

Governance transformation of the Bulgarian cooperative movement: values, principles, practices and members' satisfaction

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Abstract

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This article presents the theoretical and practical changes in the governance transformation of agricultural cooperatives in Bulgaria from the time of the establishment of the first modern cooperative to the present day.

The author focuses on members' satisfaction, changes in governance structure in accordance with cooperative values principles and practices. The article shows the driving forces behind the change in agricultural cooperatives. The research methodology includes qualitative methods: in-depth interviews, observational narrative analysis, statistical information, and literature review. The results show that the transformation of the governance structure, in accordance with the cooperative values, principles and practices, has a direct impact on the number of Bulgarian agricultural cooperatives and the members' satisfaction/ dissatisfaction.

The members' satisfaction is enhanced by the fact that cooperative principles and values are applied in practical activities, which are regulated, moreover, by the law and charters of cooperatives. If all the principles are observed and used in the operational activity of the cooperative enterprise, then such a cooperative enterprise becomes more sustainable. The facts of the reduction of cooperative membership and the enterprises themselves, in this context, can be explained by their dissatisfaction.

Keywords: agricultural cooperatives; governance structure; cooperative values; principles and practices; members' satisfaction

Introduction

Agricultural cooperatives, as economic and social structures, have an important role and place for the sustainable development in Bulgaria. As social economy entities and businesses, they are allocated as the guiding principles for promoting the principle of social responsibility. As subjects of social economy and entrepreneurship, they identify themselves as the main drivers for the promotion of the social responsibility principles.

In this study the cooperation refers to those group and collective actions with social and economic focus related to production, distribution, purchasing, processing of agricultural products and others. Cooperatives are based on the

values of self-help, self-responsibility, democracy, equality, equity and solidarity. Cooperative members believe in the ethical values of honesty, openness; and social responsibility. The Principles to be applied according to the national economic, social, legal formal and informal rule. They aim to help co-operative members and the managers to run their co-operatives toward more sustainability. The development and consolidation of cooperative principles is the result of a long historical period in line with economic development. During the different periods of socio-economic development of Bulgaria, the cooperative principles and practices change, often due to political influences. According Münkner (1995), cooperative values and principles are by their nature not shared by all cooperatives. This statement is justified be-

cause the cooperative values and principles can be applied only under specific conditions and situations. In this regard, Dülfer (1995) explains this with the fact that the individual characteristics of the cooperative, given in certain historical periods, were ideologically interpreted. At the same time, the cooperative governance structure is also transformed (Sarov, 2016), according to the law framework. However, often, cooperative practices sometimes even contradict the principles, the values and the governance structure. The world has changed its background, the society has changed, the globalization of the economy has continued, the digitization is validated, etc.

The aim of this paper is to analyze the theoretical and practical changes in the governance transformation of agricultural cooperatives in Bulgaria from the time of the establishment of the first modern cooperative to the present day.

Previous studies have found (Boevsky, 2007; Sarov & Boevsky, 2016 a,b; Sarov et al., 2017) some strong relationships between members' satisfaction, cooperative values and principles as well as existing and effective governance structures. On this basis, it could be assumed that members' satisfaction is higher when the structure of the management of the cooperative is consistent with the cooperative values and principles.

In other words, the members' satisfaction decreases due to the fact that the cooperative principles and values apply in their practical part, although they are regulated by the law and the statutes of the cooperatives. If all the Principles are observed and applied to operations of a co-operative enterprise, that co-operative enterprise will be more sustainable. In this regard, the decrease of the members and cooperatives' number could be explained by their dissatisfaction.

Material and Methods

The methodology is based on an adapted approach, revised documents related to agricultural cooperatives in Bulgaria, official documents of the Ministry of Agriculture, Food and Forests (MAFF), National Statistical Institute, literature review, case studies.

Historically, the cooperative development in Bulgaria can be divided into three periods:

- First period – pre socialism – from the creation of the first cooperative in 1890 to 1944;
- Second – the socialist period – from 1945 to 1989;
- Third – post socialism, a period of democratic change after 1990.

According to Barton (1989), the distinction of cooperatives could be between four classes of principles: Rochdale, Traditional, Proportional, and Contemporary. The cooperative

development in Bulgaria on cooperative principles can be distinguished in the following way:

- Pre socialism period – Rochdale principles;
- Socialism – „Socialist“ principles;
- Post socialism – Traditional principles.

Results and Discussion

First period. Pre Socialism – from the establishment of the first cooperative in 1890 to 1944

The modern cooperative in Bulgaria as an economic and social organization emerged at the end of the 19th century due to the need to protect the poor peasants from the usurers, the dealers and the „*chorbadzii*“¹. This is the period of the emergence of the ideas of utopian socialism and the frequent ruin of small producers. In Bulgaria, unlike Western European countries, cooperatives are established in the villages. The initiative comes not from the masses, but from the urge of the educated people – agitators of the cooperative ideas (Marinova & Nenovsky (2017). The leading role is played by the village mayor, the teacher, the priest. Since their inception, cooperatives have emerged as all-round – for credit, supplies, sales, and more. In fact, the first cooperatives established in Bulgaria are borrowed by the type Raiffeisen – savings and lending associations in Germany. The cooperative „Raiffeisen“ as a type of associations are based on the following principles: economic participation of members; solidarity and unlimited liability of members, limited area of activity; mandatory minimum of share capital; all-round activity. Subsequently, cooperatives are targeting a rapid increase in equity and payment to the governing bodies.

On June 11, 1890, in the village of Mirkovo in the Pirdop region, the first agricultural multi-credit cooperative was called „Oralo“ – „A Borrowing, Savings and Agricultural Society“ was founded, “based on the principles of a credit cooperation and savings of Raiffeisen. Each resident of Mirkovo could apply for accession. All members had the same rights and they could suspend their membership at any time” (Marinova & Nenovsky, 2017). Bulgarian cooperatives follow a combination of values and principles of Rochdale and Friedrich Raiffeisen:

1. Self-help;
2. Self-responsibility;
3. Voting of members on democratic basis (one-member-one-vote);
4. Membership is open;
5. Equity is provided by patrons;
6. Equity ownership – the share of individual patrons is limited;

¹ „chorbadzii” – this are a rich peasants exploiting poor people.

7. Net income is distributed to patrons as patronage refunds on a cost basis;
8. Dividend on equity capital is limited;
9. Exchange of good and services at market prices.

Compared to the traditional internal governance structure of the management authorities in the agricultural cooperatives, the Chief Assembly has the function of the General Assembly as the supreme authorities (Figure 1). An important role in governance is the Chief Council, which assumes the functions of the Supervisory Board, but the internal burrowing structure holds a leading role after the General Assembly, unlike the traditional cooperative, where the Supervisory Board is offset. Of course, the Board of Trustees is appointed with the functions of the Board of Directors, respectively with the Chairman, who is also the Chairman of the cooperative. It should be emphasized that the Accountant is included in the internal governance structure as an executive body, which in the current structure of the agricultural cooperative is in the division „Employees“.

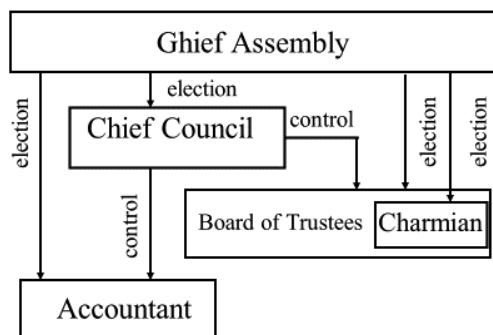


Fig. 1. Internal governance structure of agricultural multi-credit cooperative “Oralo” (1890)

Source: Sarov, 2017.

Between 1920 and 1925, the cooperative movement was strongly politicized, although the law banned cooperatives from belonging to political parties. In this way, cooperative associations become the main conductors of political propaganda and ideologies, which negatively affects the satisfaction of members. All this changes the original idea of the meaning of the cooperative case and accordingly the respect of the cooperative principles in accordance with the management structure, which in practice are partially recognized by the members of the cooperatives. Cooperative principles lose their meaning and original intent.

Until 1944, despite repeated attempts, agricultural cooperatives still do not find the answer to the idea of collective land management. The issues of land ownership by co-operators, the economic realization of the land, the organization

and the labor remuneration, the income distribution are not clarified. This also has its negative impact on the members' satisfaction. Accepted cooperative principles are increasingly difficult to respect by governing bodies, which puts cooperative identity at risk. It turns out that some of the cooperative principles are hollow ideas for the Bulgarian reality. The initial enthusiasm of the poor peasants from the cooperative idea begins to evaporate.

Second Period. Socialism – from 1945 to 1989

In the beginning of 1945, under the patronage of the Party-State, the first „voluntary“ associations for collective cultivation of the land were formed on the principle of the all-round cooperative. With contributions from its members it assisted them on the principle of the mutual fund. In 1950 the lending activity of rural households ceased and they remained functioning on the basis of consumer cooperatives. Labor-cooperative agricultural enterprises (TKZS²) were established, with the intention initially being voluntary.

Because of the political pressure to collectivize the land, violent measures for „clustering“ are often used, the so-called collectivization of the private property of a large part of the rural population – especially the richest owners. The term „collectivization“ (collective action) is quite skillful, given the „nationalization“ of the land. The TKZS use the principles of cooperation in Europe with the following features as party propaganda:

- Voluntary membership;
- Everyone receives remuneration in respect of the labor invested;
- Everyone receives an annuity for the share capital invested from land, inventory and money;
- The land remains the property of each member and has the right to participate in the cooperative according to its interest;
- The cooperative members elect the management team, which reports to the General Assembly.

Although the 1945 Law provides for the retention of private property of members and the payment of rent of 40% of the cooperative's income, the later arrangement of the TKZS made radical changes in 1960 the rent paid out completely dropped. This negatively affects the satisfaction of working members.

Table 1 shows that for the period 1944-1957 the number of TKZS increased by more than 30. At the same time, the average size of arable land per unit of production also increases. Party propaganda uses all means to involve rural

² TKZS- Party-State form of land management

Table 1. Development of TKZS

Year	TKZS, total	Households	Land, %	Average size, ha
1944	110	7 000	0.6	240.9
1945	382	34 000	3.1	383.8
1946	480	41 000	3.7	359.6
1947	579	46 000	3.8	328.5
1948	1 100	124 000	7.2	265.8
1949	1 601	156 000	13.6	346.2
1950	2 506	502 000	51.1	862.2
1952	2 741	553 000	60.5	914.6
1957	3 128	982 000	86.5	1 061.5

Sours: *Statistical Yearbook NRB, 1969*

households in the cooperative farms. The poorer peasants accept with satisfaction the work in these collective farms because it provides them with security and some income. Most often larger landowners have refused to join these farms.

The older peasants also talk about cases of violence by party leaders if one refuses to give the land for “collectivization”. Typically, the land is taken under party pressure and the owner is forced to work in the TKZS. Therefore, this data in the table would be difficult to give an objective picture of the processes of creating the new organizational structures in Bulgaria and the members’ satisfaction. According to data in 1944, 7,000 households were engaged in the TKZS, while in 1957 they increased more 140 (982,000).

During the period 1956-1960 the TKZS cooperated and consequently they decreased sharply from 3290 in 1958 to 932 in 1960 (Table 2). The economic results of such structures are excellent. But in practice a hybrid organizational structure is developing, with more than 1,700 workers in one production unit, which greatly distorts the cooperative model and identity. The autonomy and independence of the cooperative form of association is lost.

The transformation of private agricultural property and the deprivation of peasants of their property is a process beginning with the Fifth Congress of the Communist Party (CP) in 1948. The majority of the population in Bulgaria is not a supporter of socialism. In order to avoid political conflict and opposition to CP policy, an accelerated „reconstruction“ of agriculture is underway, including:

Table 2. Socio-economic impact of the TKZS

Indicator/year	1956	1957	1958	1959	1960
TKZS, total	3 100	3 202	3 290	972	932
Average size, ha	1 034	1 061.5	1 153.3	4 185.7	4 266.2
Fund, thousand BGN	2 378	2 469	2 799	10 279	11 986
Employee members	553	528	551	1 910	1 736
Share of recovery, %	9.3	5.8	1.9	0.1	0
Gross product, thousand BGN	2 333	2 843	2 949	12 885	13 843

Source: Minkov, M., Lutsov, Iv. (1969)

- Collectivization of farmers without “nationalization” of the land;

- Merging of the scattered agricultural lands;
- Modernization of agro-technical activities.

The case studies show a negative impact on the development of the cooperative model (TKZS) in agriculture due to the frequent and unsuccessful changes in the governance structure in Bulgaria. The autonomy of the cooperative farms is lost, whereby the governing bodies of the party-state dispose in an authoritarian way of the land and the distribution of income. Another important feature is the members’ placement at the bottom of the governance structure, i.e. their voice is not needed, they are not included in the governance, but only used as the labor resource of the production unit (Figure 2). The function of the General Assembly has been completely seized by the party secretary as an executive of the party-state. It cannot be noticed the fact that the coalition’s cooperative structure is practically merged with the state Communist Party – State. This is most often explained by the negative experience that constituted the socialist period, where the forms of cooperative economies are emptied of their substance.

In 1989, Cooperative Unions were transformed into Territorial Companies, which was a change in the cooperative governance structure in the organization of state property. This reform is an attempt with non-cooperative forms of organization to deploy state structures in cooperative ownership. All this conflicts with cooperative values and principles, the Cooperative Law, the Statute and the World Practice is violated.

According the data, practices and case studies presented for socialist period, the research team identified the following cooperative „principles“, which are in practice anti-principles:

- Compulsory membership;
- State-sponsored and state-controlled;
- Authoritarian management;
- Party Dependence;
- Party Control;
- Equity ownership is share of state;

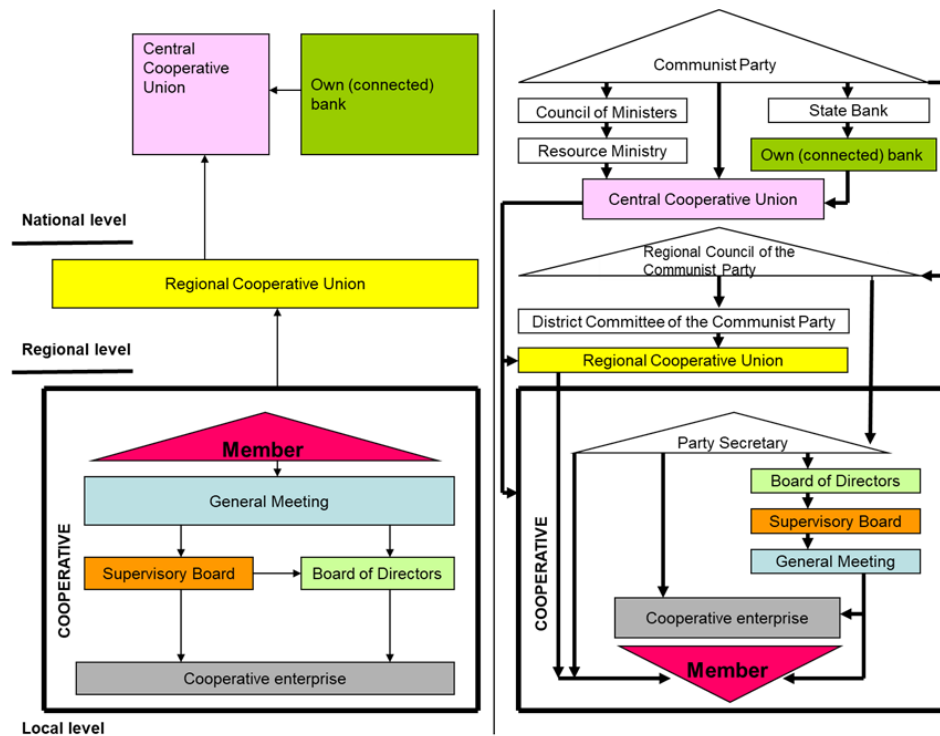


Fig. 2. The governance structure of agricultural cooperatives. Comparative Models up to 1947 and 1948–1989

Source: Boevsky, I. and Laurinkari, J. (2017)

- Concern for Party;
- Net income is distributed to state;
- The benefits are for the state;
- Nationalized private property.

Third Period. Post socialism – a period of democratic change since 1990

Since 1989, „democratic“ changes have taken place in Bulgaria in all spheres of the socio-political context in Bulgaria. The so-called Liquidation Councils, which restructure Bulgarian agriculture, are being created. They also have a bearing on the Bulgarian cooperative movement, creating new political and economic prerequisites for the development of a new type of cooperative governance structures. The Agrarian Reform of 1991 removes outdated organizational forms and restores private ownership of land and production means. Agricultural cooperatives are created, spontaneously born out of the objective need to find a rescue opportunity after the destructive actions of the Liquidation Councils. Agricultural cooperatives, however, are unstable and poorly adaptable to market turbulence and increased competition from large corporate structures.

At the same time, in 1995, in Manchester, United Kingdom, the Traditional Principles of the International Coopera-

tive Union, officially recognized by the United Nations (UN) in 2001, and by the International Labor Organization (ILO) in 2002:

- Traditional Cooperative Principles:
- Self-help based on Solidarity;
- Voluntary and Open Membership;
- Democratic Management and Member Control;
- Member Economic Participation;
- Autonomy and Independence;
- Education, Training, and Information;
- Cooperation among Cooperatives;
- Concern for Community.

The governance structure of the Agricultural Cooperatives in Bulgaria is built on the basis of the Extended Traditional Model. The unreasonable politicization of the agricultural cooperatives continues – they are given the definitions: “blue and red” (Hanisch, 2003) respectively identified with the two largest parties during this period – Democratic Forces Union (DFU) and Bulgarian Socialist Party (BSP).

The structural reform puts Bulgarian society at blurring property rights, destroyed organizational forms, unstable environment and markets. The land is shattered, with the vast majority of owners not even knowing where ownership is. Improving business climate requires urgent regulato-

ry changes. In addition, the cooperative structure has been looking for its place in society by encountering a number of theoretical-scientific, conceptual, legal, political and practical problems (Boevsky, 2007).

Members' organizational, management, and financial problems have accumulated over the period. The cooperatives chairmen seize the leadership in disregard of the principle of democratic management. Transactions with non-members tend to be more prevalent, ignoring the interests of the owners. Agricultural cooperatives adopt features of corporate structures in agriculture and lose their identity. The cases of opportunistic behavior by the governing bodies are also more frequent. The reasons for this are: free rider problem, poor financial interest and lack of interest of the cooperative members to their activities, leading to a number of problems: limited access to external financing; unstable markets; lack of warehouses; poor cooperative relationships, lack of labor resources, etc. In the period 1992-1996 there was an increase in the number of agricultural cooperatives, with the increase being over 140% (Figure 2). In 1997-1999 there was a stabilization of the agricultural cooperatives. Since 1999, the number of agricultural cooperatives and their arable land has been steadily decreasing as a result of bankruptcy. In 2005, only half (1525) of were 1998 functioned. In the period 2005-2016, they gradually lost their attractiveness and continued to reduce the number of agricultural cooperatives. During these years, over 50% reduction was recorded, with only 767 cooperatives remaining in operation in 2016. This is the result of the membership drop caused by apathy, the dissatisfaction of members due to the failure to respect the cooperative principles of leadership and non-cooperative practices.

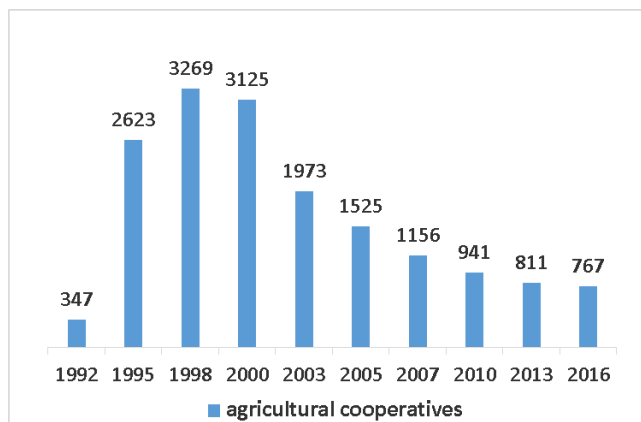


Fig. 3. Dynamics in the number of agricultural cooperatives in Bulgaria

Source: Agrostatistics, MAF (2019)

These negatives determine the inadequacy of cooperative governance structure of functioning in the EU. The reasons for this result are the deficiencies in the weak activity of the members in solving the most important issues for the cooperative, which concern the production and the economic activity. This is an indication of a contradiction in the principle of democratic governance. The cooperatives members are more active when discussing issues related to improving working conditions and taking into account their annual performance. The Bulgarian cooperatives are increasingly difficult to adapt to the changing business environment. They have difficulty maintaining a stable capital structure, making them financially unstable. The reasons for this are external – weaknesses in agrarian policy and legislation, and internal ones – weak investment and innovation activity, inefficient use of natural resources, management and control problems related to gaps in the governance structure. In search of a solution of the members' dissatisfaction, the opportunities are to reduce their number in the cooperative, to homogenize their interests, to implement innovative governance structures, horizontal and vertical integration.

Conclusions

In this paper I have tried to present the theoretical and practical changes and reasons for the governance transformation of agricultural cooperatives in Bulgaria from the creation of the first modern cooperative to the present day. This paper analyzed the impact and application of governance structure, values and principles of collaboration on members' satisfaction. The results show that the transformation of the governance structure, in accordance with the cooperative values, principles and practices, has a direct impact on the number of Bulgarian agricultural cooperatives and the members' satisfaction/ dissatisfaction.

In the present study it was found that in periods when the members' satisfaction is higher, there is an increase in the number of cooperatives and vice versa. In each period (Pre socialism; Socialism, Post socialism), the relationship between members' satisfaction, the cooperation values, and principles, and existing governance structures, differs significantly.

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