

MAIN FEATURE



Cooperatives: by the people, for the people

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The principal of cooperating to better one's life, has been around since man first existed. It did not take early man long to figure out that by cooperating, they would increase their chances in the areas of hunting, fishing, food gathering and protecting one another from wild animals and other dangers.

Formal cooperatives first began to appear during the Industrial Revolution. People moved from their farms into the cities and had to rely on stores for their food. Early cooperatives were set up to help address these issues. One of the first cooperatives in the United States was established by the great American Benjamin Franklin in 1752, to protect homes against loss from fire. It still exists today.



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The Rochdale Equitable Pioneers Society in Rochdale, England is credited with being the first cooperative. It was established in 1844. What distinguished it from cooperatives before them, was that it came up with a set of operating principles to govern the organisation. Twenty-eight people saved money for over a year and opened a cooperative store to sell butter, sugar, flour and oatmeal. They were also forced to buy candles when the gas company refused to sell them gas. The cooperative then bought candles in bulk to use as lighting and sold the excess to its members.

Although the founding principals of the Rochdale Pioneers are now considered outdated, it remains the basis of the modern cooperative movement. It has been modified over time:

- ▶ Open membership
- ▶ One man, one vote
- ▶ Cash trading
- ▶ Membership education
- ▶ Political and religious neutrality
- ▶ No unusual risk assumption
- ▶ Limited interest on stock
- ▶ Goods sold at regular retail prices
- ▶ Limitation on the number of shares owned
- ▶ Net margins distributed according to patronage.

In many cases, well-managed cooperatives have been instrumental in developing countries, especially in rural areas. While cooperatives

provided agricultural services such as input supplies and marketing, it also provided services and products such as electricity, telephones and credit.

Cooperatives have a long history of providing people with a business structure so that they can obtain the benefits needed to improve their lives. If started for the right reasons and managed properly, cooperatives can and still do work. Even in the 21st century, this principle still applies.

What is a cooperative?

A cooperative is a business that is owned and controlled by the people who use it. The primary purpose of a cooperative is to provide goods and/or services to its members for their mutual benefit. Some business goals in forming a cooperative are to:

- ▶ Increase bargaining power
- ▶ Share costs
- ▶ Obtain a new service
- ▶ Purchase in bulk
- ▶ Gain access to new markets
- ▶ Increase income
- ▶ Secure credit
- ▶ Achieve economies of scale or size
- ▶ Add value to agricultural commodities
- ▶ Reduce risk.

Cooperative business structure

Three main characteristics of cooperatives distinguish them from other business forms. They:

- ▶ Are member-owned
- ▶ Are member-controlled
- ▶ Provide member benefits.

Cooperatives are a business-type option that, depending on the goals of the business, may or may not be the correct option. In most countries these business options are sole proprietorship, partnership, corporation, a limited liability corporation and a cooperative. Depending on the circumstances of the business, one of these business types will be the correct one to choose.

Steps in cooperative development

The cooperative must go through various steps in order to be successful. Most steps are similar to the ones taken in starting any new business. The following is a short synopsis of the steps involved in forming a cooperative. If you decide to start a cooperative, look for outside help and assistance.

Step 1 – Recognise a need or opportunity

An individual or a few people recognise an opportunity. This might be the lack of a market for a product or a lack of necessary supplies and services. Through mutual action, this opportunity can be fulfilled through a cooperative.

Step 2 – Hold an organising meeting and establish a steering committee

The core group holds an informational meeting with other potential members and explain their idea. It is important that the group comes to an agreement on the nature and importance of the project. Such an agreement will become the shared vision of the group. A steering committee needs to be formed to coordinate activities on behalf of the group. Committee members must put in the time necessary to research the feasibility of the cooperative and provide initial leadership.

Step 3 – Conduct a feasibility study

The steering committee can either conduct a feasibility study themselves or hire a consultant to carry out the study. The purpose is to examine critical opportunities and obstacles that might make or break the proposed cooperative. The study should analyse the number and interest level of potential members, as well as critical market issues. If insurmountable obstacles are discovered, the development of the cooperative should be abandoned or shelved before too much time and money has been expended. Contributions by potential members often cover the cost of a feasibility study.

Step 4 – Report on the feasibility study

The steering committee conducts a meeting with the potential cooperative members to report on the results of the study. It will show whether or not the cooperative could be viable.

Step 5 – Legal issues

Once it has been determined that the cooperative is feasible, the cooperative should file the necessary documents to become a legal entity. Basic bylaws which dictate how the cooperative will operate, should also be prepared at this time. The bylaws can be changed once the business plan is prepared.

Step 6 – Prepare a business plan

A business plan provides a blueprint for the development and initial operation of the cooperative. It also provides supporting documentation for potential members, financial institutions and other investors. Often a steering committee will want to prepare a business plan itself. It is often wise to hire a professional firm to prepare the business plan with the involvement of the steering committee or future cooperative members. The start-up cooperative should be involved in this process, so that the consulting firm fully understands what the cooperative’s goals are.

Step 7 – Secure financing

The amount and type of financing necessary to begin operating will vary from cooperative to cooperative. The business plan should include the type and amount of financing necessary to begin operations and the strategy for obtaining it. Essentially all cooperatives will require some type of member financing, usually in the form of membership fees or stock purchases. This provides equity for the cooperative, and makes the attraction of other capital easier. Without member commitment, financial institutions will not provide additional capital.

Step 8 – Recruit members

Recruitment can occur through formal meetings or members recruiting other members on their own initiative. The steering committee should prepare a membership application for new members to fill out and sign. However, until someone is willing to pay their membership dues, the cooperative is still just a concept. If sufficient membership cannot be found to provide the necessary equity, the cooperative will not be able to proceed.

Step 9 – Hire management

Now that the cooperative is ready to commence, it is time for hire management. It is very important to hire the correct key personnel. If possible, hire those with prior experience in working in a cooperative.

Step 10 – First membership and board meetings

If the cooperative has sufficient membership and financing to proceed, they then will hold their first general membership meeting. The two most important functions of this meeting are to adopt the cooperative bylaws and elect a board of directors for the cooperative. This meeting marks the transition from a steering committee and interim leadership group, to a formally elected board and legally approved bylaws. Those who were part of the steering committee are not automatically people who should be on the board.

Step 11 – Begin operations

During the initial phase of the cooperative’s start-up, management should adhere to the business plan. It is important to have excellent communication between the staff, board and members. A strong cooperative is built on a foundation of involved members. Without an active base of members who are willing to work towards the success of the cooperative, the cooperative is bound to fail. **DMA**