



Members Make Co-ops Work

Cooperative Information Report 12

Rural Business – Cooperative Service

United State Department of Agriculture

Article Summarized by Travis West, Coordinator, Ohio Cooperative Development Center

Cooperatives are a unique form of business known as user-owned, user-benefited, and user-controlled. Benefits from the cooperative are returned to the patrons, members and nonmembers, based on their use of the cooperative during the year. Cooperatives are formed by groups of individuals that can accomplish a goal by organizing together. Members are the ones who make cooperatives successful by using their rights: ownership, financing, control, and patronage. These four activities are important to the success of the cooperative.

Ownership is a vital role for the members of the cooperatives because they are the ones responsible for incorporating the business and drafting the Articles of Incorporation and By-laws. The members have established marketing agreements, taken actions to make major decisions, and electing the Board of Directors for the cooperative. Members play a huge role in educating the members about cooperative principles and practices so that new members understand the cooperative structure. The members must be updated on the operations of the cooperative, but first they must have a basic understanding about how a cooperative works in order to be an effective member. Members are responsible for presenting a good image to the community about the cooperative and defend the cooperative when it may be under verbal attack. The members of the community should see the cooperative as a part of their community and this makes recruiting new members to the cooperative easier for the existing members.

The members have democratic control of the cooperative and its operations. The membership must approve the legal documents of the cooperative including the by-laws, membership agreement, marketing agreement, etc. The membership votes on the major decisions of the cooperative, but the manager makes short-term decisions in the best interest of the cooperative. The membership elects the Board of Directors for the cooperative, which serves as the overseers of the operations including the manager. The control of most cooperatives is a one member, one vote policy that makes everyone on an even playing field, not based on capital contributions like an investor-owned firm. Participation of the members in the decision making process for the cooperative is important because the cooperative is there to serve the members. The membership gathers information about the decision, outlines the alternatives, and then implements what they think is the best choice for the cooperative. Members value cooperatives because of the control they have over the operations and decisions of the cooperative on a regular basis.

The next activity of a cooperative member is financing the cooperative. Members are asked to invest some equity into the cooperative to get it started and help attract other lenders to the financial costs of the business. Members now have a sense of commitment to the cooperative

because they have invested money in to the business and want to see it prosper. There are several ways that members contribute equity to the cooperative: Capital investment, deferred patronage refunds, per-unit retains, and/or base capital. Capital investment is most commonly used to cover the start-up costs of launching the cooperative. Deferred patronage refunds are the percentage of the patronage refunds that patrons are allotted at the end of the year that are retained within the cooperative to finance the cooperative's operations for the next year. These can be in the form of certificates, stocks, or an equity account and the cooperative refunds these instruments at a later date. The financing of the cooperative should have a schedule of redemption that redeems the oldest invested equity first to maintain a cooperative that is being financed by current members.

Patronage to the cooperative is also important to its success. Members have a responsibility to use the cooperative because the members help finance the cooperative based on use. The members got involved in the cooperative because it provides a product or service that they needed, so loyalty to the cooperative is essential for long-term viability. The members realize that the more successful the cooperative is, the more patronage refunds that will be returned to them as members. The cooperative accomplishes something that could not be achieved as individuals, so members become team players and benefit from the cooperative. The members of a cooperative get more benefits from the cooperative than just monetary patronage refunds at the end of each year. The cooperative provides bargaining power, extended control, dependable sources, broader market access, lower costs, and higher returns for the members on a daily basis.