

Lesson 9

Co-operative Society

So far you have learnt about sole proprietorship, partnership and joint stock company as different forms of business organisation. You must have noticed that besides many differences among them in respect of their formation, operation, capital contribution as well as liabilities, one common similarity is that they all engage in business activities to earn profit. Without profit it is impossible for them to survive and grow. But there are certain organisations which undertake business activities with the prime objective of providing service to the members. Although some amount of profit is essential to survive in the market, their main intention is not to generate profit and grow. They pool available resources from the members, utilise the same in the best possible manner and the benefits are shared by the members. Let us know more about them.

9.1 Objectives

After studying this lesson, you will be able to:

- explain the meaning of co-operative society;
- state the characteristics of a co-operative society;
- describe the procedure of formation of a co-operative society;
- identify different types of co-operative societies;
- discuss the advantages and disadvantages of a co-operative society; and
- assess the suitability of co-operative society form of business organisation.

9.2 Meaning of Co-operative Society

Let us take one example. Suppose a poor villager has two cows and gets ten litres of milk. After consumption by his family everyday he finds a surplus of five liters of milk. What can he do with the surplus? He may want to sell the milk but may not find a customer in the

village. Somebody may tell him to sell the milk in the nearby town or city. Again he finds it difficult, as he does not have money to go to the town to sell milk. What should he do? He is faced with a problem. Do you have any solution for him?

One day that poor villager met a learner of NIOS who had earlier read this lesson. The learner told him, you see, you are not the only person facing this problem. There are many others in your village and also in the nearby village who face a similar problem. Why don't you all sit together and find a solution to your common problem? In the morning you can collect the surplus milk at a common place and send somebody to the nearby town to sell it. Again in the evening, you can sit together and distribute the money according to your contribution of milk. Of course first you have to deduct all the expenses from the sale proceeds.

That villager agreed to what the learner said. He told everybody about this new idea and formed a group of milk producers in his village. By selling the milk in the nearby town they were all able to earn money. After that they did not face any problem of finding a market for the surplus milk.

This process continued for a long time. One day some body suggested that instead of selling only milk why not produce other milk products like ghee, butter, cheese, milk powder etc. and sell them in the market at a better price? All of them agreed and did the same. They produced quality milk products and found a very good market for their products not only in the nearby town but in the entire country.

Just think it over. A poor villager, who was not able to sell five litres of milk in his village, is now selling milk and milk products throughout the nation. He is now enjoying a good life. How did it happen? Who made it possible? This is the reward of a joint effort or co-operation.

The term co-operation is derived from the Latin word *co-operari*, where the word *co* means 'with' and *operari* means 'to work'. Thus, co-operation means working together. So those who want to work together with some common economic objective can form a society which is termed as "co-operative society". It is a voluntary association of persons who work together to promote their economic interest. It works on the principle of self-help as well as mutual help. The main objective is to provide support to the members. Nobody joins a cooperative society to earn profit. People come forward as a group, pool their individual resources, utilise them in the best possible manner, and derive some common benefit out of it.

In the above example, all producers of milk of a village joined hands, collected the surplus milk at a common place and sold milk and milk products in the market. This was possible because of their joint effort. Individually it would not have been possible either to sell or produce any milk product in that village. They had formed a co-operative society for this purpose.

In a similar way, the consumers of a particular locality can join hands to provide goods of their daily need and thus, form a co-operative society. Now they can buy goods directly from the producers and sell those to members at a cheaper price. Why is the price cheaper? Because they buy goods directly from the producer and thereby the middlemen's profit is eliminated. Do you think it would have been possible on the part of a single consumer to

<p>Objectives of Co-operative Society</p> <ul style="list-style-type: none"> ● Render service rather than making profit ● Mutual help instead of competition ● Self help instead of dependence

buy goods directly from the producers? Of course, not.

In the same way people can form other types of co-operative societies as well. Let us know about them.

9.3 Types of Co-operative Societies

Although all types of cooperative societies work on the same principle, they differ with regard to the nature of activities they perform. Followings are different types of co-operative societies that exist in our country.

1. **Consumers' Co-operative Society:** These societies are formed to protect the interest of general consumers by making consumer goods available at a reasonable price. They buy goods directly from the producers or manufacturers and thereby eliminate the middlemen in the process of distribution. Kendriya Bhandar, Apna Bazar and Sahkari Bhandar are examples of consumers' co-operative society.
2. **Producers' Co-operative Society:** These societies are formed to protect the interest of small producers by making available items of their need for production like raw materials, tools and equipments, machinery, etc. Handloom societies like APPCO, Bayanika, Haryana Handloom, etc., are examples of producers' co-operative society.
3. **Co-operative Marketing Society:** These societies are formed by small producers and manufacturers who find it difficult to sell their products individually. The society collects the products from the individual members and takes the responsibility of selling those products in the market. Gujarat Co-operative Milk Marketing Federation that sells AMUL milk products is an example of marketing co-operative society.
4. **Co-operative Credit Society:** These societies are formed to provide financial support to the members. The society accepts deposits from members and grants them loans at reasonable rates of interest in times of need. Village Service Co-operative Society and Urban Cooperative Banks are examples of co-operative credit society.
5. **Co-operative Farming Society:** These societies are formed by small farmers to work jointly and thereby enjoy the benefits of large-scale farming. Lift-irrigation co-operative societies and *pani-panchayats* are some of the examples of co-operative farming society.
6. **Housing Co-operative Society:** These societies are formed to provide residential houses to members. They purchase land, develop it and construct houses or flats and allot the same to members. Some societies also provide loans at low rate of interest to members to construct their own houses. The Employees' Housing Societies and Metropolitan Housing Co-operative Society are examples of housing co-operative society.

Intext Questions 9.1

Fill in the blanks with suitable word(s) in the following statements:

- (i) A co-operative society works on the principle of self-help as well as _____.
- (ii) Through housing co-operative societies members may get _____ at low rates of interest to construct their own houses.

- (iii) Small producers who find it difficult to sell their products individually may form _____ co-operative society to sell their produce.
 - (iv) Consumers' co-operative societies help to eliminate _____ in the process of distribution of goods.
 - (v) Pani-panchayats and lift-irrigation co-operative societies are example of _____ co-operative society.
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9.4 Characteristics of Co-operative Society

A co-operative society is a special type of business organisation different from other forms of organisation you have learnt earlier. Let us discuss its characteristics.

- i. Open membership:** The membership of a Co-operative Society is open to all those who have a common interest. A minimum of ten members are required to form a co-operative society. The Co-operative societies Act does not specify the maximum number of members for any co-operative society. However, after the formation of the society, the member may specify the maximum number of members.
- ii. Voluntary Association:** Members join the co-operative society voluntarily, that is, by choice. A member can join the society as and when he likes, continue for as long as he likes, and leave the society at will.
- iii. State control:** To protect the interest of members, co-operative societies are placed under state control through registration. While getting registered, a society has to submit details about the members and the business it is to undertake. It has to maintain books of accounts, which are to be audited by government auditors.
- iv. Sources of Finance:** In a co-operative society capital is contributed by all the members. However, it can easily raise loans and secure grants from government after its registration.
- v. Democratic Management:** Co-operative societies are managed on democratic lines. The society is managed by a group known as "Board of Directors". The members of the board of directors are the elected representatives of the society. Each member has a single vote, irrespective of the number of shares held. For example, in a village credit society the small farmer having one share has equal voting right as that of a landlord having 20 shares.
- iv. Service motive:** Co-operatives are not formed to maximise profit like other forms of business organisation. The main purpose of a Co-operative Society is to provide service to its members. For example, in a Consumer Co-operative Store, goods are sold to its members at a reasonable price by retaining a small margin of profit. It also provides better quality goods to its members and the general public.
- v. Separate Legal Entity:** A Co-operative Society is registered under the Co-operative Societies Act. After registration a society becomes a separate legal entity, with limited liability of its members. Death, insolvency or lunacy of a member does not affect the existence of a society. It can enter into agreements with others and can purchase or sell properties in its own name.

- vi. Distribution of Surplus:** Every co-operative society in addition to providing services to its members, also generates some profit while conducting business. Profits are not earned at the cost of its members. Profit generated is distributed to its members not on the basis of the shares held by the members (like the company form of business), but on the basis of members' participation in the business of the society. For example, in a consumer co-operative store only a small part of the profit is distributed to members as dividend on their shares; a major part of the profit is paid as purchase bonus to members on the basis of goods purchased by each member from the society.
- vii. Self-help through mutual cooperation:** Co-operative Societies thrive on the principle of mutual help. They are the organisations of financially weaker sections of society. Co-operative Societies convert the weakness of members into strength by adopting the principle of self-help through mutual co-operation. It is only by working jointly on the principle of "Each for all and all for each", the members can fight exploitation and secure a place in society.

Intext Questions 9.2

Fill in the blanks with suitable word (s) relating to co-operative societies.

- (i) A co-operative society is a _____ association of individuals who come together to achieve common _____ objectives.
 - (ii) Their motive is to provide _____ to the members.
 - (iii) They have a separate _____ from the members.
 - (iv) The books of accounts of the society are audited by _____ auditors.
 - (v) Profit is shared amongst members on the basis of member's _____ in the business of the society.
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9.5 Formation of a Co-operative Society

A Co-operative Society can be formed as per the provisions of the Co-operative Societies Act, 1912. At least ten persons having the capacity to enter into a contract with common economic objectives, like farming, weaving, consuming, etc. can form a Co-operative Society. A joint application along with the bye-laws of the society containing the details about the society and its members, has to be submitted to the Registrar of Co-operative Societies of the concerned state. After scrutiny of the application and the bye-laws, the registrar issues a Certificate of Registration.

Requirements for Registration:

1. Application with the signature of all members
2. Bye-laws of the society containing:
 - (a) Name, address and aims and objectives of the society;
 - (b) Names, addresses and occupations of members;
 - (c) Mode of admitting new members;
 - (d) Share capital and its division.

9.6 Advantages of Co-operative Society

A Co-operative form of business organisation has the following advantages:

- i. Easy Formation:** Formation of a co-operative society is very easy compared to a joint stock company. Any ten adults can voluntarily form an association and get it registered with the Registrar of Co-operative Societies.
- ii. Open Membership:** Persons having common interest can form a co-operative society. Any competent person can become a member at any time he/she likes and can leave the society at will.
- iii. Democratic Control:** A co-operative society is controlled in a democratic manner. The members cast their vote to elect their representatives to form a committee that looks after the day-to-day administration. This committee is accountable to all the members of the society.
- iv. Limited Liability:** The liability of members of a co-operative society is limited to the extent of capital contributed by them. Unlike sole proprietors and partners the personal properties of members of the co-operative societies are free from any kind of risk because of business liabilities.
- v. Elimination of Middlemen's Profit:** Through co-operatives the members or consumers control their own supplies and thus, middlemen's profit is eliminated.
- vi. State Assistance:** Both Central and State governments provide all kinds of help to the societies. Such help may be provided in the form of capital contribution, loans at low rates of interest, exemption in tax, subsidies in repayment of loans, etc.
- vii. Stable Life:** A co-operative society has a fairly stable life and it continues to exist for a long period of time. Its existence is not affected by the death, insolvency, lunacy or resignation of any of its members.

Intext Questions 9.3

State whether the following statements about co-operative societies are true or false:

- (i) Any competent person can become a member of a society, at anytime.
- (ii) The liability of the members is unlimited.
- (iii) The government encourages and supports the formation of co-operative societies by providing subsidies and exemptions.
- (iv) It can exist for long due to a legal entity separate from its members.
- (v) The society is managed by one person only.

9.7 Limitations of Co-operative Society

Besides the above advantages, the co-operative form of business organisation also suffers from various limitations. Let us learn these limitations.

- i. **Limited Capital:** The amount of capital that a cooperative society can raise from its member is very limited because the membership is generally confined to a particular section of the society. Again due to low rate of return the members do not invest more capital. Government's assistance is often inadequate for most of the co-operative societies.
- ii. **Problems in Management:** Generally it is seen that co-operative societies do not function efficiently due to lack of managerial talent. The members or their elected representatives are not experienced enough to manage the society. Again, because of limited capital they are not able to get the benefits of professional management.
- iii. **Lack of Motivation:** Every co-operative society is formed to render service to its members rather than to earn profit. This does not provide enough motivation to the members to put in their best effort and manage the society efficiently.
- iv. **Lack of Co-operation:** The co-operative societies are formed with the idea of mutual co-operation. But it is often seen that there is a lot of friction between the members because of personality differences, ego clash, etc. The selfish attitude of members may sometimes bring an end to the society.
- v. **Dependence on Government:** The inadequacy of capital and various other limitations make cooperative societies dependant on the government for support and patronage in terms of grants, loans subsidies, etc. Due to this, the government sometimes directly interferes in the management of the society and also audit their annual accounts.

Let us now sum up–

Advantages	Disadvantages
<ul style="list-style-type: none"> • Easy formation • Open membership • Democratic Control • Limited Liability • Elimination of Middleman's Profit • State Assistance • Stable Life 	<ul style="list-style-type: none"> • Limited Capital • Problems in Management • Lack of Motivation • Lack of Cooperation • Dependence on Government

9.8 Suitability of Co-operative Societies

You have learnt that the main objective of co-operative form of business organisation is to provide service rather than to earn profit. The co-operative society is the only alternative to protect the weaker sections of the society and to promote the economic interest of the people. In certain situations when it is not possible to achieve the target by individual effort,

IFFCO: Indian Farmers and Fertilisers Co-operative Ltd.
 KRIBHCO: Krishak Bharati Co-operatives.

collective effort in the form of a co-operative society is preferred. Housing co-operatives, Marketing co-operatives, etc., are formed to achieve the common economic objectives of the members. Generally co-operative society is suitable for small and medium size business operation. However, large scale co-operative societies like IFFCO, KRIBHCO etc. are also found in India.

Intext Questions 9.4

Fill in the blanks with suitable word (s) :

- (i) The co-operative society suffers due to limited capacity of members to contribute _____.
 - (ii) Co-operative Societies are formed to provide service rather than maximizing _____.
 - (iii) Professional managers do not prefer to work in co-operative societies because they do not get adequate _____.
 - (iv) Large co-operative societies like KRIBHCO and IFFCO serve the whole _____.
 - (v) There may be rigidity in co-operative societies due to excessive control and regulation by _____.
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9.9 What You Have Learnt

- A co-operative society is a voluntary association of individuals having common needs who join hands for the achievement of common economic interest. Its aim is to serve the interest of the poorer sections of society through mutual help.
- Membership of co-operative societies is voluntary and open to all. It is democratically managed and it has a separate legal existence. The main motive is to provide service to the members. It works on the principle of self help through mutual cooperation of members.
- A co-operative society can be formed under the Co-operative Societies Act, 1912, with a minimum of ten members. For registration, an application along with bye-laws of the society has to be submitted to the Registrar of Co-operative Societies.
- Co-operative societies may be classified as follows:
 - 1) Consumers' co-operative society - formed to eliminate the role of middlemen and supply high quality goods and services at reasonable price to consumers.
 - 2) Producers' co-operative society - formed to help producers to procure raw material, tools, equipment etc.
 - 3) Co-operative marketing society - formed to ensure a favourable market for small producers to sell the output and get a good return on sale.
 - 4) Co-operative credit society - formed to provide financial help to members through loans at low interest rates. They encourage saving habit among members.

- 5) Co-operative farming society - formed to achieve economies of large scale farming and maximization of agricultural output.
 - 6) Housing co-operative society- formed to provide residential houses to members by constructing them or providing loans to members to construct their own houses.
- Co-operative societies are easy to form and have a stable life. Membership is open to all and members have limited liability. There is democratic management based on 'one-man, one vote'. The societies have stable life and they enjoy government patronage.
 - They suffer from insufficient capital, problems in management and conflict among members. There is lack of motivation in members due to absence of direct reward for individual effort. Excessive government regulation and control may also pose problems for them.
 - Co-operative societies are suitable in protecting exploitation of weaker sections of society and promoting their economic interest. It is ideal where service motive, and not profit, is the priority.

9.10 Terminal Exercise

1. What is the meaning of 'Co-operative society'?
2. What are the activities undertaken by a housing co-operative society?
3. What is meant by democratic management of co-operative societies?
4. Give two examples each of consumers' co-operative societies and producers' co-operative societies.
5. What is meant by marketing co-operative society?
6. What information and documents have to be submitted to the Registrar at the time of registration of a co-operative society?
7. State the functions of co-operative credit societies. State the types of co-operative credit societies, giving one example each.
8. Give the difference between 'Producers co-operative society' and 'Marketing co-operative society'.
9. What are the causes of conflict and lack of motivation among members of a co-operative society?

9.11 Key to Intext Questions

9.1 (i) mutual help, (ii) loans, (iii) Marketing, (iv) middlemen, (v) Farmers'

9.2 (i) Voluntary, economic, (ii) Service, (iii) Legal entity, (iv) Government

(v) Participation

9.3 (i) True, (ii) False, (iii) True, (iv) True, (v) False

9.4 (i) Capital, (ii) Profit, (iii) Remuneration, (iv) Nation, (v) Government

Activity For You

Is there any co-operative society in your locality? If yes, then visit the office and find out:

- (a) What is the purpose of the society?
- (b) Who are the members of the society?
- (c) What are the activities of the society?
- (d) Does the society face any problems in its operations?