MODELS OF CO-OPERATIVES IN RURAL AREAS: 
THE CASE OF POLAND

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Abstract
In this paper an attempt is made to show the need of adjustment of co-operatives operating in rural areas and their new role in economic development. Firstly, general remarks are examined, including a notion of co-operative and a meaning of co-operative units and their share of national incomes in European countries. Secondly, using the experience of the European Union members as an example, selected changes in the co-operative sector are considered for improving its role in the economic development.

Keywords: co-operatives, rural area, economic development.

Introduction
At the present time, the common challenge for the co-operative to be coped with is a demand for adjustment to the sharpening market competition. At the same time, it is also a collaboration of such solutions which, on the one hand, grant an increase in their economic effectiveness and on the other one, do not interfere with the principles of democracy, equality and its members’ co-determination. In their way of development the co-operatives reach for the patterns true to capitalistic companies. The sharp borderlines between the various co-operation types of economic organizations are effaced as the circumstances are getting more favourable for the development of intermediate ones, which may constitute a source of conflicts and facilitate a change in the nature of the fixed types of co-operatives [Ilmonen, 1989; Ramanauskas, 2006].

In West-European co-operative societies, considerable importance is attached to the co-ordination of such elements as their activity, setting out new economic organizations of larger co-ordination powers and spheres of activity as well as development of international co-operation. Such activities are taken as a precondition for their efficacy and coping with the market competition demands [Book 1992, Nilsson 1997].

The integration changes undertaken in Europe and the developing processes of concentration and globalization demand that the essential transformations in the co-operative societies are to be also observed closely from the socio-political point of view [Domagalski, 1998].

Hitherto gathered results in the development of the co-operatives in Poland, especially in the rural areas indicate that their marginalization process makes progress [Brodzinski, 1999]. As early as the 1980-ies, many Polish co-operatives coped with troubles about performing their duties in both economic and socio-educational spheres of activity among the members. The transformational changes and the related market economy principles had intensified these troubles and minimized the participation of co-operatives in the
Polish economy market [Kleer, 1996]. However, most of them had kept those hard times trying to continue their activity in new socio-economic realities.

These competitive and often unfriendly perceived environment had put the co-operatives’ management personnel lacked of independent making-decision habit under new and difficult challenge that requires fresh knowledge and managing skill to be used for effective competition and consolidation of their stand in the market [Dyka, 1998 and 1999]. A competence for recognizing the present economic standing, or above all, for predicting it in the future, acquires some specific importance for every participant of the market including the co-operatives functioning in these circumstances.

The market economy brings about a re-evaluation of assented and glorified principles and patterns in the functioning of the co-operatives and enforces the management to look for finding new and non-conventional solutions. In the present situation, pluralism of co-operative solutions and a diversity of forms, types, methods and ways of acting are required. For the cooperatives, especially the regional societies, the most constructive element of policy is still an idea of co-operation, group solidarity, participants’ ties and local attitudes that co-creates a principle of rational management taken both in the social and economic dimension.

Undoubtedly, the co-operatives make an important segment of the European market. It is worth knowing that 132,000 co-operatives employ 2.3 mln people and their economic results have an influence on their members in as much number as 83.5 mln. Moreover, new forms of co-operatives are observed to come into being, especially in the sector of welfare and public assistance. In this sector, the services are rendered, jobs are given, social assistance and participation in social life is provided to those who have been excluded from the society or who are in extremity. For many non-conventional businessmen who in other way would have been put out of business, the co-operatives enable to take economic activities in many sectors [The White Book, 2001].

In the paper, current issues of development of co-operatives in rural areas are discussed. The familiarity with the experience and the similar entities’ development models functioning in the market-economy countries may provide the Polish co-operatives organizations with good patterns and suggestions as to transformation routes, organizational and economic solutions and shaping their future.

**The organizational models of the EU farm co-operatives**

Agricultural co-operative organisations exist in every country in the world where the agriculture is subject to a market economy. These agricultural co-operatives account for a very large share of all co-operatives, no matter if the country is rich or poor, and if the location is Northern or Southern, or Eastern or Western. This is not by chance – on the contrary. There are a number of conditions, inherent in farming and life in the countryside that induce the farming population to join certain aspects of their activities in agricultural co-
From these attributes of agricultural production one can deduct a number of reasons why farmers tend to join their efforts in agricultural co-operatives: a) by forming co-operatives, farmers can remedy their weak bargaining position, i.e., they create a countervailing power; b) in cases when the market mechanism does not secure the establishment of satisfactory market relationships, co-operatives could take action to open new markets, or to give members access to inputs and services that are not offered either by the market or by public bodies; c) by joining forces within a co-operative, farmers are able to better adapt their production to the demand and the requirements of the market, and hence, they improve the efficiency of the market to the benefit of both themselves and the community, including the national economy; d) by pooling their resources within the framework of a co-operative, farmers can better handle risks that are inevitably connected with biological production, i.e., weather influence, heterogeneity in product quality, and geographical dispersion; e) finally, co-operatives may contribute to the preservation of employment and the raising of income for the farmers/members and the region in which they live.

From the above one may conclude that the co-operative organization form will remain associated with agriculture for a long time to come. As the reasons for co-operatives are based on a number of structural characteristics of agricultural production and countryside life, they are likely to remain as relevant in the future as they have ever been. Illustrative of this is also that new co-operatives are still continuously being established up to this present day. The basic explanatory factors – biological production, geographical dispersion, uneven size distribution, etc. – will persist. Hence, agricultural co-operatives will continue to play an important role not only for the farming population but also for well functioning markets in the agri-food sector, and thereby for the national and international economies. The critical opinion, voiced in certain
circles, as if the co-operative business form as such would be "old-fashioned" is thus far from correct.

This is, however, not to say that agricultural co-operatives will persist in the same way as they are structured and working today. Like any other business organization, co-operatives have to adapt to the changing conditions in their business environments. No organization of any type can refrain from adapting to its environment, if it is to remain successful and viable. Effective organizations are always those that reflect the characteristics of their stakeholders in their own organizational structure.

In this turbulent time, it is appropriate and timely for agricultural co-operatives - their members, directors, and managers – to consider how their organizations can be restructured so as to better meet the demands put by the various stakeholders. For most of the co-operatives existing today, it is safe to say that their existing co-operative model is not optimally suited to their business environments. Which model they should aim for, however, is not possible to state generally. There is not such a thing as a one best co-operative model that may be applied universally - it all depends on the specific conditions under which the particular co-operative operates. In fact, there are innumerable ways of organizing co-operatives within the framework outlined.

Agricultural co-operatives in the European Union are presently in a state of transformation. The economic, social and legal environments of co-operatives are changing, requiring adaptive measures on the part of these co-operatives as well. To mention just a few: withdrawal of government from the market, international trade liberalization and expansion, new technological developments, changing consumer demands, concentration and integration processes in other segments of the product and marketing chain, and so on. All these factors have a major impact on the development of agricultural co-operatives, placing them under great pressure to adapt themselves to new realities.

In the EU countries, many co-operatives have been in existence for fifty or even hundred years. However, their part played in the particular countries is much differentiated and frequently depends on a group of products, e.g. in Italy, the co-operatives have the fruit market under control rather than the vegetable one [Izdebski, 2003]. Over many decades, a trend has prevailed to create larger and larger entities through merger of the co-operatives. This was attended by many consequences, such as a need for professional management employment, an increase in number force of members, a deepening remoteness between the members and their co-operatives and more and more frequent deals concluded with the non-members. The enlargement of co-operatives on the market with competition getting stronger also has brought about an increase in the capital demands and the related borrowing requirements, if their members are not able or not inclined to bring in the more capital deposits.

From the practice of the industrial countries, there can be identified three main types of the co-operatives in the aspect of relations between the members and their organizations as follows [Dulfer, 1994]:
1. The conventional co-operatives, which are functioning in the traditional model, associate not too large but consistent members’ groups, have transparent economic activity, possess clerks appointed among the members, render services for the members solely and are under effective control.

2. The integrated co-operatives, where the economic activity of the members is closely integrated with a given co-operative activity performed by the professionals of the permanent status who enter into deal with the members solely. The management for economic activity of the members has no access to necessary information on innovative production methods, changing market requirements, but depends on the co-operatives’ counseling, service and guidelines to survive on the highly competitive market under increasing globalization. The integrated co-operatives involve such sectors as agricultural production, food processing, marketing, retail trade, small industry and services.

3. The marketing co-operatives, which are large in size and run the complex activity that requires a professional management if they want to survive the competition with the commercial firms. Their members play a marginal part therein. Delegates elected from a register list or at the section meetings represent the members’ rights and interests. The members’ duties are restricted to bringing in usually not too large shares to the contribution capital, of which are paid dividends (as it happens in every company). The co-operative offers its services to the members as well as to non-members on the same terms. Thus, no special advantages are provided for the members who become regular clients.

As time goes on, the co-operatives accumulate handsome in-divisional reserves, what makes no difference for their financial standing in case of membership resignations on a larger scale. Such co-operative entities are almost completely strayed from their members’ base and behave in quite the same way as their competitors or any regular commercial firm. Now they are passing through a crisis of identity. Since they are acting just as the commercial firms do and take the co-operatives’ principles as a superfluous restriction imposed on their activity. They are still a part of the co-operatives’ movement, however, their business activities and management structure are deprived of the model of co-operative societies. Many of co-operative banks and consumers’ co-operative societies can be put into this category. However, there are also examples of large consumers’ co-operative societies that carry business with their members solely, make every effort and fund to create structures binding the members to them and scramble for keeping the members’ base intact (e.g. in Japan).

The economic entity that is going to reach a definite goal is under the necessity of building up such relations which make it the most effective one. To succeed in accomplishment of their own goals, they employ various processes of integration. The thing is that the members are to observe the same kind of their activity and at the same time to acquire a specialization in accomplishment of specific tasks. This strategy enables them to reach a global effectiveness. Many
duties may be performed but in a way that enables them to keep their economic entity whole and unimpaired [Porter, 1980]. In every economic entity works a process of various links, which results in a rise of the standard organizational structures in the enterprise [Mierzwa, 2002]. Several typical structures of organizational nature are visible in the strategic actions of the co-operatives. It is observed broad changeness in these structures, which are dependent on number of products that may appear in specific cases [Porter, 1980, Deshayes, 1988].

At the present time, farmers’ co-operatives undergo the continuous and accelerated changes. Such factors as the member states’ policy, the liberalization of markets with the acceptance of GATT and the EU broadening make an increase in competition with simultaneous diminishment of subventions on the market of principal products. On the other hand, biotechnology, information techniques, magnifying importance of distribution channels and international firms require increased concerted actions in the agro-food sector. The differentiation of needs makes the consumers’ demands larger and larger not only in the sphere of products alone, but also as to such factors as the natural environmental protection, good behavior towards animals or origin of products. These demands press the co-operatives for finding such organizational structures that are conductive to the initiative and consumers-minded production. This evolution of structures offers some opportunities for some co-operatives and security risk for the other ones [Mierzwa, 2001].

Considering the organization structures of the European co-operatives, there can be seen a tendency towards concentration by fusion or expropriation of entities which starts up large regional or inland enterprises. In turn, this operation allows to make increasing capital, derive profit from economy scope not only in processing but also in logistic, distribution and research [Mierzwa, 2003]. The integration enables to reach a larger profit margin in the external channels of the food chain.

**The model of federative co-operative**

In many countries, there has been spread a model of federative co-operative over years. At present, this model becomes less and less popular, especially in those countries, where the law does not favor such a model. This applies to the new-com countries in the EU where the federative co-operation has been rejected. The federative co-operative was a good choice for farmers in a situation, when they were protected by the state policy. This form revealed its weak sides, as the farmers had become subjects in the free market. When the competition gets more intensive, the federative co-operatives are less competitive than those of limited liability are. Their weak sides are related to a long distance between their commercial activity and the members. In this situation, the control executed by their members is doubtful. The market impulses must pass several chains from local through regional to national ones and may undergo changes at every level easily. There is also a risk of alienating the members from the co-operatives, what leads to a decrease in their interest in control and financing of the co-operative. The most critical problems with the
control are met in those organizations, which run their business below the processing chain.

**Fusion**

For several dozens years many amalgamations have been observed in the co-operative sector and as a result, large regional co-operatives come into being. In some countries (e.g. Germany, Finland,) the members of federative co-operatives arrived at a decision of changing their organization into a unitary co-operative. As a consequence, such trend can lead to fusion of all co-operatives of a given industry branch into one national co-operative in some member countries of the European Union (e.g. Denmark, Sweden). Admittedly, no fusion has been consolidated at the European level as yet, but such merge is not unlikely in the future. Behind these amalgamations are hidden the desires for getting more competitive through the management of large-scale distribution. The French enterprises holding a commanding position in the dairy industry (e.g. Candia) are a spectacular example. These tendencies changed the trade terms for the significant number of dairy-stuffs producers in many countries. Small members’ groups cannot afford financing of an enterprise enough large to be competitive, while amalgamation with other co-operatives makes a window of opportunity to accumulate a sufficiently high finance. The staunch supporters of large co-operatives are of the opinion that such economic entity has more satisfied members than of medium or small size. The larger co-operatives may offer better management systems in shaping the relations among the members. The real reason behind the fusion is an intention for intensifying the competitiveness through going into big business [Declerk, 1997].

**The acquisition of other enterprises**

The co-operatives may also make their competitiveness stronger by acquisition of other enterprises. This acquirement may include the same commercial surroundings to gain an increase in economics of the business scope or allied trade branches. The former exemplifies the Spanish dairy co-operative GIG, which bought the state enterprise Lesa.

All these countries present a tendency towards the vertical integration. This strategy is anticipated increasingly for the co-operatives also engaged in distribution. Above all, the strategy of vertical integration makes the commercial activity easier including the trade on international scale, enables to reach a profit-producing ability and to establish the standing in short-channels distribution. Even if the advantages of vertical integration are quite obvious, there is a risk. The members may lose a control over their co-operative, if the financial charges are too high. The price indicators may also worsen for members, if profits from processing are divided among the members in the form of exaggerated production price. Moreover, it may be difficult for members to trace a complexity of all trade operations, what makes the co-operative boards’ tasks more involved. At present, these issues are not treated with sufficient attention, or with less notice than are worthy of.
New models of co-operative enterprise

Over the last years, a large number of co-operatives including those below processing chain initiated a transformation of organizational structures. Some of them have changed structurally into joint stock companies, where stockholders consist of farmers-members and external participants (i.e. other enterprises, federative co-operatives, institutions or private investors). The Irish co-operatives such as Kerry, Avonmore, Golden Vale and the Austrian dairy co-operative NOM (Table 1).

Main institutional characteristics of EU agricultural co-operatives

<table>
<thead>
<tr>
<th>Organizational attributes</th>
<th>Traditional co-op</th>
<th>PLC co-op</th>
<th>Co-op with subsidiary</th>
<th>Proportional tradable shares</th>
<th>Participation shares co-op</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entry Individualized equity</td>
<td>Free</td>
<td>Variable</td>
<td>Variable</td>
<td>Restricted</td>
<td>Free</td>
</tr>
<tr>
<td>Assets</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Only for investors</td>
</tr>
<tr>
<td>Majority of decisions control</td>
<td>Members</td>
<td>Investors</td>
<td>Members via the cooperative</td>
<td>Members</td>
<td>Members</td>
</tr>
<tr>
<td>External participation</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Limited, or without voting</td>
<td>Yes</td>
</tr>
<tr>
<td>Value added activities</td>
<td>Limited</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Not always</td>
</tr>
<tr>
<td>Professional managers</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Not always</td>
</tr>
<tr>
<td>Members equity</td>
<td>Equal</td>
<td>Shares</td>
<td>Equal via the cooperative</td>
<td>Use-based</td>
<td>Equal</td>
</tr>
<tr>
<td>Contribution return of income</td>
<td>Use-based</td>
<td>Share-based</td>
<td>Members: use, investors: share</td>
<td>Use/share-based</td>
<td>Members: use, investors: share</td>
</tr>
</tbody>
</table>


The innovative solutions, especially of financial and organizational nature, that make a conventional way of co-operative organization as an enterprise doubtful seem to have much appeal. Restructuring of the co-operative frequently takes place at a period of financial crisis i.e. when the enterprise with its conventional form of organization is not able to compete in the market. Moreover, the achievements of co-operative under restructuring should be assessed considering the point that a choice of restructuring alternative is not
going to make winding-up of a given co-operative, which would inflicted a greater damage, especially on the farmers.

Some co-operatives chose an extremely distinct form of organization to better their members’ finances by manufacturing products of great added value. Their solutions include placing of transferable stocks, preferential shares, scaling up the production, etc. This comes up to expectations to be set usually on the co-operatives of new generation. The model has met with strong interest, especially in Germany and Great Britain. The relations between the farmers’ co-operatives and their central organizations on the one hand and on the other one, their trade unions are weighty issues. In most of the countries the co-operatives and their central organizations functioning aside from the farmers’ trade unions. This independence spreads their area of activity and develops their abilities of adaptation for changing conditions in case when there is no need for counting with the political interests of farmers’ trade unions. Here no fundamental changes are become visible. What can take notice, however, is a tendency of co-operative to take a more autonomous action as regards their central organizations. Because of amalgamations, acquisition and organizational development, this action is unavoidable.

Conclusions
The development of the market economy is forcing farmers to undertake joint activities in the framework of rural co-operatives or co-operative type units. The owners of intensive farms are more open to the market, aware that the market dictates whether or not a venture is a price taker or a price maker. Farms, being small firms, are always price takers. Through co-operatives they have the opportunity to gain a certain amount of bargaining power. Rural co-operatives are the property of producers and are entirely under their control.

References

МОДЕЛИ СЕЛЬСКИХ КООПЕРАТИВОВ В ПОЛЬШЕ

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Аннотация
В статье сделана попытка показать необходимость становления кооперативов в сельской местности и их новую роль в экономическом развитии. Во-первых, рассматриваются общие положения, включая понятие кооператива и значение кооперативных структур, а также их долю в национальном доходе европейских стран. Во-вторых, на примере опыта стран-членов Европейского Союза исследуются изменения в кооперативном секторе с целью усиления его роли в экономическом развитии.

Ключевые слова: кооперативы, сельская местность, экономическое развитие.