THE ROLE OF COOPERATIVE ENTERPRISES
IN THE EUROPEAN ECONOMY

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Abstract:
The paper reveals a relevant dimension of social economy in Europe: cooperatives. Like many other types of enterprise, cooperatives face the challenge of finding the most efficient means to distribute insufficient resources. But contrasting most other enterprises, cooperatives also need to seek a sustainable stability between members’ needs and economic challenges. The paper discusses issues related with the contributions of cooperative enterprises to poverty reduction, employment generation and social integration, the contributions of cooperative to the EU 2020 strategy and the impact of economic crisis on the cooperative enterprises.

Keywords: social economy, cooperative enterprises, EU 2020 strategy, economic crisis

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Cooperatives: definitions, values and principles
Cooperatives are business enterprises owned and controlled by the members that they serve. Their member-driven nature is one of the most obviously differentiating factors of cooperative enterprises. This means that decisions made in cooperatives are balanced by the pursuit of profit, and the needs and interests of members and their communities.

Cooperatives are businesses, not NGOs: they trade, but share equally and reinvest their profit.

The fundamental difference with cooperatives is that we have members - not shareholders - who make decisions democratically. These members can be employees, producers or clients depending on the kind of cooperative. At the same time, they are the owners of the cooperative business. So they control and share the profits themselves.

Cooperatives are founded on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

Cooperatives can take many forms and activate in every sectors of society (retail, agriculture, housing, banks, healthcare, insurance, consumers, renewable energy, intellectual property, water, industry) and come in all types and sizes: from small companies owned by employees, to large banks owned by clients. Most
share a unique set of principles which keep them in step with their member-driven category.

The cooperatives as independent association of persons joint voluntarily to get together their common economic, social, and cultural needs and objectives through a jointly-owned and democratically-controlled enterprise are guided by seven principles:

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

- **Voluntary and open membership.** Cooperatives are voluntary organizations, open to all persons able to use their services and willing to agree to the responsibilities of membership, without gender, social, racial, political or religious discrimination.

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

- **Education, training and information.** Cooperatives provide education and training for their members, elected representatives, Managers, and employees can contribute effectively to the development of their cooperatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of cooperation.

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

- **Concern for community.** Cooperatives work for the sustainable development of their communities through policies approved by their members.

- **Cooperation among cooperatives.** Cooperatives serve their members most effectively and strengthen the cooperative movement by working collectively through local, national, regional and international structures.1

2012 as the International Year of Cooperatives

"Cooperatives are a reminder to the international community that it is possible to pursue both economic viability and social responsibility" the United Nations Secretary-General Ban Ki-moon said.

Worldwide, there are now three times as many member owners of cooperatives as there are individual shareholders. In recognition, and linking to global development goals, the United Nations has declared 2012 as the International Year of Cooperatives.

The United Nations General Assembly has declared 2012 as the International Year of Cooperatives, highlighting the contribution of cooperatives to socio-economic development, mostly their effect on poverty diminution, employment creation and social integration.

With the topic of "Cooperative enterprises build a better world", The international year of cooperatives contains three major objectives:

- **Increase responsiveness:** increase public awareness about cooperatives and their contributions to socio-economic development and the achievement of the millennium development aims.

- **Promote growth:** promote the construction and growth of cooperatives among individuals and institutions to address common economic needs and for socio-economic empowerment.

- **Set up correct policies:** support governments and regulatory bodies to establish policies, laws and regulation conducive to cooperative formation and growth.2

By raising awareness about cooperatives, the Year will help to encourage support and development of cooperative enterprises by individuals and their communities.

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2 http://www.un.org/en/events/coopsyear/
International years are declared by the United Nations to draw attention to and support actions on most important issues. The international year of cooperatives is intended to raise public awareness of the invaluable contributions of cooperative enterprises to poverty reduction, employment generation and social integration. The year will also highlight the strengths of the cooperative business model as an alternative means of doing business and furthering socioeconomic development.

Cooperatives cooperate for a better economy

The word that happens most often in the speeches of authorities about development policy is business. Business is considered one part of the equation for human development. Although there are forms of business that offer a more hopeful alternative model.

Cooperatives are self-help enterprises owned by their members. They are run on democratic lines with the principle of ‘one member, one vote’ rather than ‘one dollar, one vote’. What is interesting is their total reach and growing success. Three billion people, according to the United Nations, help to secure their livelihood through cooperatives.

In 2001, when Argentina ran into default on its debts, unemployment increased rapidly to one in four of the population. As companies collapsed in the economic decline, workers responded by occupying factories and continuing to operate in the new form of worker cooperatives. What the workers were doing was against the law, but it made good sense in a country with the greater part of people in poverty and with few other opportunities to them.

Around 170 businesses, some with over 200 employees, were rescued in this way by their workers. Of these, 93 per cent of these are still operating.

In Bangladesh dairy cooperatives have helped small farmers to get a better deal. Milk is a good bet for small farmers. It is a daily product. It has a ready market and families can use some of what they produce. But milk is perishable and it is difficult to transport, so private dealers with milk dairies and distribution chains operated a monopoly that could charge what they liked. By forming as a cooperative enterprise, farmers, mainly women, broke out of the poverty trap. Their earnings have increased tenfold.

In Santa Cruz, Bolivia, 96,000 people are owners of the water cooperative that, with other cooperatives, provides over 90 per cent of the city’s water. Charges are low, well within the affordability limit of 5 per cent of income for unskilled workers. It has recently been named as one of the best-run water companies in Latin America, with a low level of water leakage, a high level of staff productivity and universal metering.

In Africa one in 13 people is a member of a cooperative and there are six times as many cooperative owners as there are shareholders.

In the fast-growing BRIC economies (Brazil, Russia, India and China) there are four times as many cooperative members as direct shareholders. Fifteen per cent of their population are cooperative members, compared to only 3.8 per cent who are shareholders.

From shoe-shiners in Uganda, sex workers in India through to farmers across Latin America, cooperatives offer a model of business in which people can be stronger by coming together. Not surprisingly, three quarters of all fair trade is sourced from cooperatives. In fact it was a cooperative in Mexico, *(the Union de Comunidades Indígenas de la Región del Istmo)* that launched the first ever certified fair trade product, sold to consumers in the Netherlands under the label of Max Havelaar.

Cooperation among enterprises, as a survival strategy

Small and medium-sized enterprises (SMEs), the world over, are facing particular challenges resulting from globalization, increasing customer expectations and the revolution in information technology.

In figure 1 it is illustrated the way in which enterprises cooperate, e.g. the form enterprise clusters take, as a reconciler between external factors forcing enterprises to cooperate (push factors) and potential benefits at the level of the individual enterprise (pull factors).

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Due to reduced trade obstacles, lower transaction costs, and rising similarity of lifestyles around the world, so called “global players” discover it easier than ever to penetrate local markets. In order to diminish the disadvantages of large size (such as deficiency of flexibility and the comparatively high cost of coordination) and to diminish complexity, they use decentralized holding structures, develop systems with which to address customers individually, and redirect risk to their medium-sized suppliers. In doing so, large companies successfully emulate what used to be comparative advantages unique to SMEs. At the same time they try to extend their advantages of scale, such as the effects of experiential learning curves and networking and global purchasing strategies (global sourcing) by means of strategic alliances and mega mergers.

In the last decade of the 20th century, large organizations frequently undertook restructuring which led to demands for high value systems results and amazing quality from their small and medium sized subcontractors and suppliers. At the same time technological progress meant a growing apply of automation leading to a need for higher capital intensity even in medium-sized firms.

Increasing expenditure on research and development, shorter product life cycles, and growing cost competition are severe realities faced by small and medium-sized enterprises. SMEs can only react to these pressures on their profit margins by sustainable diversification and differentiation. To do this they have to improve their core competencies through continual efforts at innovation and by systematically identifying and exploiting potential for cooperation. These strategic approaches must be looked at together. This is especially true for research and development, the costs and risks of which can be born more easily by large enterprises.

**The Cooperatives contribute to the EU 2020 strategy**

The United Nations has declared 2012 as the International Year of Cooperatives, encouraging all member States and relevant stakeholders to take advantage of it to establish policies, laws and regulations conducive to the formation, growth and stability of cooperatives.

At European level, the International Year will reach its climax with the Cooperative Week, which will be held in Brussels from 23 to 27 April 2012. The European conference “Cooperative contributions to the EU 2020 strategy” will officially open the week.
The conference will be held after Cooperatives Europe annual General Assembly. It will highlight how cooperative enterprises are a perfect fit with Europe 2020, the growth strategy of the EU for the coming decade.

EU2020 aims for “a sustainable economy, putting people and responsibility first with a sustained fight against exclusion and a transition to a green economy”. Cooperatives already act in this way, putting people at the heart of their business, while at the same time generating long-term wealth for the communities. Cooperatives bring specific answers and innovative solutions that aim at contributing to the EU2020 strategy.

The European conference will be the time for cooperatives to highlight their contribution to the EU2020 strategy and to show that they offer a powerful stabilizing element to Europe’s economic system – a role that European institutions ought to recognize and strengthen further.

The Cooperatives Statute in European Economy

Cooperatives are successful businesses because they represent a successful force for economic growth and social cohesion in Europe.

“At a time when Europe and our economy is striving for economic and employment growth, we need now more than ever businesses which care about people’s needs, and therefore in particular we need cooperative businesses” said Antonio Tajani, Vice President of the EU Commission, responsible for Industry & Entrepreneurship.

“We aim to get a wider recognition and integration of the cooperative business model in Europe. The specificities of cooperative enterprises must be taken into account when we are looking at financial legislation. It is not about giving a privilege to them, it is about recognizing their social and economic contribution” stated Sven Giegold, Member of the EU Parliament.

“Both EU and national policies should create a level playing field allowing social entrepreneurship and cooperatives to compete with other forms of enterprises without giving up their aims and working methods” stated Staffan Nilsson, President of the European Social and Economic Committee, as a message to the European Institutions.

The European Cooperative Society Regulation (SCE – ”Societas Cooperativa Europaea”) represents an important law tool, but it is even more important as it is a concrete recognition of what cooperatives do in Europe.

The report on the SCE was presented in February 2012. According to the report on the SCE implementation, the most important benefit of setting up an SCE is to have a European image, because it allows people to stress their affiliation to the cooperative movement.

The most important negative drivers to the success of the SCE statute are the set-up costs, the complex procedures to be followed, the numerous references to national law and the legal uncertainty as to which the law applies in each case. Furthermore, the minimum capital requirement of 30,000 euro seems to be an obstacle.

The SCE could become another instrument enabling cooperatives to shift more easily in the EU context. In order to do this the SCE statute needs to be made more effective and applicable. There is a low awareness on the SCE, which would explain why the SCE model is only scarcely adopted by enterprises.

"The issue is to try to strike a new balance between the legal form which is adopted for the EU cooperative and how that ties with the national legislation. For a long time big cooperatives were seen as not being true cooperatives but as we have seen in the European Court of Justice ruling in September 2011 big cooperatives are real cooperatives and highlighted that we need to be sure that we have cooperatives which compete on an international levels. The cooperative business model is the best form available for us to drive forward the agenda of the EU 2020" stated Giuliano Poletti, the Vice President of the Alliance of Italian Cooperatives.

Nowadays it can be introduced into discussion the need to restart economic growth in Europe, especially making sure that a new economic model is put in place, one which is smart, sustainable and inclusive.

Cooperative business model in times of crisis

"Through their distinctive focus on values, cooperatives have proven themselves a resilient and viable business model that can prosper even

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1 "Cooperative contributions to the EU 2020 strategy" - EU conference organized with the EU Commission, available on http://www.coopseurope.coop/2012-coops-year/

2 "Cooperative contributions to the EU 2020 strategy" - EU conference organized with the EU Commission, available on http://www.coopseurope.coop/2012-coops-year/

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The financial and ensuing economic crisis has had negative impacts on the majority of enterprises; however, cooperative enterprises around the world are showing flexibility to the crisis.

Financial cooperatives remain financially sound; consumer cooperatives are reporting increased turnover; worker cooperatives are seeing growth as people choose the cooperative form of enterprise to respond to new economic realities. The cooperative model of enterprise can survive crisis, but more importantly that it is a sustainable form of enterprise able to survive crisis, maintaining the livelihoods of the communities in which they operate. It more suggests ways in which the International Labour Organization can strengthen its activity in the promotion of cooperatives as a means to address the current crisis and avert future crisis.  

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