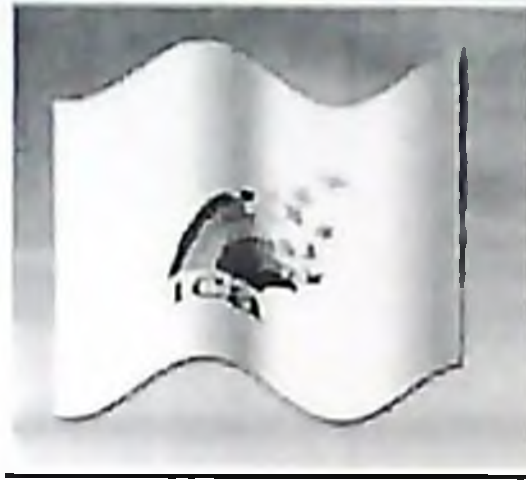


Course Notes
on
Cmgt 1101 Theory and Principles of
Co-operation (2+0)



Dr.G.Veerakumaran



Department of Cooperative Management,
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Management
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**College of Cooperation, Banking and
Management**
B.Sc (C&B) Honours Degree Programme

Course Outline

**Cmgt 1101 Theory and Principles of
Co-operation (2+0)**

Concept of co-operation - Definitions of co-operation. Essential nature of co-operation, Values of co-operation. Objectives of co-operation – economic, social, ethical, political. Evolution of co-operation-. Pioneers of co-operative movement- Robert Owen, Raiffeisen, Schultze, Wollemburg and Luzzati.Principles of co-operation - Rochdale principles, ICA principles, first reformulation, second reformulation (co-operative identity statement).Co-operation as an association-features of an association, Co-operation as an enterprise. Other forms of business enterprises - features of sole proprietorship, partnership and joint stock companies; Co-operatives v/s. other forms of business enterprises. Co-operation as a social process-competition, conflict and co-operation. Social responsibilities of co-operatives. Structure of Co-operative Management. International Co-operative Alliance – genesis, objectives, membership and obligations.

Lesson Plan

Sl. No	Topic	Hours of Lecture
1	Concept of Co-operation – Meaning and Definition	2
2	Nature of Co-operation	1
3	Values of Co-operation	1
4	Economic Objectives of Co-operation	1
5	Social, Political and Ethical Objectives of Co-operation	1
6	Pioneers of Co-operative Movement – Robert Owen	1
7	Rochdale Society of Equitable Pioneers	1
8	Raiffeisen and Schultze	1
9	Wollemburg and Luzzati	1
10	Principles of Co-operation – Definition and Evolution	1
11	Rochdale Principles	1
12	ICA Principles 1937	1
13	First Reformulation of Principles – 1966	1
14	Second Reformulation of Principles – Co-operative Identity Statement 1995	1
15	Analysis of Principles – Voluntary and Open Membership	1
16	Democratic Member Control	1
17	Member Economic Participation	2
18	Autonomy and Independence	1
19	Co-operative Education, Training and Information	1
20	Co-operation among Co-operatives	1
21	Concern for Community	1
22	Co-operation as an Association	1

23	Features of an Association	1
24	Co-operation as an Enterprise	1
25	Features of an Enterprise	1
26	Different Forms of Business Enterprises	1
27	Features of Sole Proprietorship, Partnership and Joint Stock Company	1
28	Co-operatives V/S. Other Business Enterprises.	1
29	Co-operation as a Social Process – Competition, Conflict and Co-Operation	1
30	Social Responsibilities of Co-operatives	1
31	Management of Co-operatives – Structure	1
32	International Co-operative Alliance – Genesis	1
33	International Co-operative Alliance - Objectives And Membership	1
34	International Co-operative Alliance - Functions	1
	TOTAL	36

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Ancient Forms of Cooperative Organizations

Cooperation is the very basis of human civilization. The interdependence and mutual help among human beings have been the essentials of social life. History tells us that man cannot successfully live by himself and for himself alone. He is dependent on others. The spirit of association is essential to human progress. Therefore, working together is as old as human society. Since the beginning of the human society, men have cooperated first in foraging and then in hunting, later in agriculture and still in alone can achieve. Cooperation is therefore, the basis and essence of human life.

Cooperative Idea in Ancient Times

It is very interesting to trace the origin of cooperative activities in the early period of civilization. Instances of cooperative efforts were found in the ancient Egyptian Era. Cooperatives or quasi-cooperative systems were in existence. The craftsmen and artisans during the reign of Pharaohs developed a system of trade, which led to the constitution of associations, charged with the regulation of the entire trade system during 3100 to 1150 B.C.

Cooperative association existed in ancient Babylonia where the agricultural classes had cooperative features. Farmers on a cooperative basis managed large estates. The cooperative tenant farming was popular during this period. In Babylonia trade and commerce also was practiced on cooperative method of business. In order to protect and assist the small farmers and craftsmen the loan societies were also created.

Instances of cooperative societies were found among the ancient Greeks. There were so many burial benefit societies, which had legal entity. Assured their members of a burial place and decent funeral and which was aimed at promotion of mutual assistance. There were the religious and cultural associations, which rendered valuable services to their members by undertaking bulk purchase of fuel and beverages and extending aid to the poor. The association followed open membership policy and admitted all citizens, slaves, strangers and even women. The principle of democracy was practiced. The members themselves managed the affairs of the associations and the membership meetings were held frequently. It was found that the workers organized themselves into clubs of stonemasons, marble cutters, wood workers, ivory workers, potters; fishermen etc. They made payments to sick members and contracted collectively for specific enterprises.

The first money lending society and savings associations bearing cooperative features flourished in China during the Hon Dynasty 200 year before the Christian era. The main characteristic feature of these ancient Chinese associations was that they were limited to a small group of members in a community. The important service rendered by these associations was provisions of loan facilities to members. They used to conduct frequent meetings to discuss their problems. All the members had to attend the meeting compulsorily. All those associations strictly followed the principles of equality and equity.

In the Roman Era, Collegia, a type of cooperative craftsmen organizations came into prominence. Such organizations were formed for shoemakers, pot makers, dyers, carpenters, coppersmiths, goldsmiths and flute players. There were also

separate guilds of classical trumpet players. In the Collegium all the men were brothers and all the women, sisters and in some of them the slave could sit at table or council with freeborn men. Further, Burial Benefit and Craftsmen societies were also very popular during 510 B.C. to 475 A.D.

In the early Christian era also there were some instances of cooperative experiments. There were number of artisan societies which extended burial benefits to its members. These societies raised funds by way of common subscription. It was said that the artisan societies were the forerunners of the modern consumer cooperatives. It was found that due to the impact of the teachings of Christ, people began to enjoy personal freedom.

Another type of cooperative effort was found in the barbaric age (476 to 700 A.D.); people lived in communities for self-protection from robbery, which was rampant in those days. Since the main occupation was farming, mostly the farming operations were also conducted cooperatively.

History tells up that in 600 A.D. the Islamic Faith emphasized the relative significance of cooperation; and aid to poor persons formed a matter of the faith. The Islamic Bible thus supported strongly the idea of cooperation to better the socio economic and political conditions of the community.

In the middle age (500 to 1,400 A.D.) the cooperative idea took more concrete shape. 'The first notion of self supporting community, within a state, of which the members would live together in amity, substituting cooperation for Competition in the business of getting a living, was probably the monastic idea of early middle ages'. It is during this age the guilds developed in Europe. These guilds were nothing but craftsmen

associations, mostly organized to render specific services to their members. They raised common funds, which were utilized to pay funeral expenses, allowances to physically handicap and grants to widows. Later agricultural cooperatives began to develop particularly in the field of dairy. Stewart C. Eastern writes in 'The Heritage of the past' that the strips system was found during the middle age. In this strips system, the cultivation was done on a cooperative basis.

The mutual fire insurance cooperatives prevalent in London and Paris in between 1400 to 1750 A.D. provide further instances of cooperative activities.

Nevertheless, the roots of cooperation as a formal organization should be carefully traced. In the opinion of Prof. Namjoshi, there are three important sources, which inspired the modern cooperatives. Firstly, they are indirect descendents of Mediaeval European Guilds. Secondly, and they are direct descendents of the mutual self-help associations typical of early industrialization. The third and most interesting root is the active social experimentation of the Utopian Societies and other cooperative leaders.

Genesis of Modern Cooperative Doctrines

Introduction

The post-industrial revolution era witnessed the rising spectre of misery, destitution and poverty. The advent of the factory system brought with it many evils such as long hours of work in over-crowded, ill ventilated factories under in sanitary conditions, ruthless competition and inhuman exploitation of wage earners by capitalists. These ill-effects of industrialization made a few, more imaginative among socially minded persons apply their minds to find alternative to new capitalistic order based on the doctrine of individualism. Several social thinkers and reformists, wanted to create a new social order, a 'New moral world' favourable to the promotion of human character and happiness. Attempts were made to evolve alternative systems, which would overcome the existing imperfections in the social order and serve as powerful influence in the remoulding of life in the modern world. In this situation Robert Owen came as a messiah with certain plans to reorganise the society on a cooperative basis. The idea soon caught the imagination of working class. Later on in 1844 the movement entered the field of distribution, which proved to be the turning point in the history of cooperative movement. It paved way for the establishment of a new economic order, which provides opportunity, security, and happiness for all, that is free from exploitation, misery and poverty. At this juncture two streams of cooperative thought developed: one, which regarded cooperative as an instrument of social transformation and the other, which viewed it as a practical business proposition.

Reformist Cooperative Doctrines

The Social ideas connected with the 19th century social reformism and early socialistic thoughts (which came to be

called 'utopian socialism'), constitute a body of thought commonly known as Reformist Cooperative Doctrines. The early cooperative thinkers like Robert Owen, Charles Fourier, Louis Blanc and Saint Simon and their followers developed these ideas. Actually these reformists had their forerunners; the notable among them were P.C.Plockboy and John Bellers in seventeenth century, who had formulated certain cooperative principles. However, only after the advent of Owen and Fourier in the social scene, the reformist ideas came to influence the social thought and process greatly. In the words of Frank Robotka,

The reformist ideas of cooperation are those that look upon it as a means of bringing about a more or less comprehensive and revolutionary regeneration or reform of the capitalistic economy; that is, a means of redistributing income and wealth, eliminating or harmonizing conflicts of interest between labour and industrial management, conflicts between producers and consumers, and so on.

The early co-operators of this creed, including Robert Owen, Fourier, Saint-Simon, Proudhon and Louis Blanc, came out with the idea of creating an improved society through the foundation of cooperative association. These men looked upon cooperatives as social revolution or to abolish property interests or inequality of fortunes. According to these thinkers the cooperative movement essentially seeks to bring about social and economic change through the process of persuasion and mutual and cooperative efforts in a gradual manner without undermining the stability of the existing social and economic order. In short the Reformist ideology has normative connotation and implies restructuring of society and establishing a new social order, along the lines consistent with cooperative ideology.

Robert Owen (1771-1858). The foremost among the reformists was Robert Owen. He was an industrialist of England. Being an educationist and socialist, he was one of the most outstanding and original thinkers and a great visionary, in the pre-Rochdale era. His aim was to create a 'new moral world', free from the evils of capitalism and industrialization. Owen's plan was to create small self-sufficient communities of producers. In Owen's communities there was neither profit nor capital. There was no hired labour. Owen, like other reformists, was evolutionary in his approach. He considered that it would be possible to transform the capitalist system by evolution, i.e., without nationalization, without class struggle and without overthrowing capitalist system.

Charles Fourier. (1772-1837). He was a cooperative thinker and idealist of France. While Robert Owen and Dr. King were propagating cooperative ideology in England, Fourier spread similar ideas in France. He also emphasised the need for collective ownership of production and abolition of private property. He held the view that private trade should be liquidated, which would be replaced by public joint-stock companies which would own livestock and other means of agricultural production. Labour was to be given premium in the profit distribution so that poor would grow and become equal to the rich. Fourier's reformist ideas were so appealing those even great radicals like Karl Marx and Engels "underscored the greatness of Fourier as a reformist who wanted to transform the society according to communist principles." Thus Fourier was regarded as the champion of improvement of existing social system. The Marxist theory has adopted the most progressive of Fourier's ideas: everybody's right to work, the advantage of communities, the idea of competition, and the theory of education.

Besides reorganising production, the reformists aimed at regulating consumption. They also guaranteed housing and medical care. Education and cultural needs were to be satisfied in the communities. The communities conceived by reformists, would aim at collectivisation of economic activity within the framework of capitalistic system in order to get the advantage of both the systems. They also include moral and religious motivation, as the 'inherent divinity of man' was the basic faith upon which the community relation is to be built. Ultimately the federation of such autonomous communities, 2000 or 3000 in number will replace the capitalistic system. The following are the important features of the Reformist Ideology.

First, the reformist ideology is evolutionary in character. It aims at replacing the capitalist system gradually and does not aim at overthrowing it all of a sudden.

Second, it advocates the philosophy of collectivism, wherein the property and the profit will be held by the community, and not by the individuals.

Third, the reformists had an ambitious and lofty' ideal of doing away with the money, exchange and market system which are considered to be the keystone of capitalistic system. This is the reason why they were regarded as socialists.

Fourth, they attributed the prevailing conditions of poverty and misery to the new conditions of economic relations created by post-industrial revolution characterised by the imbalance between production and consumption, which they sought to rectify by establishing new economic and social relation between individuals by the united action.

Fifth, the Reformists recognised the primacy of state in social affairs and the value of property rights.

Sixth, the Reformists did not contemplate class conflict and did not approve class struggle as a means for socioeconomic

transformation. Instead they advocated the philosophy of 'Social Harmony'.

Though Robert Owen and Charles Fourier did not trace in detail, the forms that cooperation was to take, they set out its fundamental principles: association, voluntarism, democratic management and social motive. Therefore they could be considered to be the fathers of cooperation.

Criticisms of the Reformist Doctrines: The Reformist Cooperative doctrines-came under severe criticism both by the liberalists of capitalist orientation and the radicals and communists like Marx and Engels.

The first and foremost criticism against the reformists was that they hoped to create a new order without dealing with the world that existed; men were to be transplanted from the world in which they lived into a new one without experiencing the difficult sacrifices necessary to accomplish a transition from the one to the other.

They rejected all political and revolutionary notions and wished to attain transformation of society by peaceful means by small experiments, which doomed to fail.

The reformists' plan like Owen's communal colonies represented a step backward towards self-sufficient communities of the past rather than a step in tune with the time towards specialisation where specialised and differentiated types of organisations exist for different purposes.

Radicals like Marx's repudiated the Reformists as utopians far removed from social realities. Marx considered cooperatives as incapable of bringing about any social change in a capitalistic environment.

Cooperation as a form of Business Organization

The reformists of earlier times belonging to pre-Rochdale era sought to bring about far-reaching reforms through cooperative action but failed to realize their objectives. Nevertheless, cooperation as a new and noble form of economic organisation with a social philosophy of high order and a moral content has come to stay. Their successors had since resorted to other means. They had narrowed down their objective to organise and run successful business institution for undertaking specialized functions like supply of consumer articles and dispensation of cheap credit. For instance, Dr. William King (1786-1865) of Brighton, England gave practical shape to Owen's ideals. Under King's inspiration many cooperative stores were organised by workers to escape from the exploitation of "truck-shops" of factories and private trade "badges". Dr. King insisted on the voluntary element of cooperation. Almost all of the early cooperatives failed. Finally a society organized by a group of 28 workers in Rochdale, an industrial town in England - The Rochdale Society of Equitable Pioneers - on 21st December 1844, proved a successful venture. The single factor in their success was the way in which they absorbed the lessons of the previous failures.

The ideas of the Rochdale Pioneers, set forth in the rules of their society, make up a body of Principles, popularly known as the Rochdale Principles. . The ideas were democratic control, open membership, limited interest on capital, patronage dividend, cash trading, sale of pure and unadulterated goods, education of the members, and political and religious neutrality. None of these eight ideas was individually novel; but their combination-was essentially new. The Rochdale Pioneers in fact have laid the foundation for the Cooperative movement, which developed and spread later throughout the whole world.

The followers of Owen and Fourier like Dr. King and Rochdale Pioneers were more pragmatic in their approach and meticulously worked out certain rules and methods for successful organization for running different types of cooperatives. Following the lead given by Rochdale pioneers, attempts were made in Europe to form cooperative institutions at micro-level, setting the objectives pragmatically and without assigning any social or national role for them.

Schulze-Delitzsch (1808 - 1883) founded in Germany credit cooperatives for urban people from 1850 onwards. Friedrich Wilhelm Raiffeisen (1818-1888) organised rural credit cooperatives in Germany from 1854 onwards. Having been inspired by the Consumers' Cooperative Movement, Sir Horace Plunkett (1854 - 1932) introduced the cooperative form of organization among farmers in Ireland. 1882 onwards, dairy cooperatives were organised in Denmark. In Italy, inspired by German Cooperative Credit Movement, Luzzati organised urban credit cooperatives from 1866 onwards, and Wollemburg organised rural credit cooperatives from 1883 onwards.

The pioneers of cooperative movements in various countries used cooperation as a form of organization for organizing weaker sections like workers, consumers, farmers, artisans etc., for liberating them from the exploitation by stronger groups like traders and moneylenders.

Various writers like Victor Humber (1800-1869), Walras (1834-1910), Dr.G.Fauquet (1873-1953) have also considered cooperation as a form of organization for particular purpose. These co-operators belong to the 'liberal tradition' and subscribed to the view that cooperation is not a tool for

complete transformation of society but a means of doing business efficiently in a competitive environment. As Professor Huber of Germany (a contemporary of Raiffeisen and Schulze) has observed, cooperation is not a threat to the existing social order but a means for improving the standard of living of the workers. He advises conservatives to promote cooperation in order not to leave it in the hands of revolutionaries. "The justification of the cooperative movement based on the Rochdale plan, was no longer that it would revolutionize society, but that it was one of the most effective means of reconciling private interest with public good".

The co-operators belonging to liberal business tradition place cooperation in a system dominated by the competition of capitalist enterprises, or like Fauquet, they limit their analysis to "Cooperative sector", without fixing what part other capitalist or public enterprises ought to play. Such cooperatives will operate under the competitive environment and the price and market mechanism of the capitalistic system. But, if cooperation reaches certain stage, it can influence the price and market behaviour. The cooperative business organization has the following specific uses as identified by Wlaras.

- 1. This kind of approach to cooperative organization enables labour to have access to the collective use of capital and leads to a fair distribution of wealth between classes.*
- 2. It increases co-operators' real income by enabling them to secure commodities and services at fairer price and sell the results of cooperative production at fairer price.*
- 3. It distributes the profit of the enterprise to the members, which would have otherwise gone to the capitalist middlemen.*

The cooperatives of this kind were conceived as organizations meant to operate at 'micro-level' among the primary social

groups and people belonging to homogenous class or occupational groups like, farmers, artisans and consumers. The importance of economic operation and business efficiency was stressed much. Each cooperative has limited scope and definite objective within a well-defined area of operation. The cooperatives are expected to correct the market imperfections, through vertical and horizontal integration. The liberalists were pragmatic in assigning a limited role to cooperatives. According to them the dual role of cooperatives are: to enable the economically weaker sections to become their own distributors, lenders or employers as the case may be, eliminating middlemen's profits, and to train them in managing business on democratic lines.

The Reformist Co-operators Vs the Liberalists

The Reformist co-operators and those who subscribe to the liberal business tradition differ in the following respects:

- 1. The Reformists advocated self-sufficient integrated communities, which would meet the entire, needs of the members and eventually transform the society. The latter co-operators restricted the objectives to meet particular common needs through specialized functional associations operating within the framework of the exchange economy. The scope of these associations was narrowed down to current tasks, which could be more easily implemented.*
- 2. The Reformists contemplated a community of interests in property and common sharing of benefits within the colonies, whereas the practical co-operators have built upon a recognition of individual private property and sharing of benefits in proportion to the - participation in the activities of the organization.*
- 3. The Reformists relied upon public-spirited citizens and philanthropists for capital. But the co-operators recognised the*

need for members themselves providing the required capital for the enterprise.

4. Reformists contemplated a benevolent administration from top down, whereas co-operators insisted upon developing the latent capacity of the people to administer democratically their own enterprise from below.

Despite many differences, the Reformists and the practical co-operators of later days had a few common things. Both these people wanted to achieve a new social system through work. Both were opposed to capitalistic system, but did not struggle against this system and they won members by offering material advantage. Both of them placed great stress on the moral value of the cooperative organization.

Robert Owen¹

Robert Owen (14 May 1771, Newtown, Montgomeryshire,



Wales – 17 November 1858) was a Welsh social reformer and one of the founders of socialism and the cooperative movement. Owen's philosophy, which Karl Marx would later name as utopian socialism, was derived from three fundamental pillars of his thought. First, he believed that no one was "responsible for his will and his own actions" because "his whole character is formed independently of

himself." Owen firmly believed that people were the product of their environment, which fueled his support for education and

¹ https://en.wikipedia.org/wiki/Robert_Owen

labour reform. His views made Owen a pioneer in the promotion of investment in human capital. Owen's second pillar was his opposition to religion. Owen felt that all religions were "based on the same absurd imagination" which he said made mankind "a weak, imbecile animal; a furious bigot and fanatic; or a miserable hypocrite." However, he did embrace Spiritualism towards the end of his life. His third pillar said that he disliked the factory system, and supported the cottage system.

Early life

Owen was born in Newtown, Powys, then a small market town in Montgomeryshire, Mid Wales. He was the 6th child, out of 7. Here his father had a small business as a saddler and ironmonger. Owen's mother came from one of the prosperous farming families; here, young Owen received almost all his school education, which terminated at the age of ten. After serving in a draper's shop for some years, he settled in Manchester.

Commercial Success in Manchester (1790)

He very rapidly gained success. When only nineteen years of age he became a manager of a cotton mill where one hundred people were employed, and by his administrative intelligence and energy soon made it one of the best establishments of the kind in Great Britain. In this factory, Owen used the first bags of American sea-island cotton ever imported into the country; it was the first sea-island cotton from the Northern States. Owen also made remarkable improvement in the quality of the cotton spun; and indeed there is no reason to doubt that at this early age he was the first cotton-spinner in England, a position entirely due to his own capacity and knowledge of the trade. In

1794 or 1795 he became manager and one of the partners of the Chorlton Twist Company at Manchester.

Philanthropy in New Lanark (1800)

During a visit to Glasgow he fell in love with Caroline Dale, the daughter of the New Lanark mill's proprietor David Dale. Owen induced his partners to purchase New Lanark, and after his marriage with Caroline in September 1799, he set up home there. He was manager and part owner of the mills (January 1810). Encouraged by his great success in the management of cotton mills in Manchester, he hoped to conduct New Lanark on higher principles and focus less on commercial principles.

The mill of New Lanark had been started in 1785 by Dale and Richard Arkwright. The water-power afforded by the falls of the Clyde made it a great attraction. About two thousand people had associations with the mills. Five hundred of them were children who were brought at the age of five or six from the poorhouses and charities of Edinburgh and Glasgow. The children had been well treated by Dale, but the general condition of the people was very unsatisfactory. Many of the workers were in the lowest levels of the population; theft, drunkenness, and other vices were common; education and sanitation were neglected; and most families lived in only one room. The respectable country people refused to submit to the long hours and demoralising drudgery of the mills.

Many employers operated the truck system, whereby payment to the workers was made in part or totally by tokens. These tokens had no value outside the mill owner's "truck shop." The owners were able to supply shoddy goods to the truck shop and still charge top prices. A series of "Truck Acts" (1831-1887) stopped this abuse. The Acts made it an offence not to pay

employees in common currency. Owen opened a store where the people could buy goods of sound quality at little more than cost, and he placed the sale of alcohol under strict supervision. He sold quality goods and passed on the savings from the bulk purchase of goods to the workers. These principles became the basis for the Co-operative shops in Britain that continue to trade today.

His greatest success, however, was in the education of the young, to which he devoted special attention. He was the founder of infant schools in Great Britain, especially in Scotland. Though his reform ideas resemble European reform ideas of the time, he was likely not influenced by the overseas views; his ideas of the ideal education were his own.

Though at the beginning he was regarded with suspicion as a stranger, he soon won the confidence of people. The mills continued to have great commercial success, but some of Owen's schemes involved considerable expense, which displeased his partners. Tired at last of the restrictions imposed on him by men who wished to conduct the business on the ordinary principles, Owen, in 1813, arranged to have them bought out by new found investors. These, who included Jeremy Bentham and a well-known Quaker, William Allen, were content to accept just 5% return on their capital, allowing Owen a freer scope for his philanthropy. In the same year, Owen first authored several essays in which he expounded on the principles which underlay his education philosophy.

Owen had originally been a follower of the classical liberal and utilitarian Jeremy Bentham. However, as time passed Owen became more and more socialist, whereas Bentham thought that free markets (in particular, the rights for workers to move

and choose their employers) would free the workers from the excess power of the capitalists.

New Lanark itself became a much frequented place of pilgrimage for social reformers, statesmen, and royal personages, including Nicholas, later emperor of Russia. According to the unanimous testimony of all who visited it, New Lanark appeared singularly good. The manners of the children, brought up under his system, were beautifully graceful, genial and unconstrained; health, plenty, and contentment prevailed; drunkenness was almost unknown, and illegitimacy was extremely rare. The relationship between Owen and his workers remained excellent, and all the operations of the mill proceeded with the utmost smoothness and regularity. The business was a great commercial success.

Plans for alleviating poverty through Socialism (1817)

Hitherto Owen's work had been that of a philanthropist. His first departure in socialism took place in 1817, and was embodied in a report communicated to the committee of the House of Commons on the Poor Law.

The general misery and stagnation of trade consequent on the termination of the Napoleonic Wars was engrossing the attention of the country. After tracing the special causes connected with the wars which had led to such a deplorable state of things, Owen pointed out that the permanent cause of distress was to be found in the competition of human labor with machinery, and that the only effective remedy was the united action of men, and the subordination of machinery.

His proposals for the treatment of poverty were based on these principles. Communities of about twelve hundred persons each

should be settled on quantities of land from 1000 to 1500 acres (4 to 6 km²), all living in one large building in the form of a square, with public kitchen and mess-rooms. Each family should have its own private apartments, and the entire care of the children till the age of three, after which they should be brought up by the community, their parents having access to them at meals and all other proper times.

These communities might be established by individuals, by parishes, by counties, or by the state; in every case there should be effective supervision by duly qualified persons. Work, and the enjoyment of its results, should be in common. The size of his community was no doubt partly suggested by his village of New Lanark; and he soon proceeded to advocate such a scheme as the best form for the re-organization of society in general.

In its fully developed form - and it cannot be said to have changed much during Owen's lifetime - it was as follows. He considered an association of from 500 to 3000 as the fit number for a good working community. While mainly agricultural, it should possess all the best machinery, should offer every variety of employment, and should, as far as possible, be self-contained. "As these townships" (as he also called them) "should increase in number, unions of them federatively united shall be formed in circles of tens, hundreds and thousands", till they should embrace the whole world in a common interest.

Community Experiment in America (1825)

At last, in 1825, such an experiment was attempted under the direction of his disciple, Abram Combe, at Orbiston near Glasgow; and in the next year Owen himself commenced

another at New Harmony, Indiana, U.S.A. After the trial for about two years, both failed completely.



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- 1818. *Two memorials behalf of the working classes.* In *The Life of Robert Owen* written by Himself, 2 vols, London, 1857-8.
- 1819. *An Address to the Master Manufacturers of Great Britain.* Bolton.
- 1821. *Report to the County of Lanark of a Plan for relieving Public Distress.* Glasgow: Glasgow University Press.
- 1823. *An Explanation of the Cause of Distress which pervades the civilized parts of the world.* London. & Paris.
- 1830. Was one of the founders of the Grand National Consolidated Trade Union (GNCTU)
- 1832. *An Address to All Classes in the State.* London.

- 1849. *The Revolution in the Mind and Practice of the Human Race*. London.

Robert Owen wrote numerous works about his system. Of these, the most notable are:

- *the New View of Society*
- the Report communicated to the Committee on the Poor Law
- *the Book of the New Moral World*
- *Revolution in the Mind and Practice of the Human Race*
- Owen's major works are reprinted in (Gregory Claeys, editor), *The Selected Works of Robert Owen* (4 vols. London, Pickering and Chatto, 1993) The Robert Owen Collection, that includes papers and letters as well as copies of pamphlets and books by him and about him is deposited with the National Co-operative Archive, UK

Robert Owen and the Co-operative movement

Robert Owen has been called the 'father of English Socialism'. He was the founder of the Co-operative movement and believed in worker control although he was a high capitalist himself. He was the product of self-help and a very practical man who concentrated on the 'means to the end'. He believed that if the working man ever was to achieve equality, then the man must change first - in attitude. Also, the working man had to know of, believe in and be equipped to fight for the cause, according to Owen. This is very much the self-help ethic. Owen became convinced that the advancement of humankind could be furthered by the improvement of every individual's personal environment. He reasoned that since character was moulded by circumstances, then improved circumstances would lead to goodness. The environment at New Lanark, where he tried out his ideas, reflected this philosophy.

A London Co-operative Society had been started in 1824 with rooms in Burton Street, Burton Crescent, where discussions were held. Later it transferred to Chancery Lane where John Stuart Mill, Charles Austen and others had hand-to-hand fights with the 'Owenites'. The *Co-operative Magazine* was started in January 1826 and gave accounts of the New Harmony community. It was published during the next three years as a sixpenny monthly. In 1830 the British Co-operator, the Co-operative Miscellany and other journals that expounded Owen's theories replaced it.

Also in 1826 the London Co-operative Society was formed, with William Lovett as storekeeper. Similar societies were formed elsewhere, and the British Association for Promoting Co-operative Knowledge was founded. All failed within three to four years because funds had no legal protection although much of this happened when Owen was in New Harmony. After 1829 Owen took over the development of Co-operatives, and pursued three lines of development:

- education
- storekeeping
- Production - the heart of Owenism.

The idea failed in the short-term, but was better organised after 1844. Many societies were started and Owen began to spread his ideas through lectures and by promoting various associations: he gave Sunday lectures at the Mechanics' Institute in Southampton Buildings until people objected. He then moved to the 'Institute of the Industrious Classes,' and to Burton Street. In 1832 he started the Labour Bazaar. He believed that the mal-distribution of wealth was the result of expensive and unnecessary middlemen who were barriers

between producers and consumers. He advocated 'labour exchanges' and 'labour bazaars' to eliminate middlemen. Owen preached two types of co-operation:

- co-operative exchange
- co-operative production

Since 14 April 1832 Owen had published a penny paper called *The Crisis*; in June he announced the formation of an association to promote the exchange of all commodities upon the 'only equitable principle' of giving 'equal values of labour.' To carry out this, an 'Equitable Labour Exchange' was opened on 3 September 1832 at a building called the Bazaar, in Gray's Inn Road. It had belonged to a man called Bromley who had pressed Owen to use it for a new society. Owen had thought it suitable for his experiment, which had already been partly set going elsewhere. Any goods might be deposited in it; 'labour notes,' which had been elaborately contrived to avoid forgery, were given in exchange, and the goods deposited might be bought in the same currency. The system was extremely crude and scarcely intelligible. There was, however, a rush to the exchange. A large amount of deposits was made and the example was imitated, especially in Birmingham.

Difficulties soon arose. Bromley made exorbitant claims for rent though Owen thought that he had offered his premises free of charge. It was decided to move the exchange to Blackfriars. In January 1833 Bromley forcibly entered the premises and Owen paid large sums to settle the matter. Bromley tried to appropriate the scheme himself, but soon failed. The exchange was moved to Charlotte Street, Fitzroy Square, where Owen, helped by his son Robert Dale Owen, continued to lecture for some time, and a new constitution was framed. It only survived

for a short time; Owen made up a deficiency of £2,500 for which he held himself to be morally, though he was not legally, responsible.

Owen's activity continued for several years, and had a great effect in stimulating the co-operative movement in the country, though exciting comparatively little public interest. He took part in the seven co-operative congresses, which met between 1830 and 1834; he also took part in the succeeding fourteen 'socialist congresses' (1835-1846).

Rochdale Society of Equitable Pioneers



Thirteen of the Original Members of the
Rochdale Equitable Pioneers Society-
Photographed In 1865.

The Rochdale Society of Equitable Pioneers, founded in 1844, was an early consumer co-operative, and the first to pay a patronage dividend, forming the basis for the modern co-operative movement. Although other cooperatives preceded them, the Rochdale Pioneers' co-operative became the prototype for societies in Great Britain. The Rochdale Pioneers are most famous for designing the Rochdale Principles, a set of principles of co-operation that provide the foundation for the principles on which co-ops around the world operate to this day. The model the Rochdale Pioneers used is a focus of study within Co-operative economics.

History

The Rochdale Society of Equitable Pioneers was a group of 28 weavers and other artisans in Rochdale, England, that was formed in 1844. As the mechanization of the Industrial Revolution was forcing more and more skilled workers into poverty, these tradesmen decided to band together to open their

own store selling food items they could not otherwise afford. With lessons from prior failed attempts at co-operation in mind, they designed the now famous Rochdale Principles, and over a period of four months they struggled to pool together one pound sterling per person for a total of 28 pounds of capital. On 21 December 1844, they opened their store with a very meager selection of butter, sugar, flour, oatmeal and a few candles. Within three months, they expanded their selection to include tea and tobacco, and they were soon known for providing high quality, unadulterated goods. Ten years later, the British co-operative movement had grown to nearly 1,000 co-operatives.

The Pioneers' original store on Toad Lane was sold in 1867 and but it was later re-purchased by the movement, and opened as a museum in 1931. The museum resurrected the legal name Rochdale Equitable Pioneers Society in 1989, the name having been abandoned by the original co-operative in 1976 on merger with the Oldham Co-operative.

The Archive for the Co-operative movement in Rochdale is held by Local Studies, Rochdale Boroughwide Cultural Trust. Rochdale Pioneers traded independently until 1991, with name changes inspired by mergers with neighbouring co-operatives, as Pioneers from 1976, and Norwest Pioneers from 1982, based in Wythenshawe, Manchester by 1991. In 1991, then Norwest Co-operative Society transferred its engagements to United Co-operatives, that was run from Rochdale when it in turn transferred to the Manchester-based national hybrid society, The Co-operative Group, in 2007.

Rochdale Principles

These 28 Rochdalianians had high hopes and aspirations. They hoped not only to establish a store for the sale of provisions but also to acquire homes in which their members might live; to manufacture articles that the society's members might need as well as to provide employment; to acquire land on which to produce products needed by members; and to employ those members out of work or those whose wages were very low. They wanted to "establish a self-supporting home colony of united interests" and to "arrange the powers of production, distribution, education and government" in the interest of its members. And finally, "for the promotion of sobriety a temperance hotel (was) to be opened in one of the Society's houses as soon as convenient." This was, indeed, an ambitious program, and how different it was from the purposes which cooperatives today state as their reasons for organizing.

The business practices (later called as Rochdalian Principles), which these pioneers laid down for operating their store on Toad Lane were not individually novel but the combination of all them are essentially new. These practices were:

1. Capital should be of members own providing and bear a fixed rate of interest. (Limited interest on equity capital)
2. Only the purest provisions procurable should be supplied to members (to do away abominable adulteration of food).
3. Full weight and measures should be given. (Provide honesty in weighing)
4. Market prices should be charged, and no credit neither given nor asked. (Cash trading; no charge accounts; charge prevailing prices)
5. Profits should be divided in proportion to the amount of purchases made by each member (Patronage refunds)

6. The principles of "One member one Vote" should prevail in government, and the equality of the sexes in membership (democratic control).
7. Management should be in the hands of officers and a committee elected periodically by the members. (Representative government and control of the cooperative)
8. A definite percentage of profit should be allotted to education. (Provision for education in cooperation)
9. Frequent statements and balance sheets should be presented to the members (member information)
10. No inquiry should be made in to the political and religious opinions of those who apply for membership. (Political and religious neutrality)

Herr F.W. Raiffeisen and Herr Franz Schulze



Herr F.W. Raiffeisen

Germany was the first country in the world to apply the principles of cooperation in the field of credit. The cooperative credit movement was started in Germany in the middle of the 19th century. At that time the economic condition of Germany was extremely deplorable and the peasantry and artisans felt crushed under the heavy weight of indebtedness. Famines were common phenomena. Usury was the order of the day. The Jews ruled over the market and the poor laborers and farmers had no way out to buy articles of their requirements from them and sell their products to them. The Jews were not only buyers and sellers but moneylenders as well. German peasantry and laborers were thus passing bad times and were almost broken.

Herr F.W. Raiffeisen (1818-1888) and Herr Franz Schulze (1809-1883) the two pioneers in this field took initiative and started introducing various measures of relief. They started their schemes at about the same time but their field of

operation was entirely different. Raiffeisen tried to reduce the sufferings of the people living in the rural areas while Schulze adopted the new measures for giving relief to the people living in the urban areas. Both were convinced that the lot of people could be improved only if they were taken out of the clutches of the 'Jews'. They had realized that providing monetary help was not a permanent solution, and any time, in adverse circumstances, the people could fall a prey to the Jews. Hence, they thought that people should be made to take part effectively in any step aimed at ameliorating their condition. Self-help was considered to be the only way out.

It was Raiffeisen who contributed the maximum to the spread of the cooperative movement in Germany. He was the Mayor of Weyerbusch. He had witnessed how dishonest moneylenders created poverty-stricken farmers. His commune was in the grip of famine. He sought the support of the Government and got some grain. He appealed to the people for help. He employed bakers on wage basis for preparing breads. He also organized a 'Poor people's committee' which provided food to the poor and recovered the loan after the expiry of the specific period. In 1849, he was transferred to Flammersfield where he organized 'Union in Aid of Impoverished Farmers'. The funds for this union were raised on the security of the rich persons of the locality. This union achieved great success and rescued a number of farmers from the jaws of greedy Jews. Raiffeisen was then transferred to Heddesdorf where he set up the 'Heddesdorf Beneficent Society' whose members were also well-to-do people. These people deposited money with the society on interest. Loans were given to deserving farmers and artisans for productive purposes. Although the society was a grand success, Raiffeisen did not like the idea that the poor people should be at the mercy of the rich. He therefore, enrolled as members of the society. Accordingly, a new

society was constituted under the name of 'Heddesdorf Credit Union'. The memorable phrase, 'each for all and all for each' was coined there. The movement gained momentum and in a short time many credit unions were organized. The Grand Union of Rural Cooperatives also known as 'Raiffeisen Union' was set up in 1877.

Characteristics Features of the Raiffeisen Societies:

1. Membership was limited to the rural masses, especially farmers and cultivators.
2. Unlimited liability of the members.
3. Small area of operation.
4. Small loans were given to the members, which were recovered over a long period.
5. Loans were given on the basis of personal security of the members and only for productive purposes. Emphasis was on the *personal character* of the borrower.
6. Nominal share capital.
7. Profit earning was not the motive and even under the cooperative law only a small portion of profits was distributed to the members as dividend.
8. Losses and profits were transferred to the reserve fund and endowment fund. The endowment fund was indivisible.
9. The management was honorary.
10. Emphasis was given to moral as well as material well being.

Herr Franz Schulze



Memorial for Schulze-Delitzsch in Berlin-Mitte

Schulze was a judge in his native town of Delitzsch. He had seen the miserable condition of the people, especially of low means, with his own eyes. In 1849, he organized in association with his friend Dr. Bernhardi, a friendly society for

Relief in sickness and later established an association of shoemakers for the purchase of raw material. In 1850, he founded the first credit association with the funds provided those who were well off and who did not require any financial help. Schulze was conscious of this situation and, therefore, he emphasized that no one could obtain loan from the association unless he was its member. Two years later, in 1852, Schulze founded a society at Delitzsch, which was based on cooperative principles. He obtained the required capital through the sale of shares. He was a wonderful propagandist and his efforts bore fruits quickly. He published book in 1856, which contained the principles of cooperative banking as formulated by him. The number of banks started by him increased rapidly, and in 1859 organized a congress of these banks. The congress decided to set up 'The General Union of German Industrial Societies'. He was its director till his death in 1883. He was also responsible for securing from Prussia the first cooperative law in 1867, which later on was made applicable to the entire country.

Characteristics Features of the Schulze-Delitzsch Societies:

1. Membership was limited to artisans, industrial workers and middle class people living in cities and towns.
2. Limited liability of the members.
3. Large area of operation.
4. The amount of loans advanced was bigger and the period of the repayment was short.
5. Loans were given on the security of tangible assets. Although loans were advanced for productive purposes, no supervision over the utilization of the loan was made.
6. A strong share capital
7. Profit earning was the chief motive and rate of dividend was quite high.
8. Not much emphasis was given to the reserve fund. Reserve fund was used for making up losses, but it was required to be made good as soon as possible.
9. The management was paid.
10. The chief concern was with the material well-being of the members.

Luigi Luzzatti and Leone Wollemborg



Luigi Luzzatti (March 11, 1841 – March 29, 1927) was an Italian political figure and served as Prime Minister of Italy between 1910 and 1911. He was Italy's first Jewish prime minister, though predecessor Sydney Sonnino was of partial Jewish ancestry.

He is remembered for his book *Dio nella libertà* (God in Freedom), in which he advocates religious

tolerance. This provoked an exchange of correspondence between him and Benedetto Croce

The co-operative movement in Italy, as elsewhere, was a child of misery and distress. During the middle of the last century, Italy passed through the darkest period of her history. Poverty and backwardness were at their climax. Usury and rack-renting were the order of the day. People of small means, whether labourers or peasants, were the victims of atrocious dealings of the moneylenders and the landlords. The depression of 1880 further worsened the situation and pushed the economy into the deep ditch of unemployment and falling prices. Luigi Luzzatti and Dr. Leone Wollemborg were the two great personalities who broke the vicious circle and took the country out of poverty and destitution.

What Schulze did for Germany, Luzzatti did for Italy. Luzzatti was a professor of economics in an educational institute at Milan. For some time, he also served as Finance Minister, Prime Minister and Minister of Agriculture, Commerce and Industry. He was a wealthy and well-educated man. He studied the German co-operative movement and

having found in it the solution for the ills from which the Italian economy was suffering those days established urban credit societies on the pattern of Schulze Delitzsch societies known as "Banca Popolarie" (People's Banks). Dr. Wollemburg was also a wealthy and educated man. He also served for some years as the Finance Minister of Italy. He started co-operative credit societies in the rural areas on the lines of Raiffeisen societies, known as "Casse Ruralie" (Rural Banks).

Characteristics of People's Banks

It was in 1864-65 that Luzzatti started his efforts with the organisation of a friendly society at Lodi. This society is in existence even today. In 1866 he established the first co-operative bank at Milan with a capital of 700 Lire. This capital was raised by the contributions of his friends and of his own. The establishment of this bank was followed by the establishment of similar banks all over the country and now these banks are handling about 1/3 of the total banking business in the country. The chief characteristics of these banks are as follows:

1. The membership of these banks is limited only to the people of middle class living in the towns.
2. The liability is limited.
3. There is no uniform rule for fixing the value of shares. Every society is left free to use its own discretion. The value of shares, however, ranged between 5 Lire and 50 Lire. In the beginning there was no restriction on the number of shares purchased by a member. However, the cooperative law restricted the amount of capital share held by a member at 5,000 Lire.
4. Emphasis is given on the selection of only honest and reliable persons as members because Luzzatti thought

that the honest people always have a better credit in the market. With this end in view the following methods are adopted:

- Selection is made carefully at the time of admission.
 - Stress is laid on punctual and regular payments of loans.
 - Regular attendance in meetings is insisted upon.
 - The uses to which the loans are to be put are carefully scrutinised.
 - Strict control and supervision is kept on the business and accounts of the society.
 - At the time of granting a loan the past dealings of the members are taken into consideration.
5. The main source of bank's funds is deposits.
 6. The management of the banks is democratic. General meeting is the supreme authority but the actual management is done by an elected board of management. The members of the Board are unpaid. The day-to-day transactions of the bank are conducted by the paid staff. For special purposes various sub-committees are appointed.
 7. Loans are granted in small amounts and for short periods. The rate of interest is low. Loans are advanced on personal security and also against bills of exchange, advance bills or trade bills. The facilities for the re-discounting of these bills are also available.
 8. In the beginning the surplus was distributed according to the share capital and dividend hunting was not encouraged, but now the position is different and almost all societies have started declaring dividends.

Comparison with Schulze Delitzsch Societies

We can compare the two system, i e., Schulze Delitzsch and the Luzzattian, as under:

Schulze Delitzsch	Luzzatti
The liability of some of the societies is limited while others unlimited.	Banks are established only on the basis of limited liability.
The value of a share is between £ 15 and £ 25 and is payable in instalments spread over a long period.	The value of shares is very small and ranges between £ 1 and £ 2 and is payable in 10 monthly instalments.
The management of the banks is paid.	The management is honorary.
The banks advance loans in cash. Cash credit is also sanctioned.	The chief channel of credit is the bills of exchange, advance bills or trade bills.
The area of operation is limited to one town.	The area of operation is limited to the whole district.
The banks have organised their central financing institutions.	There is no practice of establishing central financing institutions
Loans are granted only to members.	Loans are also given to non-members.
The followers of Schulzsch do not see eye to eye with those of Raiffeisen	There is complete harmony between Luzzatti and Wollemburg.
The rate of dividend is fixed	The rate of dividend is not fixed
No premium is charged while issuing shares to new members	Shares are sold at a premium.

Leone Wollemborg (March 4, 1859 - August 19, 1932)



was an Italian economist and politician. He made significant contributions to the spread of cooperative enterprises, specifically rural credit unions and agricultural cooperative banks.

Leone was born in Padua on March 4, 1859. At fifteen, he enrolled in the University of Padua and graduated 4 years later in law with a thesis on autonomous tax municipalities. He had memorized all of the poems of Heinrich Heine and was studying the works of Friedrich Wilhelm Raiffeisen. Leone Wollemborg and a group of about 30 farm workers and small landowners founded Italy's first cooperative bank in Loreggia in 1883. The intent of the bank was to help tenants, small landowners, and agricultural workers to rise from poverty by granting loans at low interest and with long deadlines. In 1885, he established the monthly publication *Rural Cooperation*, which was published until 1904.

As already stated, like Luzzatti, Wollemborg started establishing cooperative banks in rural areas. The first bank was established in 1883 in his home village known as Loreggia. To start with, there were only 32 members and Wollemborg was the biggest depositor. There was no share capital in the beginning but later on small shares of 10 d. were introduced. The rate of interest on loans was kept as low as 1.5%. Following are the chief features of the rural banks established by Wollemborg.

1. Membership is open to all adults of good moral character. People who are in the habit of drinking are not admitted at all. Members are also expected to read and write.
2. Once the members are admitted, they are encouraged to develop good habits. Cooperative education is given to them constantly. Emphasis is laid on punctual payments and better use of money.
3. Wollemborg laid great emphasis on economy in expenditure and therefore, management was kept honorary. He did not believe in employing paid staff and that is why he insisted upon the members to maintain accounts. Consequently, there were frequent meetings of the Committee.
4. The banks accept deposits in the smallest amounts, merely for encouraging the habit of thrift and saving among the members.
5. Loans are given to members after a careful scrutiny of the purpose, security and past dealings. All loans, to begin with, were given for three months, and renewals were made only after assuring that the purpose for which the loans was taken required the spreading of instalments over a long period. The rate of interest was generally fixed at 6%.
6. Like the Raiffeisen banks all profits are deposited into the reserve fund. Since the introduction of the share capital this practice has been changed.
7. These banks observe political and religious neutrality. They do not even accept government subsidies.

Thus, the Casse Ruralie are, in more than one respect, similar to the Raiffeisen banks. But one also finds certain dissimilarities between the two: (i) in the case of banks

established by Wollemborg emphasis is laid on short-term loans to be renewed in future whereas in a Raiffeisen society stress is laid on long-term loans; (ii) in Raiffeisen type of bank the amount of loan is called back at a month's notice if it is found that it has been misused. Dr. Wollemborg has fulfilled this object by adopting the method of renewing the loan after every three months; (iii) the committee of management in a bank organised by Wollemborg is larger than that of a Raiffeisen society.

THE CONCEPT OF COOPERATION

What is Cooperation?

Introduction

The modern conception of cooperation conforms to the view that it is a special mode of doing business and a distinct type of business organization. According to Warbasse: "It is a kind of business and social action which may go on side by side with profit business and with political Government using their currencies supplementing each of them, and expanding as its efficiency proves its justification". Cooperation is applied to the solution of a variety of economic activities. The universality of cooperation is widely acclaimed by everybody, as it is capable of being applied to a wide range of activities such as production, distribution, banking, marketing, housing, insurance, etc. It is an organization of the weak and vulnerable and a means for their self-defence against unequal competition and economic exploitation. The satisfaction of economic needs of a group of people who constitute the society by means of combined action is the overwhelming objective of a cooperative organization. Cooperation seeks to remedy the economic inequality and the evils of concentration of income and wealth and thereby prevents the exploitation of the weaker sections by the stronger. It promotes distributive justice and seeks to establish a fair balance among different factors of production and just economic relation. Cooperation aims at organizing primary groups such as producers, consumers, workers, etc., and eliminates middlemen by establishing direct and mutually beneficial relationship between them.

Besides being an economic entity, a cooperative society is a moral and social institution as well. It is often regarded as a

religion applied to business. Unlike other forms of business organizations it eschews profit motive and stands for service motive. It evokes a sense of brotherhood and harmony among its members. It preaches honesty, integrity and a sense of fairness in dealing with fellow human beings.

The spirit of cooperation appeals to higher senses and results in more matured human behavior than conflict and competition. Therefore it is a noble ideology and aims at establishing a just, sane and civilised society. It lays a road to peace, abundance — both material and moral, for all the citizens.

Definitions

Cooperation in its ordinary sense would mean working together. Whereas in its technical sense the term would denote a special mode of doing business, which gives rise to the formal organization and the methods and techniques associated with it. The formal cooperation is the framework for people working together according to certain conditions or principles which the participants agree to observe.

Attempts have since been made to define cooperation. Yet, owing to the different shades and dimensions of the concept and diverse and varying conditions in which cooperation emerged in different countries, it has not been possible to evolve a precise and comprehensive definition. The fact that cooperation has emerged out of adversities and a product of obviate difficulties rather than as an embodiment of distinct theory of economic organization. The varying strands of thoughts and shades of theoretical configuration are horn out of diverse experience and unique environment of the country of their origin. In some countries, it was predominantly identified

with distributive trade, while in some others it was associated with working class endeavour to establish their own self-managed enterprises. In many other developing countries its relevance has been great in agricultural and rural development. The concept of cooperation has therefore been defined by different authors, giving emphasis to one or other dimensions. Some of the well-known definitions are given below:

C.R.Fay has defined cooperative society as "an association for the purpose of joint trading originating among the weak and conducted always in an unselfish spirit, on such terms that all who are prepared to assume the duties of membership, share in its rewards in proportion to the degree in which they make use of their association".

This definition is specifically relevant to consumers' cooperatives and emphasis the principles of patronage dividend. According to Heric, "Cooperation is the act of persons, voluntarily united, of utilising their own forces, resources or both under their mutual management to their common profit or loss". This definition lays stress on the principle of voluntary membership. However, the phrase "common profit or loss" does not reflect the real purpose of cooperation. In the words of Charles Gide, "A Cooperative is a grouping of people pursuing common economic social and educational aims by means of a business" This definition highlights the aim of a cooperative organization viz., to meet the common economic needs of the members. H.Calvert defines cooperation as "a form of organization wherein persons voluntarily associate together as human beings, on the basis of equality, for the promotion of economic interests of themselves." This definition is fairly comprehensive and reflects the important principles.

Prof. Laidlaw has defined cooperation as "an organization in which the components of ownership, control and use are integrated by being all vested in the one body of people, the members." This stresses the idea of ownership-control-use identity.

Koenraad Verhagen has defined cooperation as "an association of persons (or households), usually of limited means, who have agreed to work together on a continuing basis to pursue one or more common interests and who for that purpose have formed an economic organization which is jointly controlled and whose costs, risks and benefits are equitably shared among the members."

This definition stresses the principles of democratic control and equitable distribution of surplus, but it is not precise.

Prof Paul Lambert's definition is: "A Cooperative society is an enterprise formed and directed by an association of users, applying within itself the rules of democracy, and directly intended to serve both its owner members and the community as a whole." This is also a comprehensive definition and highlights the principles of member user identity, democratic control and social aspect of cooperation.

Prof O. R. Krishnaswami defines cooperation as "a voluntary and democratic association of human beings based on the equality (of opportunity and control) and equity (of distribution) and mutuality for the promotion of their common interests as producers and consumers." This definition embodies all essential principles and ideals of cooperation, and it is applicable to all types of cooperatives.

The definitions of Paul Lambert and Prof O R Krishnaswami highlight the essential nature of cooperation and the core values of a cooperative organization.

ICA: A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly- owned and democratically controlled enterprise.

Explanation

The definition emphasizes the following characteristics of a cooperative:

- (a) The cooperative is autonomous: that is, it is as independent of government and private firms as possible.
- (b) It is “an association of persons”. This means that cooperatives are free to define “persons” in any legal way they choose. Many primary cooperatives around the world choose only to admit individual human beings. Many other primary cooperatives admit “legal persons”, which in many jurisdictions includes companies, extending to them the same rights as any other member. Cooperatives at other than primary level are usually cooperatives whose members are other cooperatives. In all cases, the membership should decide how it wishes the cooperative to deal with this issue.
- (c) “The persons are united voluntarily”. Membership in a cooperative should not be compulsory. Members should be free, within the purpose and resources of the cooperatives, to join or to leave.

- (d) "Members of a cooperative meet their common economic, social and cultural needs". This part of the definition emphasizes that cooperatives are organized by their members, for their members. Member needs may be singular and limited, they may be diverse, they may be social and cultural as well as purely economic, but whatever the needs, they are the central purpose for which the cooperative exists. The term 'aspirations' here denotes strong desire or ambition for advancement.
- (e) "The cooperative is a jointly owned and democratically controlled enterprise". This phrase emphasizes that ownership is distributed among members on a democratic basis. These two characteristics of ownership are particularly important in differentiating cooperatives from other kinds of organizations, such as capital-controlled firms. Each cooperative is also an "enterprise" in the sense that it is an organized entity, normally functioning in the market place; it must strive to serve its members efficiently and effectively.

The Essential Nature of Cooperation

The essential nature of cooperation as implied from the last two comprehensive definitions are analysed below:

1. Cooperation is a universal form of organization. Cooperation is a general form of organization and it is applicable to consumers' cooperatives, producers' cooperatives, credit cooperatives, farming cooperatives, industrial cooperatives, processing cooperatives and other types of cooperatives.
2. The Cooperative is an enterprise. It is engaged in a business activity-Production, distribution, supply, marketing or credit. It is not a charity. It is engaged in a

business relevant to the common economic needs of the members.

3. Cooperation is at once an enterprise and an association. The enterprise is not separate from the association. Dr. Fauquet" develops this idea with great lucidity. According to him "the cooperative enterprise is collective." In other words, it is the association that is an enterprise."
4. The cooperation is a service enterprise. The Cooperative enterprise is not meant for earning profit for its owners by doing business with others. It is rather intended to render service to its members by meeting their common needs as economically and effectively as possible.
5. Cooperation promotes the welfare of the community as a whole. Even though the surplus earned by a cooperative arises out of over-charging members (consequential to the policy of cost-plus pricing) and it is expected to be returned to the member-users in proportion to their patronage, in practice a major part of the surplus is used partly for creating reserve funds and partly for creating common good fund. The reserve fund is not shared by the members at any time - even when the society is wound up. It becomes the social wealth of the local community. The common good fund is used for any good common purpose of the community.
6. Cooperation is essentially an association of human beings and not a union of capital. Perhaps cooperation is the only form of economic organization which retains human beings as human beings and which treats capital as a mere tool in their hands. The rule of "one member, one vote" reinforces this idea.

7. A cooperative organization is owned and democratically controlled by member-users. In a cooperative organization, the members and the users are the same. The member-users own the organization and control it democratically. All members enjoy equal rights in exercising control, irrespective of variations in the amounts of share capital subscribed by them. This system eliminates the opportunity for any member or small group to gain control over the cooperative by virtue of his or their share holdings. That is control by capital is eliminated and control is vested in members as human beings.
8. Cooperation eliminates the economic duality through member-user identity. Where buyer and seller or borrower and lender or craftsman and master are two different persons, there will be economic conflict between the two parties and the economically stronger (i.e., seller or lender or master) will tend to exploit the weaker (i.e., buyer or borrower or craftsman). Cooperation eliminates this conflict and exploitation through member-user identity. In a cooperative organization the buyer and the seller or the borrower and the lender or the master and the craftsman are one and the same person. Hence there is no exploitation of one by another.

The Core Values or Ideals of Cooperation

Cooperation is a value-laden concept. The normative elements of cooperative ideology laid down since the times of 'Rochdale Pioneers' have remained the core of the cooperatives identity. They are the basic rules of cooperative society's organization and operation, which lay down the special relation of members

among themselves and those between themselves and their enterprise. These are values, which govern the internal nature of cooperatives. Another set of values governs the external relation, that is its relation with the society at large.

Now let us analyse the core values of cooperation, implied in the definitions.

1. **Spontaneity.** Cooperation is always voluntary. Compulsion is negation of the spirit of cooperation. People join together on the basis of a rational judgement and deliberate choice. As pointed out by Edgard Milhaud, "Men may collaborate under compulsion, they cooperate only in freedom." Voluntarism is essential for cultivating the spirit of cooperation; and little will be achieved without the real spirit of cooperation.
2. **Homogeneity.** People who become members in a cooperative association have certain common economic need, which they seek to meet by means of the common enterprise. According to Calvert, there can be no successful cooperation without the common need or some economic advantage. Everyone joining the society must necessarily be a user of its services.
3. **Neutrality.** Cooperation is neutral to politics, religion, race and nationality. Membership is available without any social, political or religious
4. **Universality.** The membership in a cooperative is not restricted to any particular group. It is open to all persons who can make use of its services.
5. **Mutuality.** Cooperation is synonymous with solidarity. It is an organization meant for mutual self-help. The common aim creates solidarity, which calls for mutual aid. The essence of cooperation is that "each shall work for all and

all shall work for each in the attainment of their common need." The purpose of cooperation is mutual service.

6. **Equality.** "There can be no cooperation unless it is between equals". Co-operation is a human organization which grants equal rights to all members, simply because they are human beings. It completely rules out capital as a source of power and a source of revenue. Equality implies equal participation in the organization and equal opportunity to make use of the services of the association.
7. **Democracy.** Cooperative form of organization seeks to realize democracy in the economic sphere. The democratic control by the members is ensured by providing equal opportunity for everyone to participate in the administration and by giving equal voting rights to all.
8. **Autonomy.** The democratic nature of cooperation demands autonomy, self-determination. The members are in absolute control and are the ultimate authority of the enterprise. It means that cooperation would "cease to exist if its management policy were directed by a higher authority." The control vests in the general body of membership; and the general body determines the purpose of the organization, and the basic management policies.
9. **Participation.** Cooperation provides institutional channel for members' participation. Members have rights to participate in the process of democratic control, in the business of the organization as member-users and in sharing a part of the surplus equitably and in evaluating the performance of the organization. Through such participation members get training in democracy and business.
10. **Equity.** Cooperation aims at distributive justice. A cooperative enterprise may derive profit because of its cost-plus pricing policy. Recognising that this profit arises out of over-charging member-users, it is given back to the

members in proportions to their participation in the business of the cooperative. It does not distribute the profit in proportions to capital contributed by members as in a capitalistic organization. In cooperation, capital is neither a source of revenue, nor a source of power.

11. **Frugality:** Cooperation places faith in self-help. It is a 'self-help made effective by organization'. It promotes the habit of thrift among its members. Thrift is the basis of self-help and it must precede credit.

Objectives of Cooperation

Cooperation is a universal philosophy. It is the instrument through which people in all walks of life can effectively work together in different fields of economic endeavors and promote their welfare. Though cooperation is not a panacea for all kinds of socio-economic problems and it cannot perform miracles, it is an effective instrument for uplifting the economically weaker sections through their own solidarity and collective action. The aims and objectives of cooperatives are primarily economic. This is largely due to the fact that cooperatives are organised to meet the common economic needs of the members. However, cooperatives, being based on certain moral and ethical values, have social and moral functions and aims at all-sided development of human beings. Further, the impact of cooperatives does not confine to their members only, but also extends to the entire community around them. This is particularly so when cooperatives attain a reasonable level of development. Dr.K.K.Saksena exhorts that "co-operators must shed off their narrow outlook of economic solidarity or economic betterment of their members. Co-operators should continue to aim at the development of man, both morally and socially through the practice of better and sound business ethics."

The ILO hold that the establishment and growth of cooperatives should be regarded as one of the important instruments for economic social and cultural development, as well as human advancement. More specifically it urges the development of cooperatives as a means for:

- improving the economic, social and cultural situation of persons of limited resources and

opportunities as well as encouraging their spirit of initiative:

- increasing personal and national capital resources by the encouragement of thrift, by eliminating usury and by the sound use of credit;
- contributing to the economy an increased measure of democratic control of economic activity and of equitable distribution of surplus;
- increasing national income, export revenues and employment by a fuller utilisation of resources, both in agriculture and industry;
- implementing social policies and supplementing social services in such fields as housing, health, education and communication; and
- helping to raise the level of general and technical knowledge of their members.

The role of cooperatives is much greater in developing countries than in the developed ones. The cooperatives in these countries are expected to play a significant role in the development of not only individual members, but also the country as a whole. In particular, the cooperatives play an important role in:

- mobilising resources internally,
- providing the benefit of economies of scale to weaker sections
- providing certain essential services to population not covered by other programmes,
- building institutional framework on a permanent basis,
- developing human resources through education and popular participation.

- introducing competition in the non-competitive markets.

In short, they serve as the people's organization at the grass-root level with active involvement of people and serve as right kind of institutional structure for planning and implementing development programmes. "The role of cooperatives in providing this form of involvement as well as in developing specific skills and knowledge, is apparent and explains why, in spite of all their problems, cooperation remains a popular development tool."

Thus cooperatives extend their sphere of influence to economic, social, ethical and political fields of the society in which they operate. They make deliberate and conscious effort for an all-round development of their members and for restructuring the society at large.

Economic objective

The basis for starting a cooperative organization is the necessity of satisfying a common economic need by mutual help and mutual effort. Every cooperative has certain specific economic aim. As an economic entity a cooperative is primarily responsible for seeking solutions to the common economic problems of its members. "By the satisfaction of their common economic need by the cooperative method, the members are themselves able to improve their economic conditions and raise themselves from weakness to strength" Thus the cooperative association is a means for the economic well-being of the members. "It is an economic and legal instrumentality which or by means of which member units carry out their purpose to conduct a jointly integrated activity."

Though cooperatives aim at satisfying the needs of their members through their operations, they also contribute to the development of the society at large. Thus the economic objectives of cooperatives are of two types: (a) micro objectives relevant to the membership group; and (b) macro objectives relevant to the society at large. Let us analyse these objectives.

Member-related objectives

1. **Economic Opportunity.** Cooperative organizations provides opportunity for every individual to develop to the highest degree and at the same time contribute to the development of the society. Opportunity is provided to all those to whom the society will be of use. The de-emphasis of the role of capital enables everyone to secure easily the membership which entitles the holder to the services of the society.
2. **Service at fair cost.** The primary economic objectives of a cooperative society is to render economic service like credit, supply, distribution or marketing at as low cost as possible, as it does not aim at earning profits for itself.
3. **Economic Security.** A Cooperative society enables members to continue to be the owners of their personal assets and at the same time curtails acquisitive tendencies. The capital contributed by members is not a means for multiplying wealth, because the society's profit cannot be distributed in proportions to members' shareholdings. On the other hand, members get an equal right of control over the collective assets of their society. Besides a Cooperative association also protects members from possible risks, by assuming risks collectively.
4. **Economic Partnership.** Cooperation promotes fellowship and corporate feeling among the members. It is an

economic enterprise of members based on the principle, "From each according to his patronage". The members can avail the services of the association according to their varying needs, and share the surplus in proportion to their patronage, but all, irrespective of differences in contribution and patronage, have equal control over the enterprise. Thus cooperation is an economic democracy.

Macro-economic objectives.

Apart from the direct economic role for the benefit of the members, cooperatives as a movement makes significant contribution to the development of larger economy, of which they are a part. These macro-economic objectives have wider impact, extending beyond the confines of their own area of operation or membership.

5. **Instrument of Economic Planning.** Cooperatives facilitate the formulation and implementation of economic development programmes. As organizations with local roots and people's aspirations and serve as instruments for implementing development programmes related to agriculture, rural industry, Public distribution and the like. The role of cooperatives in the planning process is much greater in the countries, which are wedded to the decentralised, democratic and multi-level planning. The goals of planning such as economic decentralisation, regional balance, equality of opportunity, growth with justice, employment generation, etc., are in conformity with the objectives of cooperatives.
6. **Reduction in Economic inequality.** In Capitalistic economy, capital is both a source of power and a source of income. Capital owners can gain enormous economic

power and multiply wealth simply by making investments in corporate enterprises. They overcharge customers, earn profits and distribute them to their shareholders in proportion to their shareholdings. This is the root cause for concentration of wealth in a few hands. Cooperation replaces the profit-motive by the service motive and divests of capital its tentacle, viz., its right to surplus profit. Thus it eliminates the cause for concentration of wealth in a few hands. It goes further and adopts the principle of distributive justice. It may pay a fixed rate of interest on capital. The remaining surplus is returned to member - users in proportion to their business with the society. Thus cooperation aims at equitable distribution of wealth.

7. **Decentralisation of Economy.** Cooperatives are small autonomous units, and they are spread throughout a country. So they lead to decentralisation of economy without sacrificing the benefits of large scale management and organization.
8. **Increasing Productivity.** By organising scattered and unutilized factors of production, cooperatives are able to increase the production and contribute to the national income. They bring to fore the latent productive capacity of the manpower, hitherto untapped, by providing new skills. They also make available critical factors of production at fair price and encourage production by ensuring better returns to producers. In fact they play significant role in increasing productivity in agriculture and animal husbandry in developing countries. In the industrial front the small-scale and cottage industries can augment their productivity and achieve the economies of large-scale operation without sacrificing their individual identity and freedom through cooperatives. Industrial

cooperatives provide improved and economical institutional arrangements for marketing, storage and common facilities.

9. **Control of Cost and Price.** Every country is facing the serious problem of ever increasing prices and costs. Middlemen exploit this situation and accelerate this process, with the result high cost economy has emerged even in developing countries. Being user-oriented non-profit organizations, cooperatives can eliminate middlemen's profit, render service at cost and arrest the rising trend in cost and price. The consumer and supply cooperatives have in fact helped in reducing or checking the price line in several countries.
10. **Control of markets.** Cooperatives are able to exercise a balancing function in the free market economies. In the words of Jerry Voorhis, "Cooperation can end the danger of monopoly and concentration of power; it can be a safeguard against unhealthy inflation and disastrous deflation and depression." By expanding the market share the cooperatives can curb the exploitative and monopolistic tendencies and correct market imperfections. They are a powerful instrument against monopoly profit and the expansion and spread of cooperatives are bound to create anti-monopoly conditions in the long run. Cooperatives introduce competition in the noncompetitive market. They also introduce market regulation by adopting active price policy i.e., policy of selling below the market price or making higher rates of wages to the members for the labour or price for their produce.
11. **Capital accumulation.** Cooperatives accumulate and consolidate their own funds from share subscription and ploughing back of profits. They also participate in mobilising the community savings and channel them

for productive purpose. The Cooperative Banking Institutions play a significant role particularly in mobilising rural savings where the normal commercial banking facilities are not available.

12. **Diffusion of ownership of Resources.** Cooperation with its insistence on small units and ceiling on individual's shareholding favours great diffusion of ownership of resources. The resources owned by cooperatives represent group property subject to democratic administration for the general welfare of all the members. This is a higher form of property. Cooperatives attain this without abolition of private property.

Social Objectives

The ultimate aim of cooperation is to create a better society. Many of its most ardent apostles look upon it as a sort of social reform. As emphatically stated by British Economist Alfred Marshall, cooperation alone has both economic and social aims Hall and Watkins declare:

Cooperation has other aims than economic ones. The earnest cooperator seeks to apply cooperative methods to all purposes of social life, and does so because he believes that in working for the common good, man's highest qualities are enlightened and developed; and in the employment and development of these qualities the man himself becomes a better man, and the quality of human race is improved.

The reformist social philosophy of cooperation outlined above found deep roots in the heart and soul of early cooperators. The

specific contributions the cooperatives can make for social progress are discussed below:

1. **Training in Self-help.** The chief social value of the cooperative organization is that it trains the people to take initiative in organising, to assume responsibility in administration and direction and to create experts from their own ranks to carry on enterprises in their own interest. A significant constructive role of the cooperative movement in the social field is that it teaches people to administer their own affairs.
2. **Development of Weaker Sections.** Cooperative movement is an instrument to set right the imbalances in economic development. It can contribute to reduction of disparities of income and wealth and at any rate preventing aggravation of disparities. It serves as a means of emancipation for weaker sections who are victims of lopsided development. This orientation towards poor is largely due to the working class character of cooperation. The social basis of cooperation consists of the proletariat who are the products of capitalistic development and the small peasantry beleaguered by colonialism, feudalism and oppressive land tenure system.
3. **Preservation of Dignity of Man.** Cooperatives seek to preserve the dignity of man. "If man is the measure of all things, the value of an Institution must be measured by the worth of the individuals it create. Cooperative movement has a high value, not merely because it is one of the many possible forms of economic organizations, but because it needs and educates a superior kind of human being, the cooperative man." Cooperation upholds the dignity of the individual while promoting fraternity. It gives equality of opportunity and equality of control to all the members.

4. **Social Harmony.** The Conflict in society created by the forces of competition and the class struggle can be eliminated by cooperative method. One of the aims of cooperation is to establish harmonious social relation, free from strife and struggle. One of the purposes of cooperation is to place human beings in more harmonious relation with one another. With the development of cooperation, the class barriers are surmounted or breached, a sense of social equality is more and more diffused to complement the political equality necessary for democratic government
5. **Social Welfare.** Cooperative movement can be regarded as the cornerstone of welfare society. The movement can take up a variety of welfare activities including education and training, housing and consumer protection. Further, it can serve as a field for leadership development. In the countries where the cooperative movement is developed "it performs a variety of functions which would otherwise have to be undertaken by other forms of collective action initiated by the State or Municipalities."
6. **Social Change.** Egalitarian social order implies the development of sense of fellowship, social responsibility among people as against rugged individualism and extreme selfishness. Cooperation brings about this change.

Ethical Objectives

Cooperation as a mutuality, binds people together by the bond of fellowship and by community sentiment. For the formation of a cooperative association and also for its successful working, largely elements of character of high order such as sense of brotherhood and fellowship, love and sacrifice are essential. As human beings associate on equal terms for mutual benefits, they get opportunities for developing unselfishness and fellowship. Cooperation aims at achieving the following ethical objectives.

1. **Altruism.** Through cooperation, it is possible for the people to change from self centered aim to broader aims. The competitive and selfish instincts are subordinated to higher human values such as catholicity and community feeling.
2. **Human Values.** Cooperation fosters human values, which are fundamental to spiritual way of life. Paul Huber Casselman summarises the ethical basis of cooperation in the following words: "Being organised on the basis of mutual aid it begets a spirit of neighborly helpfulness and charitableness. Cooperation strikes at the very heart of materialism and money madness so characteristic of this modern age. Human values become the standard and criterion in place of dollar value."
3. **Morality.** Cooperation places morality in the forefront of human action in the most ordinary affairs of life. It is a pursuit in building human character, and strengthening the forces of ethics in society. Dishonesty, deceit and corruption of all forms are discouraged under the cooperative system. Cooperation with its emphasis on human dignity, service motive and democratic control develops in the members moral values such as unselfishness, fraternity, sincerity and loyalty. If the cooperative is to remain true to itself, these values must be living realities. For these values are "both a condition and result of it."

Political Objectives

Cooperatives do have political objectives. Yet, they have not succeeded in evolving a universally acceptable political objective. Though the Pioneers considered political and religious neutrality as one of the principles of cooperation, its relevance to the present day cooperatives is questionable.

Today it is not possible to imagine a non-political cooperative movement in any advanced society. Cooperators and their organizations do not exist in vacuum. Cooperatives should therefore collectively take part in the political life of their respective country and mould the political thought in their favour. The political objectives of the cooperative movement can be summarised as below:

1. *Strengthen Democracy and Liberty.* The cooperative democracy will reinforce the democratic structure in the social and political fields. "It is fallacious to expect democracy unless we have first built the base of political democracy under the guidance of leadership that has faith in democracy, its ideals and objectives." Cooperatives are an ideal medium for practising decentralised democracy, as they follow "a system of management which would guarantee absolute control over the operations." Cooperators cannot conceive of their societies or federations managed otherwise than democratically.
2. *Develop State Policies.* Economic interests and doctrines play an important role in the shaping of political policy and the choice of its objectives. As pointed out by ICA Commission (1966) on Cooperative Principles, "Cooperation, as movement with an economic doctrine of its own and representing well-defined economic interests, cannot avoid involvement in affairs of government." Cooperative movement should give government the benefit of its experience when it is considering economic policies. The method to be chosen for political intervention may range from private representations to government departments and deputations to Ministers to lobbying in Parliament, agitation among the public. In choosing the methods, the maximum of consent and support among the members should be secured.

Cooperative movement should try to influence the legislative and administrative measures of the government in its favour.

3. *Establish Cooperative Republic.* One of the political objectives of the cooperative movements of several countries is the establishment of cooperative commonwealth or Cooperative Republic. This ambitious political goal can be realised if every conceivable economic and social activity is organised on cooperative lines.
4. *Replace State.* Some cooperative thinkers are of the view that when the full potential of cooperation is realised there may not be any role for the state; and "as cooperation expands, State fades". However, such goals are too idealistic to be of any practical relevance. The foregoing discussions will throw light on the possible and potential role of cooperation in the overall social and economic development. Nevertheless, the capabilities of cooperatives depend on several factors such as the level of development of cooperatives and the political system prevalent in the country concerned. "The precise role which cooperatives should have in the economic and social development of a country, both in the short-run and long-run is essentially a matter for decision by the Government concerned."

Based on the broad policy each cooperative movement should formulate realistic and detailed programmes to achieve the goals and targets taking into account the present status of the movement, its strength and limitations.

Evolution of Principles of Co-operation

Introduction

Definition of "Principle"

The term "principle", derived from the Latin word "Principium" meaning "basis" has different meanings: the primary idea, a certain thesis, a rule of an organization. The I.C.A. Commission (1966) on Cooperative Principles faced the problem of defining the term "principle". The working definition adopted by the Commission was: "those practices which are essential, that is, absolutely indispensable to the achievement of the Cooperative Movement's purpose". How far is it justifiable to identify cooperative principles with any particular practice? Practices vary according to social and economic conditions of countries. If cooperative principles are not practices, what are they? According to W.P. Watkins, the former Director of the ICA, "They are the ideas, inherent in cooperation, which determine what it is as a mode of action ... they are the ideas which it is the purpose of cooperative activity to realise ...". They are ideas accepted as invariable guides to policy or conduct or action of any kind. The ideas remain constant; the practices vary in response to need and circumstances. So the term "principles" means ideas, which determine the character of Cooperation as a form of association in contrast with practical rules and methods, which changes in competitive situation.

The principles of cooperation arise out of the characteristic features of cooperation. Cooperation is a form of economic organization. It is voluntary and democratic association of human beings, based on equality (of control and opportunity) and equity (of distribution of surplus), for the promotion of

their interests. Solidarity, democratic control, mutuality or self-help through mutual help, voluntarism, equality and service motive are its characteristic features. The principles of cooperation are based on these features.

Structural and functional

Professor Henzler of Germany classifies cooperative principles into structural and functional principles. Principles like the principle of democratic control, which are meant to assure a purposeful structure of the cooperative, may be regarded as structural principles. "Principles governing cooperative management, price and credit policy and the appropriation of surplus, that is, principles which determine the methods or standards of cooperative procedure" may be called functional principles. While the structural principles are common to all types of cooperatives, different functional principles apply to different types of cooperatives.

Evolution of Cooperative Principles

Introduction

The idea of cooperation is older than man himself. But cooperation, as a form of economic organization, is of recent origin. The early nineteenth century was a period of considerable stress and strain in England. Great changes took place in the economic system with consequent social effects. The introduction of the steam engine and the mechanization of processes revolutionized industry. Factory system of production came into existence. The society became divided into two classes – capitalist – employers and wage-earning

workers. A blind capitalistic system of economy emerged. It was a system based on profit-motive. It promoted social evils, selfishness and exploitation of man by man. "The developing capitalism devoured greedily and indiscriminately the lives of men, women boys and girls" and squeezed "the life juices of men, women and children into the brimming vats of industrialism."

The evils of the capitalistic system made the social thinkers like Robert Owen (1771-1858) of England and Charles Fourier (1772-1837) of France to think of an alternative better system of economy. They visualized an ideal form of society based on cooperation and mutual help instead of competition and exploitation of man by man. Though these historic figures did not trace in detail the forms that cooperation was to take, they set out its fundamental principles: association, voluntary nature of cooperation, democratic government of the enterprise and social motive.

Their followers, being inspired by their ideals and doctrines, shaped the cooperative form of enterprise. For instance, Dr. William King (1786-1865) of England gave practical guidance to translate Owen's ideas into action. Under his inspiration, many cooperative stores were organized by workers to escape from the exploitation of "truck-shops" of factories and private-trader-"badgers". While Owen's ideals were more exalted and millennial, Dr. King's teachings were more practical. Thus he "was nearer than Owen to the practical ideas of Rochdale Cooperation which came later".

The dream of Owen, viz., creation of a new moral world based on cooperation did not become a reality, but cooperation as a

new and noble form of economic organization with a social philosophy of high order and a moral content has come to stay. Many cooperatives were organized in the 1830s and almost all of them failed. And finally a society organized by a group of 28 workers of Rochdale, an industrial town in England proved a successful venture. The single factor in their success was the way in which they absorbed the lessons of the previous failures.

Rochdale Principles

These Pioneers, registered their society – “The Rochdale society of Equitable Pioneers” – on 24 October 1844, and began business on 21 December 1844. This is said to be the true beginning of the modern cooperative movement. The ideas of the Rochdale Pioneers set forth in the rules of their society, made up a body of Principles, popularly known as the Rochdale Principles that have since inspired the Cooperative Movement throughout the world. These ideas were: democratic control, open membership, limited interest on capital, patronage dividend, cash trading, sale of pure and unadulterated goods, education of the members and political and religious neutrality. None of these ideas was individually novel; but their combination was essentially new. This was the originality of the pioneers.

These Pioneers organized their society as a revolt against the unscrupulous practices of the truck-shops of their employers and the petty capitalist groceries. “The rules of their association, therefore, have a relevance to the circumstances in use for which they rules for survival

In the course of decades, as social historians began to look back on the performance and achievements of the Pioneers, they set out in their writing what they considered to be essential Rochdale Principles. The selection and particular formulations were of the historians' making.

1937 Committee

In course of time, cooperative movement spread to various countries such as Germany, Italy, Denmark, etc., and various forms of cooperation were developed. How far the Rochdale Principles, which were evolved in the 1840s for Consumers' Cooperative, were applicable in the present time and to various other forms of cooperation such as producers' societies, credit societies and industrial cooperatives? This question received the attention of the International Cooperative Alliance (I.C.A.). At the Vienna Congress of the I.C.A., in 1930, the Central Committee was asked to appoint a Special Committee to examine the conditions in which the Rochdale Principles were applied in the member countries and to state these principles in their final form. This special Committee was formed in 1934 at the London Congress of the I.C.A. The Paris Congress of the I.C.A. approved its report entitled "The Present Application of the Rochdale Principles of Cooperation" in 1937.

This Special Committee came to the conclusion that the following seven principles may be considered as the essential principles of the Rochdale Pioneers:

- Open membership
- Democratic control

- Distribution of the surplus to the members in proportion to their transactions
- Limited interest on capital
- Political and religious neutrality
- Cash trading and
- Promotion of education

The eighth principle, viz., the supply of pure unadulterated goods was omitted, as this could be taken for granted in these days in view of the adoption of protective legislation in various countries. Nevertheless cooperatives have to continue to make a contribution in dealing with the problem of adulteration and unfair weights and measures, and in order to do this the ethics of their business must be invariably higher than that the law requires.

The Committee felt that there should be some discrimination in the importance to be attached to the above seven principles in deciding the essential character of a cooperative society. It, therefore, suggested, that the first four principles (open membership, democratic control, distribution of the surplus in proportion to their transactions, limited interest on capital) ought to be regarded as obligatory and their observance as essential to the cooperative character of any society. In the opinion of the committee, the remaining three Principles, "While undoubtedly part of the Rochdale System, are, however, not a condition for membership of the I.C.A." The Committee preferred to regard these three practices as "essential methods of action and organization rather than standards, the non-observance of which would destroy the cooperative character of a society."

Conditions of Change

Since 1937 much water has flowed under the bridge. The socio-economic and political conditions of various nations changed and the cooperatives had to adapt themselves to the changing situations. Under the stress of a revolution in distributive trade, many cooperative organization encountered difficulties in maintaining their traditional practices. In the developing regions, the young cooperative movements had still to reach their full capacity to implement the movement's principles and apply them in their special economic and social setting.

Further, important changes have taken place in technology and management. The world appears to stand on the threshold of a new and more comprehensive industrial revolution. The cooperatives should, therefore, expand their scope from mere defence of group interests to a positive contribution to the welfare of their members in an expanding economic system. The movement cannot remain content with the familiar organization of the past but new patterns have become necessary. Accordingly vast structural changes involving consolidation, concentration and integration are taking place in a number of cooperative movements. In this context, the need for guidance in matters of principles-the need to distinguish, which principles are essential and must be maintained, which may be varied, discarded or added according to circumstances-was keenly felt. Thus the need for a review of the principles of Cooperation was recognised. This matter was, therefore, discussed at the Twenty-second Congress of the I.C.A., in 1963.

1966 Commission

In the above Congress, a resolution was adopted which provided for the appointment of a Commission to study cooperative principles. In accordance with this resolution, the Central Committee of the I.C.A. appointed in 1964 a Commission on Cooperative Principles. This Commission was empowered to study which of the principles of the Rochdale Pioneers retained their importance at the present time and which should be changed, and how, in order to contribute in the best manner to the fulfilment of the tasks of the cooperative movement; and finally, which of the principles had lost their importance and should be substituted by others. The Commission was also empowered to formulate new principles, if necessary. This Commission reported to the Twenty-third Congress of the I.C.A. held at Vienna in 1966 and the Congress accepted the report.

This commission reaffirmed the first four principles in a fuller form, adopted "the promotion of Cooperative Education" as the fifth principle and added a new principle-principle of growth: "Cooperation among cooperatives". Thus the Commission considered the following "as essential to genuine and effective cooperative practice both at the present time and in the future as far as that can be foreseen."

1. Voluntary and open membership.
2. Democratic administration.
3. Limited interest on Capital.
4. Distribution of the surplus to the members in proportion to their transactions.
5. Cooperative education and
6. Cooperation among cooperatives.

These are general principles, which should be observed by cooperatives of all types and in all social and economic systems. The Commission did not draw a distinction of degree of validity between these essential principles, and so did not give, like the 1937 Committee, some principles a higher priority than others. To quote the Commission, "All possess equal authority and... must be equally observed." They form a system and are inseparable... They... should be observed in their entirety by all Cooperatives."

Statement on the Cooperative Identity – 1995

There has been a concern among Cooperators in recent years that there has been serious erosion in the values of cooperation and the same was echoed in ICA Tokyo congress held in 1992. The congress therefore recommenced the ICA Executive Committee to initiate the process to review the current ICA Cooperative Principles as amended in 1966 and make recommendation for the possible change. Dr Ian Macpherson was asked to coordinate the review of Cooperative principles and he submitted the draft including the statement of Cooperative identity in 1994, which was approved by ICA General Assembly in Manchester in September 1995. Following is the text:

Definition

A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.

Values

Cooperatives are based 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.

Principles

1st Principle: Voluntary and Open Membership

Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities to membership, without gender, social political, or religious discrimination.

2nd Principle: Democratic Member control

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

3rd Principle: Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of the assets 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 the cooperative, possibly by setting up reserves part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

4th Principle: Autonomy and Independence

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

5th Principle: Education, Training and Information

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

6th Principle: Cooperation among Cooperatives

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

7th Principle: Concern for Community

Cooperatives work for the sustainable development of their communities through policies approved by their members.

Analysis of the Principles (1995) and Values²

Cooperative Principles are more than commandments; they are also guidelines for judging behavior and for making decisions. It is not enough to ask if a cooperative is following the letter of the principles; it is important to know if it is following their spirit, if the vision each principle affords, individually and collectively, ingrained in the daily activities of the cooperative.

The principles that form the heart of cooperatives are not independent of each other. They subtly linked; when one is ignored, all are diminished. Cooperatives should not be judged exclusively on the basis of any one principle; rather, they should be evaluated on how well they adhere to the principles in their entirety.

1. The "Voluntary" and Open Membership Principle:

Voluntary principle implies that people cannot be made to be cooperators; they must be given the opportunity to study and understand the values for which cooperatives stand. They must be allowed to participate freely. If membership is forced, such members should be involved so that they develop voluntary attitude.

Open Membership means that cooperative is open to all persons who need and are able to use the services of cooperatives and willing to accept the responsibilities of membership without any artificial discrimination. But where cooperatives are for specific purpose, e.g., housing, there may be understandable and acceptable reasons why cooperative may

impose a limit on membership. "Willing to accept responsibilities of membership." reminds members that they have obligations to their cooperative.

2. Democratic Member Control Principle:

Within cooperatives "democracy" includes considerations of rights and responsibilities. It means fostering the spirit of democracy within cooperatives. "Controlled by the members" mean members participating in setting the policies and making decisions. It means members ultimately control their cooperatives and they do so in democratic manner. "Accountable to membership" phrase reminds elected representatives that they hold their office in trust of the immediate and long-term benefits of members. Cooperatives "belong to members" and not to elected officials. Elected officials are accountable to members. They are Trustees on behalf of members.

Member control also prohibits a non-member becoming office bearer through nomination to the Board by the Government or through process of cooption.

3. Member Economic Participation Principle:

In cooperative, capital is servant and not master of organization. Cooperatives exist to serve the needs of members, this principle describes how members both invest in their cooperatives and decide how to allocate surpluses. Members can contribute capital in three ways Viz., (1) Share capital, (2) Reserves; which is owned collectively, (3) Depositing their part of their dividend and on special request for specific activity.

4. Autonomy and Independence Principle:

Cooperatives in all parts of the world are very much affected by their relationship with the state. Government determines the legislative framework within which cooperatives may function. In their taxation, economics and social policies, governments may be helpful or harmful in how they relate to cooperatives. For that reason all cooperatives must be vigilant in developing open, clear relationship with governments. When cooperatives enter into agreement with organizations, they must retain their freedom ultimately to control their future.

5. Educations, Training and Information Principle:

The Principle emphasizes the vital importance played by education and training within cooperatives. Education means more than just distributing information or encouraging patronage, it means engaging the minds of members, elected leaders, managers and employees to comprehend fully the complexities and richness of cooperative thought and action. Training means making sure that all those who are associated with cooperatives have the skills they require in order to carry out their responsibilities effectively. Education and Training are also important, because they provide excellent opportunities where by cooperative leaders can understand the needs of their membership. They should be conducted in such a way that they continuously access the activities of the cooperatives and suggest ways to improve or to provide new services. A cooperative that encourages effective two-way communication between its members and leaders, while operative in an effective manner, can rarely fail.

The principle ends by recognizing that cooperatives have a particular responsibility to inform young people and opinion leaders-politicians, public servants, media representatives and educators, about the nature and benefits of cooperation.

6. Cooperation among Cooperatives Principle:

Cooperatives must also recognize the necessity of strengthening their support organizations and activities. It is crucially important for different kinds of cooperatives to join together when speaking to government or promoting the cooperative way to the public. In order to build an integrated cooperative system it is necessary that cooperatives should cooperate among themselves. They should not compete with their own constituent members.

7. Concern for Community Principle:

Cooperatives are organizations that generally exist for the benefit of their members. Cooperatives have special responsibility to ensure that the development of their community-economically, socially and culturally- is sustained. They have the responsibility to work steadily, for the environmental protection of these communities. It is up to the members, though, to decide how deep and in what specific ways a cooperative should make its contributions to their community.

Explanation for the Statement on Cooperative Values

(i) *Self-help*: It means one should try to solve his problems with his own efforts, means and resources available. But self-help succeeds only up to a point. Therefore it needs joint-efforts with those who have the same problem. They can pool small resources and means, so that they become more potential. In-group individual becomes more powerful, he learns, with experience of other fellow men, this becomes mutual-self-help.

Self-help and mutual-help promote cooperative spirit and key to success of cooperatives.

(ii) *Self-responsibility*: Every office-bearer, member of Board of Directors or management must take responsibility for his personal actions, for the activity as whole and for its impact on society. Similarly each member of cooperative should realize and accept his responsibility towards cooperative and commit himself to it. A cooperative can achieve its object and progress only when everyone involved in its functioning, including employees, feel his accountability and discharge his responsibility with commitment, dedication and sincerity of purpose. This is what the Rochdale Pioneers demonstrated and they succeeded.

(iii) *Democracy*: Democracy is a basic value of cooperatives. In the context of cooperatives, the essence of democracy is "conscious decision" based on "freewill". "Conscious decision" means understanding the logic or rationale of taking decisions and be aware of the possible consequences of the decisions and their impact on individual and institution. "Freewill" means no forcing of the decision from outside. "Participation" is an integral aspect of democracy. Participation includes attending general body/board meetings, actively giving one's opinion on various matters and issues affecting the society. It also encompasses participation in strengthening internal finance and business.

(iv) *Equality*: Equality means equal right and opportunities, right of participation, a right to be informed, a right to be heard, a right to be involved in the decision making. Members are to be associated as equal as possible, without any kind of discrimination of gender, religion, caste, creed, race, amount of share capital contribution, deposits, political affiliation etc.

That is why one member one vote is the principle, which establishes equality.

(v) *Equity*: It refers to how members are treated within a cooperative. It means that members should be treated equal in how they are rewarded for their participation in the cooperative normally through patronage dividends, allocations to capital reserves in their name or reductions in charges. Equity ensures social justice.

(vi) *Solidarity*: It is an important base of cooperatives. Solidarity is collectivity. Management have the responsibility to ensure that all members are treated as fairly as possible, that the general interest is always kept in mind, that there is consistent effort to deal with employees (members or non-members), as well as the non-members. It also means that a cooperative has a responsibility for the collective interest of its members. It indicates that societies financial and social assets belong to the group, being the result of joint efforts and participation. Solidarity also means that cooperatives and Cooperators stand together. They work together to resent a common entity before the public and government.

(vii) *Honesty*: This is most important for survival of cooperatives. Rochdale Pioneers had a special commitment to honesty. Indeed, their identity in the market was distinguished partly because they insisted upon honest business-honest measurement, high quality and fair prices. Cooperatives idealis honest dealing with members and non-members. Therefore, cooperatives have a bias towards openness. They regularly reveal to their members and others information relating to their performance. Scope of honesty is much wider in cooperatives than what generally is understood. For individual honesty is not

monetary honesty only, but also honesty of thoughts, commitments, behaviour and conduct, no hypocrisy or falsehood, no underhand dealings or false promises, no dishonesty in elections. In cooperatives honesty also encompasses correct maintenance of accounts and balance sheet, correct information to members, objectivity and fairness in personal matters. It prohibits undue favours of any kind to anyone. Individual Cooperators honesty, business honesty and managerial honesty brighten the image of cooperatives and their identity. Without honesty cooperatives have no cause to exist, no future to sustain themselves. Cooperatives will be in peril and danger of self – liquidation without honesty.

(viii) *Openness*: It means that cooperatives are open to members of community they serve. They have a commitment to serve and assist individuals in helping themselves.

(ix) *Social Responsibility*: In fact Social Responsibility and caring for others are overlapping concepts. It means that cooperatives should move beyond caring for members only. They should financially assist or organize activities beneficial to the entire community. However, such activities can be taken up when cooperatives have surplus.

(x) *Caring for others*: It means take interest in and care about other people. This concept stems from humanism. Cooperatives are humane by nature though their main concern is to achieve economic object.

These Value concepts can be only in an individual who is an altruist, pluralist, self-denials, large-hearted, broad minded and above all a humanist, whose eyes become wet seeing others' sufferings; whose conscience revolts seeing others being exploited; whose heart throbs seeing the destitute and the oppressed; who gets happiness and satisfaction in helping others. To such people cooperation becomes a mission and means to solve problems and enable the weak to become collectively strong.

Cooperation as an Association

Introduction

Cooperation has twin elements. It may be identified as a human association as well as an economic enterprise. Paul Huber Casselman explains this dual aspect of cooperation in the following words:

Cooperation is an economic system with a social content. Its idealism has both economic and social elements. The economic ideals affect the business enterprise, its methods and operations. The social ideals have a direct bearing on the association of persons comprising the society, particularly, as they affect membership and personnel relations - the ideas concerning human relations and those of universality, democracy, liberty, fraternity, unity and of self-help.

The predominance of either of the two depends upon whether we treat cooperatives as instruments of social uplift or economic change. Dr. Fauquet distinguishes the two elements in cooperative institutions the association or socialelement and the undertaking or the economic element. According to him cooperation is "an association of persons who have recognised and continue to recognise the similarity of certain of their needs and possibility of satisfying such needs by common undertaking". Thus he viewed that the association aspect of cooperation comes first before the enterprise is created. The society's rules lay down rules for mutual social and economic relation so that people can effectively work together. Some of the rules govern the association aspects, and others govern the enterprise aspects. (See Exhibit).

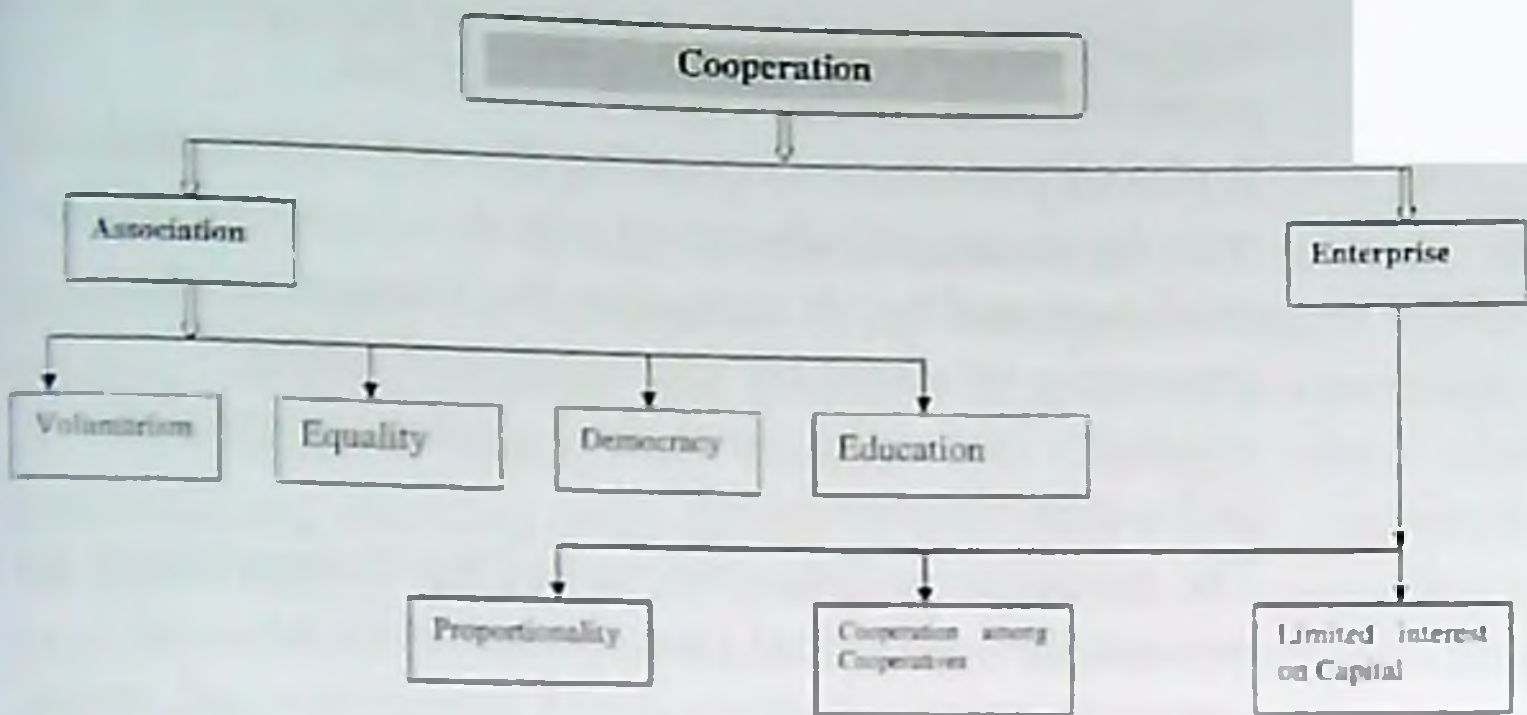


Exhibit: The Association and Enterprise aspects of cooperation

The nineteenth century cooperators like Pantaleoni and Walras thought that cooperation was essentially an association of persons. According to them cooperation is the result of combination of individuals for the pursuit of group interest rather than individual interest.

The Association Characteristics

The association characteristics of cooperation are identified hereunder:

1. Cooperation serves the primary group needs on the basis of interpersonal relationship, which ensures equality and mutuality.
2. It involves a multilateral agreement among members, creating a horizontal combination of member units acquiring a federal character rather than authoritarian character.
3. The social character of the association predominates over economic character. All qualitative

considerations vanish in the face of the equality of members and human dignity.

4. It places premium on creating the superior moral man by means of education and development of the total personality. It mitigates the harshness of economic relations by mutuality and group solidarity but at the same time evokes a sense of individual responsibility.
5. The association character makes the cooperatives go beyond the individual interest and even beyond common interest of their direct associates and seeks the good of all.
6. The associative aspect of cooperation is built around a value system like participation, self-regulation, leadership development, member prosperity and growth.

Cooperation as an Enterprise

Introduction

Cooperation is not a mere association. It is both as association and an enterprise. The enterprise aspect gives primacy to the economic and business function of cooperation. A Cooperative enterprise comes into being, when the participating member units decide to establish a joint enterprise or undertaking, which is collectively operated. A cooperative business enterprise is interposed between the member units and market and links the former with the latter. It is for this reason it is called as 'market-linkage cooperative'. The enterprise structure of cooperatives makes the cooperative relation further complicated. In the classical pattern of cooperation, the cooperatives were not intended to assume entrepreneurial character, and their sole objective was to strengthen the individual member-economies or units. The cooperative enterprise on the other hand implies a corporate entity, created in a legal mould. It is a distinct entrepreneurial unit, with decision-making, risk-taking and other similar essential economic characteristics. It has distinct corporate goals, though they are complementary to those of participating firms. The participating firms surrender their individual entrepreneurial prerequisites to the joint enterprise. But this joint enterprise is not a unit to which the profit maximization theory is applicable. It aims at optimization of resource use and maximization of net returns to the member firms/participating firm. Thus a cooperative firm seeks to achieve its goals by means of economizing cost and maximizing value addition.

The Cooperative enterprise is a 'going concern'. It is "an organization of coordinated activity; it is a collective behaviour with a common purpose and a collective will governed by a common working rules."

Enterprise characteristics

The enterprise characteristics of cooperatives may be outlined as below:

1. In a cooperative enterprise there is direct relation between users and the enterprise, and the specific object of the enterprise is the satisfaction of the common users-- user - seller, user - purchaser, user - worker.
2. The aim of cooperative undertaking is not to maximize the return on share capital, but to render service to owner-users at a minimum cost. Thus it is a service enterprise as distinct from a profit enterprise.
3. A cooperative like any other enterprise must seek out opportunity for expansion and diversification so that it can confer better benefits to members i.e., it must strengthen the enterprise viability.
4. The efficiency of a cooperative enterprise is measured primarily, not in terms of return on investment, but in terms of quality, adequacy and cost of service rendered to member users. For achieving the economic efficiency a cooperative organization must plan, organize, motivate and control its operation.
5. A member's economic right is measured by the extent of his participation in the undertaking's business, while his right of control is based on 'one member one vote'.
6. In the division of surplus the cooperative enterprise excludes capitalist mode of division and applies the rule of distribution in proportion to patronage.

A cooperative is said to be a success only when it achieves success in both enterprise as well as association aspects. It must therefore synthesise the association and enterprise characteristics.

A cooperative may succeed as an enterprise, unmindful of members' welfare; but it would cease to be a cooperative. A cooperative may succeed as an association, but its economic viability may be lost. Without a viable enterprise the association character cannot be fostered.

Economic efficiency and cooperative character must be blended appropriately, so that the institution and the men behind it grow simultaneously. "We build the world in vain, unless the builder grows."

Forms of Business Enterprises

Different forms of business enterprises have been developed, particularly after the industrial revolution, which gave birth to the system of large-scale production in factories. New methods of production paved way for new forms of economic enterprises. Several intermediaries started operating in the market and markets got wider scope. There was greater division of labour and specialization. Capital and labour got divorced and a new class of entrepreneurs emerged. New forms of economic enterprises came into being in addition to the existing ones.

Sole proprietorship³

Sole proprietorship is the oldest and most common form of business activity. It is a one-man organization where an individual owns, manages and controls a business. Sole proprietorship has the following features:

- There is ease of formation because it does not require elaborate legal formalities. There is no formal agreement needed, since it is a one-man organization. In addition, it is not necessary to register such a firm. However, owners of such businesses may be required to obtain a license (specifically relating to their line of business) from the local administration.
- The owner has complete control over all the aspects of the business and makes all the decisions although they may hire employees or support staff for assistance in day-to-day activities.
- Profits or losses resulting from the operation are solely borne by the proprietor.
- There is no legal existence separate from its owner. The liability of the proprietor is unlimited, i.e., it extends beyond the capital invested in the business.

Partnerships

A partnership is defined as a relation between two or more persons who have agreed to share the profits of a business conducted by them or any of them, who is acting for the others. The owners of a partnership business are individually known as partners and collectively as a firm. The main features of a partnership include the following:

- A partnership is easy to form, since no cumbersome legal formalities are mandatory and registration is not essential.
- However, a firm is deprived of certain legal benefits if it is not registered. The Registrar of Firms is responsible for registering partnership firms.
- A partnership should have a minimum of two partners, and the maximum number can be 10 in the banking sector and 20 in all other types of businesses. Furthermore, specific regulatory approvals are likely to be required in the case of partnership firm engaged in banking operations.
- A partnership firm has no separate legal existence of its own, i.e., the firm and its partners are considered a single entity in the eyes of the law.
- In the absence of any agreement to the contrary, all partners have the right to participate in the activities of the business.
- Ownership of property usually carries with it the right of management. Every partner, therefore, has a right to share in the management of such a business. The liability of the partners is unlimited. They are legally considered to be jointly and severally liable for the firm's liabilities. This means that creditors can recover their loans from the personal properties of individual partners if the assets and property owned by the firm are insufficient to meet its debts.
- There are restrictions on transfer of interest, i.e., partners cannot transfer their interest in the firm to any other person or persons (except to existing partners) without the unanimous consent of all the partners.

- A partnership firm has a limited span of life, i.e., it must be legally dissolved on the retirement, bankruptcy or death of any partner or in the event one of the partners becomes insane.

Limited Liability Partnership (LLP) is a new corporate structure that combines the flexibility of a partnership and the advantages of limited liability of a company at a low compliance cost. In other words, it is an alternative corporate business vehicle that provides the benefits of limited liability of a company, but allows its members the flexibility of organizing their internal management on the basis of a mutually arrived agreement, as is the case in a partnership firm. Owing to flexibility in its structure and operation, it would be useful for small and medium enterprises, in general, and for the enterprises in services sector, in particular. Internationally, LLPs are the preferred vehicle of business, particularly for service industry or for activities involving professionals.

Joint Hindu Family Business: Joint Hindu Family Business is a distinct type of organization which is unique to India. Even within India its existence is restricted to only certain parts of the country. In this form of business ownership, all members of a Hindu undivided family do business jointly under the control of the head of the family who is known as the 'Karta'. The members of the family are known as 'Co-parceners'. Thus, the Joint Hindu Family firm is a business owned by co-parceners of a Hindu undivided estate.

Private Limited Company: A private limited company is a voluntary association of not less than two and not more than fifty members, whose liability is limited, the transfer of whose shares is limited to its members and who is not allowed to

invite the general public to subscribe to its shares or debentures.

Public Limited Company: A public limited company is a voluntary association of members which is incorporated and, therefore has a separate legal existence and the liability of whose members is limited. A company must have a minimum of seven members but there is no limit as regards the maximum number.

Democratic Enterprises:

Co-operatives: Co-operative organization is a society which has as its objectives the promotion of the interests of its members in accordance with the principles of cooperation. It is a voluntary association of twenty five or more members residing or working in the same locality, who join together on the basis of equality for the fulfillment of their economic or business interest. The basic feature which differentiates the co-operatives from other forms of business ownership is that its primary motive is service to the members rather than making profits.

Self reliant Cooperative Society means a mutually aided cooperative society registered under the Mutually Aided Cooperative Societies Acts (An Act to provide for the voluntary formation of cooperative societies as accountable, competitive, self reliant business enterprises, based on thrift, self-help and mutual aid and owned, managed and controlled by members for their economic and social betterment and for the matters connected therewith or incidental thereto) of the respective states whose byelaws prohibit it from raising share capital from the Government.

Self Help Group is a homogeneous group of micro entrepreneurs with affinity among themselves, voluntarily formed to save whatever amount they can conveniently save out of their earnings and mutually agree to contribute to a common fund of the group from which small loans are given to the members for meeting their productive and emergent credit needs at such rate of interest, period of loan and other terms as the group may decide.

Producer Companies: The administration and management of 'Producer Companies' is not in tune with general framework for companies with liabilities limited by shares/guarantees. The shareholding of a 'Producer Company' imposed restrictions on its transferability, thereby preventing the shareholders from exercising their exit options through a market determined structure. It was also not feasible to make this structure amenable to a competitive market for corporate control. If it is felt that producer companies are unable to function within the framework and liability structure of limited liability companies. The Corporate Governance regime applicable to companies could not be properly imposed on this form. Government may consider introduction of a separate Act to deal with the regulation of such 'Producer Companies'. Part IX A in the present Companies Act, which has hardly been resorted to and is more likely to create disputes of interpretation and may, therefore, be excluded from the Companies Act.

Government Companies: In general, there is little justification for Government companies being provided relaxations in compliance with company law. It is even less if such companies are listed. Not only should such Government companies be able to compete in the market economy with other companies on equal terms, it would not be fair to the investors or creditors if such entities are allowed to present

their performance on the basis of dissimilar parameters. 7.2 Government companies may be subject to imposition of non-commercial/ commercially unviable social responsibilities. However the costs of such responsibilities should be transparently assessed and provided by the Government through the budget as a subsidy. It is not appropriate that application of the law or standards be relaxed to allow such costs to be incurred in a non-transparent manner. 7.3 There may be situations where such companies may require special treatment in activities related to the security of State. There may be an enabling provision to relax operation of Companies Act for such companies. Other companies, engaging in commercial activity should compete on the basis of transparency and level playing fields. Preferential treatment to such companies would be to the detriment to the capacity of Indian companies to survive in a competitive market. 7.4 A Government company should be clearly defined in law. It should be one where there is a clear majority stake held by the state- i.e. Central and/or State Government(s). There is no rationale for the definition of Government Company being extended to companies set up by Government companies in course of their commercial activities.

Cooperatives and Other Business Enterprises

A Comparison

As enterprises cooperatives share the main problems common to all other forms of enterprises. Yet, cooperative enterprises have their own unique characteristics, which sharply distinguish them from other forms of enterprises. The distinguishing features of the cooperative enterprises as compared to other forms of business enterprises are discussed below.

1. Objective of the Enterprise. All forms of business enterprises are engaged in some kind of business activity - buying and selling of goods, services or producing and marketing good/services. The private enterprises aim at maximising profits for the owners. Profit objective thus predominates in private enterprises, while in public sector business corporations' profit objective and social objective get equal importance. In both private and public sector enterprises, profit goes to the owners. The objective of the Cooperative enterprise on the other hand, is to meet the common needs of members at a minimum cost, and not to earn profit for the owners.

2. Membership of the Enterprise. The membership of family enterprises and partnership firms is highly restricted to a limited circle of family members or closed groups. On the other hand public limited company's membership is open to public and any person can apply for or acquire its shares whether his economic need corresponds to the line of business of the company or not. There is no restriction on the number of shares an individual may hold. In all forms of private enterprises and public sector enterprises, membership is not a condition for doing business with the enterprises. In a Cooperative enterprise though the membership is open and voluntary as in the case of joint stock companies, there are certain restrictions. First, one must be a person who must share the common need with other members and need the services of the organization. Secondly, one must meet the qualification specified for membership such as residing in the area of operation of the organization. Further, the membership is an eligibility condition for availing the services of the cooperative.

3. The nature of share capital. Capital invested in capitalistic forms of enterprises, viz., sole proprietor and partnership firms and in private sector companies is a form of profitable investment. It is both a source of power and a source of revenue, i.e., it is entrepreneurial and acquisitive as well. All forms of capitalistic enterprises use borrowed capital along with the owners' capital, try to earn a higher rate of return than the rate of interest on borrowing, and aim at increasing the earnings on owners' capital. That is, they take advantage of financial leverage. In them capital is impersonal and the capital owner need not participate in the business of the enterprise.

In a cooperative enterprise, the share capital is not a form of investment. It is only means for acquiring membership for satisfying the eligibility requirement for availing the services of the cooperative. The shares in a cooperative are not transferable, and cannot be traded in stock exchanges. The share capital in a cooperative is only a wage earner and not the profit taker.

A fixed rate of interest on share capital may be paid at the discretion of the general body of members. The rate should not exceed the maximum rate specified in the by-laws of the cooperative. Even though a cooperative may raise additional funds by borrowing from financial institutions, it does not take advantage of financial leverage, because it does not aim at maximizing the return on share capital.

4. Control of Business. In proprietorship, family enterprises and joint stock companies' owners (share holders) enjoy rights of control in proportion to their share holdings, because they associate as owners of capital and not as mere human beings. Moreover in a joint-stock company, most of the shareholders are small holders and scattered and their control is rather

illusory, because they cannot afford to attend the general meeting by spending out of their pockets. Hence invariably, big shareholders gain control over the company by virtue of their own voting rights and also by securing additional proxy votes from other shareholders. Control is thus concentrated in a few shareholders.

In a cooperative firm, on the other hand, the control is truly democratic. All members enjoy equal rights of control, irrespective of the number of shares they hold. 'One member, one vote' is the cardinal principle of cooperative management. Besides, there is no proxy system in a cooperative enterprise. Members have to personally present in the general meeting to exercise their power of control.

5. **Doing business with non-members.** All forms of private enterprises and public enterprises are mere business enterprises, for doing the selected form of business. Hence the question of confining the business dealings with owners only does not arise. In fact their owners are only profit takers and not the users (customers) of their enterprises. Therefore these enterprises deal with others for earning profits for the owners.

But a cooperative, being a non-profit-making mutuality, has to confine its business dealings with its members only. As stated by the ICA Committee of 1937, this rule is "inherent in the cooperative idea". Any dealing with non-members would mean earning profit. However a cooperative may have to deal with non-members under special circumstances such as sale of goods to the general public by a consumers' cooperative when it acts as a fair price shop in times of rationing and price control or sale to a non-member to encourage him to become a member. However the profits earned on sale to non-members should not be distributed among the members as patronage dividend, but should be credited to the concerned non-members' deposit accounts and after transferred to their share

capital when they become members. If this is not possible, such profit may be used for public welfare purposes.

6. Measures of Efficiency or success. The efficiency of all forms of private enterprises and that of public enterprises to some extent is measured in terms of the return on investment. Higher the rate of return, higher is the degree of efficiency. But this yardstick cannot measure efficiency of cooperatives, as they are service-oriented enterprises. Their efficiency and success is denoted by the extent of effective and adequate service rendered to their members. Active membership coverage and member-users' satisfaction are the index of their success.

7. Disposal of surplus. Net profit of single proprietorship is used according to his wishes, while the profit of partnership is divided according to the partnership agreement. In Joint Stock Company or a public enterprise, a part of the profit may be retained as reserve and the balance is distributed as dividend to the shareholders or government, as the case may be.

On the other hand, the surplus of a cooperative society is used for a) Paying a nominal rate of interest on capital, b) allocation to reserve fund, c) Paying patronage dividend to the member-users, and for allocations to education fund and common good fund.

The common good fund is used for the benefit of the local community. This is a manifestation of the social responsibility of a cooperative organization.

Thus, the enterprise characteristics of cooperatives significantly differ from those of other forms of enterprises. Unlike other forms of enterprises, cooperatives are service enterprises. Though effective management is common to all forms of enterprises, the ultimate aim differentiates

cooperatives from other enterprises. While other enterprises are primarily meant for earning higher rates of profits for their owners, cooperatives efficiency is measured by the benefits rendered to the member-users.

Cooperation as a Social Process

Introduction

Social process is a recurrent form of social interaction. The major types of social process are: competition, conflict and cooperation. The theory of competition dominates Economics; the conflict theory pervades Sociology. The theory of cooperation is embedded on mutualism. In conflict the motives and actions of the contestants are opposed; in competition they may be opposed or parallel; and in cooperation they are parallel and mutual.'

Competition

"Competition is that form of interaction which involves a struggle for goals which are scarce and are believed to be scarce; the interaction is normatively regulated, may be direct or indirect, personal or impersonal and tend to exclude the use of force and violence".

The method of competition was formulated into an economic law by Adam Smith, the Scottish Economist of 18th Century. He argued that an invisible hand had decreed that if one pursued his own self-interest, the by-product would be the good of all. By thinking their own individual gain men do the greatest service to public. The economic competition is the result of the free play of individual businessmen without any sort of interference from political Government. This gives rise

to the development of private monopolies. Competition is essentially a warfare which means the triumph of the strong and ruin of the weak.

In a system based on competition various units compete with each other to supply and sell their goods and services. There is intra-group as well as inter-group competition; each group of enterprises collectively, is in competition with all other groups for the available purchasing power possessed by the consuming public. Since free enterprise economy is a conglomeration of separately owned and operated business units, all the components are engaged in a continuous competition with one another as they strive for monopoly gains. Such competition is not only confined to marketing or distributive activities, but also to every aspect of economic life. In the opinion of E.R. Bowen, "a competition is a war and profit is the spoils of war. Buying cheap and selling dear of individual benefit above his fellows is the motive force of the profit system".

The function of competition is described as the creation of an impersonal social order in which each individual, being free to pursue his own profit and in a sense compelled to do so, makes every other individual a means to that end. In competitive cultures there is over-emphasis on competition. Competition prevails in almost everything that people do. Competition has to be regulated and fair play ensured to prevent competition from becoming throat cutting. The highly competitive nature of the society makes the presence of the competitive consciousness among people overwhelming. There is a tendency to over-value and over-reward competitive activities. As a result the members of the society adopt questionable means to achieve success. Members in such cultures do not show any loyalty to the cooperative and they switch over to

other organizations whenever those offer some apparent better condition.

Competition produces both socially desirable and undesirable effects. It leads to many new inventions, tremendous increase in productivity, improved quality and durability of products and pronounced increase in the availability of goods. Sociologists and Psychologists think that only through competition progress is made, individuals are stimulated for action. Competition is the main stimulus for individual and social action. It is not only the law of trade but also a dominant type of human motivation. Nevertheless, competition leads to undesirable effects. The evil effects of competition are:

- 1. The multiplicity of business units, particularly conspicuous in the retail distribution, is wasteful and adds enormously to the cost of distribution.*
- 2. The innumerable consumer goods of endless styles, shapes and brands are dumped in the market, leading to over production and supply. This results in frequent failures of several firms and insufficient business in many others. These are avoidable social costs of the competitive system.*
- 3. The heavy expenditure incurred on the army of salesmen and aggressive advertisement constitutes a colossal waste.*
- 4. Competitive system leads to economic instability due to cyclical boom and depression.*
- 5. This system is unjust and breeds inequality and concentration of wealth in a few hands and mad speculation and economic exploitation.*
- 6. Competition converts human beings into self-centred 'economic persons with no concern for fellow-beings and human sentiments.'*

Conflict

Conflict may be defined as "a struggle over values and claims to secure status, powers and resources in which the aim of opponents is to neutralise, injure or eliminate their rivals." It is the process by which two or more persons or groups try to prevent or thwart the attainment of certain objectives by others even to the extent of injuring them. This mostly occurs when the interests are exclusive and inharmonious.

Conflict is the consequence of competition. In a competitive economy, conflict between role and aim of different groups arise, when they are not in harmony with each other. Conflict as distinct from competition is always conscious and involves direct communication. Both are forms of interaction but competition is a struggle between individuals or groups who are not necessarily in contact and communication. While conflict is a contest in which contact is an indispensable condition. Competition is continuous and impersonal, conflict is intermittent and personal. Competition is focussed upon reaching the goals rather than removing competition.

The conflict in any situation may be either internal or external. Every businessman in a competitive economy is placed in a conflicting situation, in his own internal decision making process. For example, a businessman concentrates upon keeping his costs down and selling price up. But when he keeps wages down, he likewise keeps the purchasing power of the labourers down, which thus counteracts and lessens his chance of selling high.

Apart from the internal conflict, each group is in conflict with other groups. Economic society is divided into classes with great gulf between them. Labour aims to sell its skill, energy

and time for as much as possible; the employer wants to buy as cheaply as possible; producers want to sell as dear as possible. The Government needs tax revenues to carry on its activities, but taxes increase the businessman's cost of production and are thus in conflict with his aim. Stock-holders want large dividends which can only be forthcoming if profit warrants them. But large profits often spell higher prices, which stock-holders in their capacity as consumers have to pay. Corporate executives want fat salaries and big bonuses. But these large emoluments perforce lessen the income of others. Money lenders want as much interest as possible; borrowers want to pay as little as possible.

The roles are in conflict with each other and are incompatible and irreconcilable in the competitive system. These conflicts bring in their wake many severe social repercussions. Such conflicts of interests constitute the very essence of free enterprise economy and are responsible for large part of our social difficulties and strife.

Cooperation

Cooperation is the most elementary process of social life without which society is impossible. It essentially consists in a form of interaction whereby individuals and groups pool their energies together for the promotion of common ends or subjects but in such a way that all parties tend to benefit by it." It reflects the organic nature of human beings. Cooperation may be among individuals or groups; it may be primary group cooperation or secondary group cooperation. Cooperation is the only social process which is included in the definition of society. The dictionary of sociology defines society as. "a group of human beings cooperating in the pursuit of several of

their major interests, invariably including self-maintenance and self-perpetuation."

Cooperation is democracy in economics which seeks to regulate the system internally from bottom through a federative type of system. Political democracy and economic cooperation are the two sides of the same coin. In 1876 J.S. Mill wrote in his Principles of Political Economy that, cooperation is the noblest ideal. It transforms human life from a conflict of class, struggling for opposite interests to a friendly rivalry in the pursuit of the common good of all. Cooperation is, within itself, a self governing economic system. It does depend upon the political state to regulate its activities as does a competitive monopolistic economy. The cooperative system establishes socio-economic harmony in the following ways:

1. Cooperative system stabilises the economy by preventing the piling up of unconsumed stock of goods.
2. Under cooperative economic system the savings are regularly reinvested.
3. Cooperative system results in just distribution to all people and eliminates profit-motive and speculation.
4. It makes for efficiency. It produces for a known market. It avoids material and manpower wastage and avoids unnecessary wasteful advertisement.
5. It encourages participation and prevents monopolistic competition.
6. Cooperation stimulates creativity and higher attainment. Social skills such as communication, motivation and interaction are fostered.

Cooperatives alone can be the bridge between primary and secondary group techniques and values because they are membership organizations. Cooperatives are social

organizations based on mutual aid and they do not imitate 'price and market culture'. Cooperatives are primary groups, in which every one knows every one else and in which all relations are personal and interpersonal, quite contrast to the complex, highly commercialised economy in which most relations are secular and impersonal. The primary group values and the striving for primary group needs are part of the explanations why individuals join cooperatives. Mutual aid is one of the laws of life. Mutual effort is more effective than either conflict, competition or isolated endeavour.

According to Paul Lambert, cooperation is the development of the individual, not against others, but with others. It puts an end to the whole series of conflict in the economic field. In the consumer cooperative the same men are buying from and selling to each other which eliminates the rivalry between buyer and seller. In loan cooperatives, it is the same men who in turn contribute capital and borrow from it, which eliminates the contrast between lender and borrower. In the housing cooperative, it is the same men who let the premises and who take them on lease, which eliminates the property owner and tenant. The contrast between consumer and cooperatives is being eliminated by means of coordination. As human interaction cooperation is far more superior and productive than either competition or conflict.

Social Responsibility of Cooperatives

Introduction

Cooperation is a social philosophy, the ultimate aim of which is the creation of better social order. Though a cooperative institution is organized with the immediate objective of satisfying the needs of its members, it cannot afford to ignore the problems and needs of the social system in which it operates.

A cooperative therefore, directly aims at serving both its members and the community as a whole. The communitarian outlook of cooperative organizations is nothing new. It started with Rochdale Pioneers who declared that their ultimate aim was to set up villages of cooperation and work for the creation of better communities. This view was reiterated by many outstanding cooperative theoreticians like Fauquet.

Should there be any conflict between the members' interest and general interest, a cooperative is restrained from taking to a course which is detrimental to general interest. According to Prof. Paul Lambert, a cooperative society aims at furthering the interests of members "only in so far as it may legitimately do so and only in so far as this is compatible with general interest."

Social responsibility is inherent in the very idea of cooperation. Cooperatives are not end in themselves; and they justify themselves by their usefulness to society. By means of the service they render to the society, they make the community stronger. Joseph G.Knapp, has outlined the scope for cooperatives' social responsibility as under:

1. Cooperatives can create better business environment. They give the primary producers a stake in marketing, thereby linking the rural urban interests. Further, the role of cooperative becomes particularly significant, when the ubiquitous presence of middlemen as an economic menace is eliminated.
2. Cooperatives keep the profits at home. As they are owned by local communities, they do not sieve of earnings to distant places. The increased earnings are ploughed back into the local community, which augments the standard of living of the people. Apart from this, the corporate savings also go into community projects like road, school, hospital, etc.
3. Cooperatives improve the wealth-producing power of the community, by means of greater productive power and value addition function. Stronger the cooperatives, greater is the productive power and bigger the community assets.
4. In a market economy, cooperatives preserve competitive conditions. They give the small producers opportunity to survive by breaking the private monopoly and checking the tendency for concentration of economic power.
5. Cooperatives protect the weaker sections of the community. The small farmers and small producers cannot operate efficiently without cooperatives' support in the form of finance, service and marketing.
6. Cooperatives function as a safety valve in the society. They relieve the Government from several responsibilities, particularly in the field of social welfare.

Limitations to Social Responsibility

Though there is universal agreement about the social role of cooperatives, scepticism prevails in the minds of many about the feasibility of cooperative action in the sphere of social justice. The efficacy and scope of cooperatives to undertake various social responsibilities is strictly limited.

The scope of cooperatives for undertaking welfare activities is not infinite. There are certain practical limitations which deter cooperatives from undertaking social welfare programmes on a large scale. These limitations arise due to the conflicting goals and divergence of interest between members of cooperatives and non-members. As a result the impact made by cooperatives in the sphere of social welfare is insignificant. Unless the economic system is completely cooperativised or the idea of 'Cooperative Commonwealth' materialises, there is remote possibility for cooperatives to shoulder social responsibilities substantially.

Operational Constraints. Though cooperatives are considered as bastion of strength for weaker and vulnerable sections of the society, serious doubts are expressed about the efficacy of cooperatives to serve the unprivileged section of the society. It has been proved beyond doubt, that cooperative endeavors can succeed only among people who are potentially viable. Cooperatives can never be of any use to the destitutes and people who are cronicly poor. Unless their conditions are ameliorated social welfare will be an unaccomplished goal.

Legal Constraints. Cooperatives are governed by a separate legislation, which regulates, controls and directs their operation. The provision of the cooperative Societies Act are

means for protecting the members' interest. Hence there are certain legal limitations which deter cooperatives from excessive commitment to social responsibilities.

Organisational Constraints. The cooperatives should be broad-based, if they are to make considerable impact on the society. At present the cooperatives are mainly confined to economic activities. "Cooperatives set-up for specifically social purposes are less usual than the trading types. They cover wide range but are relatively in few countries and then sometimes as isolated examples." Therefore cooperatives can undertake more and more welfare activities, only when they are able to bring under their fold wide range of social activities.

Economic Constraints. In many countries cooperatives are juxtaposed with other economic systems. This necessitates the cooperatives to function on sound business lines and on a competitive spirit. For instance the consumers cooperatives can neither be able to sell the commodities at a lower price than that prevails in the market, nor very generous towards their employees.

Management of Cooperatives⁴

The principles of management and the principles of cooperation as seen from the foregoing analysis have a complementary role. As aptly remarked by K. K. Taimni, "In fact they converge to make the cooperative society as an ideal instrument to promote the values which a democratic polity cherishes and at the same time they provide effective means to ameliorate the lot of the vulnerable and weaker sections of the community. If cooperative principles given a social content to the economic activities of an enterprise the principles of management make it possible to put the resources of the enterprise to the best use."

Definition

Watzlawick:

"Cooperative management should be understood as a complex decision making process within the three levels of management pyramid which aims at achieving a proper balance of success of cooperative enterprise as a business unit as well as a social institution."

E.V. Mendoza:

"Cooperative management may be defined as the efficient and effective utilization of the resources of a cooperative as a business organization for the purpose of serving the needs of its members within the context of the accepted cooperative principles."

The above definitions bring to fore the following features of cooperative management.

- Cooperative management is a complex decision making process, and decisions are made at all the three levels of management pyramid.
- The overriding objective of cooperative management is to serve the needs of members.
- The conduct of all the activities must be governed jointly by the two sets of principles namely, a) principles of management and b) principles of cooperation.
- The creation of proper balance between efforts aiming at commercial success and those aimed at maintaining the institutional goals of the cooperative association.
- Like any other management, it seeks to achieve its aim by means of effective and efficient use of resources.

Objectives of Cooperative Management:

Cooperative management has the following objectives:

Firstly, the improvement of the operational efficiency is the fore-most concern of cooperative management, so that the organization is able to compete effectively. It must acquire capacity to thrive as a business institution in its own right. Cooperative management aims at evolving methods and techniques on the basis of the principle of management, which will help the managers to avoid mistake and improve their practice.

Secondly, cooperative management aims at improving the viability of the cooperative society. The soundness of its strength, growth potentials and the quality of the service depend on the viability. The organizational effectiveness is the direct result of the viability.

Thirdly, cooperative management should constantly strive to achieve member satisfaction. By providing efficient service to the patron-members on economical terms, cooperative organization can achieve equilibrium, and development member-loyalty and greater patronage. The efficiency and viability of a cooperative organization has no meaning unless it is able to coordinate the objectives of its members and translate the individual objectives into meaningful reality and make visible impact on the people who form the organization.

Fourthly, cooperative organization must also strive for community acceptance by carrying out the social responsibilities expected of it.

Fifthly, cooperative management must also aim at ethical and moral development of the members. The object of cooperative organization is much more than improving the material standards of its members. Ultimately it strives to lift them to higher social and moral standards and enable them to realize higher spiritual potential.

Sixthly, to fulfill the above objective it must develop organizational and management competence by professionalizing management, and by taking up management development programme. The task of cooperative management is therefore, to understand the

basic concepts, principles and techniques of management and systematically appraise their relevance in the context of their special goals and reconceptualize them so that training and development can be organized effectively.

The system concept of management is more relevant to cooperative management. A cooperative society should be understood as a sub-system of the larger socio-economic system. It draws resources and inputs from the environment, transforms them into service and sends the goods and services into the systems. There is constant interaction between the cooperative society and the larger system to which it is a part. The system approach to cooperative management has four basic ingredients. They are:

- A clear enunciation of the goals, which can be translated in terms of performance measures.
- A full recognition of the socio-economic and political environment external to the cooperative system but having a bearing on the performance of the cooperatives.
- Identification of the different components of cooperative structure and their various attributes and
- An inventory of the human and material resources available to the cooperative system.

Uniqueness of Cooperative Management

While applying the principles of management of one should not ignore the fact that the cooperative as a form of business organization possesses very distinct characteristics. It differs fundamentally in various facets of its make up as compared to

the investor owned business. in the objectives (input), transformation process and services rendered (output).

The principles of scientific management and the efficiency criteria commonly adopted in judging the business enterprises such as the effective use of human and other resources, the quality and value of the products and services supplied, viability, surplus generated, the value added to the assets, *per se* have only a partial relevance to the cooperative enterprise. As Mr. Dubhashi has aptly remarked, "the principle of efficiency is vital in the cooperative sector also. But in so far as the market mechanism and private enterprise, turns the principle of maximum efficiency into maximum profit, it becomes incompatible with the cooperative movement and needs modification".

Pro. George Lasserre had made this distinction in very clear terms. Cooperative cannot slavishly imitate capitalist enterprises even the best of them. The concept of efficiency as applied to the whole management, cannot be the same, because the aim is not the same. A capitalist or family enterprise aims at producing maximum profit for the owners:

Its efficiency is reckoned by the ratio:

$$\frac{\text{Profit}}{\text{Capital}}$$

A cooperative is formed with the aim of providing services for its member economic as well as well as non-economic; its efficiency therefore is measured by the ratio:

$$\frac{\text{Satisfaction of all kind}}{\text{Total Cost}}$$

The corporate objectives, organizational goals, decision process, Value structure and the method of appraisal of

cooperative management are in many respects unique. Each of the unique elements is explained below:

Normative Character:

As a social science, cooperation is more normative, than positive. The principles of cooperation constitute the vital ingredients and imperative coordinates of the cooperative organization and management. These are a set of standards and settled rules of action, which have universal application. There is an element of 'oughtness' or compulsion, particularly when the principles are translated into legal norm. As stated by P.E. Weerman: "The proper application of cooperative principle is essential for the success of the movement, for the cooperative principles are those which are essential, that is absolutely indispensable to the achievement of cooperative movement's role". The cooperative management should strive to achieve maximum efficiency only within the framework of the cooperative principle, and any rational action pursued should be compatible with the principles. Such a normative character of cooperative institutions imposes severe constraints and rigidity on the cooperative management, which impede their competitive efficiency. In order to overcome such constraints, the principles of cooperation have to be integrated with the principles of management, and a set of successful cooperative business practices have to be evolved.

Complex Aims System:

In the cooperative organizational set up there are distinct interest groups such as individual members, cooperative group, the organization and the employees each having a distinct aims system. The aims system is still more complex in respect of the

'integrated type of cooperatives.' In such integrated cooperatives the individual member-economies, which are quite distinct from the cooperative enterprise, are organically linked with the latter. The aims system of such a complex cooperative combine includes the following diverse influence:

- a. Personal individual aim system of every member
- b. The corresponding individual operational objectives for the single member economy
- c. The system of aims and the operational objectives of the cooperative group
- d. The operational objectives of the cooperative enterprise as such
- e. Personal individual aims of the management
- f. The aims of employees and workers
- g. The influence of macro-policy on cooperative development
- h. The influence of managers from secondary and tertiary bodies
- i. Decision making process adopted within the cooperative enterprise

The cooperative management has the onerous task of harmonizing the diverse influence and coordination the complex aims system. The aims of these distinct interest groups have to be welded together by formulating over all aims system and evolving operable criteria for business decision making. The several aims system linked together with one another makes the operational objective and decision making process highly complex.

Superior Value Structure:

Apart from being an economic enterprise, a cooperative society is an ethical, social and moral entity as well. The cooperative ideology draws its moral and social content from the reformist doctrine of Robert Owen, the father of cooperation, who advocated a 'new moral world' free from profit, competition and exploitation. The Christian Socialists too gave an ethical orientation to cooperation so as to make it an instrument of social ethics, i.e. creation of more civilized society and the salvation of social sins. "Besides promoting material prosperity the cooperative movement aims at educational betterment, thrift and morals, honesty, independence and self-respect, democracy, brotherhood and religion." Thus a cooperative society is both an enterprise and an association. To use Roymond firth's language, "it is an economic organization set in a social framework." This dual nature of cooperative system being at the same time an enterprise and an association calls for entirely a different approach to the management process. It follows that the successful cooperative management must involve both these aspects. It is the responsibility of cooperative management to aim at success in both fields and to perform the management functions of planning, organizing, directing and control in such a way that a fair balance between these two is achieved.

Distinct Economic Process:

The economic process of transforming organizational objectives into product and service specifications significantly differs in cooperatives as compared with other forms of business. In cooperatives there is close linkage between the ownership, control and use. "It is a business organization in which the components of ownership, control and use are integrated by being all vested in one body of people, the

members." This sort of owner-ship-use-control vested with one group of persons who collectively are the members renders the managerial task of fulfilling the aspirations of such a group stupendous. For, the services rendered by cooperative organization are on the anvil of constant review and any lapse is prone to harsh and sensitive criticism. Furthermore the production process also distinctly differs in cooperative enterprise from other forms of business. Of the two basic pattern of organization of producer's cooperative viz. cooperative production society and cooperative service society, the second type has certain uniqueness. "In one members are workers and shareholders simultaneously. In the other case, the members possess individual enterprises and delegate one or more functions to the cooperative establishment which thus becomes auxiliary in character." In such societies the cooperative management's tasks becomes complex. The management decisions have to be made not only for member economies also. Integration of member economies with the cooperative enterprise objectives, planning and pursuing a common operative policy and appraisal of the achievement by an appropriate feedback system thus becomes the crux of the cooperative management.

Democratic Control

The democracy is the corner stone of cooperative management. Though it is an ideally suited form of management for ensuring member participation and motivation, it is beset with practical limitation. The cooperative managers need to involve more group of people in the decision process. As a result the decision making process tends to become wasteful and vexatious. Therefore cooperative manager has to develop methods and techniques to involve large number of people without decreasing efficiency. Another handicap in the cooperative

management is that the Board of Directors of the Cooperative quite often lacks proper perception of their precise role. As a result the Board either interferes with the executive management, or performs only the watchdog function of voicing the member's grievances or fritters away the time and energy in trivialities. Aside this, wherever the Board is pliable it becomes a handmaid of the chief executive leading to quagmire of control. In such situations the role of the Board becomes nebulous and counter-productive. The cooperative managers have the onerous responsibility of educating the leaders in the management decision making process and evolving methods to combine democratic control with managerial efficiency. The success of cooperative management thus lies in making the democratic control coincide with efficiency by synthesizing the principles of management of corporate business and the goals of economic democracy and social ownership; and making the decision process dynamic by a clear demarcation of the powers and functions of the Chief-Executive.

Harmony with Macro-Policy of State:

Cooperation is an instrument of state policy and planning in most of the developing countries, where the state forges a symbiotic relationship with cooperatives by extending financial and administrative assistance and at the same time utilizing cooperative infrastructure for achieving development targets. Perforce, this mutual process requires the harmonization of the macro-policy of the cooperative groups. Such integration imposes certain severe constraints on the management of cooperatives. Conflict between the objectives of member groups and the macro-objectives and the sacrifice of the former for the sake of latter is not uncommon in cooperatives.

The foregoing analysis highlights the need for developing a management system appropriate to cooperatives by adjusting

the management system to the cooperative organizational situation rather than adjusting the cooperatives to sophisticated modern management.

Organisational Structure of Cooperatives

Functions

Sets the society's objectives, decides bylaws, exercises ownership control over the society's growth.

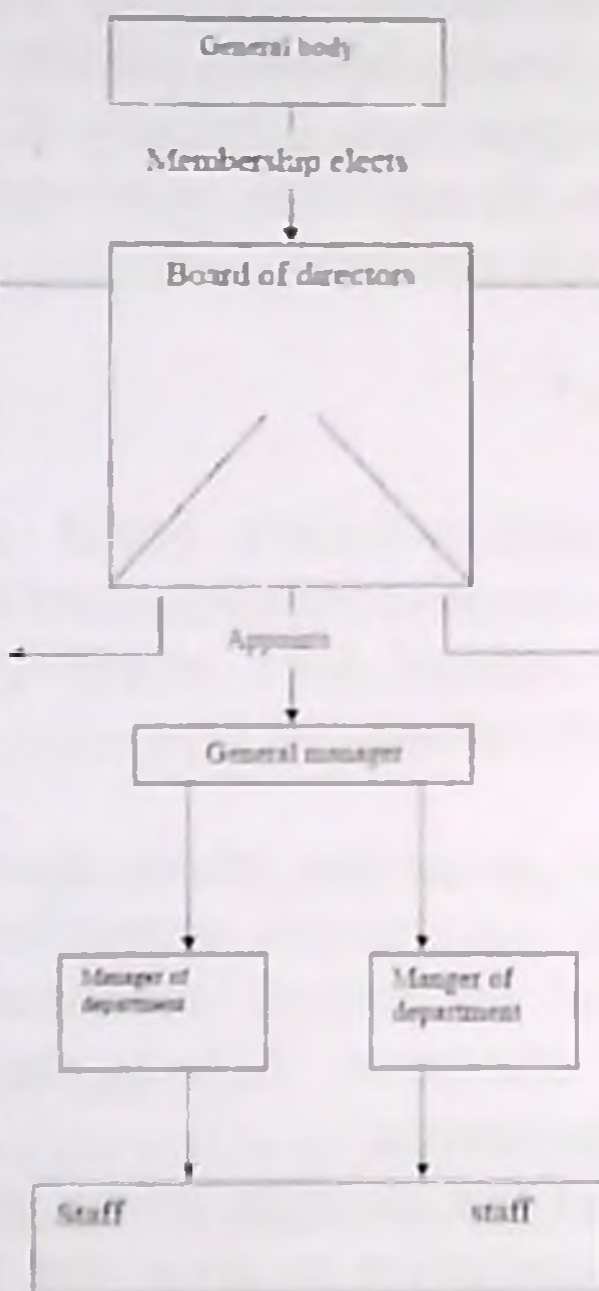
Interprets objectives in specific details, formulates specific policies to achieve objectives, studies management reports and evaluates progress, provides leadership to management and membership, approves salary ranges for jobs at all levels.

As chairperson of the board and ex officio member of all committees, provides the link between board and management.

Manages the business in line with board policies, establishes operating procedures, sets out jobs to be done, engages, supervises and trains staff, fixes salaries within ranges established by the board.

Manages the department, provides specialised technical know-how for the department, supervises and trains staff, enforces operating procedures for the department.

Provides services to the cooperative in the line with established policies and operating practices.



Responsibilities

Uses the services of the cooperative, elects capable directors, provides capital for operation and expansion, studies board's and auditors' reports.

Elects president and appoints manager, is responsible to membership for results of operation, operates within the by-laws of the society and abides by its own policies.

Has the responsibility of enforcing board policies and providing guidance to the general manager between board meetings; is responsible to the board for all actions.

Responsible to the president between board meetings; reports to the board at meetings, provides factual information so that the board can make policy decisions.

Responsible to the general manager for departmental operations.

Responsible to the manager of the department, has to acquire understanding of the society and technical know-how in the department.

International Co-operative Alliance

What is the ICA?

Founded in 1895, the International Co-operative Alliance is an independent, non-governmental organisation which unites, represents and serves co-operatives worldwide. It is the largest non-governmental organisations in the world.

ICA members are national and international co-operative organisations in all sectors of activity including agriculture, banking, fisheries, health, housing, industry, insurance, tourism and consumer co-operatives. Currently, ICA has 221 member organisations from 88 countries, representing more than 800 million individuals worldwide.

What does ICA do?

ICA's priorities and activities centre on promoting and defending the Co-operative Identity, ensuring that co-operative enterprise is a recognised form of enterprise that is able to compete in the marketplace.

1. ICA raises awareness about co-operatives. It helps individuals, government authorities and regional and international institutions understand the co-operative model of enterprise. ICA is the voice of the co-operative movement.
2. ICA ensures that the right policy environment exists to enable co-operatives to grow and prosper. It helps its members in their lobbying for new legislation and more appropriate administrative procedures that respect the co-operative model, its principles and values. It provides political support as well as technical expertise

to enable co-operatives to compete on a level playing field.

3. ICA provides its members with key information, best practice and contacts. Through its publications it ensures the sharing of information. It organises meetings and workshops to address key issues affecting co-operatives and allows discussion among co-operators from around the world. ICA facilitates contacts between co-operatives for trading purposes and intelligence sharing in a wide range of areas.
4. ICA provides technical assistance to co-operatives through its development programme. ICA promotes capacity-building and financial support, it facilitates job creation and supports poverty reduction and microfinance programmes around the world.

ICA Logo and Flag

The ICA logo depicts doves of peace emerging from a rainbow - the symbol of the Co-operative Movement - and represents the unity of ICA's diverse membership. It was initially designed for ICA's Centennial Congress in 1995.

The colours of the rainbow stand for the following for co-operatives:

Red stands for courage

Orange offers the vision of possibilities.

Yellow represents the challenge that GREEN has kindled.

Green represents growth, a challenge to co-operators to strive for growth of membership and of understanding of the aims and values of co-operation.

Sky blue suggests far horizons, the need to provide

education and help to unfortunate people and to strive towards global unity.

Dark blue suggests pessimism, reminding us of less fortunate people in the world who are in need of the benefits from co-operation.

Violet is the colour of warmth, beauty and friendship.

The ICA has been flying a flag carrying the ICA logo since April 2001, when the Board decided to replace the traditional rainbow flag. This The flag was changed to clearly promote and strengthen the co-operative image. The rainbow flag was used by a number of non-cooperative groups and this led to confusion in several countries around the world.

ICA General Assembly

The General Assembly is the highest authority of the ICA and is made up of representatives appointed by ICA member organisations. The General Assembly meets every second year to:

- formulate and implement policy on major issues affecting the ICA & the global co-operative movement
- approve the ICA's Strategic Plan & financial framework
- elect the President and the Board, ratify the elections of the Vice-Presidents, the sectoral organisation & youth representatives to the Board
- appoint the external auditor
- ratify the appointment or removal of the Director-General on the recommendation of the Board
- amend the ICA Statutes and Bye-Laws by a majority of two-thirds of the votes represented
- decide on membership subscriptions & representation formulae
- approve the ICA's annual audited accounts

- confirm all dispositions taken by the Board, or by any other unincorporated regional or sectoral entity of ICA, which imposes liabilities or obligations on ICA, such as investments, borrowings, mortgages, buying and selling of real estate, as well as other agreements
- approve the establishment or dissolution of ICA regions, their respective Regional Assemblies, Sectoral Organisations & Thematic Committees on the recommendation of the Board
- decide upon the dissolution of the ICA by a majority of two-thirds of the votes represented

The last General Assembly was held in Cape Town, South Africa during 1-5 November 2013. The next General Assembly will be held during 10-13, November, 2015 at Antalya, Turkey.

General Assembly

Sectoral Assemblies

Regional Assemblies

Global Board

Youth Network

Sectoral Boards

Regional Boards

Thematic Committees

Director General

Audit and Risk Control Committee

Consumer Co-operative Worldwide

Africa

Gender Equality Committee

Global Office

Governance Committee

Int. Health Co-operative Org

Americas

Communications Committee

Membership Committee

ICA Housing

Asia

Committee on Co-operative Research

Human Resources Committee

Int. Co-operative Agricultural Org

Europe

Human Resource Development Committee

Mutual Working Group

Int. Co-operative Banking Association

Legislation Working Group

Int. Co-operative Fisheries Organisation

International Accounting Standards Working Group

Int. Co-operative and Mutual Insurance Federation

Int. Org. of Industrial Artisanal and Service Producers Co-operatives

Board

The ICA Board - President, four Vice-Presidents, and fifteen members - develops and monitors a global strategy for ICA and oversees the functioning of the ICA. It decides on all membership application and related issues, establishes sectoral and thematic committees of the ICA, and appoints the Director-General.

Regional Assemblies

The Regional Assemblies for Africa, the Americas, Asia and the Pacific, and Europe take place every second year, alternating with the General Assembly. The functions of these assemblies include:

- implementing General Assembly decisions at the regional level
- establishing regional work programmes, and
- electing their President who serves as ICA Vice-President

In many regions, the statutory Regional Assembly meeting is held in conjunction with a Regional Conference or Forum focusing on a particular area of interest to co-operators in that region.

Regional Elected Bodies

Each region has its own regional 'board' composed of a President, Vice President and other members elected by the Regional Assembly for a four-year term. Known in Africa as "Executive Committee", in the Americas as the "Comité

Ejecutivo", in Asia and the Pacific as the "Standing Committee" and in Europe as "European Council", these boards work within the policy guidelines and decisions laid down from time to time by the ICA Board and more particularly, provide recommendations on membership applications from its region to the ICA Board, implement and monitor activities and programmes in the region, oversee regional finances and budgets, approve an annual budget and work plan prepared by the Regional Director before it is submitted to the Director-General and ICA Board for final approval.

Sectoral Organisations

The International Co-operative Agricultural Organisation (ICAO) is a sectoral organisation of the International Co-operative Alliance. It exists to safeguard the interests of its member organizations, to pursue research into the latest developments in the agricultural co-operative movement, to promote mutual understanding and economic collaboration between the agricultural co-operatives on the one hand and the farmer and other types of co-operatives (eg consumers', fisheries, insurance, housing, etc) on the other, both worldwide and at local level.

As a global organisation for agricultural co-operatives the ICAO has a number of goals:

- To exchange experience on specific activity fields by hosting international meetings such as seminars and workshops:

- To promote the establishment of agricultural co-operatives in developing countries in order to increase food security;
- To improve the distribution of agricultural products;
- To take concrete action for preserving the environment.
- To promote and encourage agricultural cooperatives, especially in the developing countries and transitional economies, and help find assistance for their establishment, when requested.
- To survey the problems which concern agricultural cooperatives in different countries and to make recommendations regarding potential solutions

For more information on the ICAO visit www.agricoop.org

The International Co-operative Banking Association (ICBA) is a sectoral organisation of the International Co-operative Alliance. As a global organisation for co-operative banks it has four key aims:

- To facilitate the promotion at the international and regional levels of the distinctive co-operative values of co-operative banks and of the advantages of using them over other banks;
- To facilitate and encourage the exchange of information amongst members on key co-operative banking issues and foster inter-cooperation in the finding of solutions
- To support regional committees and their members, individually or collectively with specific challenges;
- To encourage inter-cooperation with other types of co-operatives and various bodies of the ICA.

For more information on the ICBA visit www.icba.coop

Consumer Co-operatives Worldwide (CCW) is a sectoral organisation of the International Co-operative Alliance. As a global organisation for consumer owned co-operatives it has four key aims

Provide members with information on relevant issues;

- Serve as a forum for the exchange of information and best practices between the members;
- Facilitate discussions between members in view of potential co-operation;
- To set the global strategy and co-ordinate and support the regional consumer co-operative sectoral structures in their work on all issues of relevance

For more information on CCW visit www.ccw.coop

The International Co-operative Fisheries Organisation (IFCO) is a sectoral organisation of the International Co-operative Alliance. As a global organisation for co-operatives in the fishing sector it has four key aims:

- Creation of new co-operative fisheries organisations;
- Promotion of co-operative training and education, including the production of educational material;
- Exchange of technical information movements on a global basis;

(For more information on ICFO visit icfo.coop)

The International Health Co-operative Organisation (IHCO) is a sectoral organisation of the International Co-operative Alliance. As a global organisation for co-operatives in the healthcare sector it has four key aims:

- Provide a forum for the discussion and exchange of issues of relevant to its members:
- Provide information to United Nations organisations, national governments, the media and the public about the nature and role of health co-operatives:
- Promote the development of health co-operatives:
- Collaborate with other sectoral organisations and thematic committees of the ICA.

(For more information on IHCO visit www.ica.coop/ihco)

ICA Housing is a sectoral organisation of the International Co-operative Alliance. As a global organisation for housing co-operatives it has three key aims:

- To unite co operative and mutual self-help housing organisations around the globe through membership of ICA Housing:
- To represent the co operative and mutual self-help housing movement by supporting members at a local, regional and global level:
- To serve our members by providing a forum for knowledge exchange.

(For more information on ICA Housing visit www.icahousing.coop)

Originally established in 1922 as the insurance committee of the International Co-operative Alliance, The International Cooperative and Mutual Insurance Federation (ICMIF) is a long established and unique global trade association representing cooperative and mutual insurers around the world. Its three key aims:

- Promote the cooperative and mutual insurance sector globally;
- Be a leader in providing information and services to members;
- Represent the interests of the global cooperative and mutual insurance sector.

(For more information on ICMIF visit www.icmif.org)

The International Organisation of Industrial, Artisanal and Service Producers' Cooperatives (CICOPA), is a sectoral organisation of the International Co-operative Alliance. As the global organisation for worker and producer cooperatives trading in sectors from construction and transport to arts and crafts, it has three key aims:

- The promotion of work and production in a cooperative way;
- The promotion of worker ownership as a specific type of enterprise and labour organisation;
- The promotion of the cooperative movement in industrial, craft and service sectors.

(For more information on CICOPA visit www.cicopa.coop)

Thematic Committees

The Gender Equality Committee (ICA GEC) is a thematic committee of the International Co-operative Alliance which promotes equality between women and men and gender integration in the co-operative movement and society. It was formerly known as the ICA Global Women's Committee.

The ICA Global Human Resource Development Committee (ICA HRD) shares knowledge, information and guidance on co-operative education and training issues to Human Resource

practitioners, co-operative leaders and co-operative managers. It also provides a forum for the exchange of ideas, aspirations and practical experiences to enhance the social and economic effectiveness of co-operatives.

The Committee, working in collaboration with the National Co-operative Union of India and the Vaikunth Mehta National Institute of Co-operative Management has established the Global HRD Network for co-operatives.

The ICA Committee on Co-operative Research (ICACCR) is a bridge between academic research and the co-operative world. The ICACCR aims to raise awareness of co-operative research, particularly to managers and co-operators so that it can be applied effectively to current co-operatives issues.

The ICA Communications Committee (ICACC) ensures that the co-operative business model is promoted effectively and appropriately to as wide an audience as possible around the world. The Committee works towards building a level of understanding amongst communications professionals in co-operatives globally to encourage them to promote the business model as part of their work.

The ICA Youth Network aims to help young co-operators from different countries to connect, share experiences and ideas, as well as to provide an environment where young co-operators can learn more about the wider co-operative movement. Involving young people from outside the movement through education and support is a key focus of the work of this network. The network also looks to empower young co-operators to engage with the rest of the movement to both raise the profile of youth issues and to ensure the youth perspective is presented during wider discussions.

Audit and Control Committee

The Audit and Control Committee monitors the financial situation of the organisation, and submits reports to the Board and General Assembly on issues that it deems important for efficient management and operations.



**LET A MAN LEARN THOROUGHLY
WHATEVER HE MAY LEARN, AND
LET HIS CONDUCT BE WORTHY OF
HIS LEARNING.**