

SAMULI SKURNIK

# The Role of Cooperative Entrepreneurship and Firms in Organising Economic Activities – Past, Present and Future

## ABSTRACT

**I**t is often said that cooperation is strong in practice but weak in theory. Although not quite true, it is a fact that cooperation has been little researched, has weak links with mainstream economics and, partly for these reasons, the theory and practice remains surprisingly unfamiliar. The intention of this article is to correct the situation by reviewing a) the ideas behind cooperative entrepreneurship and company form, and b) the present role of cooperation in the organisation of economic activities.

The main points of departure in a cooperative organisation are that membership is voluntary and open to all and that it produces services in the interests of its members. The cooperative form of company and entrepreneurship is in extensive use throughout the world. Today, cooperation has an important social role to play in the organisation of economic relations. Whereas originally cooperatives ensured the balanced development of the market economy, in our new globalising world these national, democratically controlled organisations ensure that the economy continues to serve the everyday needs of the ordinary people

## 1. BACKGROUND AND ORIGINS

The cooperative form of enterprise is in extensive use throughout the world. It is applied in

most market economy countries and to an increasing extent in the newly developing and CEE countries. Although cooperatives existed in the former Eastern Bloc, they differed radically

SAMULI SKURNIK, Lic Econ

CEO of the Pellervo Confederation of Finnish Cooperatives • e-mail: samuli.skurnik@pellervo.fi

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in both form and content from the international mainstream, as well as in the meaning intended here (Brazda-Schediwy, 1989; Watkins, 1990; Dülfer, 1994).

Cooperation is an age-old way of achieving a goal that is beyond the resources of an individual or when working together offers a more practical or favourable solution. The cooperative as a distinct form of company is already over a 150-years old. Its birth occurred at the time when the modern market economy was in its infancy and the need arose for an alternative structure than one based on the ownership of capital – or in modern terminology, a company owned by its members and/or customer-owners. Over the years quite substantial commercial and industrial operations have developed on this basis in many countries.

The central principles of a cooperative society are that it is open to all, unlimited in membership and, as an alternative to producing a profit on capital invested, produces benefits in the form of services for its members. The most general goal is to create a force on the market consisting of many small companies working together for the same objectives, and in which the aims and methods are decided upon democratically in advance according to the principle that the benefit of the collectively owned and operated business accrues as evenly as possible to all participants.

There are quite considerable differences between countries in the structures of cooperative enterprises, the regulation of cooperative societies and their actual operating principles. However, irrespective of the market conditions in which they operate, these cooperatives share a common origin and history in the establishment by the flannel weavers of Rochdale, England, in 1844 of the first (consumer) coopera-

tive society and the rules pertaining to it (Watkins, 1990; website <http://uts.cc.utexas.edu/~laurel/cooproots/history.html>).

Despite this glorious background, cooperation remains surprisingly unfamiliar. It is also said – with justification – that cooperation is strong in practice but weak in theory (Skurnik – Vihriälä, 1999). These factors together mean that throughout its long history, cooperation has often suffered from an identity or image problem (poor recognition, prejudices, misunderstandings, etc.). For this reason it is pertinent to briefly discuss what cooperation is really about – theoretically, historically and in practice.

## The principles and values of cooperation

The cooperative firm differs from other types of companies largely because of its ownership model and basic aims. Thus a cooperative enterprise also differs in its structure and operating objectives from other companies in the private sector (Diagram 1). From the point of view of the operations of the cooperative model, it is essential that all the elements in Diagram 1 also function in practice, that their importance is recognised and informed to their main interest groups, and that a certain balance exists between them (cf. Fulton, 1999). This is also as important when a cooperative is forced for some reason or other (mainly in response to pressures from the operating environment) to acquire elements alien to the original model and so create a hybrid model containing different types of companies, as has happened increasingly in Finland in recent years (Diagram 1, Hybrid Model) (Pellervo, 2000).

In order that the aim of cooperating on a basis other than capital investment should succeed in practice, internationally applicable

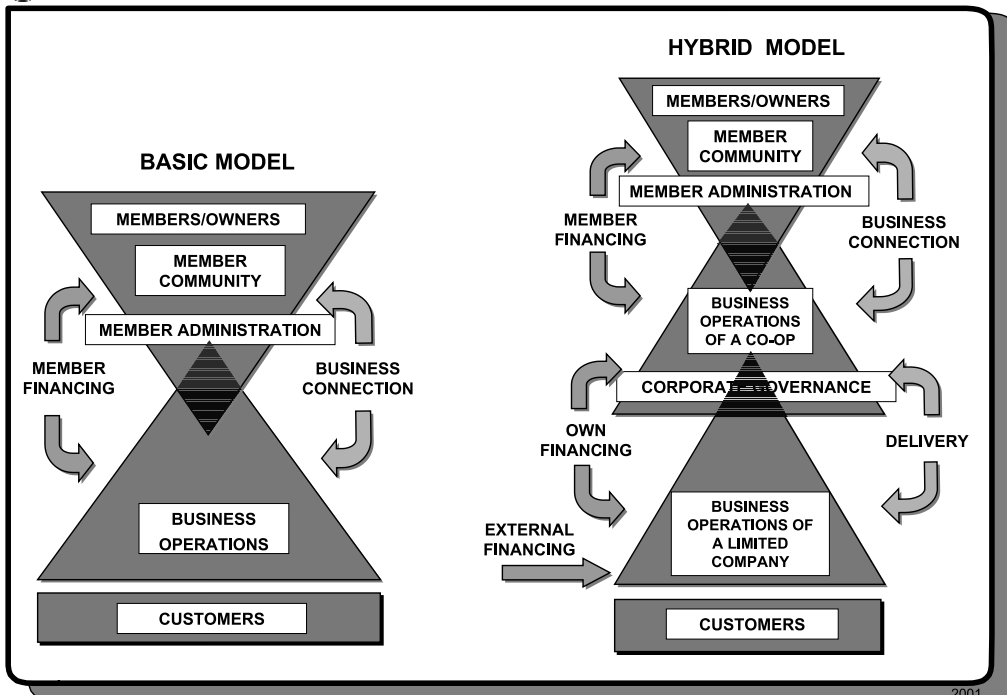


DIAGRAM 1. Basic elements of the cooperative form of enterprise.

principles have been developed over the years – largely through trial and error – for the cooperative form of entrepreneurship derived from the Rochdale pioneers. In practice these consist of certain generally accepted guidelines for cooperation in producing member services – rather like the rules of fair play.

The *International Cooperative Alliance* (ICA) has brought this tradition up to date. At its centenary congress in 1995, the ICA defined the cooperative firm as follows (MacPherson, 1996):

*"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."*

On the same occasion, the ICA defined – for the first time – the social values upon which the principles of cooperation are based:

*"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*

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- *Honesty*
- *Openness*
- *Social responsibility and*
- *Caring for others.*”

The cooperative principles are guidelines by which cooperatives put their values into practice.

## 1<sup>st</sup> Principle: Voluntary and Open Membership

Cooperatives are voluntary organisations, 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.

## 2<sup>nd</sup> Principle: Democratic Member Control

Cooperatives are democratic organisations 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 organised in a democratic manner.

## 3<sup>rd</sup> Principle: Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part

of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

## 4<sup>th</sup> Principle: Autonomy and Independence

Cooperatives are autonomous, self-help organisations controlled by their members. If they enter to agreements with other organisations, 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.

## 5<sup>th</sup> 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.

## 6<sup>th</sup> 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.

## 7<sup>th</sup> Principle: Concern for Community

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

Source: ICA News, No. 5/6, 1995.

In practice, these principles provide a general starting point and motive to cooperative-based business activities. However, on this common basis a wide variety of different national and sectoral cooperative model solutions have sprung up that can also vary considerably in how they emphasise principles (van Dijk, 1999; Nilsson, 1999; Parnell, 1995)

In modern mainstream economic literature, the cooperative is defined as a company *owned and controlled by its users and operated in their interests*. A more general reference is to *member and customer-owned companies* (Nilsson, 1999).

## The historical origins of cooperation in Finland

Even though the limited stock company has been the most usual form of enterprise from the beginning, the cooperative offers an alternative way of organising economic activities, an alternative that particularly in its early days proved to be a major social innovation. Apart from its social role, the cooperative was also important for other reasons. It was necessary to the development and operation of the embryonic market economy. A good example of this way of thinking is to be found in the writings of the pioneer and founder of Finnish cooperation, Hannes Gebhard, particularly the introduction to his book *"About Farmers' Cooperation Abroad"* (Gebhard, 1899, pp. 3–6). His description of the prevailing economic set-up is both farsighted and relevant.

*"Undoubtedly the watchword of this century [19<sup>th</sup> century, SS] in the economic life has been – if such can be mentioned – free competition... This confidence in the blessings of liberty was based on the optimistic outlook on life that all people are*

*good by nature and that it is the limitations for people's liberty that are the cause of their misfortune...*

*...The scholars of this philosophy were wrong when they thought they had found an absolute and constant truth suitable for all branches of economic life of all times. Already recently experience has shown that when people are released from control they simultaneously lose the feeling of solidarity. Without doubt, it is also a result of this liberty that people have been alienated from each other. ... So the free competition has produced economic individualism, which is nothing but the purest egoism. It is just this, which is the shadow of liberty...*

*...These results of liberty have tended, of course, to shake the confidence in the scholars of this philosophy and to bring new doctrines for consideration... a revolutionary socialism... state socialism. ... Both of these ideologies more or less risk even the blessings of liberty and while trying to control egoism kill the justified independence, too.*

*While these and other ideologies fight with each other principally for theories, there has been one Ideology that has quietly been dawning and is gradually growing more in deeds than in theory. It is the peaceful aim of the classes with small means and those suffering from the free competition of large capital, to improve their conditions of life by own but united efforts... This cooperation of those with small means... trade unions and cooperative societies. ... The cooperative societies are actually true business enterprises, the purpose of which is by supplanting the private and capitalist forms of business to make profit to the*

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*members of the cooperative society, from the business activities of which the profit has originated.”*

The birth of cooperation in Finland is an integral part of the country’s history and heritage. It occurred at a time when Finland was part of the Russian Empire, a politically highly sensitive period when the struggle for national independence – in the spirit of Snellman<sup>1</sup> – began.

On the basis of Gebhard’s ideas, history was made (Simonen, pp. 49–50) in spring 1899 with the drawing up of a strikingly clear and comprehensive strategy for the development of cooperative endeavour. This strategy was based on three main pillars:

- I. A federal organisation model
- II. Cooperative legislation
- III. An ideological umbrella organisation

These were erected as follows:

- An ideological umbrella organisation with the foundation of the Pellervo Society in autumn 1899
- The Cooperative Societies Act came into force in autumn 1901
- The makings of a federal organisation began with the foundation of OKO and cooperative banks from 1902 onwards.

The Pellervo Society’s first legal secretary, *J.K. Paasikivi*,<sup>2</sup> prefaced the first cooperative societies act in the Pellervo magazine in July 1901 as follows:

*“Finnish farmers! You now have a law that will fortify the weapon hitherto found the strongest and most rewarding from experience gained elsewhere, and which will secure your income and improve your occupation. ... But ultimately it is up to you as to whether this law, which in itself is but a framework, will remain still-born or receive that content, that spirit and inspire that activity, which the friends of this ideal expect of it, and which could play its own role in pumping new, fresh blood into the recently petrified and strangled body of our people.”*

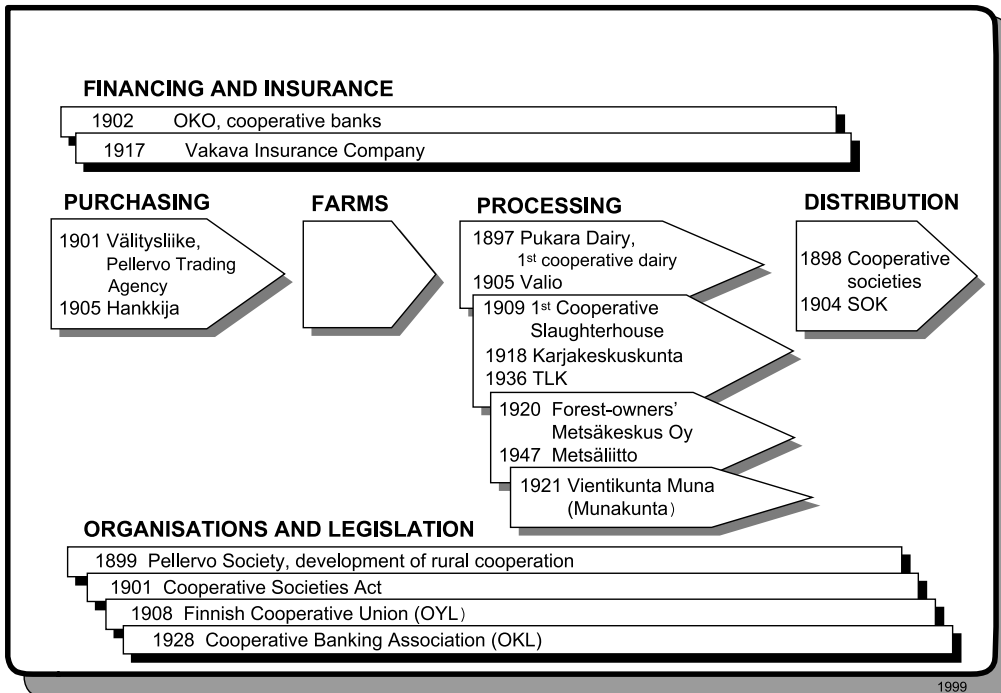
According to the law, the basic importance of cooperation was condensed into three, all-embracing sentences describing the new entrepreneurial model:

*“Partly by saving, partly by supporting one another, even those of small means will be able to enjoy the profits of larger capital, buy their goods more cheaply, sell their products at better prices, and get necessary credit. Cooperation can also promote thriftiness, activity, and solidarity. It has therefore great economical, educational, and ethical importance.”*

A quick beginning was made on this basis. With hindsight it is possible to visualise Finnish cooperative strategy and the major decisions taken in the early years as according to the teaching of the American strategy guru Pro-

<sup>1</sup> Considered the national philosopher of Finland, *J.W. Snellman* emphasised in the mid-19th century the powerful interconnection between the economy and culture, as well as the importance of a strong national economy and language as the basic requirements for an independent nation.

<sup>2</sup> Paasikivi, like so many of the other young pioneers of Finnish cooperation, played an important role in building Finnish society, occupying many high elected offices and eventually becoming the 7th president of the republic.



**DIAGRAM 2.** Early Development of the Pellervo Value System (Pellervo, Confederation of Finnish Cooperatives).

fessor *Michael Porter*, creating a kind of “Pellervo value system” and as such a very comprehensive and ambitious “national economic” programme of social reform (Diagram 2) (cf. Kuisma et al., 1999).<sup>3</sup>

During the following hundred years a great deal occurred both in the operating environment of companies as well as in the scale of cooperative enterprises. Of interest, however, is that surprisingly many of these original goals, albeit interpreted in modern terms and in the light of new operating challenges, have remained intact, as indeed has the whole basic idea and core fields of cooperative endeavour.

Also practical cooperation over the last 10–15 years has strengthened earlier experience of the vitality and adaptability of the cooperative form of enterprise (cf. Pellervo Year Book 2001).

## 2. THE COOPERATIVE AS A FORM OF ENTERPRISE

In law, company forms are part of the institutional framework modern society has created to provide the appropriate operating conditions for entrepreneurship and the necessary regulation of economic activities. There is, however, no simple theory or practice that determines what forms of company should exist, their character-

<sup>3</sup> Unfortunately, no research is at present available that would justify talk of a specific strategy in this context.

istics or the details of their regulation. This can be clearly seen in the major variations in the essentials of companies and their appearance between different countries – as indeed in the general organisation of economic activities.

In Finland the revised version of the Co-operative Societies Act of 1954 came into force at the beginning of 2002. The intention of the new Act is not to change the basis of cooperation, but to modernise legislation affecting the operating conditions of cooperatives and render them more competitive vis-à-vis other forms of enterprise (Pöyhönen, 2002).

## Different forms of company in economic theory

Recent economic literature has devoted considerable attention to the types of firm required in economic life. And if several are required, how to define their characteristics in order to offer the best possible conditions to carry out the economic activities which society needs as it develops? The need for a specific cooperative form of enterprise largely depends on these general points of departure (Hansmann, 1996; Hansmann–Kraakman, 1998).

What is really known about different company forms and their importance? Economists have a surprisingly imperfect understanding of entrepreneurship and the role of different types of firms. Even today the main aspects of the economic theory of entrepreneurship are just beginning to be understood, not to mention the details (Holmström–Tirole, 1989; Holmström, 1999).

Nowadays the firm is understood in the new institutional economics as a nexus of contracts. This starts with the idea that a number of different production factors are required to produce goods and services, and thus also con-

tracts (written or oral) between the owners of these factors concerning the terms under which each one of them is available. These contracts determine the nature and operating principles of the company, above all how the risks and profits are to be shared.

According to modern theory, the general goal in the development of organisations is assumed to be the minimisation of the costs of market contracting and ownership (and the maximisation of benefits). In the interests of economic stability and predictability, every effort is made to reach a prior, binding agreement between as many production factors as possible over prices, quantities, delivery schedules, etc. In practice, however, such a contract is never comprehensive due to the asymmetry between the parties in respect to risks, knowledge, etc.

One solution here is only to make contracts between those production factors that offer the best potential. This is either not possible between all factors or is extremely expensive to one of the parties. In order to produce the required goods or services under these circumstances, one of the owners of the production factors must be willing to give his contribution to the company as an entrepreneurial risk. His compensation (residual income) can only be finally determined once it is known at what price the product or service can be sold for and after all the other production factor owners have been paid.

The explanation offered by modern economic theory for the birth of different firms, ownership models and organisations starts from the above arrangement. In other words, the owner of the enterprise becomes the owner of the production factor thought most likely to be subject to the greatest risks and uncertainty on



the market. It is assumed that this particular owner understands the economic value of these risks and uncertainties more profoundly than the other parties to the agreement. He is thus also in a better position than the others to estimate when and on what terms production contracts can be made. *Different types of firm have thus developed the appropriate and generally recognised framework for making contracts in the diverse condition in which economic activities are carried out.*

In accordance with the new institutional economics, the above theory is explained by one of the world's leading experts in jurisprudence, *Henry Hansmann*, professor of law and economics at Yale University, in his book *"The Ownership of Enterprise"*. (Hansmann, 1996). In his paper at the Pellervo Society's centenary seminar in 1999, Hansmann expressed his ideas as follows (Hansmann, 1999, p. 390):

*"The observations ... suggest that ownership of a firm should be assigned to that class of the firm's patrons – whether investors of capital, customers, workers, or whoever – for whom the costs of market contracting would otherwise be highest. Ownership can itself involve substantial costs, however. These costs of ownership can be quite different for different classes of patrons. Efficiency is best served if ownership is assigned so that total transaction costs for all patrons, including both costs of market contracting and costs of ownership, are minimized."*

According to Hansmann, the archetype of the firm is more the producer cooperative than the limited stock company (ibid. p. 388):

*"The conventional investor-owned business corporation is nothing more than a special type of producer cooperative – namely, a lenders' cooperative, or capital cooperative. – – We can view the statutes under which business corporations are formed as simply specialized versions of the more general cooperative corporation statutes. – – Presumably we have separate statutes for business corporations simply because it is convenient to have a form that is specialized for the most common form of cooperative – the lenders' cooperative – and to signal more clearly to interested parties just what type of cooperative they are dealing with."*

In addition, there are also cooperatives of raw material owners (agricultural marketing cooperatives), cooperatives of product and service buyers (consumer, shopkeeper, housing and bank cooperatives), and work, caring and consultancy cooperatives. Mutual companies can also under certain circumstances be considered a variety of cooperative, insurance cooperatives. In Finland their operations, like those of the cooperative banks, are regulated by special legislation.<sup>4</sup>

## The company as a means of organising economic activity

Different forms of companies are thus the tools for the organisation of economic activities. They have been developed to provide the institution-

<sup>4</sup> Unlike in certain other countries, Finnish legislation pertaining to cooperation is a general skeleton law that applies to all cooperative societies.

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al framework according to generally recognised and individual societal values for the various ownership and organisational models in economic life. The legal forms they assume depend, as has been shown above, not only on the stage of societal development, but also more generally on how each country wishes to organise economic activity.

Many recent studies have shown that there exists a significant, worldwide dividing line in the way corporate activities are organised between the market-oriented Anglo-American model and the inter-corporate collaborative Continental European-Japanese one. The basic reasons for the differences are not only economic, but the commonly accepted practices of organising and arranging business activities deeply embedded in the different national cultures (cf. Charkham, 1994; Holmström, 1999; Maher, 2000).

Ultimately what is essential from the practical point of view is that there is both a theoretical and a practical significance in the form and character of company ownership. The most important differences between firms concern the wielding of internal power or control and the division of the profits. It is, therefore, by no means unimportant as to whom owns the companies operating on the market. Irrespective of their form, all firms work in the interests of their owners. They carry out those strategies and policies that satisfy the aims and aspirations of their owners. The choice of which form to take is always a significant and strategically, far-reaching decision. Thus it is essential that all potential entrepreneurs be fully conversant with the variety available in order to choose the right one for their purpose.

By far the most typical firm in the world is the limited company – in all its variations. Its

origin and popularity is largely because it was the first to enable the separation of ownership and management, and to define and limit the liabilities and risks of the owners within a predetermined framework. Another important characteristic of the (public) limited company (plc) in advanced stock markets is the possibility of fluently combining ownership (the purchase and sale of shares) and the information available for the owners about general market conditions. The main goal of limited companies is to produce the largest possible profit for their capital investors and to divide it according to their holdings.

On the other hand, a cooperative producing services for its members creates the corporate framework and basic rules for entrepreneurship based on different collaborative models. The cooperative determines the corporate responsibilities and rights in those cases where, in order to produce the required services, ownership is not tied to capital investment in the company or directly to the capital market (Pellervo, 2000).

The main goal of a cooperative is not in the same sense as a limited company the production of a profit for its owners – although both strive to be economically efficient. On the contrary, the goal of a cooperative is *to produce the services required by its members as efficiently and competently as possible*. If a profit – or rather a surplus as it is called in the case of cooperatives – is, however, produced after making the reserves necessary to develop the company, it is returned to the members in proportion to their use of the company's services. Decision making within a cooperative is normally on the basis of one vote per member.

The different forms of company and their administrative models develop according to the

needs of each individual society (Holmström–Kaplan, 2001). Thus no one form predominates. Each is born and develops in accordance with the economic requirements of society and customs developed over the years. Up to now the general practice in most developed countries has been for the legislator to offer entrepreneurs a variety of company forms, one of which is the cooperative.

The best test for the necessity of different forms of company is their use in the organisation of economic activities. This will be discussed in the following section.

### 3. THE IMPORTANCE OF COOPERATION

#### Cooperation concerns vast numbers of people

As elsewhere, the most common form of enterprise in Finland is the limited company. Numerically, there are considerably more limited companies than cooperatives. This gives, however, a misleading picture of the importance of cooperatives and cooperation. Because cooperation is a collective endeavour, the best and proper way to describe its importance is to focus on the number of people directly involved and the even greater numbers affected.

It has been calculated that there are almost 800 million individual members in the

cooperative enterprises of the national member societies affiliated to the International Cooperative Alliance. This makes the ICA the world's largest NGO and the cooperative movement (especially when members' families are included) a widespread and influential phenomenon in the ordinary everyday lives of people throughout the globe (cf. [www.coop.org](http://www.coop.org)).

In the last occupational survey carried out in Finland, three-fifths (59%) of the adult respondents stated they were members of one or more cooperative societies (ETT, 1998b).<sup>5</sup> This makes Finland one of the most cooperatively organised countries in the world.<sup>6</sup>

Finnish cooperation is now over a century old. Although major societal changes have occurred during this period and cooperation has been forced to adapt to a variety of conditions, the growth in cooperative society membership to over 3 million<sup>7</sup> has been surprisingly even (Diagram 3).

Historically, the roots of the Finnish cooperative movement, particularly the Pellervo cooperatives, lie deep in the countryside. Here, as in other similar countries, cooperation has played a major role in tying rural folk and occupations to the market economy and rapid industrialisation. This could be seen most clearly in the early years in the sectors where cooperatives first developed, as well as in the occupational and regional structure of their member-

<sup>5</sup> Farmers, for instance, were, on average, members of 3.3 cooperative societies (ETT, 1998a).

<sup>6</sup> Here we face a problem of definition: what to include in the circle of cooperation. Furthermore, what do available cooperative statistics actually reveal because cooperatives are used to organise much more than economic activities. A good example is the shopkeeper cooperative, which is what the Swedish ICA (similar to the Finnish Kesko Group) calls itself. The international sports equipment chain Intersport also considers itself a cooperative. Several of the world's stock exchanges (like the Helsinki one) are or have been cooperatives, likewise the credit card company MasterCard and many similar examples. I have never come across an exhaustive account which would offer the possibility of compiling more reliable statistics from this very extensive material.

<sup>7</sup> Here cooperation is given its traditional definition. The mutual insurance figures only include the members of Pellervo's insurance associations and their predecessors.

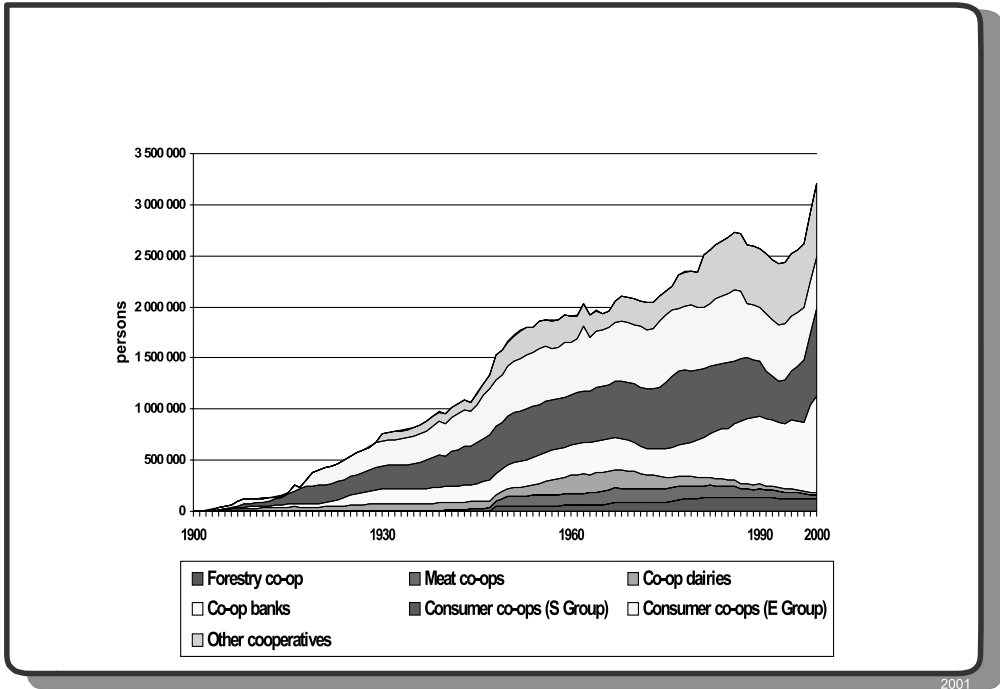


DIAGRAM 3. Primary cooperative membership in Finland, 1902–2000 (Pellervo, Confederation of Finnish Cooperatives).

ships. This historical background continues to influence the structures of Finnish cooperation. On the other hand, thanks to the social development of the country, the occupational and regional basis of cooperative society membership has broadened so much that these days cooperation affects in one way or the other almost every person in the country (Table 1).<sup>8</sup>

### Sectoral and demographic expansion of small-scale cooperation in Finland

One interesting feature of recent developments in cooperation has been the emergence of new wave cooperatives since the end of the 1980s. There are now (31 December 2001) well over a thousand of them (Diagram 4). This is a very significant phenomenon because the previous

<sup>8</sup> The main fields of Finnish cooperation are the same as in most other countries. Internationally, however, cooperatives are active in a far greater variety of fields and for all practical purposes participate in every branch of ordinary everyday economic life. It is true that there are often only ostensible differences, such as the powerful housing cooperative movement in neighbouring Sweden that is almost completely non-existent here. The explanation is that in Finland this matter is normally organised through housing associations which, in practice, function much like housing cooperatives.

	Number of co-ops	Memberships in co-ops	Personnel	Turnover in group, € mill.	Market share
Cooperative banks	287	942 700	9 267	2 185	<sup>2)</sup> 34
Mutual insurance	107	450 000	900	247	<sup>3)</sup> 8
Forest industry	1	127 400	25 000	7 513	<sup>1)</sup> 34
Meat industry	5	35 660	8 360	1 340	71
Animal breeding	7	33 200	460	29	100
Dairy industry	36	21 400	5 000	2 440	96
Egg cooperatives	2	768	78	35	60
Hankkija-Agriculture Ltd.*	-	-	825	605	40
<b>SUB-TOTAL</b>	<b>445</b>	<b>1 611 130</b>	<b>49 890</b>	<b>14 394</b>	
Consumer cooperatives	46	1 357 700	28 000	7 496	41
Tapiola (mutual insurance)**	4	722 000	1 976	2 050	<sup>3)</sup> 15
Other mutual insurance**	9	1 470 000	1 864	1 497	<sup>3)</sup> 37
New wave***	1 315	(~30 000)	(2-15 000)	(<100)	-
<b>TOTAL****</b>	<b>1 819</b>	<b>5 160 830</b>	<b>81 730</b>	<b>25 437</b>	

\* Agricultural supply, a subsidiary to consumer cooperative SOK  
 \*\* Indemnity insurance  
 \*\*\* 487 water co-ops are not included  
 \*\*\*\* According to Trade Register the total number of cooperatives was 2576. New wave co-ops are included to the total only in the number of co-ops.

1) share of annual wood usage  
 2) deposits  
 3) marketshare (indemnity insurance) for all mutuals is estimate

2001

TABLE 1. Key figures for cooperatives and mutuals (including subsidiaries) in Finland, 2000 (Pellervo, *Osuustoiminta* magazine 5/2001).

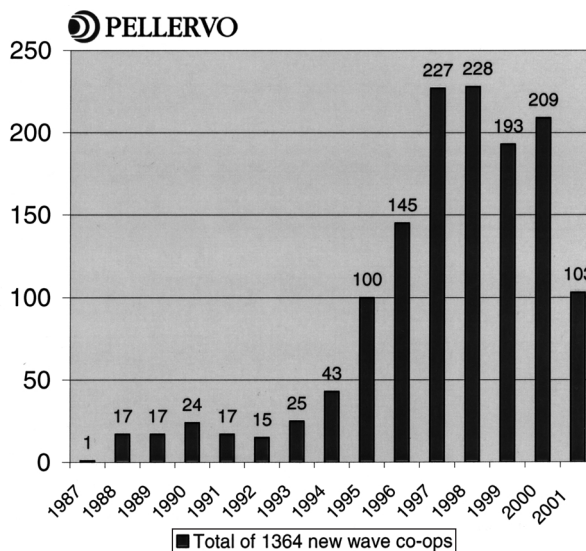


DIAGRAM 4. Establishment of new wave cooperatives in Finland, 1987–2001 (Finnish National Board of Patents and Registration, and Pellervo, Confederation of Finnish Cooperatives).

<i>Work, service and consultancy cooperatives</i>	<b>503</b>
<i>Marketing cooperatives</i>	<b>249</b>
<i>Cultural, publishing and communications cooperatives</i>	<b>107</b>
<i>Purchasing cooperatives</i>	<b>76</b>
<i>Social, health and welfare service cooperatives</i>	<b>62</b>
<i>Travel industry cooperatives</i>	<b>51</b>
<i>Energy industry cooperatives</i>	<b>44</b>
<i>Development cooperatives</i>	<b>42</b>
<i>Other cooperatives</i>	<b>53</b>
<b>Total *)</b>	<b>1187</b>

\*) *Listed cooperatives were established after 1969.*

\*) *Water utility cooperatives are not included in the total. 500 of them were established after 1987.*

**TABLE 2. New wave cooperatives, 31 December 2001\* (Finnish National Board of Patents and Registration, and Pellervo, Confederation of Finnish Cooperatives).**

major period of cooperative society incorporation in Finland, when the now established large societies were set-up, occurred about a century ago.

The significance of this to Finnish cooperation is not merely the quantitative increase in cooperative societies, but that they have conquered new fields (Table 2) and drawn new groups of people into the cooperative family.

These new wave cooperatives have also stimulated discussion concerning the suitability of the cooperative as a way of organising economic activities in the so-called third sector between the private market-oriented and public sectors. These developments and the resulting debate are also important because the ques-

tion features prominently in EU circles where it has recently been considered as a possible solution in EU welfare policies (see European Commission 2001; Prodi 2002). Actually, the production and organisation of welfare services in society has become an issue of vital and topical importance, so it is good that cooperatives are considered as a possible alternative.

### The economic importance of cooperation

One problem in trying to explain the economic significance of cooperation – particularly in its international dimension – is the diffusion and dearth of information. There is, however, so much information available in Finland that it is

possible to provide a rather good picture. Table 1 offers the key figures by sector. The turnover for all Finnish cooperatives and mutuals in 2000 was about 25 billion euros and they employed almost 82 000 people.

Market shares for cooperatives in Finland have been traditionally high in their core fields. The strongest areas of cooperation have been the food industry, banking and insurance, the retail and agricultural supplies trades, and the forest industry. A good example of the strength of Finnish cooperation today is that the forest-owners' cooperative *Metsäliitto* is both a major corporation in its own league and the largest producer-owned cooperative in Europe (Table 3).

The traditional image of a small-scale and primary producer cooperative has changed radically over the years. Strong progress by the Finnish company *Metsäliitto* in the wood industry (Vaajoki, 1999) has shown that the cooperative model can also function and serve its members in capital-intensive industry (Diagram 5). In the service sector, the Finnish *S Group* has shown the success of cooperation even in the retail trade, the area in which, internationally, cooperatives appear to experience most problems. Likewise, the development of the OKO Bank Group, especially the coincidence of its major growth stages with the main social transformations occurring in Finland, prove the adaptability and vitality of the cooperative model if only it has sufficient strategic sensitivity to the changing needs of its members and society in general, as well as the owner control and managerial ability to translate these needs into practice (Diagram 6).

The best international statistics illustrating the economic importance of cooperation concern agricultural cooperatives.<sup>9</sup> Globally it is estimated that cooperative companies manage a good third of the world's food supply. Cooperatives are particularly strong at the beginning of the food chain, but in many countries (of which Finland is a good example) they affect every stage.

In Europe there are almost 290 000 cooperatives (DIES, 2001) with 140 million members and some 4.9 million employees. In the *European Union* there are about 30 000 agricultural cooperatives with a combined turnover of some 210 billion euros (Cogeca, 2000). After *Metsäliitto*, the largest agricultural cooperatives are in meat and dairy processing and the agricultural supplies trade (see table 3). Another sector where cooperatives have a significant market share is banking (like the Dutch *Rabobank*, the French *Credit Agricole* and the German-speaking countries' *Raiffeisen* banks). Retail cooperatives are also strong in the Nordic countries (like the Finnish *S Group* and Scandinavian *Coop Norden*) and in Switzerland (the *Migros chain*).

Alongside the major cooperatives of northern Europe, another important branch of cooperation lies in the numerous small-scale cooperative enterprises within the third sector of society in southern Europe.

The *United States of America* has almost 50 000 cooperatives with a membership of 150 million. Here agricultural cooperatives also play an important role. There are some 3 500 of them today, accounting for almost a third of produce collection and primary processing, as

<sup>9</sup> The term agricultural cooperative has become established, but when interpreted exactly is rather misleading. This is not a question of agriculture carried out cooperatively, but of cooperative society owned by the individual farmers working in agriculture or forestry (the Swedes call them *bondekooperation* or farmer cooperatives).



### TOP 25 European Farmer Cooperatives in 1999

(Measured by turnover)

Name of Agricultural Cooperative	Activity/Sector	Country	Turnover Billion EURO	Market share %	of farmer members	Number of employee
1 Metsäliitto	Forestry	Finland	5,7	38	60 000	21 500
2 Danish Crown	Slaughterhouse	Denmark	4,9	80	25 500	19 800
3 Friesland Coberco	Dairy	Netherlands	3,9	-	14 200	11 800
4 Campina Melkunie	Dairy	Netherlands	3,5	-	8 300	7 000
5 MD Foods	Dairy	Denmark	3,4	90	9 500	13 600
6 Bay Wa	Supply	Germany	3,3	-	-	12 200
7 Glanbia	Dairy	Ireland	2,9	-	18 700	11 300
8 SODIAAL	Milk	France	2,8	-	15 300	8 000
9 Cebeco Group	Supply/pro- cessing	Netherlands	2,7	-	40 000	6 800
10 Nordmilch	Milk	Germany	2,4	-	17 000	4 500
11 The Greenery International	Horticulture	Netherlands	2,4	-	9 200	3 200
12 CANA-CAVAL	Polyvalent	France	2,3	-	27 500	5 800
13 Kerry	Dairy	Ireland	2,2	-	8 000	12 300
14 SOCOPA	Meat	France	1,8	-	-	5 000
15 Irish Dairy Board	Dairy	Ireland	1,8	-	-	2 900
16 Südfleisch	Meat	Germany	1,8	-	-	1 700
17 UNCAA	Agrofurniture	France	1,7	-	-	900
18 Valio Ltd.	Dairy	Finland	1,7	69	25 000	4 500
19 Arla	Dairy	Sweden	1,6	64	8 000	6 000
20 RHG Hannover	Supply	Germany	1,5	-	-	2 400
21 Nordfleisch	Meat	Germany	1,4	-	-	2 800
22 Dumeco	Meat	Netherlands	1,4	-	10 000	3 600
23 COOPAGRI	Polyvalent	France	1,4	-	28 000	5 300
24 DLG	Supply	Denmark	1,2	27	23 500	2 000
25 Swedish Meats	Meat	Sweden	1,1	75	-	5 000
<b>TOTAL</b>			<b>60,8</b>			179 900

(1) The list does not include data from UK

\* 1998 figures

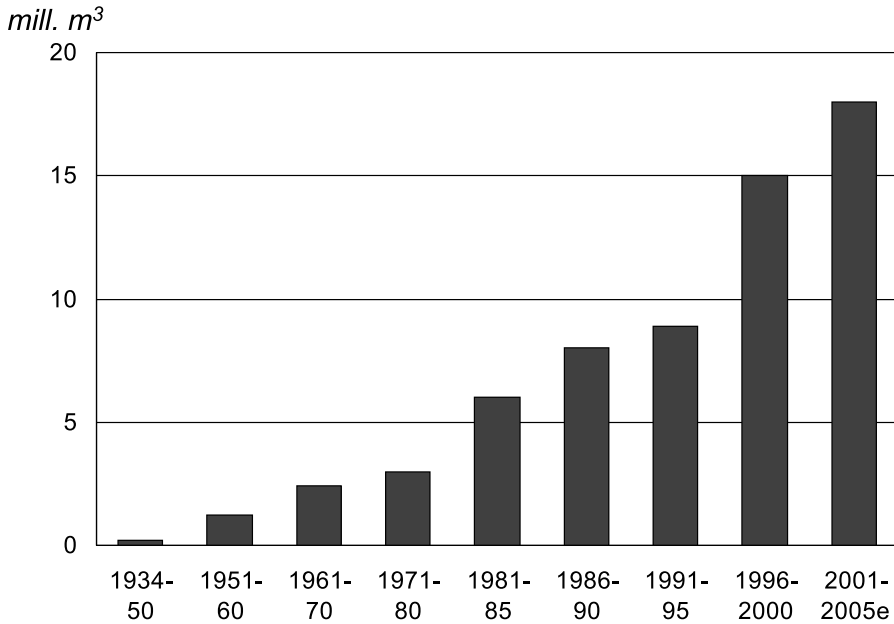
\*\* MD Foods and Arla have merged by 19 April, 2000.

Sources: Cogeca and Pellervo

2000

TABLE 3. The largest producer-owned companies in Europe, 1999.





Source: Metsäliitto

**DIAGRAM 5.** *Metsäliitto's wood purchases from private forests, 1934–2000, mill. m<sup>3</sup>.*

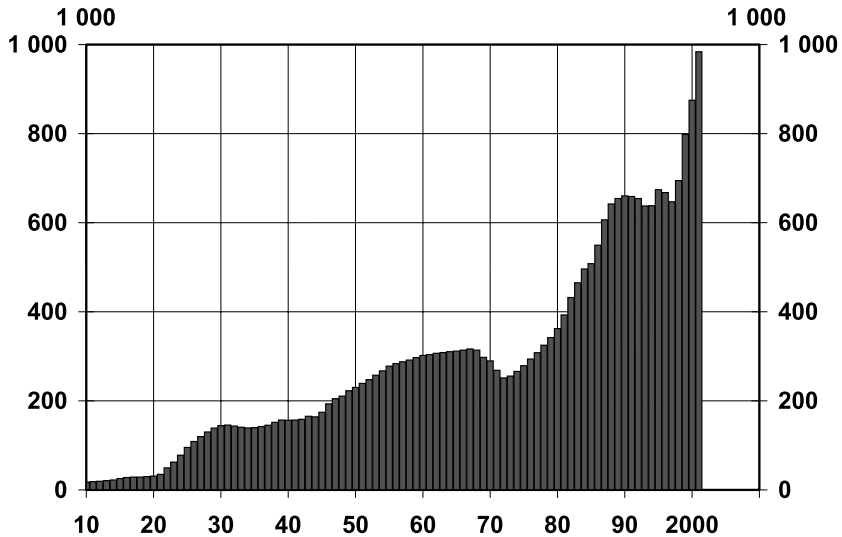
well as the agricultural supplies trade. Their combined turnover is in the region of 100 billion euros, of which the hundred largest account for almost two-thirds (Chesnick, 2001).

As is typical also all over the world (see Ollila, 1989; van Bekkum, 2001), cooperation is also strong in US dairy production where the largest cooperative *DFA (Dairy Farmers of America)* operates. *DFA's* turnover is in the region of 10 billion euros. In recent years, two cooperative conglomerates, *Farmland Industries* and *Agway*, have threatened *DFA's* position as the biggest cooperative. A special feature of American cooperation is the success of specialist cooperatives like *Blue Diamond* (almond

growers, one of largest market shares in the world for cooperatives, about a third), *Sun Maid* (raisins, one of the best known co-op brands) and *Ocean Spray* (cranberry growers with a strategic alliance with Peps).

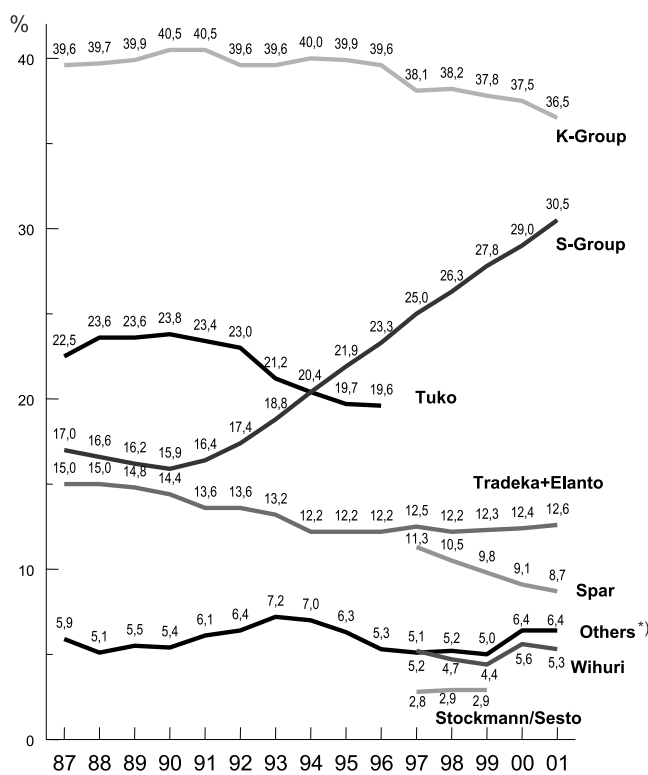
Another interesting development in American cooperation is the emergence of *new generation cooperatives* over the last 10–15 years (Egerstrom–Bos–van Dijk, 1996; Cook–Iliopoulos, 1999). What is new about this movement – and also totally different from Finnish experience – is that in the fiercely competitive North American food market, the agricultural cooperatives have been forced to revitalise their competitiveness through an exceptional revi-

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Source: OKO Bank

DIAGRAM 6A. OKO Bank Group member banks, Individual members 1910–2001.



Nielsen 3/2002

Source: SOK April 2002

\*) From the year 2000 included, Stockmann

DIAGRAM 6B. Food and grocery market share 1987–2001.

sion of cooperative principles.<sup>10</sup> This also departs from Finnish experience in that the 200+ new generation cooperatives founded in the States are rather large companies with significant member investments (totalling 2 billion euros).

## The social significance of cooperation

Any discussion of the importance of cooperation is inadequate without reference to its social significance and popular movement dimension. Only after viewing it from these aspects can an overall picture be obtained of the profound and far-reaching influence cooperation has had on laying the foundations of Finnish society and its role during the critical stages in the country's history.

During its early phases in the late nineteenth and early twentieth centuries, cooperation managed in a surprisingly determined and strategically comprehensive way to integrate the Finnish countryside into the embryonic industrial-commercial market. Later on it was to play a decisive role in building a modern food industry, developing the retail trade, securing food supplies during the war and rebuilding the country afterwards. In fact it played an integral part in all the major structural changes that occurred in Finland as it progressed from an agrarian nation to an industrial one and ultimately into a post-industrial welfare state, a process involving the migration of masses of people from the countryside to the towns in search of work.

In all these phases the cooperatives were

involved in the everyday lives of the people and the huge changes occurring in society. In many cases they were significant in ensuring that, economically and socially, these often rapid changes took place in a more controlled and sustainable way than might have been the case. Without exaggerating, it can be said that cooperation has contributed as much to the success of Finnish society and economic life as the private corporations more commonly mentioned in the media.

Cooperation has exerted both a wide and deep influence. In its early years, Finnish cooperation could in many senses be considered a "school of democracy for the people". Universal and equal suffrage was first introduced in this country in the principle of one member, one vote, embodied in the Cooperative Societies Act of 1901, which also applied to women. It was only applied to national elections in 1906 and local government elections in 1917.

Through cooperation, the people learned to work together, elect their own representatives and monitor their performance. From the beginning, a control system (statutes and model rules) was introduced, communications (Pellervo and other publications), an education and training system, and organisations (Pellervo Society, Consumer Cooperative Union KK and other sector-based organisations), etc. This system trained the men and women elected by the members to the task of managing the cooperative societies, which experience was in turn used to help build society through a variety of offices up to the highest elected positions in the state.

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**10** The main changes are closed membership, large capital investment by members (to obtain right to make raw material deliveries) and their commitment to make fixed deliveries, eligibility to resell delivery rights at the price determined by the market, as well as defining the rights and obligations of members according to a precise and exacting agreement.

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Cooperation in this country has also pioneered consumer education (cooperative societies), new retail concepts (department stores, chains, customer-ownership), established numerous standards and new operating models (Valio and Hankkija) and promoted scientific research (Nobel prize winner A.I. Virtanen at Valio).

The typical organisational principles of cooperation, such as working together and a federal structure (a loose combination of several different companies) can be considered the origin – actually the pioneer – of the present popular concept of networking. With its wide ownership basis and bottom-up network organisation, democratic cooperation in Finland, as in many other countries, has had a structurally stabilising effect on society both economically and socially. Thanks to these characteristics, cooperation as a way of organising economic activities has, both from the individual and wider societal point of view, proved itself to be a socially reliable and risk-preventing alternative to the top-down organised multinational corporations in which ownership is concentrated in the hands of the few.

*Summa summarum:* The cooperative society from its inception was a social innovation and still plays an important social role in organising economic relations. Whereas originally cooperatives ensured the development of the market economy, in the globalising world of today they ensure that the economy continues to serve the everyday needs of the ordinary people in the best possible way. As regards the need for cooperation, this has by no means diminished in recent years as the scale and complexity of economic systems has increased and the gulf between the individual and economic structures has widened.

Thus cooperation remains not only one form of enterprise among many, but also an important channel for influencing society and an effective, logical way of solving the economic problems of ordinary people. This is what cooperation is in business life. The cooperative model has also proved useful in organising other economic activities in society, particularly within the social economy of the third sector between the private and public spheres. This social economic aspect of cooperation has been much discussed within EU circles in recent years.

Even if cooperation today is a worldwide popular movement, its starting point is always local people and their needs. Thus it offers hundreds of millions of people a channel to work and develop locally, regionally, nationally, as well as internationally. For a long time now cooperation has been successfully realised in accordance with the popular adage: Think globally but act locally. And in the more or less uncontrolled globalising world of tomorrow, this will probably remain one of the most durable and important competitive advantages of cooperation. ■

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[www.pellervo.fi](http://www.pellervo.fi) – Cooperation in Finland

[www.coop.org](http://www.coop.org) – Cooperation globally and the International Cooperative Alliance (ICA)

<http://uts.cc.utexas.edu/~laurel/cooproots/history.html> – History of cooperation