

**Canada Business**

New Brunswick



**Entreprises Canada**

Nouveau-Brunswick

1-888-576-4444

## **Co-operative - Business Structure**

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### **Co-operative History**

People around the world have been forming co-operatives for more than 150 years. The first co-operatives were creameries and grain growers' co-operatives, but gradually more types were added including retail stores, credit unions, a range of agricultural co-operatives, and community service co-operatives such as recreation halls and community health clinics.

Co-operatives range in size from small agricultural co-operatives to large industrial enterprises. They form a system of stable and enduring enterprises which make tremendous contributions to the economic and social health of communities, and provide thousands of jobs. They operate side-by-side with privately-owned businesses operated as sole proprietorships, partnerships and investor-owned corporations. Co-operatives are legally-established organizations which conform to our provincial laws.

### **The Co-operative Difference**

A co-operative is owned and democratically controlled by its members. Surplus is allocated to the members in proportion to their purchases or use of the goods or services produced by the co-operative. Each member has one vote regardless of the investment he/she holds in the co-operative.

There are three important differences between co-operatives and other types of business: purpose, the way financial surplus or profit is used or distributed, and the ownership and control structure.

### **Purpose**

The purpose of a private business, whether it is the corner drugstore or the largest manufacturer, is to make a profit for its owners on the capital they have invested. This is done by offering goods and/or services for sale to the public.

The purpose of a co-operative business is generally to provide its members with goods and/or services, usually at competitive prices. Savings, which belong to the members, are fundamentally different from profits on invested capital. For example, a member of a retail co-operative may receive his or her saving through lower prices at the time of purchase, as in a direct-charge co-operative, or through a patronage refund at the end of the year. The amount

of the refund depends on the total surplus earned by the co-operative, and on the dollar-value of a member's purchases. Refunds, also called patronage refunds, are in proportion to a member's use of the co-operative. The greater the use, the greater the potential savings.

### **Distribution of Surplus**

In a private business, profit is the money left after all expenses are paid. Profits or earnings can be reinvested in the business, or distributed to the owners in relation to the number of shares they own. Shares are a specific portion of the capital of a co-operative. The more money invested, the greater the potential for profit. In the case of an investor-owned corporation, the part of the profit which is returned to shareholders is distributed as dividends paid on shares. Such dividend rates are normally set by a corporation's board of directors.

In a co-operative business, any surplus at the end of the fiscal year is allocated to members' accounts as a patronage refund. All or part of these funds may be paid to the members, or kept in the business as additional members' shares or loans. In either case, the amount allocated to a member is in proportion to that member's use of the co-operative. In a worker co-operative, patronage dividends are normally based on hours worked and, in effect, increase the members' wages.

### **Control**

In most businesses, control is in the hands of the owners, whether one or many. Further control is determined by the individual or group which owns the most voting shares.

In an investor-owned corporation, shareholders vote according to the number of shares they own. The more shares, the more votes. If individual shareholders cannot vote or choose not to, they may assign their voting rights to other individuals who then become the absent shareholders' "proxies". Thus, even in large corporations, if one person owns enough shares (either directly or by proxy), that person can effectively control the operation.

In a co-operative, each member has only one vote regardless of the amount of money that member has invested in the co-operative, and proxies are not permitted. Thus, the control structure of a co-operative is democratic.

Another important difference in the ownership and control structures of private and co-operative businesses is the way boards of directors are chosen. In non-incorporated private businesses, individual partners usually exercise direct control.

Public and private investor-owned corporations have boards of directors who guide the affairs of the corporation in the interests of the shareholders. They are elected by the shareholders, and those with the most shares exercise greater control. The directors may or may not be shareholders themselves.

Incorporated co-operative businesses and organizations also have boards of directors. These directors are members (or delegates in the case of federations or other co-operatives with delegate structures) who have been democratically elected by other members or delegates.

### **Loss or Liability**

In a sole proprietorship or partnership, the owner or partners are legally liable for all debts, operating losses or other liabilities incurred by their business. In all corporations, including co-operatives, the liability of shareholders is limited to the value of the shares they hold.

### **Community Service Organizations**

Organizations such as child care centres, community recreation halls, and community health clinics may be incorporated as non-profit co-operatives, non-profit corporations or business corporations. Boards of directors are elected in all cases. In co-operatives, the principle of "one member-one vote" is mandatory. In non-profit corporations, voting may be restricted to one member-one vote, but the restriction must be specified in the articles or by-laws. In business corporations, voting is based on the number of shares a person holds.

In community service organizations, whether co-operatives or charitable non-profit corporations, any surplus must be retained within the organization or donated to another non-profit organization or co-operative. It is never distributed to members or shareholders. If the co-operative is set up as non-profit, it must be noted as a restriction in the articles. It could be worded as "this organization is established as a non-profit co-operative, and any surplus resulting from the yearly operation shall be transferred to reserve for future use and no part of the surplus shall be payable to any member".

### **Choosing a Business Structure**

Members have several options when choosing a business structure. The appropriate choice depends on the organization's purpose and objectives. The following chart outlines some of the options and their advantages and disadvantages.

	<b>Community Service (Non-profit) Co-operative</b>	<b>Non-profit Corporation</b>	<b>For-profit Corporation</b>	<b>For-profit Co-operative</b>
<b>Purpose</b>	Voluntary for social, cultural and economic needs of members.	Activities for purposes other than personal financial gain.	Profit for shareholders on investment of time or money.	Service and saving for members.
<b>Ownership</b>	By members.	By members.	By shareholders.	By members.
<b>Control (voting)</b>	One member, one vote, no proxy voting.	One member, one vote unless otherwise specified in the articles or by-laws.	The number of voting shares held per shareholder.	One member, one vote, no proxy voting.
<b>Liability</b>	Members limited to membership amount. Directors can be liable.	Limited to the investment. Directors can be liable.	Shareholders limited to share subscription. Directors can be liable.	Members limited to share subscription. Directors can be liable.
<b>Distribution of Surplus or Earnings</b>	Surplus remains in the co-operative. Surplus goes to another non-profit group at time of dissolution.	Surplus remains in corporation. Surplus goes to the membership or to another charitable organization at time of dissolution.	Dividends paid on shares. Rate set by Board of Directors.	To members in proportion to use of service. Allocated, but members may choose to reinvest.
<b>Initiation of Policies</b>	Board of Directors, members and management.	Board of Directors, members and management.	Board of Directors, shareholders and management.	Board of Directors, members and management.