ECONOMIC ACTIVITIES OF THE SLOVAK CO-OPERATIVES IN THE YEARS 2010 TO 2014

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Abstract: *On 9th February 2015, 170 years passed since the first co-operative enterprise had been established in Slovakia. Co-operatives were developing through many stages and their importance at present is different than it used to be in the past. However, the mission of co-operatives has not changed: it is a long- term everyday care of both their members and employees. Currently, over a quarter of million of the Slovak population are either members or workers in one or more co-operatives. The housing and consumers' co-operatives have the most numerous memberships while various small producer co-operatives have the fewest members. For a successful future of Slovak co-operatives, it is inevitable to propose such solutions in the economic and social areas, that will meet needs of their members while taking into consideration customers' requirements. In the current fierce competition, the international collaboration is even more important than it has been before, because local markets are too small for profitable co-operatives. This contribution pays attention to the assessment of economic activities of the Slovak co-operatives in years 2010 to 2014.*

Keywords: *Entrepreneurship, Enterprises, Employees, Members, Co-operatives, Indicators, SWOT analysis.*

JEL Classification: *M13, M21.*

Introduction

The economic and non-economic activities of co-operatives are of a great benefit to economic and social development of both regions and national economy of the country. Slovak co-operatives face even more important tasks nowadays than they did in the past as they have to adapt to continuous changes faster not only on the local markets but also on the international ones. They also have to fulfil all their primary functions as they have been doing until now - its social function as employers in the region, stabilizing role, or educational function, thereby helping to secure sustainable economic and social environment in the region.

1 Statement of a problem

There is only a modest representation of co-operatives among all enterprises in Slovakia, and their number is continually decreasing since transformation in 1993. According to the recent data of the Statistical Office of the Slovak Republic, as of 31th January 2014 there were 1542 co-operatives, of which as many as 795, i.e. 51.56 per cent were microenterprises with maximum staff size of 9 employees. Most of them provided services. At the same time, there were 461 small enterprises, mainly producer co-operatives with the workers size between 10 and 49 employees. The medium sized enterprises with the staff from 50 to 249 employees were agricultural co-operatives. There were about 147 such entities.

On the contrary, building and consumers' co-operatives have increased in size, and now they normally rank among large enterprises. At the present time as much as 5 per cent of the population in Slovakia are members of one or more co-operatives. Their members take advantage of - or they should take full advantage of - those things which co-operatives have been established for. The activities of successful co-operatives can be a good example of how things can be implemented for other ones. The flexibility of co-operative management and members can mobilize the regional potential, increase employment, improve services, and unprofitable co-operatives can be turned into effective entrepreneurial co-operatives, or interesting social co-operatives with benefits to their members. It is important that employees and members collaborate not only to stabilize the co-operative but also for its economic and social development.

2 Methods

The main goal of this paper is to show economic activities of the Slovak co-operatives, analyze their strengths and weaknesses in the period from year 2010 to year 2014 and to suggest such solutions for future which should lead to market competitiveness.

We also used the database of the Statistical Office of the Slovak Republic and the Cooperative Union of the Slovak Republic based on the fact sheets from the 2010 to the 2014 as our primary data for identification of the present financial situation in the Slovak cooperatives. The database contains the data from 100 per cent cooperative enterprises which have a status of legal entities in the SR.

For our analyses, we are using the standard methods of research work, such as analysis and synthesis, comparison, induction, deduction, and generalization.

3 Problem solving

The main problem of Slovak co-operatives is undercapitalization, low production efficiency and quality of services for members. The problem was addressed on theoretical level by Slovak authors, e. g. Bielik [1], Šúbertová [9], Czech authors, e. g. Helešic [2], Němcová [6], Novotný [7, 8], and international teams of authors, e.g. Hesková, Pícha, Šúbertová [3]. They proposed solutions for maintaining cooperative functionality towards members and consumers alike on a high level of standards. Everyday work must prove that this type of entrepreneurship is acceptable and implementable in almost all branches of social activities.

It will be important to return to flexible types in a new, modern quality and to utilize existing human potential, Slovak and international experience and possibilities to distribute products not only on local markets, but also on broader European or world markets. For their success in future, it is inevitable to suggest such solutions in economic and social sphere for co-operatives in Slovakia, which would satisfy needs of their members and simultaneously respect requirements of their consumers.

3.1 Branch structure of the co-operatives in Slovakia

The branch structure is based on tradition of co-operatives in Slovakia where there are four main types of co-operatives:

- Agricultural co-operatives aimed at crop and livestock production with 46.6% ratio of total average number in 2010-2014,
- housing co-operatives aimed at sale or lease of properties with 16.6% ratio of total average number in 2010-2014,

- consumers' co-operatives dealing with wholesaling and retailing with 15.4 % ratio of total average number in 2010-2014,
- production co-operatives dealing with both manufacturing of goods and providing services, including business services with 6.9 % ratio of total average number in 2010-2014.

The other activities represent only 14.5 per cent share of the all number of co-operatives. Traditionally, the predominant activity in Slovakia is agriculture. Table 1 gives more details of co-operatives activities in 2010-2014.

Tab. 1: Branch structure of co-operatives in the Slovak Republic in the year 2010 - 2014

Branch structure according to SK NACE	**Year 2010**	**Year 2011**	**Year 2012**	**Year 2013**	**Year 2014**	**Growth Index 2014/ 2010**
Agriculture, forestry and fishing	739	737	720	718	712	96.3
Sale and lease of properties	256	255	255	261	264	103.1
Wholesaling and retailing	240	240	238	240	238	99.2
Manufacturing	117	115	108	100	97	82.9
Professional, scientific and technical activities	64	68	69	73	77	120.3
Construction	70	68	61	58	55	78.6
Administrative and support services	34	34	36	41	43	126.5
Information and communication	19	18	17	16	17	89.5
Finance and insurance	8	9	9	9	9	112.5
Accommodation and food services	7	6	6	6	7	100.0
Art, entertainment and leisure time activities	7	6	5	5	5	71.4
Transport and storage	5	5	6	7	6	120.0
Education	4	4	4	4	4	100.0
Water supply; wastewater treatment	3	3	3	3	3	100.0
Health care and social assistance	3	2	2	2	2	66.7
Electricity, gas, steam and air conditioning supply	2	2	2	2	2	100.0
Mining and quarrying	2	1	1	1	1	50.0
Slovak co-operatives in total	**1,580**	**1,573**	**1,542**	**1,546**	**1,542**	**97.6**

Source:[11], the author's own calculations

Since the crisis began, the number of co-operatives has been decreasing, however, only by about 0.5 per cent a year on average.

There was great differentiation in years 2010-2014: a considerable increase in numbers of co-operatives in the areas of administrative and support services by as much as 26.5 per cent; on the contrary, in the building industry there was a decrease by 21.4 per cent.

3.2 Selected indicators for Slovak co-operatives in comparison with other enterprises from 2010 to 2013

The co-operatives in Slovakia have been developing in a number of various ways over the past five years. In comparison to the other types of companies, however, it shows worse economic results in almost all indicators.

The indicators of liquidity show the solvency of enterprises. The situation has not changed as regards the second grade liquidity where all figures are lower for co-operatives with their inability to cover their current liabilities by current assets.

The third grade liquidity shows better figures in years 2010 and 2011 for other types of companies (not cooperatives), and it is different in years 2012 and 2013. The difference is caused by the differentiated stock which often represents the least liquid assets which are held mainly by agricultural co-operatives.

Tab. 2: The selected activity indicators for Slovak co-operatives in comparison with other enterprises from 2010 to 2013 ("C" indicates co-operatives; "OS" indicates other types of companies - legal persons) 1/2

Indicator (median)	**Year**			
	2010	**2011**	**2012**	**2013**
Second grade liquidity – co-operatives (hereinafter C)	1.04	1.03	1.06	1.07
Second grade liquidity / other subjects (hereinafter OS)	1.12	1.32	2.01	1.73
Differences in second grade liquidity C – OS	**-0.08**	**-0.29**	**-0.95**	**-0.66**
Third grade liquidity – C	1.51	1.54	1.64	1.66
Third grade liquidity - OS	1.18	1.40	2.11	1.84
Differences in third grade liquidity C – OS	**0.33**	**0.14**	**-0.47**	**-0.18**
Maturity of liabilities – C	201.53	189.79	180.21	202.87
Maturity of liabilities - OS	156.46	133.06	121.77	146.82
Differences in maturity of liabilities C - OS	**45.07**	**56.73**	**58.44**	**56.05**
Maturity of debts - C	97.90	82.75	73.83	84.76
Maturity of debts - OS	105.97	86.95	77.66	88.37
Differences in maturity of debts C - OS	**-8.07**	**-4.20**	**-3.83**	**-3,61**
Debt/asset ratio - C	43.87	47.69	44.79	43.82
Debt/asset ratio - OS	78.32	67.57	49.55	55.13
Differences in debt/asset ratio C - OS	**-34,45**	**-19,88**	**-4,76**	**-11,31**
Return on equity - C	0.08	0.42	0.06	0.01
Return on equity - OS	4.40	11.52	6.72	5.06

Source: [4], own calculation

Tab. 2: The selected activity indicators for Slovak co-operatives in comparison with other enterprises from 2010 to 2013 ("C" indicates co-operatives; "OS" indicates other types of companies - legal persons) 2/2

Indicator (median)	**Year**			
	2010	**2011**	**2012**	**2013**
Differences in return on equity C - OS	**-4,32**	**-11,10**	**-6,66**	**-5,05**
Return on sales - C	1.08	1.46	0.78	0.17
Return on sales - OC	5.12	7.67	8.00	6.71
Differences in return on sales C-OC	**-4,04**	**-6,21**	**-7,22**	**-6,54**
Pre-tax return on assets (gross return)- C	0.06	0.15	0.02	0.00
Pre-tax return on assets - OS	1.88	3.98	3.92	3.91
Differences in return on assets C-OC	**-1,82**	**-3,83**	**-3,90**	**-3,91**
The ratio of value added to sales - C	17.07	20.62	20.28	16.90
The ratio of value added to sales - OC	21.10	26.55	28.67	27.83
Differences in the ratio of value added to sales C-OC	**-4,03**	**-5,93**	**-8,39**	**-10,93**

Source: [4], own calculation

Among **the activity indicators**, the maturity of debts of co-operatives is the worst one in the whole period in comparison to the other forms of ownership because many co-operatives also hold the long-term liabilities to their owners arising from transformation, which can cause a lot of problems due to a seasonal character of their production. However, the differences in maturity periods are being reduced, and they have become almost the same for all forms of business ownership.

The indicators of indebtedness show clearly that most co-operatives are financed from their own resources while the other forms of ownership use external resources. Paradoxically, in the period when interest rates were falling, the co-operatives were not raising external financial resources as they could not afford to get new loans due to their long-term financial problems. On the contrary, the newly established smaller companies, mainly limited liability companies, had a better access to the financial resources from the EU funds.

The co-operatives indebtedness is one-fifth higher calculated per hectare of farmland due to their loss-making livestock production, the costs of large cattle unit are considerably higher in breeding pigs as well as cattle. At the same time, the cooperatives invest less financial resources in intensification of crop production which is more efficient. There is also a different structure of subsidies for cooperatives and for other types of companies.

These long-term problems were reflected also in **all indicators of return**, **such as return on equity, or return on sales.** The differences are multiple and permanent. Until the system of financial support of agriculture is changed within the common agricultural policy, the results will not change either.

In other types of cooperative enterprises, there was an unfavourable financial situation also in the building and construction industry and in some other industries as well. The situation in small and medium sized enterprises and/or in cooperatives is evaluated in other publications, e.g. Myšková [5], Šúbertová [10].

The ratio of value added to sales had every year bigger differences between co-operatives and other subjects.

However, the problem of all types of co-operatives is their "bad reputation". The various deformations of co-operatives between years 1948 and 1989 have lead to low credibility also in the new types of co-operatives in services, or to development of well-established profitable co-operatives.

The assessment of Slovak co-operatives can be briefly characterized in the form of SWOT analysis as follows.

The differentiation is given by variability of activities of co-operatives, their different objectives and conditions.

Tab. 3: The SWOT analysis of Slovak co-operatives

Factors	**S (Strengths)** • Interest in joining the membership and managerial activities because of self-realization • Enough information and communication technologies • enough potential members and workers (human resources)	**W (Weaknesses)** • Differentiation in approach to cooperative enterprises, lack of interest in this form of ownership, negative past experiences, • Disinterest in cooperative entrepreneurship due to lack of finance
O (Opportunities) • top managers' mobility • knowledge and experience of senior employees and members, • graduates' flexibility and knowledge of IT , language competence	**SO approach (maxi-maxi): Use of all opportunities by an offensive approach:** setting up a company while studying ❑ collaboration of cooperatives with organization supporting businesses	**WO approach (mini-maxi): More careful use of opportunities:** ❑ development of collaboration the cooperative's neighbourhood, ❑ raising finance from various grants, and external sources
T (Threats) • fierce competition in the market • frequent changes of legislation referring to business environment, • outstanding liabilities from the past in some cooperatives	**ST approach (maxi-mini): Using a position of strength to stop danger** ❑ updating the knowledge through foreign and domestic cooperative organizations ❑ implementing motivation tools for good workers	**WT approach (mini-mini): Considerations of compromises** ❑ manager consider a slow start of collaboration due to various ❑ blurred visions of cooperative's future activities

Source: author's materials

Potential young workers, as well as members, are leaving co-operatives for better paid jobs due to lack of funds. The remuneration of co-operative workers is still below average, which is a serious social problem especially in case of graduates.

4 Discussion

At the moment, the producer co-operative industry is being restructured and job opportunities are being created in the form of sheltered workshops for physically or mentally disabled people. There are over 20 sheltered workshops within the Slovak co-operatives, and more than 30 sheltered workplaces. These sheltered workshops and workplaces are of great importance in the process of inclusion of disabled people into the labour market and working teams. Only a few people know that co-operatives –especially the producer ones - have always been performing very well, usually above average, in export. That is due to their atypical, small series products which are not manufactured abroad. However, the foreign market for small series products from the Slovak producer co-operatives is beginning to be saturated at the moment, for example the pottery from Modra, crystal from Valašská Belá etc.

On the contrary, the consumers' co-operatives aimed at trading were doing much better when their retail sales went up by almost 2 per cent every year.

The consumers' cooperatives have been integrated into COOP Jednota, a cooperative chain store (hereinafter CJS), which was established in 2002. Because of rapid development of information and communication technologies, and later also social networks, the management of consumers' cooperatives in Slovakia changed and enlarged the existing marketing information system by a social marketing with clear integrity of all its parts. It can be concluded that 13 years ago, the new stage of development of Slovak co-operative social marketing began. Marketing started using communication technologies; Slovak cooperatives have been using e-business since then as well. Simultaneously, cooperatives launched their first websites, improved electronic communication with their suppliers (B2B), as well as with their customers (B2C). Since 2004 a new system of customer loyalty cards has been implemented. They switched from sticking stamps into "booklets" to loyalty cards with chips. By the beginning of March 2014, the number of loyalty cards had increased dramatically to over 965,000 in the COOP Jednota system. That represented 55 per cent of purchases on cards, i.e. 500 Euros per card yearly.

The customer loyalty cards play also an important role in managing chain stores. They enable to track the information on individual customers' purchases (and their families) which can be further used for analysis of related products and prediction of probable purchases, segmentation of clients in individual points of sale, setting price levels in time and space – temporary price changes, salvation of clients "endangered" by competition – usually this refers to the customers who live in rural areas, or those who commute to work to cities where they can do shopping, cost reduction with repeated purchases by customers offered by suppliers, motivating specific customers – e.g. by promotions on their special days such as birthdays, etc. CJS communicate with its customers via Facebook, and promotes its products through various competitions, including the ones organized by other companies.

The COOP Jednota brand has already won the Slovak Superbrands Award twice, in 2013 and 2014. Its continuous modernization is increasing sale efficiency. In 2013, COOP Jednota introduced as the first company in Slovakia system of electronic price tags in many towns and cities. Electronic price tags are highly efficient as they enable to display and change simultaneously and wireless prices of more than 12 000 items.

Currently, CJS brings together more than 170,000 members. CJS gives jobs to over 13,000 employees in nine logistic centres and in 31 regional consumers' cooperatives. CJS is the third biggest employer in Slovakia, 85 per cent of its employees are women. Therefore co-operatives enable flexible working hours for women with small children to reconcile both their duties as employees and mothers.

COOP Jednota Group is also the biggest food seller in Slovakia. The consumers' cooperatives have confirmed their leading position over several years when they have gained 20 per cent share in the domestic food market. Domestic food products represent 74 per cent on the shelves. The retail sales were developing between 2010 and 2013 as follows: year 2010 - 1,456mil. Euros; year 2012 - 1,171 mil. Euros; and in 2013 almost 1,211 Euros. This means an increase by 17 per cent in 4 years.

In the past five years Jednota launched successfully as many as 741 products of its own brand. Although the number of new products is not increasing anymore, their popularity is going up. Currently, they have a 19 per cent market share.

The co-operatives that fulfil mainly social functions are housing co-operatives. These co-operatives administer 290,000 co-operative apartments. They take care of maintenance and repairs of housing stock and are oriented to quality of services provided. As the prices of older flats in co-operative apartment houses are considerably lower than those of newer ones, after 1992 the ownership has been transferred from co-operatives to users, especially in bigger cities, where there is a higher demand for flats. After some co-operative apartments had been transferred to their users, there originated hybrid, or heterogeneous co-operative apartment buildings with mixed ownership. The plurality of ownership in these buildings is a reason of many problems in everyday lives of their members so the managements are trying to find an optimal solution.

On 2nd February 2010 the government of the Slovak Republic approved by its resolution No 96 the State Housing Policy by 2015. According to this material, there were 1,768 million permanently occupied dwellings, i.e. 327 dwellings per 1000 inhabitants, while 14.9 per cent were owned by housing co-operatives. The role of housing co-operatives is in accordance with the objectives of state housing policy to increase housing standard so that the housing can be affordable and every household can ensure adequate housing for themselves.

The housing co-operatives, in accordance with their capabilities, fulfil important tasks regarding ensuring decent housing for residents. As regards the quality of housing the co-operatives should improve the technical condition of the existing housing stock and contribute to extension of its lifetime and decrease of its energy consumption.

At the moment, the State Housing Policy by 2020 is being prepared, and the Strategy of Renovation of Housing and Non-housing Buildings has been worked out in accordance to Directive of the European Parliament and the Council No 2012/27/EU. According to this directive, effective 1 January 2014 all EU member states have to ensure renovation of 3 per cent of floor area of heated or cooled state-owned buildings. Similarly, the housing co-operatives have already started to renovate housing and non-housing stock in order to save energies for example by thermal insulation of older buildings. The housing co-operatives administer buildings that suffer from a number of technical problems which are being removed upon request of members, owners and users. One of the barriers to more efficient administration of these buildings seems to be owners´ lack of legal and energy awareness, hybrid ownership and tenders.

Conclusion

The consumers' cooperatives achieved the best results comparing to other types of co-operative entrepreneurship, their economic position in the domestic market was strengthened and the trend towards international collaboration - in particular with the Czech Republic and Hungary, but also with Bulgaria - continued. The collaboration, not only within small co-operatives in the regional level, but especially within large integrated co-operatives on national, or international levels should be based on the values of self-assistance.

Systematic support of co-operative enterprises would be of great benefit to their further development, for example various grants to finance technological innovations, improvement of infrastructure and services for co-operatives, changes in legislation in favour of co-operatives development etc.

One of the main strategic objectives for the co-operatives in Slovakia is to operate in high quality standards for benefits to their members and customers. It is necessary to show that co-operative enterprises are acceptable and applicable almost in every field of social activities.

Beside well-known types of co-operatives (consumers, producer, agricultural, housing) it is needed to look for new possibilities and create suitable conditions for establishing other types of co-operatives, the so called "new types", such as social, medical, health care, cultural, etc. There used to exist some of them in the past in our country as well as abroad. We should return to those cooperatives, however, in a new, modern form, and take advantage of the existing labour force potential, domestic and foreign experience and possibilities to launch products not only in regional, but also in the enlarged European, or global markets.

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