

A Survey on Finnish Co-operatives: Business Performance, Challenges, and the Sustainable Mindset

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Abstract

This article presents an interdisciplinary survey that provides novel insights into Finnish co-operatives. By interviewing 246 co-operatives of different sizes and in various industries, we study the past and current state of Finnish co-operatives. The topics of the survey include business development, governance and management, sustainable investment, financing methods, utilization of information technology, as well as the legal framework. We address the challenges faced by co-operatives under global competition, the implementation of sustainability and social responsibility policies and non-legal guidelines, and the reform of the Finnish Co-operative Act (421/2013, later the FCA). We report how the co-operatives have utilized the new rules of the FCA. Finally, we study what factors the co-operative management takes into account in business decision making. We study whether and to what extent the sustainability-oriented mindset affects co-operatives' business operation and development.

Keywords: *Co-operative Study, Sustainable Business Development, Survey, Co-operative Law, Social Responsibility*

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1 Introduction

A co-operative society is defined as a community that engages in economic activities to benefit its members. The co-operative's members participate in the economic activities by making use of the community's services. A co-operative society, like other business forms, is entered into the Trade Register (Patentti- ja rekisterihallitus in Finland, or PRH for short). In Finland, there is no "listed co-operatives" ("pörssiosuuskunta" as recognised in the Finnish Co-operative Act) that has "directly" listed its stocks (osakkeet)¹ on the stock exchange. In fact, such listed co-operatives are very uncommon around the world (Rantala, 2023). However, it is possible that a co-operative combines features of a co-operative business and a listed company through two common ways. First, "indirect listing" through subsidiary. Metsäliitto (Metsä group's parent company) is a producer co-operative that is owned by over 90,000 forest owners. Metsä Board Oyj (subsidiary) is publicly listed on the Helsinki Stock Exchange (Nasdaq Helsinki).² Second, ownership. The food companies HKScan Oyj and Atria Oyj are both traded on the Exchange and they are both owned by co-operatives.³ Such combination of two business forms has been proven successful as these co-operatives are among the largest in Finland and operate their business well internationally.

Finland is often considered as the world's most co-operative country in the world as it has the highest number of co-operative memberships per capita in the world (Jussila et al., 2008). In global markets, Finnish co-operatives have earned a good reputation, especially in the grocery trade, financial services, and agriculture. According to the World Co-operative Monitor (2022), Finland had ten co-operatives in the Global Top 300 list by

¹To avoid confusion, we use the terms stocks for osakkeet and share for osuudet in this article. Co-operatives issue shares (osuudet) to members and are allowed, by laws, to issue stocks (osakkeet) to non-member investors.

²Metsäliitto owns approximately 50% of Metsä Board Oyj and 68% votes.

³HKScan Oyj and Atria Oyj are ranked as the 8th and 10th largest co-operative businesses in 2021 by revenue, respectively, according to Pellervo Coop Center's statistics (2022). HKScan's biggest owners are LSO Osuuskunta, a meat producer co-operative, and Lantmännen, an agricultural co-operative. Atria Oyj's biggest owners are three meat producer co-operatives: Itikka osuuskunta, Lihakunta and Osuuskunta Pohjanmaan Liha.

annual turnover in 2020. S group, OP financial group, Valio Oy, and Metsä group are among the best performing enterprises in their own industries. Meanwhile, in the domestic market, co-operative businesses can be found in almost all industries, and they hold significant market share in each industry. Co-operatives provide services in the countryside, towns, and cities. According to the statistics on co-operatives' business performance, they have contributed significantly not only to their own industries but also to the national economy. Their importance is clearly growing.

Our project “The Challenges and Prospects of Co-operatives in a Globalizing World” aims to understand better about the competitive advantages of the Finnish co-operative business model, and answer the following questions: why are co-operatives so popular in Finland and why has co-operative business been so successful? Will the co-operatives' stable development continue in a sustainable way and what factors may support their growth in the near future? How has the current regulatory and legal framework affected the co-operatives? Whether the reform of the Finnish Co-operative Act (421/2013, later the “FCA”) has reached its objectives, brought new business potential, and enhanced the competitiveness of co-operatives?⁴

The purpose of this survey is to get insights into Finnish co-operatives extensively and in an interdisciplinary way, and to provide date evidence for our project. We reach not only the well-known enterprises but also small local businesses. The topics of the survey includes business performance, governance and management, sustainable investment, financing methods, utilization of information technology, as well as the legal framework that affects co-operatives' establishment, operation and development. We report how co-operatives have performed, and what have been their advantages, challenges, and failures, especially under the changes in the regulatory and legal framework. We report which factors have boosted or limited their business development in the past. We also investigate management's attitude towards sustainable investments and document what action co-operatives have taken towards accomplishing sustainability.

⁴The answers to these questions are partially based on the survey data and will be discussed in other articles. See for example, (Pönkä, 2019, 2023; Gurkov, 2022, 2023).

1.1 What does sustainable business mean to co-operatives?

Sustainability means meeting the needs of the present without compromising the ability of future generations to meet their own needs (United Nations Brundtland Commission, 1987). Sustainability is about system thinking: understanding how society, environment, and economy are connected, and how to balance them. To a business, it is about balancing between short-term economic benefits and long-term growth with a systematic consideration of altruistic contribution to the society and managing its effects on the environment and climate.

There are clear differences between the co-operative business model and other business models, and this may mean greater responsibilities for co-operatives. On one hand, co-operatives, unlike other business forms, have stronger commitment to members' rights and benefits and thus place a higher priority on them. Thus they have high incentives to invest their resources in, for example, increasing bonuses or providing discounted prices, and free/cheaper use of exclusive services. Since co-operatives have the responsibility to guarantee choices and pricing to their members rather than all consumers, this may, to some extent, be costly to the business, and violate the fairness and equality of market competition.⁵ On the other hand, co-operatives, just like other business forms, can contribute to the society and environment in a more general way through, for example, donations or installing solar panels or wind generators, as well as improving their business efficiency by, for example, improving employees' working conditions, updating software and hardware, and investing in research and development.

This is to say, sustainable development in co-operative business is at the community level and of a wider range. In economics, contribution to an enterprise is mostly driven by selfish motivation, i.e., more business-oriented. Contributions to society are mostly driven by altruistic incentives, i.e., more social responsibility-oriented.

⁵See the Finnish Competition and Consumer authority's investigations into the bonus systems of OP financial group and S group. <https://www.kkv.fi/ajankohtaista/tiedotteet/kkvn-aloite-pankki-ja-vakuutusalan-bonusten-kilpailua-vaaristava-verotuki-poi> and <https://www.kkv.fi/en/current/press-releases/fcca-concludes-investigation-into-sok-corporation-loyalty-scheme/> accessed on 7 April, 2023.

Environmental, social, governance (ESG) considerations and impacts can be woven throughout co-operatives' business development and daily operations. Sustainable development does not necessarily mean costly investments. From some co-operatives' experience in their sustainability projects, as documented in this survey study, it is possible for co-operatives to protect members' benefits, contribute to the environment and society, and ensure that the business is in good health at the same time.

1.2 Practical Relevance and Novelty

Studying the competitiveness of the co-operative business model and co-operatives' sustainable business development is not only beneficial to the stable growth of individual enterprises but also helps us understand the Finnish co-operative society and provides us with insights into the Finnish business culture. Moreover, the study helps us understand how co-operatives contribute to their own industries and the national economy.

We investigate Finnish co-operatives: their past, current state, and future prospects. The final sample of this study is 246 Finnish co-operatives of various sizes. We design a survey to study Finnish co-operatives, more extensive than ever. The scope of the survey covers economics, management, finance, sustainability science, and law. The survey pays special attention to the reform of the FCA and investigates how the co-operatives have utilized these new rules.

The survey highlights but is not limited to three topics: competitiveness, law, and sustainability-related investment decisions. First, we discuss competitiveness. We analyse the large co-operatives' global impacts and competitiveness against other business forms in the domestic market, backed up by rich statistics on historical business performance. Second, we study the impacts of the FCA. We focus on the key changes in the FCA and investigate how co-operatives have utilized the new regulations, such as the formation of one founder co-operative, the financing possibilities through issuing stocks, as well as the distribution of surplus and accumulation of reserve funds. We examine the challenges related to implementing the requirements of the new law and how the co-operatives dealt

with them. Third, we focus on sustainability. We document co-operatives' concrete actions and short-term plans for sustainability-related investment decisions. We discuss how sustainability-related projects work in co-operatives in practice, including the decision-making process, budgeting and analysis, supervision and auditing, as well as advertising and marketing. We also study managements' attitudes towards sustainability projects, and whether and to what extent the sustainability-oriented mindset affects business decision making.

A vast majority of co-operative studies are based on hopes and ideology rather than empirical knowledge (Pönkä, 2020). This article is one of the few studies in which there is a genuine leap from theory to practice.

Some researchers have expressed their doubts on the effectiveness and practicality of the FCA, most of which center around the issuing of stocks. For example, Airaksinen (2023, p.47) argues that allowing Finnish co-operatives to issue stocks that resemble the stocks of a limited liability company has proven to be a failure while Villa and Mähönen (2021, p.174) disagree. Another doubt concerns the one-founder principle. It aims to provide the freedom to establish and operate a co-operative with minimum requirements, however, the question arises: does it fit the ideology behind the co-operative business form? That is, can there be actual co-operation without co-operators? We seek the answers directly from the co-operatives and provide the most credible and reliable evidence available.

There are several articles that provide theoretical analysis on economic efficiency in agriculture co-operatives (See, for example, Sexton and Iskow (1993), Fulton and Giannakas (2013) and Candemir et al. (2021)) and in energy co-operatives (See, for example, Yadoo and Cruickshank (2010), Tarhan (2015) and Heras-Saizarbitoria et al. (2018)), as well as among other fields. Surveys in co-operative studies have focused on specific issues. For example, Pellervo launched a survey on the Finnish public's attitude towards co-operatives and knowledge of the co-operative business model in 2018 and 2022.⁶ Ziegler et al. (2023)'s

⁶See <https://pellervo.fi/en/uncategorized-en/2018/01/17/finnish-survey-cooperatives-knowledge-popularity-cooperation> and <https://pellervo.fi/en/english-2/2022/05/19/coop-survey-in-finland-awareness-of-cooperatives-has-improved/> accessed on 9 May, 2023.

survey studies co-operatives' circularity strategies in Canada. University of Wisconsin Center for Cooperatives (2021) published its survey results on co-operative governance and a report on gender diversity on the boards of directors in USA, authored by Schlachter and Cherian (2021). The closest studies to ours are probably a sustainability survey on Canadian housing co-operatives by Agency for Co-operative Housing (2018), Yakar-Pritchard et al. (2021)'s presentation at the Asian Development Bank, and Cooperatives Europe (2020)'s report on business performance and challenges during the Covid-19 pandemic. Yakar-Pritchard et al. (2021) interviewed 21 managers from a sales co-operative union in the Turkish agriculture sector and documented co-operatives' sustainability contribution. They found some issues such as gender inequality and shortage of economic resources, as well as lack of training, environmental protection actions, and investment in research and development. Cooperatives Europe (2020) reports the economic and social impact arising from the Covid-19 virus using evidence from 55 co-operatives in 18 countries. Only very few co-operatives received higher turnover and many were deeply in need of financial support. However, to the best of our knowledge, our survey provides the deepest insight directly from higher management and covers a wide range of fields. The questionnaire is supported by rich data evidence using a long time horizon.

The rest of the article is organized as follows. In Section 2, we present the methodology of the survey. The results are reported in Section 3. Section 4 concludes the article. The survey is attached in the Appendix, both in Finnish and English.

2 Methodology

The main data in use in this article was collected via a survey. Our survey team is led by the author, with the help of five research assistants.

Form of survey. The survey was an online form, and each respondent with internet connection could access to the survey through a link to it. We used E-lomake software to build the survey form.

The survey contained a total of 12 sections: Basic Information, Business Development,

Global Competitiveness, Finnish Co-operative Act of 2013, Board of Directors, Business Decision Making, Surplus, Externalities, Trust and Commitment, Sustainability, Funding, and Law. The survey questions were multiple choice, rankings, and open questions. Moreover, in each section of the survey, there was a subsection marked “Comments” where respondents were free to give details that clarify their answers to the survey questions. The respondents were given the option to answer in Finnish, Swedish, or English.

Target groups. We only studied active co-operatives. The definition of activeness for co-operative society was taken from the Statistics Finland (Tilastokeskus)’s standard for active enterprises: co-operatives’ turnover in 2019 and 2020 shall be more than 11,810 euros.

To avoid selection bias, we include micro, small, medium-sized and large co-operatives in this study that covers 16 different industries — the widest range possible. We contacted all the large Finnish co-operatives that were on the top 300 Finnish co-operative list of 2019.⁷ The micro, small and medium-sized co-operatives were selected if their contact information was either available from Pellervo Coop Center or publicly accessible.

We only collected answers from co-operatives’ high-ranking personnels who know the structure, culture, and history of their co-operatives very well, and are fully capable of representing their co-operatives. They are CEOs, directors of the Board of the Directors, regional managers, heads of finance, heads of marketing, or managers of sustainability units.

Distribution. The survey was designed in July 2020 and, as a trial, it was distributed by emails among a few co-operatives in August to October 2020. Officially, the survey was widely distributed from June to August 2021.

Our team initiated contact with our targets via phone calls, video calls, or emails, and with their permission, we distributed the survey forms by email. Pellervo Coop Center kindly advertised our project and distributes the survey among its members via internal

⁷We have the top 300 Finnish co-operatives data from 2013 to 2022. We chose the 2019 ranking as our baseline because of two reasons. First, it had the least amount of missing data. Second, it can better provide information on the impacts of the Covid-19 — some co-operatives’ businesses may have closed their businesses due to the financial difficulties during and after the Pandemic. In these cases, they will no longer be on the top 300 list from 2020 and onwards, and if so, we will not include these co-operatives in our study.

e-newsletters twice (in 2020 and 2021).⁸ The members could access the survey questions by simply opening a link in the e-newsletters. Finally, we promoted this project online. A description of the project and a link to the survey form was posted on the author’s blog and were thus somewhat publicly accessible.

Data collection channels. After the survey was distributed by emails, instead of asking the co-operatives to answer the survey themselves, we interviewed them. We asked the survey questions one by one with detailed explanations and recorded their answers. The interviews were mainly conducted via video calls. Depending on the interviewees’ preference, we used either Zoom or MS Teams. Some interviews were conducted via telephone calls. The average duration of the interviews was 45 minutes and the longest was one hour long. The conversations during the interviews were in Finnish or English since no interviewees chose Swedish.

While most answers were collected via interviews, less than 10% respondents filled in the online survey form themselves with little or no guidance and assistance from our team.

Answers were first documented in Finnish or English in our database, and eventually all the results were translated into English.

Other supporting data sources. We collect supporting data to back up the survey results. The data was collected from Statistics Finland, the Bank of Finland, International Co-operative Alliance (ICA)’s World Co-operative Monitors, the Finnish Grocery Trade Association, and Pellervo Coop Center.

3 Results

3.1 Summary of data

In total, our team directly contacted 463 co-operatives (300 of which were from 2019’s top 300 list with the remaining being micro, small, or medium-sized). We kept the answers from 246 respondents in our survey based on completeness of the answers to our survey.

⁸In collaboration with Pellervo, the survey had a potential reach of a maximum of 1181 recipients via Pellervo’s (internal) e-newsletter to members.

This represents 7% of Finnish co-operatives.⁹ The completion rate was 54%.

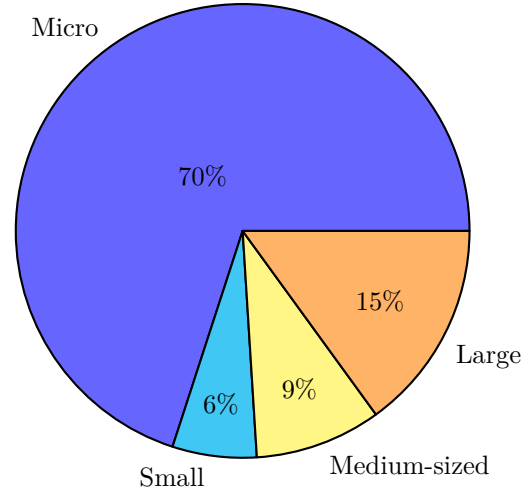
3.2 Significance and representativeness of sample

Although there are over 3500 co-operatives in total (and some data recourse reports more) and our data only represent 7% of them, our sample is able to well represent the real development of Finnish co-operatives population because of its wide coverage and the significance of these co-operatives in the sample.

First, we reached most industries and included co-operatives of all sizes. Figure 1 reports the composition of co-operatives in our survey. We follow the EU recommendation (2003/361) for small and medium-sized enterprises (SMEs) to define the size of co-operatives. Based on the annual turnover in 2019, the numbers of micro, small, medium-sized and large co-operatives in the survey are 172 (70%), 15 (6%), 21 (9%), and 38 (15%), respectively.

Figure 1: Composition of co-operatives in the survey

Category	Turnover (€m)	Number
Micro	≤ 2	172
Small	(2, 10]	15
Medium-sized	(10, 50]	21
Large	> 50	38
Sum		246



Depending on co-operatives' economic activities, how members use the co-operatives' services, and type of management, they can be classified into 7 types: consumer, worker, purchasing, producer, service, housing, and mutual co-operatives. They are widely distributed in 16 industries, as shown in Table 1: wholesale and retail trade (22), financial services (including banking, credit union, insurance and investment) (29), agriculture, forestry and fishery (including meat, dairy, egg, grain, vegetable, and animal breeding)

⁹In 2020, there were 3568 Finnish co-operatives, according to Statistics Finland.

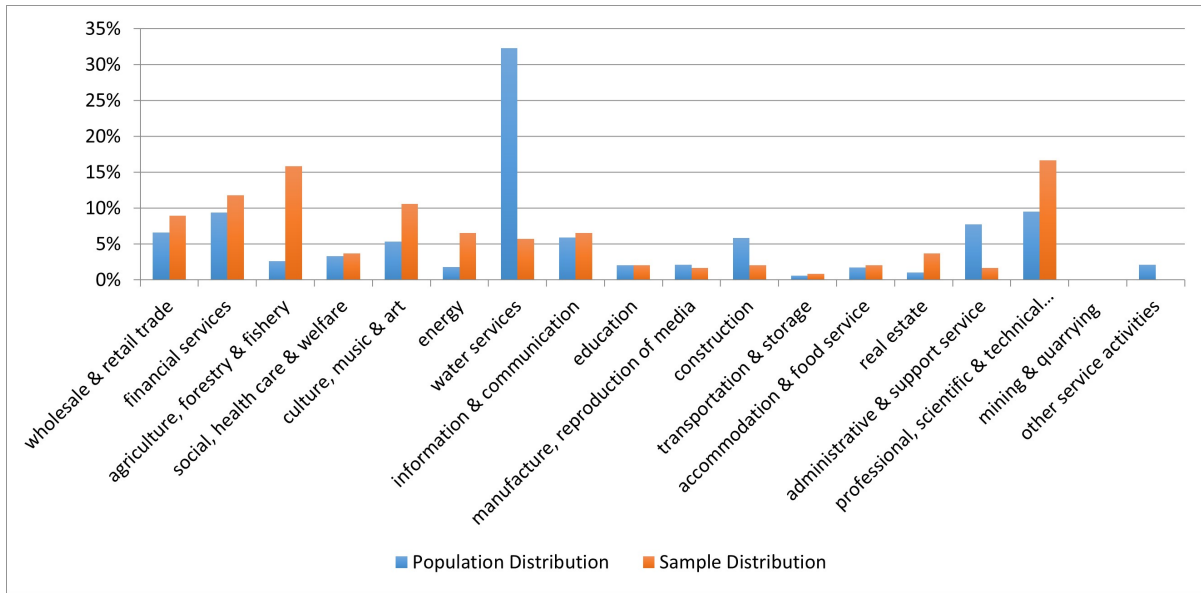
Table 1: Sample Distribution

	Industries	Number of coops
1	wholesale and retail trade	22
2	financial services	29
3	agriculture, forestry and fishery	39
4	social, health care and welfare	9
5	culture, music and art	26
6	energy	16
7	water services	14
8	information and communication	16
9	education	5
10	manufacture of textiles , metals, reproduction	4
11	construction	5
12	transportation and storage	2
13	accommodation and food service	5
14	real estate	9
15	administrative and support service	4
16	professional, scientific and technical services	41
	Sum	246

(39), social, health care and welfare (9), culture, music and art (including environment, botanical and zoological gardens and nature reserves activities) (26), energy (including supply of electricity, gas, steam, and air conditioning) (16), water services (including water collection, treatment and supply, sewage, waste management and remediation activities (14), information and communication (including publishing, telecommunications and internet) (16), education and research (5), Manufacture of textiles, metals, etc. (4), construction (5), transportation and storage (including postal and courier activities) (2), accommodation and food service (5), real estate (9), administrative and support service (including car rental, employment, travel agency and tour operator, event organising) (4), and professional, scientific and technical services (including. legal and accounting, business consultancy, development, invoicing, training, gardening, cleaning and rust removal, renovation, electrical work, advertising) (41).

Figure 2 shows the distribution of sample in industries in percentage and its comparison to the real distribution of total cooperatives in Finland. Our data is able to represent the cooperatives well as it covers most industries and the distribution of our data is quite similar to that of the population. In particular, we relatively thoroughly investigated three

Figure 2: Real distribution of total co-operatives VS sample distribution



industries: agriculture, forestry and fishery, culture, music and art, as well as professional, scientific and technical services. However, data excludes mining and quarrying industry, as well as businesses that provides for example, service activities of membership organisations as well as repair of computers and personal and household goods. Cooperatives are not active in these two industries.

Second, the significance of the cooperatives in our study. It is worth noting that all the co-operatives in our sample were genuinely active businesses. Based on the 2019 and 2020's statistics, we excluded the non-active or semi-active co-operatives that have registered in the Finnish Trade Register but generated little turnover. Also, we contacted all the cooperatives that are on the 2019's and 2020's top 300 lists. These cooperatives contribute significantly to their own industries, back up by their number of members and market share. However, based on their yearly turnover, over 20% of them are classified as micro business. That is to say, all the cooperatives that are excluded in the top 300 list are genuinely micro businesses with very little turnover.¹⁰ It is fair to say that the business development of the top 300 cooperatives can largely represent the development of their own industries,

¹⁰Around 68 cooperatives in the top 300 list (22.67%) are micro business with less than 2 million euros year turnover in 2019.

and other cooperatives would find very difficult to affect the market. It can be argued that changes in regulation and legal system affect these large cooperatives in many ways while similar effects can hardly be seen in micro businesses. Also, in terms of sustainable investment, cooperatives with decent financial capability are much more active. These arguments are in fact consistent with our findings in the survey.

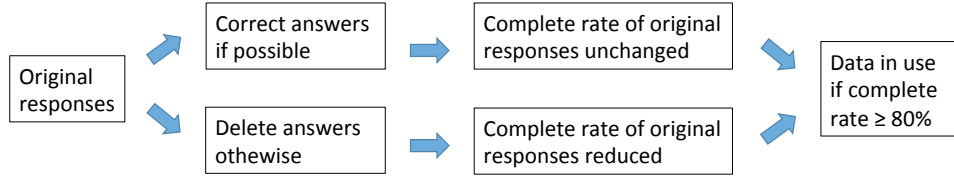
3.2.1 Data correction

Some responses were not used because of missing data. The responses were used if the survey was 80% answered, that is, at least 49 out of 62 questions. There were two main reasons for respondents not answering all the questions: one was that the respondents had difficulty in understanding some key terms in the questions, and the other was that a few co-operatives avoided answering the questions in the Section “Sustainability” as they viewed their business as “non-environmentally friendly”, which was driven by a misunderstanding of the concept of sustainability. They thought sustainability was equal to the environment and answering sustainability-related questions would have negative effects on their business image and reputation once the results of this study were published.

We corrected data if the respondents clearly stated wrongly or if their answers were inconsistent from section to section, given that it could be understood and corrected readily. The main reason for misleading answers came from language barriers and translation. In particular, the respondents who filled in the survey form themselves may have needed deeper explanations for certain terms and concepts to avoid misunderstandings. The author chose to delete the answers that could not be understood and verified easily to ensure the accuracy of the results.

The corrections occur mainly in the Section 3.9. They concern Questions 36 to 38 about income financing (tulorahoitus), profit shares (tuotto-osuus), co-operative shares (osuudet), and stocks (osakkeet).

Figure 3: Data correction



3.3 Competitiveness

This part concerns Questions 2, 4 and 8 in the survey. To study the global competitiveness of Finnish co-operatives, we focus on the largest co-operatives due to the fact that smaller co-operatives are often local businesses that serve local communities and thus have limited competition. Supported by data dating from 1945, we summarize the global impact of co-operatives, trends in business development, and market competition (arising from other business forms in the domestic market).

We select several large co-operatives, each as the representative of its own industry, and study their business performance, including revenues, turnover, and market share. We discuss the competition they faced from international/domestic competitors. In particular, we study two well-known co-operatives due to their significant global impacts, S group and OP financial group, as they are both among the world's top 15 co-operatives in their own industries. We compare these two groups' market share to other business forms in the Finnish domestic market. In addition to the survey results, we use data collected from the World Co-operative Monitor, Pellervo's Osuustoiminta magazine, Statistics Finland, and the Finnish Grocery Trade Association: evidence from 1945 to 2022.

3.3.1 Global impact

According to the World Co-operative Monitor (2018-2022), in 2020, Finland had 10 enterprises in the world's top 300 co-operatives and mutual organizations ranking based on annual turnover. They were S group (37), Ilmarinen Mutual Pension (80), Metsä Group

(88), Varma Mutual Pension (90), OP Group (106), Elo (118), Valio (200), HKScan (203), LocalTapiola (205), and Atria (229). Table 2 reports these co-operatives' rankings in 2020 and compares them with their 2019 rankings. Although Metsä Group and Varma Mutual Pension dropped by 11 and 10 places, respectively, most of the listed co-operatives more or less held their positions. The biggest increases were from S group and Atria, each increasing by 4 places.

Table 2: Finnish co-operatives in the global top 300 co-operatives and mutual organisations ranking by annual turnover

Enterprises	Rank in 2020	Rank comparison vs 2019
SOK (S-Group)	37	▲4
Ilmarinen Mutual Pension	80	▼4
Metsä Group (Metsäliitto)	88	▼11
Varma Mutual Pension	90	▼10
OP Group - Pohjola Pankki Oyj	106	-0
Elo	118	▼5
Valio Oy	200	▲1
HKScan Oyj	203	▲1
LocalTapiola	205	▼6
Atria Oyj	229	▲4

Source: World Co-operative Monitor 2021-2022.

As the biggest pension insurance providers in Finland, Ilmarinen Mutual Pension and Varma Mutual Pension have both been in the world's top 100 co-operatives ranking since 2016.

S and OP financial groups have been among the best performing co-operatives and mutual organizations globally in their own industries, although both have dropped out of the Top 10 according to the latest data. In 2020, there are 59 wholesale and retail traders in the world's top 300 co-operative list and S group is ranked 11th with a turnover of 13.28 billion USD, one place lower than in 2019. There are 26 financial service providers in 2020's top 300 list and OP financial group is ranked 14th with a turnover of 4.81 billion USD, four places lower than in 2019.

3.3.2 Domestic market

Overall, Finnish co-operatives have experienced stable growth in almost all sectors in the domestic market. Table 3 reports 11 selected co-operatives' revenues in 2015 and 2021, each being (one of) the biggest in its own sector. These are Metsä group (forestry), Valio (dairy), HKScan (meat), Fennia konserni (insurance), Hankkija (agriculture), SEO (energy), Tradeka (investment), Andelslaget Närpes Grönsaker (vegetables), Savonlinnan BLC-osuuskunta (telecommunication), Dava Foods (eggs), and FABA (animal breeding). These 11 representatives' business performance indicates the development of their own sectors well, since they have significant market shares. Most of these co-operatives showed

Table 3: Top Finnish co-operatives' revenue in different sectors

Sector	Co-operative's name	Revenue 2015 (m€)	Revenue 2021 (m€)	Change (%)
Forest	Metsä Group (Metsäliitto)	5016.0	6017.0	20.0%
Dairy	Valio Oy	1718.2	1918.2	11.6%
Meat	HKScan Oyj	1917.1	1815.3	-5.3%
Insurance	Fennia konserni	840.0	966.3	15.0%
Agriculture	Hankkija Oy	818.7	821.8	0.4%
Energy	SEO	124.0	163.6	31.9%
Investment	Osuuskunta Tradeka	457.7	567.0	23.9%
Vegetables	Andelslaget Närpes Grönsaker	45.6	66.9	46.7%
Telecommunication	Savonlinnan BLC-osuuskunta	41.9	91.9	119.3%
Egg	Dava Foods	41.7	39.7	-4.8%
Animal breeding	FABA osk.	33.0	40.4	22.3%

Source: Pellervo 2015 and 2021

significant growth in revenues in 2015 and 2021. The only two decreases are HKScan (-5.3%) and Dava food (-4.8%). Founded in 1988, HKScan has been the biggest meat producer co-operative in Finland and has stayed in the national Top 10 co-operative list by annual revenue for a long time. Dava Foods was founded in 2005 and, after 7 years' development, it has become the biggest egg producer co-operative in Finland, ranked 88th in 2021 by yearly revenue. The most rapid growth was achieved by Savonlinnan BLC-osuuskunta, one of the oldest co-operatives in Finland, with over 130 years' history. Compared to the 2015 figures, Savonlinnan BLC-osuuskunta had a 119.3% increase in revenue. It was 53rd largest Finnish co-operative by revenue in 2021.

3.3.2.1 Co-operative banks

Three banks, OP financial group, S bank (S-Pankki)¹¹, and POP bank group (POP Pankki-ryhmä), have contributed significantly to the Finnish financial services industry, although they face competition from domestic commercial banks, savings banks, branches of foreign banks in Finland, and other domestic credit institutions. These three co-operative banks combined have almost a 40% market share in loans granted to non-monetary financial institutions (non-MFIs) and 45% market share in deposits placed by non-MFIs.

S bank and POP bank groups are much smaller in terms of members, employment, and revenue. Both provide services only in Finnish and Swedish. In 2021's Top 300 Finnish co-operatives ranking, S bank ranked 36th with annual revenue of 242.3 million euros. As of December 2021, S bank owned 2.26% market share in loans and 3.80% market share in deposits. These figures increased to 2.34% in loans and 3.93% in deposits according to the latest data of June 2022. Its operating profit in 2022 was 44.7 million euros, increasing by an astonishing 80.3% compared to 2021.

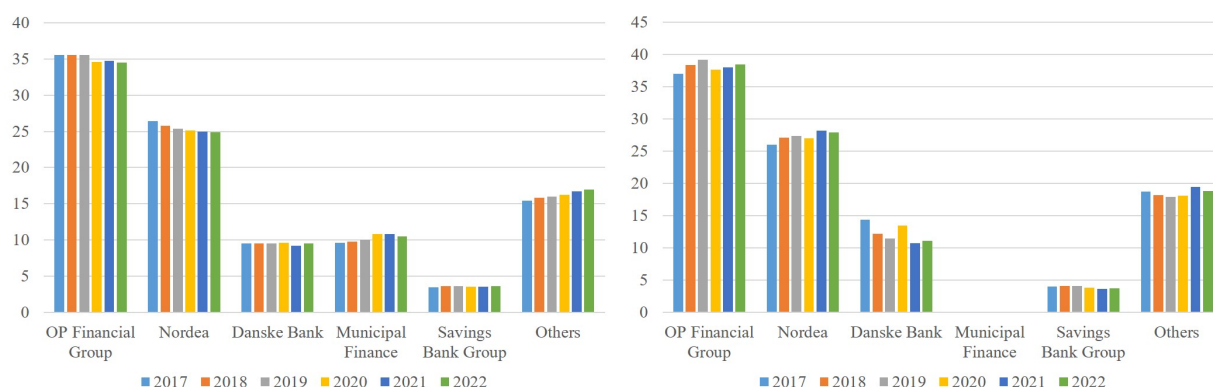
POP bank group ranked 38th in 2021's Top 300 list, with annual revenue of 215.8 million euros. POP Bank group is made up of 19 member co-operative banks and jointly owned 1.57% market share in loans and 2.10% in deposits in December 2021. The figures increased slightly to 1.59% in loans and 2.14% in deposits in June 2022.

OP financial group is the largest bank in Finland and one of the largest co-operative banks in the world. The group has 108 OP member co-operative banks and has over a total of two million owner-customers as of December 2022. Figure 4 compares the market share of the main credit institutions operating in Finland from 2017 to 2022.¹² We include a co-operative bank (OP financial group), a domestic limited liability bank (Nordea bank),

¹¹Unlike OP financial group and POP bank group, S bank is not made up of member co-operative banks. S Bank is commonly viewed as a co-operative business with a different structure compared to traditional co-operative banks. S Bank is owned by SOK Corporation and the regional co-operatives in the S Group. S bank's services are primarily aimed at S Group's co-operative members. According to the latest date of 2021 provided by Pellervo Coop Center, S bank is the second biggest co-operative in financial service in Finland.

¹²In Figure 4, dates are December in each year except for the latest data in 2022, which comes from June.

Figure 4: Market shares of credit institutions operating in Finland 2017-2022



(a) Loans granted to non-MFIs in Finland

(b) Deposits placed by non-MFIs in Finland

Source: Bank of Finland.

a foreign limited liability bank (Danske bank), a Finnish municipalities-owned institution (Kuntarahoitus) and a savings bank (Säästöpankkiryhmä) in comparison. Although there have been slight ups and downs over the past 6 years, OP financial group has undoubtedly been the market leader, holding approximately 35% market share in loans and close to 40% market share in deposits. From Figure (a), overall, there are no dramatic changes in market share in loans over this period. The changes worth noting are Nordea's small gradual decrease and Municipal Finance's growth trend. From Figure (b), we find more variation in the deposits market. Both Nordea and Danske banks have owned slightly larger market shares in the deposits compared to their shares in the loans market, but either of them could challenge OP financial group's market leader position. Municipal Finance is not involved in the deposits business and the Savings Bank group has kept approximately 3.64% market share with little variation over this period.

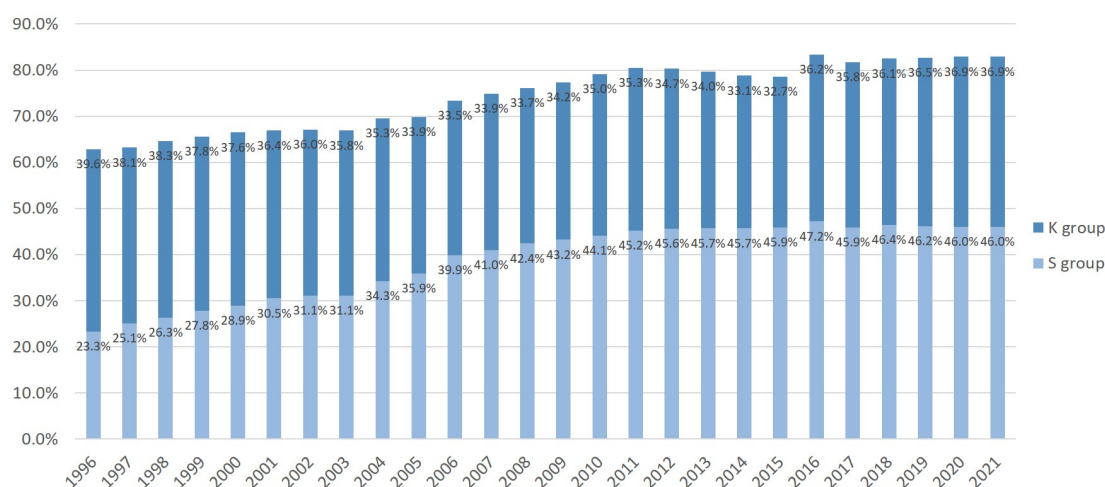
Interestingly, new opportunities and challenges will come to the Finnish financial market from 2022 onwards. The Swedish bank Handelsbanken has been a small but important player in Finland. In 2021, it owned 5.09% market share in loans and 2.90% market share in deposits. The bank announced its business divestment in Finland in October 2021. S bank has planned to acquire Handelsbanken's retail portfolio in Finland in 2024. However, it remains uncertain what will happen in the financial market and which bank(s) will be the beneficent(s) following Handelsbanken's departure.

3.3.2.2 Grocery trade leader S group

S group has been the biggest Finnish co-operatives in terms of annual revenue for a long time. In the period between 1945 and 2021, S group developed dramatically, and it has become the most profitable market player in Finland. According to the ICA, S group had been the world's tenth largest co-operative in wholesale and retail trade market by annual turnover since 2018 and dropped slightly to 11th in 2020.¹³

There have been three phases to S group's development over the past 77 years. The first phase was from 1945 to 1995, during which S market had always been the third largest grocery seller with a market share of around 18%.¹⁴ After Tuko's failure and EKA's restructuring¹⁵, in 1996, S group entered the second phase and started to take the runner-up place behind the market leader, K group. As shown in Figure 5, over the following nine

Figure 5: Grocery market share of K and S groups 1996-2021



Sources: Finnish Grocery Trade Association and Statistics Finland. The data for the market share of K and S groups 1945-1995 is available upon request.

¹³Apart from the grocery trade, S group is also the largest owners of hotels and restaurants in Finland. S bank is the second largest co-operative bank in Finland in terms of annual turnover.

¹⁴From 1945 to 1995, S group's market share did not change greatly. The average is 18%, with its lowest point at 15.0% in 1952 and its peak at 21.9% in 1995.

¹⁵In 1995-1996, the Finnish grocery market experienced major changes. First, Tuko (T group) collapsed after a long struggle, with market share declining from 56.1% in 1945 to 21.2% in 1995. Two years after, Spar was established from Tuko's remnants. Second, EKA (E group) was restructured and its name was changed to Co-operative Tradeka Group. Tradeka is now a big owner of hotels and restaurants but has left the grocery trade industry.

years, S group developed rapidly, with its market share of 23.3% in 1996 increasing to 34.3% in 2004. In the third and de facto most important phase, S group overtook K group and began to lead the market. In 2005, S group obtained 2.0% more market share than K group and its success continued afterwards. Its market share reached 46.0% in 2020 and 2021.

What is worthy of attention is that in the Finnish grocery trade market, S group, as the largest co-operative; K group, as the largest domestic limited liability company; and Lidl, as the largest foreign limited liability company operating in Finland, are on similar but different development paths. Both S and K groups have expanded business outside Finland and thus their business are affected by the European economy, EU regulations, and national laws in every country in which they operate.¹⁶ Lidl does business across Europe and the United States, and is thus affected by the global economy and local laws to a greater extent.

Consider the historical business performance. First, S group's market share has increased steadily over the 77-year period. In 2021, its market share was 2.8 times as much as in 1945. By comparison, after a long period of rapid growth, with only 12.2% market share in 1945 to 32.4% in 1967, K group has not changed greatly since it first reached one-third of market share in 1968. Its peak performance was in the early nineties, reaching around 40% market share. Since 2005, it has lost its market leader position to S group.

Second, except for the K group none of the competitors has managed to challenge S group seriously. Over the past 77 years, some companies and co-operatives have left the market or lost market competitiveness (e.g., collapsed, or merged with or was sold to a competitor), including EKA/Tradeka, Tuko, Spar group and Wihuri, while some entered the market, including Lidl, Tokmanni group, Minimani, and M-ketju. Among these challengers, Lidl has developed quickly and steadily since it entered the Finnish market in 2003, and reached 9.5% market share in 2020 and 2021. However, in the period 2003-2021, while the market share of Lidl and K group increased by 7.7% and 1.1%, respectively, S group experienced considerable growth by comparison — achieving a 14.9% increase in market share. According to the respondent from S group to this survey, potential challengers are

¹⁶S group does business in Estonia and Russia, and used to operate in Latvia and Lithuania. K group does business in Sweden, Norway, Estonia, Latvia, Lithuania, and Poland.

Amazon and other big foreign online shopping platforms. However, the impacts arising from them have been limited in recent years due to the difficulties in long distance delivery caused by Covid-19. It will be interesting to see, once logistic services have recovered after the Covid-19 crisis, how online shopping will affect S group's business performance.

3.4 Business development

This part summarizes Questions 2 to 4 and 6 to 7 in the survey. We report the business expansion of co-operatives over the past decade, the challenges they faced, and their attitudes towards these challenges.

3.4.1 Business expansion

We ask whether the co-operatives have introduced new products/service that are viewed as significant market successes, expanded their business to new locations (foreign countries or other areas in Finland), or invested in new industries since 2010. While the majority of the co-operatives have experienced significant business expansion since 2010, 46 said no. Among these 46 co-operatives, 11 of them mentioned a clear increase in sales/production or had more members; only one reported a big loss — its accommodation and restaurant business has closed.

3.4.2 Challenges

The challenges the co-operatives have faced in the past decade have largely arisen from both legal and financial angles. They are summarized as follows:

1. The co-operative did not receive enough support from local authorities when the business expanded to new locations.
2. The co-operative did not receive enough funding in traditional ways and was not aware of new funding methods.
3. The co-operative lacked the ability to analyse investment opportunities. This limited business growth.

4. Some members did not like the changes and left the co-operative. Trust was difficult to build. Problems in communication, management, supervision and marketing. Slow reactions to problems and changes.
5. The co-operative failed to analyse and predict a new market and did not have the capability to meet increasing demand. The co-operative needed professional economic/business support.
6. No co-operative law for housing. The law for limited liability housing company might be comparable to some extent, but not fully applicable.
7. Bookkeepers/accountants did not understand that there are different accounting and financial standards for co-operative businesses.
8. Covid-19 affected business. Restrictions on physical shopping caused sales reductions and the stores could not take actions immediately. Some contracts were terminated, both employment and business ones. Difficulties in digitalization among sales and marketing personnel in terms of business communication, as well as among employees engaged in remote work.
9. The co-operative experienced tax issues, especially regarding tax aid for pension insurance.
10. Financial institution (Finnvera) and the Centre for Economic Development, Transport and the Environment (ELY-keskus) did not give full support in fundraising. The co-operative claimed that these organisations do not understand that the co-operative is a different business form and has weak eligibility for funding.
11. The co-operative believed that the current image of co-operative business is distorted and that people view the co-operative business as craftsmanship.
12. Many co-operatives experienced mergers and acquisitions and needed legal support. Especially in the financial service sector, they have to follow a lot of laws and regulations. They need support for data protection, work contracts, competition, taxation, etc. On many occasions, matter were not handled appropriately, i.e., people forgot the nature of co-operative businesses and treated the co-operatives as limited

liability companies.

13. The development of online purchasing affected co-operatives' sales. In wholesales and retail market, S group foresees a challenge from Amazon.
14. New competitors have entered or have plans to enter the Finnish market.
15. Hotel and restaurant businesses face competition from an increasing number of new small players. Popular services such as Airbnb have affected their business.

From the above, first of all, we conclude the need to establish a platform that gives legal and financial advice, especially to micro, small, and medium-sized co-operatives. Second, some co-operatives are in need of economic and financial analysts for budget control, data analysis, and forecasting. Third, more comprehensive regulation is required regarding, for example, housing co-operatives, taxation, and pension insurance for co-operative members. Fourth, there is room for improving trust and communication between the co-operative and its members, the management and members, and among the members themselves.

Many co-operatives either did not face serious challenges or managed to deal with them with relative ease. Their opinions are summarized as follows:

1. The co-operative provides limited types of products and service. Since the market it serves is narrow, business fluctuations in the global or domestic market do not affect their business much.
2. As producer co-operatives, they are well protected by the organization. They do not worry about price changes and market competition.
3. As small co-operatives in a remote area, they serve the local community. They face no competition in the area. The business has no need to expand and therefore they do not have worries about future competition either.
4. As large co-operatives, there are a few big companies/co-operatives who share the domestic market along with various small players. The market share has not changed a lot for a long time. They experience some global competition but they have faith in themselves.
5. As co-operative banks, their relationship with the group is strong and they have

received sufficient support from the group.

6. Many believe that the Finnish market is growing well and co-operatives' revenue is increasing.
7. Co-operatives managed to take quick and efficient actions to cope with the Covid-19 pandemic. Although it may have affected their business, it will not have long term effects. They did not experience severe difficulties in cash flow that would have caused the deferred payment of utilities, salaries, or loans during the pandemic.

From the above, we conclude that the co-operatives appreciate and benefit from the good features of the co-operative business model. For example, consumer co-operatives do not worry as much about customer loyalty as limited liability companies do. Producer and finance co-operatives are well protected by their group co-operatives. If new laws and regulations are introduced, they tend to be policy takers and do whatever the group does. They have fixed prices and therefore do not need to worry too much about the fluctuation in market prices as limited liability companies do. In general, the co-operatives trust the group co-operative and also the overall business environment in Finland. This trust has been built, as it should be, on the Finnish legal environment, since Finland has a long history of being co-operative friendly.

However, there are some obvious drawbacks for many micro, small and medium-sized co-operatives that serve local communities. Due to little competition, they have limited incentives to innovate, develop new products, or provide new services, or even to improve the quality of their existing products and services.

From the survey answers and the data on business performance before and after 2014, we can only suggest that overall, the co-operatives have experienced relatively stable growth. However, we cannot conclude that the FCA has brought significant business potential or challenges to the co-operatives.¹⁷ But even so, as reported in Sections 3.6 and 3.9, many co-operatives have adjusted their rules according to the FCA, for example, on reserve funds

¹⁷There is little evidence that the FCA has reached its objective in generating business potential but it is alone in this aspect. In Norway, the Co-operative Act of 2007 has not resulted in the expected increase in the number of cooperatives Fjortoft and Gjems-Onstad (2013, p.582).

for business development and issuing of shares to raise funds. It is unclear whether and to what extent these changes in co-operative rules have generated or will generate profits.

One of the FCA’s major amendments is to allow one founding member — an individual is able to establish a co-operative business. It aims to create new opportunities by making the setting up of new co-operatives easier. However, we are uncertain about how this possibility has been / will be utilized in practice. To our knowledge, no one-member co-operative has been established in Finland so far. The smallest co-operative in the survey has 2 members and it is in the water disposal and sewage sector.

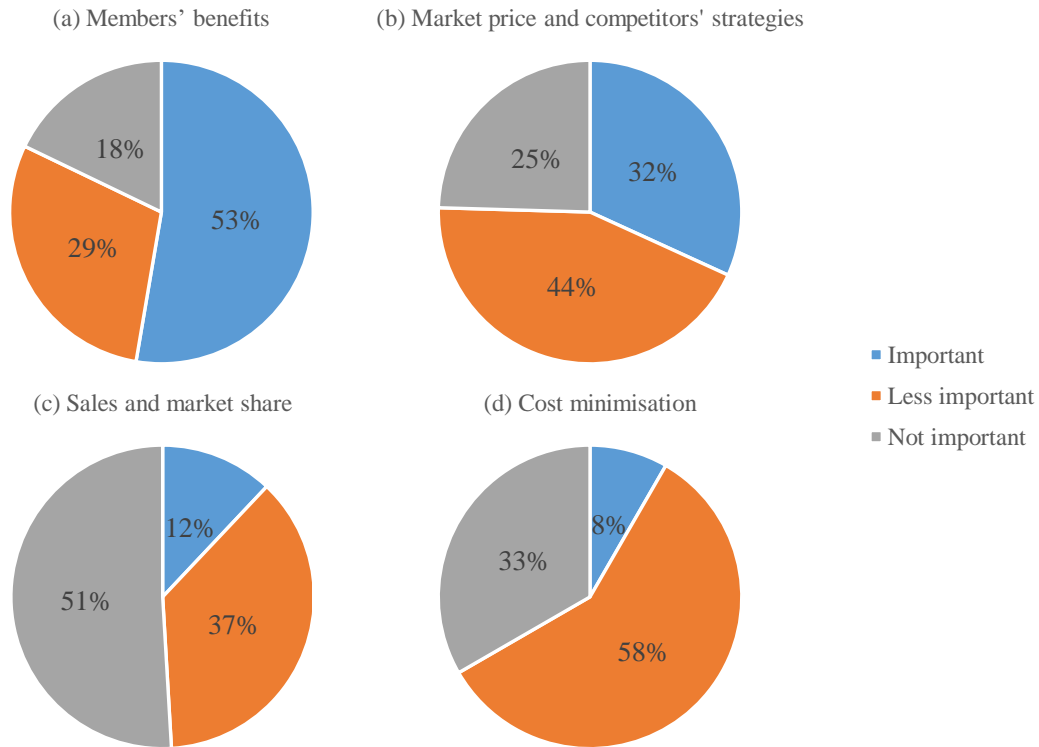
3.5 Business decision making

This part summarizes Questions 19 and 22 in the survey. We investigate management incentives and considerations when setting pricing strategies, and find out their weights on (a) members’ benefits, (b) market price and competitors’ behavior, (c) sales and market share, and (d) cost minimization. Also, we question the role of externalities and find out managements’ weights on (a) support for local production/vitality, (b) factors related to sustainability (environmental, social, economic concerns), and (c) successful long-term business development.

The most common rank for managements’ preferences in pricing, from the most important to the least important, is member benefit (1), market price and competitors’ strategies (2), cost minimisation, including stable cash flow and capability to repay loans (3), and sales growth and market share (4).

Figure 6 reports managements’ preferences in pricing strategies by weights. The objective of a co-operative business is to serve its members and maximize members’ benefits, while a limited liability company attempts to serve its shareholders and thus seeks business growth and profit maximisation. Our results largely support this argument. 53% of the respondents viewed members’ benefits as their top priority and 29% viewed them as considerably important. However, surprisingly many co-operatives (18%) did not pay much attention to members’ benefits. Meanwhile, over half of the respondents believed that sales growth and

Figure 6: Factors that affect pricing strategies



market share were not their concern and 37% thought that it was not the most important aspect. Cost minimization, stable cash flow, and capability to repay loans were widely viewed as less important factors in pricing decisions, along with concerns about market price and competitors' strategies, supported by 58% and 44% of respondents, respectively. However, we find an interesting trend: co-operatives are slowly moving towards limited liability companies. From Figures (b) and (c), surprisingly many co-operatives compete on price with their competitors and have ambitions for larger market share.

We also studied externalities by asking what consumer/producer co-operatives consider in purchasing products or raw materials, and what banks and insurance co-operatives consider in selecting investment targets.¹⁸ The respondents give a score between 1 and 5,

¹⁸An externality is an indirect cost or benefit to an uninvolved third party that arises as an effect of another party's (or parties') activity. Externalities can be considered as unpriced goods involved in either consumer or producer market transactions. See the definition from Gruber (2018) Public Finance & Public Policy.

where 1 represents the least important and 5 represents the most important.

Long-term business development is the most important factor (4.4 points), support for local production/vitality is the second (3.7 points), and sustainability is the least important (3.6 points).

Notably, 20 respondents emphasized benefits for consumers, business partners, and members, as well as contributing to the local community as their priority in strategy setting and decision making.

3.6 Distribution of surplus

This part summarizes Questions 20 to 22 in the survey. We asked the co-operatives to give a rough estimate of how their surplus is distributed. The choices were (a) to distribute among its members, (b) to reserve or invest in business development, including software and machine updates, research and development, strengthening solvency, etc., and (c) to invest in corporate social responsibility and sustainability, including donations, sponsoring activities, scholarship and grants, employee welfare, environmental projects, contributing to local community and society, etc.

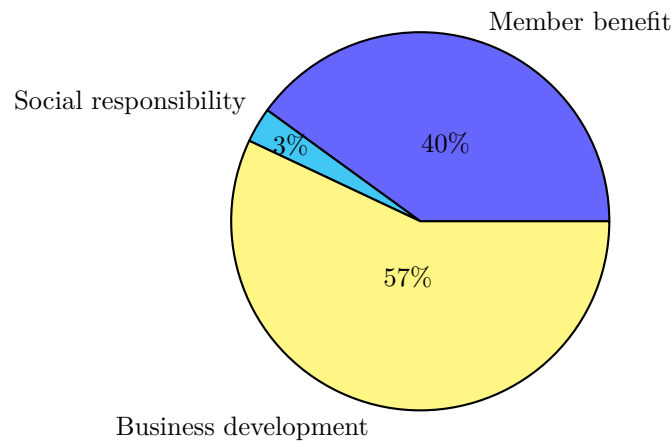
The distribution of surplus is regulated by the FCA but can be customized to some extent, as long as it is clearly stated in the co-operative's rules. According to the FCA, co-operatives shall have a reserve fund. At least 5% of the surplus less the losses of the preceding year on the balance sheet shall be transferred to the reserve fund. The reserve fund shall be more than or equal to 1% of the balance sheet total. The minimum amount of the reserve fund shall be €2500 and there is no limit on the maximum amount. The reserve fund can be indivisible, divisible without restrictions, or divisible under certain conditions. The co-operatives' general meetings' can decide to reduce reserve fund, for example, when share price decreases or to implement a bonus issue of investment capital. After deductions for the reserve fund, co-operatives can decide whether the surplus is distributed to members, how much of the surplus is distributed, and in what form.

Some co-operatives mentioned that they have noticed the reform of the FCA and updated

their rules accordingly. They have allowed a more flexible distribution of the surplus in the co-operative rules, although in practice, there have not been many practical changes yet.

As illustrated in Figure 7, the weighted averages are 40% of surplus to member benefits, 57% to business development, including reserve funds, and the remaining 3% to socially responsible investment. 24 co-operatives could not give a rough estimate for the division

Figure 7: Split of surplus



of surplus, and their explanations are summarized as follows: (1) the co-operative does not distribute surplus, and there is no mention of a reserve fund. The respondent cannot specify how the surplus has been used and believes that a reserve fund is not necessary once the financial situation is secure. (2) The co-operative has little surplus and therefore they do not take the distribution into serious account. The goal of the co-operative is not to make a significant surplus and thus there is no concern about this matter, even for the future. (3) The co-operative can only state which one (or two) of the three choices is (are) their priority, but they cannot reveal the percentage. (4) Co-operative banks have stricter rules for surplus management. The distribution is not their concern in the same way as for other types of co-operatives.

The surplus is usually distributed equally among members or based on share ownership (osuus) or profit share ownership (tuotto-osuus). For consumer co-operatives, the surplus may be distributed based on services used or purchases made. For producer co-operatives, the surplus may be distributed based on production, raw material delivered, or how much

and how well work has been done. A few co-operatives do not split the surplus but keep it all for business operations.

The surplus is paid to members as a bonus, discount, free use of service, interest on investment, or salary (extra payment at the end of financial year). Many co-operatives emphasized that they have been carefully designed the bonus and discount system to guarantee fairness to all members.

3.7 Trust and commitment

This part summarizes Questions 23 to 30 in the survey. We investigate co-operatives' management styles. We discover how trust is built between managers, between management and members, and among members.

The establishment of deeper trust and commitment is the foundation of close relationships within the enterprise, and thus is a key feature that differentiates co-operatives from other business forms. It is the foundation of co-operatives' success. This argument is not only approved by some respondents in our survey, as mentioned in Section 3.4 challenges for business development, but also promoted in other countries. For example, in Sweden, there is a code for the governance of co-operative and mutual enterprises to promote trust and commitment with respect to the directors of the enterprise.¹⁹ However, unfortunately, such a code for co-operatives does not exist in Finland and there is no enthusiasm towards developing one (Mähönen, 2019, pp.455-456, 461). Instead, some co-operatives have adopted the Finnish Corporate Governance Code, which is meant for limited liability companies.²⁰ To promote the idea of strengthening the connections and developing closer relationships within the co-operatives, We suggest that there is a need for a co-operative specific governance code in Finland.

We asked how important trust- and commitment-based management in co-operatives' activities are on a scale of 1 to 5, where 1 means not important and 5 means very important. Most of the respondents agreed strongly on the role of deep trust and commitment and some

¹⁹See the Swedish Co-operative Code at <https://svenskkooperation.se/code-cooperatives-mutuals/>

²⁰See the Finnish Corporate Governance Code at <https://www.cgfinland.fi/en/corporate-governance-code/>.

pointed out that closer relationships is the main difference between co-operative business model and other business models — with 103 giving 5 points and the rest 4.

The respondents viewed trust between management as very important. Managers should appreciate honesty and transparency. Regular meetings should be held, either openly or confidentially, to ensure that they understand and respect each other and have good relations. Information should be shared and opinions exchanged among units in a timely manner. They should commit to common goals and always seek to contribute to the co-operative. Decisions should be made democratically and fairly, not by a few managers. Once a plan is announced, promises should be kept. Finally, freedom to act, regular reporting, and demonstrating the ability to complete tasks are key to building trust among the management.

Trust and commitment between management and members was viewed as less important. A few co-operatives pointed out that there has been a lack of communication between these two parties in the past but this has not caused any big issues. Some co-operatives believed that they have room for improvement in this regard and this may have positive effects in certain areas. The respondents disclosed that meetings and open events among management and members had not been organised very often. There is difficulty in contacting the managers directly for individual affairs. Some members may have doubts about whether information is shared openly, promptly, transparently, and accurately. Some members believe that a open platform or channel to contact the management should be introduced. In this way, members would have more faith in the equal and fair treatment of all members as well as the management's abilities and accomplishments. The respondents also pointed out that since the management's image and reputation represents the co-operative's image and reputation, it affects business efficiency if the members do not trust the management.

Trust and commitment between members was viewed as not important. The respondents felt that it was not necessary to mind or interfere with other people's business. However, some respondents proposed free discussion after the end of co-operative meetings so that members could share their opinions on co-operative matters openly.

We also asked to what extent and in what ways members' opinions and interests were involved in everyday decision-making. The most popular ways to collect members' opinions were active discussion in regular meetings and utilizing various feedback channels, including surveys, online feedback forms, and members' service units. The most common way to deal with different opinions was voting. In some producer co-operatives, special consultants were employed to keep close contact with members and part of their duties is to collect feedback and pass it to the management in a timely manner. Participating in decision making by voting in general meetings and representative meetings was not easy, since members were not usually invited to these meetings. In addition, some feedback was collected via informal conversations, especially in small co-operatives where direct contact with CEOs and other top management was a feasible option. Participating in setting meeting agendas and regularly asking for input prior to final decision-making were much less used among the co-operatives.

While most co-operatives valued their members' opinion highly, some respondents pointed out that members' feedback and suggestions may not affect decision making, at least not in a timely manner — members of the Representative Council or other formal feedback channels might collect members' opinions once in two years.

3.8 Sustainability

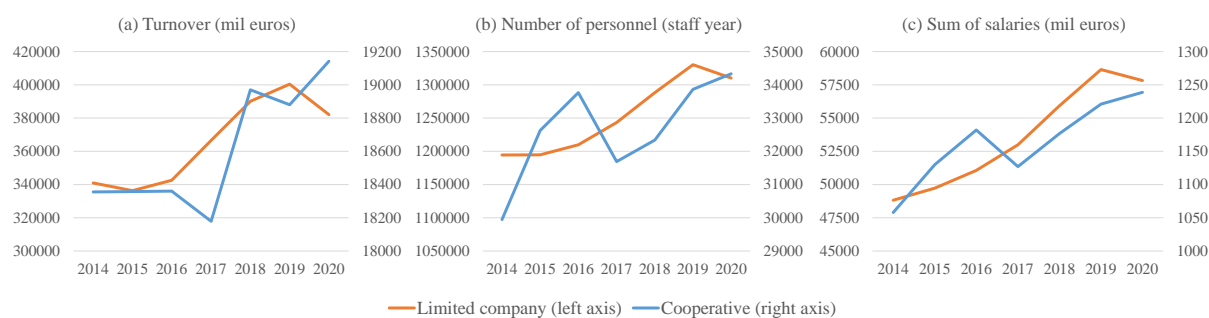
This part summarizes Questions 31 to 35 in the survey. We study which factors have led to the success of co-operatives in the domestic and the global market, and what factors may have limited their development in the past. Furthermore, we study which factors may continue to support the sustainable development of co-operatives and address potential challenges in the near future. Finally, we highlight the concrete actions and plans of some co-operatives. We report how the management takes sustainability into account in business operation and strategy setting. ²¹

²¹We documented co-operatives' concrete actions, strategies, and short-term plans for sustainable projects in the survey, and these are available upon request.

3.8.1 Trend in development

Co-operatives' growth cannot be separated from the Finnish economy, as it has provided an environment that supports the stable development of co-operatives. In return, co-operatives have made a significant contribution to the national economy, and their importance is increasing. According to the UN's Department of Economic and Social Affairs, only four countries' co-operative economy comprises over 10% of GDP, and Finland is one of them, reaching 14% (United Nation, 2014). Figure 8 reports the business performance of co-operatives in Finland from 2014 to 2020, compared to Finland's biggest GDP contributors — limited liability companies. In each graph, the left vertical axis is for the limited liability

Figure 8: Limited liability companies vs co-operatives 2014-2020



Source: Statistics Finland

companies (orange line) and the right vertical axis is for the co-operatives (blue line). Although there are ups and downs, overall, co-operatives have experienced considerable growth in terms of annual turnover, number of personnel, and sum of salaries, as have limited liability companies. Compared to the numbers in 2014 and in 2020, co-operatives' annual turnover, number of personnel, and sum of salaries have increased 4.3%, 14.6%, and 17.1%, respectively. Meanwhile, limited liability companies' growth rates are 12.1% in turnover, 9.7% in number of personnel, and 18.4% in sum of salaries.²²

Two points are worth noting. First, co-operatives are expanding but their business is

²²There is additional information for comparison. Look into the performance of another important GDP contributor: sole proprietors. Over the period 2014–2020, the turnover of sole proprietors declined by 7.2%. They also experienced a 26.3% decline in numbers, and a 15.6% decline in sum of salaries (Statistics Finland, 2021).

not as profitable. As shown in Figure (b), the number of personnel in co-operatives had a much higher growth rate and this indicates faster business expansion. In terms of turnover, as shown in Figures (a) and (c), the co-operatives' growth in turnover was much slower than that of limited liability companies. A lower average salary, to some extent, indicates less profit. The average salary in co-operatives has always been around 17% lower than that in limited liability companies throughout this period, although the growth rates in total salaries are very similar. Second, the co-operative business experienced greater variation while the limited liability companies enjoyed stable and continuous growth until the Covid-19 pandemic. These differences in business performance are largely driven by the fundamental difference in the nature of these two business forms. First, the objective of co-operative business is to serve its members and maximize members' benefits while limited liability companies' purpose is to serve their stockholders and thus they seek business growth and profit maximization. It is why co-operatives are also called co-operative societies — better products and services for local communities is co-operatives' prior concern, not an increase in revenue. Second, co-operative business is more dependent on local/regional/domestic economies, and the global market has less direct impact on it. Meanwhile, the business of limited liabilities follows the changes in the global market more closely. These arguments were also approved by many respondents.²³

More co-operatives have been established and operated in Finland but the magnitude of increase is much smaller compared to limited liability companies. A similar trend can be found in the other Nordic countries, particularly in Denmark and Iceland. Table 4 reports the total number of Finnish co-operatives from 2013 to 2020.²⁴ Overall, the figures demonstrate a clear increasing trend and the only two decreases were in 2017 and 2020. The number of co-operatives fell by 263 in 2017 compared to the 2016 figure: this was the

²³See business challenges reported in Section 3.4.

²⁴Note that the number of registered co-operatives operating in Finland provided by the Finnish patent and registration office (PRH) is higher than the number provided by Statistics Finland in each year. According to Statistics Finland, the difference in statistics comes from the exclusion of inactive enterprises from the statistics. The structural business and financial statement statistics include only those enterprises that exceed the statistical boundaries for turnover, number of personnel, balance sheet, and investments. For example, enterprises shall have more than 11,810 euros of annual turnover.

Table 4: Number of co-operatives in Finland 2013-2020

Year	2013	2014	2015	2016	2017	2018	2019	2020
Enterprises	3,379	3,426	3,589	3,720	3,457	3,544	3,620	3,568
Comparison		▲47	▲163	▲131	▼263	▲87	▲76	▼52

Source: Statistics Finland.

largest decline in the period. Also, the co-operative business were affected by the Covid-19 pandemic and the number dropped by 52 compared to the 2019 figure. The number of co-operatives achieved 6% increase in this period compared to limited liability companies' 18% increase.

3.8.2 Factors that support stable development

Apart from the positive impact from the national economy, there are three factors that have ensured the success of co-operative business model in the past and may continue to support their future development: historical reasons, popularity of co-operation, and comprehensive legal framework. While admitting these supporting factors, we also point out some issues that may limit the co-operatives' sustainable business development and thus suggest for improvements. First, historical reasons. Let us look at the establishment of co-operative business in the late nineteenth century. Co-operatives were initially established as an independent and democratic business structure against the control of Sweden and Russia²⁵ (See, for example, Seppelin (2000, pp.22-25) and Kuisma et al. (1999)). They were also intended to provide practical solutions for poor or absent services, especially in remote areas. As co-operatives represented social democracy as well as the establishment and improvement of basic services of the country, co-operatives were warmly supported by both citizens and the government. This unfailing support has continued and has become a valued source of business development.

Second, the popularity of co-operatives. Finland has a deep culture of business cooperation and its co-operative society is well-established to provide services that penetrate Finnish citizens' daily lives. Through over thirty years of development, co-operatives have

²⁵In Iceland, co-operatives played an important role in the path to independence. See Gunnarsson, G. (1972). The New Regime in Iceland. *New Left Review* 1972 Mar 1, pp.54-60, at p.55.

become an essential part of Finnish life. Co-operatives provide services ranging from agriculture and forestry, banking and insurance, housing, consumer, and social services to renewable energy supply. According to Pellervo's survey data in 2018, 60% of Finnish citizens have a positive attitude towards co-operative business. Among the Finnish citizens who intend to be entrepreneurs, 11% of them are interested in establishing co-operatives. Also from Pellervo's statistics: with a total population of over 5.5 million, Finland has around 7 million co-operative memberships. On average, each Finnish adult has 2.1 memberships — 90% of Finnish adults have at least one membership, 56% have at least two and 26% have at least three. In rural areas, with a total population of 2.1 million farmers, the rates of membership are much higher — 97% of farmers have at least one membership, 66% have four and 45% have five. On average, each farmer has 4.1 memberships, up from an average of 3.3 memberships in 1998.

However, according to a survey by Kantar TNS Agri in spring 2022, 64% of Finns are not familiar with co-operative entrepreneurship (See Eliisa Troberg's inauguration speech, 2022).²⁶ Some respondents to our survey also mentioned that some people do not understand what is a co-operative business and its difference from other business models. We therefore suggest an improvement for co-operative education in Finland and a platform for better co-operative study, for example, courses in open university or recorded lectures online.

Third, law. Finland has a very comprehensive legal system for co-operatives. The system is significantly friendly to co-operatives and provides numerous opportunities for development. The concept of co-operation first arrived in Finland with the establishment of Pellervo Confederation of Finnish Co-operatives in 1899, and only three years after, the first law on co-operation was introduced. Since then, there have been several main updates, including the Co-operative Act of 1954 and 2001, until the implementation of the current act. The objectives of these reforms were to increase the operating opportunities of Finnish co-operatives, as well as improving the operating conditions of co-operatives in

²⁶See Eliisa Troberg's published inauguration speech at www.utu.fi/fi/yliopisto/akateemiset-juhlat/professoriluennot/mari

general and in relation to competitors by reducing and streamlining formal requirements and by providing new procedures. The latest reforms also aimed at supporting small co-operatives by simplifying the setting-up requirements, including allowing one founder to establish a co-operative and not requiring a minimum amount of capital investment. By comparison, in Denmark and Norway, the co-operative sector was reluctant to pass initiatives for co-operative legislation for over a century. Today, Denmark is the only European country that has not passed a Co-operatives Act and Norway passed its first Co-operatives Act only in 2007.

However, there are downsides to the co-operative legislation in Finland that may affect co-operatives' development. Therefore, there may have room for improvements that can further ensure the co-operatives' business development. First, the Finnish tax legislation can be more co-operatives friendly. The Finnish co-operative specific tax legislation was comprehensively amended in 2015 and the goal of these amendments was, on one hand, to bring co-operatives to the same level as companies and, on the other hand, to take into better consideration on the particularities of co-operatives. Despite these improvements, Kukkonen and Torkkeli (2022) have argued that Finnish tax legislation could be further developed so that it would fit better the needs of co-operatives (e.g., workers' co-operatives), hence, encourage entrepreneurs to adopt the co-operative business form.

Second, the FCA of 2013 has faced criticism from Finnish legal scholars for being too "company law like" (or so called "companization of co-operative law") (See, for example, Vahtera (2013) and Fici et al. (2017)). Also, it has diverged greatly from the ICA Principles.²⁷

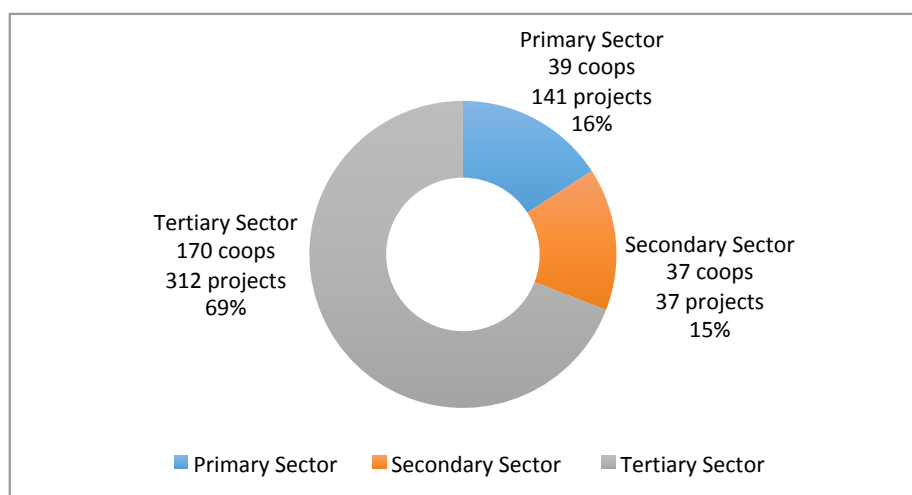
3.8.3 Fields of sustainability contribution

We document co-operatives' concrete actions, short-term plans, strategies and long-term targets towards the UN's 17 Sustainable Development Goals (SDGs). We find direct evidence of 184 co-operatives (75% of total sample) that have made contribution to sustainability.

Table 5 summarises the co-operatives' sustainability related projects by sectors. 246

²⁷As a contrary example, the Co-operatives Act of Norway (2007) was strongly influenced by the ICA Principles.

Table 5: Summary of sustainability projects by sectors



co-operatives have a total of 490 sustainability projects, 141 (16%) of which are contributed by the primary sector, 37 (15%) by the secondary sector and the remaining 312 (69%) by the tertiary sector. On average, each co-operative in the primary sector has been involved in 4 sustainability projects, which is significantly more than the cooperatives in the secondary (1 project on average) and the tertiary sector (2 projects on average).

Table 6 summarises the co-operatives' sustainability related projects by industries. Over

Table 6: Summary of sustainability projects by industries

Industry	Number of coops	Amount of projects	Average	Percentage
agriculture, forestry and fishery	39	141	4	28.8%
financial services	29	95	4	19.4%
wholesale and retail trade	22	65	3	13.3%
professional, scientific and technical services	41	52	2	10.6%
information and communication	16	30	2	6.1%
culture, music and art	26	26	1	5.3%
energy	16	25	2	5.1%
social, health care and welfare	9	20	3	4.1%
real estate	9	11	2	2.2%
water services	14	6	1	1.2%
education	5	6	2	1.2%
construction	5	6	2	1.2%
accommodation and food service	5	3	1	0.6%
manufacture of textiles, metals, reproduction of media	4	2	1	0.4%
administrative and support service	4	2	1	0.4%
transportation and storage	2	0	0	0.0%
Sum	246	490	2	100%

72% of the sustainability investments come from four best performing industries. They are

agriculture, forestry and fishery (28.8%), financial services (19.4%), whole sale and retail trade (13.3%), and professional, scientific and technical services industry (10.6%).

The financial services industry (a total of 95 projects from 29 cooperatives), and agriculture, forestry and fishery industry (a total of 141 projects from 39 cooperatives) have done exceptionally well. Co-operatives in these two industries have been involved in an average of 4 sustainability projects.

Other big contributors are from the whole sale and retail trade industry, where 22 cooperatives have invested in a total of 65 projects, that is, 3 projects on average. Also, nine cooperatives in the social, health care and welfare industry have a total of 20 projects.

We find considerable contributions in 6 industries, in which co-operatives have 2 projects on average. They are energy, information and communication, education, construction, real estate, and professional, scientific and technical services.

However, co-operatives in some industries have not made too much effect. They are culture, music and art, water services, manufacture of textiles, metals, reproduction of media, accommodation and food service, and administrative and support service, each of them has an average of 1 sustainability project. In particular, we do not find clear evidence of sustainability investments made by the co-operatives in the transportation and storage industry.

3.8.3.1 Fields of contributions by sectors

Co-operatives in different sectors have a very different focus. Table 7 reports the fields of contributions made in the primary sector, the secondary sector and the tertiary sector, categorized by the 17 SDGs. Many investments have targeted decent work and economic growth (a total of 124 projects), responsible consumption and production (54), good health and well-being (48), affordable and clean energy (45), and climate action (43). The two most popular fields are directly connected to business operation.

Much less projects target clean water and sanitation (a total of 2 projects), gender equality (5), zero hunger (8), and no poverty (9). However, in our point of view, this is

Table 7: Number of sustainability projects by sectors

	Number of coops	UN 2030 Agenda					
		1. no poverty	2. zero hunger	3. good health and well-being	4. quality education	5. gender equality	6. clean water and sanitation
Primary Sector	39	0	4	14	2	2	0
Secondary Sector	37	0	0	1	2	0	0
Tertiary Sector	170	9	4	33	18	3	2
Sum	246	9	8	48	22	5	2

	Number of coops	UN 2030 Agenda					
		7. affordable and clean energy	8. decent work and economic growth	9. industry, innovation and infrastructure	10. reduced inequalities	11. sustainable cities and communities	12. responsible consumption and production
Primary Sector	39	16	23	3	3	1	21
Secondary Sector	37	11	6	6	0	0	5
Tertiary Sector	170	18	95	21	9	9	28
Sum	246	45	124	30	12	10	54

	Number of coops	UN 2030 Agenda				
		13. climate action	14. life below water	15. life on land	16. peace, justice and strong institutions	17. partnerships for the goals
Primary Sector	39	19	8	22	1	2
Secondary Sector	37	4	0	0	0	2
Tertiary Sector	170	20	8	6	10	19
Sum	246	43	16	28	11	23

not an alarming finding as Finland has done so well in these areas and there is little room for further improvement. According to the Yale University's statistics (2023), Finland has the highest quality drinking water and sanitation in the world with a full Environmental Performance Index score. In terms of gender equality, Finland holds the topmost ranks both in the EU (by the European Institute for Gender Equality's Gender Equality Index 2023, a score of 74.4, 8th) and in the world (by the World Economic Forum's Global Gender Gap Index 2023, a score of 0.863, 3rd). Finland is a high income country and thus poverty and hunger is also not an issue to itself.

When we look into each sector's sustainability projects separately, we find that both the primary sector's and the tertiary sector's most focused and least focused areas are mainly in line with the overall preference of co-operatives, and the only exception is the SDG 15 life on land. A total of 22 projects make life on land the primary sector's second favourite area while it is not particularly popular among the other sectors. We note that the co-operatives in the secondary sector have very different preferences. The top three most contributed areas of the secondary sector are affordable and clean energy (11 projects), decent work

and economic growth (6), and industry, innovation and infrastructure (6) while there are many fully ignored areas with zero contribution.

3.8.3.2 Fields of contributions by industries

We group the co-operatives into 16 industries based on their business activities and discuss each industry's field of contribution separately. Table 8 reports the number of sustainability related projects by industries. The most active industries are wholesale and retail trade and financial services, each involved in all 17 fields.

Three industries, agriculture, forestry and fishery (contributions in 15 fields) culture, music and art (12), and professional, scientific and technical services (10), have also made significant contributions, each involved in at least 10 fields. However, there is room for improvement. Besides the four commonly ignored areas (i.e., water and sanitation, gender equality, zero hunger, and no poverty) as mentioned above, another five areas attracted less attention. The culture, music and art industry has no project targeted for the SDG 14 life below water or the SDG 15 life on land. The professional, scientific and technical services industry has no contribution towards the SDG 11 sustainable cities and communities, the SDG 12 climate action, the SDG 15 life on land and the SDG 17 partnerships for the goals.

Four industries have not done well based on these figures. They are manufacture and reproduction of media (contributions in 2 fields), accommodation and food service (2), and administrative and support service (1), all have narrowed their focus on business operation related issues (i.e., target for decent work and economic growth, or responsible consumption and production), and transportation and storage (0) with no clear evidence of contribution in any area.

Figure 9 summarises the weak areas that have received less attention from the co-operatives and the strong areas that have been contributed significantly by the co-operatives. Figure (a) on the left reports the least popular areas and the number of industries that have made zero contribution targeted for these areas. They are, starting from the least contributed area, SGD 6. clean water and sanitation, SGD 5. gender equality, SGD 1. no poverty,

SGD 2. zero hunger, and SGD 15. life on land followed by SGD 11. sustainable cities and communities, and SGD 14. life below water.

The co-operatives have clear preference in certain areas, as shown in Figure (b) on the right. We find evidence that the co-operatives in 14 industries have made contribution towards the SGD 8 decent work and economic growth, each has been involved in at least one sustainability related projects that targets for it. There are 7 popular areas, from the

Table 8: Number of sustainability projects by industries

	industry	number of coops	UN 2030 Agenda					
			1. no poverty	2. zero hunger	3. good health and well-being	4. quality education	5. gender equality	6. clean water and sanitation
1	wholesale & retail trade	22	1	2	8	2	1	1
2	financial services	29	5	1	10	3	2	1
3	agriculture, forestry & fishery	39	0	4	14	2	2	0
4	social, health care & welfare	9	0	1	6	0	0	0
5	culture, music & art	26	1	0	3	5	0	0
6	energy	16	0	0	0	0	0	0
7	water services	14	0	0	0	1	0	0
8	information & communication	16	0	0	0	0	0	0
9	education	5	0	0	0	3	0	0
10	manufacture, reproduction of media	4	0	0	0	0	0	0
11	construction	5	0	0	1	1	0	0
12	transportation & storage	2	0	0	0	0	0	0
13	accommodation & food service	5	0	0	0	2	0	0
14	real estate	9	0	0	0	0	0	0
15	administrative & support service	4	0	0	0	0	0	0
16	professional, scientific & technical services	41	2	0	6	3	0	0
	sum	246	9	8	48	22	5	2

	industry	number of coops	UN 2030 Agenda					
			7. affordable and clean energy	8. decent work and economic growth	9. industry, innovation and infrastructure	10. reduced inequalities	11. sustainable cities and communities	12. responsible consumption and production
1	wholesale & retail trade	22	9	10	2	1	1	10
2	financial services	29	6	22	7	4	2	6
3	agriculture, forestry & fishery	39	16	23	3	3	1	21
4	social, health care & welfare	9	0	5	2	0	0	2
5	culture, music & art	26	1	6	2	1	1	1
6	energy	16	11	3	2	0	0	4
7	water services	14	0	0	4	0	0	0
8	information & communication	16	1	13	3	0	0	6
9	education	5	0	2	1	0	0	0
10	manufacture, reproduction of media	4	0	1	0	0	0	1
11	construction	5	0	3	0	0	0	1
12	transportation & storage	2	0	0	0	0	0	0
13	accommodation & food service	5	0	0	0	0	0	1
14	real estate	9	0	2	2	1	5	0
15	administrative & support service	4	0	2	0	0	0	0
16	professional, scientific & technical services	41	1	32	2	2	0	1
	sum	246	45	124	30	12	10	54

(a) part 1

	industry	number of coops	UN 2030 Agenda				
			13. climate action	14. life below water	15. life on land	16. peace, justice and strong institutions	17. partnerships for the goals
1	wholesale & retail trade	22	5	4	1	1	6
2	financial services	29	8	2	4	4	8
3	agriculture, forestry & fishery	39	19	8	22	1	2
4	social, health care & welfare	9	1	0	0	0	3
5	culture, music & art	26	2	0	0	1	2
6	energy	16	3	0	0	0	2
7	water services	14	1	0	0	0	0
8	information & communication	16	3	1	1	2	0
9	education	5	0	0	0	0	0
10	manufacture, reproduction of media	4	0	0	0	0	0
11	construction	5	0	0	0	0	0
12	transportation & storage	2	0	0	0	0	0
13	accommodation & food service	5	0	0	0	0	0
14	real estate	9	1	0	0	0	0
15	administrative & support service	4	0	0	0	0	0
16	professional, scientific & technical services	41	0	1	0	2	0
	sum	246	43	16	28	11	23

(b) part 2

most contributed to the less contributed, are SGD 8. decent work and economic growth, SGD 9. industry, innovation and infrastructure, SGD 12. responsible consumption and production, SGD 4. quality education, and SGD 13. climate action followed by SGD 3. good health and well-being and SGD 7. affordable and clean energy.

3.8.4 Decision making on Sustainability investments

We investigate how sustainability projects work in practice in co-operatives, starting from proposal, decision-making process, budget control, supervision, auditing to advertising.

3.8.4.1 Who makes proposals?

In principal proposals can come from everyone, but in reality, many come from outsiders such as the local authorities, the Association for Finnish work (Suomalaisen Työn Liitto), the Contingency Fund Committee, business partners, customers, and networks. Internal proposals come mainly from high-ranking management such as the chair or members of the board of directors, CEO, CIO, and CFO, but in principal, co-operatives welcome ideas from any employees or members. Some sustainability teams have been active in this matter.

Some respondents mentioned that they mainly follow the group co-operative's proposals

Figure 9: Strong areas and weak areas

SDGs Targets	Number of industries with zero contribution	SDGs Targets	Number of industries contributed
6 CLEAN WATER AND SANITATION 	14	8 DECENT WORK AND ECONOMIC GROWTH 	14
5 GENDER EQUALITY 	13	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 	12
1 NO POVERTY 	12	12 RESPONSIBLE CONSUMPTION AND PRODUCTION 	12
2 ZERO HUNGER 	12	4 QUALITY EDUCATION 	10
15 LIFE ON LAND 	12	13 CLIMATE ACTION 	10
11 SUSTAINABLE CITIES AND COMMUNITIES 	11	3 GOOD HEALTH AND WELL-BEING 	8
14 LIFE BELOW WATER 	11	14 LIFE BELOW WATER 	8

(a) Weak areas

(b) Strong areas

and are rarely involved with their own initiatives.

3.8.4.2 Who performs cost-benefit analyses?

In many cases, whoever makes proposals is responsible for providing the necessary calculations and analysis, usually together with accounting, finance, and risk management consultant or other specialists.

According to the rules of many co-operatives, depending on the estimated cost of the project, a cost-benefit analysis may be conducted. For small projects, there is usually no

proper analysis. Often only verbal discussion is involved. For large projects with relatively high costs, for example over €50,000, (the chair of) the board of directors or sometimes development director makes a cost-benefit analysis, taking both economic and environmental impacts into account. Often this analysis is not published.

Notably, some co-operatives seek professional assessments from asset management companies that provide corporate social responsibility scoring for every investment they plan to make.

3.8.4.3 Who makes decisions?

In principle, projects with high estimated costs must be approved by the board while the council of representatives sets the budget. For small projects, CEO or regional managers can decide. If any disagreement arises, the board or CEO makes the final decision, depending on the budget of the projects.

For co-operative banks, local banks can make decisions independently while the groups are responsible for giving suggestions.

3.8.4.4 Internal supervision

A total of 62 co-operatives carry out internal supervision on progress once the sustainable projects start. Some internal supervision is voluntary while some is required by official guidelines, laws, and regulations.

Often, the personnel/units responsible for each project take care of their own supervision. A common supervisory procedure is as follows. The sustainability manager, the operative management, or other internal auditor monitors the progress of projects and reports to the board on how well the sustainability projects have performed on a regular basis, the period of which may be months or years. The Board conducts a review and evaluation of the implementation of the plans, and decides whether the program needs to be updated and how the goals might be better realised.

For co-operative banks, the local bank reports to the group while the group gives

suggestions. In the agricultural sector, co-operatives send specialists to farms for monitoring. Some co-operatives use internal surveys.

The progress of projects is recorded in social responsibility reports, financial statements, statements of non-financial information or activity reporting sections in annual reports, or separate reports. The reports are sometimes required by national laws or other global standards, for example, the Accounting Act amendment of 2016 and Global Reporting Initiative (GRI) standards. Usually, the group is responsible for supervision and reporting; co-operative members are not required to issue monitoring reports.

3.8.4.5 External supervision

A total of 39 co-operatives carry out external supervision on the progress of sustainable projects. Some external supervision is conducted by authorities such as the Finnish Competition and Consumer Authority (Kilpailu- ja kuluttajavirasto or KKV), the municipal environmental protection authorities, and the Centers for Economic Development, Transport and the Environment (ELY-keskus or ELY Centers). For examples, the municipality sends inspectors to supervise water filters and waste management on an ongoing basis.

Some external supervision is voluntary, for example, by consumers, owner-customers, members, and NGOs. However, some co-operatives pointed out that consumers give feedback without measuring in a professional way.

3.8.4.6 Marketing

Many co-operatives believe that, as enterprises, they have the obligation to inform the public about their sustainability projects. It is a good way to advertise their own business and generate positive impacts on business image and reputation. It also promotes the sustainability movement in society at large. However, a considerable number of co-operatives do not advertise their sustainability projects for two main reasons. First, some believe that voluntary sustainable moves are their own business and do not like the idea of overselling the “right thing” that people should do. Second, the cost of advertising is high. They would

rather spend on advertising the business itself.

Although most of the time co-operatives have to foot the advertising costs themselves, the group sometimes provides financial assistance by advertising the projects through the group's channels.

3.8.4.7 Public procurement

The Guide to Social Responsible Procurement of 2017 makes it clear that social perspectives can be woven into different stages of procurement. Co-operatives can stand out from competitors and differentiate themselves by having a deep consideration for social responsibility, which is required and appreciated by the authorities (Hämäläinen and Zheng, 2020). A total of 32 co-operatives are involved in public procurement, and among them, 13 have been following the requirements suggested by the authority closely. They also pointed out that the requirements have regulated their behavior.

3.8.5 Sustainability unit

More co-operatives have employed so-called sustainability analysts, sustainability specialists, or business consultants (for whom a small part of their duties concerns sustainable business development). Some large co-operatives have established sustainability team/department/units, which have been working closely with legal, finance and auditing units. The sustainability team often consists of people of different professions, such as economics, financial budgeting, energy and climate sciences, data science, and law.²⁸

The sustainability team is responsible for identifying and advocating for sustainable options and voluntarily making suggestions to the board, regional business managers, or individual departments. If there are new sustainability laws or guidelines published by authorities that require the co-operatives to take certain actions, the sustainability team analyses the situation with the help of other units, and then sends instructions and

²⁸The establishment of sustainability units and employment of sustainability specialists of course does not distinguish co-operatives from limited liability companies; many companies, especially the large ones, have similar units and/or employees.

suggestions to the co-operative. The co-operative will respond to these instructions and suggestions, and decide what actions to take accordingly. Common proposals from the sustainability team aim at increasing operational efficiencies, improving employee welfare and working conditions, waste management and recycling, or the reduction of pollution.

3.8.6 Current issues

We report some current issues in co-operatives.²⁹ First, misunderstanding of sustainability: many co-operatives, not only small co-operatives but also large ones, think that sustainability equals the actions that manage the enterprise's effects on the environment. Two co-operatives rejected our invitations for interviews because they thought that the nature of their business causes pollution and thus is not environmental friendly. For that reason, answering our survey would damage their business image and reputation.

Second, gender inequality: few interviewees mentioned that gender inequality exists in the co-operatives they work for. Interestingly, their employers are all large co-operatives and they are all high-ranking management. They believed that females were employed at their current or similar-ranking positions only because they were better than other candidates in every aspect, including work experience, educational background, business achievements, and other selection criteria. They pointed out that although Finland is widely regarded as one of the most gender equal countries,³⁰ top management positions are very male-dominated even when female candidates are better or similar in skills and abilities. In this regard, co-operatives have lagged behind since this is probably less of a problem in Finnish listed companies. In Finland, listed companies must follow the Corporate Governance Code, including its gender equality provisions. The author suggests that the gender inequality issue could be improved if there were similar requirements in the

²⁹Note that the names of the respondents and their employers are not disclosed here. The conversations have been documented and recorded with the respondents' permission. The author may publish non-identifying details with the respondents' permission.

³⁰Finland was the second most gender equal country according to the World Economic Forum's Global Gender Gap Report 2021 and 2022, and dropped to the 3rd in 2023. Finland was among the top 5 gender equal countries according to the European Institute for Gender Equality in 2022, and dropped to the 8th in 2023. See <https://eige.europa.eu/gender-equality-index/2023/country/FI> accessed on 24 April, 2023.

co-operative sector.

Third, diversity: our survey notes that the average age of top management in co-operatives is high. Age limit in recruitment is essentially designed to ensure years of work experience; however, has led to a clear bias in age. Some respondents mentioned that young people are usually not interested in decision-making, and that even though they would love to include young people in certain management roles, they did not receive job applications from younger age groups. S group has recently tried to improve this issue and encourage younger applicants by lowering the age limit for board members. People of different ages often have different backgrounds and valuations, and thus age diversity in management may lead to different opinions and attitudes, for example, towards innovation, utilization of new technology, or research and development.

Fourth, legal support. The level of awareness of sustainability laws and non-legal guidelines, as reported in Section 3.10, is surprisingly low. Many co-operatives do not follow or have difficulty fully understanding these laws and regulations, and this restricts the progress of sustainable development.

Fifth, competition law vs member benefits. It is common that co-operatives offer special prices for products and exclusively free/cheaper use of service to their members. These may violate principles of equality and fairness in market competition. Some pressure has been imposed on these co-operatives for changes in pricing. While this is certainly good for market competition, especially from limited liability companies' point of view, it clearly damages co-operatives' members' benefits.

3.9 Finance

This part summarizes Questions 36 to 38 in the survey. We report the fundraising methods. More importantly, we look into a recent innovation in financing and figure out how co-operatives have utilised it.

One of the main objectives of the FCA of 2013 is to make raising capital easier. It allows co-operatives to issue stocks to the public. However, the stocks issued by co-operatives has

different features and brings limited rights to investors compared to stocks issued by publicly listed companies. While co-operatives issue shares (osuudet) to members, co-operative rules may allow non-members to buy stocks (osakkeet).³¹³²

However, issuing stocks is still an uncommon instrument for co-operatives. 4 co-operatives have issued or have plans to issue stocks, according to the survey. For example, Oma Maa began to issue stocks from early 2022.³³ Seven co-operatives think issuing stocks is theoretically possible but impossible in practice due to their structures or rules. The reasons for co-operatives to refrain from utilising this financing method are from both supply and demand sides — it can be concluded as low supply, low demand. From co-operatives' prospective, the general opinions are that the instrument is quite “restricted” as it does not give voting rights to the (non-members) stock holders, and the co-operatives are not familiar with such rule. Also, the legal provisions concerning stocks are rather complicated. From investors' prospective, since subscribing stocks does not automatically guarantee investors memberships and other rights, as in limited liability companies, investing in co-operatives in this way does not have competitive advantages. It is a seemly worse investment opportunity. Therefore, the investors' interest and demand has been low.

Table 9 summarizes the primary sources of financing. The traditional financing methods

Table 9: Funding methods

Funding methods	Number
Income financing (from normal business operation)	69
Member contribution	99
Investors who subscribe for profit shares	22
Local community	28
Capital loans	65
Crowdfunding	2
Token/blockchain crowdfunding	0
Other	33

are more popular. Member contribution refers to member fees, members' investment in

³¹The legal nature of co-operative stocks can be found in Collin (2018)'s article.

³²More discussion of co-operative shares and stocks can be found in Zheng and Pönkä (2023)'s article.

³³See <https://www.omamaa.fi/shares/> accessed on 7 April, 2023.

certain projects, or members' donations. 99 co-operatives seek funding from members. Many co-operatives mentioned that they have increased member fees. Loans from banks or financial institutions and income financing are also common. Income financing refers to any financing methods through the use of profits generated by co-operatives' standard business operations, including standard debt financing and equity financing. OP co-operative banks seek investment from those who subscribe to profit shares (*tuotto-osuus*), but this is limited to the bank's owner-customers. The minimum subscription is €100 and the upper limit is set by each OP co-operative bank. Some co-operatives redeemed additional shares (*lisäosuus*) for capital gains. In contrast, new funding methods are not commonly used. Only 2 co-operatives have utilised crowdfunding and none have used token/blockchain funding.

Among the other means of financing, some co-operatives leased or sold their property during difficult times and some revenue was generated from projects apart from normal business operations. Notably, several co-operatives have received financial supports/grants from either foundations or state authorities. For example, Business Finland provides financial support to micro, small, and medium-sized co-operatives for research or product development purposes. The European Commission provides financial support for rural development.

In terms of new funding methods, 40 respondents are aware of token/blockchain crowdfunding and 26 of them know how to utilise blockchain in governance (including decentralized governance, distributed decision-making, identification etc.) and utilize blockchain in supply chain management (including tracking the origin of resources, carbon footprints, etc.) However, most of the respondents revealed a clear preference for traditional methods to raise funding, e.g., loans, and felt no need to consider new methods. Many respondents thought blockchain was irrelevant. Some pointed out that the regulations and administrative structure of the co-operative would make it hard to use blockchain.³⁴

³⁴More discussion about novel means of co-operative financing (e.g., crowdfunding and tokens) can be found in Mähönen (2018); Gurkov (2022, 2023).

3.10 Law and regulation

This part concerns law and regulation related issues, including non-legal guidelines suggested by authorities or non-governmental organizations. It is further divided into two subsections. The first subsection focuses on the FCA. It summarizes questions 9 and 10 in the survey. We study how the FCA has affected co-operatives: (1) whether the FCA has brought challenges to co-operatives and how the co-operatives dealt with them, and (2) whether the FCA has brought potentials and benefits to co-operatives and how the co-operatives utilized them.

We first asked whether the co-operatives had made changes after the reform of the FCA of 2013. Many co-operatives said yes, and that they had updated their co-operative rules regularly. After the reform of the Act, when new amendments in laws or new documents are published by the authorities (such as in sustainability), the legal team (coordinating with the sustainability team) analyses the amendments and sends instructions and suggestions to the co-operative. The co-operative responds to these instructions and suggestions, and consider relevant changes in rules. For example, S group's recent update on the age limits of board members is set for diversity following the UN 2030 Agenda for Sustainable Development (2030 Agenda) and the Sustainable Development Goals (SDGs) of 2015. Some small co-operatives mentioned that they lacked legal support and would not be able to react quickly to the policy changes. Co-operative banks considered themselves as “model takers” — once the group co-operative updated the co-operative rules, they followed.

There is a trend for many decisions to come from the Representative Councils / Representatives Meetings instead of General Meetings. That is to say, the General Meetings are often replaced by the Representative Meetings and this grants the Representative Meeting the highest decision-making power.

The Representative Councils mainly consist of members/owner-customers, but there may be a few seats for staff. The administration, such as the chair and members of the Board of Directors, President of the Supervisory Board, and other top management, can attend Representative Meetings, along with invited outside specialists, such as auditors. Non-members are generally not allowed to attend Representative Meetings and do not have

voting rights — this also applies to the co-operatives' stock investors since, the subscription of stocks does not guarantee membership.

The reform of the FCA has affected some co-operatives' issuance of shares and the determination of share price and membership fees. Some co-operatives have also made significant equity investments.

The second subsection summarizes Questions 39 to 40 in the survey. It focuses on other laws, regulations, and official guidelines and recommendations published by the authorities or non-governmental organizations that co-operatives (may) follow. Depending on which industries the co-operatives are in, they may need to follow other regulations besides the Act.

For example, banks and insurance and credit unions follow the FCA on Co-operative Banks and Other Co-operative Credit Institutions of 2013 (laki osuuspankeista ja muista osuuskuntamuotoisista luottolaitoksista 423/2013). Housing co-operatives may, to some extent, be affected by the Limited Liability Housing Companies Act of 2009, which legally applies to housing stock companies. The Competition Act of 2011 (kilpailulaki 948/2011), the Accounting Act of 1997 (kirjanpitolaki 1336/1997) (accounting standards for co-operatives), and labour legislation, including the Employment Contracts Act of 2001 (työsopimuslaki 55/2001), also restrict co-operatives' establishment, operation, and development.³⁵

We investigate the co-operatives' awareness of some sustainability documents and whether the co-operatives have followed them closely. Our main focus is non-legal guidelines on sustainability and social responsibility. The reasons for not including many legal documents, such as the Council Regulation on the Statute for a European Co-operative Society of 2003 (Regulation (EC) No 1435/2003) and Law on European Co-operative Societies of 2006, in the survey are as follows. First, co-operatives must be aware of and have the obligation to follow all the laws and regulations. Second, many sustainability laws

³⁵Since there is no European Co-operative Society registered in Finland, the Council Regulation on the Statute for a European Co-operative Society of 2003 and the Law on European Co-operatives of 2006 (Eurooppaosuuskuntalaki 906/2006) do not concern the Finnish co-operatives in this study.

concern climate and environment protection such as waste management; however, we would want to find out what co-operatives know about sustainability apart from these climate and environmental aspects. Third, we wish to study co-operatives' incentive and managements' attitude towards the non-legal binding guidelines and voluntary contribution to the society.

The documents are grouped according to their main objectives. The numbers in the parentheses after the listed documents show the number of co-operatives that have closely followed and adhered to the documents.

International:

- Statement on the Co-operative Identity – the Values and Principles of the co-operative movement of 1995 and the Guidance Notes on the Co-operative Principles of 2016 by the ICA (29)
- Guidelines on CSR, including the OECD Guidelines for Multinational Enterprises of 2011, ISO 26000 of 2010, Tripartite declaration of principles concerning multinational enterprises and social policy by the International Labour Organization of 2017, and UN Guiding Principles on Business and Human rights of 2011 (2)
- Plans and voluntary initiatives on sustainability, including the UN 2030 Agenda for Sustainable Development (2030 Agenda) and the Sustainable Development Goals (SDGs) of 2015, and UN Global Compact of 2000 (69)

Finnish:

- Corporate social responsibility reporting by the 2016 amendment to the Accounting Act of 1997 (72)
- Responsible public procurement by the Guide to Socially Responsible Procurement of 2017, published by the Ministry of Economic Affairs and Employment (25)

As reported in the parentheses, the number of co-operatives who are aware and adhere to these documents is surprisingly low. The co-operatives mentioned that their knowledge of these documents comes from and is largely limited to two sources: the group co-operatives and Pellervo Coop Center.

The highest awareness (72) comes from corporate social responsibility reporting, as regulated by the amendment to the Accounting Act in 2016. Listed companies, credit institutions, and insurance companies with an average of more than 500 employees during the financial year, and turnover exceeding €40 million or a balance sheet total exceeding €20 million, have a legal obligation to provide such reporting. Co-operatives that do not fit this requirement can voluntarily provide reporting on this matter.

A total of 25 co-operatives have been closely following the Guide to Socially Responsible Procurement published by the Ministry of Economic Affairs and Employment. Although 25 is a very small number, it is good to know that 12 co-operatives follow the Guide even though they have not been suppliers of public procurement — as reported in Section 3.8, 13 co-operatives have been directly involved in public procurement in practice.

4 Conclusion

Sustainability for co-operatives means a balance among society, environment, economics, and probably more importantly, consideration for members' rights.

The aim of this article has been to study various aspects of co-operative business in Finland through a survey. We study how co-operative business has performed and how co-operatives have reacted to changes in their business environment, including changes in the regulatory and legal framework. We have provided data evidence that describes the past, current state, and future prospects of co-operatives. Novel insight into Finnish co-operatives is provided through a survey: evidence from 246 co-operatives of different sizes and various industries, representing 7% of Finnish co-operatives. The survey covers various areas such as business development, business decision-making, management and operation, sustainable development and social responsible investment, financing methods and use of information technology, as well as laws and regulations. Considering economic, historical, and cultural aspects, we analyse the factors that have led to the success of Finnish co-operatives in the domestic and international markets, the factors that may have limited their development in the past, and suggest improvements that may support their

sustainable business development in the near future.

The Governmental Bill concerning the co-operatives Act (185/2012) stated that one of the primary goals of the 2013 amendment was to enhance the competitiveness of co-operatives.³⁶ Many co-operatives in our study have adjusted their co-operatives rules and/or business operations according to the reform of the FCA. However, how the co-operatives utilize and benefit from the new rules in practice is uncertain. The respondents did not clearly state their opinions on the direct impacts of the reform on business operation and development. Also, we try to use statistics on the historical business performance of selected co-operatives, each representing its own industry, to study the effort of the FCA. Business growth has continued after the implementation of the FCA in 2014. However, comparing this with business performance before 2014, we did not find a clear change in trend of growth: that is to say, we cannot conclude that the FCA has directly brought business potential or challenges to co-operatives.

Another main objective of the reform of the FCA is to help increase business potential and to support the establishment of small businesses. We did not find a clear evidence that this objective has been well achieved as the number of co-operatives has increased but in a rather low increase rate since 2013. Its increase is significantly lower than that of limited liability companies in the same period.

What also remains uncertain is how the one-founder co-operative rule can be utilized in reality. Finally, not many co-operatives have issued stocks, mainly because investors exhibit low demand for stocks that do not automatically guarantee membership and member rights.

The common challenges that co-operatives have faced in the past decade come mainly from financial and legal aspects. Many co-operatives have difficulty raising funds and/or require legal assistance. In addition, the study detects a surprisingly low awareness of some sustainability documents, especially non-legal guidelines. A deeper understanding of the concept of sustainability is also a must. The author, together with many respondents, believes that an improvement in these issues can support co-operatives' stable business

³⁶See Hallituksen esitys 185/2012 eduskunnalle osuuskuntalaiksi ja eräiksi siihen liittyviksi laeiksi.

growth.

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