

Chapter 1. What Is a Cooperative?

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Quotes

As unto the bow the cord is. So unto democracy is cooperation. Though she bends him, she obeys him. Though she draws him, yet she follows. Useless each, without the other.

Longfellow

In democratic countries the science of association is the mother of science; the progress of all the rest depends on the progress it has made. If men are to remain civilized, or to become so, the art of associating must grow and improve.

Alexis de Tocqueville

The people's welfare can best be secured by institutions organized by the people themselves, because these institutions are most likely to possess the characteristics that appeal to the people and therefore the stability necessary to perpetuate their services.

*Alphonse Desjardins
from Credit Union-North America, Southern
Publishers, New York, NY, 1940, p. 81.*

I believe that there is a great deal of hazy, obscure and fuzzy thinking about cooperatives.

From the references of some to co-op organizations, one might assume that they believe a cooperative was a combination of perfume, rainbows and roses.

*L.S. Hulbert
Co-op Clinic, Biloxi, Mississippi
January 30, 1947*

Alone we can do little; together we can do much.

Helen Keller

A cooperative is a unique form of private business organization that has been widely used for more than 100 years especially in nations whose political systems are democratic and whose economies are capitalistic and market-oriented. Although it is common in many parts of the world, its most extensive and successful use during the 20th century has been in North America and Europe. In the U.S., there are about 47,000 cooperatives serving 100 million people, and they generate more than \$100 billion in business volume. Although the cooperative form of business is widely used and successful, it is not widely understood, even by most of those educated and experienced in economics and business.

Many people have a personal or professional need to know about cooperatives. People with the greatest need are those who are members of cooperatives and use their products and services, those who are leaders in cooperatives, and those who are employed by cooperatives. Others include consumers who want to purchase products from cooperatives, owners and managers of businesses who want to sell to or buy from cooperatives, professional service providers, especially accountants, lawyers and consultants, and people interested in being employed by cooperatives. Those interested in or associated with competitors of cooperatives will also want to know about cooperatives. You will be better informed and prepared to make personal and professional decisions involving cooperatives if you have a good understanding of this unique form of business.

You have probably purchased or used products and services provided by large, successful cooperatives that operate on a national or international scale. Consumers in North America frequently purchase branded products such as Ocean Spray cranberry juice, Sunkist oranges, Welch's grape jelly, Norbest turkeys, Farmland bacon or ham, Land O' Lakes butter and Blue Diamond almonds. You've certainly read newspaper stories provided by the Associated Press to its member newspapers. You have probably made hardware purchases from ACE, True Value or

Coast to Coast, who in turn buy products from their respective cooperative wholesale organizations. You may have bought fried chicken from Kentucky Fried Chicken franchises that are members of a cooperative buying group. If you are interested in outdoor activities such as hiking and camping, you may have bought clothing and equipment from REI (Recreational Equipment, Inc.) stores and catalogs.

You may be wondering, “What is a cooperative?” “What makes it unique?” “What types of business organizations are there?” “What are the advantages and disadvantages of each type?” In this chapter we provide a description of the simplest cooperative. We will add more realistic details later in this chapter and the three chapters that follow in Part I to accurately describe the nature of actual cooperatives and compare them with other types of businesses.

Cooperative Description

A cooperative is a private business owned and controlled by users and operated principally to provide benefits to users. Users are most easily viewed as customers of the business. The benefits are provided to users on the basis of use, not ownership, as is the case for other primary private business types. Benefits users receive include the purchasing or selling business transactions users or customers have with the cooperative and the profits earned by the cooperative on those transactions that are returned to the users. Other private business types are (1) proprietorships, (2) partnerships, (3) corporations, and (4) limited liability companies. These four types and the cooperative business type are described in more detail in Chapter 3.

The cooperative form of business is used in many economic sectors or industries. Ten different industries are represented from among the 100 largest cooperatives in the U.S. according to the National Cooperative Bank’s 1999 *Co-op 100 Index* list of cooperatives. The industry, the largest company in each, and its 1998 revenue are as follows:

<u>Industry</u>	<u>Largest Cooperative</u>	<u>Revenue (millions)</u>
Agriculture	Farmland Industries	\$8,775
Grocery	Wakefern Food Corp.	5,159
Hardware/Lumber	TruServ Corporation	4,328
Finance	Agribank, FCB	1,607
Healthcare	HealthPartners, Inc.	1,381
Utility	Oglethorpe Power Corp.	1,144
Franchise Supply	FoodService Purchasing Cooperative	665
Recreation	Recreational Equipment, Inc.	587
Media	Associated Press	495
Food Distribution	UNIPRO Food Service, Inc.	338

More information describing in detail the structure and scope of cooperatives is included in Chapter 3.

Most cooperatives are much smaller than the ones just named and operate in a much smaller geographic area than the international or national reach of most of these companies. For example, you may have a savings account or a loan with a local credit union. If you have a rural background, especially in production agriculture, you, or an agricultural producer you know, probably has done business with a smaller, locally based agricultural cooperative.

The primary focus of most of this book is on the agricultural sector. Agricultural cooperatives have achieved a significant market share of the total business done by agricultural producers with all types of agribusinesses, cooperative and noncooperative. Agricultural cooperatives are relatively large compared to other cooperatives. About 40 percent of the 100 largest cooperatives are from the agricultural industry according to National Cooperative Banks'

1999 *Co-op 100 Index*. Agricultural producers purchase a large portion of farm inputs from cooperatives, including fertilizer, feed and petroleum. They also market or sell a large portion of farm products to cooperatives, including milk, grain and other crops. A significant but much smaller portion of livestock is marketed through cooperatives.

Agricultural producers in the U.S., Canada and many other countries utilize cooperatives extensively. In 1998, there were about 3,800 agricultural cooperatives in the U.S. with total revenues of about \$121 billion. In 1998, these cooperatives marketed 30% of all agricultural production and 29% of five major inputs combined (fertilizer, petroleum, feed, seed and crop protectants).

Cooperatives are popular among farmers because through cooperatives, farmers can pool their financial resources and carry out business activities they could not perform as economically on their own. In the past, farmers joined together and organized cooperatives because existing businesses did not provide the goods and services they desired. In some cases, existing businesses exploited farmers by following monopolistic practices, thereby extracting monopolistic profits at farmers' expense. Therefore, farmers had significant economic incentives to unite and form cooperatives that enabled them to enjoy greater profits in their farm business (1) by providing inputs and services at lower costs or that were not available and (2) by marketing outputs at better prices or into markets that previously were not accessible.

Similar economic incentives have existed in other industries. As a consequence, individuals and businesses joined together to organize and use cooperatives. Use by members continues as long as the cooperative satisfactorily meets members' needs.

Our perspective in this chapter and the chapters that follow is based on the economics and management of a private business that must compete in a free enterprise, market economy. We will rely primarily on economic and management concepts as we review the nature, purpose

and operation of a cooperative. You will have the opportunity to apply economic concepts when we discuss the economic justification of cooperatives and when we review how both institutional and neoclassical economic theories of the firm apply to cooperatives. You will also have the opportunity to apply business concepts, including finance, marketing and organizational management, when we discuss how business concepts apply to cooperative businesses. We will rely heavily on agricultural cooperative examples and applications.

User's Alternative Perspectives

Let's expand on what we mean by user and customer and where the terminology "user" came from. Very simply, a user is a customer of the business. Users buy products and services from the cooperative or sell products to the cooperative. For example, in agricultural cooperatives, agricultural producers (farmers and ranchers) are the customers. Farmers buy inputs such as fertilizer, or buy services such as grain storage or sell products such as grain to the cooperative. Noncooperative businesses that compete with cooperatives for producers' business refer to producers as customers, not users, since this is more conventional business language. Many cooperatives also have adopted the practice of referring to users as customers instead of more traditional terms such as member or patron.

The term "user" is an uncommon term to utilize when describing a private business. Our utilization of this term and our definition is based on a definition proposed by the U.S. Department of Agriculture in 1987 that has gained widespread acceptance in recent years (USDA, 1987). USDA's 1987 definition stated:

"A cooperative is a user-owned and controlled business from which benefits are derived and distributed equitably on the basis of use."

For at least 50 years prior to 1987, similar language has been used in USDA publications

to describe cooperatives (USDA, 1937). We have chosen to accept popular convention and tradition within the U.S. agricultural cooperative community and employ a definition consistent with USDA's definition.

We now define several other terms in a more precise way and describe their relationship to each other. It is important to understand all of these terms and their relationship to each other since you will see them used many times throughout this book.

A cooperative can be viewed from three perspectives. Each perspective is helpful, just like viewing an automobile from a side, front and top view is helpful. You're seeing the same thing but from a different view. Each perspective and key terms related to the perspective are listed in Table 1.1. A visual representation is shown in Figure 1.1.

User Benefits and Responsibilities

The first perspective is from the point of view of the benefits received by users and the concurrent responsibilities they have to the cooperative. The key responsibilities are ownership and control.

Benefits

The primary motivation a customer has to use the cooperative is the benefits the customer expects to receive. The benefits depend on the nature of the cooperative and the markets it competes in. The benefits to users of having a cooperative competing in the market place may include (1) the opportunity to buy from or sell to the cooperative; (2) improvement in the prices paid or received, or in the competitiveness of markets; (3) improvement in the cost efficiency of operations; (4) improvement in market power and (5) receipt of net income earned by the cooperative on marketing transactions with users, usually as patronage refunds.

Users may be consumers who want or need certain products and services, such as food, clothing, housing, electric and telephone services or financial services, such as savings accounts and loans. The primary motivation of these users is to meet their consumption needs as economically as possible.

Or users may be businesses or producers who produce certain products and services and need inputs for their production process or need to market the output from their production process. The primary motivation of these users is to purchase their required inputs as economically as possible and to market their products for as great a return as possible. In the simplest economic terms, these businesses want to maximize their profits or wealth. Although most individuals and businesses have many types of objectives, we assume the fundamental motivation of the user is economic.

Benefits are generated by the cooperative through its operations. Marketing, financial and other activities are conducted so as to generate the benefits desired by users. More information about finance and marketing is provided in Part IV, Finance, Chapters 12-15 and Part V, Marketing, Chapters 16-17.

Ownership

Ownership activities are managed by the cooperative to support the owner responsibility and relationship to the cooperative. Ownership management is also commonly called equity management. Ownership or equity management maintains the owner's equity investment in each of one or more accounts by increasing or decreasing the balance of each. Each account may represent a different class of equity and may have different sources or uses. New equity investment is made by direct purchases of stock, by accumulating patronage refunds or by accumulating per unit capital retains. Equity redemptions from each of the owner's accounts is

used to decrease each account. More information about cooperative finance, including equity management, is provided in Part IV on Finance, Chapters 12-15.

Control

Control activities are managed by the cooperative to support the member responsibilities and relationships to the cooperative. These include voting to elect directors to the board and voting on important issues such as adopting or revising articles and bylaws or approving mergers. Control also includes providing information to members and obtaining feedback from members. Meetings with users, especially the annual meeting, are an important control activity. These activities are also commonly called governance activities.

The most general interpretation of control would span all organizational management activities including selection of a CEO by the board of directors, general operation of the board, general operation of the executive team and selection and implementation of a strategic direction by the board, CEO and executive team. However, our primary focus here is on the relationship between the member and the cooperative. Broader organizational management issues are discussed in Part III on Management, Chapter 10-11.

User Roles

The second perspective is from the point of view of the different roles the user has in the key relationships with the cooperative. Four key relationships exist: customer, patron, owner and member. Each business relationship or role played by individual persons or businesses represents a specific characteristic or behavior.

Customer

A customer is someone who uses the cooperative by buying the products and services it offers or by selling products produced by the customer to the cooperative. This is a broader interpretation of the term, customer, than some people make.

We consider a “user” or “customer” to be someone who utilizes the cooperative, whether it is through a buying or selling transaction. This is similar to the way a commercial bank views its depositors and borrowers, as customers who use the bank’s products and services. Therefore, we use the term, “customer” to mean user-customer.

Cooperatives do business with others besides their users. More specifically, they sell products to buyers and purchase products from suppliers who are not users. For example, an agricultural cooperative might buy wheat from farmer-users and sell it to a flour mill. To the cooperative, the flour mill is a buyer and a customer but not a user-customer. Or the cooperative might buy fertilizer from a fertilizer manufacturer for resale to farmer-users. From this cooperative’s perspective, the fertilizer manufacturer is a seller or supplier. A hardware wholesale cooperative might buy hammers from a manufacturer for resale to its users, retail hardware stores. From this cooperative’s perspective, the hardware manufacturer is a seller or supplier.

All successful businesses are customer focused or, using our terminology, user focused. This is especially true in cooperatives. Everything begins with the user. The purpose is to meet the needs of the users. Other cooperative business functions, including ownership and control, are means to the end, which is providing benefits to users.

Patron

The term, patron, has a broad meaning and a narrow meaning. Both meanings are used by

cooperatives. In its broadest sense, a patron is a regular user or customer. When used in this way, the term patron can be used interchangeably with user or customer. In its narrowest sense, a patron is a user who receives a share of the net income of the cooperative on the basis of use, in the form of a patronage refund. This is one of the benefits of being a user. The term patron is used in its narrowest sense here, in Table 1.1, and in Figure 1.1.

Owner

An owner is a user who makes an equity investment in the cooperative to help finance the assets of the cooperative. One of the responsibilities of users is to be owners. Users can make equity investments by direct purchases of equity or by agreeing to have the cooperative retain funds from operations that would otherwise be paid to the user. The funds that come from operations are either (1) retained patronage refunds or (2) per-unit capital retains to be retained as an equity investment in behalf of the user.

Member

A member is a user who has a right to vote on important affairs of the cooperative. Among the most important affairs are the election of directors, approval of articles and bylaws and approval of mergers, acquisitions or a sell-off of the entire cooperative. In most cooperatives, voting is on a democratic or one member, one vote basis. One of the responsibilities of users is to help govern or control the cooperative by voting on important issues.

Pure Cooperative

In the simplest situation, all users or customers are also patrons, owners and members.

We refer to such a cooperative as a “pure cooperative.” For now, we assume a cooperative is a pure cooperative. In later chapters, we will consider more realistic situations in which users are not necessarily patrons, owners and members.

Note that customers of a pure cooperative or, more generally, customers who do business on a cooperative basis have a much different relationship to the business than customers of a noncooperative. Customer of noncooperatives, or customers who do business on a noncooperative basis with cooperatives, receive the market access benefit but do not receive the benefit of a claim on net income or the responsibility (and right) to own and control the business.

User Transactions

A third perspective is from the point of view of the business transactions the user has with the cooperative. We have already mentioned four types of transactions in our previous descriptions of user roles. Corresponding to the four user roles of customer, patron, owner and member are the key business transactions of (1) buying and selling of products and services, (2) distribution of net income as patronage refunds, (3) maintenance of the owner’s equity account through equity investment and redemption (repurchase) and (4) exercise of member control through voting. All of these actions are viewed as business transactions between the user and the cooperative.

Combination of Perspectives

Note that we can use terms from a combination of two perspectives, by saying such things as “member control.” This is common practice in cooperatives. You will often see other combinations used, such as “voting control,” “voting member,” and “ownership redemption” as a means of communicating more clearly.

We can choose to emphasize one perspective in our descriptions. For example, we can summarize our description of a cooperative in a way that emphasizes the user role. A cooperative has a unique type of relationship with users that involves both responsibilities and benefits. These users have the responsibility and right (1) to become owners by making equity investments and (2) to control the cooperative by becoming voting members. In return, these users receive the benefits of (1) the buy and sell marketing transactions from being a customer and (2) a distribution of the net income tied to those transactions from being a patron. Note however our use of several perspectives in the description.

We can also give a description of a cooperative that emphasizes the member role. A cooperative is a business controlled by its members, who (1) use the cooperative's products and services, (2) control the cooperative through their voting power, (3) own part or all of the cooperative by making equity investments, and (4) receive benefits from the cooperative, including a share of the net income on the basis of patronage.

These descriptions of a cooperative are for the most common type of cooperative, the user-oriented cooperative. This type is one in which those who are the members and owners use the cooperative as customers and patrons. Another type, discussed in Chapter 3, is the employee- or worker-oriented cooperative in which employees are the owners and members. Employees own and control the cooperative and receive benefits on the basis of their work contributions.

Cooperatives and Private Businesses

A cooperative is a unique form of private business organization that competes with other businesses, both cooperative and noncooperative or investor-oriented, to provide products and services in the market place. Unfortunately, we frequently hear the false notions that cooperatives are socialistic, quasi-government organizations and are tax-exempt. In fact,

cooperatives in North America, Western Europe and some other parts of the world are part of the private sector and compete in a capitalistic market economy. However, in some countries, governments have formed cooperative-like public businesses, which they call cooperatives. These are not private cooperative businesses.

There are also private business organizations besides cooperatives, and they include proprietorships, partnerships, corporations and limited liability companies. A more detailed description of each of these types of business and a comparison to the cooperative business form is given in Chapter 2. In this chapter, we focus on the cooperative form of business.

Private is a term often used by economists to describe one characteristic of an economic system: ownership of property or means of production. A *private business* is one controlled and owned by private or particular individuals and organizations rather than by the public. In the U.S., cooperatives are part of the private sector.

Private businesses are possible only in certain types of economic systems. In general, all businesses function in the context of a particular political and economic system. Our treatment of cooperatives is geared to a free enterprise or capitalistic system with a market economy, as in the contemporary political economy of the U.S.

The context of the political economy is particularly important, because some mistakenly believe that cooperatives are a socialistic or communistic form of business. In the U.S. they are not. In fact, they are one of several types of business common to democratic market capitalism.

Cooperatives exist in many other countries with varying degrees of private ownership (capitalism) and free markets (market economy). Most of these countries are democratic. As you study cooperatives in various countries, you should understand and carefully analyze the political economy of the country in which they function. In this way you will better understand their nature, role and management. A discussion of cooperatives in other countries is provided in

Chapter 20.

As private businesses in a democratic and capitalistic system, cooperatives are controlled, owned and patronized on a voluntary basis. They do not limit individual freedom, politically or economically, any more or less than other types of business. Participation by customers who may be members, owners or patrons is strictly voluntary. Business contracts may require or limit certain types of behavior, but these contracts are entered into voluntarily and are commonly used by all types of business. Also, ownership of cooperative assets can be traced to private individuals, a singular characteristic of a capitalistic private enterprise system.

Economic and Social Purposes

Our study of cooperatives focuses on cooperative businesses whose primary purpose is economic or commercial and whose members therefore join the cooperative primarily for economic reasons. However, cooperatives may pursue some noneconomic objectives as well.

Benefits of social value include all noneconomic results or outcomes of major interest to members, including the satisfaction many of them experience through the association, unity, and involvement characteristics of member-controlled organizations. Some members like being involved with others to achieve a common purpose. Some members like electing or serving as directors. Others might object to the amount of involvement required or expected of cooperative members.

Social benefits are important. However, keep in mind that if cooperative businesses do not satisfactorily fulfill their economic purpose, in the long run they will be unable to fulfill noneconomic purposes. The end result is often liquidation or reorganization because of economic necessity.

Members have always had economic purposes for uniting to form cooperatives. For

example, thousands of times in the past, farmers in a local area have united to integrate vertically in a forward direction to market their products, such as grain and milk, or to integrate vertically in a backward direction to purchase farm supplies, such as petroleum products, feed, and fertilizer. In general, members have used a form of group action called economic integration when they formed cooperatives. The most common forms are horizontal and vertical integration.

Members unite to (1) get a fair or efficient price (i.e., to correct market failure); (2) reduce costs through economies of size and coordination; (3) provide markets, supplies and services that are missing or in danger of being lost; (4) pool risk; (5) capture profits from another level; and (6) benefit from increased market power. A discussion of these motivations and justifications is presented in Chapter 5.

Every cooperative should clearly establish its primary purpose based on the needs, interests and philosophies of the members. The most basic decision about purpose concerns the emphasis to be placed on achieving economic and social benefits for members and others. A mission statement often communicates this decision. For example, the current mission statement of Farmland Industries, the largest agricultural cooperative in the American hemisphere is, “To be a global, consumer-driven, producer-owned ‘farm-to-table’ cooperative system.”

A mission statement can be combined with a general statement on how the mission will be accomplished. Two such statements follow.

Mission: To maximize our contribution to the long-term profitability of our users, our member-owner-patrons.

Approach: We accomplish our mission by (1) meeting our users’ needs for products and services at competitive prices, (2) by being financially strong, efficient and profitable, and (3) by operating on a cooperative basis with users in terms of profit distribution, ownership and control (governance).

Some view choosing a purpose as making a choice on a continuum from primarily economic to primarily social. This assumes there is a direct tradeoff between the two. Putting high emphasis on economic interests means putting low emphasis on social interests and vice versa. It can be depicted as choosing a point on a line chart like the following:

A	B	C
High Economic Emphasis	Mixed Emphasis	High Social Emphasis

Point A represents choosing a purpose with high emphasis on meeting economic needs and low emphasis on meeting social needs. Point C represents choosing the opposite. Point B represents choosing a mixture between the two extremes.

What point would you choose if you were a member of a cooperative? Stockholders of noncooperatives face a similar choice as do each of us in our personal lives. What point would you choose in each of these three roles (cooperative member, IBM stockholder and personal life) and why?

Many conflicts arise between individuals and organizations over the choice of purpose, especially as it relates to the emphasis on economic benefits as compared to social benefits. Some view cooperatives as a strictly private economic institution in a capitalistic economy whose purpose is to maximize the economic benefits to members. Others view cooperatives as part of a great social movement, the cooperative movement, whose purpose is to achieve “economic democracy,” “social justice” or something similar.

In the eyes of many, there is a cooperative movement whose purpose is generally to improve our society and economy and specifically to improve the economic situation of members. Such a broad objective is laudable and has been supported by a wide spectrum of

people. This is not unlike the rationale and support given to democracy, capitalism, and the market system. However, care must be taken to focus on the ends and then to evaluate the means in that light. Cooperatives are a means to an end. The end is effectively meeting the needs of users.

We believe that cooperative businesses are, by their nature, economic institutions. They must be competitive in a capitalistic market economy. This suggests that a high emphasis must be put on achieving economic benefits to assure the continued existence of the cooperative. Social benefits can be achieved through the cooperative if it succeeds economically. Trying to use them as social engines may be very ineffective.

We recognize that social benefits are very important to individuals and society. We recognize that many cooperative experts and scholars and a large body of literature emphasizes the social aspects of cooperatives. Even though this book emphasizes the economic and management aspects, we recognize that social benefits are important; and we encourage students of cooperatives to also look at cooperatives from the social perspective. Several authors have written passionately from a more social purpose point of view including W.P. Watkins (1986), John Craig (1993) and Sven Ake Book (1992). Their books are cited in the references of this chapter.

Cooperatives and Group Action

(description to be added later)

Terminology

The terminology we use can be confusing at first. Some terms may be new to you and

used in a different way or have a different meaning than your normal use or understanding. The use and meaning we give to each term is intended to improve the clarity of our communication. Become familiar with the terms and their meanings as used in this textbook. The extent of your understanding and the effectiveness of your communication will be improved by doing so.

Terminology used to describe cooperatives may be confusing because different terms are used to mean the same thing. For example, patronage refunds are often called patronage dividends, and net income is often called savings or profits. However, being aware of other terms, although we discourage their use, will facilitate communication with people of a different background. Reviewing the rationale for terms used in this book will make discussions more precise and avoid misunderstanding and confusion. The definition and rationale for specific terms are given when the relevant topics are first discussed in detail. A glossary is provided at the end of the book.

The terminology used to describe cooperatives and other firms differs widely. Cooperatives are also commonly called *nonprofit firms* or *patron-oriented firms*. A more accurate description is user- or customer-oriented firms. We will generally use the term *cooperative* because it does not have the incorrect connotation of “nonprofit” and is more succinct than other terms.

Firms other than cooperatives are called *noncooperatives*, *investor-oriented firms* or *proprietary firms*. Sometimes the word *profit*, *private*, *ordinary*, *standard* or *other* is combined with the word *corporation*. Sometimes just *corporation* is used. There are valid reasons for not using any of these terms. They are misleading because cooperatives are also proprietary, private and investor-owned. They also seek to increase the profits or economic well-being of their members. Even “noncooperative” has several unintended negative connotations and could refer to other institutions, such as churches and government agencies.

Up to this point we have used the term, noncooperative, as a matter of convenience. In the rest of the book we will generally use other, more precise and less negative terms when referring to businesses that are not cooperatives. As stated previously, the distinction between cooperatives and other businesses is that cooperatives are owned and controlled by users who are customers and return net income to users on the basis of use. Other business firms are owned and controlled by owners and return net income on the basis of ownership investment. Thus in this book we will generally use the term, *investor-oriented firm* or *IOF*, to represent business firms other than cooperatives or user-oriented firms. They include proprietorships, partnerships, corporations and limited liability companies. Although this designation is not widely recognized, it avoids erroneous concepts and connotations associated with more common terms.

Spelling and abbreviations of cooperative vary, which can cause confusion. Current usage in the U.S. is to spell “cooperative” without a hyphen. Older usage in the U.S. and current usage in Great Britain, its commonwealth countries and many other countries is to hyphenate the spelling (co-operative). A short informal form or nickname commonly used worldwide is “co-op” in place of “cooperative.” A correct abbreviation for cooperative is “coop.”; an incorrect abbreviation leaves off the period. A “coop” is a building where chickens live. We encourage to use correct terminology and spellings.

Summary

Cooperatives are distinctive businesses (compared to proprietorships, partnerships, and other corporations) in terms of control, ownership, and benefits. The unique aspects of control, ownership, and benefits are (1) democratic control by user-members, (2) ownership by user-owners, and (3) distribution of net income benefits to user-patrons based on use, not ownership.

The financial benefits to members of a cooperative have both similarities and differences

when compared to other businesses. Products, services, and pricing are usually similar to competing businesses. However, the net income earned from user business is distributed to users on the basis of use. Users have an obligation to provide equity capital to be eligible for these benefits, which has a cost to the user.

Cooperatives are no panacea for meeting the economic needs of a particular group. They are a complex, and to most, an unfamiliar form of organization.

Why do we have cooperatives? Why are they prevalent in agriculture? What makes them successful in some cases? How are they justified in our free market, capitalistic economy?

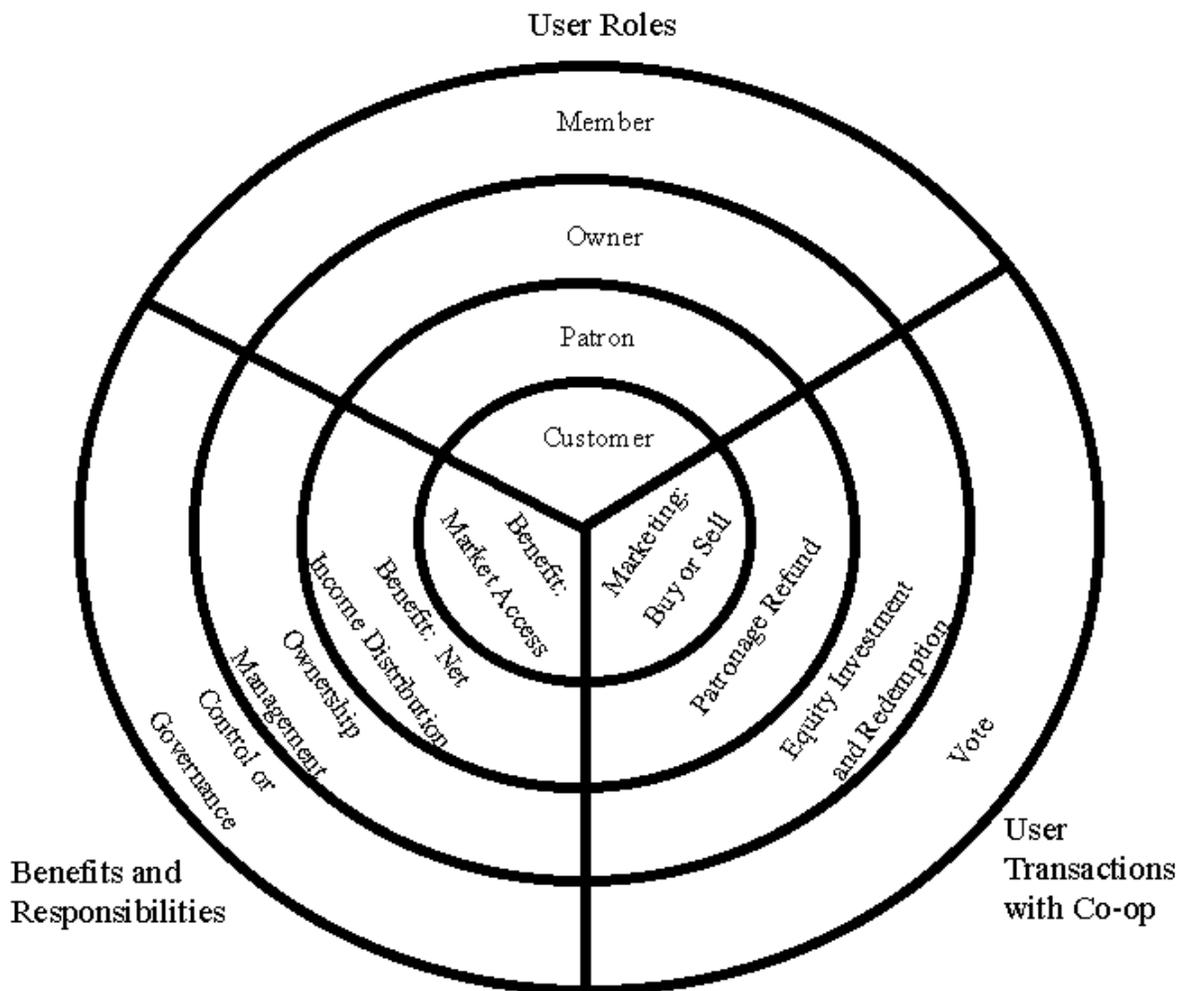
In this chapter we have laid a foundation to help you answer some of these questions. In the next chapter we describe cooperative principles, cooperative public policy and alternative business legal forms. They are important building blocks in understanding cooperatives.

Table 1.1: Alternative Perspectives of Users¹

User Benefits and Responsibilities	User Roles	User Transactions with Co-op
Benefit: Purchase goods and services	Customer	Buy inputs
Benefit: Market farm products	Customer	Sell outputs
Benefit: Receive net income	Patron	Receive patronage refund
Ownership: Provide equity	Owner	Equity investment Stock purchase Retained patronage refund Per unit capital retain Equity redemption
Control: Provide governance	Member	Vote to elect directors, approve articles, bylaws, major actions

¹Bold terms are those used in the definition of a cooperative.

Figure 1.1: Relationships of Three Alternative Perspectives



Discussion Questions

- 1-1. What is a cooperative?
- 1-2. What is the purpose of a cooperative?
- 1-3. What kind of responsibilities do users of a cooperative have?
- 1-4. Why are cooperatives capitalistic?
- 1-5. Why were agricultural cooperatives organized by farmers?
- 1-6. What kind of benefits are available to owners of a cooperative?
- 1-7. What does it mean when we say that cooperatives are private organizations?
- 1-8. What are the four business relationships users have with a cooperative?

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Definition of cooperative: Firm owned, controlled, and operated by a group of users for their own benefit. Each member contributes equity capital, and shares in the control of the firm on the basis of one-member, one-vote ...^Â Any time I do something with a team I try to take a cooperative approach to make sure that everyone fits in. 19 people found this helpful. As more and more parents choose homeschooling for their children, the formation of education cooperatives among like-minded moms and dads in close-knit communities grows. 16 people found this helpful. The collection of firms created the cooperative to help each other hold a large stake in the market they would keep each other afloat while stoping any new opposition. 15 people found this helpful. [Show More Examples](#). What is a cooperative? Cooperatives are unique because their members are stakeholders at different levels. For example, workers have a direct stake in worker co-operatives, producers in producers or retailers^{â€™} cooperatives, and users in cooperatives of users (consumer cooperatives, housing cooperatives, cooperative banks, etc.). Multi-stakeholder cooperatives (such as an increasing number of social co-operatives and community co-operatives) also feature different types of stakeholders. This leads to more collaborative, long-term ways of engaging in business. From the outside, a cooperative may