

THE STRUCTURAL EROSION OF THE CO-OPERATIVE PRINCIPLE AND CHANCES TO REVERT THE TREND

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A. The idea of the founders F.W. Raiffeisen and H. Schulze-Delitzsch

In the context of the 19th century Prussian economic centralism, co-operatives were founded to counter political, confessional and economic dependence. Trade, small enterprises and agriculture were not able to find lenders for the financing of necessary investments. The co-operatives operated as risk-communities – each member guaranteeing to the extent of his full belongings, thus enabling purposeful economic activities. Prof. Oswald Hahn called the co-operatives “the inventors of the modern service enterprise”. Basic cooperative principles were free will (it is each member's choice whether or not to engage with the cooperative), subsidiarity (what the individual can do on his own will not be taken over by the community) and the principle of regionality (allowing a clear perception and quick decision making). The founding of the co-operative banks solved three problems : they offered bank services locally, they had the ability to examine the credit-worthiness and economic potential very rapidly thanks to the personal knowledge of the borrower and, finally, they offered bank services at a low cost.

B. The significance of co-operative banks from an economic point of view

The basic pillars for the co-operatives' success are the cultivation of personal relations, customer proximity and, as a result of that, a good comprehension about local problems. The large number of motivated staff and engaged shareholders and high competence for local decisions enables co-operative banks to exploit market opportunities optimally. The bundling of the production of services on country and regional level supports the efficiency of the primary co-operatives and produces excellent results. Co-operative banks have a market share of over 30% today and rank among the most profitable banks in Austria; there are 720 Raiffeisen-banks with 1,733 branches and 80 Volksbanken (popular banks) with 484 branches. In Germany there are 2,600 co-operative banks with 17,200 branches. 3 million members in Austria and 12 million members in

Germany see the co-operative as "their enterprise" for the improvement of basic economic conditions.

Because of fundamental differences in co-operative objectives and the unavailability of data sources from other countries, I will confine myself to Austria and Germany. To my knowledge, the obligation of each co-operative member to directly contribute to the promotion and *development mission* ("Förderauftrag") exists in this form only in Austria and Germany.

C. Recent developments

The market has changed considerably: the "supply-driven market" has turned into a "consumer-driven market". It is no longer output that determines local productivity but rather the increased quality exigencies of the customer. Through technological developments (Internet and Intranet), distances become less and less relevant and ever more market partners compete for customers. This requires that we question our own identity and analyse the roles of the secondary and tertiary co-operative levels. Possibilities for local primary bank co-operatives to take stakes in regional and national co-operative businesses shall ease a reallocation of functions within each sector level and promote required co-operation.

An updating of the development mission to the contemporary necessities has not been done; the identification of the members with their bank has declined during the course of the years. The expansion of non-member business - through the fiscal neutralisation of member and non-member activities - and the abolishing of the price reductions on goods for members have watered down the specificity of the co-operative self-help system and facilitate the management's abandoning of the development mission ("Förderauftrag").

The secondary and tertiary cooperative levels are also increasingly interested in the profit potential and the capital of the primary co-operatives. The delegation of decision making, out of convenience, to the secondary and tertiary levels leads ever more to a loss of the primary co-operatives' autonomy. Important decisions are thus often made without direct influence of those concerned; information deficits arise, making effective control more difficult. Questionable ties between senior

positions and an alienation from the idea of the founders cause that it is not the primary co-operatives as parent companies that determine the events but the powerful "federations". These federations have become independent within many areas and control the network under the pursuit of their own objectives (e.g. through strategic information policies or through cumulating posts and mandates). To protect the interests of the members of the primary co-operatives a compulsory audit was introduced. But because of position linkages and collisions of interests the audit does often not work in a way it should.

80 primary banks have joined forces in the "Promotional Association of Austrian Primary Banks" (Förderungsverein Österreichischer Primärbanken) to ensure their independence, exchange information and experience, to reflect on the core principles of free will, subsidiarity and regionality and finally to define and carry out an up-dated development mission.

D. Corporate orientation or member orientation ? Shareholder value or human value?

The restructuring and downsizing of primary co-operatives led to a strong delegation of tasks and functions to the secondary and tertiary levels. The people responsible of the secondary and tertiary levels of that time were committed to the co-operative ideal of the founders. This fundamental attitude however has changed; power motives and economic interests of their own led to the conflict of interests prevalent today. The differing views among the cooperative levels on the independence and the future of the primary co-operatives have become evident on different occasions:

- The judicial ruling against a statute dictation: The Raiffeisenbank Kötschach-Mauthen wanted to change its statute in order to expand its business scope. This required the consent of the audit department of the secondary level. Because of the linkages between this department with the Landesbank within a "mixed federation", an agreement was denied out of self-interest. The Raiffeisen bank turned to the Highest Court of Justice (OGH) and achieved a ruling in their favour. The OGH decided in 1991 that the highest legislative body of a co-operative was its general assembly. The latter may decide on any business of the co-operative on its own initiative and with binding effect for the other organs of the co-operative (decision 6 Ob 6/91).

- The rejection of price dictations: On the basis of statute regulations, the Raiffeisen federation of Salzburg intended to commit the primary banks by majority decision to payments of non-ordered services. An arbitral tribunal declared the ruling as illegal and thus it was withdrawn.
- The prevention of a consolidation regulation in banking law (BWG): A proposed ruling in the banking law (Bankwesengesetz, BWG) would have given to the general sector institutions the right to direct primary banks. The consequence would have been a transformation of the independent primary banks into mere branches. Through the initiative of the Promotional Association of Austrian Primary Banks this regulation was successfully prevented.
- The rejection of federation treaties: There were attempts in several federal states to replace the single-contract regulations between the primary cooperatives and the secondary and tertiary co-operative levels by general regulations voted on majority rulings.
- The rejection of country-wide joint liability: It was also attempted to have the primary banks guarantee with their own capital the total deposits of all sector levels through an unlimited guarantee declaration.
- An active involvement in the reform debate of the co-operative law: A current draft for discussion intends to replace the present law - ensuring strong protection of the primary banks and its members - with regulations to protect the overall sector institutions.

The fact that the primary level had rediscovered its members and their interests led to conflicts with the secondary and tertiary levels. The representatives of the secondary and tertiary levels see the primary banks as tools for sales, the member as marketing instrument for customer loyalty and as buyers of products and services. The primary banks see the members as owners, as partners with whom the services are co-ordinated with and directed at, to the benefit of the region. The secondary and tertiary levels, however, set up structures with central control of production and sales. But if the co-operative is turned into a "conglomerate-like" enterprise, it will lack important checking authorities. Results like the huge bankruptcy of "KONSUM" (a large retail co-operative) could then not be ruled out.

The co-operative banks in the Promotional Association of Austrian Primary Banks see a different solution, which they consider better for the co-operatives, their members but also for society.

Human value in the co-operative as an alternative to shareholder value in joint-stock companies.

It is not capital that should be the focus of the co-operative, but the individual member. The objective of co-operatives should be to offer their members services that are otherwise not available to them. Opportunities for co-operatives to promote their members are various. They can offer services that are qualitatively superior to those of other suppliers or have price advantages. Every co-operative fulfils at least one "market balancing function!"

Publications by *Anneliese Fuchs, Stefan Gross, Gertrud Höhler, Christian Lutz, Rudolf Mann, Helmuth Muthers, Julia Stahl, Peter Stahl* and many other experts, trends and futures analysts show quite new chances and opportunities for the co-operative. Considering the clear trends and individual observations, it can be seen that due to an exaggerated profit orientation (in which too often only short term results or size considerations count) a vacuum emerges on the personal relationship level. Through the gigantic corporate mergers, numerous market gaps appear that call for initiative-minded enterprises. Humanity, interpersonal competence and the social culture in enterprises of a human scale with clear tasks grow into new chances and challenges. Technological changes, the speed of changes (above all, however, the enormous increase in knowledge of Internet and Intranet) cause new fears among people. More than ever people, as social beings, need the community, need to be accompanied through the processes of change. Here appears another outstanding chance for co-operatives!

The vision of a modern co-operative bank is that of a financial and know-how service provider in the region. The co-operative bank is a network hub of knowledge and abilities in the region. The human and spatial closeness, the technological standard of the bank and also the know-how of employees form a symbiosis and are important building blocks of a regional economic community.

Since the co-operative bank belongs - through their members - to its customers, it cannot reject joint responsibility for the region's continuous development. Only if the members prosper will the bank also prosper!

"Economic feasibility and humanity are each other's condition. Without the one we cannot do it - without the other one we cannot bear it."

(Roman Herzog, former president of Germany)

The co-operative history is proof that economic aims are attainable, provided **the human being is at the core of co-operative services**. It is indeed **for the freedom and self-determination of its members that co-operatives have been founded**.

E. Chances for member-oriented, human co-operative banks

For the member

Members of a co-operative bank have, independent of the underwritten capital, one vote, each member thus is of equal importance. The member decides in the general assembly about the use of profits and elects the bodies. Development funding programmes, which are developed with the members, can be passed by the general assembly and carried out with the members. The co-operative offers, as know-how and network hub of the region, support to the people on their way to economic success, self-responsible and self-determined activities.

For the bank

Member and employee orientation are closely linked in a co-operative bank. A corporate culture, in which the benefit for the customer counts more than profit, in which the people and their needs are met by the service potentials of committed, entrepreneurial thinking employees provides for quick and efficient problem solving. The constant dialogue between the co-operative bank and its members creates consciousness of problems and guarantees a timely adjustment of bank services to changing demands.

For the region

The co-operative bank can act for the benefit of its members in the region independent of regional borders, political circumstances and election deadlines. The expert knowledge of well educated employees and also technical devices are available beyond the mere bank activities to the people in the region. Whether through sports, culture or education, on many levels the employees of the co-operative bank are even in their leisure time active for the people. Information events and member forums create a "common spirit" in the region and help to dissolve fears. The co-operative bank can

contribute to a climate of self-responsibility in the region. **Regionalisation means quality of life!**

What a co-operative bank can initiate and accompany in the region:

- job fairs for young people
- youth forums
- intensification of cultural life (e.g. through innovation prizes)
- bank services adjusted to old people's needs
- old people forums
- accompanying support at business start-ups
- mediating business supplies and demands (black board for the region)
- and many other things

Why not ask the members what they need? Let us establish ourselves as promoter of our members and promoter of our region! If the region blossoms, the co-operative bank will blossom. It has nothing to do with publicity but to take the people and their problems seriously, it is about a attentive member dialogue!

The necessary economic success will also take place because the co-operative creates an inimitable "monopoly" in the market through member orientation and interpersonal competence within the region. The co-operative bank does not need to be anxious about its future. As long as it looks for solutions of problems jointly with its members, they will also commit themselves through self-responsibility and self-determination for the survival of their co-operative.

"The objective of a co-operative is quality of life for everyone!"

(Dr Anneliese Fuchs, economic psychologist and author)

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