

Basic Features of a Co-operative Society

(With Special Reference to Consumer Coops)

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By

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1. Introduction

Co-operatives - both agriculture and non-agriculture play a very important role in providing economic and social well-being to people in many countries. Agricultural co-operatives provide credit, farm supply, farm extension and marketing outlet to farmers and members. It helps farmers to increase their production and their earning capacity. At the same time, it helps farmers to negotiate with traders and suppliers for better deals. Consumer Co-operatives provide and supply goods to members at reasonable rates. This can stabilize the market prices not only for coop. members but also for the general public. Besides, co-operatives promote education, democracy, social justice, community development and political stability. Where co-operatives are strong and effective like in Sweden, Denmark, Canada and Japan, people always live harmoniously, peacefully and happily.

2. What is a co-operative?

A Co-operative is a business organization voluntarily formed and run by members to solve economic and social problems of their choice. It comprises members, Board of Directors, employees and business activities.

A Co-operative is not a government organization or a state enterprise. But it is an economic and social institution formed, managed and controlled by members through democratic process.

3. Characteristics of Co-operative

Main features of co-operatives are:

- 3.1 A business organization;
- 3.2 A social organization;
- 3.3 A democratic organization;
- 3.4 A non-profit making organization;
- 3.5 A self-help and mutual-help organization;
- 3.6 An educational institution; and
- 3.7 A non-religious and non-political organization.

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4. Co-operative objectives

Co-operative objectives vary from one co-operative to the other depending on its structure, organization and functions. But in general, main objectives are:

- 4.1 To generate economic activities among members through the provision of credit, farm supplies, marketing outlets, skilled & vocational training and to some extent, the provision of land, equipment and infrastructure.
- 4.2 To raise income and standard of living through better production, better business and better living.
- 4.3 To mobilize funds and savings among members.
- 4.4 To provide consumer goods and necessity to members at reasonable rates.
- 4.5 To provide services to coop. members according to their needs, such as housing, transport, insurance, etc.
- 4.6 To promote self-help, self-development and self-reliance among people.
- 4.7 To bring economic and social justice to members and the public through the elimination of exploitation.
- 4.8 To educate and train members and the public in democracy, community development and economic and social development; and
- 4.9 To create a better community and better world.

5. Types of co-operatives

There are many types and forms of cooperatives, such as producers and consumers, agriculture and non-agriculture, rural and urban, single purpose and multi-purpose and others, such as housing, transport, insurance, services and employees co-operatives. However, in the case of Vietnam, we can limit it into 3 main types-agriculture, consumers and services.

6. Organizational Structure and Administration

In general, the co-operative consists of four main elements - the members, the Board of Directors, the employees and business activities. The first three components are jointly responsible for the organisation, administration and the management of the co-operative.

According to the organizational structure of the cooperative, the members constitute the general meeting. The general meeting elects the Board of Directors who are responsible for the formulation of the co-operative policy and decision-making as well as the selection and appointment of the manager. The manager is responsible for the entire operation of the co-operative under the guidance and the supervision of the Board of Directors.

Besides the Board of Directors, there are two relative boards-the Board of Supervisors and the Advisory Board.

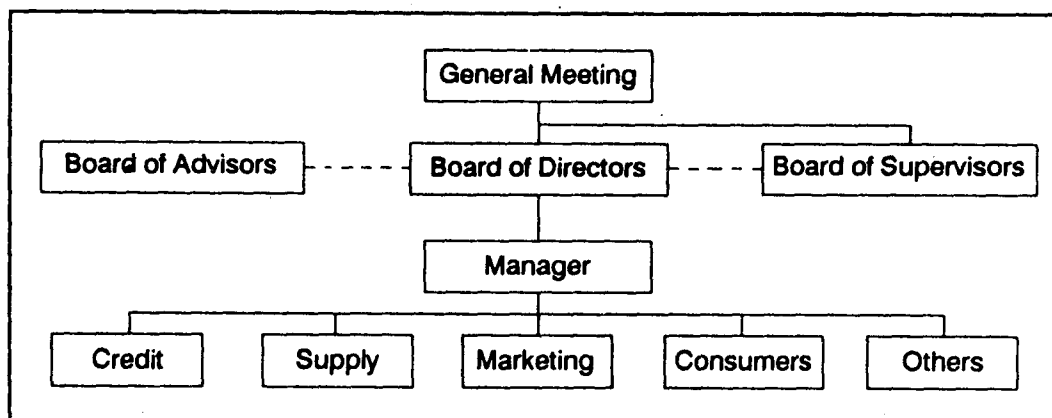
The Board of Supervisors is elected by the general meeting. It is responsible for the auditing and controlling of the performance of the Board of Directors.

The Board of Advisors is generally appointed by Board of Directors. It has no

legal power to direct, supervise or control cooperative. It can only give advice to the Board of Directors and Staff as to how to run cooperative.

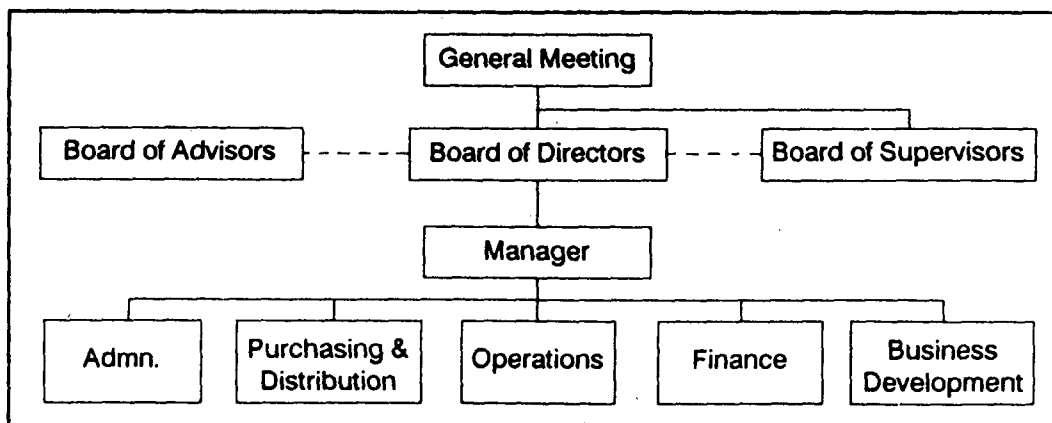
Other components are business activities of the co-operative, such as credit, input supply, marketing, consumers activity and others in case of agriculture, as shown in the organizational chart below:

The Organizational Structure of Agricultural Coop.



In case of consumers' co-operative, the organizational structure in general is the same to that of agriculture. Only business activities are different, as shown below:

The Organizational Structure of Consumers Coop.



7. Capital

Like other business organizations, co-operative also needs capital to run its activities and business. There are two types of co-operative capital. One is Working Capital, such as for buying and selling goods and doing routine business including the payment of rent, wages & salaries, electricity, transportation,

taxes, insurance, etc. The other is Block Capital for acquiring or buying land, building, furniture and fixtures, office equipments, vehicles, etc.

Co-operative capital or fund comprises:

- 7.1 Share capital;
- 7.2 Reserve funds;
- 7.3 Member deposits;
- 7.4 Borrowings;
- 7.5 Government grants; and
- 7.6 Others.

- 7.1 *Share capital*: Share capital is the fund contributed by members. A member must at least buy one cooperative share, as required by Co-operative Laws. A member can buy any amount of co-operative shares but in general not exceeding 20% of the total shares.
- 7.2 *Reserve funds*: The second component of coop. capital is the reserve fund. This fund can be derived at only when the society makes profits. Usually not less than 25% of the net profits will be allocated for the reserve fund.
- 7.3 *Member deposits*: Member deposit is the amount of coop. fund derived from member savings or member deposits made with the coop.
- 7.4 *Borrowings*: Borrowing is the other source of coop. fund. Usually, it borrows from Government, agricultural banks, co-operative banks, commercial banks and sometimes from other cooperatives and financial/business institutions.
- 7.5 *Government grants*: Government may grant any amount of fund to support co-operatives.
- 7.6 *Others*: This may include interest earned by coop., undistributed coop. profit or surplus, etc.

8. Co-operative activities or functions

As a business organization, a coop. has to have activities or functions to perform. In case of agricultural co-operative, its main functions are (1) lending or giving loans to members, (2) supplying or distributing farm inputs, such as fertilizers, seeds, insecticides, animal feeds, farm equipments, etc. to members, (3) collecting or buying agricultural produce, such as rice, wheat, corn, flowers, vegetables, fruits from farmers for sales, (4) process farm products, such as rice milling, oil extraction, rubber processing, etc., (5) distributing consumers goods, such as rice, cooking oil, sugar and daily needs to members, and (6) providing other services to members, such as transportation, insurance, etc.

In case of Consumers Co-operative, its main functions are purchase and sales. Other activities such as ordering, packing, billing and delivery are allied activities attached to purchasing and selling.

9. Consumer Co-operative

9.1 What is Consumer Co-operative?

A Consumer Co-operative or popularly known as "Co-op. Store" in Asian

countries is another form of co-operative. Usually, it is organized among factory workers, salaried earners, state employees and urban people. Its main function is to procure goods and basic needs to be distributed among members at reasonable rates. Sometimes, it acts as a government distributing agency of rationed and controlled goods, such as rice, sugar and kerosine - particularly during a war or an economic crisis.

9.2 Why Consumer Co-operative is needed?

Generally, Consumer Co-operative is not needed if goods are available, quality is good, weight and price is fair, service is good and customers are not cheated. But in most of developing countries, where there is a scarcity of consumer goods and basic needs, common people are cheated with high prices, adulteration and less weight. In order to eliminate this kind of practice and to help common people to live a decent life, consumer co-operatives are needed.

9.3 Types of Consumer Co-operatives

There are many types and forms of Consumer Co-operatives. Main ones are (1) pure consumer co-operative, (2) multi-purpose co-operative, (3) institutional co-operative, and (4) village and rural co-operative.

9.3.1 Purely Consumer Co-operatives: They are organized or owned by members comprising common people or the general public. This type of cooperatives exist in Japan, Singapore and Thailand.

9.3.2 Multi-purpose Co-operatives: They serve both rural and urban people according to the need of the members. Their activities are mixed, such as Credit, Farm supply, Marketing, Processing, Consumer activities, Insurance, etc. This type of cooperatives exist in Sri Lanka and Vietnam. Indonesia and S. Korea, where Consumer Cooperatives are not in existence but are organized or operated as a unit or section of agricultural cooperatives, can also be included in the list of Multi-purpose co-operatives.

9.3.3 Institutional Co-operatives: Institutional cooperatives are those co-operatives which are organized among workers, employees or civil servants or Armed forces, who work in the same organization or institution. It can be organized purely as consumer cooperatives or multi-purpose co-operatives, such as among govt. officials, workers or employees of State Enterprises, Banking Institutions or factories. They exist in most of the countries, such as Bangladesh, India, Indonesia, Japan, Malaysia, the Philippines, Sri Lanka, and Thailand.

9.3.4 Village and Rural Co-operatives: In India, agricultural credit cooperatives serve rural people with consumer articles, necessities and daily needs.

9.4 Functions and forms of Pure Consumer Co-operative

Pure consumer co-operative has 3 main forms - Coop. Store or retail store, Super Market and Department Store.

9.4.1 Coop. Store: Coop. Store is a small retailing outlet organized at a village or in a small community. Its main function is to provide food, convenience goods

and daily needs such as rice, sugar, cooking oil, canned food, soaps, detergent, stationery, household appliances, etc. to members.

9.4.2 Super Market: Super Market is a large food shop of at least 4,000 sq.ft. where bulk of commodities is sold under "self-service" system.

9.4.3 Department Store: Department Store is a large shop of at least 4,000 sq.ft., selling at least 5 commodity groups or product line like Clothings, Home-furnishing, household goods, footwear and consumer durable goods.

9.5 How to organize a Consumer Co-operative?

Consumer Co-operative can be successfully organized and managed if and when:

- 9.5.1 There is a need;
- 9.5.2 There is an adequate fund;
- 9.5.3 There is knowledge and experience in doing business;
- 9.5.4 There is a good shop location;
- 9.5.5 There is economic viability and adequate volume of business;
- 9.5.6 There is a harmony and loyalty among members;
- 9.5.7 There is trained personnel;
- 9.5.8 There is no corruption; and
- 9.5.9 There is good and strong leadership.

If the above set conditions are not fulfilled or partially fulfilled, consumer co-operative should not be formed at all. It will fail and bring bad results to members and bad name to co-operative. If all conditions are fulfilled or mostly fulfilled, we can think of starting a co-operative.

Main steps in organizing a co-operative are:

1) Make a survey in order to find a need, potential members, co-operation from members, establishment cost, funds requirement and possibility of running a successful cooperative.

2) Constitute a steering committee to educate members and to discuss matters relating to organizing and running a co-operative. This includes location, forms, objectives, membership, functions, policy, by-laws, funds, coop. personnel and registration.

3) Call for the first general meeting to elect members of Board of Directors or Managing Committee and to adopt the co-operative by-laws.

4) Submit the formal papers for registration.

The papers must include (1) minutes of the first meeting, and (2) adopted by-laws duly signed by members.

9.6 How to run a Consumer co-operative?

To run a Consumer Co-operative, it requires:

- 9.6.1 Planned activities;
- 9.6.2 Capital;
- 9.6.3 Manpower;
- 9.6.4 Office and equipments;
- 9.6.5 Commodities or merchandize; and
- 9.6.6 Management.

9.6.1 *Planned activities:* Before starting any business, the Board of Directors and staff must have clear ideas of cooperative, its principles and business. What to do, how, when, why and by whom? For example, what kinds of goods it wants to buy and sell? Where to buy and at what price? How to sell (credit or cash) and at what price? How to keep records of goods (bought and sold)? How to mark the prices? How to replace and control stock? How to lower the operating cost and increase the income? How to increase sales? How to give good services? How to manage funds, business, office, personnel, etc? Who is going to do what and how? And how to compete with the private sector?

9.6.2 *Capital:* To run a co-operative, a certain amount of fund is required both for the establishment and day today operations. The establishment expenditure covers the land, office building, furnitures and fixtures, equipments, licenses and fees. This cannot be rotated. It is fixed or called "Block Capital". The other is fund to run co-operative business called "Working Capital".

So, the Board of Directors must know precisely how much the capital is needed for both purposes at least at the very beginning. But the problem is that from where to get the needed money? How much from Share Capital, how much from bank loans and from other sources? And how to manage it wisely and effectively.

9.6.3 *Manpower:* Manpower is the most important element to run a co-operative business. Success and failure of consumer co-operative depends very much on the performance of its workers and employees, regardless of how much or how little money they have. So, to run a co-operative properly, a number of employees must be recruited, trained, assigned and paid according to their ability and responsibility. Of course, a number of employees must be corresponded to the amount of work and the volume of business being run. Not too little and not too much.

9.6.4 *Office and equipment:* To run a business, a cooperative needs an office or store or a place to sell and equipments. So, a shop must be located in a good place, nice and clean and attractive. Besides, the shop must be arranged in a very nice and an economical way.

9.6.5 *Merchandize and assortment:* Consumer goods must be bought, replenished and assorted properly. What kinds of goods, quality, quantity and prices? And on what seasons and on what occasion (Christmas, new Year, opening school season and harvesting season)? How to place and keep them in good condition? And above all, how to make a quick sale & good sale?

9.6.6 *Management*: Management is the most difficult task to perform. It covers office management, business management, financial management, personnel management and above all, management of the top leaders. Therefore, the Board of Directors and Manager and staff must follow the co-operative by-laws, rules and regulations strictly. Otherwise it will confuse all concerned people - members, office bearers, manager and staff and the public. This means the end of co-operative business.

10. Problems of Consumer Co-operatives

The main reasons for the failure of consumers co-operatives in many countries were that they were family groups or closed clubs of a few persons which were organized mainly for distribution of scarce and controlled commodities. There was hardly any public support or enthusiasm for the programme. The real character of the societies was a mere distributive agencies for controlled commodities, with very little or insignificant cooperative content in them. The other reasons for the failure of these consumers cooperatives have been stated as under:

- 10.1 Weak Organisational Structure;
- 10.2 Small and un-economic size;
- 10.3 Dependence to a large extent on controlled and rationed commodities only;
- 10.4 Inadequacy of funds and proportionate heavy working cost;
- 10.5 Lack of business knowledge or experience on the part of Managing Committee;
- 10.6 Lack of loyalty on the part of members;
- 10.7 Lack of properly trained and competent staff and inadequate supervision over personnel;
- 10.8 Absence of strong wholesale or centralised agency for bulk procurement, warehousing and merchandising to facilitate smooth functioning of primaries; and
- 10.9 Lack of popular leadership.

11. Conclusion

To vitalize economic and social well-being of the majority of the people, country like Bangladesh, India, Indonesia and Vietnam needs to organize more co-operatives both for rural and urban people. Agricultural co-operative is greatly needed for rural community to strengthen agricultural production and agri. business. And at the same time, consumer co-operative is also needed for urban and semi-urban areas. However, consumer co-operatives should be organized only when it is needed and where the chance of success is good. First it should be formed among salaried earners or among those who have fixed income and who have basic knowledge of running business. At the very beginning, it should be run by office bearers (Chairman, Secretary and Treasurer) at a very small scale. Then expand it gradually when they have more funds, bigger volume of business and above all more experience.