

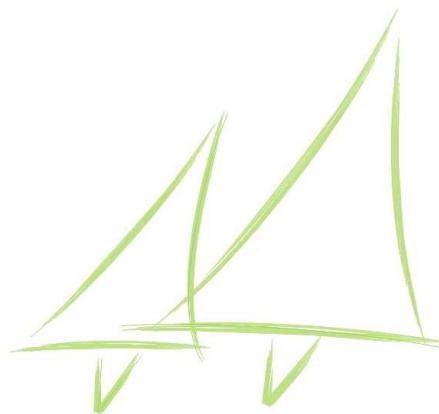
# V ENCONTRO DE PESQUISADORES LATINO-AMERICANOS DE COOPERATIVISMO

V ENCUENTRO DE INVESTIGADORES LATINOAMERICANOS DE COOPERATIVISMO

MOVIMENTO COOPERATIVO, TRANSNACIONALIZAÇÃO  
E IDENTIDADE COOPERATIVA NA AMÉRICA LATINA

MOVIMIENTO COOPERATIVO, TRANSNACIONALIZACIÓN E IDENTIDAD COOPERATIVA EN AMÉRICA LATINA

COMITÉ DE PESQUISA DA ALIANÇA COOPERATIVA INTERNACIONAL



## 093 - THE CO-OPERATIVE IDENTITY: IDENTIFICATION CRITERIA OF CONSUMER'S COOPS

Identidade, valores e governança das cooperativas

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### Abstract

Many processes in work of coop<sup>1</sup> externally (and only externally) are very similar to processes in work of commercial enterprise. This fact serves as reason for erroneous representations concerning their value, as means (as instrument) of people's life-support.

The theoretical equalization of coop's economic mechanism and commercial enterprises, since sphere of narrow-minded (ordinary) perception, up to level of state institutes generating norms of legislation, bring losses of coop's competitiveness on practice.

Absence of identification criterions for processes and phenomena similar by form, but different by essence, is primary factor of contradiction existence between the noncommercial form of consumer's coop, as legal person, and commercial essence their activity in many countries. This contradiction complicates understanding of co-operative's mission, as means of people's needs satisfaction on ground of self-help mechanisms.

The author did comparative analysis in commercial and noncommercial enterprises of principles of assets circulation, principles of financing, algorithm of achievement of similar purposes, systematized differences of consumer's coop and the commercial organization with reference to similar business-processes, designed comparative schemes of assets circulation of consumer's coop and the commercial organizations.

In result did conclusion about necessity of identification criterions for different types of coops in addition to principles of co-operative identity ICA and proposed nine identification criterions of consumer's coop.

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<sup>1</sup> Further in the text, unless otherwise specified, at use of term "co-operative" the consumer's co-operative will be implied.

**Key-words:** coop, co-operative, consumer's coop, co-operative identity, identification, criterion, economic mechanism, economic theory, social efficiency, shareholder, share, noncommercial organization, commercial organization.

## **Introduction**

People consolidation for of those purposes, effective achievement of which is possible, often, only by collective actions, accompany development of society throughout of its history. The effect of consolidation is reached due to consolidation of resources, a division of labour and its specialization, whether it be hunting for large animal in the Stone Age or interaction of programmers who work in different parts of the world and create the software by means of Internet, establishment of marketing associations by small manufacturers with a view of more favourable sale of goods, or consumer's coops - for expenses decrease on their purchases.

About cooperatives values and principles of their functioning it was written a lot by many researchers from different countries. Throughout of cooperative's movement history the understanding of cooperatives nature - economic and social aspects of their functioning, a place and value for society, as a whole, and for small communities, in particular - was improved and specified.

Process of specification followed in parallel with development of society, frequently with different speed, which depended on type of economic way, cultural and national features of the different countries and people living in them.

Necessity of coops identification among many different forms of enterprises led cooperative community to idea creating universal identification criteria. A fine basis for this work became Rochdale coop principles, many of which and until now have not lost the urgency. From moment of the first version of cooperative principles (1937), coordinated by ICA, passed more than 70 years. It is small term on historical measures. Nevertheless, during this period, cooperative principles were reconsidered twice - in 1966 and 1995.

It is necessary to note, that in theoretical researches, which focused on consumer's cooperation, the question of positive social effects generated by activity of cooperatives is investigated deeply enough. However, during 10-ти years of researches, author not saw works in which social efficiency of coops was linked with presence of the unique economic mechanism inherent only in cooperatives. The descriptions of economic mechanism which is in works on coops economy, proceeding from their essence, concerns more to the commercial, capitalist enterprise.

Insufficient study in the theory leads, that on practice in many countries the noncommercial enterprises - consumer's coops - work with using economic mechanism their antipode - of commercial trading firms, that inefficiently in long-term prospect. This situation is characteristic in an equal measure for those

countries which assume as "economically developed" (for example, USA, Sweden, Canada, etc.), and for those, which in the modern economic literature the majority of writing economists attach to category "developing" or "transforming" countries (for example, Russia, Belarus, Ukraine, etc.).

It is not excluded, that with a view of preservation of coops attractiveness for shareholders and, hence, of existing level (size) of cooperative movement, necessary to respecify the base principles of functioning for various types of cooperatives known to us, from point of view of "cooperative globalization" problem.

"Cooperative globalization" - process of making the coordinated principles of establishing, functioning and liquidation of cooperatives and their unions, passing within the limits of international cooperative dialogue under aegis of international cooperative organizations.

The principles developed within the limits of this dialogue should be used in modernization process of national cooperative legislation of different countries. Such use will allow to unify (bring together) legislation and to facilitate achievement of coops purposes, both on national, and at the international level. The purpose of this paper - to offer for discussion one of variants of consumer's coops identification on the basis of criteria offered by author.

#### **Problem statement: contradictions in activity of consumer's coops in historical and economic aspect**

Brief digression to history is necessary for best understanding the coops differences from other types of enterprises and urgency of identification task.

Consumer's cooperation, as kind of people interaction, is known enough a long time. From first quarter of 19-th century, with process of the state institutes development, formalizations and business-processes documenting (first of all licencing procedures, office-work), consumers associations are more and more often mentioned, how viable form of enterprises, and, in process of strengthening capitalism, start to play more and more appreciable role in economy different countries, first of all, in Europe.

The economic theory could not leave not noticed a phenomenon of consumer's coop. The researchers majority of cooperation, as the steady process, which caused in due time occurrence special form of enterprises - the cooperatives, - agree that nature of coop in general and consumer's coop, in particular, differs from nature commercial, capitalist enterprises. In researchers works of various times this phenomenon was considered, and consider till now, mainly, from point of view: firstly - oppositions (contraposition) to phenomenon of individualism and to capitalist enterprise; and secondly - oppositions (contraposition) of social effects which generate capitalist and cooperative enterprises.

That fact, that for the description of consumer's coop functions, as forms of people's interaction, conceptual device (definitions) borrowed in the theory of capitalism was always used is remarkable. And that's first of essential contradictions. If consumer's coops are contrast (antagonist, opposite) of legal persons, which are commercial organizations, it is logically to assume, that description of processes occurring inside of them should be carried out with use of contrast conceptual device (conceptual definitions). This conceptual device

must have strong pronounced (definite) differences from conceptual device, used at processes description which are taking place in commercial enterprises. Thus the majority of economic terms (definitions) for commercial organizations should have antonyms, true for coops. Then these terms will be intuitively clear not only to experts, but also simple people. To explain cooperation benefits in terms of commercial glossary is almost same difficult task, as description of climate in Brazil in terms of Russian winter.

The history does not give answer to question "Why the theory of cooperation borrowed conceptual device of capitalism?" Probably, researchers majority of 19-th century was more busy by active discussions of capitalism theory which was much more "popular" theme, than cooperation theory. They spoke how they know. Nevertheless, positions studying of the firsts from kept constitutions (charters) of cooperatives, including Rochdale, gives basis to tell, that in them was enough interesting differences which could serve in due time as basis for own glossary and development of positions of economic theory of noncommercial enterprises.

Own conceptual device is necessary to cooperatives mainly in order that opposition, mentioned above, with the commercial enterprise, resting on elementary concepts, was more convincing. In fact now the cooperation theory cannot stand against such concepts from terminology of commercial enterprises as "proceeds", "cost price", "profit", anything, that would be so simply and clearly. Besides other, own terminology, probably, would serve as a key to understanding and theoretical substantiation of interrelation of economic mechanism and recognized by researchers majority of social efficiency of consumer's coop.

In the economic theory, especially in the works based on Marxism, is popular opinion, that the economy (if to assume economy as sum of attitudes for manufacture, exchange and consumption of material objects) is basis of social attitudes, moral. Link between prevailing features of economy and social effects has general character and extends, both on macro- and on microlevel. Therefore is admissible to assume, that to diverse forms of economic attitudes between people at microlevel, which build on various motivational and legal mechanisms, should be inherent, as derivative, various spectrum of social effects. Simply speaking, economy of capitalist enterprise - basis of social attitudes and moral of capitalism, individualism; economy of consumer's coop - basis of social attitudes and moral of collectivism, cooperation. In relations of more big economy systems, for example, such as states, or world economy, i.e. at macrolevel, multitude (great number) of potentials the microlevel attitudes, counterbalancing each other, form relative balance of all social and economic formation.

There is a lot works about social efficiency, social mission, social function, etc. of consumer's coops. It is impossible to disagree that social component really is distinctive feature, having noticed here, that social effects - not monopoly of cooperatives. Similar effects we can see in rural coops, production coops, charitable funds and even in commercial organizations. Possibly, comparing various types of enterprises, it is necessary to take for classification basis not social effects (in wide understanding - any interaction between people and its consequences can be classified as social effect), but economic and legal

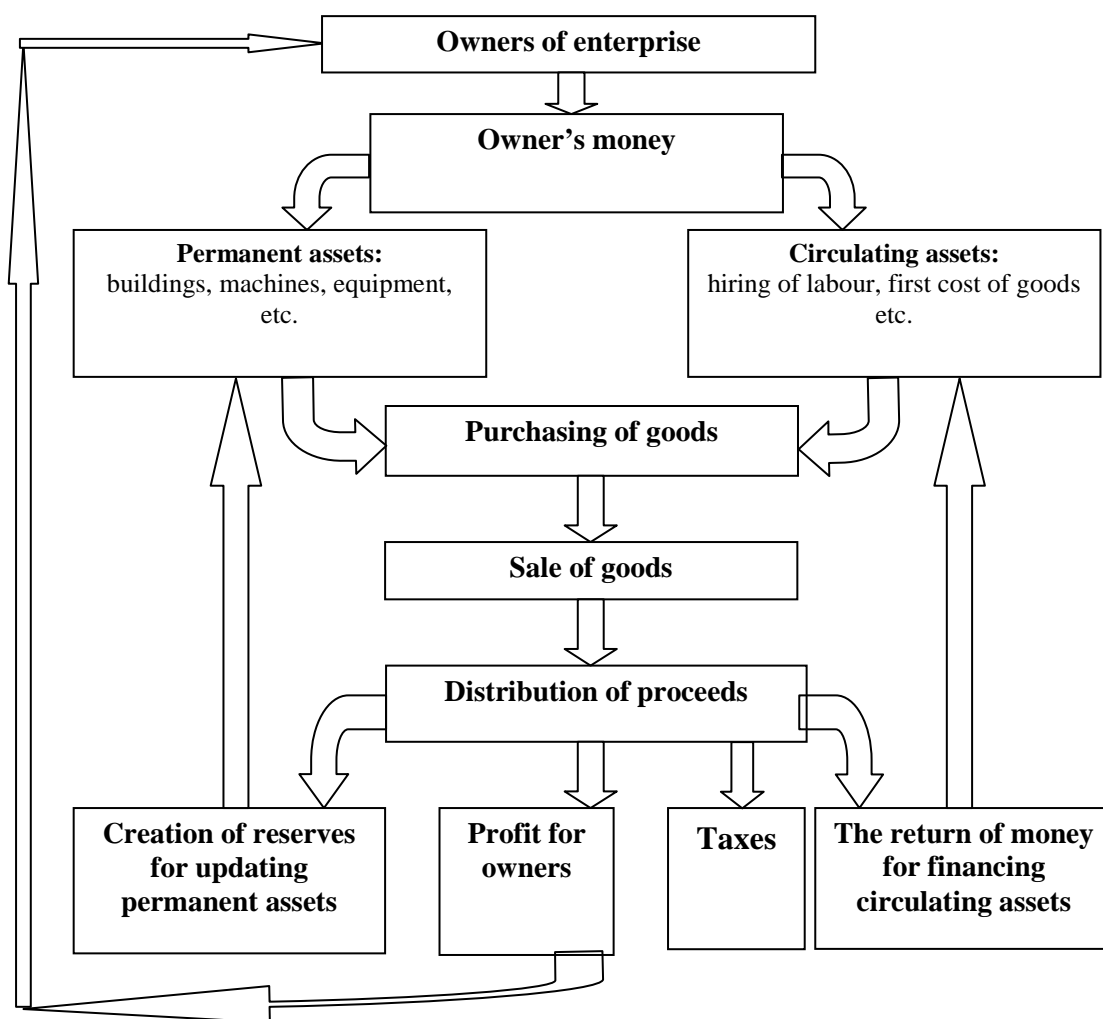
mechanism of various types of legal persons. Because this is "generator", "engine" of social effects. "Fuel" for economic mechanism of consumer's coop are system of mutual relations of shareholders, based on quite concrete material stimulus (benefits).

Now, with reference to consumer's coops working in Belarus and some other countries, such mechanism, unfortunately, is not described, and they are compelled to apply the mechanism of commercial trade that is inefficient in long-term prospect.

Than the economic mechanism of the consumer's coop differs from the economic mechanism of the commercial enterprise in the theory? To answer this question is possible, schematically having displayed assets circulation phases of the commercial enterprise (see Figure 1), where the main purpose of activity is "production" of the profit for owners, and cooperative (see Figure 2), where the main purpose of activity is delivery of the goods (services) to the owners. The brief description of distinctions, with reference to purposes, process of assets formation, transfer of property rights to assets, etc. Table 1 contains.

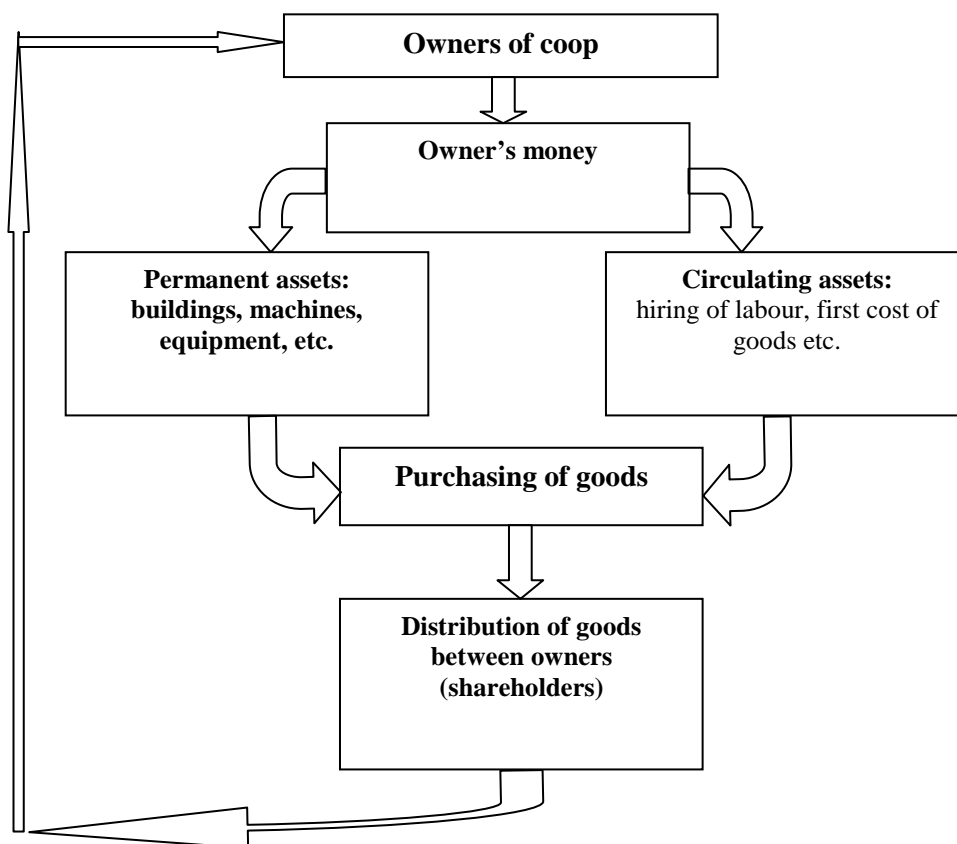
**Figure 1**

**The basic phases of asset circulation of commercial trade enterprise**



**Figure 2**

**The basic phases of asset circulation of consumer's coop**



**Table 1**

**The basic distinctions between commercial trading organization and consumer's coop**

	<b>Characteristics</b>	<b>Commercial trading organization</b>	<b>Consumer's coop</b>
1	The basic purpose of owners	Profit for enterprise owners	Decreasing of expenses of consumer's coop owners (members) on purchase of the goods and services
2	Way of achievement of the purpose	Purchasing and sale of goods to the persons who do not have the property rights for assets of the enterprise	Purchasing and distribution of the goods only between members of consumer's coop
3	Source of activity financing	The incorporated contributions of proprietors of enterprise. The size of contributions, as a rule, is fixed in the statute and represents significant size.	The incorporated contributions of consumer's coop shareholders. The size of contributions either is not fixed by statute, or represents very small size.
4	The basic directions of using accumulated means	1. Payment of cost of the obtained goods. 2. Payment of current costs	1. Payment of cost of the obtained goods. 2. Payment of current costs 3. Creation of accumulation intended for development

	<b>Characteristics</b>	<b>Commercial trading organization</b>	<b>Consumer's coop</b>
5	Directions of using obtaining goods	Selling to persons who are not proprietors of the enterprise	Distribution between consumer's coop shareholders (owners)
6	Ways of using proceeds after goods selling	Purchasing new goods. Payment of current expenses. Payment of taxes. Formation of the profit.	The proceeds in the standard understanding in consumer's coop are not present. The goods are distributing between participants. The rules of their distribution is established in coop statute.
7	Source for renewal of assets circulation (purchase the subsequent consignments of goods)	The proceeds from sale of previous part of the goods	Shares of members
8	Ways of using of net profit	On the ways, that was defined by founders (as a rule, payments to founders and formation of funds for development)	There is no net profit, in traditional understanding, as there is no sale and no added cost
9	Source of financing for the future development (updating of the basic means, expansion of activity volumes, etc.)	The funds are forming from net profit, which remain after the taxation and payments to founders of enterprise	The funds are forming from payments (shares) of participants.

One of the main criteria of Belarus civil legislation by which differ commercial and noncommercial organizations - aspiration to reception of profit as basic purpose. If legal person in its constitution (statute) directly indicate, that its basic purpose is not reception of profit, then such organization does not concern (classify) as commercial organization.

If having look at the above schemes it is possible to draw a conclusion, that consumer's coop is enterprise which is created not for an earning of profit for owners on basis of goods resale. The coop is created for reduction in price of goods consumed by its owners (members of coop) on basis of joint purchases of goods and order of their distribution fixed in constitution (statute).

The purpose of commercial enterprise - delivery to owners of profit on invested capital. The purpose of consumer's coop - delivery to owners of goods.

What follows from the aforesaid for understanding the essential distinctions between processes inherent for economic mechanism of commercial enterprises and coops?

At the first, process of transfer the goods from cooperative, as enterprises, to its shareholder, as to proprietor of cooperative, within the limits of brought share (share) it is impossible (not correct) to name term "sale". Why? Because at the transfer to coops member of goods for sum which is not exceeding the share size paid by him, there is no change of proprietor (owner) of property. Coop, as legal person, and assets of coop this is common property of shareholders (members). This assets (property) can be divided into shares (the shared property), but variant and without division into shares (the joint property)

is possible. During work of coop there is a transformation of shareholders property from one kind of assets in another: from money share, contributed by the shareholder, to the goods (shareholder put money to coop; coop buy the goods; shareholder take the goods from cooperative shop; and process start from beginning). Important that property transformation of shareholder from one kind of assets to another (from money to goods) in cooperative not change the proprietor. Movement processes of money and goods are adjust in cooperative only by agreement between shareholders (proprietors). Such agreement is constitution (statute) of coop, which automatically accept by new members. The shareholder receiving the goods in cooperative is not buyer. Otherwise it is necessary to admit (recognize), that proprietor of goods sells its to itself, but this statement is illogical.

Secondly, money contribution of coop member to cash desk of cooperative shop during the moment of reception of the goods (when he take the goods), it not payment for goods, in standard understanding. It is contribution for updating a withdrawn part of coop capital. This contribution has strictly purpose designation and go for:

- Payment of goods cost to suppliers;
- Payment of coop functioning costs (personnel wages, shops premises rent, delivery cost (transportation cost), etc.);
- Creation of accumulation (savings) for financing future expenses (for example, investments into expansion of activity, etc.);

The proprietor of goods cannot sell goods to itself. It very important comprehension point of distinctions between coop and commercial organization. On base of this comprehension may build much advantages to cooperatives. For example, many taxes are connected with fact of sale and change of owner of property. Then, if there is no fact of sale, these taxes are not paid. The most widespread taxes which is possible to mention are the tax to sale in retail trade (retail tax); value-added tax; the profit tax and other taxes from profit.

Needless to say, that it is a question only of those goods which from cooperative shops are taken away by shareholders. Need to note that total cost of goods which shareholder take from cooperative shop, as a rule, should not be more sums of share brought by him (a payment, the contribution) in cooperative. Otherwise there can appear deficit of money resources for purchase of new goods consignment. Though with reference to this rule there can be exceptions stipulated by constitution (statute) which concern grantings of local credits between shareholders of coop.

In case the coop constitution (statute) allow goods transfer not to members of coop there is change of goods proprietor and such operation attracts usual obligations on payment of taxes.

### **Offers.**

Thus the following conclusion is natural: the consumer's coop is mechanism serving for delivery of goods to its owners (shareholders). The commercial organization is mechanism serving for increase of owners property on basis of goods resale to third parties (not to owners).

Acceptance of given conclusion allows to understand, that the economic mechanism of consumer's coop gives it the right to not pay some taxes which directly or not-directly increase price of goods in retail trade, main of which: the tax to sale in retail trade (retail tax); value-added tax; the profit tax. In such or another form the specified taxes exist in the majority of countries in the world. In fact these taxes take place only when transfer of property right to goods on basis of exchange between participants of transaction (the seller and the buyer) takes place.

Already by virtue of this fact, at equal supply conditions, the goods prices which coop buy for distribution between shareholders and not intended for sale, in cooperative shop will be always less than in usual commercial shop, as at counting the prices to them will not be added planned charges under two clauses (See items 4 and 5 in **Table 2**). It is very important factor of appeal strengthening of coop for shareholders.

**Table 2**

**Comparing clauses of costs for counting prices of goods in cooperative and commercial shop**

	<b>Components of price of the goods</b>	
	<b>Coop shop</b>	<b>Commercial shop</b>
1	Supplier price	Supplier price
2	Current cost	Current cost
3	Accumulation for the future development	Accumulation for the future development
4	-	Profit for owners
5	-	Taxes (VAT; retail tax; profit tax etc.)
<b>Total</b>	<b>3 points</b>	<b>5 points</b>

Stated above allows to formulate key requirements for economic mechanism of consumer's coops, as list of principles. What for? Partly about it was spoken in the beginning of clause. Last edition of principles is accepted by Congress of International cooperative alliance in 1995 in Manchester. These principles have general character and can be used not only by cooperatives, but also unfair commercial organizations, which wish to receive benefits (the reducing taxes etc.) given to coops in many countries. Simple replacement of a word "cooperative" by "the commercial organization" make formulations of principles easy in using for majority of commercial organizations (see **Table 3**).

**Table 3**

**The adaptation of cooperative principles for activity of unfair commercial organizations**

<b>Principle</b>	<b>Coop</b>	<b>Commercial organization (CO)</b>
<b>1st Principle: Voluntary and Open Membership</b>	Co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.	<b>CO</b> are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.
<b>2nd Principle: Democratic Member Control</b>	Co-operatives 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 co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.	CO 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 CO members have equal voting rights (one member, one vote) and CO at other levels are also organised in a democratic manner.
<b>3rd Principle: Member Economic Participation</b>	Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.	Members contribute equitably to, and democratically control, the capital of their CO. At least part of that capital is usually the common property of the CO. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their CO, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the CO; and supporting other activities approved by the membership.
<b>4th Principle:</b>	Co-operatives are	CO are autonomous, self-help

Principle	Coop	Commercial organization (CO)
<b>Autonomy and Independence</b>	autonomous, self-help organizations controlled by their members. If they enter to 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 co-operative autonomy.	organizations controlled by their members. If they enter to 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 CO autonomy.
<b>5th Principle: Education, Training and Information</b>	Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.	CO provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their CO. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of CO.
<b>6th Principle: Co-operation among Co-operatives</b>	Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.	CO serve their members most effectively and strengthen the CO movement by working together through local, national, regional and international structures.
<b>7th Principle: Concern for Community</b>	Co-operatives work for the sustainable development of their communities through policies approved by their members.	CO work for the sustainable development of their communities through policies approved by their members.

The information which is given in **Table 3**, supplements the reasons list of discussion which is conducted by researchers of cooperation about a concrete definition of principles for various types of coops.

Regarding consumer's coops, in their activity, in author opinion, should be used next identification criteria which it's expedient to state in national cooperative legislation.

**1. The consumer's coop is noncommercial organization.**

**2. The basic purpose of consumer's coop is decrease of shareholders charges.** It is reached on basis of organization of goods delivery (works, services) to coops proprietors (shareholders), but not reception and distribution of profit between shareholders.

**3. Variable structure (membership) of proprietors (shareholders).** The consumer's coop has variable structure (membership) of proprietors (not fixed

by constituent documents, open). Nobody has right to block the entry to coop (or leaving from coop) on conditions of its constitution (statute).

**4. The variable capital.** The Consumer's coop has variable capital (not fixed size of capital by constituent documents). The capital of cooperative consists of two basic parts: 1) circulating (working) capital for financing current expenses (divisible part), which form and fill up only shareholders payments; 2) savings capital for financing long-term investments (indivisible part), which form payments of shareholders and casual incomes.

**5. Financing by shareholders contributions.** Consumer's coop assets circulation is provided on basis of financing, mainly, by shareholders contributions. Contribution's minimal size must be defined by coop as division result of constant expenses sum and necessary reserves of coop on shareholders quantity. The contribution sum exceeding the minimal size, must be defined by shareholder himself. Accumulated contributions send (pay, direct) by coop for purchase of goods (works, services), which will deliver to shareholder. The order of payments receiving (entering) and goods distribution are establishing coop.

**6. One shareholder - one voice.** The contribution size does not influence quantity of voices on shareholders general meeting (one shareholder has always only one voice).

**7. Distribution of the goods only between shareholders.** The goods (works, services) purchased by cooperative must be distributed only between shareholders. To persons, who are not shareholders, the goods (works, services) sale on usual conditions of retail sale transactions take place (if commercial activity is not forbidden by coop constitution (statute)).

**8. Commercial activity as exception from a rule.** Transfer of goods (works, services) to persons, who are not a shareholders (if it not forbidden by coop constitution (statute)) should be: 1) classify as commercial activity; 2) account separately from operations with shareholders; 3) with higher prices than for shareholders.

**9. Distribution of commercial profit between shareholders is forbidden.** The pure commercial profit (remaining at the coop disposal after taxes payment), received from commercial activity (if it is not forbidden by constitution (statute)), must be qualified as casual incomes; is not distributed between shareholders and goes to updating coop's savings capital (indivisible). The commercial activity directed on profit reception, should be accounted separately.

**10. Indivisibility of casual incomes.** Casual incomes - the means coming in consumer's coop ownership from any operations, except operations with shareholders (coop's income from banks for money storage, commercial profit, etc.). Casual incomes are never distributed between shareholders. Casual incomes fill up coop's savings capital (indivisible).

### **The conclusion**

Aspiration of some coops to be similar to large commercial organizations - consequence of coop degeneration. This degeneration can have different reasons. One of them - economic well-being and expansion of activity volumes to such degree when surpluses of capital demanded for service of shareholders

needs are formed. The cooperative starts "to take a great interest" in commercial activity and forgets about primary purposes. It brings a discord in understanding of its essence by all involved in its activity and generates a wide spectrum of moral, economic and legal casuses. The consumer's coop becomes similar to commercial organization, shareholders forget basic purpose (reduction of charges) and start to demand from administration of coop opposite - increasing of incomes. There, where these requirements are satisfied, the cooperative essence disappears and usual commerce begins. It causes protests of many competitors because coops in many countries receive privileges from the state on payment of taxes, etc.

The criteria, named in previous section, at first view are not new. They, in this or another kind, sounded during the previous two centuries. However, with the course of time, sense of many things began to get lost by people who was not at beginning of first coops. Gradually the volume of contradictions has grown, was changed list of main goals, especially in old coops. Today returning to first essence in new economic conditions can play a main role for strengthening consumer's coops attractiveness for people in many cases. This attractiveness should be based on unequivocal treatment (explanation) of coop's essence as tool of shareholders charges decrease, and also on rigid interdiction on mix within the limits of one enterprise (borders, balance) of commercial and noncommercial activity.