



Management

## **A STUDY ON THE IMPACT OF COOPERATIVES ON ECONOMICAL DEVELOPMENT**

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### **Abstract**

The idea of cooperation is not new to man. It is as old as man himself. Cooperatives are an almost universal form of organization today found in practically all countries and used by people in many ways. A Co-operative is a unique form of business used by people and businesses for their mutual benefit. Cooperatives are community-based, rooted in democracy, flexible, and have participatory involvement, which makes them well suited for economic development. The meaning of cooperation is that isolated and powerless individuals can, by combining with one another, achieve advantages available to the rich and the powerful so that they may advance not only materially but also morally. In other words a cooperative is a business organization that is owned by those who use its services, the control of which rests equally with all the members. It is voluntary and democratic and the moral element is as important as the material one. Furthermore, it recognizes social, educational, and community values. An economy based on one form of business organization alone is neither desirable nor possible in modern times. To justify their existence and fulfil their purpose, cooperatives must make a significant and unique contribution to solving some of the massive problems facing mankind today. This paper examines the role of cooperative societies in economic development. The aim is to investigate the ways in which cooperatives can act as agents towards economic development.

**Keywords:** Co-operative; Development; Society; Constrains; Constitution.

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### **1. Introduction**

A cooperative can be defined in various ways; no single definition is sufficient for our study. A cooperative is an association of persons (organization) that is owned and controlled by the people to meet their common economic, social, and/or cultural needs and aspirations through a jointly-owned and democratically controlled business (enterprise). The people of the cooperative are those who use its products, supplies, and/or services. Profits are also often returned back to the members of the cooperative; however, cooperatives are often more focused on services for

members than for investments. Cooperatives can be created for a number of different reasons or to fulfil a number of different needs: jointly process goods, split costs, split control over work, purchasing power (bulk buys), shared employees, shared wages, etc.

We describe the multidimensional character of cooperative organizations and then identify firms and economic sectors that fit within one or more of these dimensions. Our study includes a set of firms largely determined by the economic sectors identified in the original request for proposals issued by the USDA. To determine whether a given firm is a cooperative, we have identified five different, potential qualifying criteria: application of a statement of principles; self-identification; incorporation status; tax-filing status; and governance structure. In some cases, these criteria are in conflict. Nonetheless, our discussion of these criteria boundaries will aid future efforts to refine our census.

## 2. Principles of a Cooperative

- i. **Voluntary and Open Membership:** Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.
- ii. **Democratic Member Control:** Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions.
- iii. **Member Economic Participation:** Members contribute equitably to, and democratically control, the capital of their cooperative.
- iv. **Autonomy and Independence:** Cooperatives are autonomous, self-help organizations controlled by their members.
- v. **Education, Training, and Information:** Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute to the development of their cooperatives. They inform the general public about the nature and benefits of cooperatives.
- vi. **Cooperation among Cooperatives:** Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional, and international structures.
- vii. **Concern for Community:** Cooperatives work for the sustainable development of their communities through policies approved by their members.

## 3. Background on Cooperatives

The International Cooperative Alliance (ICA) in its Statement on the Cooperative Identity, in 1995, defines a cooperative as “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.” It is a business voluntarily owned and controlled by its member patrons and operated for them and by them on a nonprofit or cost basis (UWCC, 2002). It is a business enterprise that aims at complete identity of the component factors of ownership, control and use of service, three distinct features that differentiate cooperatives from other businesses (Laidlaw, 1974). Background on Cooperatives.

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#### 4. Advantages of Co-operatives

The following are the main advantages of co-operatives:

- i. **Easy formation:-** The formation of cooperative society is very simple as compared to the formation of other form of business organization. Any two adults can come together and join their hand and form a cooperative society. The procedure of registration of the society is also very simple and easy. No legal formalities are required for the formation of cooperative society.
- ii. **Democratic management:-** The management or co-operative is rest on the elected members from among themselves by forming a committee. Every member has equal say in making policies of the society. “The one man, one vote” principle ensures a democratic management.
- iii. **Open membership:-** The membership of co-operative societies is open to each and every person. Anybody wishing to enjoy the fruits of a co-operative can join it. Nobody is barred from joining societies on the basis of economic position, caste, color or creed. A person can enrolled as a member any time he/she likes by contributing the minimum capital. He/she can also withdraw the membership whenever he does not like to continue as a member.
- iv. **Service motto:-** The cooperative societies are formed not for profits but for providing service. The societies try to promote the interests of the members. A feeling of co-operation is created among members.
- v. **Economical operation:-** The operation carried out by the cooperative society is economical due to the elimination of middlemen. The societies purchase goods directly from producers and sell them to the members at cheap at rates. The services of the middlemen are provided by the members at cheaper rate.
- vi. **Low management costs:-**The management of a co-operative society is in the hands of persons elected by the shareholders. Members take active interests in the working of the society. Thus, the recurring and non-recurring costs are low.
- vii. **Sharing of surplus:-**The societies sell goods to its members on a nominal profit to cover up administrative costs. The surplus earned by the society is spent on the basis of cooperative Act. After meeting the expenses, some portion of the surplus spent for welfare of the members, some portion kept as reserve and balance is distributed among the members.
- viii. **Check on business:-** The co-operative are started with service motive while all other forms of business are launched with a profit motive. When businessmen try to exploit consumers by increasing prices of their goods, co-operatives supply commodities at reasonable prices. The co-operatives provide a check on the business of the other forms of enterprises. Other

- traders will have to reduce their prices when co-operatives are supplying these goods at lower prices. Consumers are not at the mercy of selfish businessmen.
- ix. **Limited liability:-** The liability of individual members is limited to the extent of shares purchased capital contributed by him. Thus, members can enjoy the benefits of limited liability.  
This makes them free from the fear of utilization of their private property, in case of financial crunch to the society.
  - x. **Internal financing:-** It provides ample scope for internal financing by utilizing the balance of the surplus earned in any year for its growth, development and expansion; because the law governing co-operatives lays down that the dividend on a share in any co-operatives shall not exceed 67% p.a.
  - xi. **Continuous existence:-** It enjoys the benefit of continuous existence, because its life is not affected by the death, insolvency, lunacy, permanent incapacity or conviction of a member. Therefore, it has stable life and continues to exist for a long period of time.
  - xii. **Satisfy the needs of poor persons:-** The co-operative organizations are best suited to meet the needs of the poorer sections of the India society. These solve their economic problems and improve their economic conditions.
  - xiii. **Perfect co-ordination :-**Service before self (which is the guiding spirit of co-operation) as the foundation of a co-operative organization makes them the best possible service organizations for promoting public interest and welfare.  
Since the members of a co-operative organization belong to a local area or a particular class or group who are entrusted by the ideals of co-operation, its management actually benefits from a perfect coordination among the members of the Managing Committee.
  - xiv. **Desirable form of business:-** The co-operative organization is desirable forms of business even from the social stand point particularly because it lays more emphasis on the moral character and the development of personal qualities. It fosters a fellow feeling among its members and imparts those moral and educative values to their everyday life which are essential for a better living.
  - xv. **Reduction of glaring disparity in the National Income:-** Above all, the benefits and profits of a co-operative organization are enjoyed by those people who actually deserve such gains thereby reducing to some extent the glaring disparity.

## 5. Role and Importance of Cooperative Society

Cooperatives are established with a view to improving the social economic condition of a poor section of society. In developing countries majority of the people are deprived economically and socially. In such a situation cooperatives are very important to uplift their condition.

**Economic Role:-** Cooperatives are important for improving the economic condition of the members.

**Provide Financial Assistance:-** A credit cooperative society provides the credit to the members at reasonable interest rate. Banks are limited in urban areas and banks available in the rural areas don't want to grant small amount to the poor community. Cooperatives protect the members from the exploitation by local money lenders and others.

Fulfills various needs of members:- A multi purposed cooperative society fulfills the various needs of the members by providing loans, supplying improved seeds, fertilizers, agricultural tools and other necessary goods and services. The members of the society can get these services under the suitable terms and condition.

**Increase saving habit:-** Cooperative societies develop the habit of saving among members. They encourage saving among members. They provide the interest on their saving and educate them to reduce unproductive expenditure.

**Employment opportunities:-** Cooperatives provide the credit to conduct the various productive activities. The members of the societies can start different productive activities in accordance with their skill and ability. It facilitates to solve the unemployment problems in some extent.

In addition, cooperatives help to improve the living standard of the members by providing employment opportunities and distributing quality goods at reasonable price. It promotes the concept of self employment.

**Social Role:-** Like economic importance, cooperatives have social importance as well. They are based on principle of mutual help. Thus, the feeling of mutual cooperation is enhanced. They educate the members and create the social awareness.

**Political Role:-**In addition to the economic and social importance, cooperative have some political importance. They are based on principle of equality and equal distribution of income. Cooperatives are based on democratic norms and values. They promote individual freedom.

In this way cooperatives have economic, social and political importance. Because of this reason, cooperatives have been proved as a suitable form of business organization to uplift the social economic status of the poor people in developing countries.

## **6. The Role of Cooperatives in Economic Development**

Cooperatives are community-based, rooted in democracy, flexible, and have participatory involvement, which makes them well suited for economic development (Gertler, 2001). The process of developing and sustaining a cooperative involves the processes of developing and promoting community spirit, identity and social organisation as cooperatives play an increasingly important role worldwide in poverty reduction, facilitating job creation, economic growth and social development (Gibson, 2005).

Cooperatives are viewed as important tools for improving the living and working conditions of both women and men. Since the users of the services they provide owned them, cooperatives make decisions that balance the need for profitability with the welfare of their members and the community, which they serve. As cooperatives foster economies of scope and scale, they increase the bargaining power of their members providing them, among others benefits, higher income and social protection. Hence, cooperatives accord members opportunity, protection and empowerment -essential elements in uplifting them from degradation and poverty (Somavia, 2002).

As governments around the world cut services and withdraw from regulating markets, cooperatives are being considered useful mechanisms to manage risk for members and keep markets efficient (Henehan, 1997).

With regard to economic and social development, cooperatives promote the “fullest participation of all people” and facilitate a more equitable distribution of the benefits of globalization. They contribute to sustainable human development and have an important role to play in combating social exclusion. Thus the promotion of cooperatives should be considered as one of the pillars of national and international economic and social development (Levin, 2002).

In addition to the direct benefits they provide to members, cooperatives strengthen the communities in which they operate. According to Somavia (2002) cooperatives are specifically seen as significant tools for the creation of decent jobs and for the mobilization of resources for income generation. Many cooperatives provide jobs and pay local taxes because they operate in specific geographical regions. According to Wikipedia (2006) and Levin (2002) it is estimated that cooperatives employ more than 100 million men and women worldwide.

## 7. Conclusion

A cooperative is a unique form of business used by people and businesses for their mutual benefit. Regardless of its purpose or membership, starting a cooperative requires considerable time, energy, commitment, and technical resources. Recognition of a common need is fundamental to the formation and successful operation of a cooperative. Potential members must devote much time and energy to developing their new business. A cooperative requires member commitment to finance and use the business and select knowledgeable directors who hire a competent manager. A strategic business plan is important to harmonize all of the elements for the cooperative’s success.

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