

Cooperatives: What They Are and the Role of Members, Directors, Managers, and Employees

Ohio Cooperative Development Center

At

The Ohio State University South Centers

www.ocdc.osu.edu

United States Department of Agriculture

Rural Business - Cooperative Service

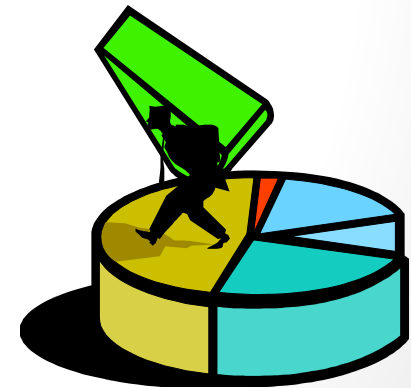
RBS Cooperative Information Report 11

<http://www.rurdev.usda.gov/rbs/index.html>

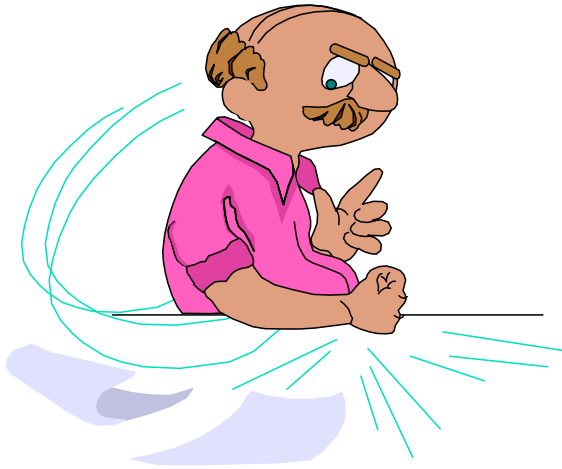
WHAT ARE COOPERATIVES?

A Type of Business Dependent On

- *Who owns the business?*
- *Who controls the business?*
- *Who uses the business?*
- *Who gets the profits?*



Individually Owned Business



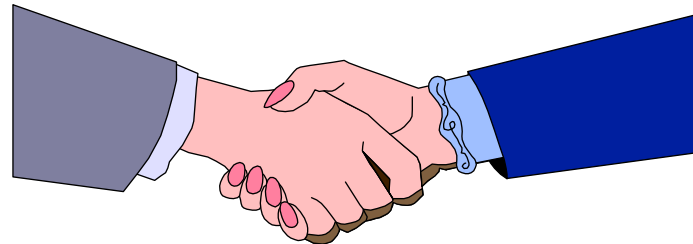
One Person

- Owns
- Controls
- Operates
- Benefits/profits

Partnership

Two or more people

- Own
- Control
- Operate
- Share in risks and profit



Corporations

- Multiple owners
- Variety of goods and services
- Physical facilities
- State chartered
- Investors
- Profits shared among investors



Cooperatives Are a Type of Corporation

- Multiple owners who are user members
- Variety of goods and services
- Physical facilities
- State chartered
- Members are investors
- Owned and controlled by members who use its services



Cooperatives

- Are primarily controlled by a board of directors elected by and from members
- Derive equity from member owners
- Operate for the benefit of member owners
- Allocate earnings to members based on use
- Earnings from member business is taxed once
- Have perpetual existence

The Cooperative Form of Business Is Prevalent

*47,000 cooperatives in the United
States*

*Serve 100 million people, 40 percent of
the population*

*There are several types of cooperatives
serving many sectors*

Types of Cooperatives

- Financial
- Consumer Service
- Business

Cooperatives Provide

- Credit
- Transportation
- Facilities
- Recreational Equipment
- Food
- Housing
- Health care
- Child care
- Wholesale goods and supplies
- Electricity
- Telephone and electric services
- Farm production supplies and service
- Farm marketing

Cooperatives Have Unique Principles

User - Owner

User - Control

User - Benefit

User-Owner Principle



The people who own and finance the cooperative are those who use it.



User-Control Principle



*The people who use the
cooperative are those
who control the
cooperative*

Members Exercise Control By



- **Voting at annual and membership meetings**
- **Electing Board of Directors**
- **Making decisions on major cooperative issues**

User-Benefit Principle



*The cooperative's sole purpose
is to provide and distribute
benefits to members on the
basis of their use*



User-Benefits

★ **Bargaining Power** ★

★ **Market Access** ★

★ **Community Strength** ★

★ **Political Action** ★

★ **Reduced Costs** ★

★ **Quality products and services** ★

★ **Economic Enhancement** ★

★ **Competitive Yardstick** ★

Cooperative Practices

Implement and Facilitate Basic Principles

- Patronage Refunds - distribute earnings to members based on use
- Limited Return on Equity Capital - members form cooperatives for service, not for a monetary return on investment
- Cooperative Cooperation - joint ventures, MAC's, networks, alliances, working relationships, etc.
- Cooperative Education - promote the cooperative way of doing business and educate members, directors, and employees



Geographical Structure

Geographical characterization defines a cooperative's size and scope of operations in reference to serving members.

- Local - small region covered, a county or so
- Super local - two or more counties, branches
- Regional - numerous counties, State or more
- National - United States-wide
- International - worldwide

Cooperative Governance System Structure

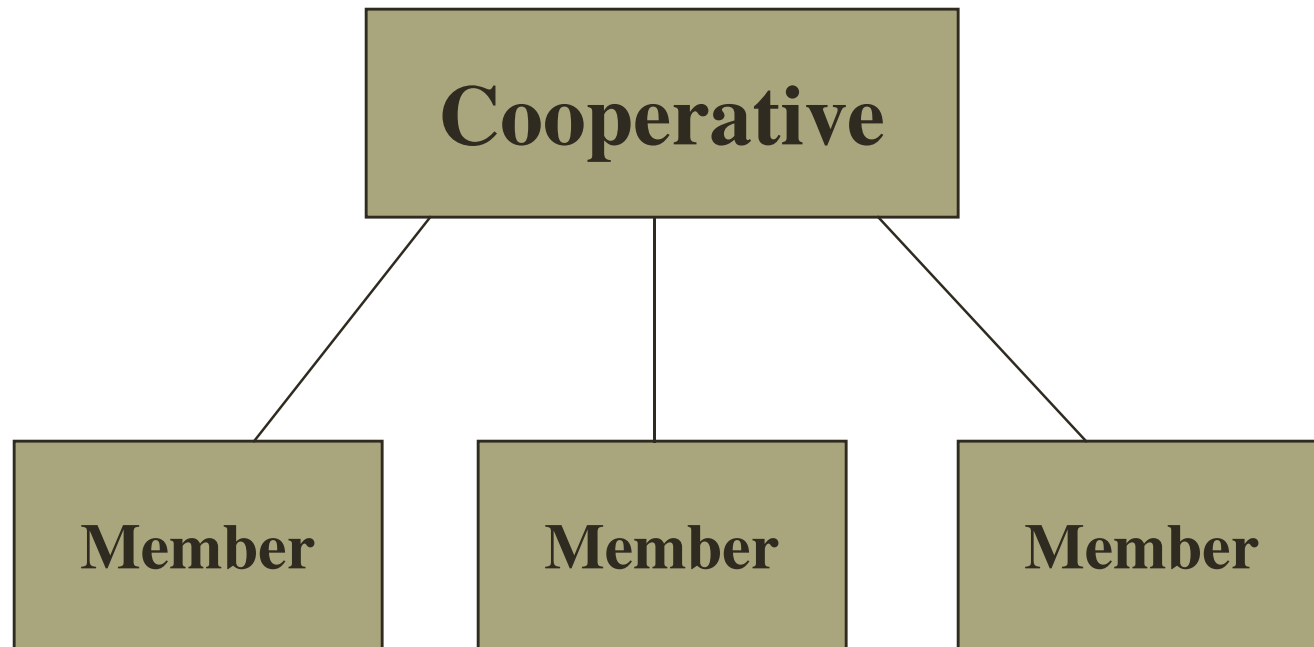
Based on membership structure and essentially defines who the members are and how the cooperative is organized to serve them.

- Centralized Structure - Individuals are direct members
- Federated Structure- Cooperatives are direct members
- Mixed Structure - Individuals and cooperatives both are direct members

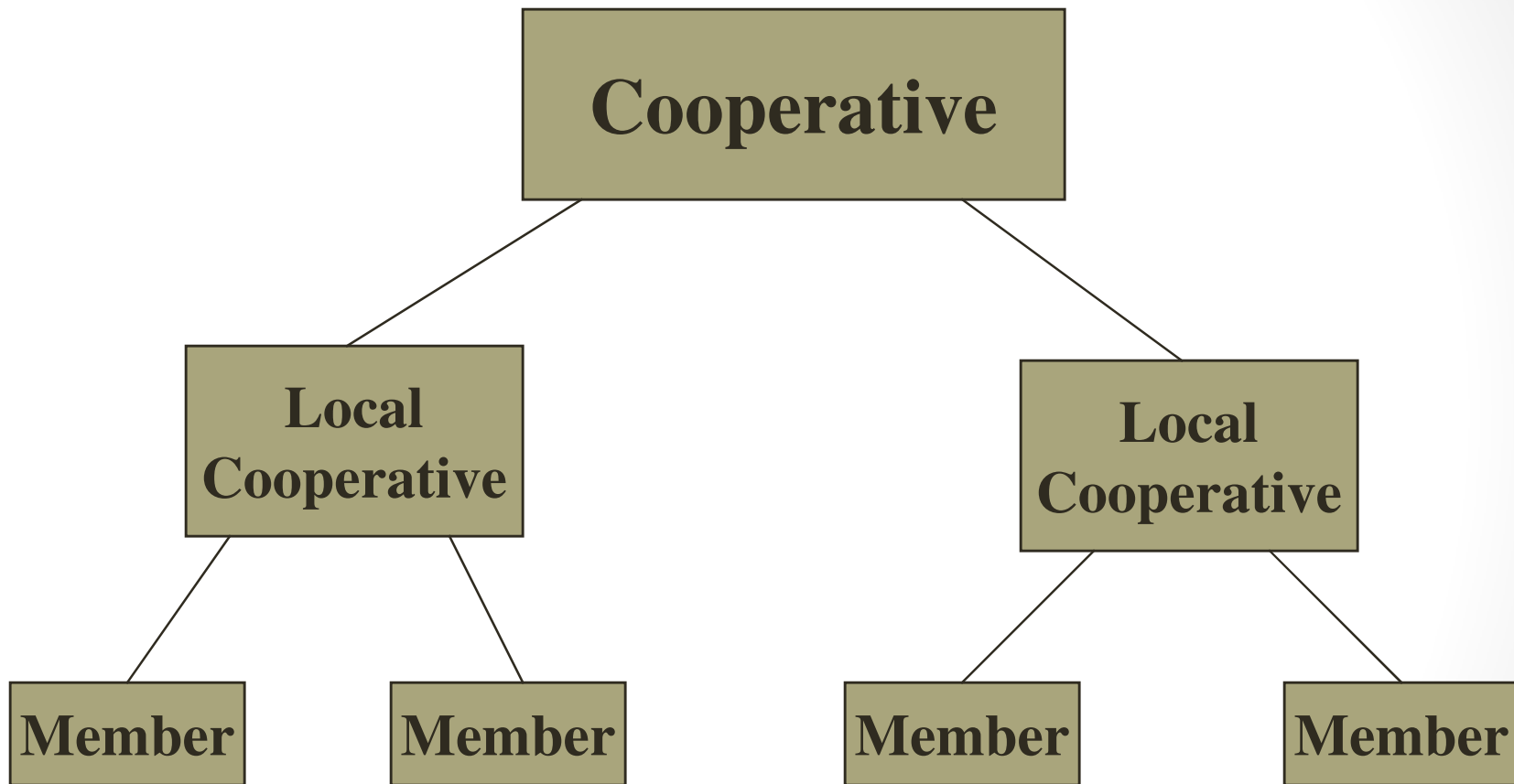


USDA, RBS, CIR II
What Are Cooperatives?

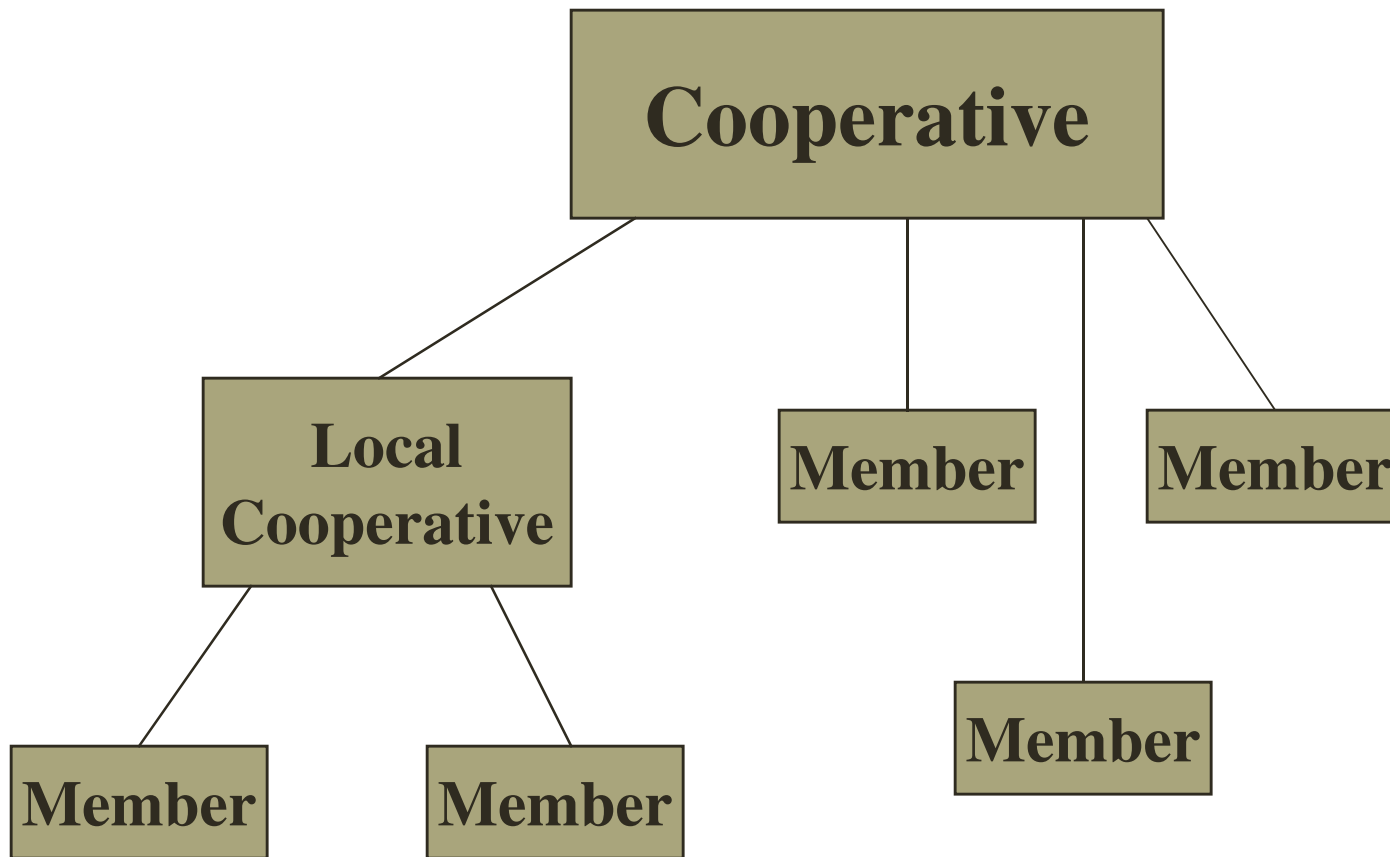
Centralized Structure



Federated Structure



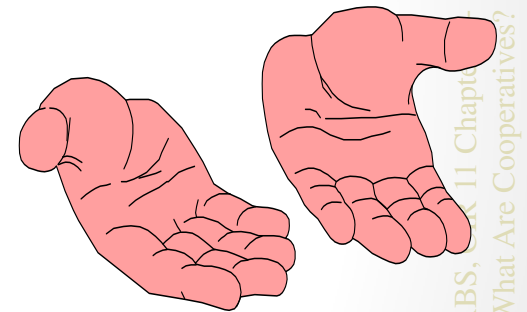
Mixed Structure



Cooperative Functions

Three Core Functions

- Marketing - extend control of members' products through processing, distribution, and sale
- Purchasing - providing affordable supplies and goods
- Service - provide needed services



Marketing Cooperatives

*Assist members in maximizing
returns from goods they produce*

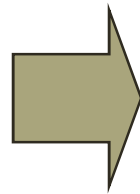
- Handle, process, and sell
- Grade, transport, bargain
- Add value
- Research-new product development

Marketing Cooperatives

Assist members to maximize the return they receive for the goods they produce!

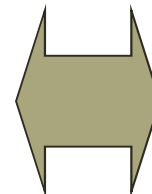
Member Products

Agricultural
Forestry
Aquaculture
Horticulture
Crafts



Functions

- Transport
- Process
- Grade
- Add value
- Research
- Distribute
- Bargain
- Sell



Member Benefits

Extend control of their products and realize additional margins

Purchasing Cooperatives

Allow members to gain access to affordable production supplies and goods

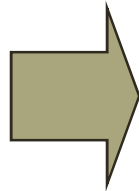
- Purchase in bulk to reduce costs and increase purchasing power
- Provide direct ownership of refineries, plants, retail facilities, research facilities

Purchasing Cooperatives

Used by members to gain access to affordable, quality supplies

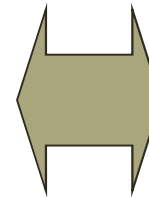
Members

- Producers
- Hardware stores
- Independent grocery stores
- Fast food franchises



Functions

- Refineries
 - Plants
- Feed mills
- Warehouse
- Manufacture
- Buy in bulk
- Deliver



Member Benefits

Reduced costs
Volume discounts
Quality control
Increased access

Service Cooperatives

Provide needed services

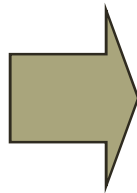
- Meet many needs
- Custom application of purchased supplies, transport of product, etc.
- Provide utilities, credit, housing, health care, technology, etc.

Service Cooperatives

Used by members to gain access to affordable, quality services

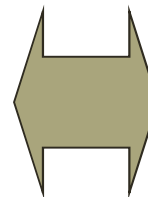
Members

- Producers
- Rural residents
- Urban residents
- Public



Functions

- Farm applications
 - Credit
 - Electricity
- Communications
 - Insurance
 - Health care
 - Schooling
 - Housing



Member Benefits

- Access to services
- Affordable services
- Quality
- Increased access

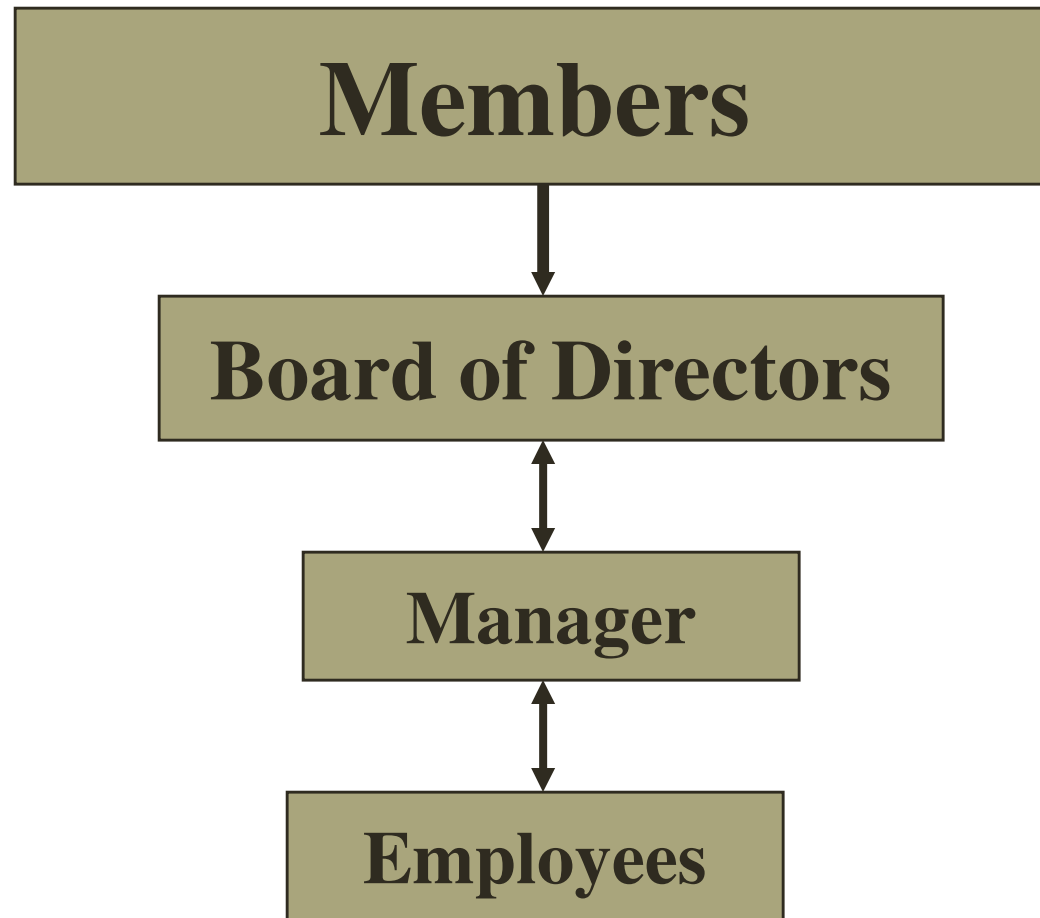
Participation Roles

*Cooperatives operate through
the roles of principal parties*

- Members
- Directors
- Manager
- Employees



Organizational Make-Up



Enhancing economic development
in rural Ohio by establishing new
cooperatives and strengthening
existing cooperatives.



Ohio Cooperative Development Center

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