

1. Details of Module and its structure

Module Detail	
Subject Name	Business Studies
Course Name	Business Studies 01 (Class XI, Part- 1)
Module Name/Title	Forms of Business Organisation / Cooperative Society – Part 5
Module Id	kebs_10205
Pre-requisites	Knowledge about Forms of Business Organisation / Cooperative Society
Objectives	<ol style="list-style-type: none">1. Cooperative Society - Meaning2. Features of Cooperative Societies3. Merits and Limitations of Cooperative Societies4. Types of Cooperative Societies
Keywords	Cooperative Society, Service Motive, Self Help, Consumer's, Middlemen, Democracy

2. Development Team

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1. Cooperative Society – Meaning:

A business organization can take many forms. One such form is that of a cooperative society. The word cooperative means working together and with others for a common purpose.

Cooperation dates back as far as human beings have been organizing for mutual benefits. Tribes were organized as cooperative structures, allocating jobs and resources among each other, only trading with the external communities.

A **cooperative** (also known as **co-operative**, **co-op**, or **coop**) is "an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned enterprise" In simple words the cooperative society is a voluntary association of persons, who join together with the motive of welfare of the members. The members of the co-operative society are people who come together and invest their small savings to form the organization which will work towards their common cause. The Co-operative Society is formed with an idea of supporting each other to achieve a common economic objective. For example, the farmers may come together and form a co-operative society to work jointly and take advantage of economies of scale. When they work together they will have a better bargaining power for buying raw materials. They will also enjoy a better bargaining power while selling their agricultural output.

They are driven by the need to protect their economic interests in the face of possible exploitation at the hands of middlemen obsessed with the desire to earn greater profits. Such societies have unique features of joint ownership and democratic leadership.

A cooperative society is not a new concept. It prevails in all the countries, this is almost a universal concept. The cooperative society is active in all countries worldwide and is represented in all the sectors including agriculture, food, finance, healthcare, etc.

To protect the interest of weaker sections, the co-operative society is formed. It is a voluntary association of persons, whose motive is the welfare of the members.

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

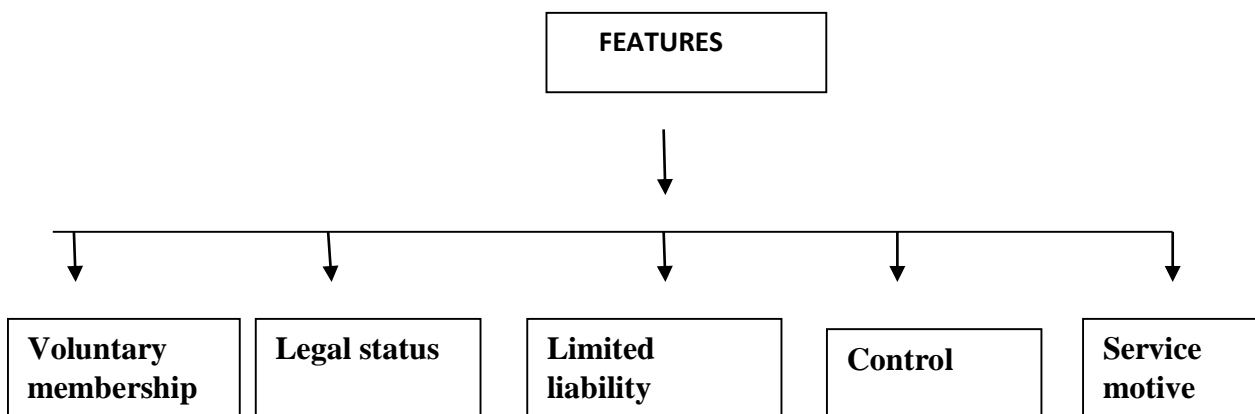
only by working jointly on the principle of “Each for all and all for each”, the members can fight exploitation and secure a place in society.

The cooperative society is compulsorily required to be registered under the **Cooperative Societies Act 1912**. The process of setting up a cooperative society is simple enough and at the most what is required is the consent of at least ten adult persons to form a society. The capital of a society is raised from its members through issue of shares. The society acquires a distinct legal identity after its registration.

A joint application with the signature of all members and Bye-laws of the society containing the information on Name, address and aims and objectives of the society; Names, addresses and occupations of members; Mode of admitting new members; Share capital and its division and all other 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.

2. Features of Cooperative Societies

The features/characteristics of a cooperative society are listed below:



i) Voluntary membership: The membership of a cooperative society is voluntary. A person is free to join a cooperative society, and can also leave anytime as per his desire. There cannot be any compulsion for him to join or quit a society. Although procedurally a member is required to serve a notice before leaving the society, there is no compulsion to remain a member. Membership is open to all, irrespective of their religion, caste, and gender.

ii) Legal status: Registration of a cooperative society is compulsory. This accords a separate identity to the society which is distinct from its members. The society can enter into contracts and hold property in its name, sue and be sued by others. As a result of being a separate legal entity, it is not affected by the entry or exit of its members.

iii) Limited liability: The liability of the members of a cooperative society is limited to the extent of the amount contributed by them as capital. This defines the maximum risk that a member can be asked to bear.

iv) Control: In a cooperative society, the power to take decisions lies in the hands of an elected managing committee. The right to vote gives the members a chance to choose the members who will constitute the managing committee and this lends the cooperative society a democratic character.

v) Service motive: The cooperative society through its purpose lays emphasis on the values of mutual help and welfare. Hence, the motive of service dominates its working. If any surplus is generated as a result of its operations, it is distributed amongst the members as dividend in conformity with the byelaws of the society.

Some other features:

vi) Open Membership: Members join the cooperative society by choice. A minimum of 10 members are required for the formation of a cooperative society. The Cooperative Societies Act, 1912 does not put a limit on the membership of cooperative societies. However, after the formation of a cooperative society, the members may unanimously decide to specify the maximum number of members.

vii) State Control: Cooperative societies are voluntary business associations. However, like any other forms of business entities, they are required to observe the laws and regulations framed by the government. The government exercises its control on these societies from time to time by checking their accounts. To fulfil this duty, the cooperative societies are required to send their account books to the registrar for inspection.

viii) Democratic Management: To perform the managerial work, the members elect the honorary office bearers in a democratic way. The management committee of the society is

elected on the basis of 'one person one vote' in the general meeting. Thus, irrespective of the status or number of share holdings, all the members have the right to cast one vote.

ix) Distribution of Surplus: Apart from rendering services to their members, cooperative societies also earn some profits, which are a by-product of their business activities. Profits, however, are not earned at the cost of the members' welfare. Profits are distributed among the members not on the basis of the capital holdings, but in proportion to the participation of each member in the functioning of the society. The entire profits are, however, not distributed to the members.

The surplus is used in four ways

1. As per the law, one fourth of the profits are transferred to the general reserve.
2. A portion of the profits, not exceeding 10 percent, is used to pay dividend on share capital.
3. A part of the surplus, not exceeding more than 10 percent, can be used for the benefit of the areas where the business is working.
4. The remaining surplus can be divided among the members as bonus.

x) One Man One Vote: Cooperative societies make no distinction among the members on the basis of their financial strength or the number of shares held by them. Therefore, each member is allowed one vote regardless of the number of shares held by him or her and has equal say in the management.

xi) Perpetual Existence: A cooperative society enjoys lifelong existence. Once it gets registered, it cannot be dissolved except by law alone.

3. Merits of Cooperative Societies

The cooperative society offers many benefits to its members. Some of the advantages of the cooperative form of organisation are as follows:

i) Equality in voting status: The principle of 'one man one vote' governs the cooperative society. Irrespective of the amount of capital contribution by a member, each member is entitled to equal voting rights.

ii) Limited liability: The liability of members of a cooperative society is limited to the extent of their capital contribution. The personal assets of the members are, therefore, safe from being used to repay business debts.

iii) Stable existence: Death, bankruptcy or insanity of the members do not affect continuity of a cooperative society. A society, therefore, operates unaffected by any change in the membership.

iv) Economy in operations: The members generally offer honorary services to the society. As the focus is on elimination of middlemen, this helps in reducing costs. The customers or producers themselves are members of the society, and hence the risk of bad debts is lower.

v) Support from government: The cooperative society exemplifies the idea of democracy and hence finds support from the Government in the form of low taxes, subsidies, and low interest rates on loans.

vi) Ease of formation: The cooperative society can be started with a minimum of ten members. The registration procedure is simple involving a few legal formalities. Its formation is governed by the provisions of Cooperative Societies Act 1912.

Some Other Benefits:

vii) 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.

viii) 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.

ix) Profit/Surplus: Through co-operatives the members or consumers control their own supplies and thus, middlemen's profit is eliminated.

x) 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.

Limitations of Cooperative Societies

The cooperative form of organisation suffers from the following limitations:

i) Limited resources: Resources of a cooperative society consists of capital contributions of the members with limited means. The low rate of dividend offered on investment also acts as a deterrent in attracting membership or more capital from the members.

ii) Inefficiency in management: Cooperative societies are unable to attract and employ expert managers because of their inability to pay them high salaries. The members who offer honorary services on a voluntary basis are generally not professionally equipped to handle the management functions effectively.

iii) Lack of secrecy: As a result of open discussions in the meetings of members as well as disclosure obligations as per the Societies Act (7), it is difficult to maintain secrecy about the operations of a cooperative society.

iv) Government control: In return of the privileges offered by the government, cooperative societies have to comply with several rules and regulations related to auditing of accounts, submission of accounts, etc. Interference in the functioning of the cooperative organisation through the control exercised by the state cooperative departments also negatively affects its freedom of operation.

v) Differences of opinion: Internal quarrels arising as a result of contrary viewpoints may lead to difficulties in decision making. Personal interests may start to dominate the welfare motive and the benefit of other members may take a backseat if personal gain is given preference by certain members.

4. Types of Cooperative Societies

Various types of cooperative societies based on the nature of their operations are described below:

i) Consumer's cooperative societies: The consumer cooperative societies are formed to protect the interests of consumers. The members comprise of consumers desirous of obtaining good quality products at reasonable prices. The society aims at eliminating middlemen to achieve economy in operations. It purchases goods in bulk directly from the wholesalers and sells goods to the members, thereby eliminating the middlemen. Profits, if any, are distributed

on the basis of either their capital contributions to the society or purchases made by individual members.

These Cooperative Societies are owned and governed by consumers of a particular area for their mutual benefit. Their view is to provide daily necessary commodities at an optimum price. Rather than earning a pecuniary profit, their aim is towards providing service to the consumers.

ii) Producer's cooperative societies: These societies are set up to protect the interest of small producers. The members comprise of producers desirous of procuring inputs for production of goods to meet the demands of consumers. The society aims to fight against the big capitalists and enhance the bargaining power of the small producers. It supplies raw materials, equipment and other inputs to the members and also buys their output for sale. Profits among the members are generally distributed on the basis of their contributions to the total pool of goods produced or sold by the society.

The co-operative society members may be farmers, landowners, owners of the fishing operations. To increase the marketing possibilities and production efficiency, producers decide to work together or as separate entities.

They perform several activities like processing, marketing & distributing their own products. This helps in lower costs and strains in each area with a mutual benefit to each producer

iii) Marketing cooperative societies: Such societies are established to help small producers in selling their products. The members consist of producers who wish to obtain reasonable prices for their output. The society aims to eliminate middlemen and improve competitive position of its members by securing a favourable market for the products. It pools the output of individual members and performs marketing functions like transportation, warehousing, packaging, etc., to sell the output at the best possible price. Profits are distributed according to each member's contribution to the pool of output.

For securing a favourable market for the products they eliminate the middlemen and improve the competitive position of its members. It collects the output of individual members. Various marketing functions like transportation, packaging, warehousing, etc are performed by the cooperative societies to sell the product at the best possible price.

iv) Farmer's cooperative societies: These societies are established to protect the interests of farmers by providing better inputs at a reasonable cost. The members comprise farmers who wish to jointly take up farming activities. The aim is to gain the benefits of large scale farming and increase the productivity. Such societies provide better quality seeds, fertilisers, machinery and other modern techniques for use in the cultivation of crops. This helps not only in

improving the yield and returns to the farmers, but also solves the problems associated with the farming on fragmented land holdings.

v) Credit cooperative societies: Credit cooperative societies are established for providing easy credit on reasonable terms to the members. The members comprise of persons who seek financial help in the form of loans. The aim of such societies is to protect the members from the exploitation of lenders who charge high rates of interest on loans. Such societies provide loans to members out of the amounts collected as capital and deposits from the members and charge low rates of interest.

These Credit Societies are generally member-owned financial cooperatives. Their principle is of people helping people. They provide credit and financial services to the members at competitive prices. Each and every depositor has the right to become a member. Members attend the annual meeting and are given rights to elect a board of directors.

vi) Cooperative housing societies: Cooperative housing societies are established to help people with limited income to construct houses at reasonable costs. The members of these societies consist of people who are desirous of procuring residential accommodation at lower costs. The aim is to solve the housing problems of the members by constructing houses and giving the option of paying in instalments. These societies construct flats or provide plots to members on which the members themselves can construct the houses as per their choice.

Summary of the Chapter

Cooperative Society – Meaning

A **cooperative** (also known as **co-operative**, **co-op**, or **coop**) is "an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned enterprise" In simple words the cooperative society is a voluntary association of persons, who join together with the motive of welfare of the members. The cooperative society is compulsorily required to be registered under the Cooperative Societies Act 1912.

Features of Cooperative Societies

The features/characteristics of a cooperative society are listed below:

1. Voluntary membership
2. Legal status

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3. Limited liability
 4. Control
 5. Service motive

Some other features

6. Open Membership
7. State Control
8. Democratic Management
9. Distribution of Surplus
10. One Man One Vote
11. Perpetual Existence

Merits of Cooperative Societies

1. Equality in voting status
2. Limited liability
3. Stable existence
4. Economy in operations
5. Support from government
6. Ease of formation

Some Other Benefits

7. Open Membership
8. Democratic Control
9. Profit/Surplus
10. State Assistance

Limitations of Cooperative Societies

1. Limited resources
2. Inefficiency in management
3. Lack of secrecy
4. Government control
5. Differences of opinion

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