-operative theory formation would be reversed.

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Anton Rauter\*

## Co-operative Principles and their Importance for Co-operative Progress

The co-operative history was initiated by a general, abstract co-operative idea, an idea not linked with any specific period, region or group. The co-operative theorist *TOTOMIANZ* (see *Totomianz, Vahan* (1923): *Theorie, Geschichte und Praxis der Konsumentenorganisation*, 2nd edition, Berlin) for example, interpreted this idea as the “cause of people” but also as the ‘cause of all humanity’ in the end. Where different points of view are confronting each other—may be denominational, sociopolitical or class-related ones—it happens rather frequently that a so-called principle of neutrality emerges; this also applies to our subject.

The founders of co-operatives stood up for a uniform co-operative idea and took all endeavours to implement a full co-operative, that is, a co-operative exercising many economic functions—from the production of commodities aimed at further and final consumption (production co-operatives) up to trade, the distribution of commodities through purchase and sales, including all auxiliary functions linked with it.

However, these pioneers were not only active in almost all fields of the co-operative system but they also developed a uniform ‘co-operative system’ more or less clearly by making the attempt of combining various types of co-operatives. The idea of ‘self-help’ was immanent in all these endeavours.

In a co-operative sense, this means active work to overcome misery in contrast to passive behaviour expecting help from the state or other social institutions.

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Self-help means that the individual voluntarily decides on performing social action and then joint action based on the finding that more can be achieved by working according to the slogan "one for all, all for each" than the slogan "every-body for his own".

It is like a mosaic where the full effect of the work is achieved only by the effects of all stones of which it is composed.

This idea of self-help is applied to economic work by transferring one or several functions, assumed by individual economies in the past, to a joint enterprise—the co-operative. The merger of the economic potentials of the individuals results in an increased performance of each member within the alliance.

## DIFFERENTIATION OF CO-OPERATIVES

Endeavours to achieve liberty made around 1848 when Socialdemocracy, that is, the idea of a new social order based on economic democracy, played a leading role—although for a short time only—, contributed to consolidating the co-operative idea essentially. Due to investigations and threats of punishment by the authorities in connection with the idea of upheaval promoted by the democrats, these persons living in Central Europe had to emigrate, to England in particular, where they became acquainted with the idea of consumer co-operatives as published by the so-called Rochdale pioneers through the well-known journalist *G. J. Holyoake* (see *Holyoake, G. J. (1928) "Geschichte der Rochdaler Pioniere"*; revised edition in *German R. Schloesser, Cologne*).

After the first years of foundation, an increasing differentiation of various types of co-operatives based on different points of view became apparent. According to social or economic-social objectives, a difference was made between co-operatives of craftsmen, tradesmen, farmers and workers.

The classification by political, ideological and denominational points of view showed that the co-operative system was orientated both toward



workers' parties and trade unions on the one hand and parties of the upper middle class on the other.

Four different co-operative systems emerged in the course of time:

- Consumer co-operative system (Rochdale principles)
- System of manufacturing co-operatives (*Schultze-Delitzsch*)
- System of agricultural co-operatives (*Raiffeisen*) and
- System of housing co-operatives.

Even today, these co-operative systems are existing in the above mentioned form in Austria.

## FOR DURABLE ECONOMIC PEACE

Despite considerable differences between the various co-operative types, co-operative movements had found a decisive *common* expression and an essential linkage in the uniform legal co-operative form originally; the degree of closeness to the co-operative ideal was dependent on the conceptional contents and socio-economic objectives of the respective type of co-operative.

Consumer co-operatives based on the principles of the Rochdale pioneer co-operatives of 1844 are essentially closer to the co-operative example, its conceptional contents and socio-economic objectives—than certain forms of credit co-operatives in the manufacturing sector, that had to adapt to procedures used in banking for the sake of survival.

As to the co-operative system, the foundation of the Rochdale Society of Equitable Pioneers as already mentioned above showed the way. This co-operative founded on 28 October, 1844 by 28 flannel weavers became the example for the consumer co-operative movement existing all over the world today.

## THE DEVELOPMENT OF THE ROCHDALE PRINCIPLES

Essentially, the Rochdale principles being of paramount importance for consumer co-operatives are based on the ideas of the English social reformer *Robert OWEN* (1771–1858), and their history is marked by ups and downs.

For a long time, it was not clear how to formulate and interpret these principles. More or less clear ideas about the fundamental importance of certain rules and modes of behaviour of the *Rochdale* pioneers existed but it was not possible to reach an overall agreement.

It was said the only important point for integrating a principle into the basic rules was the personal judgement of those making this list. The judgement changed with the person making it. What was important for this pioneer could be unimportant for another one. There was no uniform co-operative 'declaration of principles' in Rochdale.

At the International Co-operative Congress in Paris in 1937, the following seven principles were designated as true "*Rochdale principles*" and were codified internationally:

- 1) Open membership,
- 2) Democratic administration (one vote per member)
- 3) Repay of the surplus to the members according to their participation in the business of the co-operative,
- 4) Limited interest payment,
- 5) Political and religious neutrality,
- 6) Cash payment,
- 7) Promotion of the education system.

These seven principles of co-operative action are not only purposeful statements of economic experience but also the result of economic thinking.

They reflect the co-operative idea in clear-cut formulas. Irrespective of the will and views of the people, their consequent application ensures such a socio-ethical implementation of economic life, that differs from the results of the capitalist economic life distinctly. In this sense, co-operatives

are counterpoles to an economy being in contrast with honest principles so often. They implement a part of socio-ethical economic life and prove that it is possible to bring ethical principles and economic reality into harmony.

## RECONSTRUCTION AND STRUCTURAL CHANGE

After 1945, the economic, social and political conditions for the existence and development of co-operatives had been set in motion. The process of adaptation to technological and organisational changes in the economic and social structures compelled the co-operatives to reexamine the co-operative principles.

After long and hard negotiations, the following version of the Rochdale principles could be adopted at the Congress of the International Co-operative Alliance in Vienna in 1966:

1) The determination of 'open membership' is the basis of expanding the co-operative idea to all strata of the population because everybody being ready to accept the principles of the consumer co-operatives was entitled to become a member. However, membership to a co-operative should be voluntary and open to all people who want to use the service of the co-operative and are ready to assume the duties linked with membership.

2) Co-operatives are democratic organisations. They should be administered by persons who were elected or nominated according to a procedure decided upon by the members, and who are accountable to the members. Members of primary co-operatives should have the same right to vote (one member—one vote) and the same right to take part in taking decisions on the affairs of their co-operatives. Primary co-operatives based on *one* uniform managerial structure are also designated as individual co-operatives. Their special feature is their close connection with the members, and they are often seen as part of the co-operative basis. As they often work in or for a specific location, they are designated as local co-operatives frequently.

*KONSUM OESTERREICH* is a primary co-operative for the whole territory of the Federal Republic.

Non-primary co-operatives should be administered democratically in a form appropriate for them.

3) There should be only a limited interest payment, if any, of the share capital.

4) Eventual surplus or savings from the business of a co-operative belong to the members and should be distributed in such a manner that no member is favoured at the cost of other members. Based on decisions taken by the members, the surplus could be used in the following manner, for example:

- a) for the development of the co-operative enterprise,
- b) for creating common services,
- c) for its distribution among the members according to their business relations with the co-operative.

5) All co-operatives should take care of the training and information of their members, managerial employees and other staff members. The public should be informed about the objectives and purposes of the co-operative. This educational work has to cover the economic-democratic principles and methods of the co-operative movement.

6) All co-operative organisations are to actively and practically co-operate with other co-operatives at local, national and international levels in order to serve the interests of their members and communities in an improved manner.

Due to social developments, it was not necessary for the Congress of Vienna to maintain the principle of cash payment because most of the co-operatives provide credits for the sales of consumer goods or specific services.

*The Rochdale pioneers* wanted to elaborate the basis of co-operative action being relevant for future generations. This will is being documented through recognizing and stipulating the principles adopted by the *International Co-operative Alliance*, principles that involve the promotion order of co-operatives.

## 1980 — INTERNATIONAL CO-OPERATIVE ALLIANCE'S (ICA) CONGRESS IN MOSCOW

When the ICA Congress took place in Moscow in 1980, however, doubts were voiced with regard to the official formulation of the six Rochdale principles. Instead of stating the principles apodictically, the Moscow statements show the attempt of adapting the level of the principles to recent changes in market life. The statements also say the Rochdale principles are mainly based on the ideas of consumer co-operatives and not applicable to other kinds of co-operatives like agricultural co-operatives, workers' co-operatives or housing co-operatives. Therefore, the proposal to find a new formulation of the principles was accepted, aimed at making five general principles applicable to all types of co-operatives.

Ideological principles must be defended but they must be examined critically from time to time, that is, when this seems to be necessary and improvements are imperative. For example, the principles of 'cash payment' or "selling at actual market prices" have been embodied in co-operative democracy for a too long time although these principles continue to represent a practicable guideline in specific situations, especially when it is necessary to change traditional methods of economic action to make them more profitable.

Co-operative movements all over the world have to elaborate principles showing the way for all types of co-operatives, principles that, like a star, show the way to the future.

However, this does not mean at all that the *Rochdale* principles were outdated in their essence.

### A CRITICAL VOICE . . .

When applying these co-operative principles, some unintentional, not foreseeable consequences may occur, especially in co-operatives in developing countries; this is documented in a critical working paper (see

*Craig, Dr. J. G., and Saxena, Dr. S. K. (1984): "A Critical Assessment of the Co-operative Principles" in Working Papers Vol. 3, No. 2).*

Co-operative principles are stipulations aimed at transforming co-operation into practice. They are limited by space, time and the understanding for co-operation in a respective culture.

When taking stipulations as a purpose per se and not as what they really are, that is, stipulations aimed at ensuring the application of the fundamentals of co-operation in a certain situation, difficulties arise. A verbal interpretation may distort the fundamentals of co-operation.

When applying co-operative principles, some unintentional consequences came into being. However, these are not the inevitable result of the rules of contractual co-operation but of the use of stipulations when social, economic and cultural ties are changing. There occur the following contradictions in particular:

— In some types of co-operatives, women are excluded from participation generally.

— Some groups of shareholders were taken into consideration in the democratic system while other shareholders were deprived of the benefits of basic democratic rules.

— Due to this procedure, the democratic character and contents disappeared for the members gradually.

— In many cases, there is a lack of working capital and of the possibility to finance local self-help projects.

The principles were stipulated in the first half of the 20th century in order to provide co-operatives with successful positions on the market at that time. However, they do not contain the fundamental struggle of the movement.

The weakness of co-operatives is not manifested in the co-operative philosophy but in the fact how co-operative principles are stipulated and applied in practice.

A critical matter with which both developed and less developed countries have to deal is the increasing promotion of self-help establishments and the economic improvement at a local level.

The idea of co-operative self-help was never as actual as today but co-

operatives in developing countries have increasing difficulties in doing their work and coping with critical situations confronting the communities.

Co-operatives in developing countries are at the beginning of their co-operative history. They are often not in a position to apply the characteristics contained in the principles because problems linked with the survival of co-operatives like, for example, financing, democratization, beneficial co-operation, are not yet solved in many cases.

This is a broad field of action for the *International Co-operative Alliance*—the *Alliance* and its national members will have to participate in developing projects of the Third World even more actively.

## THE IDEA IN PRACTICE

The key to co-operative ideas and co-operative philosophy has always been the ability not only to adapt to changed times and demands but also to initiate new developments. More than a hundred years ago, the economic situation of millions of co-operative members in Europe could be improved through the use of the *Rochdale principles* in practice; today, it is our task to promote and support developing countries. Therefore, co-operatives provide the people in the Third World with the capacity of co-operative self-help increasingly. Much has been achieved—much has still to be done.

In addition to co-operative development, co-operation within the framework of social economy is of paramount importance. Many tasks can be solved jointly and most efficiently by activating and using all reserves.

## CO-OPERATIVE PRINCIPLES IN THE CONTEXT OF SOCIAL ECONOMY OBJECTIVES

In this context, I want to deal with definite objectives of social economy undertakings for an actual reason—reprivatisation supported and managed by conservative circles.

In the present-day pluralistic society of Western industrialized countries, it is not only the capital structure and the proprietor that decide but also the technostructure and the manager in conformity with staff representatives.

Therefore, the antagonism between social economy and private economy does not exist any more in all sectors. Assumptions saying that the social economy is predominantly producing losses although it makes supplies to oligopolaric markets, are based on polemics, above all. Generally, the statement is correct saying that social economy is to the general welfare while the private economy is concentrated on efforts by individual enterprises to make profit: however, this assumption certainly does not hold true any more for all economic fields.

As long as the term 'social economy' is only used for co-operatives, municipal service and transport undertakings as well as regional bodies and federal bodies essentially, the term 'social economy' covers reality to a large extent although not all types of co-operatives fit into the model of social economy.

Even today, social economy is determined by extra-economic targets. Social economy covers all economic activities, all households and undertakings whose extra-economic prime targets are linked with the general welfare, the welfare of a country's or town's population or the welfare of large groups of the population representing the entity; these social economy targets may not only be social ones but also targets in terms of cultural policy or social policy.

Primarily, co-operatives have to serve the interests of their members and other group interests only secondarily. Their predominant task is to promote economically weaker groups and their second task is to serve the general welfare.



Certainly, co-operatives and public undertakings are justified in claiming to consider themselves as elements and pioneers of a new economic and social order.

Enterprises of social economy—like enterprises of private economy—have to prove their value on the market today. They must produce economically, that is, at a cost as small as possible, and must provide the markets with goods and services that are cheap and accepted—thus bought—by the consumers owing to their quality. This requires managerial initiatives, courage to make technological and economic innovations, the ability to adaptation and permanent efforts aimed at achieving maximum productivity.

To meet the dynamics of our technological age with its complicated economic and social structures, the unstoppable increase in collective demands and the simultaneous unlimited esteem of the freedom of individual consumption and professional choice, it may be the best to implement coexistence and co-operation of various economic types, mutual completion, penetration and promotion of types and principles in terms of private economy and social economy.

Structural changes caused by new technologies may also bring about multinational giants in industrial manufacturing. However, this leads to giving a subordinate role to free market economy in the post-industrial society and distribution, compared with the state and social tasks. In this development, social economy has to be given responsibility for new fields.

The integration of co-operative and social economy principles is to be based on an increased readiness to solve problems of environmental protection and to accept that in case of problems of ecology, the tasks can be solved only on the basis of common responsibility, injunctions, planning by authorities and the economy, guaranteed employment and a careful approach to taking risks.

## EVOLUTION OF ECONOMY INSTEAD OF PRIVATISATION

If there is any priority in Western Europe where economic systems based on mixed economies are prevailing, this is environmental protection and guaranteed employment.

Most of the social demands of the past have been satisfied to a large extent, our society is characterized by facing new problems. As already mentioned, certain conservative circles believe that present-day problems could be solved by using the slogan 'privatisation' or 'individualization'. Developments show, however, that the sense of community must be developed and that individuals must not be allowed to extend their privileges at the cost of the community.

The sense of community favours an evolutionary development and—in partial fields at least—shows the way how to make economically weaker groups full members of the society. This development is taking place and is characterized by the speed of social progress. In countries with open social systems, where the same starting conditions exist for competition, principles of the mixed economy have brought about great stability. In countries with totalitarian regimes in all hemispheres, the opposite development has to be stated to the disadvantage of large parts of the population impeded in their development. A process of mitigation is to be expected in these countries, too.

## THE LONG-TERM OBJECTIVE OF PRIMARY CO-OPERATIVES

In the last few decades, co-operatives—in Western Europe in particular—were subject to a process of extraordinary changes because they have been and are being placed at the intersection of growing demands by their members and speedily changing market demands.

Through permanent economization and respective modernization in all fields, *KONSUM OESTERREICH* succeeded in fully satisfying these

demands of our time thus proving its economic and social proficiency with taking co-operative principles into account.

The long-term objective of *KONSUM OESTERREICH* is to promote all member households in those fields of life that are considered to be of vital importance and worth promotion; this is to be done by providing goods and services and the general engagement in terms of consumer policy.

However, many things remain open with such a formulation. But this is its purpose because a 'long-term objective' must not set limits as this would diminish its significance. 'Long-term' in this context means one decade, and every year, the foundation stone should be laid for an additional decade.

That means, exact planning in the consumer co-operative movement is a continuous process. As it is common practice, our objective is a state aimed at, conditions that are realistic but should motivate the consumers strongly.

It is impossible to adjust the business of *KONSUM OESTERREICH* to the varied individual interests although many problems are inherent in this overall promotion. In this context, the organisation based on democratic principles permanently has to stand new tests as to establishing generally accepted detailed targets and balancing all objectives.

## THE PROMOTION ORDER OF CO-OPERATIVES

Undoubtedly, the promotion order as embodied in the idea of self-help occupies the most important position among the principles of the co-operative idea; this holds true even if there exist most varied views as to its concretization.

It comprises three sectors of performance—commodities, services and the metaeconomic social field.

First it seems to be rather difficult to find an answer to the question what is to be understood by promotion in essential fields of life.

Because this answer is again in the field of competence of the individual

members. This subjective evaluation, however, would be far too varied in case of more than 800,000 members and therefore, it is only of an illusionary character for decisions in terms of business policy.

An insight into what the majority of members hold to be essential, however, results from meetings and formal events (general assembly, regional assembly, general meetings), from practical experience made in talks with the members, from proposals and other things. These wishes and suggestions from the members and customers of *KONSUM OESTERREICH* are reflected in practical management. In addition to promoting its members, all kinds of direct promotion of all consumers are increasingly important for *KONSUM OESTERREICH* in the future.

In addition to this kind of promotion order, there is another one in the metaeconomic field, that is, services free of charge, especially in the fields of education, training and information; this only applies to the members of *KONSUM OESTERREICH*.

## PRINCIPLE OF IDENTITY AND CO-OPERATIVES

According to the principle of identity being part of the promotion order of co-operatives (See *Weber, Wilhelm* (1976), in: "Verbraucherpolitik und Wirtschaftsentwicklung" *Anton E. Rauter* (ed.), Vienna), members are part of their co-operatives twofold in economic and functional terms—they use the co-operative to get things for their households and for promotion on the one hand, and on the other, they are co-proprietors, shareholders of the law-based company formation 'co-operative' and thus participants in decision-taking within the organisation, that is, the legal entity called 'co-operative'.

When seeing the term more comprehensively, the principle of identity may also be considered theoretically as the expression of the individual's self-identification with an economic and living community accepted by the individual.

Such an identification with the co-operative is a prerequisite for the ability and readiness of members to exercise democracy. This clearly shows the close interdependence of co-operative principles.

As an expression of self-identification of the members, the principle of identity remains significant at a new level even if it has been subject to certain modifications as a traditional principle both in legal and economic terms.

However, solidarity among the members and their permanent democratic co-operation will only be possible where an especially close relationship to the co-operative exists and identification is possible for the individual.

## CO-OPERATIVES—A SYMBOL OF A HUMANE SOCIAL ORDER

In a society where competition dominated the economic life, where the worker was subjugated to the employer for a long time, co-operatives meant far more than only an improvement of the living standard. The co-operative—for many people this was a symbol or the beginning of a more humane and free social order.

What was said here shows that co-operative action does not have revolutionary traits. But through eliminating socially detrimental effects of the capitalist economic system, it essentially contributed to organic evolution. And it is going on contributing in a modified manner.

Christian, liberal, conservative, and, last but not least, social-democratic motives have influenced the development of co-operatives. The supporting element of the co-operative idea has been and continues to be the idea of self-help as embodied in the promotion order of consumer co-operatives.

We are living in an increasingly dangerous time. The holocaust of a nuclear war, economic chaos and world-wide hunger is threatening all of us. To cope with these threats, we must learn to co-operate.

There are many critical issues in our society of welfare and abundance. One of the most crucial problems—a very complex economic, social and moral one—is the simultaneous existence of increasing abundance in the rich countries and increasing poverty in developing countries. There are only a few among the rich industrialized countries that are aware of their

task to render solidarity to the people in developing countries; this underlines the urgency of the task adopted by the International Co-operative Alliance.

The consistent application of co-operative principles has proved to be a good method to achieve co-operative objectives. To do so, one has to know these principles. Only action creates new preconditions and fundaments for a new democratic society. Especially today, it is of paramount importance to the international co-operative movement to apply wellproven strategies and to manifest mutual understanding and alliance all over the world.

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**Per Ove Røkholt\***

## **Co-operation—an Organization Strategy**

### **1. INTRODUCTION TO THE ISSUE**

In the well-known publication "Co-operatives in the Year 2000" A. F. Laidlaw points out that the co-operative system faces an ever-increasing ideological crisis. "It arises from the gnawing doubts about the true purpose of co-operatives and whether they are fulfilling a distinct role as a different kind of enterprise." He relates the crisis to the fast changes of the environment, the danger that the co-operative system "might be overtaken and passed by in the fast pace of modern change". "Fundamental changes and restructuring might be needed for various types of co-operatives to maintain the strength and momentum built up over almost 200 years since they were started."

He states that there is a tendency to raise current practices to the level of principle instead of identifying the principle itself. It is imperative for the co-operative movement to clarify and publicise the fundamental concepts, ideology and moral claims according to which it operates.

At the congress of 1980, the International Co-operative Alliance was deeply concerned about if, and how, the system of co-operative organization was to survive in modern society.

Are co-operatives, as a consequence of their own organizational adaptation, about to mutate in such a way that they are no longer able to realize their co-operative goals and objectives?

Which are the fundamental concepts and moral claims of the co-operative movement? Applying these concepts, are co-operatives able to survive and prosper in society? Are co-operatives forced to mutate in

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awareness and imagination of the co-operative system? To what extent is the problem one of incompatibility, or one of incompetence?

In the literature of the co-operative system we find several perspectives on what are the basic ideas on which co-operative organizations are or should be founded, or what might be called the *co-operative rationale*. The different perspectives often reflect the different professional backgrounds of the authors, as do time, place and political conviction. Thus we experience many different schools of thought on what is to be the co-operative rationale. Some of the schools are complementary, covering different aspects, some are competing.

Some schools are what we might call ideological, i.e. preoccupied by the values and quality of the co-operative way of organizing. Others are mainly pragmatic, in the sense that they are concerned by the survival and competitive strength of the co-operative organizations.

These two perspectives are often in conflict and seem to be incompatible. There are many reasons for this. One basic reason is that the co-operative organization often faces competing interests or demands.

Co-operatives are, like all organizations, dependent on support from their environment. They have to “earn their legitimacy” by producing an output which in return gives the organization sufficient support to survive and develop. They have to meet demands from their environment.

As a result of conflicting demands, they have to identify priorities i.e. choice of strategy.

The choice of strategy often also implies a choice of role and, in fact, a choice of goal.

As organizations develop and grow, they become dependent on new interest-groups. Thus the demand/support-structure changes, the power structure changes, and, ultimately, the organizational goals may change.

For some value-oriented people, it is very difficult to understand and accept such deviations from co-operative goals and values. Other, more pragmatically-oriented, people are more concerned with the organization's general legitimacy, than defending co-operative values at any cost.

This often causes problems, misunderstanding and suspicion between groups of members, between members and staff, and between co-operative organizations and their environment. I am in no doubt that this is about to become a major problem in many co-operative organizations. The problem escalates as the organizations become larger, more complex, and staffed by different professional experts.

The lack of a common, mutually shared, basic understanding and awareness of the co-operative organizational form might cause difficulties in several very important areas of organizational strategy:

— Organizational identity, internal socialization and cultural development

— Identification and utilization of the strengths and weaknesses of the organization

— External image.

These factors are highly recognized as being extremely important for success in business and interest organization.

To survive as co-operatives in the modern world, it is imperative for co-operatives to develop a common understanding and awareness of the theoretical base or rationale of the co-operative organizational form.

I will argue that the co-operative form of organization has structural features more in line with the demands of modern times than do other organizational forms. However, I will also argue that lack of knowledge and awareness of the co-operative form among members, elected representatives and professional staff, makes it almost impossible to utilize the opportunities. This weakness, together with imitating the models of adaptation of other organizational forms, prevents the comparative advantages of the co-operative form from being exploited.

Paradoxically, co-operative organizations may find themselves denying their own goals, values, and most efficient means of success, in order to implement the means of their competitors.

I will argue that co-operative organization involves a special strategy. Member patronage and loyalty is developed and assured by an organizational structure and performance which creates solidarity among members and identification with the organization.

I will now, from a perspective of sociology of organization, present the theoretical rationale behind co-operation as an organizational device. Hopefully this may contribute to closing the gap between the value perspective and the pragmatic perspective on co-operative organizations.

## 2. CO-OPERATIVE ORGANIZING—OVERCOMING

We may define organization as deliberate activity aimed at structuring human co-operation in a way which promotes certain goals and values. By organizing the individual one can overcome his weaknesses and help him to achieve his goals and values. Co-operation is a special, distinct way of organizing for overcoming weakness. Thus, it is a social phenomenon, a tool for organizing.

We know that co-operatives were initially set up as means of promoting the interests of the less powerful members of society. By combining efforts and pooling their resources, people were able to achieve goals-which they were not able to reach on their own.

In this context, the key problem is how and in which way such organization was made possible. What made people willing to delegate power, and by this give away independence? What made them support and sacrifice? What made them loyal even when there were obviously times when the individual would be better off not being a member? The answer to this might seem obvious. People were able to see the long-term benefits of being a loyal member. However, modern studies of organization as a social process tell us that the matter is far more complicated. We observe that collective action, which would obviously be to the benefit of a group, did not take place.

So, the question about what prevents and promotes collective action is indeed important.

What are the barriers to collective action? Very briefly I will list the most important obstacles:

- Ambiguous interests and goals
- Lack of knowledge of the relationship between means and ends

- Lack of awareness by the individual about how he is affected
- Legal and political prohibition or obstructions
- Individual interests are not sufficiently stable
- Common interests in one field, conflicting interests in others
- Lack of contact between people
- People believe that they can get the benefit of the collective action without having to participate.

Even when an organization is established, it will face these problems. Thus, the obstacles have to be overcome in order to establish and continue a collective action successfully. The question is how to overcome the obstacles to collective action, which strategy to use? In this context we will ask: Is there a special, distinct co-operative strategy for solving the problem? Are we able to identify such a strategy? How well is it working, given different environmental conditions?

### *Strategies of collective action*

Generally speaking, we can think of several strategies or elements of strategies for overcoming the obstacles to collective action. Briefly, I will mention four strategic elements or rationales:

- Exchange of power
- Solidarity and ethical norms
- Individual benefits
- Institutionalized equality

If people are highly dependent on what others decide and do, it may be wise to exchange one's own freedom of action for influence on the actions of other people. It might be sensible to voluntarily put restrictions on one's own actions in order to get others to do the same, or what we here will call *exchange of power*.

If we all become worse off when every one attempts to maximize his own benefits, it seems rational to establish common rules of behavior that, if followed by all, make us all better off. We might call this a *strategy of ethical norms*. The norms have the function of assuring that nobody will exploit the situation.

*Solidarity* might be seen as a special case of ethical norms. By solidarity we mean people being concerned by the welfare and well-being of their fellows and willing to sacrifice some of their own benefits in order to help others. In this case the individuals are not interested in pressing for a small individual benefit at the cost of common interest. Thus, it might be rational to develop, educate and maintain solidarity as a basis for collective action.

*Individual benefits* might also be utilized as a basis for collective action. The benefits of collective action might be reserved for those who participate in the action. Individuals will have to join the action and be loyal in order to obtain the benefits produced by the action. The individual benefits might be economic or social, and might be attached to a system of sanctions. Thus, individuals are given incentives to support the collective action by the promise of individual benefits or the threat of negative sanctions. Thus, the common good is obtained by a collective action based on individual benefits.

All these strategies of collective action may fail due to the fact that individuals might benefit from “breaking the deal”. The main problem is to ensure that all are living by the rules. Usually, it might be rational and necessary to establish a system by which the individual hurts himself by breaking the rules. This we might characterize as a system of *institutionalized equality*. By institutional means (laws, rules linked to a system of sanctions) equality is assured.

### *Structuring as a strategic element*

Organization is a deliberate activity by which the participants are seeking to fulfill certain interests or goals. Organizing implies structuring of the relations between individuals in such a way that the interests or goals of the action are served.

Co-operative organizing implies that the relationships between the individuals are structured in a specific manner. Generally speaking, the pattern of structure influences the output of the organization. The

structure influences which interests are benefited, which problems are solved. Through structuring, certain interests and tasks are given priority.

Thus, structuring is a basic strategic element, having a long-range impact on the organizational output.

Analytically seen, it is important to separate this from the tactical element which might often cause short-term deviations from the main course.

Thus, different co-operative structures might, given the same environmental situation, lead to different adaptation and output.

The co-operative organizational form has distinctive features to the extent that it has a structure which solves other problems, or gives other solutions to given problems, than do other organizational forms.

From an analytical point of view, the important question is not whether co-operative form is “good” or “bad”. The questions are: “What kind of problems is this organizational form capable of solving?” “Which consequences do alternative structural adaptations have?” “Under which conditions do co-operative organizations give favourable solutions to given problems”.

#### *Basic co-operative goals and organizational structure*

When we use the terms ‘co-operative organizational’ form and ‘distinctive features’ we assume that it is possible to identify certain common distinct structural features by all organizations called co-operatives. This means that we are seeking a structural frame within which this type of organization might be placed.

If the question of the distinctive features of the co-operative form is to make sense it is essential to specify a structural frame. However, it is meaningless to discuss the structural frame of co-operatives without taking the basic co-operative goals or aims as a starting point. As I have already pointed out, there is a direct link between goals or aims on the one hand and the structure or organizational design on the other.

We can illustrate this connection by a simple model:

Co-op basic goals → Theoretical rationale → Co-op structural frame

Our task then is to identify the theoretical connection between basic goals and basic structural frame.

If we turn to the co-operative principles, these might be seen as guidelines to how co-operative organizations should be structured or designed. They are practical conclusions of a theoretical analysis of the relationship between basic co-operative goals and the co-operative structure.

Analytically, the principles have two different sides or aspects. On the one hand they have a value-aspect; they identify the aims and goals of co-operative organizations. On the other hand, *they* are theoretical hypotheses stating that by following the principles in designing the organizations, these organizations will perform efficiently by gaining legitimacy and support in society, and through secure their own survival and expansion.

The crucial questions, then, are:

— “Which interests/goals are being favoured when the co-operative principles are applied?”

— “Given specific goals, how efficient or sensible are the principles?”

The principles may be seen as rules or guidelines for policy-making and structuring to secure that the goals or objectives are being realized in an efficient way. The principles are rational to the extent that they give the required results (goal-fulfilment).

As stated before, the structure of organizations is a variable which might be manipulated to make the organization function better in order to secure certain interests or goals.

Co-operative organizations not only face demands from their members, they also have to satisfy demands from employees, state authorities, customers, etc. This causes a continuous problem of balance between:

— Adaptation in order to perform better in relation to members' problems and demands

— Adaptation in order to survive in a competitive political/economic market.



The basic or ultimate goal of co-operative organizations is to furnish the social, political, and economic interests of their members. Their primary day-to-day goal, however, is to survive as organizations.

In their adaptation, the organizations have to give priority to certain problems and demands. In extreme situations the conditions might force the co-operative organizations to give up their distinct co-operative structural feature. By this, their ability to realize basic co-operative goals is reduced.

The adaptation of co-operative organizations is the result of striking a balance between what we might call ideological and pragmatic objectives. The ideological objectives are, so to speak, partly “built in” or cemented into the organization by the co-operative organizational design. The pragmatic objectives are a result of the practical day-to-day demands on the organization. Thus, we recognize two different, and often conflicting, forces influencing the adaptation of the organizations.

My focal point is that changes and restructuring, which are seen as natural and necessary to meet the challenge of modern times, might undermine co-operative organizations. This not only goes for the organizations’ ability to furnish basic co-operative goals, but also for their ability to survive as business entities. There is good reason to believe that modern man has a great need for identity, self-reliance, and participation and that he needs to feel he has some influence over his own situation. On the one hand this is in line with basic co-operative goals. The co-operative organizational design (structure) makes these organizations particularly suited to deal with these types of need. On the other hand we might, in terms of business, regard the needs as demands. Satisfying these demands might promote loyalty. In business, customer loyalty is now regarded as an extremely important factor in the competitive ability of the firm. From this point of view, the unique ability of co-operative organizations in creating member-loyalty, might give them a competitive edge.

However, the means of promoting member loyalty might sometimes contradict the ability to satisfy demands from other parties. The choice of strategy is a continuous process of selecting an “optimal mix”, given changing environmental conditions.

I will suggest that private firms today are often more aware of the importance of the loyalty factor and utilize this better than do co-operative organizations. Co-operative organizations often lack self-reliance and faith their own basic ideas. This, together with a lack of knowledge and awareness of the theoretical and practical connections which constitute the legitimacy and comparative advantages of the organizational form, might lead to under-optimum models of adaptation.

I will now present some ideas concerning the basic theoretical foundation of the co-operative organizational form, what I will call the *co-operative strategy of organizing*.

I have already specified some alternative strategies of organizing. From this starting point I will now investigate the co-operative idea and rationale of organizing.

#### *The co-operative strategy of organizing*

One main problem in organizing people in voluntary organizations is to develop common goals and objectives which unite people with different and conflicting interests. One way of overcoming the block of conflicting interests is to develop and sell a “myth”, vision, or ideology which is experienced by people as worthy of support. By support, I mean willingness to accept some economic, social or political costs. By this, people are willing to overlook or ignore some of their own interests in order to serve the myth or vision.

At the start most voluntary organizations are based on a myth or vision. The co-operative organizations are no exception. The co-operative movement is strongly related to ideology; to the desire and vision of a better society. It is no coincidence that the co-operative ideas were developed in the middle of the last century, together with industrial development and a broad, popular, social and political awakening in the western world. The co-operative movement was born of and kept alive on the vision of a new and better society, where co-operation and justice

replaced competition and injustice. This vision, however, imposed two basic practical questions:

— Which organizational structure or design structure or design would be the best to support and implement the vision?

— How to get people to support the system?

The general objectives of the co-operative movement were equity and justice in society. From these two practicals goals were deduced:

— More market-power to the small and weak units (consumers, workers and small units in farming and business) as a remedy for instant distress

— Change of the political-economic system

The direct operational goal seems to have been to reduce the dependence on other more powerful participants in the market.

Generally speaking the objective of the co-operative movement has two aspects or dimensions; one directed towards society, one towards the members:

— Changing the distribution of power in society, in order to obtain a more equitable distribution of welfare

— Realization of the members economic, social and psychological needs and goals.

If we now turn to the co-operative principles, we find that, in co-operative literature, they are discussed and analyzed from two different perspectives:

— Ideological (The principles are seen as guidelines and rules to secure the implementation of certain values)

— Pragmatical (The principles are to secure the support and survival of the co-operative organizations)

If we now compare the principles advocated from an ideological point of view with those put forward to secure survival, we find them surprisingly similar.

It is not possible in this short paper to analyze the co-operative principles and the relationship between them. I will only present the conclusions of the analysis of the relationship between the principles on the one hand, and aims and goals on the other:

— Some of the principles or ideas concern mainly co-operative goals and values (e.g. self-reliance, economic efficiency, justice)

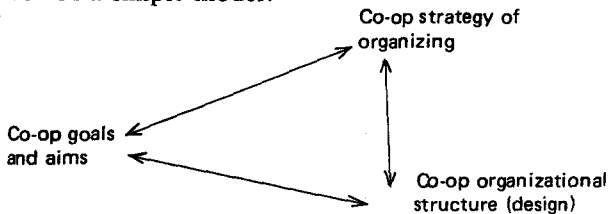
— Some of the principles are mainly rules of organizational structuring in order to realize co-operative goals and values (i.e. democratic control, limited interests, open membership)

— Some are rules for structuring in order to secure efficient, workable organizations (i.e. economic efficiency, indivisible reserve funds, organizational autonomy)

— Indirectly, some of the principles have an impact on the problem of power-distribution in society (i.e. democratic control, justice, equality)

The analysis reveals a logical structure between co-operative goals and values, strategy of organizing and organizational structure. This is the distinct feature of the co-operative organizational form. Co-operative goals, strategy and structure are distinctly different from those of other organizational forms.

The relationship between the main elements of the structure may be described in a simple model:



**Basic co-operative goals and aims:**

By joint economic venture and organizational activities it serves, the economic interests of the member-group, their need for self-confidence, self-respect, social belonging and social position in society. By its activities it contributes to economic, social and political justice.

**Co-operative organizing strategy:**

Collective action is made possible and secured by:

— An organizational structure which promotes equity, justice, contact, and tolerance among the members and through this, develops the necessary level of solidarity to secure the collective action

— Autonomy and independence from state authorities and other organizations.

Organizational structure:

The organizational design (structure) is to be based on the principles of:

- Democratic management and control
- Open membership
- Limited interest on share capital
- Dividends in proportion to transactions
- Information and education
- Co-operation among co-operative organizations

As we can see, there are some obvious theoretical relationships between the three elements of the model. This is not the place to elaborate on these relationships in any depth. I will, however, draw attention to some main lines of theoretical logic.

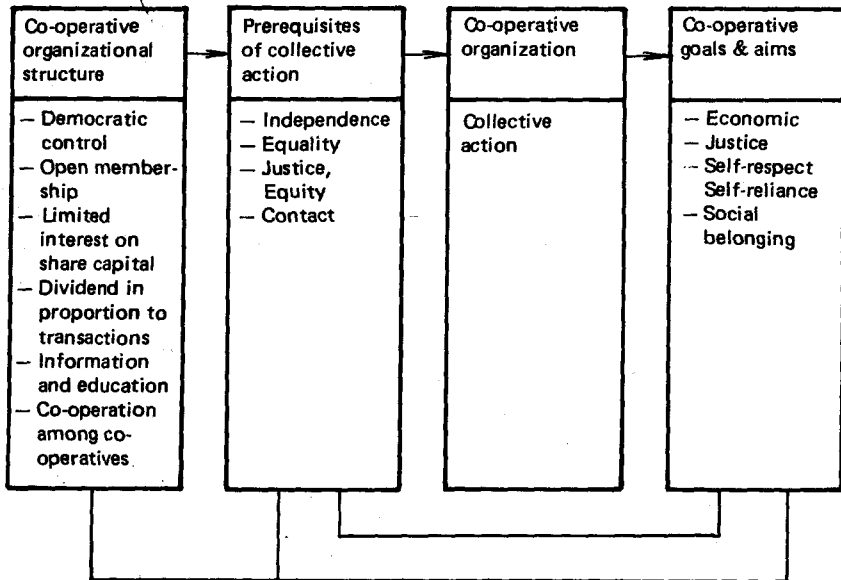
The co-operative principles of structuring, when used in designing organizations, will help develop the wish and determination of people to participate in collective action. In most situations, personal membership, democratic leadership, and contact between members are some of the prerequisites for the development of solidarity. The principles stress that development of solidarity is the basic co-operative strategy of getting people to organize. At the same time, member relations become the competitive edge of these organizations, due to member solidarity and loyalty. The co-operative organizational structure and the process of developing solidarity between members and the organization also contribute directly to the goals of strengthening the self-reliance, self-respect, and social identification and position of the members. Thus, we can see that this unique organizational strategy is a way of making collective action possible. It contributes to organizational efficiency and competitive strength and at the same time contributes to the social, political and psychological needs of the member group.

Another main factor in the co-operative strategy of organizing is organizational autonomy and independence. Co-operative organizations have to co-operate with other organizations and state authorities. They are generally dependent on individuals in their environment. The point is that

co-operative organizations, more than other organizations, have to protect their self-identity. The main reason is that, in order to protect collective action, co-operative organizations have to avoid being directly drawn into political and social conflicts which threaten the agreement and unity of their member group. This is a must due to the co-operative strategy of organizing.

Autonomy and independence are also important in order to develop self-reliance, self-respect, social belonging, and identity. Thus, there are direct links between the strategy of autonomy and basic co-operative goals.

To summarize this structure of theory the main elements might be put together in the following model:



As we see from the model, the co-operative strategy, to overcome the problems of getting people to organize or join a collective action, is, what I earlier called, the strategy of solidarity. I will present a general model of collective action in the next chapter. Here I will just point out that the

social prerequisites of developing solidarity (dependence between people, equality, justice and social contact) plays an important role in co-operative organizational thinking. The theoretical rationale of the co-operative principles seems to be that co-operative structure and design promote the social prerequisites of developing solidarity among people.

The relations in the co-operative model of organizing are unique and complex. The model presented exhibits this by the direct lines between structure and goals, between the prerequisites of collective action and goals, and the feed-back loop from the goals to the prerequisites of collective action.

For example, as we see from the model, the organizational structure of the co-operative, has a direct impact on certain co-operative goals, besides influencing the prerequisites for collective action. It is obvious that the structural principles of "Democratic control" and "Open membership" are directly related to the goals of "Justice", "Self-respect" and "Self-reliance". "Information and education" has an impact on the goals of "Self-respect" and "Self-reliance", "Co-operation among co-operatives" relates to the economic goals, the goal of "Social belonging", and so on.

We also see the direct lines between the factors stated as prerequisites of collective action and the co-operative goals. "Independence" and "Contact" are, for example, of basic importance to the goals of "Self-reliance" and "Social belonging".

We even see that fulfilment of co-operative goals is needed in order to keep the collective action going. This not only goes for the economic goal (economic benefits to the members); it is also the case for goals like "Self-reliance" and "Social belonging".

An awareness of this type of relation seems to be very important in understanding the rationale behind the co-operative form of organization, and utilizing the strengths of this organizational form.

*Prerequisites of collective action—a dynamic model of collective action*

In order to comprehend the co-operative strategy of organization it is necessary to look at it in a broader perspective of collective action. This can be done by comparing the co-operative model to a general model of collective action. A simplified general model of collective action is presented in the figure below.

The model is dynamic in several ways. Thus, the conditions and development of society create a dynamic frame within which the individual and social conditions are shaped. The form and content of the social processes leading to collective action, not only relate to the collective action itself, but also influence the individual conditions of support and activity in the action. The output of the collective action affects both the individual and the social conditions of the continuing development of the collective action.

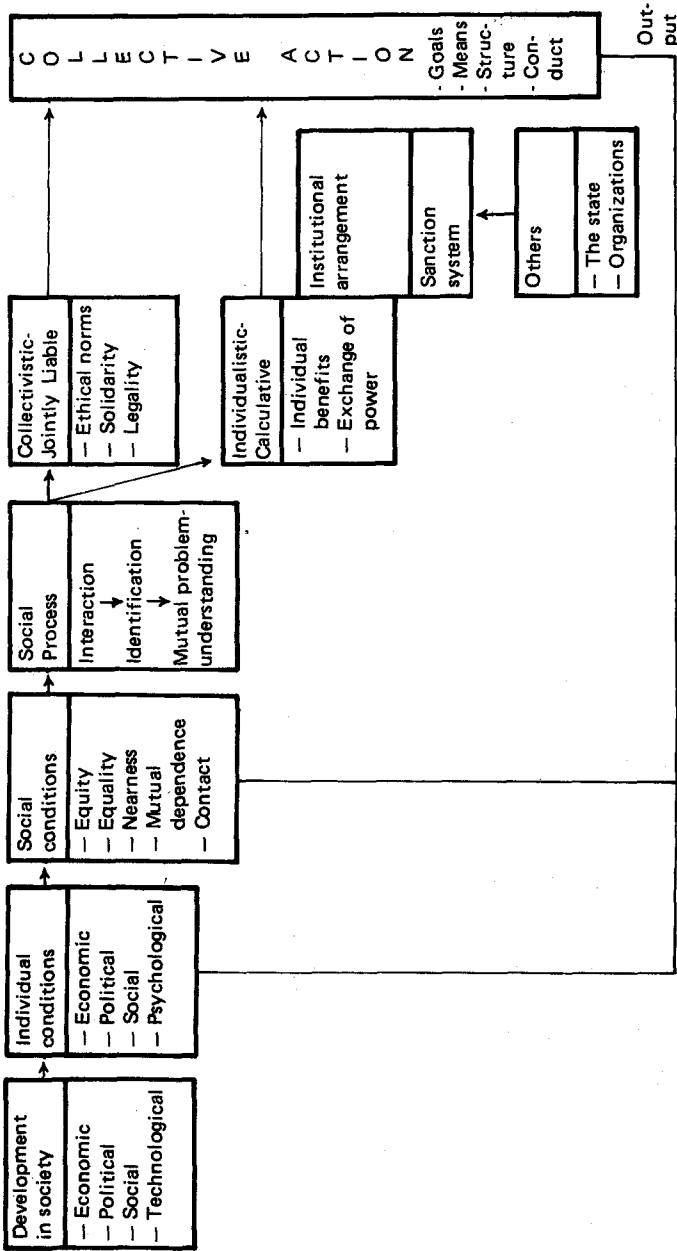
Thus, the structures and processes of collective action are complex and dynamic. The interplay between several dimensions and variables decides the fate and destiny of the action. This interplay is of great practical importance to the question of the development and survival of co-operative organizations. However, I do not have the space to elaborate this any further here. Instead I will very briefly point out the main ideas of the model.

As mentioned before, there are several strategies for overcoming resistance and obstacles to collective action. In the model, I have presumed that a collective action requires a minimum of loyalty on behalf of those whom the action concerns. By<sup>1</sup>loyalty I understand willingness to participate through membership, and obeying the rules of the game. The basis for such loyalty can be described by two dimensions:

*Collectivist-jointly liable and Individualistic-calculative.*

The first of these dimensions includes ethical norms. By this, I mean the popular apprehension of what is right and wrong, sensible and not sensible, social behaviour. The norms might be internalized (i.e. become a part of one's own personality), or they might be followed because the individual fears social sanctions from other people.





Model: Basis of organizing and maintenance of collective actions.

The collectivistic dimension also includes the case when individuals modify their own behaviour due to its expected consequences on other people. The individuals are willing to participate even at some cost to themselves. This case I call solidarity.

The dimension even includes the case when individuals are loyal to a decision because they apprehend the organization to have the legitimacy of making the decision.

The other main dimension includes the case when individuals find (calculate) that they earn individual benefits from being loyal. It also includes the case of finding it profitable to give away some autonomy in exchange for having the option to influence the decisions of others.

The reason why I have separated the basis of loyalty in these two dimensions is the fact that they are the result of different social and political situations and processes.

*The collectivistic-jointly liable dimension* is the result of social processes by which the individual develops social identification through social interaction and where norms of behaviour are developed and shared by the participants. Myths and ideas are developed about how things are connected and how reality is constituted. From this basis a common understanding and awareness of the collective action as both solution and means might be developed. The collective action is experienced as a deliberate, explained and justified undertaking, subject to social common understanding and control. The collective action becomes a part of what we might call a group-culture.

There are some main conditions for such social processes to develop. The individuals have to be somewhat alike and equal, facing the same situation. This will make it possible to develop awareness of common interests, and to see and understand the situation of the other individuals.

The awareness of interdependence is also an important condition. The experience of mutual dependence in reaching common goals, solving common problems and fighting mutual enemies, is important in developing common interests. Social proximity and easy reach are also important factors related to the development of solidarity.

We might call these factors the social conditions influencing the social

process (interaction—identification—mutual problem—definition and understanding) which determines the development of the two dimensions of loyalty.

As mentioned above the “output” of the collective action might have considerable impact on its future development. By output I mean the whole range of effects of the collective action, its structure, policy, goals, conduct and performance. Thus, as we see from processes like this might lead to what I called in my introduction the pervention of the co-operative organizational form.

Co-operative organizations have survived even if they deviate from the way of organizational thinking both in capitalistic and socialist systems. From this it seems natural to me to raise the question of the theoretical logic behind this form of organization.

It would be extremely dangerous for the co-operative organizations if they were to lose the idea and theoretical logic of co-operative organizing. Earlier, this logic was obviously more part of the organizational culture. The co-operative strategy did not have to be explained and theoretically elaborated, it was built into the social system, and handed down to the new generations.

Today, and in the future, I think the co-operative organizations have to secure their own basis in a more explicit and analytical manner. This is due to several fundamental changes in environmental factors. The higher degree of complexity in business operations, employment of experts without any background in the co-operative culture, higher educational level, and fast and often dramatic changes in environmental conditions, all represent factors which demand a more concious and theoretically consistent organizational form and basic strategy.



**H. Seuster\***

**Strategic Planning and Strategic  
Control of Enterprises  
as Tasks of Co-operative Management**

It has already become a commonplace that the success of economic enterprises strongly depends on the quality of management. Even in agriculture, it has been well-known for a long time that the economic result primarily depends on the ability of the manager and less on other production factors.

Therefore, strategic management occupies a specific position with regard to long-term economic success that has to be achieved by most of the enterprises that were established for a long time of operation. This statement is valid for all enterprises practically and thus also for co-operatives.

However, strategic management is only part of the overall managerial process that also consists of tactical and operational management. But strategic management is situated before the other two components in terms of teleology and time so that it is of specific importance.

Management is composed of the elements<sup>1</sup>: planning, organization, implementation, control and representation. For reasons of time and space, we have to limit ourselves here to strategic planning and strategic control. This is made because planning is at the beginning of the tasks of managers, and new aspects came into being in the field of control.

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<sup>1</sup>Schertler, W.: *Unternehmungsorganisation*. Munich and Vienna 1982, p. 17.

## STRATEGIC PLANNING

Thorough long-term planning, that is a so-called strategic planning, is an essential tool to be used by all managers. It is in economically difficult times—and when don't you have such times?—in particular that a well-thought-of planning conception must be the basis of all essential decisions and their implementation in order to ensure the survival of the enterprise. Naturally, these managerial tasks have also to be fulfilled by the management of a co-operative.

Experience made in connection with agricultural marketing co-operatives predominantly shows, however, that the majority of these co-operatives do not make planning, neither long-term nor short-planning in the comprehensive sense of this term. Therefore, it is of utmost importance to deal with this topic.

As far as the 'planning horizon' is concerned, we make a difference between strategic, tactical and operational planning.

*Strategic planning* is focussed on the analysis of sources of success and the development of long-term conceptions in order to guarantee the future of an enterprise.<sup>2</sup>

*Tactical planning* covers the decisions of strategic planning up to achieving the targets.

*Operational planning* is to provide the short-term potential of the enterprise without endangering the long-term conceptions.<sup>3</sup> It is evident that these three forms of planning are interdependent strongly: strategic planning without subsequent operational planning remains "patchwork" like operational planning without a basic strategic conception.

Here we want to deal with strategic planning in co-operatives exclusively because 1. the pent-up demand is bigger than in operational planning, and 2. strategic planning is of time-related primacy.

<sup>2</sup>Hahn, D., and B. Taylor (Ed.): *Strategische Unternehmensplanung*, Wuerzburg and Vienna, 1980., p. 17.

<sup>3</sup>Ansoff, H. J.: *Corporate Strategy, an Analytic Approach to Business Growth and Expansion*, New York 1965, p. 8.

As to the kind and scope of strategic planning, see Figure 1. The result of all planning, that is the plans, are to determine clearly who is to achieve what, why, by which means and under which preconditions.<sup>4</sup> In contrast to a common opinion, comprehensive planning does not merely consist of elaborating only *one* plan; what matters is to think out all possibilities of purposeful action, that is, to elaborate *several* plans and to select the best one.

*The necessity of making strategic planning in co-operatives*

A basic change from a seller market to a customer market, limits to the capability of markets to expand an increasing international competition make rethinking in connection with planning conceptions indispensable in many cases.

The dynamics and complexity of socio-cultural transitions and economic recession at the beginning of the 1970's struck many enterprises, co-operatives among them, unexpectedly. As far as to this date, growth forecasting on the basis of data from the past had been sufficient. The structural change caused by changed external conditions, however, required a new tool to ensure the long-term survival of the enterprise in a turbulent environment. That means, it is especially exogenous factors of influence that require a new conception of planning.

The tool which may be used to increase the flexibility of the enterprises and involve them in the society more strongly, is nothing else than strategic planning as defined here. In this field, the executive boards and supervisory boards of co-operatives must co-operate.

<sup>4</sup>Kreikebaum, H.: Strategische Unternehmensplanung. Stuttgart, 1981. p. 21.

## *Strategic Planning and Strategic Control*

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### *Fields and contents of strategic planning<sup>5</sup>*

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Field	Strategy (contents)
Enterprise	overall strategies business field strategies (horizontal classification) function field strategies (vertical classification)
Enterprise development	growth strategies stabilization strategies decrease strategies
Functions (tasks)	supply strategies production strategies sales strategies investment strategies financing strategies personnel policy strategies
Assortment (products)	product strategies production line strategies assortment strategies
Market	geographical market strategy demographical market strategy
Marketing	attack strategies (promotion strategy, for example) defence strategies (imitation strategy, for example)

<sup>5</sup>See: *Kreikebaum, H.:* Strategische Unternehmensplanung. Stuttgart, Berlin, Cologne, Mains 1981, p. 38.



*Strategic planning as a tool of long-term enterprise policy*

Strategic planning is not a fashionable thing but an economic requirement—this is proved in a topical study of KIRSCH and ESSER as well as the management and marketing consulting of Dr. HOEFNER and Partner:<sup>6</sup>

149 out of 214 enterprises under review made strategic planning while 65 enterprises did not carry out any respective activities. Enterprises with strategic planning evidently achieve better results; they are streets ahead with regard to turnover development, level of productiveness and cash flow. Owing to its profitability, strategic planning is already highly appreciated by non-co-operative enterprises.

As we know, the executive boards bear responsibility for the management of the co-operatives according to § 27 of the Co-operative Law valid in the Federal Republic of Germany. Thus the executive board, as the management of the enterprise, is responsible for enterprise organization and business policy. It has to take all managerial decisions which are not to be taken by another body according to law or the statutes (§ 27 of the Co-operative Law, sections 3 and 4). In addition to every-day business, this comprehensive catalogue of tasks also comprises the stipulation of long-term enterprise policy, and this task can be solved in reality only by means of careful strategic planning. This applies to such basic questions like the kind and scope of future business, market shares, personnel problems and financing.

Additionally, investment planning must be seen as a specific task of strategic enterprise planning. Investments in fixed assets—in buildings in particular—determine the organization of an enterprise (co-operative) for years. It is investments in buildings in particular that are irreversible economically to a large extent, that is, they bring profit only after long-term utilization. The profitability of investments in buildings is not decided in the first years of utilization but in the last ones, that is, investments in buildings can be designated as profitable if the market

<sup>6</sup>See: Unternehmen, die vorne liegen. Marketing Journal, No. 5/1983.

refunds depreciation in the last year completely, too. To a somewhat smaller extent, the above mentioned facts also apply to investments in machine. With regard in avoiding misdirected investment, strategic planning is of specific importance.

Due to the increasingly unstable data base—as a result of the longer planning period—, it is difficult to make strategic planning. ‘The safety of expectations is an inverse function of the distance from the date of calculation’<sup>7</sup>. Despite this difficulty, strategic planning—to be understood as “rough planning” here—is indispensable. It is necessary to limit the planning horizon to a recordable period of fifteen years or so.

*The legal order for strategic planning to the executive board of the co-operative*

So far, strategic planning has been made proceeding from the principle of economic common sense; additionally, a respective obligation can be derived from law for the co-operatives in particular.

As we know, § 1 of the Co-operative Law stipulates that the co-operative has to take the promotion of its members as its basic order and maxim of action. Consequently, all economic activities carried out by the management must be aimed at promoting the members to the optimum. The primary objective qua law of the co-operative’s management must be to achieve its basic order that is, “co-operative work must permanently be aimed at fulfilling the order of promotion and present-day requirements if the objectives, planning, decision-making, action and control are to be in the sense of the efficient promotion of the members”<sup>8</sup>.

<sup>7</sup>*Albach, H.*: Wirtschaftlichkeitsrechnung bei unsicheren Erwartungen. Cologne and Opladen, 1959., p. 69.

<sup>8</sup>*Brelie, H. v.d.*: Messung und Bewertung der Foerderungsleistungen laendlicher Waren-genossenschaften, Paper No. 26 der Schriften aus dem Institut für laendliches Genossenschaftswesen an der Justus-Liebig-Universität Giessen, Giessen, 1983., p. 180.

*HOEHN*<sup>9</sup> also concludes that within the framework of business management, the task of the executive board is to take decisions arising from the overall objectives of the co-operative on short-time, medium-time and long-time planning as well as their adaptation to changing situations. In this context, it is interesting to read about long-term planning and the adaptation to changing situations; this is also stipulated in the Co-operative Law: It is part of the independent business responsibility of the executive board to keep up with the changing market in line with the co-operative's purpose (Co-operative Law, § 27, sect. 6).

To achieve this legal order of promotion as a permanent order, it is necessary to make strategic planning. Thus present-day and future requirements can be recognized and integrated in time; that is, the executive board, with regard to fulfilling the order of promotion, must have a long-term framework for decision-making between elaborating and implementing objectives; this framework improves the transparency of enterprise policy and makes it possible to take operational and tactical measures on the basis of clear strategic conceptions. Additionally, strategic enterprise planning creates an optimum framework of conditions, that allows purposeful reaction in time on changes in external environmental data. The profound changes in the national economy in the last few decades can only be mastered by a qualified management and long-term business policy stipulating clear strategies and competences. In addition to the necessity of making strategic enterprise planning due to exogenous factors of influence, another essential reason exists for co-operatives in particular owing to their internal characteristics.

## STRATEGIC ENTERPRISE CONTROL

In specialized literature, the necessity and importance of the control function in enterprises has been uncontested for a long time. This term covers general control of the work and output of enterprises at the highest

<sup>9</sup>*Hoehn, R.: Wofuer haftet der Aufsichtsrat einer Genossenschaft persoendlich?, Bad Harzburg 1981, p. 172.*

level up to the control of goods, services and dates according to quality and quantity at the workplaces directly. The whole working process in an enterprise is accompanied by controls more or less permanently. Meanwhile, rather sophisticated product-orientated, functional and/or regional control systems have been elaborated in many enterprises. In older textbooks,<sup>10</sup> control is said to be 'supervision integrated into any organization, parallel with or immediately following the working process, not with the aim of finding mistakes afterwards like in case of examination but with the objective of preventing them before or eliminating them immediately after their occurrence'. The difference between—control and examination is said to be the time difference only because control is made earlier and more frequently than examination, but not in the contents of these two functions. *GUTENBERG*<sup>11</sup> writes that 'control always means to verify whether the planned was implemented or proved to be implementable'. Evidently, this formulation proceeds from the idea that enterprises are always run on the basis of plans or that controls are only possible if plans exist. In this sense, controls would have the effect of a follow-up of the plan. Control would be a function dependent of or subordinated to planning as the source of planned items.

Today, however, this definition of control—also designated as feedback control and maintained in science and practice for decades until recently—is said to be too limited.<sup>12</sup> This criticism of the older term of control is based on its exclusive orientation toward planning, which makes control only efficient if the plan itself is correct. In case of long-term (strategic) plans in particular, however, experience gained so far shows that planned data are not always correct but a little uncertain. That is the reason why the demand is made today to involve planned data into control: 'Control leaves the status of a procedure of examination subordinated to and

<sup>10</sup>See: *Wall, F.*: Revision (Prüfung) und Kontrolle, In: Handwoerterbuch der Betriebswirtschaftslehre, Vol. 3, third edition, Stuttgart 1960, 4679.

<sup>11</sup>*Gutenberg, E.*: Grundlagen der Betriebswirtschaftslehre, 1. Vol., 5th edition, Berlin-Goettingen-Heidelberg 1960, p. 121.

<sup>12</sup>See: *Schreyögg, G. and H. Steinmann*: Strategische Kontrolle. Zeitschrift fuer betriebswirtschaftliche Forschung, No. 5/1985.

following completed planning and accompanies the whole process of planning and implementation right from the beginning in the form of an alarm system so to say'.<sup>13</sup> Thus control assumes the character of a complex early-warning system.

Now, control has to solve its own tasks that do not depend on planning, that is, control like planning must cover purpose programming.<sup>14</sup>

Under the impression of the above mentioned insufficiencies, *Schreyoegg and Steinmann*<sup>15</sup> developed their system of strategic control as a 'process of successive selection from the stipulation of business fields up to individual strategic measures'; they made the following classification:

1. Control of premisses
2. Implementation control
3. Strategic supervision

To be implementable, practically all strategic planning must use premisses (strategic premisses or key assumptions). Therefore, the task of the control of premisses is to supervise the correctness of the stipulated premisses permanently.

This task of control itself must be based on basic economic principles, that is, the premisses must be classified by an order of importance and their control must be based on the principle of selection. Generally, high control intensity is required in case of the following:

1. Premises based on weak forecasting,
2. Premises out of their own field of influence,
3. Premises with a critical rank.

This control has to be designated as 'directed control'. Compared with tasks of control to be solved so far, the control of premisses is a largely new field of tasks.

Implementation control, however, was already created earlier and therefore, it is known and being applied generally. 'With regard to its

<sup>13</sup>See: *Luhmann, N.: Zweckbegriff und Systemrationalitaet. Surhkamp Taschenbuch Wissenschaft 12, 1973, p. 325.*

<sup>14</sup>*Luhmann, N.: ibid., p. 325.*

<sup>15</sup>*Schreyögg, G. and H. Steinmann: ibid., p. 401 ff.*

character, it is control of results (feedback control) that is used for the purpose of strategic control (feedforward<sup>16</sup>). To a large extent, it can be made by means of classical accountancy. However, within the framework of strategic (long-term) control, it is necessary to elaborate short-term intermediate objectives for recordable periods so that reversal operations, or even the termination of the process in the extreme case, can be made. Implementation control belongs to another category than the control of premisses because it is only possible when passing from planning to action ; therefore, it is also designated as 'control of plan progression'<sup>17</sup> or 'accompanying control'.<sup>18</sup> The difference between the operational control and strategic implementation control is that a change in the strategy may be necessary due to certain circumstances while operational control is connected with probable changes within the given strategy. Like the control of premisses, implementation control is also 'directed' and thus of a selective character.

This is different with regard to *strategic supervision* which has to be seen as a control activity in addition to the two controls mentioned above and which serves as an 'undirected' activity of surveillance' for 'protecting' the selected business areas and conceptions of competition. In contrast to the control of premisses and implementation control—based on plans and their premisses—, there do not exist any measures of control for supervision control. Its predominant task is to cover the factors of influence—from the field of the enterprise's environment and resources in particular—that are not contained in the plan. As the contents of this undirected control cannot be predetermined, the only possibility is to construct a respective system of 'sensors'.

With regard to collecting information, decentralization seems to be appropriate in organizational terms while the processing of information can be made centrally to a certain extent. As one cannot predict the place and time of the occurrence of information, it would not be useful to

<sup>16</sup>Schreyögg, G.: and Steinmann, H.: *ibid.*, p. 403.

<sup>17</sup>Wild, J.: *Grundlagen der Unternehmensplanung*, 3rd edition, Opladen 1981, p. 44.

<sup>18</sup>Rieser, I.: *Fruehwarnsysteme* In: *Die Unternehmung*, No. 1/1978, p. 52.

establish a specific institution for this purpose; all persons participating in the process are asked to take part in collecting information from this field. Therefore, it is important to use training, the participation in processes of strategic planning and discussions in the enterprises for creating a respective "thinking culture". The overall system of ideas of value inherent in an enterprise is of great importance for the success of strategic supervision. There exists the danger, for example, that certain signals of crisis are not mentioned due to established taboos<sup>19</sup> or threatening information may be sacrificed by means of a mechanism of psychological repression.<sup>20</sup> One can assume—and it had already been indicated—that both a relationship and difference exist between strategic supervision control and the well-known early-warning systems.<sup>21</sup>

Like the control of premisses, strategic supervision control also has a partial control function that has not yet been given its appropriate position in practice in many cases so far. These are new tasks to be solved in all enterprises and thus in the co-operatives, too.

#### *The necessity of making strategic control in co-operatives*

Why is it so important to make implementation control which was supported here at the beginning? It is a well-known fact that damage or wrong developments can be avoided (or diminished at least) the earlier, more easily and better, the earlier they are recognized. Additionally, supervision control is used to recognize whether the objective, what had been planned, has been achieved really. In the end, supervision control is nothing else than the follow-up of the plan.

The plan stipulates what has to be achieved and the realization (implementation) expresses what has been achieved. Therefore, planning

<sup>19</sup>Bate, P.: The impact of organizational culture on approaches to organizational problem-solving, In: *Organization Studies*, 5/1984.

<sup>20</sup>Secord, P. F. and C. W. Backmann: *Social psychology*. New York 1964.

<sup>21</sup>See: also Schreyögg, G. and H. Steinmann: *ibid.*, pp. 405-406.

is one of the two preconditions for making substantiated supervision control.

Implementation control in co-operatives can be made by the management of the co-operative (self-control) because one has to proceed from the assumption that all responsible managements want and have to know what they have achieved in reality and in comparison with the planned objectives. Additionally, undesired events lose their character of surprise when they are recognized in time so that the management gains time for influencing the course of development and/or is prepared for unavoidable events, because it is not possible to compensate strategic negligence by operational measures alone or to replace careful planning by ad-hoc improvisation.

We know, however, that in addition to the executive board, there exists another specific body in co-operatives, that has an important control function—the supervisory board. A clear planning conception, that is, careful strategic planning, is an indispensable tool for the supervisory board because it provides the board with a basis for comparison, necessary for fulfilling its task, that is the control of implementation. As the supervisory board must have the same basis entrepreneurial attitude like the executive board in connection with business management,<sup>22</sup> the supervisory board must be able—in terms of quality—to make efficient controls of the executive board. For this purpose, it must master the complete ‘set of instruments’ of planning and control, that means, the planning horizon should not only be limited to the subsequent balance. A long-term planning conception is necessary which improves the transparency of decisions taken by the executive board for the supervisory board thus preventing frictional losses between the two parties.

To enable the supervisory board to carry out its control functions correctly, respective instruction in the areas of strategic planning and strategic control is necessary within the framework of the general training of the members of the supervisory board.

<sup>22</sup>*Hoehn, R.*: Wofuer haftet der Aufsichtsrat einer Genossenschaft persoendlich? Bad Harzburg, 1981, p. 159.



However, control activities carried out in co-operatives so far were largely limited to what was designated as 'implementation control' here. The section above should have shown clearly, however, that this is only part of the total complex 'control'. Therefore, the demand must be made, with regard to co-operatives in particular, that in the future, the two other fields, namely control of premisses and strategic supervision, have to be integrated into the control tasks to be solved by the respective bodies; it is these two fields especially that form strategic control.

*Strategic control as a tool of long-term enterprise policy*

The external reasons for demanding strategic enterprise control are practically the same as those for strategic enterprise planning. Although strategic control is not seen only as 'twin function of planning' today but enters into a 'compensatory relationship to planning',<sup>23</sup> a strong interdependence continues to exist. Now as before, substantiated strategic control requires comprehensive strategic planning.

Thus strategic planning and strategic control—the new fields 'control of premisses' and 'strategic supervision' in particular—are instruments especially characteristic of a long-term enterprise policy.

*Strategic control as a social order for supervisory and control bodies*

§ 38 sect. 1 of the Co-operative Law clearly stipulates the supervisory function of the supervisory board towards the executive board.

The question arises to which extent the necessity of strategic control can be derived from the legal supervisory obligation of the supervisory board. This relationship is explained through the common view of several authors

<sup>23</sup>Schreyögg, G. and H. Steinmann: *ibid.*, p. 392 and p. 396.

saying that 'supervision' is to be seen as a generic term for the terms 'examination' and 'control'.<sup>24</sup>

When defining the term 'examination' more exactly, its affinity to planning becomes evident: 'examination consists of the follow-up of the plan and the subsequent formulation of a judgement'.<sup>25</sup>

The fact has to be stated that strategic control and strategic planning can be substantiated for co-operatives by means of respective regulations, that is, within the co-operatives. The above mentioned quotations, however, only demand a control on the basis of the follow-up of the plan (implementation control), that is, this is based on the old term 'control' exclusively. In the preceding section, however, we have shown that this narrow determination of the tasks of the control function does not cope with present-day demands on modern management. To satisfy all demands and to solve all tasks in relation with comprehensive control in the future, the two other complexes (control of premisses, strategic supervision) must also be involved in the catalogue of tasks to be solved by the supervisory board.

<sup>24</sup>Wartenberg, G.: Stellung und Aufgaben des genossenschaftlichen Aufsichtsrates. Duesseldorf 1981, p. 115.

<sup>25</sup>Leffson, U.: Zur Pruefung der Geschaeftsfuehrung von Genossenschaften. quoted in Wartenberg, G., *ibid.*, p. 226.

**Claes R. Svensson\***

## **General Managers in Consumer Co-operatives What Do They Really Do?**

### **1. INTRODUCTION**

Is there a management theory for co-operative firms which can give advice for action in these firms? Does a management theory for co-operative firms have similarities with existing management theories for capitalistic firms or is there a need for another, more specific theory for co-operative firms? They are fundamental regarding research on co-operative firms from the perspective of the business administration discipline.

Management and leadership are widely represented in research in business administration. In spite of this, management research in co-operative firms does not seem to have provoked any great interest, at least not in Scandinavia. However, some research has been pursued into decision-making in co-operative firms (Jonnergård et al., 1984) and boards of elected representatives in co-operative societies (Lundgren and Broman, 1985).

The modest amount of research about co-operative management can be explained in a number of ways. One is that there has been very little research about co-operation in the business administration discipline. Only in recent years have researchers in business administration begun to show an interest in co-operative firms. Another explanation is that research about managers and leaders might be a delicate issue in democratic popular movements. Issues about management has been

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taboo. This due to values regarding leadership in popular movements to be performed by the members and their representatives.

These managers are only expected to operate as executives implementing decisions which have been already made. There is no space for independent managers. The model is political decision-making, with politicians making decisions and civil servants executing them. A further explanation is that the necessity of a specific management theory for co-operative firms has not been considered. Management theories for capitalistic firms have been considered as applying also to co-operative firms.

There has been no systematic descriptive research concerning management in co-operative settings in Sweden resulting in a lack of empirical knowledge about the background of the managers, management practice etc. Of course, managers and leaders in co-operative firms have an extensive knowledge about management and leadership at different levels, but this knowledge has not been systematized and analyzed.

In summary, the state of knowledge regarding management in co-operative firms is undeveloped, regarding both management theories for advising managers and empirical descriptions of management practice.

An important research question is whether existing theories about management and leadership can serve for describing and advising management in co-operative firms. Surveys have shown that central issues in co-operative management do not seem to be reflected in existing research about management and leadership. Jonnergård et al., (1984) explain that one reason for this is the institutional links between the capitalistic industrial establishments and the business schools where management research had been pursued. It has been advocated that there exists not only a buyer-seller relationship, but also a relationship to members based on voluntary participation and democratic principles which gives specific conditions that might justify a co-operative management theory (Jonnergård et al., 1984). Furthermore, the unique organizational form, the federative organization makes specific requirements that may only be met by a co-operative management theory (Svensson, 1983). Finally, the specific legal form for most co-operative

firms, the co-operative association, makes specific requirements for a management theory, that may differ from the requirements of corporations. Thus there are several indicators pointing to the difficulties in applying "capitalistic management theories" to co-operative firms.

## 2. THE RESEARCH PROJECT

The lack of a developed management theory and supposed difficulties in applying "a capitalistic management theory" to co-operative firms are good reasons for research in co-operative management. This article describes the design and results of empirical research about general managers in Swedish retail societies, federated in the Co-operative Union, KF.<sup>1</sup> The study aims to collect and analyse data describing management practice in co-operative retail societies, so as to produce a basis for further research into more specific management issues.

## 3. A DESCRIPTIVE MODEL OF CO-OPERATIVE MANAGEMENT PRACTICE

It is certainly a problem for the researcher to decide what should be described (which dimensions of reality should be focused or not focused and which questions should be asked or not asked). The quest for validity is a critical one, especially in a situation where knowledge is less developed. As a basis for this research, a tentative model has been created containing dimensions of management practice in retail societies (Exhibit 1). The model is based on data from hearings with general managers, an expert interview with a Dean of the education centre for Swedish retail co-operation, and exploratory interviews with persons experienced in co-operative management issues. The model has served as a departure for constructing the questionnaire used in this study.

<sup>1</sup> The complete study is reported in Svensson and Ljung (1985).

*General Managers in Consumer Co-operatives*

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**BIOGRAPHY OF THE MANAGER**

*Age, employment, etc*

Age

Years in retail co-op

Years in present society

Years as a general manager

Number of societies in position of general manager

Employment outside co-op

*Promotion*

Positions in co-op

Position before being employed as general manager

*Education*

Formal education (schools)

In-house training

External management education

Shorter seminars at co-op education centre

**CHARACTERISTICS OF THE RETAIL SOCIETY**

Size (sales, number of employees)

Net income

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**THE NETWORK OF THE GENERAL MANAGER**

Adherence to associations/clubs

Political representative on boards etc

Member of boards in other organizations

Member of the National Council

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**CONCEPTIONS AND VALUES**

Consider employment outside co-op

Conceptions regarding different shareholders' evaluation of managers

Attitude to business contra-ideology

Attitude to payment schemes

Attitude to business advantages of co-op compared with private firms

Attitude to risk taking

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**ATTITUDES TO MARKET, COMPETITION, FUTURE, ETC.**

(Not included in the study)

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**MANAGEMENT PRACTICE**

Number of hours worked per week (average)

The normal work day

Important issues

Issues that managers consider more time should be devoted to

Possibility to take initiative compared with private managers

Ways to implement co-operative uniqueness

Ways to involve and recruit members

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**RELATIONS GENERAL MANAGER – BOARD OF REPRESENTATIVES**

Experienced freedom of action vs the board

Experienced support from the board

**RELATIONS GENERAL MANAGER – THE CO-OP UNION**

Attitude to common costs

Experienced support from co-op union

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**THE MANAGEMENT GROUP**

Positions represented

Frequency of meetings

The perceived role of the general manager

*Exhibit 1: A descriptive model of management practice in co-operative retail societies*

The survey is an instrument for collecting empirical data through a questionnaire. The method chosen imposes limitations, as the subtle aspects of management practice cannot be caught in a questionnaire. Other methods like "case studies" or action research methods would give additional data. However, the research described in this article gives an important basis for further research.

In 1981 there were 150 retail societies federated in the Co-operative Union, KF. Sales were approximately 22 billion SEK (Swedish Crowns), an average of 37,400 persons were employed, and membership totalled 1,900,000.

Exhibit 2 shows the distribution of sales in the societies. The figures refer to 1981.

*Exhibit 2: Distribution of sales in co-operative societies in Sweden 1981.*

Sales in thousands of SEK	Number of societies	"a"	"b"	"c"
— 5,000	50			
5,001 — 10,000	27			
10,001 — 100,000	32	16	2	14
100,000 — 500,000	20	20	3	17
500,001 — 1,000,000	11	11	—	11
1,000,000 —	4	3	2	1
	150	50	7	43

"a" = retail societies in the sample of the survey.

"b" = retail societies, whose general managers did not respond to the questionnaire.

"c" = retail societies represented in the study.

Source: Statistic tables, KF, Stockholm 1982 (column 1 and 2).

One third of the societies have sales of less than 5 million SEK; 7 of these societies have sales less than 1 million SEK. The 4 societies with sales of more than one billion account for approximately 40% of the total sales in all consumer societies in Sweden.

A sample of general managers in the co-operative retail societies has been taken. The co-op society of Stockholm and its vicinity is not included in the sample because it is regarded as too extreme with regard to size. The situation of the general manager probably differs a lot compared with general managers in other societies. For the same reason, smaller retail societies are not included in the study. The lower limit is a sales figure of 29 million SEK. It is assumed that conditions vary depending on the size of the society, so affecting the managerial work.

The study endeavoured to cover all general managers in the 50 largest retail societies (except Co-op Stockholm).

Of the 50 general managers in the survey 7 have not responded to the questionnaire ("b" in Exhibit 2). The 43 responses received correspond to a 86% response frequency.

In all, there were somewhat less than 2,000 sales units (shops, department stores and supermarkets) belonging to the co-operative retail operation in Sweden. The retail societies included in this study are equivalent to approximately 1,500 units (78%). There are approximately 300 units in Co-op Stockholm. 152 units are owned by 98 small co-operative retail societies, 67 of which have only one unit.

The average number of employees in the retail societies in 1981 was 37,400. Co-op Stockholm had the greatest number of employees with 8,100 staff. There are 71 societies with less than 10 employees; an average of 11 employees per society but 11 societies employ between 1,124 and 2,477 staff. The societies included in the study (including those who did not reply) account for 76% of the employees in all retail societies.

The net income of the 150 retail societies is 0.7% of sales (excluded V.A.T.) corresponding to 15.4 million SEK (1981). Out of 26 societies that showed zero income 16 societies in the sample showed zero net income. 43 societies have showed a net income of between 0.1–0.9%, 18 of which are included in the survey.

The non-responding societies have been marked with "b" in Exhibit 2. Three of the largest societies are not represented. One (Co-op Stockholm) was excluded for the above-mentioned reasons and two general managers did not respond to the questionnaire. Except that the managers of the



largest societies are not represented, there do not seem to be any systematic tendencies in the non-responding societies that would affect the conclusions of the study.

#### 4. RESEARCH FINDINGS

The following are some of the conclusions that could be drawn from the research (springtime 1983):

##### *Biography*

1. The average age of the 43 general managers is 54. They are all men, 40% of them will have retired within 10 years.
2. The managers have worked an average of 36 years in retail co-operation. The shortest period of employment was 21 years, the longest 51 years.
3. Less than 50% of the managers have worked outside the co-operative sphere. These were the younger managers.
4. About 60% of the managers could imagine working in other co-operative organizations, but none of these are interested in working outside the co-operative sphere.
5. Nine managers could imagine working in private enterprises. These are among younger managers in the study. They all disagree with the statement "Managers in co-operative firms should avoid risky investments". Nothing else was found in the data differentiating those nine from the other managers.

##### *Advancement*

6. All the general managers (except one) have been shop-assistants or stock-room men.

7. More than 50% of the managers have been errand-boys.
8. Slightly less than 50% of the managers have been auditors in co-operative societies.

### *Education*

9. 80% of the general managers have a basic education equivalent to elementary school and a little vocational training.
10. Most of the managers have attended courses at the education centre of the Swedish retail co-operation, Vår Gård.
11. 12 managers have attended external management education. These managers are all more than 49 years old, and are all members of the National Council.<sup>2</sup> They are also board members of other organizations and firms within the co-operative business sphere.
12. The managers experience the strongest need for further education in marketing, computer/information issues, leadership and finance/economy issues.

### *The network*

13. There exists a network of co-operative general managers active in many functions as members of the National Council or as board members in other organizations and firms within the co-operative sphere. These managers are also members of the Rotary or Lions Clubs, but they are not, or have not been, active in any political party.

#### <sup>2</sup> *The National Council*

The National Council consists of 30 general managers, mainly from the largest consumer societies. The council should prepare decisions for ratification by the Board of the Consumer Union. The council is also a body for joint consultation between the general managers of the societies and the managers of the Co-operative Union. Council members are appointed by the Board of the Co-operative Union.

### *Evaluation*

14. Below are shown the most important categories of demands that the general managers consider different stake-holders use when evaluating them.

Stake-holder	Category of demand
The board of the co-operative society	Economic/financial demands, personal qualifications
The members of the co-operative society	Member returns, pricing on goods, efficient retail business, personal qualifications
The colleagues in the top management group in the co-operative society	Management qualifications, economic/financial demands, creativity
The employees	Employment conditions, personal qualifications, leadership qualifications
The Co-operative Union (KF)	Economical/financial demands, co-operation with the Union

15. All the managers agreed (completely or partly) with the statement that "the financial result is the most important indicator of a successful co-operative society".
16. More than 50% of the managers, however, only partly agreed with this statement.

*Wage conditions*

17. About 40% of the general managers consider that managers should be paid a fixed salary plus a bonus based on results. Those managers are mainly among the younger men taking part in the study.
18. More than two-thirds of the managers believe that the co-operative retail business would gain from a system with managers hired on a contractual basis.

*Important issues*

19. The general managers regard the following issues as important in their work: Marketing management and advertising, strategic planning, development, creative work, generating ideas, co-ordination and pricing policy. Issues of less importance were regarded to be: raising of capital funds, assortment policy, budgeting, employee participation. Issues such as contacts with the Co-operative Union (KF) and member democracy are also regarded as less important.

*The general managers at work*

20. The general managers work an average of 51 hours a week.
21. An average work-day involves different types of contacts (phone calls, visitors, meetings etc.), mainly with different units in the society and close colleagues. The managers often take part in meetings during the evening, and are involved in budget control/evaluation and various routine tasks.
22. The managers consider issues like marketing management and advertising, development, creating new ideas and strategic planning as of importance in their work as managers.
23. These issues also belong to those to which the managers would like to devote more time.

24. The managers would like to devote less time to issues like employee participation, closing operation decisions and work environment issues.

*The general managers as co-operators*

25. There are two distinct groups of general managers in the study:
- A group of 20 who completely or partly disagree with the statement “It is a permanent anxiety for me to make decisions which are both businesslike and in accordance with co-operative ideals”.
  - A group of 18 who completely or partly agree with the above statement.
26. The research findings do not indicate any differentiating factors between these groups. However, possible explanations of the differences between the groups might be found in the personality of the managers, or in their interpretation of co-operative ideology. The research design has not included such variables.
27. The managers regarded the following factors as business advantages for co-operative firms compared to private firms: members, loyal customers and the adherence to the co-operative sphere.
28. The managers regarded the following factors as disadvantages for co-operative firms compared to private firms: rigidity and long decision-making process, co-operative uniqueness and demands from too many stake-holders.
29. 10 out of 39 managers in the study believe that they have greater possibilities for taking business initiatives compared with managers in private retail business.
30. The managers list many ways to recruit and involve members and to use the uniqueness of co-operative business. However, few of the managers considered these activities to be a high priority.
31. The managers could be split into two large groups regarding attitudes towards risky investments. One group completely or partly disagrees with

the statement "Co-operative managers ought to avoid risky investments". In the other group the managers agree, completely or partly, with the statement.

*The board of elected representatives*

32. Somewhat more than 50% of the general managers disagree, completely or partly, with the statement "In my society, business effectiveness is hindered by frequent bureaucratic meetings and/or ideological debates. Somewhat less than 50% of the managers agree, completely or partly, with the statement.

33. Managers who are not active in political parties or who do not belong to any local political decision-making body agree to a higher extent with the above-mentioned statement (see 32) than managers who are active in political settings or in decision-making duties.

34. All the managers (except one) completely or partly agree that they have a great freedom to act versus the board of elected representatives in the co-operative society.

35. The older managers experience stronger support than the younger ones from the board of elected representatives in their decision-making regarding strategic planning and economic/financial issues.

36. The managers who are, or have been, active in political settings generally experience stronger support in decision-making from the board than those managers who have not been, or are not, active in politics.

*The top management*

37. In those societies where there was a group of top managers, it usually consisted of four managers, including the general manager of the co-operative society.

38. The managers in top positions were usually responsible for the following functions: personnel, finance/accounting, marketing. It was

also in common that the department store managers were included in the group of managers. In twelve co-operative societies, labour union representatives were also part of the group.

39. Usually, top management meets formally every second week.

40. Regarding daily contacts between the members of the group, general managers usually meet the personnel manager, the financial manager and the manager(s) of department store(s).

41. The general manager most often stated his role in the group of top managers that of chairman, advocator of marketing issues and structural issues, or co-ordinator.

42. Most of the managers agreed, completely or partly, that their colleagues often generated new suggestions/ideas.

*The general managers and  
the Co-operative Union (KF)*

43. The general managers experience the strongest support in their decision-making from the Co-operative Union (KF) in the following issues: fund-raising, education and auditing. The weakest support is experienced in: pricing policy, marketing, variety of goods offered and long-range planning. However, the data indicated great differences in the experiences of different managers.

44. Almost 60% of the managers agree, completely or partly, with the statement that the central common costs of the co-operative retail business are too high for the co-operative societies to bear. Somewhat less than 20% disagree, completely or partly, with the statement.

45. The managers who are members of the National Council disagree to a higher extent with the above statement (see 44) than do those managers who are not members.

46. Those managers who have been auditors in co-operative societies in their earlier career disagree to a higher degree with the above statement (see 44) than do those who have not been auditors.

47. The older managers experience stronger support from the Co-

operative Union in their decision-making than the younger ones, above all in the following issues: pricing policy, marketing, assortment policy, investment policy and long-range planning.

48. There is little difference in the attitude of managers in societies of different size regarding support in their decision-making from the Co-operative Union, but there is a tendency for managers in large societies to experience a somewhat stronger support.

49. Managers who completely or partly agreed with the statement "In my society, business effectiveness is hindered by frequent bureaucratic meetings and/or ideological debates" experience a weaker support from the Co-operative Union in their decision-making than managers who disagree with the statement.

50. Managers who completely or partly agree with the statement that the central common costs of co-operative retail business are too high for the co-operative societies to bear, experience a definitive weaker support from the Co-operative Union, than managers who disagree with the statement.

#### 4. DISCUSSION

About 40% of the general managers in the Swedish co-operative retail societies will retire within a period of 10 years. This stimulates a discussion about recruitment and promotion of new managers to top positions in the Swedish retail co-operation. To date, "internal recruitment" has been the strategy. The present managers have had a life-long advancement within the Swedish co-operative retail sphere. One result is that they feel a strong loyalty towards the co-operative organization. Few of the managers can imagine themselves working outside the co-operative sphere.

A strong emphasis on internal recruitment and internal management education has been an obvious strategy in retail co-operation in Sweden. A strong concentration of effort was necessary during the growth period, i.e. the first 50-60 years of the 20th century, when problems of great importance were to be solved. Internal recruitment and internal management education were the means to create a powerful co-operative



identity among the managers, an important precondition for successful growth.

One issue concerning management in Swedish retail co-operatives which is very much in focus today is whether such strategy for recruitment, advancement and education is still the most appropriate, now and in the future. Questions under consideration are for example: Has the strategy resulted in rigid and inflexible management? Do the experiences of the managers during the 60s and 70s deter them from identifying changes in the environment of the organization and interpreting these changes in a correct way? Does a new generation of managers inherit old management practice and management thinking in an organization with such great emphasis on internal recruitment and internal education?

Should a new strategy be considered, in which the old managers will be replaced with "fresh blood from outside": that is with external recruited managers?

I do not consider external recruitment as an appropriate strategy for the Swedish retail co-operative movement. Such a strategy will cause misfits in the co-operative organization. Our data, however, point out some weaknesses in today's management of the co-operative societies. A number of the managers experience ambivalence in acting as a businessman within the market and at the same time respecting co-operative ideology. Many managers are uncertain about how to realize co-operative ideology in practical operations. New managers, externally recruited, might attain more efficient action on the market, but it would also doubtless mean that relations between such action and co-operative ideology would be more and more disparate. The co-operative retail business would become like retail business in general. Retail co-operation might survive as an organization adjusted to market demands, but hardly as a social co-operative, organization. In my opinion, the foremost means of competition of retail co-operatives are the specific values embodied in co-operation.

Of course it is possible to imagine that externally-recruited managers would undergo specific co-operative internal education. Young people with academic credits undergoing one or two years of internal education

would soon advance to middle or top management positions. Managers with co-operative experience and practice would thereby be replaced by managers with theoretical knowledge. It is an important question whether theoretical knowledge can replace and be more valid than the life-long practical experience of today's managers. I consider it important to put great emphasis on internal recruitment of managers as a strategy. It is essential for co-operative managers to recognize the culture of co-operative retailing and co-operative ideology. This recognition is only acquired through a long period of work within the co-operative sphere.

Contemporary management research points to the importance of deep knowledge in corporate history, culture and markets in order to attain successful management. Of course this does not mean that I reject the need for theoretical and external education for co-operative managers. On the contrary. My opinion is that it is easier to give a co-operative manager theoretical education than to create a co-operator out of a person with no co-operative background. I also consider that it is of great importance in a successful organization for employees on different levels to know there is a possibility of promotion. Recommending a recruitment strategy through international advancement does not, however, imply that the present managers are without problems. Below, I will point out some problems and possibilities that could be concluded from my research.

Consumer co-operation in Sweden has developed and grown strong in a form of organization that has been called "federative" within the Swedish co-operative movement. The idea of "federation" lies in the notion of formally free societies that have joined together in a common organization, i.e. the Co-operative Union. A central organization is given specific tasks and resources. In business settings, the federation seems to be unique to co-operative firms. Large capitalist enterprises are often organized as divisionalized firms with a well-defined power centre.

Since the founding of the Swedish Co-operative Union (KF) in 1899 there has been a discussion concerning the problems of organization and more specifically on centralization vis-a-vis decentralization in decision-making, and the division of tasks between the Co-operative Union and the retail societies. Of course the organization form influences the manage-

ment conditions in the co-operative societies. It is, therefore, interesting to conclude that there are clear indications of tension between the Co-operative Union and the retail societies as expressed by the general managers in this study. It has been argued in other studies (Svensson 1983) that such tensions are natural in federative organizations, and necessary in a viable organization. The general managers appreciate the Co-operative Union mostly for its contribution of funds, its education services and its auditing department. Other services, such as pricing policy, marketing and issues concerning assortment and long-range planning policies are, surprisingly enough, not appreciated so much. These last-mentioned issues, however, have always dominated operations in the Co-operative Union. On the whole, the data gives a base for asking whether a reevaluation of the Co-operative Union is taking place and if there is a movement towards an increased centralization of the co-operative retail trade, especially among younger general managers.

A manager may have enforcement roles. Top management is generally considered to deal with strategic issues, such as assessing the company's weaknesses and strengths and analysing future threats and possibilities and formulating the goals and strategies. In co-operative settings, goals are expected to be worked out by elected representatives. In order to implement the strategy, a fitting organizational structure is needed in addition to long-term investment planning, policy enforcement, regulation systems etc. These are also top management tasks. They are important issues and I conclude from the data that the co-operative managers in the study want more time and better education in order to execute these issues. Efforts are made to meet these management needs; for example in the management education offered by "Vår Gård", which is the educational centre of the Swedish retail co-operatives.

Another role which I consider a co-operative manager to play is that of "bearer of co-operative culture". This role is another way of influencing the organization to realize goals and implement strategy rather than using organization structure and management control in a limited sense. In their role of bearer of co-operative culture, managers try to carry out goals and strategy by affecting the attitudes and opinions of employees and members

in order to promote acceptance of, and involvement in, co-operative goals and strategy. The managers control the operations in implementing and refining corporate co-operative culture.

Corporate culture is defined as commonly accepted values within the company of the company's goals, and the strategies and rules of action necessary to reach them. The corporate culture is the glue that keeps the organization together and gives advice when formalized control is not possible.

Creating a corporate culture should be seen as a complement to other more formalized means for controlling the company such as written regulations, performance standards etc. Corporate culture has a fundamental importance as a norm system for action in settings where management control is difficult or impossible, for example in situations where there are changes in the environment of the unpredictable organization. I consider the retail trade to be a setting in which management control through corporate culture is of great importance. In service organizations like co-operative retail businesses there are great claims for decentralized decision-making in order to adjust to new situations, while co-operative ideology claims a conformity in decisions and actions.

Are the managers of the co-operative societies capable of fulfilling the role of bearer of corporate culture? I cannot give a definitive answer on the question based on the empirical data of the study. However, it is possible to conclude that the managers are certainly not a homogeneous group judging by their attitudes towards the problems and possibilities of the co-operative firm. The managers represent a broad spectrum of attitudes regarding these issues. One explanation of this broad spectrum of attitudes might be that each manager has developed specific attitudes based on his individual experience and the situation of his co-operative society. Should this be considered as a weakness or a strength for the bearer of corporate culture?

At a first glance, it might be considered as a weakness. In spite of life-long advancement within the co-operative movement in spite of internal education, you can identify a heterogeneity in attitudes towards the problems and possibilities of the co-operative business. The lack of a

unified picture leads to action taken without visions and goals and, therefore, a concentration of effort is not possible. One conclusion of such an interpretation is the demand for greater homogeneity regarding problems and possibilities. Such a homogeneity might be created in the strategies for recruitment and education.

Another, perhaps controversial way to interpret the situation is that it is necessary to have a pluralistic and multifaced apprehension of the problems and possibilities and that this is a condition for dynamic development, and thus a strength in the co-operative organization. Experience shows that the conditions for innovative and fruitful ideas are better in organizations where different conceptions and frames of references are allowed to develop, based on different experience. Of course, one precondition is that the multifaced view is accepted and is legitimate. Another is that those involved in the organization are able to liberate themselves from a false "consensus-security" and that the corporate culture supports a frank communication in which different perspectives, apprehensions and frames of references are discussed. Such an open, constructive multi-culture can develop in different ways. One is through the continuous problem solving processes in the organization. Other ways to create such a corporate culture are developed in management education and organizational development.

To develop and refine a co-operative corporate culture is not only a top management issue—it is a process involving the whole organization, on all levels, and also involves elected leaders, members and employees.

All the managers, except one, agreed completely or partly with the statement that they have a great freedom to act in respect of the board of elected leaders. It is not possible to simply conclude from this that the boards are not controlling the societies, but this study and other studies (Jonnergård et al., 1984) suggest that, in many cases, the board hardly seems to play the role intended. In my opinion, many boards are not used according to their capacity. Thus the board should not only hire the manager(s), give advice, act as formal decision-makers, and confirm management decisions taken in critical situations, but also work with the fundamental goals of the co-operative society and prescribe the general

strategy of the society. A board of elected leaders should also stimulate the management by "putting the right questions". In this way the board is choosing to play an active role rather than a passive, defensive one.

Managers in co-operative firms seem to have a great freedom of action compared with private firms, which is also indicated in our data. The explanation for this is the diffused structure of ownership which characterizes a co-operative firm compared with a privately-owned firm with share-holders. The managers in co-operative firms thereby acquire great influence over the policy of the co-operative society. This is desirable. Managers marked by freedom of action and energy will contribute to the fulfilment of the goals of co-operative societies. At the same time, co-operative societies are democratic organizations where the board has the ultimate responsibility for the operations. A responsive board does not only operate by hiring good managers, but also by taking an offensive role in policy-making. How such a role should be played, is a strategic issue.

## FURTHER RESEARCH

The study reported in this article gives openings for further research about management in co-operative settings. A number of research questions are raised:

One set of questions regards management in general in co-operative firms: How should co-operative businesses be operated? What does a co-operative management philosophy imply? How are social demands or market demands perceived in the co-operative business? How are conflicting goals, which are often attributed to co-operative operations—the conflict between business demands and ideologic demands—perceived? How do these goals affect the operations? What mental maps do managers in co-operative settings have, and how do these maps affect the decision-making and actions of these managers?

A second set of research questions concerns the ownership of co-operative firms. How is ownership practiced in co-operative firms? The

relationship between management and the board is another important research issue. What is the concrete division of tasks between the managers and the board? Is it possible to plan the overall management of a co-operative society as a dynamic process between the managers and the board, so that the board is a resource for the managers and vice versa. Which competence does a board have and exhibit? In which sense does a board control the operations of a co-operative society? The boards of the co-operative retail societies now consist of laymen. Would it be desirable to have professionals as elected representatives on the boards?

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**Turto Turtiainen\***

## **Use of Computer for Co-operative Development**

*Assessment of the Prospects for Success of Co-operatives  
in Developing Countries<sup>1</sup>*

### **1. INTRODUCTION**

Co-operatives in developing countries have received much attention from planners in these countries, from outside assistance agencies, and even from researchers. Most writing on this topic is descriptive, but some researchers have also attempted more analytical approaches. Among the hundreds of documents the writer has reviewed, however, very few contain statistical or computer processing, other than the preparation of tables of primary data<sup>2</sup>, and none have included computer-assisted modelling or planning. Since computers are commonly used for advanced statistical work in many other fields of social activity, it is important to consider whether they should be more widely used in the planning and research associated with co-operatives.

The task of developing specific computer programmes for co-operatives would be huge. In many cases, however, existing software packages can be adapted, or "user applications" formulated for this purpose.

But finding suitable packages may not be easy. It is important, first, to have a clear view of what the computer is supposed to help the researcher achieve. It is also important to have some data, or factors that can be converted to data, to be inserted and handled by the computer.

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<sup>1</sup> The writer has written this article in his personal capacity; the opinions presented in the paper do not necessarily represent those of his employer.

<sup>2</sup> We do not refer here to the expanding use of the computer in processing the operational functions such as word processing, accounting, and data base management for co-operatives.

This paper introduces a case in which the prospects for the success of a group of co-operatives are analyzed and projected. The writer's extensive review of existing theory and computer packages<sup>3</sup> indicates that management-related programmes, particularly those dealing with decision-making, are likely to be the best tools for this task. Unfortunately, quantitative data useful for our purpose are scarce but, as becomes evident later, are not absolutely necessary and qualitative information can be used instead.

The task or goal in a typical planning situation is somewhat different from our main task here. In a planning task, we know what the desirable goal is; the question is usually how to achieve it (forward planning). In this paper, the researcher tries to project the prospects of success in attaining a particular goal in a given situation and with given resources. The process introduced here can, however, also be used to assist in ordinary planning tasks because it provides information about the factors estimated to have the greatest influence on the outcome. The process also reveals those factors that need to be improved if the chances of reaching the given goal are to be improved (backward planning).

## 2. CONTRIBUTING DEVELOPMENTS

Over the past two or three decades, a large number of mathematical and even computerized decision-making models have been designed. Although they have not radically changed the different decision-making processes—decisions are still made by managers or leaders (sometimes collectively)—many of the models have become valuable tools in improving decisions and expanding the decision base (i.e., the number of factors to be considered in making decisions). Good examples are the econometric models used in the planning of national economics and computerized network analyses.

<sup>3</sup> *T. Turtiainen: Maaseudun osuuskassatoiminnan perustaminen Keniaan ja yritys rakentaa yleinen sovellutusmalli, Helsinki University, 1985. (doctoral dissertation).*

The development of applied mathematics and of computers has facilitated the development of models that are much larger and faster, and has permitted easier sensitivity and risk analyses. For instance, very large input-output models have been prepared for national economies, and the consequences of variation in their factors and data, which would previously have taken months to calculate, can now be calculated in a few seconds.

The major limitations in the use of a mathematical approach to decision-making has been, and continues to be, the complexity of the real environment, the large number of factors (and actors) involved, and the interaction among these factors.<sup>4</sup> In decision-making theory, progress has been made, e.g. by using "heuristic", exploratory problem-solving techniques, that utilize self-educating techniques to improve performance, and decision-making models, which present a gradual step-wise approach to solving problems. They do not promise optimum decisions, however; only 'better than hitherto' results or 'making the best of the impossible'.

In other research<sup>5</sup> the writer has indicated that heuristic approach may offer promise for improving the design of co-operative credit systems. Although several ways of mathematical presentation have also been outlined in the paper, none are of practical value, because most of the factors (variables) are mainly qualitative and hence cannot be adapted for mathematical models. Two developments, however, appear to promise solutions to this problem. First, in the social sciences, statistically measured typologies (nominal, ordinal, interval and ratio) have been combined with newer typologies to attain new levels of measurement, viz. quantitative and qualitative types, and "partially ordered" and "ordered metric" levels. Specialists argue that the proper assignment of numeric values to an ordered scale will *allow it to be treated* as though it were measured at an (even) interval level. Small errors that may result from the treatment of the ordinal variables as interval variables can be offset by the

<sup>4</sup> See e.g. J. G. March (ed.): *Handbook of Organizations*, Chicago 1965; and Kari Eloranta: *Heuristikaat ja heuristisuus*, Tampere University, 1974.

<sup>5</sup> T. Turtainen: *ibid.*

use of a better and more sensitive statistical analysis with known sampling error. This approach has been included in a statistical analysis system which is fully computerized.<sup>6</sup>

The second development that allows better decision-making for planning purposes (and for numerous other tasks) is the Analytical Hierarchy Process (AHP) developed by *Thomas L. Saaty* (and others).<sup>7</sup> This process enables decision-makers to present the simultaneous interaction of many factors in complex, unstructured situations. It forces the decision-makers (or their assistants) to identify and set priorities on the basis of objectives, knowledge, and experience existing about each problem. The new framework on which the process is based organizes not only the objective (quantitative) values, but also subjective information, including feelings and intuitive judgements as well as logic, so that we can use them in handling complex situations. Like the heuristic models, it does not guarantee the right solution, but, by improving and streamlining the process, it provides a structured approach to decision-making and ensures that the resulting decisions are technologically, financially, politically and socially acceptable and feasible.

Today, the computer is invariably used to execute the statistical analysis after the initial structuring and valuation tasks of AHP have been completed. The main features of the process are the interaction of factors (interdependence of elements), the combination of tangible and intangible values, the repetition of the work process and sensitivity analysis (facilitating the alteration of any factors), and the determination of logic and consistency among different objectives, priorities and subdecisions.

<sup>6</sup> *Norman H. Nie etc.*: Statistical Package for Social Sciences, Chicago, 1983.

<sup>7</sup> *Thomas L. Saaty* is professor of management science at Wharton School, University of Pennsylvania. His major works relating to this topic are: *The Analytical Hierarchy Process*. (McCraw-Hill, 1980); and *Decision-Making for Leaders* (Wadsford Publishing Co., 1982).

### 3. MORE ABOUT THE THEORETICAL BASIS FOR THE ANALYTICAL HIERARCHY PROCESS

The first task is to construct a logical hierarchy of the elements that influence the decision or other management-related tasks at hand. The large number of factors that influence a decision, for example, the implementation of a plan, must be divided into groups of determinants to make them more operational. Each determinant can consist of four to seven subfactors, composed of several other "elements". The case depicted in Picture 1 describes the various levels of hierarchy.

An essential feature of the process is the method used in the valuation of usually non-measurable elements.

The relative value of each element for the outcome can be appraised by using a vector analysis and a special scale of measurement, i.e. a scale from 1 to 9, or - 8 to + 8 if negative values are used.<sup>8</sup> The human mind has the capacity to categorize a limited range of feelings and discriminations as a result we can develop relationships among the elements of a problem, even when these are not quantifiable in the usual scales. We can also determine which elements have the greatest impact on the desired solution. This can best be done when the elements are compared in pairs. By experimenting with the estimation of measurable elements (e.g. strength of light), it has been proved that the method of estimation is sufficiently precise for many purposes. Estimation can be used as a means of measurement, especially when qualitative elements need to be divided into no more than nine categories. The Analytical Hierarchy Process requires that the analyst carries out the following steps:

1. Define the problem and specify the solution desired;
2. Structure the hierarchy from the overall managerial viewpoint (from the top levels to the levels at which intervention to solve the problem is possible);

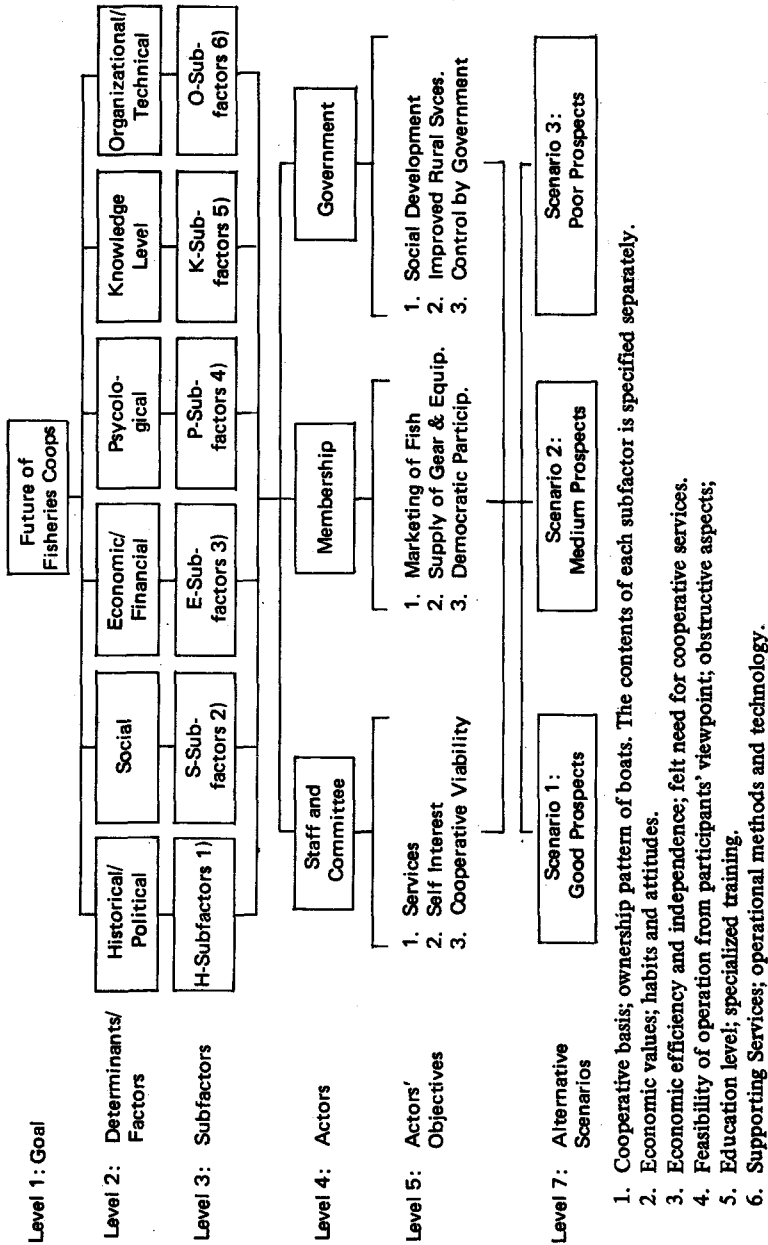
<sup>8</sup> Thomas Saaty calls the scale "priority measurement method" (*Thomas L. Saaty: Decision-Making for Leaders*).

3. Construct a paired comparison matrix of each relevant element, allocating the dominance numbers (and their reciprocal) to each element;
4. Collate all the judgements available (or feasible) to develop a set of matrices as in step 3, and synthesize them to form one matrix;
5. Obtain the priorities (of elements) and test their consistency;
6. Perform steps 3, 4 and 5 for all levels and clusters in the hierarchy;
7. Compute the overall priority sector for the lowest level of hierarchy (the best solution with the available data and existing preferences and realities), and evaluate the consistency for the whole hierarchy.

The operations in steps 3, 5, 6 and the latter part of 4 are standard types of activities, and relatively uncomplicated to perform once the statistical and interactive computer model has been constructed. More basic analysis and understanding about the sector in question, as well as logical thinking is required in steps 1, 2, and the first part of 4. This is the area in which specific expertise and research can make their greatest contribution, as, for example, in the field of co-operatives. Such expertise and research provide much that AHP needs for its hierarchy structure; the focus (aims, goals), actors (affected participants), determinants, objectives, criteria, and possible or desirable scenarios.

Thus, when determining the relative importance of each element, subfactor, and determinant, experts or "knowledgeable people" must make estimations to ensure the quality of judgements. However, since even experts can make misjudgements, the use of a group approach will give more reliable results. When the results are synthesized, the opinions of the participants can be given different weights according to their expertise or decision-making powers.

The Analytical Hierarchy Process is carried out by the comparison of factors or elements on each level of the hierarchy. When the number of factors is limited, such a "priority estimation" can be kept in mind reasonably well, but when many factors are involved, a systematic approach is needed. This is done by constructing matrices. The process is started by estimating the contribution, that is, a positive or negative vector value, of each element to the factor under work. The scale used is as follows:



Picture 1 Analytical Hierarchy Structure for Projecting Co-operative Success Prospects

<i>Intensity of Importance</i>	<i>Definition</i>
0.0	No impact
± 2.0	Moderate impact
± 4.0	Strong impact
± 6.0	Very strong impact
± 8.0 <sup>9</sup>	Absolute impact

The matrix tables prepared and the values obtained will then be used in Analytical Hierarchy Process. The process is continued to “lower” levels of the hierarchy; at each level, the relative impact of two elements at a time is compared in relation to the factor above it. Next, the vector values of elements at all levels are totalled and averaged to eliminate the differences arising from the varying number of elements in each subfactor. Finally, when the lowest level, usually the alternative solutions (scenarios, decisions, etc.) is reached, a synthesis is carried out. In this phase, the vector values of each contributing determinant, subfactors, and so on, are totalled for each alternative, and the one reaching the highest score is the most favoured (or least acceptable, for instance).

The process could be turned upside down. In that case, the foregoing analysis could be used as a “mind-organizing” basis for comparing and ordering the subfactors of each element. The same process would then be continued to better obtain the relative importance of higher-level determinants, determining the main factors that affect the achievement of the original goal. (In the first analysis, these were obtained by more direct estimation.) Furthermore, the least favourable or negative factors can be extracted from the tables so that the most important corrective actions and conditions for success can be initiated.

<sup>9</sup> The figures do not necessarily reflect arithmetic relationships (e.g., that very strong impact would be three times the impact of the moderate impact). Instead, they are selected to provide meaningful “eigen values” through vector matrices.



#### 4. WHAT THE COMPUTER CAN DO FOR US?

It has often been stated that the results of statistical processes are only as good as the input used to reach them. The same applies to the computer, although the emphasis should, perhaps, be slightly different: the computer benefits are only as good as the people who devise and use the programmes. The computer itself can do very little independent work (for the time being, at least), but it can help us in several ways. First, it forces us to organize our thoughts and data, because a programme cannot be made very "loose" or it will become too large and cumbersome. Second, the computer handles the data with high speed and ease, and facilitates processing of data without the planner's or researcher's continuous effort, thus permitting the trained mind to be reserved for more important tasks than computing. Third, the computer gives us (naturally depending on the programmes it is fed) results, syntheses and analyses. It also makes it possible for us to manipulate data, to carry out sensitivity and risk analysis, and ultimately to discover the conditions necessary to attain the desirable outcome.

In short, although the computer is neither magic nor panacea, it is a tool that facilitates increased output, and, when operated by a skillful user, improves results.

#### 5. SOME USES FOR THE COMPUTER

The writer has used the computer in operational work for many years, and, despite the heavy investment of time necessary in/for learning any new programme, the final outcome has always proved satisfying in terms of time saved and results. The cost has not been an important consideration, because the employer has provided the hardware and part of the software. Since more powerful microcomputers have become available at low prices, cost will be unimportant in the future, even for people who must purchase their own machines.

One of the early applications for co-operative purposes the writer has prepared a Co-operative Financial Analysis Program (suitably named as COPFIN!). This programme prepares the entire set of financial tables for a co-operative project and automatically computes its internal rate of return and a number of important ratios. It was, however, designed for a large computer and can be regarded now, some seven years after its preparation, as technologically outdated. It should be converted into easier programming languages and used with microcomputers. A readymade package, of which such a user application could be made, is the popular Lotus 1-2-3 "spreadsheet". For the sake of providing the contents and structure of the original COPFIN for general use and development, the writer has reproduced it in a separate document.<sup>10</sup>

The writer has also used the computer to prepare a preliminary regression analysis on introducing co-operative banking in developing countries.<sup>11</sup> In this application, RAM, a comprehensive statistical package for large computers, was used to prepare regression equations for each determinant separately, to assess co-operative banking prospects in general, and to compute a comprehensive set of control ratios. The determinants used were those presented later in this paper as the "main influencing factors", whereas some of the subfactors were different.

Although many decision-making and planning packages (such as Harvard Project Manager)<sup>12</sup> will no doubt prove valuable in the work on co-operatives, the Analytical Hierarchy Process may be the most suitable one for making various complicated planning decisions. It has many uses, some of which are applicable to the microcomputer through a software package called Expert Choice.<sup>13</sup> In naming the package, its designer, *Dr.*

<sup>10</sup> *Turto Turtiainen and J. D. Von Pischke: Investment and Financing in Agricultural Service Co-operatives. The World Bank, 1985.*

<sup>11</sup> *Turto Turtiainen: Kehitysmäihin ja asuustoiminnan determinantteihin liittyviä erillisselvityksiä. (Mim.) Washington, 1985.*

<sup>12</sup> By Harvard Software, Inc.

<sup>13</sup> Expert Choice is marketed by Decision Support Software, Inc., 1300 Vincent Place, Dept. C, McLean, VA. 22101, USA (US\$ 499).

*Ernest Foreman*,<sup>14</sup> emphasized two things. First, the computer does not make the decision process (or any task for which AHP is suited) automatic. It requires constant choices, small decisions and priority assessments by the decision-maker or the analyst working with him. Second, the package requires that the operator be able to provide the understanding and knowledge required in each field for which user applications are being made, or to be in a position to use experts. Similarly, the writer maintains that the person or persons who use the computer for co-operative applications be specialized in the field and obtain a thorough knowledge of the circumstances to which the programme is applied. This can only be achieved by visiting and studying the local conditions.

*Phases of the Expert Choice Software Packages:* Unlike some other decision support programme (e.g. "Decision Aide" by Kepner-Tregoe, Inc.), Expert Choice does not 'hold the user's hand' or help phrase the decision statements. The programme and the accompanying manual assist the user to structure the problem in a disciplined manner, and provide some examples of its typical uses. To take a most typical case that also fits the case study of this paper, the programme requires the user to build a hierarchical structure (decision-tree diagramme) starting from the goal, and then continuing with influencing factors, subfactors, "actors", their objectives, and existing alternatives (Picture 1).

Expert Choice provides a comprehensive set of editing commands to help the user to restructure an empty decision-tree installed in the programme's memory (to be copied for each new task). Although the number of levels and elements on each level is limited, the programme is large enough to allow the construction of a decision-tree that takes days to operate. Such a large programme ultimately shows that some subfactors have so little influence (less than a permille) on the outcome that they can be ignored. Preliminary screening of the hierarchy structure is important for practical as well as financial reasons.

<sup>14</sup> Dr Foreman is professor of management science and statistics at George Washington University, Washington, D.C.

The value of Expert Choice is possibly more apparent when the user starts ranking the factors on each level of the hierarchy; that is, building the matrices mentioned earlier in the discussion of the Analytical Hierarchy Process. The programme allows both verbal and numerical "pair-wise comparison" (an essential element of this programme) nearly as fast as the user can enter the assessments.

For each set of comparisons, the programme tells the user the consistency (or inconsistency) level reached. After all submatrices have been completed, Expert Choice computes and prints the overall matrix values for each level and element separately. Finally, it notes the result, for example, the most likely (preferred, important) alternative or action to be taken.

## 6. CASE STUDY

The writer has used the Analytical Hierarchy Process and Expert Choice for several tasks, from selection of house location to projecting the chances of implementing radical organizational changes in the export marketing arrangements of one of the World Bank member countries. For the purposes of this paper, a co-operative example is most pertinent.<sup>15</sup>

The co-operatives in question deal with fisheries in a developing country. Two or three externally financed projects in the country support the government's own efforts to increase production and improve the standard of living among fishermen, increase fish exports and foreign exchange earnings, and build a permanent and efficient institutional infrastructure to take care of fish marketing and the development of the fisheries sector.

In this context, two questions have been raised at the planning level: first, given the situation (and known promotion efforts), what chances do

<sup>15</sup> Although the case is real, the confidentiality of information the writer has obtained as an employee of the World Bank requires that neither the name of the country nor the co-operatives involved are revealed.

### *Use of Computer for Co-operative Development*

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the fisheries co-operatives have for meeting the foregoing objectives? Second, which elements most endanger progress (and need to be improved the most), and which are of most help in achieving the goals (need to be maintained; can be benefitted from)?

The factors (determinants) and subfactors that most affect co-operative development have been categorized as follows:

<i>Factor</i>	<i>Subfactor</i>
Historical/political	Co-operative basis
	Ownership of assets
Social	Economic and other relevant values
	Habits and attitudes
Economic/financial	Efficiency and economic independence
	Needs for co-operative services
Psychological	Feasibility of operation from participants' viewpoint
	Obstructive aspects
Knowledge level	Educational level
	Specialized training
Organizational/technical	Supporting services
	Operational methods

These factors and subfactors were obtained from a much larger group through a preliminary screening process. Some screening can be done on the basis of general knowledge about development conditions, but a really meaningful screening can only be achieved by persons who know the circumstances and who have collected material specifically for the model in question.

Space does not allow presentation of the comprehensive list and descriptions of the factors and subfactors that affect co-operative development which this writer has collated over the past 15 years while working in developing countries and studying this problem area. However, a synopsis of

current co-operative situation in the country under study also illustrates the complexity of factors and subfactors which need to be reviewed.<sup>16</sup>

### *Historical/Political Determinant*

*Co-operative Basis.* The co-operative movement is still relatively young. There is no national or regional co-operative organization; each co-operative operates independently of the others, under the government's supervision (and with its support). However, there is a national government-owned Fish Marketing Corporation which helps co-operatives. The government is generally regarded as socialist. The political and administrative set-ups extend to rural and fishing villages. The head offices of the fisheries co-operatives are usually located in the local administrative centres, which are a great distance apart. The government places emphasis on developing the fisheries sector, but its involvement in the daily operations of the co-operatives is limited because of staff shortages.

*Ownership of Assets.* All the larger fishing vessels in the country were nationalized more than a decade ago, but the owners were kept as captains of their boats. They are paid a higher percentage of the catch than other crew-members, who are all co-operative members. Only very small boats, operated by crews of one or two men, are allowed to operate outside the fisheries co-operatives. These independent fishermen can obtain basic services (supplies, marketing) from the co-operative, but at a higher cost than the members. However, fishing gear always belongs to the crew—even in the co-operative boats.

<sup>16</sup> Space here allows only a rather general description of the various effecting factors: more detailed information would have to be collected when the model is used in the planning situation.

### *Social Determinants*

*Economic and Other Relevant values.* Fishing has a long tradition in the country and fishermen are well respected. However, in the 1970s, as communications and education in the country improved, and fishing proved to be less profitable than some other occupations, the number of fishermen started to decline.

During the past few years, as the government has allowed fish prices to increase and new technology has made fishing once again sufficiently profitable in comparison with other occupations, the number of fishermen has again begun to increase. While clearly interested in economic improvements, fishermen remain largely hand-to-mouth people, with little tradition of saving or credit. Nevertheless they work hard during the fishing season and take good care of their boats.

*Relevant Habits and Attitudes.* The fishermen have no particular "co-operative tradition", except that they are used to working in boat teams. During the past decade, however, they have also learned "the co-operative way", but they still regard private ownership of boats as attractive, and this attitude is increasing. In many other aspects they maintain their old, nearly tribal habits. Fishermen have shown no inclination toward innovations, but they have accepted some (such as nylon nets) after their utility has been successfully demonstrated. The older generation cares little for training or education, but the young fishermen are more interested in these. In general, the fishermen greet government programmes with neither opposition nor enthusiasm. Their belief in destiny and God's guidance remains strong, but the necessity of taking responsibility for one's fortune seems to have gained acceptance.

### *Economic and Financial Determinants*

*Economic Efficiency and Independence.* As already mentioned, fishing has again become profitable, but personal incomes remain low. This also reflects the economy of the co-operative societies. The country is

economically among the weakest 25 percent in the world. The fisheries co-operatives are small, with 200 to 400 members, but this is a relatively high membership compared to fisheries co-operatives in most other countries. The government regulates fish prices and payments to fishermen. Deductions for co-operative expenses, including payments for new boats, amount to 37 percent in nearly all co-operatives, leaving very little room for economic manoeuvring. About one-fourth of the co-operatives suffer losses annually. There are bank loans available for the co-operatives (and in only a few places for their members), so the co-operatives have to rely entirely on government financing. However, the government has organized financial assistance from abroad to build new beach facilities and provide new boats and gear.

*Needs for Services.* Private entrepreneurship is very restricted and the fishermen rely almost entirely on the few co-operative services: supply of basic equipment and gear for the boats; servicing of engines and repairing of boats; and marketing of fish. (The fishermen are theoretically obliged to deliver to the co-operative all fish caught by the co-operatively owned boats, but they often fail to do so.) As mentioned earlier, the fishermen lack credit and savings facilities. The few consumer shops are poorly stocked, and housing is often substandard.

### *Psychological Determinant*

*Feasibility of Operation from the Participants' Viewpoint:* The fishermen have had a long tradition in their occupation and have high self-esteem. The co-operative is generally seen as an improvement over the earlier free-market system. (Prices have risen substantially since the early years of the co-operatives, when the government placed the benefits of the consumer above those of the fishermen.) However, the government-controlled monopoly system is not universally approved, and some fishermen often try to bypass it, placing their short-term benefit ahead of the longer-term advantages that the co-operative provides. The same comment appears to apply to co-operative officials: accumulation of co-operative wealth, if it



happens, is accidental rather than deliberate, because distribution of the co-operative surplus has higher priority than longer-term concerns. There are few incentives to encourage the co-operative staff and committee members to improve performance. The fishermen accept the income distribution practice used among the boat crews, under which the captain gets 50% more than an ordinary crew member.

*Obstructive Aspects.* The Government officials seem to have relatively little confidence in the co-operative staff and committees, and several low-level government controllers (paid by the co-operative) have been placed in each co-operative. In addition, local government and party officials hold up to half of the committee seats. Professional supervision or assistance by the government in the procurement of supplies, accounting, and marketing, however, is very limited. Many fishermen apparently regard the co-operative as a compulsory system they would rather avoid, but the majority appear to have accepted it as the way of life, without trying very hard to promote it.

### *Knowledge Level Determinant*

*Education Level.* Traditionally, fishermen belong to the least educated people; the literacy level is much below the national average of 38 percent. Despite the government's literacy campaigns, not even "functional" (occupation-related) literacy has reached a satisfactory level, and most older fishermen are still illiterate. All the committee members can read, however, and all staff members have had at least a primary school education. Many managers have high-school diplomas.

*Specialized Training.* The government officers working with the co-operatives have sufficient theoretical training, but they lack practical experience in the business operations and administration of co-operatives. The co-operative managers obtained basic knowledge about co-operatives through courses at the Co-operative College, but business and operational training is relatively weak and not sufficiently practice-oriented. Committee members enroll in similar courses, but they spend

much of their time studying co-operative principles and political statements. Ordinary members receive only political training, so their ability to carry out administrative or supervisory functions is limited.

### *Organizational/Technical Determinant*

*Support Services:* There is a small co-operative department for the fisheries sector, but its main staff consists of accountants and auditors. Recently an attempt was made to provide the co-operative with some management advice. Liaison outside the co-operative is carried out through the government-owned Fish Marketing Corporation, Trade Corporation, and Co-operative Department.

The fisheries extension officers occasionally visit the co-operatives, apparently without any specific programmes. Also, a government-owned boatyard sends teams to help the co-operatives maintain and repair their boats and engines.

*Operational Methods and Technology:* The records and accounts of the co-operatives are kept by their own staff using outdated methods (bound books, no automatic reconciliation), which nevertheless serve the basic need for record-keeping. Budgets are prepared annually, but there are no other plans for special management or administrative systems. There is a linkage between credit (for equipment and gear) and marketing: repayment installments are collected on the spot. The procedures used in keeping the books and records are taught by co-operative officers during their visits; no manuals or detailed guidelines exist. Supervision and control of operations are, accordingly, very limited, but may be partly compensated for by the fact that party and government representatives are present in the committee meetings and fill some staff vacancies.

*Results of the Computer-Supported Analysis*

In the Expert Choice assisted “running” of the Analytical Hierarchy Process, the writer acted as “the knowledgeable expert” who carried out the comparison process essential for this process. The initial result was that the fisheries co-operatives in the country in question, given the existing information and projects being implemented, have a moderate chance of success in attaining the goals of the interest groups. The second phase of the analysis indicated a number of factors that favour success and are important to maintain at least on the present level, and a number of other factors that need to be corrected or improved to ensure a better chance of success. The advice delivered to the government in these respects is summarized as follows.

*Favourable Factors:* Considering the present situation and material factors, and taking into account the contribution the Fisheries Development Project is planned to provide, the overall result of the analysis indicates that the District Fisheries Co-operative has a better-than-average chance of reaching satisfactory performance from the viewpoint of the participants (members, staff, committee, and the government). The most important factors that contribute to such a result, and which at the same time require continued attention to provide the necessary support for further co-operative development, include the following:

— government’s commitment to social development and its policy of promoting supporting services to the co-operatives. These include (partly organized) marketing channels and supply of equipment and other fishing needs, as well as credit and repair services for co-operative boats. Greater efficiency in these operations would further increase the potential for success;

— increase in fish prices paid to members as compared to the prices several years ago, as well as the opportunity for the co-operatives to sell 40% of the catches outside the official channel. At the moment, and in view of the improved technology, there seems to be no urgent need to change fish prices paid to fishermen);

— co-operative services which are apparently perceived by the

members as quite necessary. This is a result of doubling the fish prices and improving the supply situation when co-operatives took over fish marketing from the private sector, as well as of the social security provided through the co-operatives;

— the relatively large size of the co-operatives which has facilitated expanding services, and, in most years, improving the financial base;

— the generally favourable attitudes and values of membership towards economic development. The members already have considerable experience in working together and their self-esteem is high. They also appear to welcome government-sponsored schemes and assistance.

*Main Areas and Activities to be Improved:* In general, government authorities have attempted to provide the fisheries co-operatives with the necessary “tools” and facilities for steady progress. The World Bank mission noticed no areas of co-operatives activities which would have been ignored, or in which adversary action would have taken place. However, the analysis revealed a number of less favourable aspects, improvement of which, as recommended below, would greatly enhance the prospects of these co-operatives.

*Administrative and Technical Factors.* The co-operative movement is not fully developed, and the operational routines and methods appear relatively weak. Also, completely new methods need to be developed when expanding and increasing the co-operative activities and monitoring their financial viability. Frequent analysis of co-operative costs would facilitate improvements in the financial status of the co-operative, but new management methods need to be developed to be able to do this. As there is no higher level co-operative structure, the role of the government (and technical assistance) is very important in this respect, at least for the time being. In the longer run, a co-operative federation should be established for these tasks, as well as for the provision of centralized services, and for the representation of common interests, both in the country and internationally.

*Training and Education.* Although there is a co-operative training institution in the country, suitable specialized training for business operations and management, especially in the fisheries sector, is still

limited. Specialized training will also be difficult to arrange in a centralized form for the small number of personnel and committee members presently engaged in the fisheries co-operatives. Besides centralized training, general level courses, on-the-spot training and advisory assistance will be necessary. This requires specialists and experts willing to work in difficult conditions. However, conditions in the rural areas are such that the engagement of well-qualified staff for the co-operative will be difficult.

Members seem to have little interest in education, even in learning to read. This reduces the effective utilization of co-operative services and the opportunity to supervise and manage co-operative activities without government control. General education and literacy levels are still low. Functional (fisheries-oriented) literacy campaigns are essential if the situation is to be improved.

*Services.* The most essential services (marketing, supply of equipment) are already in place, but financial services to members are meagre. It would be relatively easy to improve the organization of payment for fish deliveries if there were a saving scheme, which would facilitate a credit scheme for members. The development of such schemes is, however, a relatively demanding task and hardly possible without foreign expertise (such a system has been established in Kenya).

*Finances.* The co-operatives have limited funds (resulting in limited operational flexibility) and there appears to be too little concern about the viability of the co-operatives. Also, there seem to be few incentives to improve their financial base. Members and board-members should be given more information on the long-term benefits that the economic soundness of the co-operatives brings about. (A good start in this respect was the presentation "Management Efficiency in the Fishing Co-operatives" at the Regional Conference held recently.) Although the prices paid to fishermen are presently sufficient, the government should increase the retail prices to allow a higher margin to the co-operatives.

Services offered to members have not always been reliable. This has created dissatisfaction and possibly some lack of interest amongst the membership. By improving operating systems and management methods, the timing and sufficiency of services provided could be improved.

*Government Involvement.* While a moderate amount of government involvement is necessary for developing the young co-operative movement in this country, too little or excessive supervision and control might have adverse results. In this case, the technically-oriented government co-operative staff (accountants, auditors, planners, management, supply and marketing specialists) as well as their transport funds need to be augmented. These staff also need more business-oriented training than what is presently offered. Representation of government officials in the co-operative boards should be reduced, e.g. by establishing special subcommittees and transferring some of the government officials to these.

*Membership.* Member loyalty, although generally satisfactory, has recently shown signs of deterioration. Improvement could be achieved through the education in co-operative services and benefits, the provision of sufficient incentives to members in relation to other users, and through accepting the challenge of the alternative market channels and improving the quality of existing services and adding new ones when resources are adequate.

At the moment, effective member participation in the affairs of the fisheries co-operatives appears lower than desirable. It can improve only if member education is increased and the literacy level elevated; services and other incentives improved, a feeling of membership responsibility indoctrinated; actual membership responsibility instituted; government administration participation in daily operations reduced; and operational methods and systems brought to an advanced level so that they allow the controlling of co-operative affairs by the membership.

**Wilhelm Weber—Johann Brazda\***

## **Co-operative Principles from the Point of View of Evolution Theory**

The retreat of co-operative science to an individual perspective has not yet been taken into account very much, but it has become the predominant trend in the development of our co-operative science. The individual perspective sees co-operation in the co-operative either as a property of individuals (the definition of social facts as a consequence of intention-based activities, and their explanation as the purpose of the individuals involved) or as defining certain functions of the system like planning, organisation (business management), control (officials) and identification (members), which are described as roles of designated individuals. Problems occurring in practice can be solved on this basis when they are dealt with as they occur in the sense of human feasibility and the possibility of control in practice, i.e. as a consciously planned decision-making process. This process results from the logic of the situation as presented in different variants by co-operative theories.

— Methodological individualism (*Boettcher*, p. 540 ff., 1981)

This theory is based on the economic advantage to the individual members of a co-operative with regard to the axiom of efficiency or self-interest. This axiom implies that the subject strives for that result of decision-making, from all those which the subject knows and takes as a classified quantity, which brings the greatest advantage with regard to a certain objective. This also happens when relations are not determined by striving for a high income, but by efforts to achieve increased reputation or

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more power. The explanation of the organisational form co-operative is based on a theory of exchange. The cognition that an act of exchange between independently acting economic subjects can only be implemented when both partners profit by the exchange, is applied to co-operation in a co-operative.

— Conflict hypothesis (*Eschenburg, 1971*)

The objective is to come to a solution that is considered (by all members of the organisational form co-operative) to be the optimum solution (in the sense that all members are convinced it is not possible to get more for themselves under the given conditions, so their interests are maximized by accepting this solution). The fact that all concerned see a solution as the optimum one and thus accept it does not mean, however, that existing contradictory interests are abolished, but only that a conflict has been regulated to the optimum. A theory comes into being that tries to determine—proceeding from contradictory interests—whose interests are satisfied to which extent. The theory on the distribution of information and the various operational abilities of the members of the organisation, results in management dominance; in other words the management becomes a decision-making unit largely independent of the individual decisions of the members. Two main characteristics of the co-operative are vertical conflict, that is contradictory interests among the bodies, between the general assembly, the executive board and the supervisory board, for example, and horizontal conflict, that is contradictory interests within several groups of a co-operative, among the members, for example (see *Eschenburg, p. 63, 1972*).

— The co-operative as a socio-technological economy system (*Duelfer, 1984*)

According to this theory, the factor determining the action of a member of the organisation becomes a complex target system in view of the imperfect character of the market. In interaction within the organization, the individual target systems of the members are co-ordinated in relation to a multipolar target system in processes of negotiation. In analysing this organisational structure, *Duelfer* defines the 'co-operative' as a socio-economic system. The structure of this system is established through the



effects of integrating the members into a co-operative on the individual decisions taken by the members of the organisation. The activities of certain individuals or certain coalitions determine developments.

However, this individual perspective is only a small part of the development of a co-operative. Thus, it is not surprising that this wealth of decision-logical studies was accompanied by impoverishment in another field. What has developed, and is developing, is pressed into static typologies, structures and terms of function. Social systems are deprived of their dynamics. But, regarding processes without beginning, the reconstruction of a process in the form of a theoretical model should serve as a means of explanation. In order to understand co-operatives, one does not need law-like theories but theories of another kind: process theories that involve the emergence and change of co-operatives in the theoretical synthesis. It would be desirable if co-operative managers understood the involvement of co-operatives in the historical context more profoundly than they generally do at present: not only for reasons of principle, but also because such an understanding is an indispensable prerequisite for the new orientation of enterprises, which is of the utmost importance at present. Only the consideration of long periods and a wide horizon makes it possible to understand the present situation.

The ability of a social system to develop is not of the same importance in all historical periods. In times of stable economic conditions, emphasis may be laid on factors that result in a one-sided specialization for the sake of economic effectiveness: these factors may endanger existence, however, when the preconditions that brought about this development (persistent economic stability, for example) no longer exist. It then becomes evident that the ability to develop is the most important property of a social system.

Are there prerequisites and conditions for the social system co-operative to ensure its development, and is this development based on mobilizing processes inherent in the system, or does this system need knowledge from outside for its development?

*One possibility to analyse the principles of the effects of the social system 'co-operative' in their historical context is said to be the analysis of the*

work of the founders in the history of co-operatives, and asking what has caused the co-operative pioneers to act; to found co-operatives. The motives of the co-operative pioneers will show characteristics indicating the features of co-operatives as changing social systems. But when the research of developments as such is the major point, the determination of characteristics has cognitive status and value other than in connection with looking for timeless laws outside any change. In the last mentioned case, the identification of characteristics is the supreme objective of research work; in the first mentioned case, it is an auxiliary means of establishing a model.

*F. W. Raiffeisen* (1818–1888.) (*Finis*, p. 122 ff., 1980.) is regarded as the founder of rural co-operatives, and this term “rural” limits his motives in two ways:

— He evaluates the process of social change in his time from a rural perspective. For Raiffeisen, farmers and agriculture were the core of the society, and thus his main means of changing society.

— For him, the depressing socio-economic situation of the population was caused by increasing secularisation in a time dominated by selfishness.

By improving the material conditions of the rural population Raiffeisen hoped achieve his main objective i.e. spiritual-moral improvement. From this double strategy, all the other characteristics of his co-operative can be derived:

— Co-operatives should be characterized by behaviour on the basis of solidarity, thus being a school of moral improvement.

— Much emphasis was laid on educating the poor to work diligently and to live economically. Loans should only be given to those members who had proved to be worthy of them.

— For richer members, adherence to a co-operative was not linked with economic advantages. They should be unpaid staff members of the co-operative and should be liable with their personal property in the interests of solidarity. Raiffeisen paid special attention to selecting his staff members.

— Commercial demands were taken into account, but most importance was given to moral aspects. Raiffeisen’s action as a whole can be explained

by his deep religious conviction. He understood his Christian ideology not as passivity and the exclusive belief in a life after death, but as an obligation to shape the world actively in the sense of charity. His lively belief in the Christian religion was to be connected with organising the life of a brotherly-Christian community.

To summarize, the following characteristics were the most important ones:

Principle of neighbourhood (units visible at a glance), liability in the interest of solidarity, no distribution of profits, and honorary administration of the co-operative.

*Schulze-Delitzsch* (1808–1883.) (*Boettcher*, p. 91 ff., 1983.) confronted the currents of his time, i.e. the principle of socialist organisation, the principle of state supply and assistance by way of charity, with a liberal alternative—co-operatives. He considered industrial progress characterized by liberal ideas to be a cultural progress which had to be maintained and promoted, and he was of the opinion that general harmony in economic life was possible through providing all economic subjects with their share in the achievements of technological progress. By recognizing the developing predominance of capital, he tried to find a means of using economic liberalism for the working people as a whole. Based on his own knowledge about the values of handicrafts, he considered the provision of credits to be important for the socio-economic situation of the members of the whole working class. The elimination of polarity between the individuals and their interests and the demands of the entity against the individuals was found by Schulze-Delitzsch in the idea that a close correlation exists between self-help and readiness to co-operate. The solution for mutual “provision” was the regulation that the members were to be liable with all their private property for loans given to a limited circle. The participation of the members in the market-economic system was ensured by integrating such self-help organisations. Three characteristics of Schulze-Delitzsch co-operatives are: self-assistance, unlimited liability, voluntary participations.

The foundation of the Rochdale co-operative (1844.) (*Elsaesser*, p. 75 ff., 1982) was not the work of an outstanding individual member but that of a group of pioneers.

All these pioneers had the following reasons for the foundation: the conception of the co-operative as a means for them to fulfil their objective, i.e. to improve the living standard of the working people; the co-operative was seen as a means of starting a movement for the emancipation of the workers, not by changing the conditions of life in an abrupt, comprehensive manner, but by long-term, practicable, gradual action. The following steps were planned:

To supply foodstuff, to provide housing and jobs, a sense of community and a comprehensive production co-operative settlement. Comprehensive purpose-based determination in the direction of non-alienated labour through creating a self-sufficient co-operative approach, rather than perceiving society as a harmonious natural entity being sufficient in itself, was based on practical secular Christianity. This was characterized by a Christian sense of responsibility, and its implementation was seen as a socio-organisational conception based on the idea of the consumers' co-operative. The demands of the time could only be satisfied when one shared the needs of others in a democratic manner and on the basis of solidarity, and stood up for them. To achieve the vocation of man, that is to rise above oneself, the idea of self-help on the basis of solidarity according to democratic basic lines should be applied.

The pioneers proceeded from their conviction that man is to become an independent personality. A sense of community should be possible in a movement of free individuals. All these reasons can be found in the characteristics of the principles of the Rochdale pioneers, stipulated by the International Co-operative Alliance in Paris in 1937: open membership, democratic administration (one man-one vote), distribution of the net surplus in proportion to purchases, political and religious neutrality, payment in cash, promotion of the educational system.

V. A. Huber (1800–1869.) (*Faust*, p. 167 ff., 1977.) is regarded as the spiritual initiator of the settlement co-operatives. For him, the way to change the social conditions of his contemporaries was the idea of association. He held that economic independence of the workers was a necessary prerequisite for the integration of the workers into the political system, and could be achieved through co-operative self-help. Other co-

operative pioneers had laid emphasis only on specific parts of social life in the co-operative sense; Huber, however, focussed his work on an internal colonization, the foundation of workers' colonies. A central building was to be the centre, a building, housing economic and cultural establishments such as shops, schools, hospitals etc., Houses for the workers, recreational areas and gardens were to be built round the centre. These settlement co-operatives were to serve as a form of active self-education. They would presuppose common relations and thus influence social life beyond the economic aspect, but would not detract from the independence of family life. Within the framework of common property, each worker's family would be guaranteed a limited amount of individual property. Additionally, a sufficient economic basis to achieve cultural well-being in the sense of the internal colonization would be created. This was a vision of a society which would provide both the individual and the group with the opportunity to develop in the most comprehensive and free manner: independent thinking and action by individuals were a prerequisite for good results to be achieved by common thinking and action, likewise, the individual would never be able to give of his or her best without common action (Posch, p. 28, 1981). The following characteristics can be listed: the family as the core of society, solidarity and the co-operative as a form of life in itself.

We have outlined the reasons of some pioneers for founding co-operatives and the respective characteristics of these co-operatives; these cannot be recognized when the knowledge of experts in co-operative theory is limited to the logics of the situation, and when they are guided by their involvement in the short-time struggles of their times. Changing social systems and the problems of the respective times only become evident if the observer can study them from a distance. For this purpose, however, it is necessary to work towards the establishment of a clearly profiled, theoretical model of development which can be evaluated, making it possible to systematically compare one's own time with other periods of development—instead of studies based on a limited horizon and on isolation—thus taking it as a stage of development going beyond the respective time. The weakness of many contemporary studies in the

field of co-operative science lies in the fact that they are linked neither with the past, nor with possible futures. All studies have to refer to something that has not only been created but is also developing, i.e. they must consider the effectiveness of any given measure according to the history and projected future of the movement. To neglect a certain direction to do this is an evident shortcoming.

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**Austrian “Social Partnership”  
and Co-operatives**

1. In a market economy, the market mechanism decides how the gross national product, or national income is distributed among the classes, strata and individuals. Roughly, the income of a person corresponds to his or her contribution to the national product, but since everybody tries to increase his or her income there are distributional struggles. Social Partnership is one of many possibilities for dealing with these struggles. A variant of this ‘incomes policy’ is also pursued in other countries. The Austrian Social Partnership differs from such attempts in the following regards:

— Most arrangements are made on the basis of tacit understanding, or are the result of oral consent. In other countries, many agreements are fixed in writing.

— In most cases, judicial enforcement is not possible because legally-binding contracts do not exist. In other countries, state penal measures or contractual penalties exist for such cases.

— Usually the parties involved are employers, employees and the state, i.e. these are tripartite arrangements; whilst in other countries the majority of such arrangements are bilateral.

— In addition to the “big three” many other groups are also integrated into Social Partnership; e.g. pensioners through the dynamics of pensions (pensions increase roughly in line with average wages), or doctors involved in negotiations between the Medical Chamber and social security bodies

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controlled by employers and employees on the basis of "self-administration". Some groups are not formally integrated, but agree to be bound by the basic rules de facto; e.g. the self-employed, organised in Chambers, could push up their fees but they are faced with public opinion largely influenced by the Social Partners (through their own mass media). In other countries, a large proportion of the working population is frequently excluded from incomes policies.

2. Distributional struggles cost money. The aim of the Austrian Social Partnership is to keep this cost as low as possible. In other words, individual groups should increase their well-being not through a bigger share in the same national product, but through the same share in a bigger national product. This results in the following essential consequences:

— As it is not possible to eliminate the effects of the market mechanism on individuals, one must be content with regulating the share of a bigger group or class.

— Such regulation must be based on mutual consent, and this political decision can be taken most easily when the shares are kept constant. Consequently, only a few marginal corrections may be made.

— Thus, redistribution can only be effected within a social stratum or class. This is the essence of the Austrian social policy, even in the case of a token redistribution between strata or classes, because the system of social security is mainly financed by the contributions of the employees or by the cost-dependent contributions of the employers when are transferred to the employees (as consumers), and only a small part comes from general tax receipts.

— Therefore, the emphasis is on the promotion of growth by means of joint management and labour decisions. Thus a supra-enterprise codetermination covering all fields of economic and social policies is ensured. This is vital for success, because those who share decisions also share responsibility.

3. Such a system can only work if certain preconditions are fulfilled:

— The participating organisations must be centralized to a high degree in order to settle internal conflicts (within the organisation); otherwise, it would take too much time to find a generally acceptable compromise



For example, according to its statutes, the Federation of Austrian Trade Unions (ÖGB) is the collective bargaining partner of the employers, but it can delegate this function to the member union. This is always done, but the member unions co-ordinate their collective bargaining policies with one another through the ÖGB.

— Participating organisations must rely on the loyalty of their membership because they must ensure that the agreements are carried out. In Austria, the unionisation (number of union members in relation to number of employed persons) is over 60 per cent; differences exist between trade unions, the number of unionised workers being high in big enterprises and low in small enterprises in most cases, yet this is irrelevant because unions negotiate with the employers' organisations (branch or industry agreements, and not agreements with individual firms) that are dominated by the big enterprises.

— Negotiators must hold their position for long periods in order to acquire confidence, since mistrust delays decision-making; and also because they should acquire background knowledge and information about past decisions which is necessary for consistent long-term strategies ('anticyclic' wage policy of the trade unions, for example, means restraint during the boom in exchange for concessions by the employers in times of recession).

— As only certain decisions are centrally taken at the highest level, there is considerable scope for decision-making at the enterprise level because central decision-making is based on the situation in the weakest enterprise ('threshold enterprise') able to abide part or profit from the agreement. This scope must be determined on the basis of mutual consent, and is achieved by guaranteeing the possibility of using it by institutional means (enterprise agreement according to the Labour Constitution Law, ArbVG), by protecting the employees' negotiator against pressure from the employers (special protection against lay-off, or unlawful dismissal, for example) and by close co-operation between the works' councils and the trade unions; because, on the one hand, the works' councils give information from the grass-roots to the leadership (which is dependent on this information for decision-making) and, on the other, they depend on

the trade unions with regard to their most effective instrument of pressure, strike.

— The state ministerial bureaucracy and parliament must allow the federations to take part in decision-making and additionally give them scope for 'bilateral arrangements' that are either presented to the government as readily implementable proposals or implemented without the state (examples are collective agreements). In Austria, this practice can be traced back to the 19th century.

— Employers must be ready to exchange maximum short-term profits against stable long-term profits, whilst the trade unions must be ready to sacrifice higher wages for stable wages (guaranteed jobs); because low unemployment guarantees the full use of existing resources and the loyalty of the employees, whilst stable profits ensure high investments and fast economic growth. Empirical research has shown, for example, that during the economic cycle, changes in the level of wages and employment in Austria are smaller, and changes in profits bigger, than in the FRG, while the long-term level in both countries is approximately the same.

— Trade unions try to influence real wages and must not be overstrained or involved in internal contradictions by the necessity to pursue a price policy in addition to a minimum wages policy, in other words, to represent the interests of the employees as producers and as consumers at the same time. In Austria, this is avoided by the existence of Chambers of Labour in addition to trade unions; one of their tasks is to defend the consumer interests of the employees, while the trade unions concentrate on minimum wages.

— The state must be ready and able to carry out marginal redistribution among the classes and strata, and considerable redistribution within them by:

- removing the commodity from the market, or
- changing the conditions of supply and demand, or
- granting tax allowances and making transfer payments.

\* These measures must be taken on the basis of co-operation with, and the consent of the respective organisations.

— The state must be able to use enterprises as innovators or examples,

to use them for social experiments or to supply commodities with their help whilst avoiding the market. In Austria, this "collective economy" covers state enterprises, nationalized enterprises and also a large co-operative sector so that about one third of the economy is being directly controlled and run by the state.

4. It is not difficult to see that the main feature of Social Partnership is the close link between economic policy (growth policy in particular) and social policy. Transfers are made, above all, when the receiver responds with behaviour that promotes growth; i.e., a "performance" is valued although the market would not pay, or would not pay enough to have a motivating effect. In other words, a bigger share in gross national product must be legitimized as earned income, based on performance, or property income. And this, as the following (not exhaustive) summary will show, is the task of the co-operatives.

4.1. Housing is a critical field, and not only in Austria. When the commodity "accommodation" is left to the market mechanism, floor space and quality of housing are distributed in a manner that does not correspond with the ideas of society. When the state assumes responsibility for construction, it must take care of rationing and establish criteria for the distribution of greater or smaller areas, lower or higher standards, and, no matter what has it done, it will not be able to avoid misuse or discord. In addition, redistribution (as compared with the pure market result) results in sub-optimal resource allocation according to the criteria of the market economy. The argument that the housing market cannot function as smoothly as markets for any other consumer good presupposes such a high degree of objective understanding that most people would not appreciate it.

Non-profit housing societies (in Austria, co-operatives and limited liability companies build and/or administer apartments on a non-profit basis) change this picture drastically because a different impression is created, although the individual is only replaced by the co-operative, which gets the various allowances (low-interest loans, interest allowances, long periods of repayment etc.):

— The tenant or purchaser (in case of individual houses) takes the role

of leasor or seller, therefore potential conflicts do not occur (this is the effect of the possibility to codetermine the work of the co-operative), differential rents are eliminated (they cannot be numerically separated from the profit, which is zero), and the co-operative is responsible for the distribution of flats and the amount of repayments, rent etc. (and not the state which currently rations through credit distribution, tax allowances, etc.).

— The allowances granted by the state seem to be justified because the individuals must make a considerable personal contribution that is repaid without interest, because they assume a share of credit repayment, and because in many co-operatives the member does not become the proprietor, so others get the advantages when s/he leaves the co-operative. Additionally, the tax allowance, in contrast to other (less visible) allowances, is limited by the fact that only a certain amount of repayment (or personal contribution) can be deducted from the taxable income, and this amount is equal for everyone, irrespective of the sum repayed or income. Additionally, saving for building purpose is promoted by paying higher interest rates, and this does not depend on the purpose for which the respective amount is actually used, and therefore those not saving for house building take advantage of an incentive only intended to promote building.

— Possible misallocation of resources is not visible, disadvantages like empty appartments too over expensive building or bad administration, clearly affect the members of the co-operative, and in discussion among these members are considered as a purely internal affair. Disadvantages for persons outside the co-operative are not considered.

4.2. Let us turn now to the agricultural sector, where—not only in Austria—attempts are made to reconcile the interests of the producers with those of the consumers, through price regulation and subsidies. Agricultural overproduction in industrialized countries with a free market economy would bring about lower prices; this would be beneficial to the consumers, but would also mean the destruction of a great number of farms. (This, of course, would result in economic and social problems—e.g. the necessity of finding jobs for the migrating workforce; so by taking

all considerations into account, the advantage for consumers—which seems to be so clear at a first glance—would disappear. But this will not be enough to convince the mass of consumers who think their jobs are guaranteed.) The solution is to give subsidies only indirectly, to grant them only when they are justified by “objective” reasons or to replace them by other, less evident, allowances, and here co-operatives play a decisive role:

— When price reductions need not be feared, the income situation can be improved by reducing costs. The direct way available to the state often results in critical remarks; examples were ironic jokes about reduced petrol prices and the possibility of their misuse. Cost reductions accomplished by the farmers themselves are not subject to such critical remarks. Therefore, the concentration of market power through the creation of purchasing co-operatives seems to be harmless, not only because all the discussion about “administered” prices was concentrated on the supply side (ideas about the new cartel law seem to do away with this tradition) but also because this is considered to be a generally used tool also applied by private employers (examples are retail-trade purchasing organisations).

— Low-interest credits—irrespective of how this is achieved (guarantees have the same effect as interest allowances, for example)—are not welcomed by the majority of those who do not get them, especially by those farmers who do not get them. This last-mentioned conflict becomes an internal affair of the farmers when credits are distributed by agricultural co-operatives (Raiffeisen organisations), and the first-mentioned conflict is settled by pointing out the thorough examination of creditworthiness by specialized, well-informed institutes which ensure optimal use of means from a commercial point of view in case of various ‘special credit transactions’ (additionally, a considerable part of this majority is won over by special credits via co-operatives supporting small businesses, apart from the fact that housing credits go predominantly to urban consumers).

— The income pattern of the rural population has gradually deteriorated due to the fact that industry occupies an increasing part of the transformation of the raw material to the final product, part of which had

previously been in the agricultural sector. (It is no accident that assembly-line production was not invented by Henry Ford, as is often maintained, but in the slaughterhouses of Chicago), hence agriculture became less highly valued. Production co-operatives offer the possibility to regain ground that was lost because of the economies of scale of big enterprises, without the necessity to destroy the small enterprises in the initial phases. Such fusions of many small enterprises are not suspect, not only per se but because of counterparts in the handicraft field. Whether they first cover marketing and then extend back into production, like some winegrowers' co-operatives, or whether they start in production and then extend into marketing, like some dairy co-operatives, they always convey the impression of an additional well-earned income that, moreover, does not appear openly in the co-operative, since it accrues to the supplying member in an indirect way.

— Price regulations are always associated with the danger of over- or undersupply, which annoys the consumers. By involving co-operatives that have to dispose of a surplus or to fill supply gaps, the state delegates responsibility—or at least appears to do so—without losing control, and, in so far as competition between co-operatives or between co-operatives and private enterprises is concerned, the state mobilizes a potential of rationalization and innovation which does not exist in state bureaucracies. Co-operative make milk market regulations far less vulnerable to attack, and the domestic meat market is supported by cattle-processing co-operatives characterized by a strong export orientation.

4.3. Let us now deal with local supply. The development of the retail trade implies considerable disadvantages for all consumers on the one hand, and especially hard ones for certain consumers on the other: individually determinable quantities are replaced by pre-packed standardized quantities of supply, retailers are replaced giant supermarkets or hypermarkets, making the purchase of commodities for old or sick people more difficult; retailing associations and branded articles diminish competition; sophisticated refined advertisement impedes market transparency. These are only a few examples of shortages which are, or will be, associated by the public with big enterprises. A state strategy aimed at

reducing the size of retailing organizations would be counter-productive. A possible solution is various types of co-operatives.

— Competition can be intensified by a large enterprise pursuing an aggressive price policy owing to its own independent objectives. A consumers' co-operative can be assumed, on the basis of price theory, not to maximize profit but to increase its turnover (as Baumol hypothesized with regard to private enterprises, proceeding from turnover maximation under the limiting condition of a minimum profit rate). Consumers' co-operatives may well reduce selling prices in order to ensure a large volume of sales because the dividend on purchase is proportional to the purchase price. Assuming the role of "the pike in the carp-pond" reduces misgivings about the size of the organization and non-members also obtain direct advantages

— Supply can be improved when a big enterprise offers a wide variety of commodities as a means to attract customers, such as the attraction of "everything under one roof" used by the big department stores. This, of course, applies to the consumers' co-operatives.

Consumers' co-operatives cannot compensate for all the shortcomings of oligopolistic markets, but their obvious role as pioneers will spare the state various interventions in terms of competition policy.

4.4. Further examples can briefly be given:

— The importance of small business co-operatives for maintaining retail trade (by means of group purchases, co-ordinated marketing, credit possibilities, etc.) was already mentioned. This is justified by the argument that efficiency is also taken into account (otherwise, it would result in less efficient structures).

— There are technical or institutional-organizational innovations in which industry is not interested, or is only interested when they result in co-operation with other sectors; this co-operation is not possible, however, because these sectors are afraid of the dominating influence of industry. Co-operatives, with their possibilities of democratic control, offer better chances for implementing such projects and there are a number of examples of state-promoted innovative activities reaching from Biosprit projects to producer/consumer initiatives (direct marketing by agricultural producers in co-operation with consumers).

— In this time of high structural unemployment, the state must increasingly support fringe groups or problem groups. The subsidizing of private enterprises in order to maintain or create jobs is less politically acceptable than the promotion of self-help which takes the form of co-operatives or co-operative-like enterprises permitting easy and direct state control over the use of means, efficiency etc.

5. In conclusion, we can state that the function of co-operatives in the Austrian Social Partnership is to stabilize desired social and economic structures and to stimulate desired dynamic processes. This is an essential and real contribution to the Austrian well-being. The 'legitimization' of the control of resources and of income distribution on this basis is not merely for the sake of appearance.



Arnulf Weuster\*

## Homo Oeconomicus and Homo Co-operativus in Co-operative Research

In co-operative theory, there are two theories explaining co-operative co-operation—the ‘conflict theory’ and the ‘harmony theory’. The conflict theory is based on homo oeconomicus assumptions and the harmony theory is linked with homo co-operativus assumptions. In the following, we will show the importance of homo oeconomicus assumptions, and also the homo co-operativus assumptions for co-operative research.

### 1. THE TYPES OF ASSUMPTION —‘FICTION’ AND ‘HYPOTHESIS’

To prepare a critical evaluation of these assumptions, we will first explain the difference between fiction and hypothesis according to *Vaihinger*. The hypothesis is an assumption which is made in order to adequately cover reality. A hypothesis is formulated in the hope of confirming it empirically. In contrast to this, a fiction is an assumption introduced with knowledge of incorrectness, and its empirical control and substantiation is excluded right from the beginning.<sup>1</sup>

Vaihinger makes a difference between fictions per se and semi-fictions. While semi-fictions do not comply with reality, fictions in the above-mentioned sense are contradictory, in other ways: one example is the

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<sup>1</sup>See: *Vaihinger, H.*: Die Philosophie des Als Ob, fourth edition, Leipzig 1920, p. 606.

infinitely small sides for calculating the circular area<sup>2</sup>. We are only interested in semi-fictions here. In connection with semi-fictions, essential elements of reality are neglected; this is because the complexity of reality is frequently inappropriate for an adequate coverage. In such cases, it is recommendable under certain circumstances, temporarily, to ignore a number of characteristics and to select only the most important features.<sup>3</sup> *Vaihinger* quotes the self-interest assumption by *Adam Smith* as the standard example of a semi-fiction.<sup>4</sup>

The relationship between fiction and hypothesis causes problems. One important problem is that it is sometimes disputable whether given assumptions are fictions or hypotheses. This also applies to some homo oeconomicus assumptions. The difficulty in distinguishing the two categories occurs because these two kinds of assumption are quite similar due to the fact that a hypothesis or a system, or a system of hypotheses, may not be an exact reproduction of reality. To be courageous and abstract on the basis of details of minor importance and an infinity of causal relations is a major scientific feat.

Another problem is that some creators or users of assumptions mix fictions and hypotheses. *Engelhardt* speaks about a lack of self-discipline by the authors in this context.<sup>5</sup> From fictions, that is from imaginary premises, only "hypothetical judgements" (fiction judgements) can be derived, and these cannot be equated with the assumptions of an empirical-realistic analysis<sup>6</sup> because the application of semi-fictions implies the use of the *ceteris paribus* clause, in addition to the isolating abstraction in view of the fictitiously excluded factors. Now, the danger arises in that fictions are taken as hypotheses, and insights made with their

<sup>2</sup>See: *ibid.*, p. 24 and 519 ff.

<sup>3</sup>*Ibid.*, p. 29.

<sup>4</sup>See *ibid.*, p. 343 ff.

<sup>5</sup>See: *Engelhardt, W. W.*: Entscheidungslogische und empirisch-theoretische Kooperationsanalyse, in: *WiSt.*, vol. 3/1978, p. 108, quotation *ibid.*

<sup>6</sup>See: *Engelhardt, W. W.*: Unternehmensgestalter und Unternehmensmorphologie, Göttingen 1975, p. 19, both quotations *ibid.*

help are taken without correction as the basis of practical recommendations.<sup>7</sup> *Schumpeter* calls this procedure a *Ricardian* evil.<sup>8</sup>

*Vaihinger* connects the use of fictions with the requirement to be conscious of their unrealistic character.<sup>9</sup> Further, the practical use of results achieved by means of semi-fictions requires their correction. According to *Vaihinger*, this approach to reality by taking residual reality into account is, in connection with semi-fictions, a conceptionally undetermined method of correcting arbitrarily made differences.<sup>10</sup>

## 2. REPRESENTATION OF AND CRITICAL REMARKS ABOUT THE HOMO OECONOMICUS ASSUMPTIONS

### 2.1. *Homo oeconomicus*

According to the degree of abstraction of the assumptions, various versions of the homo oeconomicus exist. Additionally, these may vary according to the 'homo oeconomicus' status as employer, consumer or employee. For the purpose of this paper, we describe the homo oeconomicus at a high level of abstraction as follows:<sup>11</sup> He has a clear view of all possible alternatives for action, all action-relevant environmental conditions and also consequences resulting from the possible coincidence of different alternatives and environmental conditions. He is able to classify these results in accordance with his preferences, which are consistence. He uses the rules of decision-making with which he is

<sup>7</sup>See: *Vaihinger* 1920, p. 152 and 386.

<sup>8</sup>See: *Schumpeter, J. A.*: *Geschichte der ökonomischen Analyse*, Göttingen 1965, p. 584.

<sup>9</sup>See: *Vaihinger* 1920, p. 30. and 346.

<sup>10</sup>*Ibid* p. 194.

<sup>11</sup>See: *Szyperski, N. and Winand, U.*: *Entscheidungstheorie*, Stuttgart 1974, p. 25 ff.; *Bretzke, W.-R.*: *Homo oeconomicus. Bemerkungen zur Rehabilitation einer Kunstfigur ökonomischen Denkens*, in: *Kappler, E.* (editor): *Rekonstruktion der Betriebswirtschaftslehre als ökonomische Theorie*, Spordorf 1983, p. 29.

acquainted to select the result bringing maximum use or profit in a purpose-based manner and without errors; he does this even under risk-loaded or uncertain environmental conditions. Other modes of behaviour such as traditional, emotional or value-rational action as presented by *Max Weber*, for example<sup>12</sup>, are not taken into consideration.

Thus, in the above-mentioned version, the homo oeconomicus contains assumptions about the preference order (transitivity, time-related consistency), the degree of information and the ability of economic subjects to take decisions. Further, to exclude the problem of time, it is frequently assumed that the economic subject always reacts immediately and infinitely quickly (reaction axiom, reactivity axiom).<sup>13</sup> Additionally, all economic subjects are taken as equal with regard to the above-mentioned assumptions (homogeneity assumption).<sup>14</sup>

The importance of the homo oeconomicus, as defined above, for research into logics can be seen in the fact that actions can be clearly determined. However, when proceeding from different or even contradictory objectives, interests, motives etc. this does not seem to be possible.<sup>15</sup> It must be mentioned, however, that an empirical-realistic science cannot ignore reality in favour of the ideal of formal exactness.<sup>16</sup>

<sup>12</sup>See: *Weber, M.*: *Wirtschaft und Gesellschaft*, first half-volume, Cologne, Berlin 1964, p. 15 and 17 ff.

<sup>13</sup>See: *Wiswede, G.*: Über die Dürftigkeit des wirtschaftstheoretischen Konzepts zur Aufklärung des Konsumentenverhaltens, in: *Jahrbuch der Absatz- und Verbraucherforschung*, 10th year (1964), p. 142.

<sup>14</sup>See: *Wolff, H.*: *Der homo oeconomicus, eine nationalökonomische Fiktion*, Berlin, Leipzig 1926, p. 17 and 73.

<sup>15</sup>See: *Richter, R.*: Probleme des Rationalprinzips, in: *Zeitschrift für die gesamte Staatswissenschaft*, 110th vol. (1954), p. 89.

<sup>16</sup>See: *Haller, H.*: *Typus und Gesetz in der Nationalökonomie*, Stuttgart, Cologne 1950, p. 141; *Hartfiel, G.*: *Wirtschaftliche und soziale Rationalität*, Berlin 1968, p. 11 ff.

## 2.2. *Homo oeconomicus in the conflict theory*

By taking co-operation as one of the methods of achieving economic improvement, homo oeconomicus assumption have been used to explain co-operative co-operation for a long time.<sup>17</sup> Since about 1966, co-operative researchers including *Münster*, *Böttcher* and *Eschenburg* in particular, have placed emphasis on the assumptions of the maximum self-interest and rational behaviour of co-operative members and co-operative managers.<sup>18</sup> They see them as hypotheses close to reality. *Eschenburg* says, for example, that he wants to promote relevant knowledge by explaining the reality of co-operative practice. He substantiates the application of homo oeconomicus in co-operative research by saying that many theories implying these assumptions have proven their value in practice.<sup>19</sup> In the same manner, *Böttcher* assumes, whilst recognizing other modes of behaviour, a close tie between homo oeconomicus and reality.<sup>20</sup>

The hypothesis of maximum self-interest implies antagonistic behaviour towards others, because the subject may try to achieve maximum benefit, even if this involves harming others. The co-operative theoreticians of *Münster* call their theory of co-operative co-operation a 'conflict theory', and they differentiate between horizontal conflicts (conflicts between co-operative managers and members).<sup>21</sup> They say that this overrides alternative explanations, especially the so-called harmony theory.<sup>22</sup>

<sup>17</sup>See: *Weuster, A.*: Theorie der Konsumgenossenschaftsentwicklung, Berlin 1980, p. 316; *Hoppe, M.*: Die klassische und neoklassische Theorie der Genossenschaften, Berlin 1976, p. 99 ff.

<sup>18</sup>See: *Boettcher, E.*: Kooperation und Demokratie in der Wirtschaft, Tübingen 1972; *Eschenburg, R.*: Ökonomische Theorie der genossenschaftlichen Zusammenarbeit, Tübingen 1971.

<sup>19</sup>See: *Eschenburg* 1971, p. 62 and 137 ff.

<sup>20</sup>See: *Boettcher* 1974, p. 127 and 137.

<sup>21</sup>See: *Eschenburg, R.*: Genossenschaftstheorie als Konflikttheorie, in: *Boettcher, E.* (Editor): Theorie und Praxis der Kooperation, Tübingen 1972, p. 63.

<sup>22</sup>See: *ibid.*, p. 62; *Boettcher* 1974, p. 124.

The homo oeconomicus of the conflict theory includes only the rationality hypothesis and the maximum profit or self-interest hypothesis. Not to mention the reaction axiom, a limited degree of information is assumed both with regard to the co-operative managers and the members.<sup>23</sup> When taking into account the interdependence between the axiom of information and the axiom of rationality, it becomes evident (experts in conflict theory may take it as a matter of course) that they proceed from subjective rationality. Thus, the action of the homo oeconomicus varies according to his level of information. When proceeding from subjective rationality, it becomes difficult to control the hypothesis of rationality, and thus to prove the conflict theory. Objective rationality exists in the case of acting according to the best information available,<sup>24</sup> or taking contemporary scientific knowledge into account.<sup>25</sup> Those who regard the reduction to subjective rationality as a decisive approximation to reality should bear in mind that the hypothesis of subjective rationality also requires the logically exact deduction of the optimum solution from the information available, and thus a considerable ability to process information.

Furthermore, we observe that the experts in conflict theory assume that only purpose rationality is relevant. Value rational action, for example, is not taken into account. In the case of value rational action, an alternative plan of action is decided upon by deviating from the principle of purpose rationality more-or-less consciously, even if it is less favourable according to the economic principle. Co-operative fidelity can be an example of value rational action.<sup>26</sup>

<sup>23</sup>See: *Eschenburg* 1971, p. 133 ff. and 161; *Boettcher* 1974, p. 135.

<sup>24</sup>See: *Akerman, J.*: *Das Problem der sozialökonomischen Synthese*, Lund 1938, p. 274.

<sup>25</sup>See: *Hartfiel* 1968, p. 57.

<sup>26</sup>See: *Oppen, D. von*: *Verbraucher und Genossenschaft*, Cologne, Opladen 1959, p. 63 ff. and 105.

### *2.3. Homo oeconomicus as a fiction*

We see two possible ways of using the homo oeconomicus assumptions in co-operative research. The first is to consider these assumptions as fictions in the sense of *Vaihinger*. The second is to regard the homo oeconomicus assumptions as empirical realistic hypotheses. In the following, we regard the assumptions as fictions.

The use of homo oeconomicus fictions can be substantiated by indicating the complexity of the motives for action, which science is not yet able to cover completely. This justifies the use of fiction as a preliminary stage of the hypothesis.<sup>27</sup> The fiction fills and signalizes a weak empirical theoretical point.<sup>28</sup> To illustrate the relevance of this assumption to praxeological statements, we would restate that fiction judgements cannot be equated to statements of an empirical theoretical analysis. Therefore, the results of such a procedure can be made the basis of practical action only with reservation, if at all. It can appear as an optimum solution, which would be classified as inappropriate when taking the fictitiously excluded factors into account. One must beware of the *Ricardian* evil in particular.

A second explanation for using homo oeconomicus fictions is the division of labour within research work. In the case of this shortened procedure of empirical science, experts in economics say that they would not be competent for the field of other anthropological sciences.<sup>29</sup> The representatives of this position proceed from the point of view that it is up to the psychologists, sociopsychologists, sociologists etc. to approximate the results based on the semi-fiction homo oeconomicus to reality by means of the method of correcting arbitrarily made differences.<sup>30</sup> *Böttcher* also supports this position, although he considers homo oeconomicus

<sup>27</sup>See: *Vaihinger* 1920, p. 55; *Wolff* 1926, p. 55.

<sup>28</sup>See: *Szyperski/Winand* 1974, p. 29.

<sup>29</sup>See: *Kempski, J. von*: Über die Einheit der Sozialwissenschaft, in: *Zeitschrift für die gesamte Staatswissenschaft*, 112th vol. (1956), p. 394 ff., here p. 396; zur Kritik see *Meyerdohm, p.*: *Sozialökonomische Aspekte der Konsumfreiheit*, Freiburg 1965, p. 112 ff.

<sup>30</sup>*Vaihinger* 1920, p. 194.

assumptions as hypotheses. However, he thinks that findings made on the basis of such assumption could be improved as regards their approximation to reality.<sup>31</sup>

However, this second explanation presupposes the conviction that the fiction of homo oeconomicus is the appropriate step towards an empirical realistic theory of action. As far as the correction of fiction judgements made at the beginning and relating to correct, informative and falsifiable statements is concerned, it must be mentioned that this approximation to reality cannot be made arbitrarily, but that a theoretically substantiated and reconstructable correction must be made. In case of the approximation of results to reality, achieved by means of fictions, therefore by using the *ceteris paribus* clause, the same difficulties, which could be avoided by using the trick of fiction, occur. The correction of semi-fictions may be far more difficult than the correction of contradictory fictions by using the opposite 'mistake'.<sup>32</sup> A critic of the above-mentioned way of semi-fiction and its correction may even say that, according to the degree of abstraction of the fictions, an irreparable shortage of reality may occur. Therefore, the use of fictions may be the first step in the wrong direction, and not in the right one. *Wundt* said that homo oeconomicus fictions are only appropriate for the approximation to actual human behaviour to a very small extent.<sup>33</sup>

A third reason for using homo oeconomicus fictions is to use contrafactual fictions as heuristic auxiliary means. From this point of view, the early and new application of homo oeconomicus assumptions in co-operative research, and co-operation research in general, is to be appreciated. For those supporting co-operatives, it is good to know that co-operative co-operation would also work with rational economic subjects aiming at self-interest maximization. The conflict theoretical assumption is so attractive because the use of homo oeconomicus in co-

<sup>31</sup>See: *Boettcher* 1974, p. 35 and 42 ff.

<sup>32</sup>See: *Wundt, W.*: *Logik*, third vol.: *Logik der Geisteswissenschaft*, fourth edition, Stuttgart 1921, p. 547.

<sup>33</sup>See: *ibid.*, p. 552.



operation analysis does much to stimulate thought.<sup>34</sup> *Engelhardt* described the work of the conflict theoreticians *Böttcher* and *Eschenburg* as advancing conceptionally.<sup>35</sup>

A fourth reason for using homo oeconomicus as a fiction is its applicability in terms of decision logics. The trick of simplifying reality fictitiously makes it possible to apply algorithms so that the less obvious logical implications of fictions become deducible. Given this assumption, the homo oeconomicus is seen as a normative leading figure which is also used to show optimum solutions.<sup>36</sup> This procedure seems to be appropriate because, for consultation in practice, an empirical realistic description and explanation of a more-bad-than-good muddling-through is not enough; advice must be given as to how problems can be solved in a better or optimum manner. What matters is not to repeatedly prove bad or even irrational investment behaviour (according to a study by *Witte* relating to the introduction of the so-called second computer generation in the FRG in the middle of the 1960s, for example, only 2.4 per cent of all decisions were related to the profitability of these instruments),<sup>37</sup> but to improve the ability of the managerial bodies to increase profitability by providing procedures for investment evaluation or other tools used in planning.

In so far as the fourth assumption is concerned, the criticism must be made that generally, additional fictitious simplifications of problems are added to homo oeconomicus fictions in the case of model elaboration. This may be the reason why operations research procedures (with the possible exception of network planning technology) are rarely used to their full extent in regard of their varied production and established position in the training.<sup>38</sup>

<sup>34</sup>See: *Neumann, M.*: Konflikt- und Harmonietheorie der Genossenschaft, in: Zeitschrift für das gesamte Genossenschaftswesen, 23rd vol., Göttingen 1973, p. 47.

<sup>35</sup>Engelhardt 1978, p. 108.

<sup>36</sup>See: *Bretzke* 1983, p. 42 ff.

<sup>37</sup>See: *Witte, E.*: Organisation für Innovationsentscheidungen, Göttingen 1973, p. 24 and 52.

<sup>38</sup>See: *Heinhold, M., Nitsche, C., Papadopoulos, G.*: Empirische Untersuchung von Schwerpunkten der OR-Praxis in 525 Industriebetrieben der BRD, in: Zeitschrift für Operations Research, vol. 22 (1978), p. B 185–218.

*2.4. Homo oeconomicus as a system of hypotheses*

Homo oeconomicus is also supported as a system of hypotheses close to reality; in the conflict theory of co-operative co-operation, for example. These different views on the status of homo oeconomicus are based on the partial relationship between hypothesis and fiction. This becomes particularly evident when assumptions of a lower degree of abstraction are made.

When introducing homo oeconomicus as a system of hypotheses, it is usually conceded that not all human beings are homines oeconomici, or that other human kinds of behaviour also exist. *Böttcher* concedes this in connection with the decision for co-operation, for example.<sup>39</sup> The validity of the hypotheses is supposed to be limited to the so-called economic field.<sup>40</sup> If the homo oeconomicus hypotheses are not to be totally unfounded,<sup>41</sup> however, their partial field of validity must be described and defined. This limitation is opposed by attempts to use homo oeconomicus for explaining all decision-making problems, for analyzing the relationship between university teachers and students, or sexual behaviour, for example.<sup>42</sup>

Based on experience over the course of time, the behaviour of man changes. Thus, the distance of homo oeconomicus to reality and his relevance for co-operative research may vary in the course of time. Contradictory statements were made concerning this approximation of the homo oeconomicus to reality in the course of time. *Grau* suggests that a practice comes into being according to the homo oeconomicus hypotheses in the *Rostow* social economic growth stages of economic boom and maturity. Later, at the stage of 'mass consumption', the homo

<sup>39</sup>See: *Boettcher* 1974, p. 35 and 42 ff.

<sup>40</sup>See: *ibid.*, p. 127.

<sup>41</sup>*Albert, H.*: Erwerbsprinzip und Sozialstruktur, in: *Jahrbuch für Sozialwissenschaft*, 19th vol. (1968), p. 7.

<sup>42</sup>See: *McKenzie, G., Tullock, G.*: *Homo oeconomicus*, Frankfurt/M., New York 1984.

oeconomicus loses his approximation to reality again.<sup>43</sup> In contrast to this, *Widmaier* and others speak about increasing economization, and thus a tendency-like gain in reality for the homo oeconomicus at present.<sup>44</sup>

Another argument for the approximation of the homo oeconomicus to reality is said to be that a relatively great shortage supported rational behaviour by diminishing the possibility of choice.<sup>45</sup> *Wiswede* also criticizes the assumption of rationality, and opposes the extreme of not ascribing any rational component to action. For him, the impediment of rationality, coming from budget restriction in case of the purchase of first-class commodities, is a tendency that cannot be the basis of empirical theoretical analysis of buying cheaper commodities.<sup>46</sup> The thesis saying that shortage promotes or enforces rational behaviour must be taken with care; this is also proved by the statement of *Benecke* that the maximum of rationalization is followed less in developing countries than in developed countries.<sup>47</sup> Further, the thesis on rational behaviour enforced by shortage is opposed by the statement of *Fegebank*, that compared with the middle and upper classes, the degree of information and activity of information in the lower classes is more limited.<sup>48</sup> In some cases, poverty does not enforce rational behaviour but is frustrating, and results in rejection of regulated economic management.

If one wishes to find a substantiated answer to the question whether the homo oeconomicus assumptions have the status of hypotheses in the sense

<sup>43</sup>See: *Grau, C. O.*: Untersuchungen über den Homo oeconomicus und den wirtschaftlichen Behaviorismus, doctoral thesis, Mains 1965, p. 12 ff., 22 ff. and 60 ff.

<sup>44</sup>See: *Widmaier, H. P.*: Sozialpolitik im Wohlfahrtsstaat, Reinbek near Hamburg 1976, p. 39 ff., 22 ff. and 65.

<sup>45</sup>See: *Becker, G.*: Irrationales Verhalten und ökonomische Theorie, in: *Streissler, E. and M* (editor): Konsum und Nachfrage, Cologne, Berlin 1966, p. 228.

<sup>46</sup>See: *Wiswede, G.*: Über die Dürftigkeit des wirtschaftstheoretischen Konzepts zur Erklärung des Konsumentenverhaltens, in: *Jahrbuch für Absatz- und Verbrauchsforschung*, 10th year (1964), p. 146 and 150 ff.

<sup>47</sup>See: *Benecke, D. W.*: Kooperation und Wachstum in Entwicklungsländern, Tübingen 1972, p. 45.

<sup>48</sup>See: *Fegebank, B.*: Analyse und Bewertung der Informationslage des privaten Haushalts bei Güterbeschaffung, doctoral thesis, Giessen 1974, p. 49.

of *Vaihinger*, one must confront them with reality. A difference can be made between two questions of importance for the research-related relevance of the homo oeconomicus. The first question may be whether employers, consumers and employees actually want to act as homines oeconomici, that is as maximizers of profit and benefit. The second question is whether they are able to do so if they want it. Further, we are going to deal with the problem of how the assumptions can be verified.

When asking about the determination to achieve maximum profit or benefit, we come across the problem that, generally, the homo oeconomicus assumption does not contain assumptions relating to the actual social involvement of man in economy, but proceeds from a Robinson situation of man in economy. Now we want to recall the homo sociologicus assumption (which has also to be criticized) that tries to explain the action of man whilst taking into account the pressure of role-related expectations of reference groups.<sup>49</sup> The relative income hypothesis of *Duesenberry* is a timely deviation from the homo oeconomicus as an isolated individual; according to this thesis, financial management in private households is determined by past income status and by comparison with other economic subjects' (neighbours) use of income.<sup>50</sup>

When do we speak about rational action? In social economy, rational behaviour is said to be behaviour according to the economic principle; that is, those who achieve the maximum result by using given means (maximum principle) or who achieve the given target by using a minimum amount of means (minimum principle) are acting rationally. At present, the principle of equating rationality and efforts aimed at maximization is abandoned, partly owing to findings made in empirical behavioral science. The term 'rational action' is also used when the subject

<sup>49</sup>See: *Dahrendorf, r.*: Homo sociologicus. 9th edition, Cologne, Opladen 1970; *Hillmann, K.-H.*: Ein Modell des homo sociologicus und seine Relevanz für die Analyse des Konsumentenverhaltens in der modernen Wohlstandsgesellschaft, doctoral thesis, Berlin 1970.

<sup>50</sup>See: *Duesenberry, J. S.*: Income, Saving and the Theory of Consumer Behaviour, Cambridge, Massachusetts 1952, p. 13 ff. and 44 ff.

only achieves his sub-maximum level of demands.<sup>51</sup> With regard to the two versions of the hypothesis of rationality, analyses with an empirical theoretical character are linked to the problem that the maximum or satisfying level of benefit, and thus the hypothesis of rationality, cannot be verified. This is due to the present-day level of benefit-measuring technology, which does not permit cardinal profit measuring or interpersonal comparisons of benefit.<sup>52</sup> If a hypothesis cannot be immediately verified, this does not say anything about its validity, but it is limiting when a hypothesis cannot be tested with regard to empirical theoretical research work.

When homo oeconomicus is introduced into the analysis as employer, and thus profit maximizer (we will make some critical remarks about this later), the objective of his action seems to be clear. When homo oeconomicus is presented as benefit maximizer, it is generally pointed out that orders of preference vary intrapersonally and interpersonally. Thus, even "actions opposed to each other" can be rational ones.<sup>53</sup> Consequently, the question whether decision-making is a rational procedure with given preferences can only be answered by proceeding from preference orders valid for individuals or groups of persons. Thus, the use of the hypothesis of rationality in co-operative analyses of an empirical theoretical character requires assumptions on the preference order of the (potential) co-operators whose behaviours are studied. In contrast to the homo oeconomicus assumptions, one cannot proceed from the consistency and transitivity of preferences.

The hypothesis of information within the framework of the homo oeconomicus refers to the scope and degree of safety of information

<sup>51</sup>See: *Hartfiel* 1968, p. 51; *Bidlingmayer, J.*: *Unternehmerziele und Unternehmenstrategien*, Wiesbaden 1964, p. 99 ff.

<sup>52</sup>See: *Hörning, K. H.*: *Zur Soziologie des Verbraucherverhaltens*, doctoral thesis, Mannheim 1966, p. 57 ff.; *Kroeber-Riel, W.*: *Konsumentenverhalten*, Munich 1975, p. 33; see: *Stueber, P. R.*: *Die Entwicklung der Theorie der Nachfrage seit der Grenznutzenschule*, doctoral thesis, Zürich 1966, p. 40 ff.

<sup>53</sup>See: *Kremp, h.*: *Determinanten des Konsums*, doctoral thesis, Hamburg 1961, p. 22 ff., quotation p. 23.

available to an economic subject. Further, this also covers the compilation and processing of information. As mentioned above when presenting him, the homo oeconomicus is taken as an acting person who knows everything in the extreme case, a person who knows all alternative actions and their results in advance. The homo oeconomicus as consumer, for example, has a comprehensive knowledge of commodities and their quality and prices, that is necessary for satisfying his demands. In contrast to this, the application of the homo oeconomicus as a system of assumptions in line with reality requires an approach of subjective rationality in case of empirical theoretical co-operative research work, i.e. one has to proceed from the actual data knowledge of the co-operators. A certain degree of information cannot be introduced arbitrarily.

As far as the degree of accuracy of information is concerned: With complete prevision, the homo oeconomicus acts safely. This assumption is a fictitious one for co-operators generally: co-operative researchers have to proceed from action with risk or uncertainty within the framework of the homo oeconomicus assumption. Conventionally, the difference between action with risk and action with uncertainty is, that in the first case, the responsible person knows about probable objective or subjective values for possible environmental circumstances, but in the second case he has no basis for assuming the occurrence of special environmental circumstances, nor what results to expect.<sup>54</sup>

In acting with risk, the homo oeconomicus uses the value of maximum expectation.<sup>55</sup> In this case, co-operative analyses have to indicate why and how the co-operators or co-operative managers decide on their probability values. As far as the selection of alternative actions with uncertainty is concerned, various rules for decision-making exist.<sup>56</sup> These vary according to the readiness of the person concerned to take a risk, and this expresses a retreat from the assumption of maximization. If one proceeds

<sup>54</sup>See: *Szyperski/Winand 1974*, p. 52 ff.

<sup>55</sup>See: *ibid.*, p. 53 ff.

<sup>56</sup>See: *ibid.*, p. 54 ff.

from action with uncertainty in the case of the homo oeconomicus, statements on the distribution of the readiness to take a risk within the group of persons under study will have to be made.

As far as the hypothesis of reaction is concerned: the assumption of an immediate and infinitely speedy reaction to changed data implies the exclusion of the time problem. As to the factor 'time' *Kleinhenz* says that many decisions, which appear to be rational when excluding this factor, prove to be irrational after its introduction.<sup>57</sup> When considering the fact that a consumer has little time for shopping, it would be irrational to go to a great number of shops in order to get the cheapest goods in the case of commodities of low value. In connection with the time aspect, shopping in one shop or in a small number of shops seems to be rational.<sup>58</sup>

Furthermore, the time problem is a fixed-period problem. When using benefit or profit maximization assumptions in empirical theoretical analyses, one has to indicate for the sake of verification, for which periods these assumptions are to be valid. The researcher cannot introduce a period arbitrarily, but must plan the period taking the reality of interested persons, co-operators or co-operative managers into account. As to the profit maximization hypothesis, a difference can be made between the time-related extremes of shortest-time profit maximization and total profit maximization.<sup>59</sup> In the first case, all opportunities for profit making are used without taking the consequences into consideration. The possible loss of customers, competition by others etc. are not taken into account. Shortest-term profit maximization is a matter of the peddler, for example, who makes non-recurring business. The other extreme is the ex-ante-total profit maximization through the profit of an enterprise is maximized

<sup>57</sup>See: *Kleinhenz, G.*: Beziehungen zwischen Arbeit, Freizeit und Konsum unter dem Aspekt der Zeitverwendung, in: Verbraucherpolitik. Diskussionsbeiträge für das 3. Wuppertaler Wirtschaftswissenschaftliche Kolloquium (WWK), first volume, Wuppertal 1977, p. 255.

<sup>58</sup>See: also *Bretzke* 1983, p. 50.

<sup>59</sup>See: *Ehninger, H.*: Die Bedeutung des Gewinnmaximierungsprinzips in der Theorie der Unternehmung, in: *Der österreichische Betriebswirt*, 15th year (1965), p. 170 ff.

throughout its existence. This extreme may be seen as a fictitious assumption in case of co-operatives, because the duration of a co-operative's existence is not known in most cases. In addition as to the benefit maximization of a consumer, one cannot proceed from a given budget, or a given budget period, so easily when taking credit possibilities into account. In this case, too, an empirically valid period has to be indicated.

As far as the decision unit is concerned: within the framework of the homo oeconomicus assumption, it is not generally taken into consideration that co-operators act from households or enterprises whose members have vastly different objectives and do not strive one-dimensionally for benefit or profit maximization. Generally, the problem of multi-person decisions must be taken into account in connection with operative analyses.

Summary: when the homo oeconomicus is introduced as a system of fictions, his relevance for empirical co-operative science depends on whether results achieved by means of fictions can be corrected in line with reality. When a factual claim of validity is made in connection with the homo oeconomicus, its relevance for empirical co-operative science depends on the extent to which the above-mentioned problems are taken into account through respective assumptions.

### 3. TO PRESENT AND MAKE CRITICAL REMARKS ON THE HOMO CO-OPERATIVUS

If one wants to introduce the homo oeconomicus into co-operative research neither as a fiction nor as a hypothesis, the problem will be to find the alternative assumption (pattern of interpretation behavioral paradigm).<sup>60</sup> In the following, we will briefly examine whether homo co-operativus can serve as an alternative complex of assumptions of

<sup>60</sup>See: also Bretzke 1983, p. 47.



behaviour in co-operative research. As mentioned above, experts in harmony theory support these assumptions.

According to our knowledge, the designation 'harmony theory' for the assumptions of *Draheim*, *Seraphim* and *Neumann* comes from their critic *Eschenburg*.<sup>61</sup> This term seems to be intended as a pejorative one, as it may suggest that those designated as harmony theoreticians supported the nomological hypothesis of exclusively unselfish human behaviour in a naive manner.

### *3.1. Homo co-operativus in the works of Draheim*

When studying the statements of *Draheim*, we find the following<sup>62</sup>: For *Draheim*, homines co-operativi are not a prerequisite for co-operative operation but a possible objective of organized co-operative integration efforts, an objective which may not be achieved by all members.<sup>63</sup> He rejects the assumption that all co-operatives would be communities in the sense of *Toennies*.<sup>64</sup> He says that co-operation in praxi is also carried out with bad co-operators, that is, with those aiming at self-interest maximization.<sup>65</sup> In his view there are many selfish individualists among the co-operators.<sup>66</sup>

*Draheim* classifies the co-operative group by the managerial circle; the circle of persons who are managed, centrifugal forces designated as anti-emotional and self-interest maximizing,<sup>67</sup> and opposition.<sup>68</sup> *Draheim*

<sup>61</sup>See: *Eschenburg* 1972, p. 62.

<sup>62</sup>See: *Draheim, G.*: Die Genossenschaft als Unternehmungstyp, Göttingen 1952, p. 48.

<sup>63</sup>See: *ibid.*, p. 46 ff.

<sup>64</sup>See: *ibid.*, Zu Ökonomisierung der Genossenschaften, Göttingen 1967, p. 19.

<sup>65</sup>See *ibid.*, 1952, p. 48.

<sup>66</sup>See: *ibid.*, p. 43.

<sup>67</sup>See: *ibid.*, p. 39.

<sup>68</sup>See: *ibid.*, p. 38 ff.

groups centrifugally and opposition-oriented co-operators as the rival, opposed to the social, type of co-operator.<sup>69</sup>

*Draheim* designates the norm 'homo co-operativus' as an example of economic reason and sociability.<sup>70</sup> Thus the homo co-operativus of *Draheim* is not the antipode of the homo oeconomicus, but a person who co-ordinates his own interests whilst respecting parallel interests of others and who, according to *Neumann*, may even benefit from the economic status of his fellow men.<sup>71</sup>

For *Draheim*, homo co-operativus is both normative leading figure and explicative instrument. He does not demand the same exclusively empirical theoretical relevance for the homo oeconomicus as do conflict theoreticians. He equates both of them as figures of thought deviating more-or-less strongly from reality,<sup>72</sup> and he also concedes a value of cognition to studies based on homo oeconomicus assumptions.<sup>73</sup>

We maintain that it is especially important that, for *Draheim*, real human behaviour is situated between the poles of the antagonistic rival type and the socially-oriented type.<sup>74</sup> He claims the self-interest is inherent in all people, although to a different degree. *Draheim* holds that first deviations from behaviour aimed at self-interest maximization can be seen in more social attitudes and, according to his view, incompletely developed income endeavours of farmers, craftsmen and the broad strata of consumers.<sup>75</sup>

It is evident that *Draheim* considers the homo co-operativus as a norm, among other things. We cannot definitely say whether he considers the homo co-operativus only as a fiction or hypothesis being sufficient, at the beginning, for empirical theoretical research. We have the impression that the last-mentioned is correct.

<sup>69</sup>See: *ibid.*, p. 78 ff.

<sup>70</sup>See: *Ibid.*, p. 78.

<sup>71</sup>See: *Neumann* 1973, p. 60.

<sup>72</sup>*Draheim* 1952, p. 48.

<sup>73</sup>See: *Draheim* 1967, p. 15 and 41 ff.

<sup>74</sup>See: *Draheim* 1952, p. 44 and 79 ff.

<sup>75</sup>See: *ibid.*, p. 48; *ibid.* 1967, p. 42 and 49.

### 3.2. *Homo co-operativus according to Seraphim*

*Seraphim* sees the homo co-operativus as an individual economist who joins a co-operative because of the advantages for him. The homo co-operativus is a form of the ideal type of a rationally-oriented economist; he behaves economically and rationally.<sup>76</sup> *Seraphim* opposes the idea of linking the homo co-operativus with traditional or emotional feelings.<sup>77</sup> In contrast to the self-benefit trend thesis of *Henzler*,<sup>78</sup> he says that in the past also, co-operators had a primarily economic relationship with the co-operative and not relations characterized by charity.

The homo co-operatives variant of *Seraphim* differs from the homo oeconomicus by a specific economic view: the co-operative idea. According to *Seraphim*, an economic view is expressed in the targets of economic action and in the means used to achieve this target.<sup>79</sup> He holds that a target in harmony with the co-operative idea consists of rational, straightforward endeavours aimed at ensuring and promoting the existence of and satisfying the demand for the optimum. *Seraphim* makes a clear difference between satisfying demand and the income objective of profit maximization.<sup>80</sup>

According to *Seraphim*, solidarity is the central point of the co-operative idea. He designates it as the voluntary linkage for the purpose of ensuring one's existence and that of the comrades<sup>81</sup> and as the determination to co-operate in order to satisfy similar individual interests.<sup>82</sup> *Seraphim* explicitly separates solidarity from altruistic or

<sup>76</sup>*Seraphim, H.-J.*: Wie muß eine wirklichkeitsnahe Theorie das Wesen der Genossenschaften erfassen? in: *Zeitschrift für das gesamte Genossenschaftswesen*, 8th vol. (1958), p. 59.

<sup>77</sup>Ibid., p. 59 ff.

<sup>78</sup>See: *ibid.*, p. 60.

<sup>79</sup>See: *Seraphim, H.-J.*: Die genossenschaftliche Gesinnung und das moderne Genossenschaftswesen, Karlsruhe 1956, p. 13.

<sup>80</sup>See: *ibid.*, p. 12.

<sup>81</sup>See: *Seraphim, H.-J.*: Vom Wesen der Genossenschaft und ihre steuerliche Behandlung, Neuwied 1951, p. 58, quotation *ibid.*

<sup>82</sup>Ibid. 1956, p. 39.

charitable behaviour.<sup>83</sup> He holds that solidarity is expressed as readiness to be integrated, or even subordinated. As this could be interpreted as a demand for 'blind' solidarity, we want to add that *Seraphim* considers subordination to be the recognition of decisions taken by the majority.<sup>84</sup>

To sum up: like *Draheim*, *Seraphim* does not elaborate on systematically-connected assumptions of behaviour of the homo co-operativus. They do not formulate a theory of behaviour that could be used to explain co-operative action without hesitation. Therefore, the harmony theory is only the beginning of a social scientific theory in the sense of a system of lawful statements.

#### 4. FINAL REMARKS

When criticizing instruments of analysis such as homo oeconomicus or homo co-operativus, one must ask for an alternative hypothesis because, as *Bretzke* was fully justified in saying, the demand for more realism per se is not yet a realistic programme of research.<sup>85</sup> This alternative hypothesis cannot be a reflection of reality if the researcher does not want to get lost in the infinity of reality. The transition for semi-fiction to hypothesis in line with theory is indistinct. We do not see it as our task to develop this alternative here. However, we want to add some ideas which should be taken into consideration in connection with an empirical realistic theory of action.

For both homo oeconomicus and homo co-operativus it is only the person taking decisions, who is taken into account. Here we can make a comparison with the earlier management theory that tried to explain the managerial success of a superior on the basis of the properties of the managerial person exclusively; this theory had been designated as the 'personalistic managerial theory'. Recently, a 'situative managerial

<sup>83</sup>See: *ibid.*, 1951, p. 57 ff.

<sup>84</sup>See: *ibid.*, 1956, p. 29.

<sup>85</sup>*Bretzke* 1983, p. 46.

theory' is dominating; in this theory, the causal factors for managerial success are not only the manager himself but also the managed persons, the task to be solved and the field of action.<sup>86</sup>

In co-operative research, it seems to be useful to proceed from typical or serious problems occurring in the different kinds of co-operatives. For example, the decision to join an agricultural co-operative marketing society differs from that to enter a consumers' co-operative. Other problems occur in connection with the merger of co-operative enterprises or state co-operative policy.

The conceptional differentiation of problems and targets (similar to operations research) must be accompanied by a differentiation of responsible persons between (potential) members, co-operative staff members, co-operative managers etc. With regard to these different kinds of responsible persons, different assumptions in terms of properties and behaviour can be made. We decisively propose to abandon the assumption of an homogeneity not usually classified by problems, an assumption that equates all economic subjects with their wishes and abilities. We maintain that it is plausible to assume that present-day managers of big co-operatives, who can use information-increasing preliminary work done by scientific staff members and other specialists for decision-making, have a higher degree of information and rationality than did co-operative pioneers. In addition to differentiated reality-based assumptions of behaviour, it continues to be possible, as a matter of course, to proceed from certain modes of behaviour semi-fictitiously for the purpose of consultation in practice.

Another essential factor for explaining the behaviour is the respective field of action (data record, reference framework) that is determined by a respective economic system or legal order in particular. The decision to join a co-operative, for example, can be a rather different problem

<sup>86</sup>See: *Rosenstiel, I. von*: Grundlagen der Organisationspsychologie, Stuttgart 1980, p. 72 ff.

depending whether limited or unlimited liability, or transactions with members only, or also with non-members, are possible.

To sum up: in addition to differentiated assumptions concerning responsible person or persons, assumptions about the respective problem and its environment must be made. An explanation of actions that only recognize a timeless responsible person existing everywhere, however, will insufficiently elucidate many facts.

Thomas Wilson\*

## The Officialization of the Co-operative System in Developing Countries — Problems and Counterstrategies

### 1. DUALISM—THE CENTRAL PROBLEM OF DEVELOPING COUNTRIES

One of the main reasons for the existence of economic and social problems in the majority of developing countries<sup>1</sup> is the dualistic economic and social structure of these countries, that is, both economy and society are divided into two scarcely correlated fields.<sup>2</sup>

Economic dualism is characterized by the fact that due to the lack of market interlocking and market insufficiencies like missing market transparency, limited market access and oligopolitical or monopolistic fixation of prices and quantities by market participants, various economic sectors or economic regions within one national economy diverge in such a manner that the revenues for the same commodities or performances differ from one sector or region to the other essentially.<sup>3</sup> Based on this development, national economies are divided into highly developed sectors and regions providing the world market with commodities on the one hand, and weakly developed regions with subsistence economy on the other.<sup>4</sup>

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<sup>1</sup>As to the definition of "developing countries". See Dieter W. Benecke, *Kooperation und Wachstum in Entwicklungsländern*, Schriften zur Kooperationsforschung, A. Studien, Vol. 2, Tübingen 1972., p. 16.

<sup>2</sup>See: Dieter W. Benecke: *ibid.*, p. 3.

<sup>3</sup>See: Reimut Jochimsen: Dualismus als Problem der wirtschaftlichen Entwicklung, In: Bruno Fritsch (Ed.): *Entwicklungsländer*. Cologne, 1968., p. 66.

<sup>4</sup>See: Theodor Dams: *Marginalität—Motivierung und Mobilisierung von Selbsthilfegruppen als Aufgabe der Entwicklungspolitik*. Published by the Kuebel foundation, Bensheim-Auerbach 1970., p. 25.

Social dualism is closely linked with economic dualism. Social dualism is said to be the division of the society into a small elite with a rational behaviour, living in the towns predominantly, and the broad masses with a traditional behaviour, especially living in the villages but also in the towns.<sup>5</sup> Today, one of the most important tasks to be solved by the governments of developing countries is to overcome economic and social disintegration;<sup>6</sup> owing to their great diversification and widespread existence and their specific properties, co-operatives seem to be an outstanding tool to be used in connection with development policy.<sup>7</sup>

## 2. THE FUNCTION OF CO-OPERATIVES IN CONNECTION WITH DEVELOPMENT

As far as economic tasks are concerned that could be solved by co-operatives in rural districts in particular, the elimination of market insufficiencies and market inequalities, as a precondition for overcoming dualism is of prime importance. Through the creating of their own supplies organisations and marketing organisations and with their superior knowledge about the market, co-operatives are able to eliminate middlemen's monopoly positions in terms of sales and demand. Based on resulting higher prices for sales and lower prices for purchases for the members of rural co-operatives, this would result in stimulating a development away from subsistence economy and towards an economy based on the division of labour.<sup>8</sup>

<sup>5</sup>*Ghanie A. Ghaussy*: Das Genossenschaftswesen in den Entwicklungslaendern. Freiburg/Br. 1964., p. 102 f.

<sup>6</sup>See: *Theodor Dams*: *ibid.*, p. 27.

<sup>7</sup>See: *Alfred Hanel*: Probleme staatlicher Genossenschaftspolitik und laendlicher Armut, In: *Zeitschrift fuer das gesamte Genossenschaftswesen*, Vol. 31, 1981., p. 134; *Alfred Hanel*: Entwicklung, Konzeption und Probleme der Genossenschaften in Nigeria. In: *Zeitschrift fuer das gesamte Genossenschaftswesen*, Vol. 20, 1970., p. 278.

<sup>8</sup>See: *Dieter W. Benecke*: *ibid.*, p. 184; *Alfred Hanel*: *Entwicklung*. *Ibid.*, p. 278; *Ghanie A. Ghaussy*: *ibid.*, p. 132 f; *Robert Hettlage*: *Genossenschaftstheorie und Partizipationsdis-*



In connection with capital formation by savings and the granting of credits, co-operatives could assume important functions as well: while today, many credits are still granted in developing countries by private usurious and money-lenders (impeding investment), a co-operative, owing to the greater joint liability of the members, could get credits from the state more easily, and could give them to its members under favourable conditions in order to facilitate innovative investment improving productivity.<sup>9</sup> Similarly, co-operatives assume the important task to improve the productivity of the production factor 'labour' by education, consulting and training. Through educating 'market thinking' and the withdrawal from subsistence economy, a change in mentality towards a more dynamic approach to life is to be achieved. If this change in mentality creates the readiness to apply modern manufacturing methods, and the co-operatives provide the necessary operating means, an increase in production and in the income of the co-operative members can be expected.<sup>10</sup>

As to the social functions that could be assumed by the co-operatives, we want to point out their role in overcoming social disintegration by consolidating the idea of self-support and the resulting improvement of economic and social conditions for marginal components of the population.<sup>11</sup>

Through creating new jobs in the countryside and a higher income there owing to co-operative activities, co-operatives can prevent a migration to the towns and thus halt the decay of villages and the emergence of an urban proletariat (slums).<sup>12</sup> By means of their community-promoting

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kussion. Frankfurt/New York 1979., p. 262; *Ulrich Popp*: Zum Konzept der Foerderung laendlicher Entwicklung in der dritten Welt. In: *Zeitschrift fuer das gesamte Genossenschaftswesen*. Vol. 26, 1976., p. 8; *Hans Steiner*: Genossenschaften und Staat in Entwicklungslaendern, unpublished doctoral thesis, Vienna 1964., p. 21 ff.

<sup>9</sup>See: *Alfred Hanel*: Entwicklung, Ibid., p. 278; *Robert Hettlage*: Ibid., p. 240.

<sup>10</sup>See: *Alfred Hanel*: Entwicklung, Ibid., p. 278.

<sup>11</sup>See: *E. G. Schumacher*: Grundprobleme der Entstehung von Selbsthilfeorganisationen in Entwicklungslaendern. Schriften zum Genossenschaftswesen.

<sup>12</sup>See: *A Ghanie Ghausy*; ibid., p. 102 ff.

function, co-operatives can create new social structures thus replacing, partly at least, traditional structures and bonds dissolved due to civilizatory developments; they counteract the instability of individuals thus having a stabilising effect.<sup>13</sup>

Last but not least, we want to mention the educational function of co-operatives although this function moved away from the claim to general education existing in the time of the Rochdale pioneers; today, the state has assumed this function to a large extent in developing countries. Nowadays, the educational task of co-operatives is predominantly seen with regard to economic fields; e.g. the knowledge about efficient methods of cultivation; however, co-operatives are able to decisively contribute to eliminating illiteracy.<sup>14</sup>

The political effects to be expected from co-operatives in developing countries are to create preconditions, through their basic lines and principles, for educating the people systematically in the sense of political self-administration and self-responsibility.<sup>15</sup> This political maturity is the precondition for the functioning of democratic parliamentary institutions.<sup>16</sup> Another fact should be mentioned—autonomous, organised co-operatives are able to hamper radical political developments.<sup>17</sup>

<sup>13</sup>See: *Paul Trappe*; *Warum Genossenschaften in Entwicklungslaendern?*, Neuwied and Berlin 1966., p. 37; *Paul Trappe*: *Wege zu einer afrikanischen Genossenschaft. Probleme der Fremdfoerderung von Selbsthilfe*. In: *J. O. Mueller* (edit.): *Gesellschaftspolitische Konzeptionen der Foerderung von Selbsthilfe durch Fremdhilfe in Afrika—Theorie und Praxis im Test konkreter Vorhaben—Institut fuer Kooperation in Entwicklungslaendern der Philipps-Universitaet Marburg/Lahn, Studien und Berichte No. 13, Marburg 1981., p. 24*; *Otto Schiller*: *Die Probleme der Entwicklungslaender als neuer Aspekt in der Genossenschaftsforschung*. In: *Gerhard Weisser* (edit.); with the co-operation of W. w. Engelhardt: *Genossenschaften und Genossenschaftsforschung, Festschrift for Georg Draheim on the occasion of his 65th birthday, second edition. Goettingen, 1971., p. 307.*

<sup>14</sup>See: *Hans Steiner*: *ibid.*, p. 25 ff.

<sup>15</sup>*A. Ghanie Ghaussy*: *ibid.*, p. 97.

<sup>16</sup>See: *William P. Watkins*: *Aufgaben und Moeglichkeiten des Genossenschaftswesens in unserer Zeit*. In: *II. Internationale genossenschaftswissenschaftliche Tagung Erlangen 1957*. Published by Forschungsinstitut an der Universitaet Erlangen, Goettingen, 1959., p. 71.

<sup>17</sup>See: *A. Ghanie Ghaussy*: *ibid.*, p. 98.

### 3. NECESSARY STATE PROMOTION OF CO-OPERATIVES IN DEVELOPING COUNTRIES

Owing to the variety of beneficial functions of co-operatives for the development of a country, it would mean a loss of benefit for the respective country having inefficient co-operatives or no co-operatives at all.<sup>18</sup>

However, the foundation of co-operatives only based on the initiatives of the persons concerned is a very slow process or does not happen at all; the reasons are as follows:

1. The motivation, if existing,<sup>19</sup> for improving the conditions through co-operative self-assistance is impeded by traditional social structures in the rural population and their incapability to break these bonds;<sup>20</sup>

2. Additionally, the people concerned are trained only to a small extent and their motivation of performance is very low; these persons cannot or do not wish to estimate the chances and risks of co-operation; even in case of the foundation of a co-operative, they are rarely able to run the co-operative efficiently without help from outside, due to the low degree of their qualifications;<sup>21</sup>

3. Another impediment arises from capital shortage due to poverty among the rural people; without help from outside, no means necessary for the foundation of new co-operatives are available; generally, these

<sup>18</sup>See: *Dieter W. Benecke*: *ibid.*, p. 206.

<sup>19</sup>The insufficient situation is taken as ordained by God too often. See: *Dieter W. Benecke*: *ibid.*, p. 234.

<sup>20</sup>See: *Nikolaus Newinger*: *Neue Formen genossenschaftlicher Taetigkeit in der landwirtschaftlichen Produktion Ost-Afrikas*. In: *Zeitschrift fuer das gesamte Genossenschaftswesen*. Vol. 16, 1966., p. 280; *Dieter W. Benecke*: *ibid.*, p. 234.

<sup>21</sup>See: *Theodor Bergmann*: *Soziale Aspekte der Entoffizialisierung von Genossenschaften*, In: *Zeitschrift fuer das gesamte Genossenschaftswesen*, Vol. 24, 1974., p. 292.

means cannot be supplied by the potential members of new co-operatives.<sup>22,23</sup>

Due to the incapability of the people in developing countries to take self-support initiatives, and their importance for the economic and social development of these countries, almost all co-operative theoreticians are being in favour of state promotion of the co-operative systems in these countries.

#### 4. STATE INFLUENCE ON THE CO-OPERATIVE SYSTEM

State co-operative authorities in developing countries are able to influence co-operatives and their development in a varied manner. By means of co-operative legislation, the state has many possibilities to promote or impede the development of co-operatives or to give this development a certain direction.<sup>24</sup>

Due to the insufficient capability of the persons concerned to found co-operatives, state strategies of promotion aimed at initiating co-operatives are of decisive importance: two kinds of state strategies can be applied to achieve this objective: on the one hand, the state can take indirect social political, economic measures (land reform, social reform)<sup>25</sup> and indirect co-operative-specific measures (programmes of information, education, training, consulting, may be financial stimulation and motivation and

<sup>22</sup>See: *Theodor Bergmann*: *ibid.*, p. 292; *Reinhold Henzler*: Die Bedeutung der Genossenschaften fuer die Entwicklungslaender. In: *Reinhold Henzler*: Der genossenschaftliche Grundauftrag: Foerderung der Mitglieder. Frankfurt/Main, 1970., p. 191.

<sup>23</sup>Some authors like Kéler, for example, doubt the capital shortage of the rural population. See: *G. Kéler*: Das Genossenschaftswesen in den unterentwickelten Laendern. In: *Zeitschrift fuer das gesamte Genossenschaftswesen*. Vol. 8, 1958., p. 243.

<sup>24</sup>See: *Georg Draheim*: Die Genossenschaft als Unternehmenstyp, Goettingen 1952., p. 213.

<sup>25</sup>See: *Hans Steiner*: *ibid.*, p. 45.

training by promoters) with the attempt to make the people concerned capable of founding co-operatives that, after a relatively short learning process (pre-co-operative), are able, as "autonomous" co-operatives, to maintain their survival in the market independently.<sup>26</sup> The second possible strategy is to provide the state co-operative authority with the task of initiating and founding co-operatives; frequently, these foundations are made without taking the preconditions necessary for successful co-operative work into account.<sup>27</sup>

Due to great poverty among the rural people and the resulting initial capital shortage of co-operatives as well as their initial poor profitability, state measures of financial support for the co-operatives seem to be necessary and inevitable; however, these state measures of support for co-operatives are another basis of state influence on the co-operative system.<sup>28</sup>

## 5. THE DANGER OF OFFICIALIZATION BY STATE INFLUENCE ON THE CO-OPERATIVE SYSTEM

State support and assistance for co-operatives are not yet able to survive independently can result in an 'officialization' of co-operatives quickly. By 'officialization' of co-operatives, we understand an essential influence by state authorities on the decision-making and formation of objectives in co-operatives.<sup>29</sup> Whether and to which extent state promotion of the co-operative system results in the officialization of the co-operative system—

<sup>26</sup>See: *Alfred Hanel*: Aspekte staatlicher Foerederungsstrategien fuer Genossenschaften in Laendern der dritten Welt. In: Zeitschrift fuer das gesamte Genossenschaftswesen. Vol. 31, 1981, p. 29 f; *Alfred Hanel*: Probleme, Ibid., p. 138.

<sup>27</sup>See: *Alfred Hanel*: Aspekte. Ibid., p. 32.

<sup>28</sup>See: *Theodor Bergmann*; *ibid.*, p. 302 f.

<sup>29</sup>See: *Thomas Wilson*: Offizialisierungs- und Deoffizialisierungsprozesse bei Genossenschaften in Entwicklungslaendern. Unter besonderer Beruecksichtigung der zum englischen Rechtskreis gehoerenden Laender Schwarzafrikas, unpublished thesis submitted for a diploma, Cologne, 1984., p. 4.

it depends last but not least on the development policies pursued by the respective governments.

One possible conception is that the state considers co-operatives to be independent tools of economic and social development, and promotes them as such.<sup>30</sup> In this context, co-operatives are seen as instruments in order to support self-assistance predominantly; the state only plays the role of supporting promotion.<sup>31</sup> This promoting role of the state may cover the following fields: to promote the co-operative system morally, to promote co-operative education generally, to help to found and manage co-operatives, to train the co-operative personnel and to render technical and financial assistance for the activities of the co-operatives;<sup>32</sup> however, one tries to keep the state influence on the formation of objectives and decision-making in co-operatives as small as possible; in the same way, efforts are made in order to “cut” the co-operatives from state support speedily owing to the confidence in incentives for development, arising from “autonomous” co-operatives.

In contrast to this attitude, co-operatives in developing countries are being used increasingly as direct instruments<sup>33</sup> for implementing various programmes, projects and other development policy measures initiated by

<sup>30</sup>See: *Horst Buescher*; Die Rolle der Genossenschaften im Rahmen einer entwicklungspolitischen Konzeption. In: *Gerhard Weisser* (edit.) with the co-operation of W. W. Engelhardt: *Genossenschaften und Genossenschaftsforschung*, Festschrift for Georg Draheim, second edition. Goettingen, 1971., p. 320; *Hans H. Muenkner*; Vorgenossenschaften in Entwicklungsländern. In: *Handwoerterbuch des Genossenschaftswesens* (Manual of the Cooperative System). Published by Eduard Maendle. Wiesbaden, 1980., 1645.

<sup>31</sup>See: *Joachim von Stockhausen*; Zur Planung von Genossenschaften als Entwicklungsträger in Laendern der dritten Welt, In: *Zeitschrift fuer das gesamte Genossenschaftswesen*, Vol. 32, 1982., p. 217.

<sup>32</sup>See: *Steve George Siegens*; Das Problem Staat — Genossenschaften in den Entwicklungsländern. In: *Zeitschrift fuer das gesamte Genossenschaftswesen*. Vol. 14, 1964., p. 274.

<sup>33</sup>As to using public enterprises as direct instruments of the state see also the instrumental thesis of Thiemeyer. See: *Theo Thiemeyer*; Gemeinwirtschaftlichkeit als Ordnungsprinzip. Grundlegung einer Theorie gemeinnütziger Unternehmen. *Volkswirtschaftliche Schriften*, paper 146, Berlin, 1970., p. 213 ff; *Theo Thiemeyer*; *Wirtschaftslehre oeffentlicher Unternehmen*. Reinbek/Hamburg, 1975., p. 28, 60 ff.

the state; in the extreme case, co-operatives are being used by state authorities or development institutions as agencies in the countryside.<sup>34</sup> In this case, co-operatives are considered as instruments of state development policy such as the tax office as an instrument of state tax policy e.g.<sup>35</sup>

To use the co-operatives as direct instruments in this way, the state must influence the co-operatives directly. The scope of state interference in the autonomy of co-operatives may vary strongly: from the necessary consent by the co-operative authority to certain business affairs of the co-operative through the supervision or limited control of co-operatives by means of nominating a co-operative official as a consultative member of the co-operative boards, up to direct control or management of co-operatives by co-operative board members entitled to vote and nominated by the state, or even co-operative managers nominated and controlled by the state authorities.<sup>36</sup> Such an integration of co-operatives into state administration bureaucracy brings about a very strong officialization of the co-operative system.

*Hanel* characterizes such "officialized" co-operatives as follows:

1. To a large extent, the operational objectives and activities of co-operative enterprises are determined ·

a) by different co-operative-adjusted projects and programmes (centrally planned and carried out administratively in many cases), and/or formulated

b) under the direct influence of state officials and state-controlled organisations that are responsible for the implementation of

<sup>34</sup>See: *Alfred Hanel: Probleme. Ibid.*, p. 135.

<sup>35</sup>See: *Eberhard Duelfer: Bewertungs- und Messprobleme bei der Evaluierung von Genossenschaften in Entwicklungslaendern. In: Eberhard Duelfer (edit.): Zur Krise der Genossenschaften in der Entwicklungspolitik, Marburger Schriften zum Genossenschaftswesen, Ed. B, Vol. 10, Goettingen, 1975., p. 29.*

<sup>36</sup>See: *O. Odede and K. Verhagen: The organization of external supervision as an integral part of promoting cooperative development. In: M. Konopnicki and G. Vandewalle (edit.): Co-operation as an instrument for rural development, papers from an international conference organized at Ghent University (Belgium), 21-24 September, 1976., p. 108; George Steve Siegens: ibid., p. 274.*

projects/programmes, instruct or control the managers of co-operatives or even manage the co-operatives actually;

2. The members especially expect services from the co-operatives, which are offered by the state and are in conformity with their demands, interests and objectives.<sup>37</sup>

This form of officialization of co-operatives—it could also be designated as “forced officialization”—has to be distinguished from “self-officialization”<sup>38</sup> where co-operatives solve tasks in the public interest voluntarily. In the first case of officialization, co-operatives are ‘enterprises subjected to compulsory work’ in the sense of *Wisser* or ‘forced collective economic enterprises’ in the sense of *Adolph Wagner*, in the second case, co-operatives are “freely serving enterprises” in the sense of *Weisser* or “free collective economic enterprises” in the sense of *Adolph Wagner*.<sup>39</sup> While the author of the present paper evaluates the latter kind of officialization as positive, he holds that in case of forced officialization, negative consequences are prevailing to a large extent.

## 6 DANGERS AND PROBLEMS OF THE OFFICIALIZATION OF THE CO-OPERATIVE SYSTEM

When state co-operative officials assume functions of control and management of co-operatives, there may emerge conflicts of goals with the interests of the members.

<sup>37</sup>See: *Alfred Hanel*: Conditions for and selected problems of deofficialisation of rural co-operatives in developing countries—the lessening of state control. In: *M. Konopnicki and G. Vandewalle* (edit.): *ibid.*, p. 117.

<sup>38</sup>See: *Klaus Kluthe*; Genossenschaften und Staat in Deutschland—von 1914 bis zur Gegenwart—. Systematische und historische Analysen bezogen auf den Zeitraum 1914 bis zur Gegenwart. Schriften zum Genossenschaftswesen und zur öffentlichen Wirtschaft, Vol. 12, Berlin, 1985, p. 71.

<sup>39</sup>See: *W. W. Engelhardt*; Das Verhaeltnis von Genossenschaften und Gemeinwirtschaft, In: *Archiv fuer öffentliche und freigemeinnuetzige Unternehmen*, Vol. 13, 1981., p. 112; *Gerhard Weisser*; Form und Wesen der Einzelwirtschaften—Theorie und Politik ihrer Stile. Goettingen.



For Hanel, three different kinds of conflicts of goals are conceivable in particular:

a) Co-operatives are forced to carry out functions that are tasks of the state in reality; to carry out them may have a negative influence on the promotion of members or may disturb the confidence between members and managers of co-operatives (co-operatives have to collect tax and levies, contributions for political parties, to supply information about private affairs of their members to other institutions etc.);

b) Contrary to the interests of their members, co-operatives may be forced to sell their products under the market price in order to contribute to price stabilization (or to ensure the provision of the people with cheap basic foodstuff—note of the author);

c) Although co-operatives are expected to satisfy the “actual” interests of their members and to give a new impetus to social and economic development, it happens very often that the actual situation of poor members, the structure of their farms, methods of production, their wishes and targets, risks, and physical, social economic, cultural and political factors influencing their decision-making are not taken into account sufficiently.<sup>40</sup>

Further, the idea is conceivable that co-operatives have to solve tasks, or government programmes are to be implemented by them, although the co-operatives have not the capacities necessary for the successful solution of these tasks yet.<sup>41</sup>

Frequently, the strong influence by the state on the formation of objectives and decision-making by co-operatives results in considerable conflicts with the targets and interests of the members who get the impression of a quasistate organisation; this decisively impedes the motivation of the members to ensure self-assistance.<sup>42</sup> The result is dissatisfaction, disappointment, mistrust and apathy in the members

<sup>40</sup>See: *Alfred Hanel: Conditions, Ibid., p. 119 f.*

<sup>41</sup>See: *Alfred Hanel; Conditions. Ibid., p. 119; Eberhard Duelfer: Pro und Contra zur Effizienz von Genossenschaften in Entwicklungslaendern, In: Eberhard Duelfer (edit.): Zur Krise... Ibid., p. 11 f.*

<sup>42</sup>See: *Alfred Hanel; Aspekte, Ibid., p. 36.*

against the co-operatives; if it is not possible or does not seem to be opportune to leave the co-operative, a respective decline in the "co-operative frequency"<sup>43</sup> has to be reckoned with.

Frustration also occurs at the managerial co-operative level. If officials of state co-operative authorities have to assume functions of control and management, they often have not enough time to train the members so that they will be able to manage the co-operatives for themselves.<sup>44</sup> If, however, certain members are trained on the basis of training programmes, and are able to manage co-operatives, frustration will occur when state co-operative officials continue to carry out management and control de facto.

## 7. POSSIBLE STRATEGIES OF DEOFFICIALIZATION POLICY

The above mentioned negative consequences of widespread officialization of co-operatives in developing countries are manifested not only in the inefficiency and poor performance capacity of co-operatives but also in a reduced development policy effectiveness of co-operatives.<sup>45</sup> That is the reason why both co-operative-theorists and practitioners as well as the majority of governments of the countries concerned are striving for a deofficialization of the co-operative system.<sup>46</sup> However, deofficialization of the co-operative system must not be made too quickly or too

<sup>43</sup>See: *Alfred Hanel: Wege zu einer afrikanischen Genossenschaft*. In: *Hans H. Muenkner* (edit.): *Wege zu einer afrikanischen Genossenschaft*. Institut fuer Kooperation in Entwicklungslaendern der Philipps-Universitaet, Marburg/Lahn, Studien und Berichte No. 11, Marburg 1980, p. 85.

<sup>44</sup>See: *A. Ghanie Ghaussy*: *ibid.*, p. 285.

<sup>45</sup>See: *Alfred Hanel: Conditions*, *ibid.*, p. 118; *Alfred Hanel: Officialisierung von Genossenschaften in Entwicklungslaendern*. In: *Manual of the Cooperative System*. Published by Eduard Maendle, Wiesbaden, 1980., 1325.

<sup>46</sup>With reference to *Bergmann*, we want to understand "deofficialization" as the 'dissolution of administrative, financial and political bonds existing between co-operatives and the state'. See: *Theodor Bergmann*; *ibid.*, p. 289.

comprehensively because this brings about the danger that additional co-operatives could not be founded, or already existing co-operatives, not yet be capable of surviving, would break down without state support. Therefore, the development of an appropriate deofficialization strategy has become one of the most important problems for the co-operative system in developing countries. In addition to generally accepted suggestions concerning the disintegration of co-operative-promoting organisations or co-operative authorities, or the increased organisation of co-operative unions,<sup>47</sup> and the proposal to promote autochthonous forms of co-operation increasingly,<sup>48</sup> two conflicting strategies are crystallizing: one of them says that the state should be fully engaged in creating the preconditions for founding co-operatives but co-operatives may be registered only after fulfilling certain minimum conditions. Direct state influence on the co-operative system is to be kept as small as possible according to this strategy.

As to the other strategy, a much stronger and more direct state influence on co-operatives is possible: new co-operatives are founded with the help, and often based on the initiative, of state co-operative authorities; first, these are established as so-called 'pre-co-operatives'. As long as they depend on state assistance economically and technically, they have the status of pre-co-operatives; they are registered as "full" co-operatives when they are capable of surviving independently.

#### *The strategy of minimum preconditions*

The 'strategy of minimum preconditions' is applied in Zambia most consistently;<sup>49</sup> it is based on the assumption that, when co-operatives are founded on the basis of state initiatives and without providing respective

<sup>47</sup>See: *Thomas Wilson*: *ibid.*, p. 99 ff.

<sup>48</sup>See: *Thomas Wilson*: *ibid.*, p. 108 ff.

<sup>49</sup>See: *Hans H. Muenkner*; *New Trends in Co-operative law of English-Speaking Countries in Africa*. Institut fuer Kooperation in Entwicklungslaendern der Philipps-Universitaet Marburg/Lahn, Studien und Berichte, No. 4, second edition, Marburg/Lahn, 1973., p. 20.

preconditions from the side of the persons concerned (education, capital, co-operative motivation etc), they are not capable of surviving without permanent state support and control;<sup>50</sup> this results in undesirable officialization of the co-operative system.

According to this concept, state and co-operative authorities limit themselves to take indirect measures that are to allow and facilitate the foundation of co-operatives (land reform, social reform, propaganda for co-operatives, co-operative education, consulting and training of interested persons etc.). However, co-operatives are to be founded on the basis of initiatives taken by the persons concerned and without help of state institutions, if possible. In connection with the foundation of new co-operatives, the co-operative authority has to examine whether minimum preconditions for founding co-operatives are given with regard to the motivation and training of the persons concerned, liquidity and projected profitability of the planned co-operatives, sufficient qualification of the board members etc.<sup>51</sup> If these preconditions are not given, the planned foundation of the co-operative will not be allowed; if these conditions exist, the co-operative will be registered. If minimum preconditions are given, the new co-operative is expected to be capable of surviving without state support and control; suitable reserve of the co-operative authority given the danger of an officialization of the co-operative system does not exist.

#### *Pre-co-operative-related strategy*

The task of the co-operative authority to decide whether a co-operative will be capable of surviving or not and whether it is to be registered or not, is an extremely difficult task. Even studies of implementation, profitability

<sup>50</sup>See also: *Hans H. Muenkner*; Co-operative Principles and Co-operative Law. Institut fuer Kooperation in Entwicklungslaendern der Philipps—Universitaet Marburg/Lahn, Studien und Berichte, No. 5, Marburg/Lahn 1974., p. 71.

<sup>51</sup>See: *Hans H. Muenkner and Gabriele Ullrich* (edit.), Co-operative Law in East, Central and Southern African Countries — a comparative approach. Seminar der Deutschen Stiftung fuer Internationale Entwicklung, 6–17 October in Berlin (West), Berlin, 1981., p. 44 ff.

analyses, economic studies and test annual balance-sheets will not say very much about the probable success of a co-operative; an apparently prospective enterprise may go bankrupt, or a co-operative may develop successfully even if the initial conditions were extremely disadvantageous.<sup>52</sup>

That is the reason why co-operative-laws in many developing countries (Kenia, Tanzania or Uganda e.g.) envisage the possibility of founding pre-co-operatives. When the co-operative authority's view is that the planned co-operative does not yet meet minimum preconditions for registration but the applicants will take further steps in the right direction in order to satisfy these criteria, it can register the co-operative as a pre-co-operative,<sup>53</sup> provisionally. This pre-co-operative must indicate its provisional existence in its firm name; then it can begin business under certain conditions imposed by the co-operative authority as well as under the strict control of this body. Without giving any reason, the co-operative authority may delete the pre-co-operative from the register, or register it as a "full" co-operative when coming to the conclusion that the co-operative satisfies minimum conditions for full registration.<sup>54</sup> When the pre-co-operative is registered as a "full" co-operative, all state control exercised so far should be stopped in favour of desired deofficialization.

In connection with this strategy, the active and direct participation of the co-operative authority in the foundation of the pre-co-operative is possible; strong state support and control in the pre-co-operative period are not only possible but necessary; however, if registration as a "full" co-operative is delayed too long or state control and interference are not stopped when recognizing a "full" co-operative, this may bring about frustration among the co-operative members.

<sup>52</sup>See: *Hans H. Muenkner: New Trends. Ibid., p. 21.*

<sup>53</sup>See: *Hans H. Muenkner: New Trends. Ibid., p. 22.*

<sup>54</sup>See: *Hans H. Muenkner: New Trends. Ibid., p. 22 f.*

## 8. CONCLUSION

The above mentioned two strategies aimed at or resulting in the deofficialization of the co-operative system in a different manner, have different advantages and disadvantages.

The advantage of the strategy of minimum preconditions is that the danger of an officialization of the co-operative system with all its negative consequences is minimized. On the other hand, the implicit state renunciation of initiating co-operatives directly may result in the fact, due to the incapability of the persons concerned to found co-operatives, that a too small number of co-operatives are founded to decisively contribute to solving economic and social problems in the countries concerned.

The strategy of recognizing the special status of pre-co-operatives implies the option for a sufficiently speedy initiation of many co-operatives by state authorities. Then, however, the danger arises that co-operatives, without taking necessary preconditions into account, which had to be fulfilled by the persons concerned, are created by state authorities and therefore state control and support remain necessary for a long time. Another danger is that the co-operative authority having a lot of possibilities to exercise strong influence on the co-operative system by means of pre-co-operatives, does not want to abandon this influence and delays the transition of pre-co-operatives, into "full" co-operatives or does not abandon its influence and control in newly registered "full" co-operatives. That means that the way through the recognition of pre-co-operatives entails an essentially greater danger of officialization.

Theoretically, it is not possible to pass a definite judgement on which of the two different strategies could be better for improving the efficiency of the co-operative system in these countries; this can only be made on the basis of empirical research.

**Juergen Zerche\***

## **Management Philosophy and Business Strategies of Credit Co-operatives**

The elaboration of managerial principles and targets including ethical values and objectives of the management becomes a necessity increasingly for successful and future-oriented management. In the United States, the term "management philosophy" was created in this context; in German specialized literature the somewhat indistinct term "Unternehmensphilosophie" is being used.

Although management philosophy can be used to designate managerial principles, elaborated and long-term objectives or basic managerial targets, the term 'management philosophy' is already so widespread that we will use it for basic objectives and basic principles.

In connection with credit co-operatives, problems of a typical co-operative economic management are of a specifically complex nature. Therefore, it is not surprising that experts working in practice and co-operative scientists have dealt with this problem frequently since the middle of the 1970's.<sup>1</sup> The question is whether and how credit co-

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<sup>1</sup>At the international session in Marburg, Professor *Vesa Laakkonen* dealt with credit co-operatives comprehensively. See ZfgG, Sonderband: Die Genossenschaften zwischen Mitgliederpartizipation, Verbundbildung und Buerokratietendenz, Goettingen 1983. p. 276 ff.

See also ZfgG, Sonderheft VIII. Internationale Genossenschaftswissenschaftliche Tagung 1975 in Darmstadt, Goettingen 1978;

*Aschhoff, G.:* Die Verwirklichung des Foerderungsauftrages durch den Verbund der

operatives differ from other banks. I want to deal with three questions. First I want to explain, what the management philosophy means. Then I will try to explain the general contents of management philosophy for the managerial policy of universal banks. And in the last part, co-operative management philosophy will be related to credit co-operatives. According to *G. A. Steiner*, management philosophy is the entity of basic, economic, social and ethical values and objectives of the management with regard to the enterprise and its position in the environment.<sup>2</sup>

I hold such a management philosophy is necessary as the normative basis of long-term business policy pursued by the credit co-operatives under review in the present paper. It is the basis of formulating strategies and respective measures.

As a part of managerial work, the executive board of a credit co-operative has to formulate it. In addition to developing a management philosophy, the specific tasks of the executive board are to run and motivate the staff members and to pursue the information policy of the enterprise.

In pursuing the policy of the bank enterprise, the management will develop general and principal objectives that fix the framework of a target system according to rank.<sup>3</sup> Thus the management stipulates the business

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Genossenschaftsbanken in der Bundesrepublik Deutschland, in: Archiv fuer oeffentliche und freigemeinnuetzige Unternehmen, Goettingen 1979, p. 3 ff.

*Engelhardt, W. W.*: Der genossenschaftliche Grundauftrag — Leerformel oder Verpflichtung? in: Tagungsbericht der XI. Internationalen Genossenschaftswissenschaftlichen Tagung 1978 in Fribourg, Goettingen 1979, p. 160 ff.

*Hahn, O.*: Die Unternehmensphilosophie einer Genossenschaftsbank, Tuebingen 1980;

*Seuster, H.*: Zum Foerderungsauftrag der Genossenschaftsbanken, in: *ZfgG*, Band 32 (1982), p. 91 ff.; *Fritz, R.*: Sozialbilanzen bei Kreditgenossenschaften, Sonderband, in:

*Zerche, J.* (editor): *Koelner Genossenschaftswissenschaft*, Gelsenkirchen 1983;

*Lipfert, H.*: Synergismus als genossenschaftliches Managementprinzip, in: *Genossenschaftsforum*, vol. 3, 1985, p. 122 ff.

<sup>2</sup>See: *Steiner, G. A.*, *Top Management Planning*, New York-London 1969, Munich 1971, p. 203 ff.

<sup>3</sup>*Eich, D.*: Die zielorientierte Organisation einer Universalbank aus systemtheoretischer Sicht unter besonderer Beruecksichtigung ihres Managements, Cologne 1973, p. 157 ff.



policy for the whole enterprise in terms of time, space, quality and quantity.<sup>4</sup> The qualitative aspect in connection with target formulation is specifically important, because the resulting effects in terms of time, space and quantity only gain in importance on the basis of the quality of target formulation. This means that, before the actual concretization of bank enterprise targets, the "positioning of the bank in the competition" must be fixed as this directly effects the concrete performance program.

The necessity of formulating a management philosophy also results from the assumption that every bank or bank grouping pursues its own business policy characterized by the "positioning in the competition".

Business policy of a bank is to be understood as the entity of measures taken by a credit institute in order to achieve fixed targets with taking external and internal restrictions into account.<sup>5</sup> The target system of the bank is to be seen as the result of the process of this target determination. This means that firstly, general and incomplete objectives are elaborated that are condensed successively to form a system of more concrete targets.<sup>6</sup> According to *Kilgus*, these general objectives result from thoroughly studying the environment, the possibilities and limits of the bank and creative entrepreneurial ideas which are connected with this analytic data record in the course of evaluating the position.<sup>7</sup>

Management philosophy must be condensed to form a system of conceptional sets characterising the future behaviour of the enterprise generally.<sup>8</sup> Thus management philosophy is the normative basis of the long-term business policy and formulating strategies and measures.

The contents of management philosophy is decisively determined by the

<sup>4</sup>*Lehner, H.*: Systemtheorie und Bankmanagement, in: *Bankmanagement in Theorie und Praxis*. Bankwirtschaftliche Forschungen, vol. 12, Bern-Stuttgart 1973, p. 29 ff.

<sup>5</sup>*Suechting, J.*: *Bankmanagement*, Stuttgart 1982, p. 253.

<sup>6</sup>*Ulrich, H.*: *Die Unternehmung als produktives soziales System*, Bern-Stuttgart 1970, p. 327.

<sup>7</sup>*Kilgus, E.*: *Die Unternehmensphilosophie als Grundlage einer langfristigen betrieblichen Bankpolitik*, in: *L. Schuster* (editor): *Schweizer Banken in der Welt von morgen*, Bern 1975, p. 203.

<sup>8</sup>*Ulrich, H.*: *Die Unternehmung...*, *ibid.*, p. 327.

general standards of value and objectives of the management,<sup>9</sup> and it is characterized by the following four determinants more precisely:<sup>10</sup>

1. Management philosophy of a bank is the result of creative work done by the bank management and evaluating the bank environment thoroughly. It contains the standards of value of the bank management as principles of a moral and ethical kind, that have to be followed in the bank.

2. Management philosophy is the basis of other bank policy that develops general targets of the enterprise by means of planning. Through the formulation of management philosophy of long-term validity, a scope is given for establishing operational targets and systems of targets. Thus management philosophy can be compared with the standards of value in the constitution of an enterprise.

3. Management philosophy is the result of the work, done by the management that specifies the statute conceptionally and explains the qualitative contents of bank activities.

4. Management philosophy is an appropriate managerial tool owing its generally valid normative character.

Management philosophy expresses the basic attitude of the management to bank business. It may also be interpreted as a bank model. The integration of management philosophy is shown in the following Figure by analogy with *Ulrich*.

Basically, it is not easy to separate management philosophy from the supreme objectives of a bank because these objectives contain qualitative components frequently that could also be part of management philosophy.<sup>11</sup>

According to *Albach*, banks can influence the market only if;

<sup>9</sup>See: *Bueschgen, H. E.* Bankunternehmensfuehrung, Frankfurt 1981, p. 65; *Fritz, R.:* Stellung und Aufgaben des genossenschaftlichen Vorstandes, vol. 7, Koelner Genossenschaftswissenschaft, edited by *J. Zerche*, Gelsenkirchen 1984, p. 144.

<sup>10</sup>See: *Kilgus, E.* Die Unternehmensphilosophie als Grundlage einer langfristigen betrieblichen Bankpolitik, in: *Leo Schuster* (editor): Schweizer Banken in der Welt von morgen, Bern 1975, p. 203 ff.

<sup>11</sup>See: *Fritz, R.* Stellung und Aufgaben des genossenschaftlichen Vorstandes, *ibid.*, p. 147.

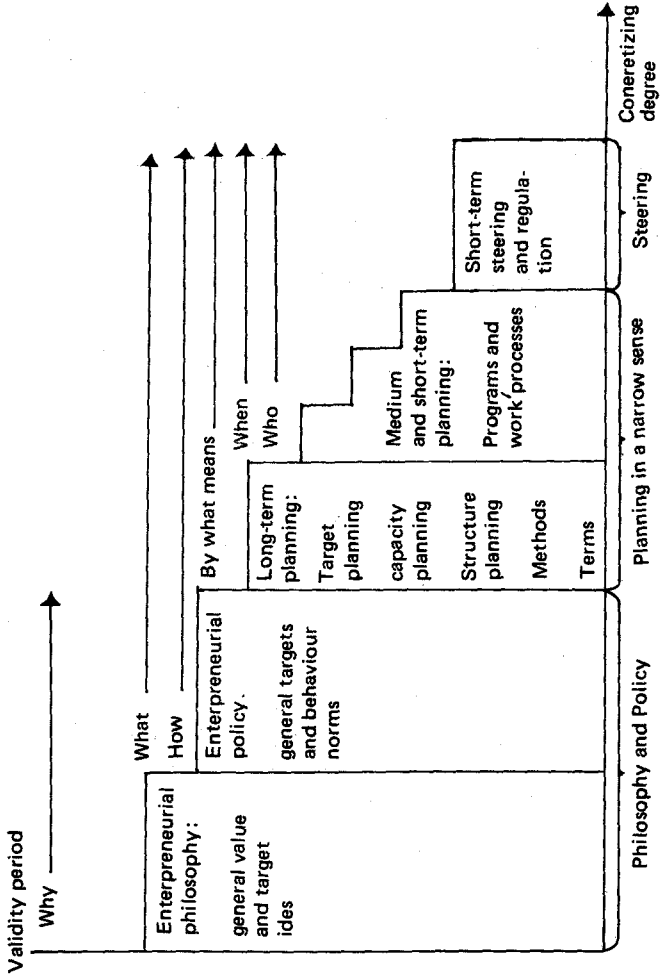


Figure 1. The inclusion of entrepreneurial philosophy into the target ideas and steering

Source: Ulrich, H.: The Undertaking as Productive Social System, Bern-Stuttgart 1970, p. 328

— the transition from a static-adaptive to a dynamic-aggressive management philosophy and

— the transition from patriarchal managerial organization to managerial organization on the basis of partnership are made.<sup>12</sup>

Further, *Albach* says that a dynamic, aggressive management philosophy requires long-term planning that stipulates and co-ordinates its own measures that are to be used for implementing its own conceptions in the market.<sup>13</sup>

Thus dynamic management philosophy is the conversion of a static one so to speak. The management tries to specify the enterprise's conception of itself in such a manner that its environment is influenced actively in order to implement ideas and objectives. This has effected on the kind of organization and management within the enterprise.<sup>14</sup> To exercise an active influence on the environment will be possible only if all employees are determined to achieve the fixed targets. Thus it is necessary to co-ordinate all partial targets in order to form a target system of the enterprise. To satisfy this demand, it seems to be necessary to have an organization on the basis of partnership and democratic management.<sup>15</sup>

Studying the management philosophy of credit institutes, one will be able to observe this change in most of them—in its first steps at least. This development is caused by profound changes in market conditions and market behaviour, characterized by abrogating the interest and branch orders, expanding the quantity business and changing earlier sellers' markets.<sup>16</sup> The expansion and increasing approximation in bank business brought about further overlapping in markets that had been isolated

<sup>12</sup>See: *Albach, H.* Betriebswirtschaftliche Anforderungen an eine langfristige Unternehmensplanung, in: *ZfB*, 38th year (1968), p. 8.

<sup>13</sup>*Albach, H.*: Betriebswirtschaftliche Anforderungen . . . , *ibid.*, p. 8.

<sup>14</sup>See: *Fritz, R.*: Stellung und Aufgaben des genossenschaftlichen Vorstandes, *ibid.*, p. 148.

<sup>15</sup>See: *Bueschgen, H. E.* Bankunternehmensfuehrung, *ibid.*, p. 69 ff.

<sup>16</sup>See: *Henke, K. and Herr, M.*: Analyse des Bankenwettbewerbs, in: *Bankinformation*, 4th year, 1977, p. 4.

traditionally. Thus the credit co-operatives are forced to work actively and aggressively in order to survive economically and as a co-operative.

After these basic statements, we want to speak about the demands put on the management philosophy of co-operative banks.

Co-operatives came into existence as "children of plight". Like all the other economic organizations, co-operatives are subject to the change of time, which demands processes of adaptation and innovation. In contrast to purpose-neutral societies like the incorporated company, for example, the credit co-operative is fixed on the particularities of co-operative law.

The problem of a co-operative target conception is the follows: How to find a consensus between the tradition of co-operative objectives and the demands on a modern credit institute? The description of this conflict alone would make it clear that co-operative management philosophy cannot be static but it must always be dynamic and aggressive in order to overcome the evident gap between historical traditions and modern managerial economics.<sup>17</sup> According to *Engelhardt*, credit co-operatives must take the fact into consideration, in connection with their positioning, that a guide-line for the development of co-operatives of a co-operative or co-operative-similar manner becomes insufficient very soon, unless it is elaborated to form a conception.<sup>18</sup> To concentrate on the co-operative assistance order in the statute is not enough for using it, as the basis of a target conception in line with the characteristics of a co-operative.<sup>19</sup> It is necessary to elaborate managerial principles in detail, that are of decisive importance for the positioning of the credit co-operatives with taking co-operative principles as a "frame of thinking and reference" into account. Various proceeding points may be used in this context.

One can proceed, for example, from the "classical assistance order" relating to the members of the co-operative. In the course of time, this is expanded to groups that maintain assistance relations with the co-

<sup>17</sup>See: *Fritz, R.* Stellung und Aufgaben eines genossenschaftlichen Vorstandes, *ibid.*, p. 150.

<sup>18</sup>*Engelhardt, W. W.*: Genossenschaftstheorie, in: HdG, Wiesbaden 1980, p. 836.

<sup>19</sup>See also *Patera, M.* and *Zacherl, U.*: Genossenschaftscharakteristika, in: HdG, Wiesbaden 1980, p. 744-750.

operative, even larger structures like the whole society, for example. This conception is expressed in various forms of dedication elaborated by *Engelhardt*.<sup>20</sup> *Hahn* contributed to co-operative management philosophy by elaborating six reference groups (management, staff members, members, customers, economic groups, overall economy). In his subsequent study of the question which the above mentioned subjects of dedication should be in the centre of a co-operative bank's objectives, he comes to the conclusion that in addition to the members, it is only the management and staff members that can be recipients because customers, economic groups and overall economy can only serve as a means to an end—quite similar to the assistance to members.<sup>21</sup> According to *Hahn*, the orientation of staff members is to be subordinated to the dedication of the members so that, there are only two recipients of dedication in the end.

I hold the ideas of *Hahn* not to be comprehensive enough because the orientation of staff members is excluded but assistance in credit co-operatives is implemented only through bank service and by the staff members.

The classification by five main fields, made by *Kilgus*,<sup>22</sup> is only bank-oriented and the above mentioned critical remarks were taken into account. According to *Kilgus*, these five points are the follows:

1. Relationship to state, society, law and politics,
2. Relationship to competitors,
3. Basic lines determining overall bank business,
4. Basic lines determining management in the commercial field,
5. Basic lines determining management in the technical-organizational field.

<sup>20</sup>See: *Engelhardt, W. W.*: Gemeinwirtschaftliche Genossenschaften — ein moeglicher Widmungstyp von Genossenschaften, in: *Zeitschrift fuer oeffentliche und gemeinwirtschaftliche Unternehmen*, edited by *Peter Eichhorn* and *Achim von Loesch*, vol. 6, paper 1, 1983, p. 30 ff.

<sup>21</sup>See: *Hahn, O.* Die Unternehmensphilosophie einer Genossenschaftsbank, Tuebingen 1980, p. 18.

<sup>22</sup>See: *Kilgus, E.* Die Unternehmensphilosophie als Grundlage einer langfristigen Bankpolitik. . . , *ibid.*, p. 203.

However, the above mentioned problems inherent in a co-operative target conception—growing interdependence on the one side, market on the other—cannot be solved by using the suggestions of *Kilgus*. Therefore, in adaption to the ideas presented here, we want to make a new proposal that promises to meet the characteristics of a co-operative in a better way through establishing two kinds of basic lines—basic lines of the external relationship and basic lines of the internal relationship.<sup>23</sup> According to this view, efficient assistance to members can only be possible when the interests of the staff members are taken into account.

We make a difference between two kinds of basic lines; basic lines of the external relationship and basic lines of the internal relationship. Basic lines of co-operatives in the external relationship are the follows:

1. Basic lines for the relationship to state and society,
2. Basic lines for the relationship to competitors,
3. Basic lines for the relationship to customers,
4. Basic lines for outward information policy.

The basic lines of co-operatives in the internal relationship are the follows:

1. Basic lines for the relationship to the members,
2. Basic lines for the relationship to the staff members,
3. Basic lines of inward information policy.<sup>24</sup>

If the credit co-operative sees itself as a bank working for its members, non-member transactions may be the use of existing capacities generally. However, if the scope of non-member transactions is such a big one that the effect of using capacities is exceeded, the original assistance to members may be neglected under certain circumstances. That means the bank must take a clear decision as to the purpose of non-member transactions. These decisions become maxims of behaviour directly because they influence the treatment of non-member customers in business activities.

<sup>23</sup>See: *Fritz, R. Stellung und Aufgaben des genossenschaftlichen Vorstandes, ibid., p. 153.*

<sup>24</sup>See: *Fritz, R. Stellung und Aufgaben des genossenschaftlichen Vorstandes, ibid., p. 153.*

I hold the basic lines of the relationship to the members are the essential component of co-operative management philosophy. They must express the basic co-operative commitment. The business policy orientation of the programme of performance towards transactions with the members as well as statements referring to the role of members in the process of co-operative decision-making must be stipulated in these basic lines.

The basic lines of the co-operative's management cover the well-known fields of overall management and management of the staff members. As to the overall management of a bank, the elementary targets must be presented and explained. These can go beyond the so-called magic triangle—profitability, liquidity and safety—, contain long-term targets of dividend and reserve policies and include statements on co-operative targets in particular. Further, statements can be made in this context with regard to the geographical and business policy limits of the bank service programme. As to the management of the staff members, the managerial conception of the bank is to be presented, and the mode and model of management being the basis of this conception are to be described.

Co-operative management philosophy is the basis of an enterprise target system. The target system of co-operatives could be shaped as shown in Figure 2 by analogy with *Suechting*:

In credit co-operatives, target systems are elaborated through the formulation of order and safety targets.

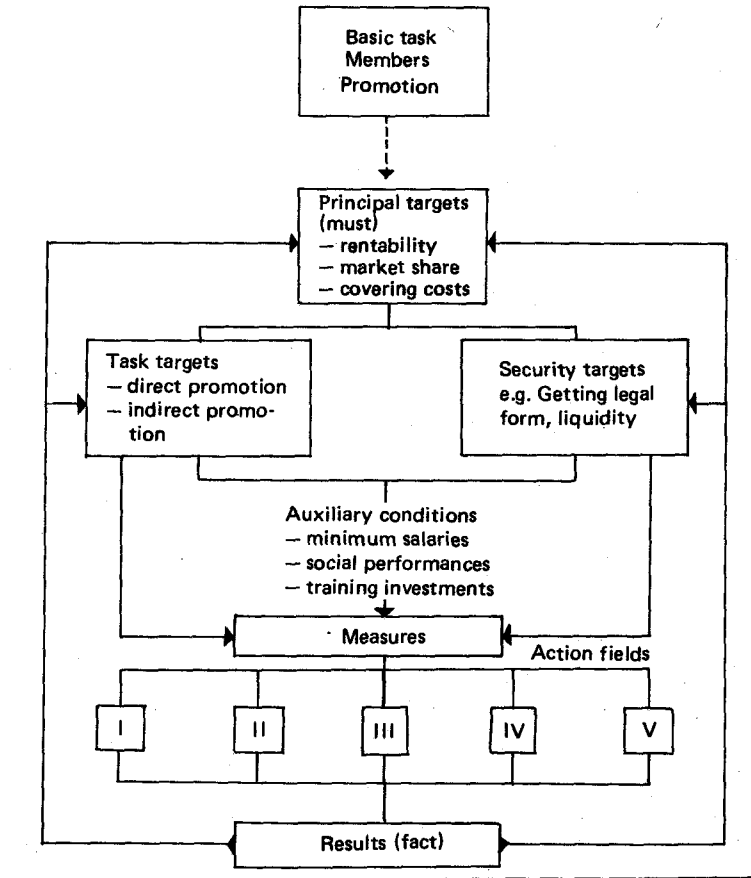
Examples of order targets are:

- To guarantee economic preconditions for survival on the market,
- to make economies of scale for the members,
- to consolidate market positions (to place emphasis on qualitative growth),
- to produce innovations.

Safety targets are, for example, the safeguarding of basic institutional conditions that is, the maintenance of the legally conditioned organization of the registered co-operative or the maintenance of co-operative identity.<sup>25</sup>

<sup>25</sup>See: Meyer, B. Ein Zielsystem der Genossenschaft fuer die 80er Jahre, in: J. Zerke (editor): Aspekte genossenschaftlicher Forschung und Praxis, Duesseldorf 1981, p. 132.





*Figure 2. The Target System of a Credit Co-operative*

*Source:* Borrowing from Stüchting, J.: Bankmanagement (loc. cit.) p. 257

Top targets dealt with in bank managerial economics are;

- appropriate proprietorship profitability,
- to preserve or expand, if possible, market shares,
- covering of costs.

There exists a complementary relationship between these targets and the basic co-operative order.

Long-term assistance is only possible when the top targets are also achieved.

By taking the next step, so-called field or department targets are derived from the top targets through formulating order targets and safety targets for all fields of bank activity on the basis of agreements.<sup>26</sup> Order targets are to fulfil the co-operative assistance order in a long-term manner. Additionally, the existence of the credit co-operative must be ensured through the safety targets.

Both components of the target system are integrated into measures of implementation with taking auxiliary conditions into account.

The results of fulfilling these nominal orders go back—in the form of account on actual results—to the body that had set the targets, and this may bring about adaptations. This structure is shown in Figure 2.

In his paper entitled “Zum Foerderungsauftrag der Genossenschaftsbanken”, *Seuster* dealt with the contents of order targets and safety targets.<sup>27</sup> As to order targets, *Seuster* makes a difference between order targets of direct promotion and indirect promotion. As to the order targets of direct promotion, he classifies by direct performances like offers of a universal bank, direct material performances—like all material performances of a universal bank, especially consultation for and care of individual bank transactions; as to indirect performances, he deals with indirect finance performances (high dividend, for example) or indirect

<sup>26</sup>*Muehlhaupt, L./Dolff, P.*: Die Zielplanung in Genossenschaftsbanken, in: Kredit und Kapital, 8th year (1975, p. 496.

<sup>27</sup>See: *Seuster, H.* Zum Foerderungsauftrag der Genossenschaftsbanken, in: ZfgG, vol. 32 (1982, p. 91 ff.

material performances (for example, consultation for and care of bank and compound business).

As to indirect promotion, he refers to the effect of credit co-operatives on the market in terms of competition and order policies, to the work of the bank for broad circles of the population and the offer of compound performances.

As to safety targets, he mentions enterprise-related targets of readiness to liquidity, endeavours aimed at appropriate safety, profitability and growth, and additionally, the maintenance of co-operative identity.

What has been said so far clearly shows that much work has already been done to prepare the concretization of a management philosophy for credit co-operatives.

Due to their double nature and complexity, credit co-operatives are especially vulnerable both internally and externally. Therefore, it is indispensable for the co-operative management to create co-operate identity, designated by *Helmut Lipfert* as “co-operative identity”, too.

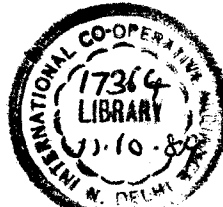
To achieve this, the management has to put the following questions:

— What is the present-day position of the co-operative? This is the analysis of the actual position and localization.

— What does the co-operative want to achieve? This is the identity-target analysis.

— How can the co-operative achieve this target? For this purpose, the co-operative management must develop appropriate strategies.<sup>28</sup>

The managerial bodies of credit co-operatives must co-operate with co-operative science in order to elaborate the conceptions of “co-operate identity” and to clarify this term.



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<sup>28</sup>See: *H. Lipfert* “Hartes” Sachmanagement und “weiche” Kooperationsgestaltung, in: *Hamburger Beitrage zum Genossenschaftswesen*, edited by *A. Baensch* et al., Hamburg 1984, p. 16.

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