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

Ohio Cooperative Development Center
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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
Centralized Structure

Cooperative

Member  Member  Member
Federated Structure

Cooperative

Local Cooperative

Member

Member

Local Cooperative

Member

Member
Mixed Structure

Cooperative

Local Cooperative

Member

Member

Member

Member
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

Members

Board of Directors

Manager

Employees
Ohio Cooperative Development Center

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