

# Co-operation

## RESPONSIBLE FINNISH OWNERSHIP

### The Co-Operative Delegation

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## To the reader

In 1993 the restrictions on foreign ownership of Finnish companies were lifted. As a result, the debate about the ownership of Finnish companies rapidly gathered momentum due to the prospect of an increase in foreign ownership and globalisation of the economy.

Martti Ahtisaari, the former President of Finland, made a significant speech on ownership in 1998. His message was that even though Finland is a part of the European Union, the choices for the future should still remain in its own hands. According to his view, operating solely as a country within the subsidiary economy is not in the best interest of the Finnish. The question is not about foreign ownership being something harmful or detrimental, it's about finding the balance that would be most favourable between domestic and foreign ownership in terms of the whole picture.

President Ahtisaari noted that adequate domestic ownership would, for its own part, guarantee that the Finnish companies would retain their central business operations in Finland. Finnish owners know their local conditions best, and understand and appreciate their own cultural strengths.

According to President Ahtisaari, Finnish ownership needs domestic capital and a good Finnish ownership culture in order to develop. Good ownership culture means that an owner carries responsibility for the success of his or her company – considers environmental and societal factors as well – and bears responsibility for the well being of the workers in the company. Companies are not only obliged to recognise their own domestic cultural values, but should also be capable of operating on an international level. President Ahtisaari stated this during the spring meeting of the Commercial Delegation in May 11, 1998.

The debate about Finnish ownership intensified at the beginning of the 21st century, when several industrial companies began to move their production out of Finland. The reform of Finnish company and capital taxation added extra heat to the discussion, for it appeared to jeopardise the motivation and opportunities of the Finnish to own companies in their home country.

The commercial organisations in Finland, the Confederation of Finnish Industries EK, the Finnish Family Firms Association and the Federation of Finnish Enterprises have jointly acted for the promotion of Finnish ownership. These commercial organisations were concerned about the lack of a uniform opinion on Finnish ownership. The competitiveness of domestic ownership has declined, and there has been an increased threat of the transfer of the Finnish industrial capital, even under priced,

to foreign ownership. The aim of the organisations is, indeed, to support domestic ownership, and to highlight the good societal effects of responsible ownership.

With this publication, the Co-operative Delegation wishes, in its turn, to maintain the discussion about ownership, and to bring out new dimensions; to raise the importance of co-operation alongside know-how and entrepreneurship. We want to emphasise that the economy is everyone's business, and there are different ways to organise and own successful companies. Different company forms should also be borne in mind when the operational environment of companies is regulated. This publication is an updated translation of "*Osuustoiminta – vastuullista suomalaista omistajuutta*", that the Co-operative Delegation published in December 2005.

### The Co-Operative Delegation

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## Parallel routes of sustainable economy

Companies are tools to organise economic operations, to satisfy people's needs and to develop national economies. Various company forms and models are the strength and richness of the society, perhaps even insurance for future changes, because the economic life is expected to show something different from the present, as values and conditions change. Appreciation of different company forms varies at different times, and companies adapt to changes in the environment differently. The fact that different company types exist side by side can be seen as stimulation for entrepreneurship.

Companies are a part of their operational environment, and their operations contribute to the well-being of the neighbouring community and its people. It is therefore important to view responsible ownership not only in terms of a company's success, but also in terms of the living conditions of each individual and the community.

A functional and modernising economy needs various factors. We need to recognise different company forms and operational cultures, such as entrepreneur-driven SME-companies, family companies with their own business engagement over generations, stock companies under constant demand for performance, and state companies strengthening the basic structures of the economy. A global, multinational company can also be a good alternative and open new chances for local production and services. The "quarter-year-capitalism" which operates under the owner pressure from the stock market, without doubt displays dynamic factors.

A co-operative, as a company form, and co-operation, as an entrepreneurial model, offer their own options to society. In a co-operative, the economic and social roles unite: the focus is on an individual person with his or her needs, but this does not make this company form simple and instantly recognizable. The concept of co-operation comprises diverse and different-sized business activities and ethical trends; while some co-operatives succeed in the mainstream of international economic life, others produce small-scale and local services and product options.

Co-operation, however, shares common values and resulting features which are reflected in business activities in practice. This principle of co-operation is derived from ordinary people's needs and local resources. Over decades, operations have adapted to economic, social and technological changes of the environment. Adaptation to various market situations has shown that the co-operatives are able to operate using competitive means similar to those employed by limited companies:

Finnish co-operatives have incorporated their business operations, they have become international and even formed public limited companies. In that way, the co-operative economy has, in order to ensure its competitiveness and market position, and fulfil the aims of its owners, employed all possible means of company activities.

Co-operatives have not been spared from closures and laying off workers, and from a social perspective, these decisions have been especially problematic for co-operative companies. On the other hand, responsible co-operation also means keeping up viability and profitability. In this way, co-operation has, from the operational side, began to resemble other companies. Another type of interaction has also been observed, that other companies have adopted co-operative methods to sustain membership and regular customer services.

Co-operatives have also used corporations as tools, and since the end of 1980s, their incorporated business activities have been entering stock markets. The question remains, whether the investor and member interests then oppose each other. Another topic of discussion has been foreign investments of fundamentally co-operative companies. Shouldn't Finnish co-operative companies make investments solely in their home country where the members act and live? Practice has given a better answer to these questions than theory. In order to satisfy the members' objectives, the co-operatives have had to resolve their capital needs. This has been taken care of by forming limited companies and going public. Similarly, the position on the international market has required more power, and this has been carried out by achieving large-scale production benefits through international investments. Despite being fundamentally Finnish, the co-operative companies have, in order to reach their goals, considered it necessary to utilize in a flexible way other company forms and take the opportunity to internationalise.

Solutions made to ensure competitiveness do not mean that the fundamental aim of the Finnish co-operative companies would have changed. Co-operatives still have high international ideals, values and principles. For this reason, the United Nations, the International Labour Organisation and the European Union take a positive attitude towards co-operation: co-operation is considered to promote economic success and the of communities, occupational well-being, fair globalisation, economic competitiveness and rural development. This is why the community has wanted to promote the co-operative economy as well.

The International Co-operative Alliance (ICA) has defined a co-operative as follows:

*A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through jointly-owned and democratically-controlled enterprise.*

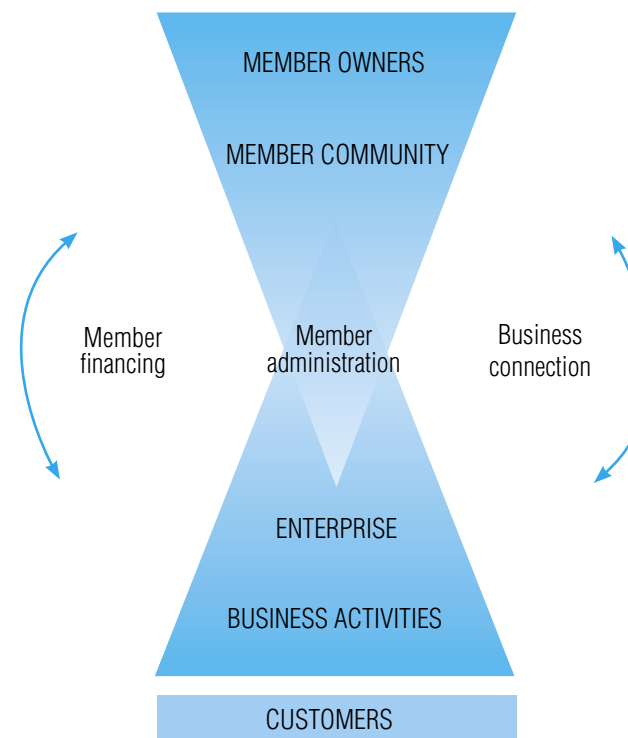
In Finland, the co-operative company form is subject to the Co-Operatives Act. The Finnish Co-Operatives Act from 2001 follows the international co-operative ideology, but puts more emphasis on economic viewpoints. In many countries, co-operation aims at satisfying social and communal needs. In Finland, this has been implemented through the activities of different societies.

The Finnish Co-Operatives Act defines the term “co-operative” as follows:

*‘Co-operative’ is defined as an organisation whose membership and share capital have not been determined in advance. The purpose of a co-operative shall be to promote the economic and business interests of its members by way of the pursuit of economic activity where the members make use of the services provided by the co-operative or services that the co-operative arranges through a subsidiary or otherwise.*

The term co-operation describes an enterprise model which relies on co-operatives and which is owned by the members of the co-operative. Besides co-operatives, the concept of co-operation may include other juridical corporate forms. A co-operative usually plays the role of the owner, and the actual business activities are carried out, for practical reasons, by limited companies. Indeed, at the end of 2006, there were even four Finnish co-operative companies listed on stock exchange.

In Finland, the best-known co-operatives are the consumer co-operatives, the co-operative banks and enterprises with co-operative background in the forestry and food sector. However, co-operatives exist in almost all lines of business. Diversification began at the beginning of 1990s, when a co-operative was re-introduced as a corporate tool after a few decades of silence. In 2005, the Finnish trade register listed over 3,500 co-operatives. New ones are founded each year approximately 200, particularly water co-operatives. In the European Union, there are approximately 300,000 co-operatives. Among the member organisations of the International Co-Operative Alliance there are about one million



co-operatives.

In the insurance sector, mutual companies and insurance associations operate using the same basic principles as the co-operatives. The Act on Insurance Associations says that the insurance policy holders are the shareholders of insurance associations. The situation is the same in mutual insurance companies. Thus, mutuality is co-operation in the insurance sector; starting point being the users' need for service and user-ownership, and thereby the user's possibility to contribute to the decision-making in his company. In Finland, there are 67 insurance companies. Of these, 46 are domestic, of which 20 are mutual. In addition, we have 90 mutual insurance associations operating either locally or regionally.

The power of co-operatives and co-operation lies within an extensive owner membership. Finnish co-operatives have more than three million memberships. If we also consider mutual insuring, the number of memberships is nearly 6 million. Finland has earned a reputation of

	Number of coopera- tives	Members in coopera- tives	Person- nel in group	Turnover in group Mill €	Market share %
<b>Meat cooperatives</b>	5	24 412	9 642	1 987	80 <sup>1)</sup>
<b>Cooperative dairies</b>	31	15 148	4 580	2 585	97 <sup>2)</sup>
<b>Egg cooperatives</b>	2	459	149	44	63 <sup>3)</sup>
<b>Forestry cooperatives</b>	1	131 175	29 870	8 643	35 <sup>4)</sup>
<b>Animal Breeding</b>	6	32 942	545	37	100
<b>Hankkija- Agriculture Ltd. *</b>	-	-	(822)	(747)	42
<b>Consumer cooperatives</b>	43	1 860 209	31 882	9 304	47
<b>Cooperative banks</b>	278	1 216 242	10 554	1 519 <sup>5)</sup>	35 <sup>6)</sup>
<b>Insurance associations</b>	90	500 000	1 000	311	9 <sup>7)</sup>
<b>Other mutuals</b>	10	2 267 000	4 295	5 485	~35 <sup>7)</sup>
<b>TOTAL **</b>	<b>466</b>	<b>6 047 587</b>	<b>92 517</b>	<b>29 915</b>	
<b>Other traditional cooperatives</b>	1 051				
<b>Small new cooperatives</b>	2 320				

\* Agricultural supply limited company, a subsidiary to largest consumer cooperative SOK

\*\* Total number of cooperatives in Finland according to Trade Register was 3 837 at the end of 2005.

1) Meat from producers 2) Milk from producers 3) Packed eggs

4) Share from market logging from private forests 5) Profits altogether

6) Deposits 7) Premium income

being the most co-operative country in the world. This is true whether measured as memberships or turnover to population or market shares in general. In the European Union, the number of memberships in co-operatives is over 140 million, and worldwide, the number of memberships reaches almost 800 million. A co-operative seems to be, in Finland and the European Union as well as worldwide, the most widely-owned company form.

The owners of a co-operative are its members, who form a member community. While the primary goal is the economic benefit of the members, there are social and ethical aims as well. Only the members are therefore entitled to the special services and the associated benefits produced by the co-operative. Besides the economic benefits, the members are allowed to participate in the administration of the co-operative. They also carry the responsibility for the profitability of the company and the continuity of operations as well as the responsibility for society and the environment.

As in other company forms, also in a co-operative, ownership means rights and obligations. An owner is the one entitled to the company's profits. A company is, however, a network of contracts: the claims from others are taken care of first, the owners' turn comes thereafter.

The owners of a co-operative also bear the risk. In a co-operative, the members' economic risk is usually limited to the co-operative capital the members are obliged to pay. Besides the economic loss, however, factors posing a threat in a potential bankruptcy not only include the company loss, but also a collapse of the member community and the associated social capital and community spirit.

Nowhere near all co-operatives demand its members to do business – get services or goods – with the co-operative they belong. A moral duty, however, calls for concentration of business to one's own co-operative, since if the members do not use their co-operative, it becomes unnecessary. Especially in co-operatives involving tens of thousands of members, community spirit or group pressure alone are no longer enough for building the unifying force. This explains why modern, large co-operatives have created such member benefit systems that make the members prefer doing business particularly with their own co-operative.

# One Hundred Years of Co-Operation

Co-operations, established for various needs, exist all over the world. The first co-operatives were established in Europe at the beginning of the 19<sup>th</sup> century, and they began to develop into five separate directions: *consumers' co-operatives* in the United Kingdom have usually been regarded as pioneers; *workers co-operatives* have grown strong in France; Germany was the first country to introduce *credit co-operatives*, and Denmark and Germany to implement *agricultural co-operatives*. The fifth line of co-operation is represented by *service co-operations*, such as housing co-operatives in Sweden.

Mutual insurance has much older roots than the actual co-operation. Mutuality has been regarded as the basic form of insurance, and in Europe, the foundation was built in the Middle Ages. In Finland, mutuality derives from the mutual fire aid system, set by the kings of Sweden, for the residents of the jurisdictional districts in the 14<sup>th</sup> century.

All these various forms of co-operation succeeded – although not equally well in every country – in most European countries in the 19<sup>th</sup> century. Globalisation of co-operative economy occurred in the 20<sup>th</sup> century.

In Finland, establishment of co-operatives has occurred since the year 1901, after the country received its Co-Operatives Act. However, companies implementing co-operative principles had already been established before the act came into force.

Where the Western co-operatives adapted to market economy, the co-operatives in the socialistic countries became a part of the state-driven economic system. After the collapse of centrally planned economy, co-operation has earned a bad reputation in the eastern Central Europe. Socialistic economy was a bad master for co-operatives, the state being the owner of the co-operatives. Hence, some of those co-operatives are struggling for their existence, most have already been lost. However, the change that the collapse of the economic system brought up, opened up an opportunity for emergence of authentic co-operatives, originating from citizens' own activity.

# Shared, international values

International co-operative values and principles are employed all over the world. In each country, the economic situation, and the values and attitudes of the people involved, determine the extent of emphasis each principle is given.

During a couple of hundred years, co-operative thinking and its values have been influenced not only by practical experiences but also by numerous theoreticians all over the world.

The core of co-operative ideology has almost remained the same from the beginning. Nevertheless, its concepts do not originate from either economic or state democracy. On the contrary, the 19<sup>th</sup> century co-operative democracy could well have been the predecessor of the 20<sup>th</sup> century state democracy.

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity.

- *Self-help* relies on the concept that each individual can, and should, take responsibility for his or her own life. According to co-operative thinking, however, an individual cannot develop thoroughly without co-operation with others. Through participation and supporting the growth of the co-operative, the members obtain skills and understanding towards other people, and they get a wider picture of the society to which they belong. In this way, co-operatives promote their members' growth and development.

- *Self-responsibility* means that the members are responsible for the co-operative and its viability.

- Co-operatives are based on *equality*. The basic unit of a co-operative is the member, either an individual person or a community. Human centeredness is one of the central features that distinguish co-operatives from capital corporations. The members have a right to participate, obtain information, make their voice heard and contribute in a process of decision-making.

- *Equity*, in the first place, refers to the way a co-operative recognises and rewards participating members. Rewards in a co-operative can be seen in the form of surplus returns, funding or giving various discounts to members. This also has a societal dimension: a co-operative cannot take an indifferent attitude towards other communities. In other words, the question is also about the way a co-operative recognises people in general.

- *Solidarity* in co-operation speaks for the fact that co-operation is not just about self-interest. The members are obliged to ensure all members are treated as justly and equally as possible, and the co-operative is responsible for the members' common benefit.

- The ethical values of co-operation include honesty, openness, social responsibility and caring for others. These values may exist in other organisations, but in co-operatives, they are most prominent.

# The Principles of Co-operation

## 1st Principle

### Voluntary and Open Membership

Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

## 2nd Principle

### Democratic Member Control

Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.

## 3rd Principle

### Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

## 4th Principle

### Autonomy and Independence

Co-operatives are autonomous, self-help organisations controlled by their members. If they enter to agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

## 5th Principle

### Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

## 6th Principle

### Co-operation among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

## 7th Principle

### Concern for Community

Co-operatives work for the sustainable development of their communities through policies approved by their members.

# Responsible ownership

The owner's responsibility in co-operatives can be looked at, on the one hand, as the member-owner's responsibility for his enterprise, and on the other hand, as the co-operative's responsibilities towards society. How the members should treat their own company, and how the co-operative companies behave towards the surrounding society.

Responsible ownership in general is based on a chain of values, starting from a good owner, ending in a good corporation. The links in-between include good corporate governance, good working in the company's administrative organs, and good operative leadership. In the co-operative companies, this alone is not yet enough. The chain of values of responsible ownership extends broadly into society, into the development of the operational preconditions for co-operatives and even international development-related questions.

The roots of the Finnish co-operation spring from the farmers' and workers' desire to improve their living conditions. This was also the reason why both of these segments of population once became organised into three different branches: professionally, politically and economically. Economic organisation chiefly meant establishment of co-operatives and development of the entire co-operative movement with its ideological points of emphasis. This quite extensively also explains the relationship between co-operation and ownership in Finnish co-operation.

In many ways, the owners in Finnish co-operation resembled a national movement whose trusted men and women were often represented in all three branches of organisation. During the past couple of decades, these roles have partly separated, and the discussion about ownership has adopted new elements through increased demands on competence and effectiveness. Finnish co-operation has nevertheless been understood, throughout the history, as being one model of private entrepreneurial activity.

Advanced competition imposes strict demands on the competence of co-operatives. Companies that flourish in the market are usually competently managed "doers" with great experience of international competition. The principles and values of co-operatives will take one far, particularly if,

- ❑ the owners have enough competence and time and willingness to commit.
- ❑ the size of the company, inspired by local service needs, has, where necessary, been increased to meet the demands set by internationalising economy
- ❑ the question about capital needs, essential for growth, has been solved

- ❑ operating culture of co-operatives is up-to-date and
- ❑ operative activities meet the standards set by the competition

The issues listed above are critical for a co-operative's success, since co-operatives have usually originated from small-scale, local operations. However, demands on competence and growth will continue to be hard, and co-operatives will have to undergo heavy developmental operations.

Responsible ownership calls for both economic and intellectual contribution from the members - especially from the elected trustees in the key positions of the co-operative. Maintenance of capacity for renewal and competitiveness calls for the ability to interpret signals from the operational environment correctly and draw the right conclusions.

The constituents of co-operative responsible ownership can be expressed as follows:

■ **Development of member-owned business activities and efficient company management.** A co-operative should, just like all other company forms, have strategies that ensure both profitability and service-providing abilities. The operative effectiveness of the co-operatives should be at a high-level. It requires continuous work to develop not only products and services but also to improve the competitiveness of the company form as well as the whole entrepreneurial model.

■ The **supply of capital** in co-operatives should be comparable to that employed in other company forms. The members are responsible for maintaining capital adequacy.

■ The owner-administration needs to take a carefully-evaluated, determined and active **owner's role** in the co-operative. This approach should include competence, commitment and time.

■ **Education** of the administration of the co-operative. The trustees are most often not professional business executives. Co-operatives should therefore invest in the education of the administration in order to achieve good corporate governance.

■ **Continuity of a competent administration** should be ensured. A co-operative needs the best people, whether men or women, young or old, for the administration. Where to find competent women and enthusiastic young for management work is a specific question. It is also a question is about democracy and equality, as well as the competence of co-operatives – the structure of the administration should mirror that of the members.

■ **Development of co-operative values and identity.** Social values



are the promoting force of co-operation. In order to be successful, common values should be kept on view and the co-operative identity developed. This is how social bonds between a co-operative and among its members are built. In order to develop the enterprise, each co-operative also needs its own set of co-operative-inspired values and long-term goals. Each co-operative has its own duty to make the basic co-operative values identifiable and suitable for their operations.

■ **Common maintenance and advancing of co-operative knowledge.**

As an entrepreneurial model and form, a successful co-operative needs recognition. Co-operation is no longer passed down from one generation to another as an ideological heritage. In order to remain prominent, the model needs communication, information and education. This should be directed to the society as a whole, the members, of course, being by far the most important target. The relationship between a member and a co-operative can be customer, financier and owner-related – the members should be aware of these various aspects of relationship. Improvement of member relations requires constant work. An open and transparent working approach is a central prerequisite to achieve the practical benefits of the mutual dependence between a co-operative and its owners.

■ **Clarification of the role of co-operation in economic life and in society.** Co-operation has its own specific role alongside stock companies, state-owned corporations and family firms. To ensure operational pre-conditions and to strengthen the identity this should not be disregarded. Co-operation should be considered as an independent entrepreneurial model among others.

■ **Keeping the universal co-operative values visible and present when finding solutions for global questions.** Co-operation exists all over the world, and people have set hopes on it as a part of the solution for global development questions – also to relieve difficulties experienced by those in the weakest economic situation. At a global level, Finnish co-operation can be regarded as a good example for developing countries in that co-operation can be a tool in building up complete economic sectors and in the end give single members significant benefits.

## The relationship between a co-operative and its member

The owners and management of co-operative enterprises is searching for a balance – e.g. between an ideal and a production demand – or continuity, so that those who will continue within the co-operative will have good conditions for conducting business activities in the future. A balance is sought between a community and an individual member, as well as between an enterprise and society, and there should also be a balance between local and global.

Ownership of a Finnish co-operative is associated with factors that bind the enterprise with its members, and thereby with the Finnish and Finland. Operating methods and aims do not always necessarily work ideally in all co-operatives, and there are many other entrepreneurial models trying to fulfil co-operative-like aspirations. However, co-operatives have committed to these aspirations. According to co-operative thinking, economy is not a sector of societal life that respects totally different values when compared to other areas of life.

■ **A co-operative is an open organisation** for those who meet the membership requirements and are willing to participate. A member's income level or capital investment abilities are not the key question. The key question is the member's need for the services of the co-operative.

■ **Decision-making is based on member democracy and equality,** which supports consideration of different viewpoints and a search for an answer satisfactory for parties concerned.

■ **The goal is the service providing abilities - not just high profit of capital.** The basic task of a co-operative is to provide services for its owner members. Co-operation does not aim at short-run maximisation of profit but rather at such result-making ability that, in the long run, enables business operations to be efficiently developed.

■ **A co-operative stands persistently by its member owner.** Since co-operatives are not in the focus of constant speculation, they cannot be objects of takeovers. Neither do owners nor capital “disappear” into tax paradises. Local decision-making ensures that services are given and developed where they are needed.

■ **A co-operative channels the results of its economic operations to those who have worked for the economic good.** In a co-operative, investment interests are subordinate to the service users' interests. Services and products are a co-operative's goal, not tools.

■ **In the food chain from “stable to table”** co-operatives have a strong position in Finland. The aim is to be transparent and reward the work done in the chain on a fair basis. In this way, the added value emerged in the chain reaches all those involved and does not leak to outside investors. The strongly co-operation-based Finnish food chain, from producer to industry and from store to consumer, is a modern way to create competitive advantage. It promotes both employment and an active countryside in Finland.

■ **Co-operation encourages people both to build their own lives and to co-operate with each other.** Co-operation also encourages the formation of new co-operative enterprises.

■ **For those involved, co-operatives improve the knowledge, experience and understanding of business.** Finnish co-operatives have thousands of trustees.

■ **Co-operation increases people’s feeling of togetherness and of being involved in society.** It educates people to be responsible and thereby helps to build the civil society.

## Corporate social responsibility in co-operatives

One could say that an enterprise is a good “citizen” when in addition to **following laws and paying taxes**, it also takes good care of the skills and well-being of the personnel. Good business lays the foundations for a co-operative to implement economic responsibility towards its own members, personnel and society.

Corporate social responsibility goes further than that. Besides the economic responsibility it also fulfils its environmental responsibility and responsibility to society as a whole. If a co-operative also wants to fulfil these sectors of responsibility, it must be supported by strong business operations. This of course goes for other enterprises as well. A prerequisite for fulfilling the **corporate social responsibility is a steady** economy in all companies.

There has been a lot of discussion about how far we can expect corporate social responsibility to go without turning into charity. Co-operatives lay, for historical reasons, a strong emphasis on a community spirit that is often considered to extend even beyond the co-operative’s own members. Although the actual charity is often a strange idea for Nordic co-operation, the promotion of universally beneficial operational methods, and especially of the well-being of its own region, is a natural starting point in co-operative operations. This already stems from the fact **that the emphasis of investments of a co-operative is on its members’ living conditions**. Co-operatives employ where the members dwell and live. Co-operatives are particularly interested in developing resources which originate from the members’ living environment and promote the success of the community. This is not overruled by the fact that co-operatives, under the pressure of market conditions, often invest abroad, far from the direct vicinity of the members’ living surroundings. These investments are necessary for ensuring the competitiveness of co-operatives in the open markets.

**The responsibility of co-operatives reaches all everyday activities. Good quality and affordability of services are at the starting point.** Co-operatives are pioneers in the development of commercial activities. Furthermore, co-operatives hold principles of fair trade in high esteem. However, consumer protection has improved legally and competition has sharpened all activities in the market. Thus, all established Finnish companies in general have good level of service. Product safety and respect of consumer protection are therefore the basic issues for all responsible companies.

## Responsibility in an international community

Co-operation is fundamentally an international movement which highlights its global responsibility. This property exists, even though the emphasis for most co-operatives is on local business operations and profitability.

Co-operative network economy is a noteworthy tool to organise international business. It is also one way to manage globalisation. A pursuit of a happy life is largely a question about combining market economy and fairness. Social injustice is hardly a cornerstone in any ideology. In spite of this, these problems have today become even more severe, especially in many developing countries. Co-operation is finding its role as a promoter of global justice. The United Nations has also given this role to the international co-operative community. Co-operatives and their organisations can indeed, for their own part, encourage local governments to adopt more just policies.

In each country, co-operation has followed its own lines of development. Global economic integration, however, raises questions to which co-operation cannot give ready answers. How, for example, is social responsibility being applied in different countries? Finnish co-operatives have expanded their business activities abroad, both by company acquisitions and by establishing their own foreign businesses. How have the aspects of social responsibility been applied in these operations? How should the development of trade policy be considered in terms of social responsibility? What about the criticism from developing countries towards the commercial politics of the EU? Do co-operatives have any point of view? These are questions to which co-operation has to actively find answers to.

## Advancing the co-operative model

Co-operation should find the benefits of its model and use them to make it a superior choice for the members. This means that operational efficiency should be in a good state, the co-operative ideology should be used as a strength, and membership should be a real competitive asset not only for the co-operative but also for the members.

On the other hand, official regulations – legislation and other rules in society – should be up-to-date, since the operational environment of all business is being regulated in many ways. When establishing settings for enterprise activities, companies and their organisations are often in the role of information providers and referees. All decisions are eventually made elsewhere. Co-operatives are naturally interested in what the authorities and political decision-makers think of the co-operative economy, and what the attitudes towards the needs of co-operatives are in their home country as well as in the international arena.

Most official regulations are neutral concerning different company forms. It is still reasonable to ask, whether co-operation is adequately considered in legislation and other regulations of the operational environment of companies. This has been a matter of concern even for the EU Commission, who in February 2004 released a communication on the promotion of co-operatives in Europe. [Co-operation wants equal treatment when the operational environment of companies is being regulated.](#) This applies, for example, to renewal of company laws, taxation, accounting, competition issues, entrepreneurial education and counselling and in general education and research.

The question about the position of co-operatives in official regulation is important in many ways, since companies compete with low margins in the increasingly international markets. Co-operatives should not be placed behind other companies in legislation. On the contrary, Finnish co-operation should, in its home country, get a good starting point, in order to be able to respond to increasing international competition. Indeed, it is beneficial for the most co-operative country in the world to see co-operation as a national competitive advantage.

[Competition legislation and especially its interpretation](#) has been a dilemma for co-operation. The question is whether the co-operative model has been properly understood. [During previous years, it was often noticed that those working in corporate counselling almost had no knowledge of co-operatives.](#) Co-operation experts hired to corporate counselling have often worked with only fixed-term project funding. Co-operation could be missing from corporate guidebooks, although it is a corporate form which has a significant role in the Finnish economic life.

Although the situation is getting better, there is still work to be done for making co-operation more visible and known.

The Finnish authorities have signalled that Finland would need entrepreneurship and entrepreneurs. Co-operation has, indeed, possibilities to open up new routes for income and entrepreneurship for the people. For this reason, co-operative entrepreneurship model should be included in entrepreneurial education. Entrepreneurial education should be continued at the secondary education level, because at that stage, students are already thinking of establishing their own enterprises or becoming shareholders or members of an existing enterprise.

Co-operative enterprises, both large and small, need scientific research and the highest academic teaching for support. Co-operative research and education in the universities and other institutes of higher education should be lifted from the marginal to mainstream with their own teaching material, course contents and multi-scientific research projects. Methods to fulfil this aim may be the foundation of joint, co-operation-oriented research and education networks and programs in universities and institutes. Co-operative sciences also need academic chairs and active presence in central institutions of education, research and innovation centres. Reaching high level of co-operative research and education also requires integration into the international research community.

An important step to promote co-operative research in Finland was taken in 2004 upon establishment of the Co-operative Research Fund within the Finnish Cultural Foundation. Its first scholarships were given in the spring of 2005. The recipients of these scholarships, working in different universities, have formed a multi-scientific network of scientists. Their work is expected to produce, within the next few years, not only significant research results on co-operative entrepreneurship, but also experience of choosing the wisest way in further development of co-operative research and education.

## Co-operative Delegation 2006

**Marcus H. Borgström**, agricultural counsellor, serves as the chairman of the Co-operative Delegation. He is also the chairman of the board of the Pellervo-Seura (The Pellervo Confederation of Finnish Co-operatives) and the Finlands Svenska Andelsförbund (the Confederation of Swedish-Speaking Co-operatives in Finland) and a trustee in several co-operatives including the meat, consumer and banking sectors as well as in mutual insurance. He is a farmer, native of Sipoo, Finland.

**Olavi Syrjänen** serves as the deputy chairman of the Co-operative Delegation. He is the chairman of the board of the Co-operative Tradeka Corporation. Syrjänen is a doctor of law, native of Helsinki, Finland, and the former director of the national board of housing.

**Jukka Huiskonen**, chief judge, serves as the chairman of the supervisory board of the Osuuskauppa Suur-Savo consumer co-operative and as chairman of the board of the Suomen Osuuskauppojen Keskusliitto (the central organisation for consumer co-operatives within the S-Group). He is an attorney, native of Mikkeli, Finland.

**Pentti Santala** is the chairman of the board of the Osuuskunta Maitojaloste dairy co-operative and chairman of the supervisory board of the Valio Oy, a member of the board of the Pellervo-Seura (The Pellervo Confederation of Finnish Co-operatives). He is a farmer, native of Kauhajoki, Finland.

**Harri Kainulainen**, insurance counsellor, is the managing director of the Lähivakuutus-ryhmän Keskusliitto (The Federation of the Local Insurance Group), a member of the board of the Lähivakuutus Keskinäinen Yhtiö (the Local Insurance Mutual Company) and a member of the board of the Pellervo-Seura (The Pellervo Confederation of Finnish Co-operatives). He is also a member of the board of directors of the Eläke-Fennia Keskinäinen Yhtiö (the Mutual Insurance Company Pension Fennia). Kainulainen lives in Helsinki, Finland.

**Anne Kylmäniemi** is a member of the delegation of producers in the Hankkija-Maatalous Oy (Hankkija Agriculture Ltd – owned by the consumer co-operatives) and a member of the board of the Pellervo-Seura (The Pellervo Confederation

of Finnish Co-operatives). She is a farmer, native of Posio, Finland.

**Kauko Mikkonen** is a member of the board of the consumer co-operative Osuuskauppa KPO and the Suomen Osuuskauppojen Keskusliitto ry (the central organisation for consumer co-operatives within the S-Group). He is a professor, emeritus, of the University of Vaasa.

**Otto Mikkonen**, industry counsellor, is the chairman of the supervisory board of the consumer co-operative Pohjois-Karjalan Osuuskauppa, the chairman of the supervisory board of the Suomen Osuuskauppojen Keskuskunta (the SOK corporation – central co-operative of consumer co-operatives of the S-Group). He also serves as the chairman of the supervisory board of the co-operative bank Joensuun Osuuspankki. He is a managing director, native of Joensuu, Finland.

**Seppo Penttinen** serves as the chairman of the supervisory board of Osuuspankkikeskus Osk (the central co-operative of co-operative banks). He is a professor of the Lappeenranta University of Technology.

**Markku Pohjola**, chief judge, is the chairman of the supervisory board of the Osuuskunta Tradeka-yhtymä (the Co-operative Tradeka Corporation). He is also the chairman of the supervisory board of the co-operative bank Länsi-Uudenmaan Osuuspankki. He is a court judge, native of Helsinki, Finland.

**Arimo Uusitalo**, agricultural counsellor, is the chairman of the board of directors of the Metsäliitto Osuuskunta (forest co-operative) and a member of the board of directors of the Pellervo-Seura (The Pellervo Confederation of Finnish Co-operatives). He is also chairman of the board of the co-operative bank Osuuspankki Kantrisalo. He is a farmer, native of Kiikala, Finland.

The secretary of the Delegation is **Sami Karhu**, licentiate of philosophy, who works as a director of co-operative services of the Pellervo-Seura (The Pellervo Confederation of Finnish Co-operatives).

An advisor in ownership-related questions is **Raija Volk**, Doctor of Economics. She works as a research director in the Pellervo Economic Research Institute.



# Co-operation Responsible Finnish ownership

With this publication, the Co-operative Delegation in Finland wishes to give its own contribution to the discussion about Finnish ownership. Finland is the strongest co-operative country in the world and thus co-operation cannot be ignored in this discussion. Co-operation also represents a stable form of domestic ownership.

Co-operatives all over the world share the same international values, but in every country co-operation also has its own identity. Specific for Finland is that co-operatives have used limited companies and even public limited companies as tools to organise their business activities. A strong internationalisation has occurred as well. The formation of hybrids and internationalisation of activities has been the Finnish co-operative's way to respond to the ongoing globalisation. By these measures co-operatives have managed to resolve their capital needs and achieved large-scale production benefits and ensured their competitiveness on the international market. Still, co-operation in Finland has a strong co-operative identity.