

## CURRENT SITUATION IN CO-OPERATIVE ENTREPRENEURSHIP IN SLOVAKIA

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*In the article the development of cooperative entrepreneurship in Slovakia is analyzed. The main historical facts and analysis of current situation is presented and major problems are discussed. The best economic position in Slovakia among all types of co-operatives has consumer co-operative enterprise. It is high time to establish other types of co-operatives, especially in the tertiary sector, where there is a large gap in Slovakia compared to other EU member states and other parts of the world. The tree-level system of co-operative movement in the Slovak Republic is characterized and the problems being solved by the movement are discussed.*

**Key words:** *co-operative entrepreneurship; agricultural, producers', and consumer co-operatives; co-operative management.*

### **Introduction**

By the end of feudalism in Slovakia, when industrial revolution was on horizon, poverty of population spread considerably, especially when famine and epidemic maladies appeared. It was almost impossible for common people to get a loan because of insufficient credit facilities. Savings banks required guarantees way above people's abilities to comply with. The other potential resources were landlords, but their loans (in kind, money, etc.) were decided at feudal lords' discretion at usurious interest (approx. 50 % p.a.). Therefore, Samuel Jurkovič weighed up the pros and cons for establishment of financial institution following the example of savings banks. But he wanted to form an institute smaller in size and accessible to common public. He arrived at the conclusion that the best thing was to form so-called "Gazdovský spolok" ("Farmers' Society"). He drafted Statute of the society, where he proposed its form of cooperation's. „The Farmers' Society“ (Gazdovský spolok) was established by Samuel Jurkovič in Sobotiste on 9<sup>th</sup> February 1845. It was not only the first credit co-operative in Slovakia, but also the first credit co-operative in the world. The number of its members increased rapidly, proving its viability and attractiveness for farmers. In compliance with the Statute the society existed for six years. According to the model co-operative formed in Sobotiste, new credit co-operatives were established in other villages and towns. Since that time the co-operative movement has operated continuously in Slovakia, throughout Europe and it has expanded worldwide. Over that period the Slovak co-operative movement has lived through periods of enormous change. It has „survived“ the industrial revolution, two world wars, several social systems and passed through feudalism, capitalism and socialism to today's free-market economy. The durability is testament to the vitality and adaptability demonstrated by several generations of the movement members and leaders.

### **1. Globalisation of the co-operative movement in Slovakia**

On 1<sup>st</sup> May 2004, when the Slovak Republic became member of the European Union, co-operatives had to adapt to the Single European Market. The Common Agricultural Policy and its principles have been implemented in agricultural co-operatives in Slovakia. In this stage, Slovak co-operative movement is facing two major challenges:

1. keep-up with the ideas of co-op philosophy with its aim to satisfy needs of co-ops' members,
2. deal with strong competition on the EU market.

From this perspective, it is obvious that if co-ops want to survive in future they have to change their organisation. They have to respond adequately to trends in the EU and worldwide.

Today in Slovakia there are 727 co-operatives registered, with the following structure:

- 460 agricultural co-operatives had 50 % share in total agricultural production on Slovak market,
- 33 consumer co-operatives belonged to the smallest in size, but they together were profitable with a 20 share on the food market and about a 5 % share of the local retail trade turnover,
- 132 producers' co-operatives and 102 housing co-operatives had operated in the Slovak Republic.

At that time 477,000 co-operative members were registered and engaged in activities of all types of co-operatives on the territory of the Slovak Republic.

Some general facts:

- producers' and agricultural co-operatives are medium-size enterprises with 68 – 80 members on average,
- consumers' co-operative societies and housing co-operatives are large enterprises with several thousand members,

- consumer co-operatives increased their retail trade turnover compared to 1990 (more than SKK 30 milliard in 2004),
- housing co-operatives run control over more than 200,000 co-operative flats throughout Slovakia,
- unfortunately, only one third of agricultural co-operatives found a way to avoid liquidation.

Slovak membership in the European Union gave Slovak co-operatives new possibilities and new obligations. Among the most important are:

- possibility to spread their activities and sell products on a large European market,
- possibility to compete for financial resources from the European Union funds,
- obligation to comply with strict regulations in quality standards applied in services and consumer protection.

In August 2006 Standards of the International Co-operative Alliance (SCI) should come to force. This fact might affect cross-border amalgamation of Slovak and foreign co-operatives, if the legislation is adopted by the National Council of the Slovak Republic.

Problems might occur in case Slovak and foreign co-operatives amalgamate. The problems could arise mostly because of financial constrains, e.g.:

- under-capitalization of Slovak enterprises, or
- minimum basic capital requirement (EUR 30,000) for a multinational co-operative enterprise

The International Co-operative Alliance Standards (SCI) can be established in the following ways:

- as completely new co-operative society formed by at least 5 natural persons or 2 legal persons, where at least 2 of them are residents of two different EU member states;
- by merger of two or more co-operatives formed by at least 2 natural or legal persons who are residents of two different EU member states;
- via transformation of existing co-operatives with headquarters or a subsidiary located in another EU member state for at least two years.

Our citizens and co-operative members have obtained not only new rights, but also new duties.

In future we should utilize our membership in the European Union in a positive way so that it is beneficial to all parties' concerned – co-operative members, employees, co-operatives' customers, the co-operative movement and the society as a whole.

First and foremost education of co-operative members can contribute to development of co-operatives. If co-operative members realize the advantages of the co-operative ownership and implement the idea of self-assistance, they will profit from it in the future.

### **1.1. Main characteristics of every forms co-operatives**

- Main characteristics of agricultural co-operatives are as follows:
- they are at a very slow pace joining into so-called “food verticals” with processing industry and trade,
- the highest interest in joining “food verticals” with high-quality food have those co-operatives, which managed successfully the transformation process,
- they are able to cover 50% in food production in the Slovak Republic,
- at present less than a half of agricultural co-operatives are profitable, with those which are in red numbers for longer period being liquidated gradually,
- major problem is a slow process of proprietary settlements and inadequate current assets available,
- co-operatives are interested in operation under transparent economic conditions comparable with those implemented in the EU countries,
- when adopting EU standards and requirements, Slovak agriculture co-operatives are expecting also adopting the same price policy in Slovakia as is in the EU.

Main characteristics of producers' co-operatives are as follows:

- the situation is quite different from agricultural co-operatives,
- there was a substantial restructuring of production,
- as a result the number of producers' co-operatives declined dramatically in total, but profitable producers' co-operatives have strengthened their position,
- small-volume and industrial productions are classified in twelve production lines, e.g. ceramics and pottery, metal products, building materials, textile and clothing,
- producers' co-operatives are among enterprises with annual revenues of more than SKK 1 billion and their export capacity is 45 %, some of them exporting 100 % of their production.

At present, 15 % of the total number of co-operatives is operating in the service sector. Out of that, housing co-operatives represent 12 % and consumers' co-operative societies represent 3 %. Although both absolute and relative numbers of the above-mentioned types of co-operatives are relatively small, they represent crucial number of co-operative members. Housing co-operatives include more than 46 % of the total number of all co-operative members. At present, housing co-operatives - whose members occupy more than 200,000 co-operative flats - are facing serious difficulties. Tenants of co-operative apartment houses are heterogeneous; they are occupied by both owners of apartments, as well as by tenants. Co-operatives carry out mainly maintenance and repairs of houses. Activity in building new houses is minimal. Decrease in number of individual housing co-operative members was caused by two factors:

- the majority of those without flats withdrawn their membership, and
- members occupying flats purchased the flats from the co-operative, cancelled their membership in the respective housing co-operative and so they are now owners, organized in associations of owners.

### **1.2. Brief summary of current situation**

Characteristic problems of current Slovak co-operative movement are as follows:

- over-employment in agricultural co-operatives,
- high duties (social insurance, health insurance),
- non-availability of free capital, and
- min. profitability of co-operatives.

All these types of co-operatives have potential to operate in future. However, the frame of their operations should not remain only in Slovakia. To be viable and profitable, they have to intensify their efforts towards operations within the European Union through various international centers.

COOP-EURO establishment formed by consumers' co-operative societies situated in the Czech Republic, Slovakia and in Hungary can serve as an example of such international co-operation.

Consumer (retail) co-operatives as a whole are profitable at the moment and their economic position is the best among other types of co-operatives. However, they are facing new market situation in Slovakia. Co-operatives have problems to compete with now very strong foreign chain stores.

Slovak co-operative movement has reserves mainly in the tertiary (service) sector. There is a potential to enter operations e.g. in tourism, education, transport, health services, pharmaceutical and insurance industries.

Slovakia did not yet utilize a wide range of activities common to co-operative movements in Europe and worldwide. Therefore, promotion of such activities and co-operative movement itself is a priority. It needs improvement of co-operatives' image through adequate methods of publicity and education of existing and potential co-operative members.

It appears that solving day-to-day problems, managements of co-operatives neglected importance of training for co-operative members. They also underestimated the fact, that high-quality education of members and employees is good and valuable investment.

Therefore, we appreciate the fact that the Slovak Union of Producers Co-operatives has modified its position towards implementation of up-to-date knowledge into the practice.

Among the most important activities of the co-operative movement is its internalization. Therefore, all representatives of co-operative bodies participate in all events organized by the International Co-operative Alliance. For example, from 22nd to 23rd September, 2005 the general meeting of the International Co-operative Alliance was held in Kartagene – Columbia. In that event the representatives of the Association of Co-operatives of the Slovak Republic took active part. The topic discussed "The Co-operative Values: Competitive Contribution in Globalizes Economy" was linked to the 10th anniversary of Declaration of International Co-operative Identity, and the meeting itself was aimed at common co-operative values and experiences acquired from successful co-operative activities.

Appropriate promotion of the co-operative movement, together with new attitudes towards co-operative members, might stop gradual decline of agricultural, producers' and housing co-operatives in the Slovak Republic.

We believe that effort invested into education and training of members is the most efficient alternative leading to future development of co-operatives.

Considering all activities and response of co-operatives and their members to the date, it seems that support of basic ideas of the co-operative movement is again increasing.

### 3. Consumer Co-operatives in Slovakia – Present Situation

Nowadays business activities are being performed by more than 30 consumer co-operatives in Slovakia, with approx. 250,000 members. Each co-op performs its activities according to its own policy, although due to advanced integration common trade policy covered-in by COOP Jednota Slovensko is of great importance and becomes stronger.

Activities of individual consumer co-operative societies are not limited geographically, e.g. the co-operative Jednota Nitra has its premises located in Trebisov, the co-operative Jednota Presovska has created its retail network with outlets situated in Povazska Bystrica.

Premises of a particular consumer co-operative are also differentiated according to their business activities, e.g. Jednota Bratislava is specialized in retail, Jednota Prešov runs also wholesale stores.

At present, consumer co-operatives in Slovakia are operating in the following areas:

- retail - in stores such as Terno, COOP Supermarket, Potraviny Mix, Potraviny A,B, - supplying basic product ranges, specialized in
- food products (up to 80 of the full range of products);
- supplementary manufactured goods
- wholesale – integration of wholesale and storehouses which supply not only their own operation units, but also non-co-operative customers.
- food production – production of food for consumers such as meat products and specialities, delicacies, baker's and confectioner's products, different sorts of tee produced on a natural basis, biscuits and honey. Packaging is included as an integral part.
- consumer protection – provision of high-quality and safe products declared suitable for use. Producers are required to issue quality certificates for the goods purchased. Consumers are informed about their rights and complaints procedures through complaints regulations displayed on the premises of Jednota. Consumer co-operatives deal and cooperate with respective central bodies when legal regulations on consumer protection are prepared. They are represented in the Board of Consumer Policy and cooperate at different levels with independent consumer associations.
- education – aimed at further development and improvement of standard education and of “general culture”. System of life-long learning in consumer co-operatives is organized by:
  - the Educational Institute COOP located in Mojmirovce;
  - secondary technical schools under auspices of the Slovak Union of Consumer Co-operative Societies in Bratislava, Šamorín, Trnava, Námestovo, Revúca, Prešov and Giraltovce; and
  - training centres in establishments of Jednota.
  - COOP Jednota Slovensko develops teaching methodology and the entire system of life-long education.

### 4. Other Activities Performed by Co-operatives

The Slovak co-operative movement may extend its activities in other sectors, particularly in the tertiary sector. Legislation and a good reputation are prerequisites for establishment of co-operatives on a wider scale.

So-called new forms of co-operative operate successfully in the world, but in Slovakia – they do not exist. If yes, they are established exceptionally. For example:

- co-operatives specialized in transportation – e.g. a co-operative of taxi-drivers operating in Bratislava;
- co-operatives providing insurance services - an insurance company DRUZAP providing health/medical insurance. The company is being liquidated at the moment.
- co-operatives operating on a social basis – in Slovakia e.g. producers co-operatives employing disabled persons; such co-operatives are integrated in social network;
- credit co-operatives and savings co-operative societies – in the second stage almost 1,000,000 individual members were organized in them, but after 1948 they were dissolved by law. Nowadays such types of co-operatives are not in existence any more, respectively they are formed rarely; if yes, it is contrary to law.
- co-operatives operating in tourism – they existed in the past, e.g. the cave Drina.
- co-operatives specialized in folk art, e.g. Majolika Modra, Detva Bratislava, etc.

Those activities which are performed by co-operatives in Europe and on other continents have not been implemented in Slovakia yet.

At this moment in such a deteriorated social and economic situation those inhabitants who take an active part in the working process are establishing co-operatives so they may satisfy their particular homogenous needs.

In the process of globalization only those co-operatives will succeed which will be able to respond to their co-operative members' needs and to their customers' fast-growing requirements (in terms of quality and appropriate prices offered).

### **5. Organization Structure of Co-operative Management**

The co-operative movement in the Slovak Republic is organized as a three-level system.

**1st level:** a co-operative (e.g. consumer co-operative society, producer's co-operative, housing co-operative, etc.) with legal identity and economic independence. The co-operative is a legal person and may be divided into smaller units (e.g. consumer co-operative societies are divided into retail outlets).

Co-operatives according to their individual conditions, interests and needs are joined in unions, respectively in a co-operative of co-operatives:

- Producers co-operatives are organized in the Slovak Union of Producers Co-operatives (at present discussions on the change of the name is going on, proposals to include the category COOP are being made (e.g. consumer co-operative societies).
- Agricultural co-operatives are organized in the Union of Agricultural Co-operatives (since 2001 it has been registered under the name: the Union of Agricultural Co-operatives and Trading Organizations).
- Housing co-operatives are organized in the Union of Housing Co-operatives.

Consumer co-operative societies are organized in the Slovak Union of Consumer Co-operative Societies (since 2002 it has been in existence as "a co-operative of co-operatives" COOP Jednota Slovensko, consumer co-operative society).

**2nd level:** The Association of Co-operatives, e.g. consumer co-operative societies are organized in COOP Jednota Slovensko, co-operative (co-operative of co-operatives). Tasks set for member co-operatives:

- to provide advisory services;
- to help with material inputs, production programmed and sales of products;
- to manage common funds in particular unions;
- to represent members of respective co-operatives in the Association of Co-operatives of the Slovak Republic, the Employers' Association, etc.

**3rd level:** The Association of Co-operatives of the Slovak Republic (the co-operative centre). Membership in the Association is on a voluntary basis. The Association was established on 1 January 1993 as the governing coordination body that represents the interests of the co-operative movement and supports its development in the Slovak Republic. It is a legal person registered in the list of association of legal persons organized within the Association of Co-operatives of the Slovak Republic and since 1993 it has been a member of the International Co-operative Alliance. All activities of the Association are based on needs and interests of member organizations according to its Articles. Its bodies are as follows:

- a) General meeting - the governing body;
- b) Board of Directors – the body with executive powers;
- c) Control Commission – carries out control;
- d) The President represents the Association, firstly, towards the government and other authorities, secondly, towards subjects registered, located and operating in the Slovak Republic, and, finally, towards the international co-operative movement and its subjects. The position of President rotates every year. One of several presidents of the Association holds this position. By April 2005 the position had been held by the President of the Slovak Union of Producers Co-operatives. At the moment it is being held by the President of the Slovak Union of Housing Co-operatives. The Managing Director reports to the President, he/she is in charge of Home and Foreign Relations and manages all activities from his/her Office.

Besides, regional councils created in compliance with administrative boundaries of the Slovak Republic are an important part of the Association. Their task is to support entrepreneurial activities of co-operatives in regions in cooperation with regional administrative authorities. These activities should be identical with the interests of the whole region and should foster economic and social development of the region as a whole.

An integrated information system is created in the sphere of common interests. The system is agreed upon by members and it provides the members with necessary information, etc.

Tasks of the Association of Co-operatives are as follows:

- a) to represent members' interests and satisfy members' requirements towards the bodies of state administration and other bodies at the national level in case fundamental measures, legislative and other proposals connected with the co-operative movement are made;
- b) to represent members' interests abroad, to coordinate members' participation and activities in all bodies of the International Co-operative Alliance, to coordinate activities with correspondent organizations abroad, to make information on the international co-operative movement available for members and experience obtained by the international co-operative movement make accessible to members.
- c) to educate and train employees and managers of co-operatives; to organize research work aimed at co-operative movement topical problems that may arise in theory and practice; to cooperate with research institutions and universities;
- d) to support entrepreneurial activities, establishment of enterprises and participation in local and foreign enterprises.

The delegation of the Slovak Association of Co-operatives participated in the 2nd European Co-operative Convent (held from 27th to 28th June 2005) and various conferences summoned by other European co-operative organizations as well. It was a kind of motivation for an initiative to hold working meetings with members of the European Parliament who represent the Slovak Republic. The President of the Slovak Association of Co-operatives participated in discussion and in his contribution he presented several problems that the Slovak co-operative movement had and has to face, e.g.:

- unremediated privatization of housing fund and complex reconstruction of the housing fund have been considered to be major problems of housing co-operatives in Slovakia. The reconstruction should be solved inevitably with help of the Slovak government;
- problems connected, firstly, with identification of participation in co-operatives, secondly, with implementation of the SCE's standards in Slovak legislation, then, problems with taxation of co-operatives, and finally, participation of co-operatives in the development of the Slovak countryside and the entire Slovak economy (this is considered to be the main task of the Slovak co-operative movement);
- insufficient utilization of the EU funds by Slovak co-operatives, and the decision made by the EU bodies to open the EU market for Chinese textile products that has affected negatively not only the European, but also the Slovak market. As a result of the EU decision both markets have been glutted with cheap products of poor quality and Slovak co-operatives have withstood several crises. Other problem to be dealt with by Slovak co-operatives is implementation of DE MINIMIS scheme on protected workshops and workplaces approved by the EU Commission (the directive may affect the amount of subsidies and contributions given to those who employ handicapped people).
- problems of consumer co-operative societies with purchase of goods at dumping prices, hours of business in stores, and location of such premises following instructions on regulated construction and location of large trading units as well.

These issues are reflected and solved in the EU legislation, but only partly in legislation of a few member states. The topic discussed at the 2nd European Co-operative Convent organized by the International Co-operative Alliance was „Responsible Competitiveness and Development“. Contributions on synergy and Lisbon strategy were presented there. The topics discussed included economic, social and environmental issues. Other problems that the European co-operatives had faced were dealt with at the Convent as well.

## Conclusions

The best economic position in Slovakia among all types of co-operatives has consumer co-operative enterprise. At present the Slovak co-operative movement is dealing with several problems: over employment that is connected with high social contributions, inadequate capital available and minimal profitability of co-operatives.

In general these problems are being solved by the Slovak co-operative movement:

- consumer co-operative societies are competing with foreign chains of stores and are having problems to face such a strong competition;
- housing co-operatives are trying to keep their position in the flat market without their engaging in greater development activities. Their tasks are to provide flats for their members, then repairs and maintenance of the housing fund. Among other things they are also dealing with those who do not

effect regular payments as a result of heavy expenses on renewal and maintenance of the housing fund, and also on operation of its facilities (e.g. lifts).

- either how to preserve characteristic of the countryside agricultural co-operatives (although these co-operatives are often unprofitable, in the countryside they ensure employment to a considerable extent); or whether to transform co-operatives to partnerships which are managed in a more effective manner, despite a smaller number of labour force and without any long-term payment obligations owing to transformation.
- whether disabled people should be employed by those enterprises which went through restructuring, or only prefer employment of healthy workers although in smaller quantities.

The above-mentioned four types of co-operative will managed more effectively in case they utilise financial sources from the EU structural funds and (in the case of consumer co-operative societies) instead of breaking their unity these societies should be integrated into larger co-operative enterprises.

Integration should be implemented according to the directives of the European Co-operative Alliance not only on the territory of the Slovak Republic, but also within the European Union. COOP-EURO may serve as an example of a certain type of a joint-stock company operating on an international basis that protects the interests of participating co-operative associations from three neighboring countries.

It is high time to establish other types of co-operative, especially in the tertiary sector, where there is a large gap in Slovakia compared to other EU member states and other parts of the world.

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