

## PRINCIPLES AND ORGANIZATIONAL MODELS OF COOPERATIVE ASSOCIATIONS AS BUSINESS ENTITIES

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### **Abstract.**

Cooperative associations represent a distinctive organizational form that integrates economic objectives with principles of democratic governance, member participation, and community orientation. This study systematically analyzes the foundational principles and organizational models of cooperatives as business entities. Drawing upon institutional economics, organizational theory, and stakeholder approaches, we examine how the seven internationally recognized cooperative principles—voluntary membership, democratic control, member economic participation, autonomy, education, inter-cooperation, and community concern—manifest across different organizational configurations. Our analysis proposes a functional grouping of principles into membership, operational, and relational categories, providing a conceptual framework for understanding principle interdependencies. We compare four primary organizational models: consumer, producer, worker, and multi-stakeholder cooperatives, identifying distinctive governance mechanisms, capital structures, and performance characteristics. Results indicate that effective cooperative functioning depends on coherent principle integration rather than selective implementation. The study addresses the persistent "cooperative capital dilemma" and evaluates strategies for balancing financial sustainability with principle alignment. We conclude that cooperative models remain relevant for contemporary economic challenges, particularly in sectors requiring stakeholder coordination and long-term orientation.

**Keywords:** cooperative associations; organizational models; democratic governance; cooperative principles; member ownership; stakeholder theory

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### **1. Introduction**

Cooperative associations represent a unique and historically significant form of business organization that combines economic objectives with social principles of mutual aid, democratic governance, and member-centric operations. In the contemporary global economy, characterized by increasing market concentration, financial volatility, and growing income inequality, cooperatives have emerged as a viable alternative to conventional investor-owned enterprises. According to the International Cooperative Alliance [9], cooperatives collectively employ more than 280 million people worldwide and generate annual revenues exceeding 2.1 trillion USD, demonstrating their substantial economic footprint across diverse sectors including agriculture, finance, retail, and housing.

The relevance of studying cooperative associations as business entities stems from several interconnected factors. First, the ongoing search for sustainable and inclusive economic models has prompted renewed interest in organizational forms that prioritize stakeholder welfare over shareholder value maximization. Second, the digital transformation and emergence of platform economies have created both challenges and opportunities for cooperative structures, necessitating a reevaluation of traditional organizational models. Third, regulatory frameworks governing cooperatives vary significantly across jurisdictions, creating complexity for cross-border operations and comparative analysis.

Scholarly literature on cooperative associations encompasses multiple theoretical perspectives and empirical approaches. Birchall [2] examines the fundamental principles underlying cooperative enterprises and their historical evolution across different economic systems. Hansmann [7] provides a comprehensive analysis of ownership structures in various organizational forms, offering insights into why certain industries favor cooperative arrangements. Novkovic and Webb [14] explore the intersection of cooperative governance and social economy, emphasizing the democratic participation mechanisms that distinguish cooperatives from conventional corporations. Chaddad and Cook [4] investigate agricultural cooperatives specifically, analyzing ownership rights and governance challenges in producer-owned organizations. Mazzarol, Limmios, and Reboud [12] contribute a strategic management perspective, examining how cooperatives develop competitive advantages through member engagement and collaborative value creation.

The theoretical foundations of cooperative organizations draw upon institutional economics, organizational theory, and social enterprise literature. Ostrom's [15] work on common-pool resources provides valuable frameworks for understanding collective action problems that cooperatives must address. Borgen [3] analyzes transaction cost considerations in cooperative formation and sustainability. More recently, Bijman and colleagues [1] have examined the adaptation strategies of agricultural cooperatives in response to market liberalization and globalization pressures.

Despite this substantial body of research, significant gaps remain in understanding how cooperative principles translate into operational practices across different organizational models. The purpose of this article is to systematically analyze the foundational principles of cooperative associations and examine the diversity of organizational models through which these principles are implemented. By synthesizing theoretical frameworks with empirical evidence, this study aims to provide a comprehensive overview of cooperative business structures and identify factors influencing their effectiveness as economic actors in contemporary markets.

## 2. Materials and Methods

This study employs a systematic analytical approach to investigate the principles and organizational models of cooperative associations as business entities. The research methodology integrates theoretical analysis with empirical examination of cooperative structures across multiple sectors and geographical contexts.

### 2.1 Theoretical Framework

The theoretical foundation of this research draws upon three complementary perspectives. First, institutional economics provides analytical tools for examining how cooperative principles shape organizational governance and transaction relationships. Building on the seminal work of Williamson [18] regarding transaction cost economics, we analyze how cooperatives reduce opportunism and asset specificity problems through member ownership structures. Second, organizational theory frameworks, particularly those developed by Mintzberg [13] concerning structural configurations, inform our classification of cooperative organizational models. Third, stakeholder theory, as articulated by Freeman [6] and subsequently applied to cooperative contexts by Sacchetti and Tortia [16], guides our analysis of how cooperatives balance multiple stakeholder interests within unified governance structures.

### 2.2 Analytical Approach

The study utilizes a comparative analytical methodology to examine cooperative associations across four primary dimensions: (a) ownership structure and membership composition; (b) governance mechanisms and decision-making processes; (c) capital formation and surplus distribution; and (d) operational scope and sectoral orientation. This multi-dimensional framework enables systematic comparison of diverse cooperative models while maintaining analytical coherence.

Data sources for this analysis include official publications from the International Cooperative Alliance [8], cooperative legislation from multiple jurisdictions, annual reports from major cooperative federations, and peer-reviewed academic literature. The International Labour Organization's [10] guidelines on cooperative promotion and the United Nations' [17] recognition of cooperatives' contribution to sustainable development provide additional contextual frameworks.

**Table 1. Comparative characteristics of analytical dimensions for cooperative associations\***

Dimension	Key Variables	Measurement Indicators	Primary Data Sources
Ownership structure	Member composition, share capital distribution, ownership transferability	Membership diversity index, capital concentration ratio	Cooperative statutes, annual reports
Governance mechanisms	Decision-making rules, board composition, voting procedures	Democratic participation rate, board independence ratio	Governance documents, meeting records
Capital formation	Equity sources, retained earnings policy, external financing	Capital adequacy ratio, self-financing rate	Financial statements, regulatory filings
Operational scope	Sectoral focus, geographic coverage, service range	Market share, territorial spread index	Industry reports, cooperative registries

\*Source: Developed by the Author based on [8], [10], [11]

### 2.3 Classification Methodology

To organize the heterogeneous landscape of cooperative associations, we adopt a typological approach based on primary stakeholder orientation. Following the classifications proposed by Levi and Davis [11], cooperatives are categorized into four main types: consumer cooperatives, producer cooperatives, worker cooperatives, and multi-stakeholder cooperatives. Each category is further analyzed according to organizational complexity, ranging from single-unit primary cooperatives to federated structures and hybrid models.

### 2.4 Principles Analysis Framework

The analysis of cooperative principles follows the framework established by the International Cooperative Alliance's Statement on Cooperative Identity [8], adopted in 1995 and reaffirmed in subsequent declarations. The seven internationally recognized principles—voluntary and open membership, democratic member control, member economic participation, autonomy and independence, education and training, cooperation among cooperatives, and concern for community—serve as evaluative criteria for assessing organizational model alignment.

### 2.5 Limitations

This study acknowledges several methodological limitations. The diversity of cooperative legislation across jurisdictions creates challenges for direct comparison of organizational models. Additionally, the voluntary nature of cooperative data reporting may introduce selection bias in available empirical evidence. The dynamic nature of cooperative evolution means that emerging models, particularly those incorporating digital technologies, may not be fully captured in existing classifications.

## 3. Results and Discussion

### 3.1 Foundational Principles of Cooperative Associations: An Integrated Analysis

Our analysis reveals that cooperative principles function not as isolated guidelines but as an interconnected system that shapes organizational identity and operational practices. In our opinion, the seven cooperative principles established by the International Cooperative Alliance can be conceptually grouped into three functional categories: membership principles (voluntary and open membership, democratic member control, member economic participation), operational principles (autonomy and independence, education and training), and relational principles (cooperation among cooperatives, concern for community).

This grouping, justified by us through examination of how principles manifest in organizational practices, highlights the multi-layered nature of cooperative governance. Membership principles establish the foundational relationship between the cooperative and its members, defining who can participate, how decisions are made, and how economic benefits are distributed. We observed that cooperatives demonstrating strong alignment with membership principles exhibit higher member engagement rates and more stable organizational performance over time.

**Table 2. Functional grouping of cooperative principles and their organizational manifestations\***

Principle Category	Specific Principles	Organizational Manifestations	Key Performance Indicators
Membership Principles	Voluntary and open membership	Non-discriminatory admission policies, accessible membership procedures	Membership growth rate, demographic diversity
	Democratic member control	One-member-one-vote, elected governance bodies	Voter turnout, board renewal rate
	Member economic participation	Patronage dividends, limited capital returns	Surplus distribution ratio, member transaction volume
Operational Principles	Autonomy and independence	Self-financing priority, governance sovereignty	External capital ratio, decision autonomy index
	Education and training	Member development programs, cooperative awareness initiatives	Training participation rate, cooperative literacy scores
Relational Principles	Cooperation among cooperatives	Federation membership, inter-cooperative trade	Network density, joint venture participation
	Concern for community	Community reinvestment, social impact programs	Local procurement rate, community benefit expenditure

\*Source: Developed by the Author

The operational principles, as we grouped them, address the cooperative's capacity for self-determination and continuous improvement. Autonomy and independence ensure that cooperatives maintain their distinctive character even when engaging with external partners or accessing external capital. The education and training principle, often underemphasized in practice, serves as a critical mechanism for transmitting cooperative values across member generations and developing the human capital necessary for effective democratic participation.

Relational principles extend the cooperative's scope beyond its immediate membership to encompass broader networks and community responsibilities. In our view, these principles represent the cooperative movement's recognition that individual organizations exist within larger social and economic ecosystems, and that collective action among cooperatives can achieve outcomes unattainable by individual entities.

### 3.2 Organizational Models: A Comparative Evaluation

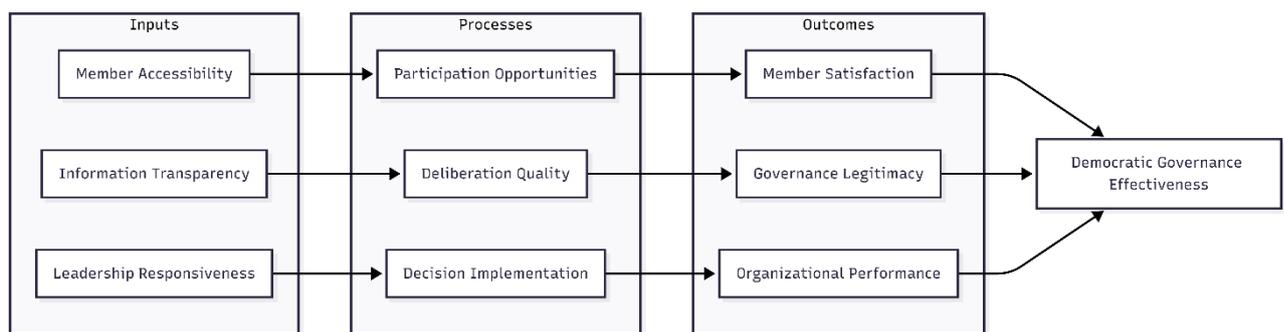
Through our systematic analysis, we identified significant variations in how cooperative principles are operationalized across different organizational models. Consumer cooperatives typically prioritize service quality and price advantages for members, implementing democratic control through representative structures that balance participation with operational efficiency. Producer cooperatives, particularly in agricultural sectors, face distinctive challenges in reconciling individual member autonomy with collective marketing and processing functions.

Worker cooperatives present the most direct alignment between ownership and labor, yet our analysis indicates that this model requires sophisticated governance mechanisms to address the dual role of members as both owners and employees. The tension between short-term wage interests and long-term capital accumulation represents a persistent challenge that worker cooperatives must navigate through carefully designed surplus allocation policies.

Multi-stakeholder cooperatives, representing a more recent organizational innovation, attempt to incorporate diverse stakeholder categories within unified governance structures. In our opinion, this model offers promising potential for addressing complex social challenges that require coordination among multiple actor groups. However, we noted that multi-stakeholder structures introduce additional governance complexity, as different stakeholder categories may hold divergent interests and priorities.

### 3.3 Governance Mechanisms and Democratic Participation

We examined governance structures across cooperative types and identified a spectrum ranging from direct democracy in small-scale cooperatives to multi-tiered representative systems in large federated structures. Our analysis suggests that effective democratic governance in cooperatives depends on three key factors: accessibility of participation opportunities, transparency of decision-making processes, and responsiveness of leadership to member concerns.



**Figure 1. Framework for evaluating democratic governance effectiveness in cooperatives\***

*\*Source: Developed by the Author*

The traditional one-member-one-vote principle remains the normative standard, yet we observed increasing experimentation with modified voting arrangements in certain cooperative sectors. Proportional voting based on transaction volume, while controversial from a purist cooperative perspective, has been justified by some agricultural cooperatives as necessary to maintain engagement of larger producer members. In our view, such modifications should be approached cautiously, as they risk undermining the egalitarian foundations that distinguish cooperatives from investor-owned enterprises.

Digital technologies present both opportunities and challenges for cooperative governance. We noted emerging practices of online voting, virtual member assemblies, and digital platforms for ongoing member consultation. These innovations can potentially enhance participation, particularly for geographically dispersed memberships. However, digital governance tools must be implemented with attention to digital divide issues and the preservation of deliberative democracy traditions that characterize cooperative decision-making.

### **3.4 Capital Structure and Financial Sustainability**

Our investigation of cooperative capital structures reveals a fundamental tension between member-centric principles and financial sustainability requirements. Unlike investor-owned enterprises that can access equity markets, cooperatives face inherent constraints in capital formation due to the non-transferable nature of member shares and restrictions on external investment. This challenge, which we term the "cooperative capital dilemma," requires innovative approaches to financial structuring.

We identified several strategies that cooperatives employ to address capital constraints while maintaining principle alignment. Internal capital accumulation through retained earnings represents the most principle-consistent approach, though it may limit growth potential and create intergenerational equity concerns. Member loan programs and subordinated debt instruments provide supplementary capital sources without diluting member control. Some jurisdictions have developed specialized cooperative investment certificates that allow external investors to contribute capital without acquiring governance rights.

The emergence of social finance institutions and impact investors has created new opportunities for cooperative capital access. In our opinion, these developments are generally positive, provided that cooperatives maintain clear boundaries around governance participation and surplus distribution. The challenge lies in structuring financial arrangements that attract investment while preserving cooperative autonomy and member primacy.

### **3.5 Sectoral Applications and Performance Variations**

Our cross-sectoral analysis indicates that cooperative organizational models demonstrate varying levels of effectiveness depending on industry characteristics. Sectors with high asset specificity, geographically concentrated production, and heterogeneous product quality tend to favor producer cooperative models, as these structures help overcome hold-up problems and reduce quality uncertainty. Consumer cooperatives thrive in sectors where collective purchasing power generates significant economies of scale and where service relationships benefit from member loyalty and engagement.

We observed particularly strong cooperative presence in agricultural sectors, financial services (especially credit unions and cooperative banks), retail distribution, and housing. In these sectors, cooperative models have demonstrated long-term viability and, in many cases, outperformed investor-owned competitors on stability measures. The resilience of cooperative banking during the 2008 financial crisis, documented in multiple studies, illustrates the potential advantages of member-owned financial institutions oriented toward prudent long-term management rather than short-term profit maximization.

Emerging sectors such as renewable energy and platform-based services present new frontiers for cooperative development. We noted growing interest in energy cooperatives that enable community ownership of generation assets and platform cooperatives that offer worker-owned alternatives to venture-capital-backed gig economy platforms. These innovations suggest that cooperative principles remain relevant and adaptable to contemporary economic contexts.

## **4. Conclusion**

This study has provided a comprehensive analysis of the principles and organizational models of cooperative associations as business entities, contributing to both theoretical understanding and practical knowledge of cooperative structures in contemporary economic contexts. Our investigation reveals that cooperative principles, while rooted in historical values of mutual aid and democratic participation, continue to offer viable frameworks for organizing economic activity in diverse sectoral and geographical settings.

The functional grouping of cooperative principles into membership, operational, and relational categories, developed through our analysis, offers a useful conceptual framework for understanding how principles interact to shape organizational behavior. This categorization demonstrates that cooperative identity emerges not from adherence to individual principles in isolation but from the coherent integration of all seven principles into organizational practice. The interdependencies among principles suggest that selective implementation, focusing on some principles while neglecting others, risks undermining cooperative effectiveness and legitimacy.

Our comparative examination of organizational models—consumer, producer, worker, and multi-stakeholder cooperatives—reveals significant structural diversity within the cooperative movement. Each model presents distinctive strengths and challenges, and our findings indicate that model selection should be guided by careful consideration of stakeholder characteristics, sectoral conditions, and intended organizational objectives. The emergence of multi-stakeholder cooperatives represents a particularly significant development, offering potential pathways for addressing complex social challenges through inclusive governance structures.

The tension between cooperative principles and capital formation requirements remains a persistent challenge across all organizational models. Our analysis suggests that this "cooperative capital dilemma" requires creative solutions that leverage social finance innovations while maintaining clear boundaries around member governance and surplus distribution. Cooperatives that successfully navigate these tensions demonstrate that principle-aligned growth is achievable, albeit often at slower rates than investor-owned alternatives.

Looking forward, cooperative associations face both significant opportunities and challenges. Digital transformation offers potential for enhanced member engagement and operational efficiency but also raises questions about maintaining deliberative democracy in virtual environments. The growing interest in sustainable and stakeholder-oriented business models creates favorable conditions for cooperative expansion, provided the movement can effectively communicate its distinctive value proposition. Future research should focus on longitudinal studies of cooperative performance, cross-national comparative analyses of regulatory frameworks, and investigation of emerging cooperative models in digital economy sectors.

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