

## RURAL COOPERATIVE MOVEMENT – PROSPECTS OF CHANGES

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**Abstract.** The paper draws attention to the fact that the development of cooperative forms of administration in rural areas fosters job creation, integration of dispersed resources, and an increase in the activity of people with lower incomes. Despite the collapse of the cooperative movement, cooperatives begin to restore their potential; however, in addition to the few traditional cooperatives which have adapted to the market economy conditions, the so-called new cooperatives keep emerging. Particularly important areas of the activity of those cooperatives include: well-being services, renewable energy generation based on the use of substrates from agricultural sources, small-scale production, provision of services to the elderly, and support of tourism. The aim of the study was to indicate the possibilities for the development of rural cooperative movement based on opinions of the cooperative sector representatives. The study was carried out in 2015, using an interviewer questionnaire, on a purposely selected group of 88 managers representing a variety of forms and types of cooperatives operating in rural areas in the north-eastern Poland.

**Key words:** cooperatives, rural areas,

**JEL code:** D7, Q13

### Introduction

Opinions on the role and significance of cooperative forms of conducting economic activities by rural inhabitants, expressed in the literature on the subject, are diametrically opposed. On the one hand, the status of the development of rural cooperative movement is being paid little attention to, and each enhancement of this status with new entities or spheres of activity is considered a secondary effect being an element of the general interest in the idea of cooperatives. On the other hand, it is commonly believed that the level of market competitiveness of cooperative entities is low. The views belittling the role and significance of the cooperative movement as a manner of administration are, however, being replaced by opinions recognising cooperatives as an important area of social and economic activities of the rural population (Chaddad F. R., Cook M. L., 2004; Kawa M., Kuzniar W., 2009; Brodzinski M. G., 2011). A cooperative is, primarily, an instrument allowing more effective operation, since in this way it is possible to reduce costs and, at the same time, increase the value of a product as well as the opportunities to compete (Bite L. et al., 2013). However, it needs

to be borne in mind that a cooperative is an autonomous association of people who act on a voluntary basis to satisfy common economic, social and cultural needs, and strive to fulfil aspirations through common ownership and democratic control of the enterprise (Gupta C., 2014).

The experience indicates that in the Western European countries, the participation of cooperatives in economic activities is greater than that in post-socialist countries. In the economically developed EU countries, farmers sell more than 60 % of their produce through cooperatives. Such a strong position of agricultural cooperatives has been requiring an improvement in the economic effectiveness and organisational efficiency of a cooperative enterprise, and, at the same time, care for the maintenance of the cooperative identity.

As regards Poland, despite the downward trend prevailing since the beginning of the 1990s, Polish cooperatives still have a large economic base and an approx. 3 % share in the national labour market and in production of the entire national economy. They play an important role in local communities by supplying products and services to local markets, and have, in 40%

cases, a dominant position in these markets (Nalecz S., Konieczna-Salamatin J., 2008).

It is estimated that out of approx. 17.15 thousand cooperatives operating in Poland, 17.6 % of them are cooperatives engaged in agriculture and hunting as well as services related to these areas, while another 11.6 % of them are cooperatives conducting economic activities in the processing sector (Krysiak I., 2006; Zmija J., 2013). Despite the negative experiences of the past period, the cooperatives which have gone through the restructuring process are coping much better in the present reality. After losing the protective umbrella of the state, they reorganised their structures and adjusted their objectives to both the market economy conditions and cooperative members' expectations (Mickiewicz A. et al., 2014).

When observing the ongoing debate on the European Union forum, one may notice that the cooperative forms of administration and social activity fit into the social economy attracting more and more interest from the public. However, a major problem that remains is that the value of cooperation is most often measured as monetary compensation, while other, non-financial benefits of cooperation are rarely appreciated (Ryhänen M. et al., 2013).

Cooperatives, similarly to other forms of social enterprises, are characterised by:

- a welfare or social objective of common interest, which is an important element in conducting commercial activities;
- reinvestment of a significant portion of profits in the accomplishment of social objectives;
- the way of organising or a system of ownership reflecting the mission, based on democratic or participatory principles, and aimed at social justice (Inicjatywa ..., 2011).

However, these advantages, beneficial from the social point of view, give rise to concern as to whether a cooperative, as a form of conducting economic activities, may be of interest to

entrepreneurial people. On the one hand, given the experience gained from the previous political system, the vast majority of rural population either place no trust in cooperatives or consider such entities as rather uncompetitive. On the other hand, there are few cooperatives which could serve as an example to people and groups searching for opportunities to run a business jointly. Entrepreneurial people, while deciding to conduct economic activities in a cooperative form, take responsibility for a group at the same time, and are virtually obliged to stimulate the local community.

When observing the process of setting up and development of new cooperatives, one can notice that the decisions on the manners of production of goods and provision of services are mainly targeted at objectives of social nature<sup>1</sup> as well as the supply of goods intended for vulnerable population groups (in rural areas, this primarily includes assistance to the elderly or the disabled, child care, access to the employment and training etc.).

The advantages of the cooperative form of administration, as indicated in the literature, are associated with the following aspects thereof:

- joint ownership, joint decision making, and joint responsibility;
- stability and safety of the employment, and egalitarianism, in particular in terms of pay;
- a sense of being a part of the community, which inter alia contributes to an increase in motivation and productivity, and to greater attention to the joint property;
- distribution of profit which remains with workers – members of the cooperative;
- lower capital required for setting up of a cooperative, as compared to that required for companies;

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<sup>1</sup> i.e. social or occupational inclusion through the access to employment for people being disadvantaged, in particular due to their low qualifications or social/occupational problems leading to the exclusion and marginalisation.

- financial liability being smaller than in sole proprietorships and companies;
- tradition of the cooperative movement;
- social and educational functions (Kodeks dobrych praktyk ..., 2008).

The opinion according to which the cooperative sector stimulates the dispersed capital as well as labour resources in local environments arouses no controversy (Brzozowski B., 2014). However, despite the numerous, above-mentioned advantages of cooperatives, they are going through a crisis, even in the countries in which they have been developing very rapidly. This is observed at three levels associated with defining the following:

- own identity (cooperatives which have achieved success become similar to conventional enterprises);
- measures aimed at an improvement in efficiency (given their social objectives and a democratic style of management, the economic efficiency of cooperatives may be lower);
- the way the environment perceives the cooperative forms of administration (the lack of understanding among policy makers, other entrepreneurs, and the general public).

The aim of the study was to indicate the possibilities for the development of rural cooperative movement based on opinions of the cooperative sector representatives. The study was carried out in 2015, using an interviewer questionnaire, on a purposely selected group of 88 managers representing a variety of forms and types of cooperatives operating in rural areas in the north-eastern Poland. Participants of the study represented cooperatives which employ their members and conduct activities in the areas of (agricultural) production, trade, agri-food processing, services etc.

## Research results and discussion

A cooperative as a suggested form of conducting economic activities

The cooperative movement in Poland begins to be perceived again as an attractive form of collective entrepreneurship of rural inhabitants<sup>2</sup>. In the Western European countries, as noted by Mering T. (2013), in certain sectors cooperatives play an important role, and their emergence results from searching for a form of conducting economic activities, which is an alternative to privately owned enterprises. The view that cooperatives as a form of collective resourcefulness provide actual opportunities for economic and social activity of people with low and medium incomes, prevent their social exclusion, and alleviate the economic and social inequalities, is expressed more and more emphatically (Krasuska B., 2009; Pawlewicz A., 2014). Importance of horizontal integration in organic farming. Economic Science for Rural Development. Jelgava, Latvia University of Agriculture, No. 34. 2014. pp. 112-120.).

Due to the specificity of cooperative forms of administration, they are an offer of business organisation particularly in the regions, the development of which is lagging behind, in which other forms of conducting economic activities are less profitable. In addition to satisfying economic needs, cooperatives serve functions of self-help, social, and welfare nature. The functioning of cooperatives may create an opportunity for economic and social activity of various occupational or social groups, in particular those with lowest incomes (Dyka S., Grzegorzewski P., 2000).

While searching for opportunities for supporting the development of projects of cooperative nature, one should take account of

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<sup>2</sup> Tradition of the cooperative movement in Poland dates back to the second half of the 19th century. A cooperative form of administration has proven successful in various periods, particularly in the areas inhabited by a poorer population. Experience gained from the past indicates that this form of management plays a significant economic and social role.

the numerous barriers associated with the operation of cooperatives. The authors' research reveals that those most often indicated by members of cooperatives are as follows (each of the presented barriers was identified by at least 30 % respondents):

- the market situation which promotes private entities;
- unfair competition;
- difficulties in raising funds for development;
- democratic form of management, due to which, in many cases, pressure is exerted by members of the cooperative who demand that the profits be realised quickly in a form of a dividend;
- hostile environment, primarily the institutional one;
- rural inhabitants' sceptical approach to this form of administration.

The above list of limitations to the operation of cooperatives is not exhaustive, and many of the presented barriers are mentioned in discussions on the support for rural inhabitants' entrepreneurship in general.

When the participants of the study were asked to justify the need for developing the activities of the already existing cooperatives and setting up new ones, more than every third respondent indicated the following reasons (each participant of the study could provide a few answers):

- possibilities for solving problems of local unemployment which increases with the consolidation of market economy;
- a low financial risk associated with conducting economic activities in a form of a cooperative;
- the necessity to satisfy diverse local needs articulated by certain social groups, and, at the same time, from the growing awareness that the cooperative form is appropriate for satisfying those particular needs;
- the need for developing social activity which, for many people, determines their functioning in the local environment.

From the study participants' perspective, it is difficult to assess the preferences with regard to cooperatives in terms of the development of productive activities and services. Everybody awaits the stabilisation of the operation instead of the development of activities, particularly by undertaking new activities. On the one hand, however, it should be noted that members of cooperatives search for innovations. On the other hand, they point out that decisions concerning setting up of a cooperative or the implementation of a project are determined by the availability of support from the EU funds. Cooperatives have made use of these funds, and it was observed that their members awaited further possibilities for using this aid. According to more than 3/4 of the interviewed participants, the economic effectiveness of cooperatives operating on the free market economy conditions is not lower in comparison to other legal forms of enterprises operating in Poland, and the existing differences may arise not so much from lower competitiveness of cooperatives as from the differences in the manner of taking decisions and conducting activities (orientation towards social objectives).

Representatives of cooperatives participating in the study were able to indicate numerous examples of non-economic functions being performed by the cooperatives they were representing. As examples of their own activities of this type, they most often indicated the material and organisational assistance to public institutions, and the participation in organisation of local events supporting the integration of inhabitants.

As regards barriers to the development of cooperatives in rural areas, and those standing in the way of the development of cooperative movement in Poland, the study participants particularly indicated the low level of awareness, particularly in rural inhabitants, of the operation of a cooperative. Cooperatives are often perceived by the public as a "relic of the past".

Another identified barrier is the problem of unfavourable legislative solutions, in the light of which cooperatives are treated as companies, which, given the relatively low starting capital, inhibits the emergence of cooperatives (especially social ones).

Representatives of rural cooperative movement are aware of their participation in the promotion of cooperative movement in rural areas in Poland; moreover, they notice specific manners of removing barriers to this emergence. They are convinced that this is the activity of cooperatives that is conducive to the promotion of various forms of cooperation, principally among the mass of dispersed, numerous agricultural producers as well as the socially excluded.

New cooperative forms of entrepreneurship

Experience shows that cooperatives appear to be particularly effective in those areas of socio-economic life in which failures of the market of the state policy are observed, e.g. in the social services sector. Observation of changes in the economic scene of Polish rural areas allows one to notice that in addition to the traditional forms of cooperatives, new ones emerge, including cooperatives functioning as groups of agricultural producers, social, machinery, and energy cooperatives as well as other forms of cooperatives, the so-called "new wave" ones.

In Poland, cooperative groups of agricultural producers (GAPs) amount to approx. 30 % of the total of functioning groups, and have 2.5-times more members – agricultural producers than groups organised as limited liability companies (Spoldzielcze ..., 2015). The authors' own research lead to the conclusion that GAP members consider the cooperative form of administration to be convenient and safe, and requiring no particularly increased activity and commitment on their part. However, in the market economy conditions, there is no possibility for conducting rational and effective

activities without the involvement of cooperative members.

In the West European countries, well-organised agricultural producers in agricultural cooperatives combine the market offer of many farms, which multiplies their economic power and market opportunities (Gorka M., Ruda M., 2012; Altman M., 2015). One of the main objectives of setting up a group of agricultural producers is the sale, by the group members, of all products or the entire range of products manufactured in farms through the group.

As regards social cooperatives, their area of economic activities is linked to the skills of both founders and workers. Social cooperatives are distinct from commercial entities due to the orientation of their activities towards the accomplishment of social objectives, and their functioning is not subject to the criteria of profitability, economic effectiveness and competitiveness (Thomas A., 2004). Organisation of economic activities in a form of a social cooperative is, as noted by Krasuska B. (2009), a proposal addressed mainly to the unemployed, homeless, addicted, mentally ill, migrants, or disabled people who, for a variety of reasons, are not able to independently undertake economic activities. They are, however, interested in undertaking cooperative economic activities in a group, and thus in dissipating and reducing the risk of running own business. Respondents who represented this particular type of a cooperative in the study emphasised that the nature of a social cooperative was mainly determined by the type of people who have set up the cooperative and individual work of the members. The observed, numerous projects involving setting up social cooperatives in Poland in the years 2010-2014 are mainly an effect of supporting such projects with external funding.

Machinery cooperatives are an organisational form which is little known in Poland. High prices of machinery and the dwindling purchasing power of farms may, given the current situation of

Polish rural areas, and agriculture in particular, be conducive to the organisation of farmers into various systems of the collective use of machinery. As indicated by the experience of other European countries, cooperation and benefits are always bilateral there – a farmer provides services with their machines while being provided with services offered by other farmers (Maszynowa ..., 2002). This form of organisation of the system seems to be optimal to numerous groups of farmers organising cooperation within a relatively large area (a few villages), who have limited investment opportunities. The experience shows that the most frequently employed methods for the use of machinery is informal neighbourly help, often provided to each other with no financial settlement (Harris A., Fulton M., 2000).

An energy cooperative is an offer of cooperation involving joint investment of many people in a prosumer installation. An interest in cooperation will depend on the profitability of the investment which, in the case of cooperatives, is based to a large extent on the savings which may be obtained by prosumers. An important argument for the development of this type of group activity is the prospect of the actual profit on the energy resold to the grid (Wilson E. J. et al., 2008; Yadoo A., Cruickshank H., 2010). A precursor of energy cooperatives in Poland is Spółdzielnia Nasza Energia (Cooperative "Nasza Energia"). Within the area of partner communes, construction is planned of a complex of biogas power plants including a distribution system (low-voltage power lines). In view of the alternative of an increase in energy prices, it can be assumed that energy cooperatives may be perceived by local communities as an alternative way of gaining access to renewable energy sources and relatively cheap energy.

### **Conclusions, proposals, recommendations**

Cooperatives should, by their nature, unite people, since what is often successfully achieved

in interpersonal relationships is immeasurable, and can bring about tangible effects in the longer term. Operating in a group means assistance and support in the development of new projects and initiatives. Experience of many European countries shows that rapid development of certain branches of cooperatives, both the traditional and the "new wave" ones, depends on stable legislation as well as functioning mechanisms of financial and advisory support. These factors induce farmers and other rural inhabitants to integrate within a cooperative, and carry out joint projects in many areas of the economy (trade, power generation, services).

The syndrome of an ineffectual, post-communist cooperative is overcome by examples of thriving, sometimes in close vicinity, dairy cooperatives, cooperative groups of agricultural producers, or social cooperatives. It is difficult to predict the direction of changes; however, it is worth to indicate cooperatives as an alternative option of cooperation, particularly of persons and entities that have no resources allowing the implementation of economic initiatives requiring substantial financial resources, undertaken in niche areas.

To sum up, it can be concluded that the promotion of cooperative forms of economic and social activities in rural areas will always be accompanied by ambivalence. Some people will be convinced that promoting cooperatives means a failure, and that the social system of running a business is an anachronism. Others will argue that cooperative forms of administration provide the opportunity to find a manner of changing the organisation of economic processes, and genuine integration of rural inhabitants around social values, and that the cooperative forms of administration may significantly improve the dynamics of multifunctional rural development. A decision on this matter will never be unambiguous. It seems that this form of conducting economic activities fosters job creation, integration of dispersed resources, and

an increase in the activity of people with lower incomes. It was noted during the study that the particularly important areas of activity of the currently operating rural cooperatives are: agricultural production and agri-food processing,

renewable energy generation based on the use of substrates from agricultural sources, well-being services, and services related to support of tourism.

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