



1,000 THINGS BOARDS & MANAGERS SHOULD KNOW

Good Governance Tip #8

The Principles of Co-operation

WHAT CO-OPS HAVE IN COMMON

So far, we have explored the extraordinary variety of businesses operating as co-operatives. WE have seen that they serve many different types of users and offer a multitude of goods and services, ranging from comprehensive, state of the art health services in America to processing and marketing the milk of a villager's buffalo in India. In spite of such huge differences of scale and technology, all of these businesses share common characteristics. In this and the next chapter, we explore these common characteristics and define more precisely the concept of a co-operative. We start by discussing the co-operative principles, which have been used, above all, to define the legal structure of co-operatives.

Principles of Co-operation

We have used a rough working definition of a co-operative as a 'self-help business, owned and democratically controlled by the people who use its services'. This definition gives us a useful, general picture, but is very incomplete. Co-operatives in most parts of the world are required by co-operative legislation to abide by a number of so-called 'principles of co-operation'. These principles are sometimes called the Rochdale Principles, so named after the successful consumer co-operative. The Rochdale Principles have become the most popular basis for defining the concept of the co-operative. They are summarized below. The first three are the ones most commonly incorporated into legislation to provide a legal definition of the essential characteristics of the co-operative.

VOLUNTARY & OPEN MEMBERSHIP

Membership in a co-operative is open. Anyone who can make use of a co-operative's services should be free to join. In a consumer co-operative, for example, any customer is entitled to become a member and enjoy the benefits of the co-operative. In a worker co-operative, any permanent employee in the co-operative is entitled to become a member.

DEMOCRATIC MEMBER CONTROL

The co-operative should be democratically controlled and administered. All members have an equal say in the co-operative's annual general meeting and in election for the board of directors. The board in turn appoints the manager and oversees the running of the co-operative. Voting rights go with membership, not with the size of capital invested or number of shares owned (as would happen in a conventional company). The rule is one member, one vote. In other words, you cannot buy more votes in a co-operative by investing more money. To become a member in a co-operative, you usually have to buy at least one share. Some co-operatives will let you buy more than one share, many will require that you buy more, but these additional shares will not provide you with more votes.

MEMBER ECONOMIC PARTICIPATION

Members should contribute equitably and control democratically the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. A number of approaches are used to ensure that capital is controlled democratically and equitably:

LIMITED RETURN ON SHARE CAPITAL

Typically, co-operatives are required to pay only a limited return on shares. In a conventional company, profits are distributed in proportion to the number of shares you own; not so in a co-operative. In co-operatives, you are paid no more than a fixed rate of interest on the money you have invested in shares. At most, co-operatives pay a return on share capital that is similar to the interest rate you would get on your money in an ordinary savings account at a bank.

DISTRIBUTE PROFITS IN PROPORTION TO MEMBER'S USE

Instead of distributing profit according to shares owned, which is what happens in the conventional business, co-operatives typically distribute profits according to how much members have used the business. In a consumer co-operative, for example, profits are distributed to customers in proportion to the amount they have bought from the co-operative during the year. In a dairy co-operative, profits are distributed in proportion to the amount of milk farmers supply their co-operative.

ISSUE BONUS SHARES

When distributing profits according to use, many co-operatives issue those payments in the form of bonus shares. Typically, these shares cannot be redeemed for cash immediately, but must be retained within the co-operative for an agreed period. This enables the co-operative to reward members for their use of the co-operative, while continuing to have the use of the allocated capital.

REINVEST PROFITS IN THE CO-OPERATIVE

Of course, co-operatives are not obliged to distribute any profits at all. It all depends on the wishes of the members and the financial state of the business. Members may choose to reinvest all of the profits in their co-operative to help build the business and expand its range of services.

AUTONOMY & INDEPENDENCE

Co-operatives are autonomous, self-help organizations controlled by their members. When they deal with other organizations, they should do so on terms that ensure democratic control by their members and maintain their co-operative autonomy. For example, to safeguard their autonomy, they should avoid becoming too dependent of government grants and subsidized services.

EDUCATION, TRAINING, & INFORMATION

Co-operatives should invest in building the abilities and capabilities of their members and employees. Because co-operatives exist to encourage the development of people, they should spend some of their profits of developing their members (to improve their ability to run their own affairs). They should also try to inform the general public (to show them how the techniques of co-operation can be applied to the solution of societal problems).

CO-OPERATION AMONG CO-OPERATIVES

Co-operatives should co-operate with other co-operatives. Co-operatives usually start out as tiny businesses, set up by relatively poor people with very limited resources. They are much more likely to prosper if they work closely with other co-operatives. This is why you find credit unions working together to set up a central body to provide affordable services to them all, and small retail co-operatives co-operating to run a wholesaling organization so they can enjoy the cost advantages to bulk buying.

CONCERN FOR COMMUNITY

While focusing on member's needs and wishes, co-operatives also work for the sustainable development of their communities through policies approved by their members.

The Co-operative Difference

As mentioned above, the first three of the co-operative principles (open membership, democratic control, and member economic participation) are typically used by governments to define a legal structure within which a co-operative must operate.

These three principles spell out some of the obvious differences between a co-operative and a conventional firm:

- ★ A co-operative is open to new members who can use the co-operative's services, a conventional firm tends to restrict ownership to a limited elite of relatively wealthy owners
- ★ In a co-operative, member control is organized according to democratic principles (one member, one vote), in a conventional firm you get votes according to the number of shares you own or control
- ★ In a co-operative, profits are shared equitably, usually according to a member's usage of the business's services, not according to the number of shares owned; in a conventional firm, profits are distributed according to shareholding

The Importance of the Co-operative Process

It's not what you do, it's the way that you do it! These principles provide use with a more precise definition of the co-operative, but are still incomplete. They over-emphasize the structural features of the organization, while neglecting the quality of the process carried out within that structure.

For further information on this and other related topics, as well as many co-operative development subjects such as governance, finance and marketing, strategic planning, management, etc, contact the Nova Scotia Co-operative Council at the address below. Our knowledgeable staff of Business Development Officers, located in Truro, Sydney, and Yarmouth are available to assist you in all areas of co-operative development. You can also visit us on the web at www.nsko-opcouncil.ca.



Nova Scotia Co-operative Council

Making a Difference in Nova Scotia Communities

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