

THE LEGAL NATURE AND THE ECONOMIC OBJECTIVE OF THE COOPERATION¹

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Abstract

In this paper author presents the legal nature of cooperatives, the importance of association of individual economic entities in cooperatives, the importance of the continuity of business of these entities, especially those whose activities are related to agriculture in Serbia, since according to official data, more than half of the population in Serbia directly or indirectly subsist on agriculture.

One of the characteristics of modern markets is that classical competition is increasingly giving way to cooperation that can significantly improve the competitiveness of businesses. Of course, this does not mean that any cooperation contributes to improving competitiveness, but only that which is established between “compatible” business partners.

Cooperatives are associations of individuals who cooperate with the aim of achieving economic, social and cultural benefits for the cooperative and its members. Their cooperation is achieved on generally accepted principles. In researching the history of cooperatives, the author has come to the realization that various types of cooperatives in the developed world, a very widespread modality of cooperation between micro-business entities and are an important component of private sector development.

Key words: cooperative, legal nature of cooperative, goals of cooperative, economic interest of cooperative, competition.

About the cooperative

A cooperative is a voluntarily organized legal form of conducting an economic activity, as an open and independent economic entity, managed by members of the cooperative who founded it or subsequently joined it. The members of the cooperative shall establish a cooperative to plan, realize, promote and protect their

1 The work is part of the research on project no. 46006: “Sustainable agriculture and rural development in the function of achieving the goals of the Republic of Serbia within the Danube Region”, financed by the Ministry of Education, Science and Technological Development of the Republic of Serbia.

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individual and common property, economic, social, educational, cultural and other needs and interests through their work and other activities or using its services, on the basis of commonality and mutual assistance, for which the cooperative was founded (OGRS, 112/15).

Cooperatives originate from tribal communities, and the first organized cooperatives emerged in the seventeenth and eighteenth centuries in the UK and the USA.

The first forms of association of individuals, the first social alliances created to undertake joint ventures in a particular activity, originated in the Middle Ages, e.g. “Burial cooperatives” that allowed all members to have a proper burial, or cooperatives for the construction of flood defence systems, as this was an occurrence that affected many entities in the affected area.

This was the case in other activities as well. In mining (e.g. in Goslar), the miners merged into the original unions. In the Alpine region, immigrants joined alpine cooperatives to regulate the collective use of pasture land and restrict the sale of common property. All these phenomena, such as the understanding of the need for voluntary association to achieve a specific goal, with the possibility of even the need to join new members formed the basis for current cooperatives.

The founder of the first co-operative movement is Robert Owen. In 1799, he established the first cooperative at his cotton factory in New Lanark (Scottish experiment on humane working and living conditions) with the above objectives. Based on this cooperative, other cooperatives in other activities began to be established in view of the needs of business entities. The first cooperative that established the principles for the others was the Rochdale Society of Equitable Pioneers, the so-called “Rochdale Society of Equitable Pioneers”, Rochdal Principles. Specifically, 28 workers from the local textile industry established a trading cooperative in Rochdale, England, in 1844. It was thought that its greater market power would obtain lower prices of goods and services, and the cooperative model was based on the principles of the democratic decisions of the members and on principle of fair remuneration (Walton, 1997).

Friedrich Wilhelm Raiffeisen in Weyerbusch founded the first charity organization for the needs of the rural population, in Germany, in 1847. At the same time, Hermann Schulze-Delitzsch started the Rohstoffassoziation Cooperative in Delitzsch, which, in accordance with the principles of self-help, self-management and self-responsibility, aided businessmen in need, first carpenters and later anyone who needed help regardless of the activity

they performed. Around the same time, the first cooperatives in the retail sector emerged, such as in 1850 the “Lebensmittelassociation” cooperative of craftsmen and workers in Eilenburg, which is considered to be the first consumer cooperative.

Hermann Schulze-Delitzsch based his cooperative on “shared responsibility”, the principle of subsidiarity, which places personal responsibility above state action, allowing cooperatives to build community through shared interests and values. In this way, cooperatives create innovative solutions to social problems, enable employment, help the elderly and start urban revitalization and renewable energy projects (UNESCO, 2019).

In these cooperatives, everyone was able to participate, and members of the cooperative could acquire shares in the cooperative and participate in determining the operations of this form of legal entity. The state provided low-interest loans to farmers, craftsmen and entrepreneurs, and today about a quarter of the German population is a member of a cooperative that includes 90% of all bakers and butchers, and 75% of all traders, beside farmers and craftsmen. That is why UNESCO has protected the lively German practice of organizing and resolving common interests in cooperatives as an intangible World Heritage Site in 2016 (ICA, 2019). Today, in the contemporary world, at least 700 million members worldwide participate in cooperative activities organized by the International Co-operative Alliance. In European countries, there are numerous and varied forms of government support for the cooperative sector of the economy. The policies of the states are generally favoured by cooperatives, and provide numerous benefits such as access to affordable sources of finance, tax breaks, partial exemptions from antitrust enforcement, technical assistance, etc. (Royer, 2014).

Cooperatives were very prevalent in the former socialist countries, especially in the area of agriculture (agricultural cooperatives). In Serbia, interest in cooperatives has stagnated, so, in the last few years the state would begin to favour this type of cooperation for the sake of developing the countryside, the environment and the state.

It is considered that cooperatives in Serbia have a good future, as long as there are “small” producers, providers or users of agricultural cooperative services, there will also be a need for association in cooperatives. Currently, it is important for Serbia to organize farmers into cooperatives at local level, for one or more surrounding villages, so that farmers can jointly appear on market. Through joint

appearance, they will have stronger economic power and at the same time more effectively oppose competition (Bugarin et al., 2012).

It is believed, in Serbia, that state support for the cooperative sector can be essential for the formation of new cooperatives, their success, as well as the recovery of neglected cooperatives. In doing so, the state must not compromise their autonomy. In this sense, state support through partially exempting tax treatment or support for employment in cooperatives is implemented in countries with developed cooperative sectors.

Taking into account the large number of small holdings in Serbia and the weak market position of individual farmers, some form of association is necessary, since cooperatives have significant advantages over other forms of association, because in addition to their economic role they have a developed social role and can be a factor of development the rural environment in which they operate. The current state of agricultural cooperatives in our country is the result of the joint action of a number of factors, and therefore several different elements are needed for their development, and especially the support of state.

State support has only recently shifted from declarative to significant. But the formation, development and survival of cooperatives depend primarily on the interest of its members. Farmers' determination to cooperate with the cooperative and its development, as well as economic participation in the cooperative's work, are key elements for the survival of cooperative sector in Serbia, and it is therefore extremely important for these cooperatives to share their experiences with farmers interested in joining through agricultural cooperatives.

Methodology

In researching of this topic of this article were used foreign and domestic professional textbooks, scientific articles and monographs, empirical data available for processing and analysis using statistical and other various methods, the internet as well as many years of personal research and gained practical experience of the author. The following methods were used in researching the topic selected and in gathering relevant information:

- Analytical-empirical method - where the breakdown of complex terms in the field of cooperatives into their simpler parts and elements, in addition to the historical method, can determine causally - a consequential link, showing the positive motives for organizing in the cooperative as well as possible good results.

- Descriptive method, showing the status of cooperatives in developed countries, suggests that observed cases within the economy can be taken as a typical case, which indicates the achievement of satisfactory results of cooperatives, with respect to their special organization, which is a guarantee of socially responsible operations and satisfaction of economic interests.
- The comparative method shows that association in cooperatives can be a better model of organization when applying a result-based approach.
- The synthesis method was eventually used to summarize conclusions at the Serbian level, with recommendations for association in cooperatives and their role in creating an effective environment for the community in which they operate and beyond.

The legal nature of cooperatives

Cooperatives are associations of natural persons (entrepreneurs) who cooperate in order to achieve economic, social and cultural benefits. Their cooperation relies on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. Traditionally their founders or cooperative members are accepting several ethical values, as are honesty, openness, social responsibility and mutual care (ICA, 2015).

Unlike clusters, which represent a “critical mass of unusual competitive success in one business area in one geographical area” (Porter, 1998), which implies cooperation between economic entities in different industries, cooperatives represent cooperation between economic entities in the same or similar activity.

A member of a cooperative can be only a person (individual person, entrepreneur) who directly participates in the work of the cooperative, operates through the cooperative or uses its services or otherwise directly participates in the achievement of the goals for which the cooperative was founded. The cooperative member is not responsible for the cooperative’s obligations with its personal property. Responsibility of the cooperative members is framed by the value of the value of by them contributed capital. Thus, the maximum risk of members is limited to this extent.

Legal form and cooperative management

Cooperatives operate as legal entities, the form of which depends on their purpose and the possibilities provided by national regulation. Regardless of the legal form and type of ownership, the founders of a cooperative are individual persons who

bring certain property into it and have management rights, which do not depend on the size of the property entered. The input of assets in a cooperative is made on the basis of self-contributions by members, which make up their ownership stakes, whereby it is possible for individual members to have greater stakes and greater participation in management.

Under current law governing cooperative matters, in Serbia as in most other countries, members enter assets in the form of cooperative deposits or pay membership fees, and management rights do not depend on the size of the deposits, but the principle of “one member, one vote” applies. Management of a cooperative can be done either through self-management, which is based on the delegate principle, or through professional management, which is based on well-known principles of corporate governance.

A cooperative must be registered under the law in every country, or respective state cooperative laws. On registration, it becomes an independent entity of its own, distinct from its members (OGRS, 2015). It can enter into contracts on its own. A registered cooperative society enjoys certain privileges and sometimes exemptions granted by the state. It is exempt from payment of income tax, stamp duty, registration fees, etc. (Rajguru, 2019).

Cooperative societies are governed by provisions of relevant laws and are subject to state supervision and control as any legal entity. One of the reasons is the amount of grants received by the societies from the government. In Serbia, the cooperatives are under significant support in Serbia, starting from the republic level to the city level in carrying out its predominant activity, too. Significant support in Serbia is reflected in the encouragement of the co-operative by measures of economic, agrarian and housing policy, as well as other development policies, including the granting of appropriate facilities and benefits, which are stipulated by special regulations, as well as the possibility of establishing special funds for the development of this form of legal entity from by local self-government units or autonomous provinces or by providing budgetary resources to local self-government units, autonomous provinces and republics.

Cooperatives, as well as companies, are subject to the same rules on institutes of individualization, and especially on activity, headquarters, business name, business books, giro account. The name of the cooperatives must have the form label “cooperative”.

The objective of cooperative society is not profit, but mutual gain, based on mutual trust. The society mainly deals with its members. The transactions of the society are above board “the moral element in its aims is as important as the material” (Rajguru, 2019).

Cooperatives, by their legal nature, are partnerships, which are significantly different from equity companies, limited liability companies and joint stock companies. In cooperatives, the organization and decision-making model is entirely based on the democratic principle. Any of cooperative members has the right to vote at the assembly, giving suggestions and opinions on plans and programs that are the subject of decision-making at the cooperative assembly. Co-operation, as one of the essential principles of the cooperative, recommends self-determination and individual responsibility of each member. These are essential features of the cooperative, through which the entrepreneurial function of each member is realized.

Therefore, every member of the cooperative is equal in decision making. The amount of money invested in a cooperative does not affect the amount of voting rights. Voting in the assembly of the cooperative is done “by heads” and not by “capital”, i.e. investment in the cooperative. The particular principle of voting in cooperatives differs substantially from that of voting in limited liability companies whose largest owners of capital have the greatest decision-making rights.

Cooperative principles³

Cooperatives are people - centred enterprises owned, controlled and managed by and for their members to achieve their mutual interests, whether the members are the customers, employees, users or residents. Cooperatives are democratically managed by the “one member, one vote” rule.

They represent legal entities whose core business is based on the well-known principles of equity, equality and social justice. With such operations, cooperatives around the world give people the opportunity to work together to establish viable legal entities that create long-term businesses and prosperity throughout the environment in which they operate. Since cooperatives base their business on recognized values, not just profit, cooperatives respect the principles accepted at the international level and work together to build a better life and world through mutual cooperation.

3 The Statement on the Cooperative Identity – the Values and Principles of the cooperative movement (ICA, 2018).

Cooperatives allow members to lead their economic activity and, as they are not possessed by shareholders, all economic and social gains arising from their activity stay available just for their members. So, derived profits are reinvested in cooperative activities or returned to members (ICA, 2019).

The International Co-operative Alliance (ICA) is the international supporter of the Statement on the Cooperative Identity – the Values and Principles of the cooperative movement.

During 1995, the ICA adopted an amended, in accordance with the needs of practice, Statement of Cooperative Identity defining the notion of cooperatives, the identifiable values of cooperatives, and the seven principles upon which a cooperative should operate. In addition, for ease of application, ICA provides educational, detailed guidance on how to apply these principles in the day-to-day operations of cooperatives.

Based on described principles, cooperatives operate on the following valuation: self-help among members, self-responsibility, democracy in decision making, equality all members, regardless of the funds invested and contribution to the cooperative, equity, and mutual solidarity.

Given the long and successful business of cooperatives in the developed world, in the past and today, members of the cooperative have traditionally believed in the cooperative's values created, honesty, socially responsible psyche, and therefore concern for others (ICA, 2015).

1. Voluntary and Open Membership

Cooperatives are voluntary organisations that focus on people, individuals value, not property values, give access to all people who have the above values, that use cooperatives' services, or that are willing to accept the rules, right and obligations of membership in the cooperative with full equality of members and without any discrimination, gender, social, racial, political or religious (Cracogna et al., 2013). Any person, irrespective of his caste and creed, can join a co-operative society of his free will and can leave it at any time after obtaining a proper notification to the society.

The voluntary character of the co-operative association has two major implications: a) none will be denied the right and opportunity to become its member, and b) the co-operative society will not compel anybody to become a member. Exception will, of course, have to be made in case of people whose professional interests differ from those of the society, e.g., a private trader competing with a consumer co-operative (ICA, 2015).

The openness and humanistic nature of organizing a cooperative is reflected in the possibility of free access of each new member, if he is willing to accept the rights and obligations required by the cooperative rules.

2. Democratic Member Control

Cooperatives are democratic legal entities administered by members and at the same time actively involved in setting the organization, goals of the cooperative and in making decisions. Persons who are elected representatives of the cooperative and appointed to the organs of the cooperative are responsible for their actions to the membership. The rule is that members have equal voting rights (one member, one vote), and even with cooperatives organized at other levels, the democratic member control is respected.

3. Member Economic Participation

This principle implies an obligation on the members of the cooperative to contribute equally to the maintenance of the capital of the cooperative and to democracy-based control. Most often, a part of the capital managed by a cooperative is joint ownership. It is common for members of a co-operative to receive limited compensation, if earned, for the capital they have invested in the co-operative to become members.

The realized profit of the cooperative is most often allocated for the following activities: a) forming reserves that can be used to develop the cooperative in the future as well as for the survival of the cooperative in the event of external or internal crises; b) payments to members of this legal entity in proportion to their business and contribution to the cooperative; and c) financing of other activities of the cooperative in line to adopted acts of the cooperative (OGRS, 112/15).

4. Autonomy of cooperative and Independence

Focused to the principle of autonomy, cooperatives serve as self-help to affiliate members, who at the same time control the cooperative. In a situation where cooperatives operate with other businesses, including public sector, or receive external capital, they are also acting under the conditions that provide the democratic control of members and maintain the autonomy of cooperation.

5. Education, Training, and Information

One of the significant activities of the cooperative is to provide training and training to its members, representatives of the cooperative they elect, directors and employees so that their knowledge can influence the increase of economic efficiency

and modernization of their cooperative. At the same time, they are spreading good information about the benefits of mutual business by joining cooperatives.

6. Mutual Cooperation between Cooperatives

The greatest contribution of cooperatives to their members and to the strengthening of the cooperative movement is achieved when cooperatives operate together through local, national, regional and international and legal entities, in principle, more participants can give greater opportunities.

7. The principle of Community support

The community in which the cooperative operates has a significant impact on the business of the cooperative, as well as any other economic entity, which is why the cooperative must take into account the interests and condition of the community within its own developed policy. This results in the apparently well-regulated socially responsible behaviour of each cooperative and its governing structure, which also results from the fact that its business is constantly intertwined with various social processes.

The importance of cooperative principles is often emphasized in science and theory as the basis on which cooperatives differ from other economic entities, and in particular from capital companies, joint stock companies and limited liability companies operating on completely different bases. In recent decades, there has been considerable evidence that cooperative principles have a significant positive impact on the financial performance of cooperatives (Rixon, 2003). Therefore, the acceptance and preservation of cooperative principles is important not only as an element of the diversity of cooperatives, but also because they contribute to the survival and development of cooperatives in the market (Zakić, Nikolić, 2018).

Cooperatives as economic entities with an economic objective

In economic life, there are various forms of cooperation, which can be manifested in different ways: a) From classic collaborations (e.g. cooperatives, development parks, clusters, incubators, contract based deals, etc.), through b) Joint appearance in the market (e.g. consortia, joint ventures, strategic alliances, contract manufacturing, franchising, licensing, Piggy-Back, etc.), up to c) Full integration of business systems (e.g. holdings, concerns, conglomerates, Keiretsu systems, etc.).

Cooperatives are one of the most effective models of self-organization for individuals and entrepreneurs. Although in accordance with the rules of the ICA,

cooperatives cultivate community values that typically go beyond pure business. The ICA emphasizes the importance of self-help, self-responsibility, democracy, equality and solidarity as core values. In the tradition of their founders, members of the cooperative have confidence in the ethical values of honesty, openness, social responsibility and the interests of others. The author of this article believes that the motives for association in a cooperative are very significant and certainly economic (ICA, 2019).

Regardless of all the specifics that arise from the cooperative principles, they basically have a commercial character, the character of an economic entity, because they are obliged to operate economically, socially responsible, to be competitive economic entities.

Cooperatives are a very widespread modality of cooperation between microbusiness entities in developed economies, first of all Europe, but also in other countries of the world and represent a very important component of the sustainability and development of the private sector, which in some countries, such as Spain, for many years, was the initiator of the entire economic development of the country and the region.

As noted, one of the characteristics of modern markets is that classical competition is increasingly giving way to cooperation between business entities in the country and intercontinental (the term “co-opting” is often used, lately). In fact, both theory and practice have proven that cooperation between business entities can enhance their competitiveness, very significantly. This is not to say that any cooperation contributes to improving competitiveness, but certainly one that is established between “compatible” businesses.

Synergy effects are cited as the strongest argument for cooperation between market players. Synergy represents the ability of business entities to produce, by joint action (direct synergy), a value greater than the sum of the values they would have produced if they had not joined. Therefore, as united economic entities, they are more valuable than as a sum of individuals. In other words, synergy is a phenomenon in which the cumulative effect is much more significant than the sum of the individual effects, and can be represented as follows:

$$\text{EFFECT (A+B+C)} > \text{EFFECT (A)} + \text{EFFECT (B)} + \text{EFFECT (C)}$$

Achieving synergy effects is very important for entrepreneurs, who, as a rule, do not have great market power and therefore the power to achieve the goals that the cooperative associates can achieve.

Businesses that cooperate have a better market position, exchange knowledge faster, grow faster, operate more efficiently, achieve greater profitability, are more flexible and create a better reputation in the market. What is characteristic is that the cooperation brings positive results for both “big” players (companies, corporations, public enterprises), but also “small” players (small and medium-sized enterprises, entrepreneurs, associations).

The benefits of joining cooperatives are great. Cooperatives are established in almost all areas of business, most often agricultural, retail, craft, construction, communal, financial, labour, consumer, student, youth, student, health, sports, volunteer, social, employment cooperatives and other forms of cooperatives. In addition, association in the form of cooperatives continues to form associations (Cracogna, 2013) of cooperatives, cooperative unions, and even political cooperatives.

What is common to all types of cooperatives is: pooling resources that encompass knowledge, assets, capital and finance; collaboration between members in order to strengthen their competences; strengthening the bargaining position towards the outside world: suppliers, customers, financial institutions and government bodies; better access to funding sources; better position to the procurement market; and better position to the sales market.

The essential objective of an agricultural cooperative is to ensure the long and successful operation of the cooperative itself, in order to achieve, through the positive effects of the cooperative, the interests of the cooperative members, the wider community and the long-term business that can provide the interests of future generations, not just the members who founded it. For this purpose, the cooperative does not share all the profits made to its members, but uses it for long-term investments to secure its future and that of its members. That is why it is said that „cooperative capitalism” is capitalism with a human face (La Cooperation Agricole, 2019).

The objective of an agricultural cooperative is to capture agricultural activity, including the promotion of production, processing and marketing and the division of business between farmers who are members of the cooperative and other economic entities.

Modernly speaking, agricultural cooperatives are business entities that have a desirable and prosperous business that can fully respect the ongoing economic, social issues of individuals and the wider community, including environmental issues that are current at all times. The cooperative is like a model of organizing work, based on “cooperative capitalism”. It combines the freedom of decision-

making and business, solidarity of members and the strong connection of the cooperative with the region in which it operates, placing farmers at the center of management and growth strategies of their entity (La Cooperation Agricole, 2019).

Based on these specifics, it can be said that cooperatives are legal entities with specific organization, management and ability to create and maintain a successful and long-lasting business.

The agricultural cooperative is organized by the farmers in order to carry out their own business and to improve the business and economic efficiency of all persons interested in the business of the cooperative.

Obviously, association with cooperatives has many advantages, which mainly consist of the following: a) risk dispersion of each member; b) with a small investment, members of the cooperative can acquire new knowledge, fund the necessary services of external experts, share the cost of sales, advertising, use equipment of cooperative, have better access to external sources of funding; and c) as united, according to the rules of synergy, cooperatives have stronger economic power, a better negotiating position and the ability to create a recognizable brand in the territory in which they conduct their business and in the wider community.

Cooperative property

The cooperative's property is in the cooperative's ownership.

The cooperative shall acquire assets from the cooperative's deposits or membership fees, the proceeds of the cooperative's own business, and the funds acquired in other way. The property of the cooperative consists of the right of ownership of movable and immovable assets, monetary assets, securities and other property rights acquired by the cooperative through registered activities or other activity and represents assets in cooperative property.

The cooperative manages uses and disposes of its assets, in accordance with the law, the contract of incorporation, or the cooperative rules. In the case of the sale of immovable property in a cooperative property, the proceeds from the sale of that property cannot be distributed to cooperatives and employees, that is, they cannot be paid to cooperatives or employees by virtue of their membership in a cooperative, role or employment rights. The cooperative operates on its own behalf and for its own account, on its own behalf and for the account of the cooperatives, or in the interests of the cooperatives, based on the founding agreement or internal norm of cooperative.

The cooperative uses the own assets for its operations, and can use the services of cooperatives and assets owned by cooperatives and other legal and individual persons based on a specially concluded contract, in accordance with the law and the internal rules of association.

Conclusion

Association in the form of cooperatives is an underutilized potential of Serbia. The potential for association in cooperatives is very high, in the fields of agricultural production, retail, as well as in the field of processing and development of high technologies. Entrepreneurs who understand the potential of the association have the opportunity to significantly improve their position in the domestic and international markets. That is why the message to all entrepreneurs is to find an area in which they can cooperate, establish cooperation and improve their position in the market and at the same time the economic position of the region and the state as a whole, because agriculture is a very important operations in the domestic market, which is given priority in the strategic plans for the development of agriculture in our country.

Serbia is an agricultural country. The location of our villages offers great opportunities for cooperation. According to a survey of the Statistical Office of the Republic of Serbia, generally in Serbia, the potential of the cooperative sector is very large and untapped. Cooperatives are a great opportunity for young people first and foremost. The future is certainly associating and obtaining products with greater added value. Vojvodina as a whole is extremely favourable for the business of cooperatives, where there are most of them. There are many examples of successful organization and operation of cooperatives. A large number of cooperatives, especially in Vojvodina, survived the financial crisis well. Serbia's agricultural development strategy favours business through cooperatives, and Serbia has fertile land, knowledge, experience, and expert people.

Continued work on the education of cooperatives and co-operatives is also needed to further implement standards in agriculture, apply new knowledge and precision agriculture while constantly propagating these activities in various ways. It is believed that through strong cooperatives, Serbia can have developed villages and an economically strong state.

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