



1,000 THINGS BOARDS & MANAGERS SHOULD KNOW

Good Co-op Development Tip #12

Why a Co-operative Instead of a Company?

INTRODUCTION

The co-operative way is never easy and automatic, even where conditions are favorable; for like democracy itself, it requires constant attention and tending to stay healthy and strong.

It is rather interesting that co-operative's true purpose and operating methods, and sometimes their very existence, seems to have been missed on the average citizen and especially on the professionals, such as journalists, teachers, economists, lawyers, accountants, and opinion-makers. Perhaps this is because the co-operative idea is not widely understood in some places. We may find the popular misconception that co-operatives are something alien to the natural culture, a deviation from the normal way of carrying on business.

In a co-operative, the owners, the users, and those who exercise control are all one; so, because it integrates all three functions in the one group of people, the co-operative is the most legitimate and rational of all forms of business. Managing a co-operative is a challenging and difficult job. It involves not only managing resources and business operations, as in other businesses, but also dealing with problems stemming from the co-operative's distinctive characteristics. Because the co-operative's members are both owners and patrons, special relationships and problems arise concerning member and board of director responsibilities.

Seemingly conflicting answers can come from posing the question 'what's the difference in managing a co-operative from any other type of business'? The answer is 'the decision-making technique is identical, but the co-operative's objectives are different; therefore, the manager's conclusions will be different'.

What Does an Executive Need to Acquire to be a Good Co-operative Manager?

- ★ Adjusting decision-making to a business where patrons or suppliers are also the owners. What is best for the consumer-patron is really best for the co-operative. The manager needs to recognize why the co-operative is obligated to take all of a producers product, why low margin products continue to be provided, why unrelated high margin activities are not considered in a co-operative.
- ★ Dealing with complex issues of equitable treatment of owner-patrons. The standard co-operative practice of distributing net margins on the basis of patronage is different and more complex than declaring a dividend on capital stock, especially when the patronage dividend is issued in the form of shares. It becomes more complex when there are different rates for different products or services based on the profitability of each product or service. Another different concept is the requirement that member-owners share equitably in financing the co-operative. Managers are required to communicate that responsibility to them and develop financing programs they will accept.
- ★ Working in a service-oriented organization in a spotlighted atmosphere. The new manager of a co-operative discovers the members formed the co-operative to provide a needed marketing or purchasing service or both. Every time a member uses the co-operative, they evaluate the service performance by its employees and may express their opinion directly to the manager. This 'fish bowl' operation is different compared to an investor-oriented firm who may face most of his stockholders only at annual meetings and their primary concern is what were the market changes in the dividends or what is the market value of their stock. Members want to know what the manager is doing, so the manager must adapt himself to the publicity surrounding his work.

- ★ Realizing the management implications of business ownership and control that are unique to co-operatives. Managers have various motivational factors; pay, power, prestige, a place in history. Not all are transferable to a co-operative from an investor-oriented business. A co-operative manager cannot 'gain control' by political maneuver or outstanding performance, and must always be resolved to being an employee. The manager will be required to take action to involve a majority of the member-owners, not just a few holding a majority of stock. A co-operative manager must assess his style, personal performance motives, and ambitions to see if they are compatible with the constraints of a member-user and democratically controlled co-operative.

The differences between an investor-owned corporation and a co-operative corporation are obvious in:

- ★ Recipients of goods and services
- ★ Joining the business and withdrawing from the business
- ★ Control of the business
- ★ Ownership of the business
- ★ Return on investment
- ★ Disposition of net earnings
- ★ Taxation of net earnings

A co-operative may be defined as 'an incorporated association with economic aims formed by and for persons or business entities having common needs, having approximately equal voice in its management, making approximately equal or proportional contribution to capital, and deriving proportional services and benefits from it'.

Co-operative Principles

What are the principles by which co-operatives operate? A principle is when the opposite is not acceptable to you.

EQUALITY

- ★ One member, one vote (democratic control)
- ★ Equity levels do not influence who votes
- ★ Open to anyone who can use the service
- ★ Voluntary member control

EQUITABLE

- ★ Limited return on investment (usually zero)
- ★ Benefits are derived from use of services
- ★ Surplus is distributed in proportion to use
- ★ Capital contributions are in proportion to use

MUTUAL SELF-HELP

- ★ Co-operatives work with other co-operatives in every practical way for their mutual benefits
- ★ Education and information to members, boards, staff, and the public about ideals, methods, and products that are to be provided
- ★ Community focus by focusing on member's needs and wants. Co-operatives work for sustainable development of their communities

Co-operative Ideals

CO-OPERATION IS AN ECONOMIC SYSTEM WITH SOCIAL CONTENT

- ★ Requires regular reports to the members
- ★ No contribution to the furtherance of the interest of political parties
- ★ Constant member education

- ★ Encourage co-operation in other sectors and areas of business
- ★ Rejection of excessive government aid and intervention
- ★ Rejection of special privileges from government or other agencies which renders it difficult for the co-operative to become self-sufficient

CO-OPERATION IS PRIMARILY AN ECONOMIC SYSTEM

- ★ Establishment of a standardized, accurate bookkeeping system
- ★ Periodic auditing of all commercial entries by auditors
- ★ The encouragement of cash trading

CO-OPERATIVES STRIVE TO BE JUST, EQUITABLE, & FAIR

- ★ By treating all patrons equally
- ★ By treating employees justly and paying fair wages
- ★ Not discouraging collective bargaining
- ★ Assuring 'service to members' is paramount
- ★ Assuring only the best goods and services are to be made available to members and customers

Legal Constraints to the Business Ventures a Co-operative May Enter

Section six of the Co-operative Associations Act states co-operatives under this act may 'establish and carry on, on a co-operative basis, any lawful business, enterprise, or service, other than a banking, loan, trust, or insurance company'. Section 16 of the Co-operative Associations Act identifies the powers of the co-operative which may be summarized by saying co-operatives have all the powers of a natural person. Except for section six constraints, there is no business where co-operatives are not allowed to operate.

Types of Businesses That Co-operatives are Presently Engaged

Traditionally, co-operatives in Nova Scotia have been involved in the marketing of natural products (i.e. fish, agriculture, forestry, etc) and in these areas have had a significant position, especially in agricultural marketing, where co-operatives market about 60 percent of the value of agricultural production. In the areas where the member is the consumer and buys from their co-operative, the most significant impact in the Atlantic Region is in the grocery business, where co-operatives have secured a dominant position in many rural areas.

In the provision of farm supplies, co-operatives in the Atlantic Regions have the dominant position and are especially strong in artificial insemination, feed, seed, fertilizer, and agricultural chemicals.

Standard of Excellence for Co-operatives in Nova Scotia

The 'best' co-operatives in Nova Scotia amount for 25 percent of statements analyzed and their average returns over the past number of years has been the equivalent to a 20 percent return on investments. A respectable return for most members and one which boards should expect.

This standard of excellence is important for co-operative directors to understand because it represents what is possible when the co-operative works well. A return of 20 percent on investments, when retained in the form of shares, provides sufficient working capital for managers, growth financing, comfort for lenders and investor members, and working capital to retire withdrawing members.

This standard of excellence will also allow directors and members to appreciate and accept normal levels of profit in a co-operative and assist in the solution of conflict in co-operatives.

Big Conflict in Co-operative Governance

Directors come to the board table as member-users and as managers. Directors have the legal responsibility to assure the co-operative prospers and survives, at the same time, the director is a trustee of the interests of the members whose primary interest and reward is a better price and better services.

This conflict requires the organization to be profitable on one hand and, on the other hand, be in a position to give lower prices to reward the members for their support. The manager is often caught in the middle and must be careful not to be the scapegoat or villain in this conflict.

If both parties or both sides see the necessity to have a profitable operation so that all parties are nearly satisfied, then the conflict is to a large extent neutralized. It is the job of the manager, in co-operation with the board, primarily the president of the board in their role as manager of the board processes, to explain, teach, and continually sell the differing interests on the merit of a profitable operation. The distribution of the surplus at the year end plays an important role in effectively compromising this conflict.

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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