

CHAPTER 4

COOPERATIVES

Useful words and concepts

achieving
cooperative

businesses

jointly

owned

controlled

non-governmental organization

compelled

quit

prevalent

former

benefits

encapsulates

supplying

equity capital

patronage

govern

significant

board of directors

members

tied

goods

dependable

inputs

outputs

realize

net profits

refunds

assume

capitalism

roughly

revenue

in the aggregate

grocery

hardware

recreation

supplies

market

share

Instructions For Study

- 1° Turn to the **definitions** following the text *Cooperatives*. They refer to the specialist terms printed in **bold** type in the list of **Useful words and concepts**. Study them closely and pinpoint them in the text.
- 2° Use an **English** language dictionary to check the meanings (in context) of the other words in the list.
- 3° Do the exercises to improve your written and oral language skills.

Cooperatives

There are a number of reasons why people organize and belong to cooperatives. They may do so for economic, social, and even political motives. Cooperating with others has often proven to be a satisfactory way of achieving one's own objectives while at the same time assisting others in achieving theirs.

Numerous and varied businesses have adopted the cooperative model. Two definitions are commonly used. According to the International Co-operative Alliance (ICA): *a cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise*. The ICA, a non-governmental organization with over 230 member organizations from over 100 countries, is acknowledged by cooperative leaders around the world as a leading authority on cooperative definition and values.

Cooperation cannot be based on coercion. As stated in the ICA definition: the essential element of cooperatives is that membership is *voluntary*. Persons compelled to act contrary to their wishes are not truly cooperating. True cooperation with others reflects a belief that people can help each other. In authentic cooperatives, persons join voluntarily and are free to quit the cooperative at any time. The forced collectives prevalent in the former Soviet Union, for example, were not true cooperatives.

The cooperative definition adopted in 1987 by the United States Department of Agriculture (USDA) is also widely accepted: *A cooperative is a user-owned, user-controlled business that distributes benefits on the basis of use*. This definition encapsulates what are generally considered the three primary cooperative principles: user ownership, user control, and proportional distribution of benefits.

The "user-owner" principle implies that the people who use the co-op (members) help finance the co-op and therefore, own the co-op. Members are responsible for supplying at least some of the cooperative's capital. The equity capital provided by each member should be in equal proportion to that member's patronage of the co-op. This shared financing creates joint ownership (part of the ICA cooperative definition).

The "user-control" concept means that members of the co-op govern the business directly by voting on significant and long-term business decisions and indirectly through their representatives on the board of directors. Only co-op members can vote to elect their board of directors and on other cooperative actions. Voting rights are generally tied to membership status – usually one member, one vote – and not to the level of investment in or patronage of the cooperative.

Another key principle for cooperatives is that of proportionality or "Distribution of benefits on the basis of use". Members should share the benefits, costs, and risks of doing business in equal proportion to their patronage. Co-op benefits may include better prices for goods and services, and dependable sources of inputs and markets for outputs. Most

cooperatives also make annual net profits, all or part of which are returned to members in proportion to their patronage (these are known as patronage refunds).

Some people wrongly assume that cooperatives contradict the goals of capitalism. If that were the case, cooperatives would not play such an important role in the American economy. About 48,000 cooperatives, operating in virtually every business sector, serve 120 million members, or roughly 4 out of 10 Americans. When ranked by revenue, the top 100 cooperatives in the United States individually generated at least \$346 million in revenue during 2002 and in the aggregate, \$119 billion, covering agriculture, finance, grocery, hardware, healthcare, recreation, and energy industries.

A major role is played by cooperatives in agriculture. In 2002, 3,140 agricultural cooperatives provided roughly 3.1 million farmers (many of whom are members of more than one cooperative) with agricultural marketing, farm supplies, and other farm-related services. They captured 28 percent of the market share.

Adapted from: Kimberly A. Zeuli & Robert Cropp, *Cooperatives: Principles and Practices in the 21st Century*, 2004, © UW-Extension and the Board of Regents (pp.1-4)

DEFINITIONS

cooperative a user-owned and user-controlled business that distributes benefits on the basis of use

businesses commercial and / or industrial activities

non-governmental organization (NGO) any non-profit, voluntary membership group which is organized at a local, national or international level

equity capital the ownership interest of a company's members or stockholders as distinguished from that of bond holders or lenders

patronage the use made of the cooperative by its members

board of directors governing body of a company elected by the stockholders and which represents their interests by monitoring management decisions

members each of the persons composing an association

goods products made by firms to satisfy customer needs

inputs components of production, such as land, labour, or raw materials

outputs the quantity of goods produced in a given time period

net profits gross margin minus the operating expenses; *net earnings, net revenue*

capitalism an economic system characterized by private ownership of the means of production and the free play of the market in conducting business

revenue the total amount of income received from the sale of products or services before any deductions are made

market share the proportion of sales of a good or service achieved by a company in a given period of time

EXERCISES

EXERCISE 1

Comprehension

True / False Circle the correct choice and justify your answer

1. The basic motive for joining a cooperative is a selfish one. T / F
2. The cooperative business model is a flexible one. T / F
3. Cooperative membership implies some degree of coercion. T / F
4. The forced collectives in the former Soviet Union exemplified the cooperative spirit. T / F
5. Members don't have to make any contribution to the equity capital of a cooperative. T / F
6. Important business decisions cannot be taken without consulting individual members. T / F
7. The more a member uses the cooperative, the greater his voice in the decision-making process. T / F
8. Ensuring a reliable market for farming produce is an example of a cooperative benefit. T / F
9. A patronage refund is based on the extent to which a member uses a cooperative. T / F
10. Cooperatives pose a threat to capitalism as they contradict the profit motive. T / F

EXERCISE 2

Vocabulary

Use the list of definitions above to **select the appropriate term** to fit each sentence

1. Members of a consumer.....are interested in increasing their purchasing power.
2. Purchasing power refers to the quantity of.....and services people can buy with their income.
3. All or part of the profits of a cooperative are returned to members on the basis of their.....
4. In the agricultural processing sector cooperatives require a lot of.....for start-up and growth.
5. Farmers create farm supply and marketing cooperatives to help them maximize their.....
6. Farmers have to keep their.....costs as low as possible.
7. Non-members sometimes serve on.....in a non-voting, advisory capacity.
8. Cooperatives are organized to serve member needs and are focused on generating member rather than returns to investors.
9. As with other.....forms, cooperatives should only be established to meet a well-defined need in the market.
10. Agricultural cooperatives in the United States capture a significant proportion of the.....

EXERCISE 3

Grammar

Complete the following paragraphs with a **correct form** of the verb in brackets, using the **active** or **passive** voice

A Brief History of Cooperatives

Groups of individuals around the world and throughout time (*to work*) (1) together in pursuit of common goals. Examples of cooperation, or collective action, can (*to trace*) (2) back to our prehistoric predecessors who (*to recognize*) (3) the advantages of (*to hunt*) (4), (*to gather*) (5), and (*to live*) (6) in groups rather than on their own. The first signs of organized hunting activity (*to base*) (7) around communities are (*to associate*) (8) with *Homo erectus*, modern human ancestors who (*to live*) (9) between 500,000 and 1.5 million years ago in Africa.

Although the word "cooperative" can (*to apply*) (10) to many different types of group activities, the term (*to use*) (11) here to reference a formal business model, which (*to have*) (12) relatively recent origins. The earliest cooperative associations (*to create*) (13) in Europe and North America during the 17th and 18th centuries. These associations (*to be*) (14) precursors to cooperatives. The pioneers of the Rochdale Society in 19th-century England (*to celebrate*) (15) for

(to launch) (16) the modern cooperative movement. The unique contribution of early cooperative organizers in England (to codify) (17) a guiding set of principles and (to instigate) (18) the creation of new laws that (to help) (19) foster cooperative business development. Today, cooperatives (to find) (20) in nearly all countries.

EXERCISE 4

Assignment

1. **Do** an *internet search* on the Rochdale Society of Equitable Pioneers. Sum up the Rochdale Principles in about 300 words, and explain their contribution to the modern cooperative movement.
 2. **Visit** the *website* of a Cooperative Society based in an English-speaking country. Write an essay of about 400 words presenting the company, paying particular attention to what it does and how it operates. Then explain whether you would join it or not.
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FROM THE BUSINESS NEWS

SOCIAL ENTERPRISE

Call for a new wave of co-ops

EXERCISE

Read the article below and discuss or write answers to the following questions

1. What does the Phone Co-op actually do?
2. In what respect is it a social enterprise?
3. How did Woodell get his idea?
4. Has the co-op movement been hit by the crisis?
5. Is the co-op model still relevant?

Call for a new wave of co-ops

Could this be the new age of the cooperative? The Phone Co-op hopes so, taking a step closer this week towards its goal of becoming a household name when it was named best social enterprise¹ in the UK.

For the organisation's founder and chief executive, Vivian Woodell, winning the accolade at the Enterprising Solutions Awards 2008 has vindicated his belief that co-ops are as relevant today as when the movement was born 150 years ago. "Co-ops are a business model that are made more sustainable by

aligning users, owners and other stakeholders, such as the local community and the environment," he says.

Part of the Phone Co-op's business mission is to support the social firm sector. It buys its paper and print services from other co-ops, and in addition to distributing dividends out of profits to its 7,200 members - who each have a vote in board elections in return for buying a stake in the company for as little as £1 - the company invests in new cooperatives.

¹ More social enterprise winners at enterprisingsolutions.org

A wind farm, a Derbyshire hydro project and a community shop have all received loan finance. From this year, it has also offered £250-worth of telecom services free to social enterprise start-ups.

Woodell's idea for a telecom co-op came from his own experiences of paying high telephone bills in eastern Europe, where he was helping to set up cooperatives after the collapse of communism. After investigating how the industry worked, he decided that UK customers could get a better deal by joining together to buy direct from a wholesale carrier.

In 1998, the Phone Co-op was launched from Woodell's spare bedroom, with 24 members and £30,000. A decade later, it has 15,000 customers, among them charities, local authorities and social enterprises. It employs 35 staff from its eco-friendly offices in a converted pig farm in Chipping Norton, Oxfordshire, and has a £7.5m turnover and profits of

more than £300,000. But with just 0.06% of the telecom market, Woodell says there is ample room for growth.

"There is no reason that co-ops have to be small," he says. And he believes that the current financial crisis has given a new impetus to the movement. "There are a lot of givens that are no longer givens. The root of how the economy works is trust, and we've seen people push that to the limits. So let's get back to first principles and ask 'What is business for?'"

He hopes that winning the award will help to promote the co-op model. "It's wonderful to have that recognition," he says. But does he think we will see an explosion in the number of co-ops operating in new areas? Woodell predicts that utilities, the rail industry and community transport are the ones to watch. As he says: "Co-ops are a tried and tested model."

Alison Benjamin,
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