

Frequently Asked Questions about Co-operatives

Are there advantages to forming a co-operative rather than a traditional private enterprise?

Yes, particularly if you need the commitment and support of a group of people to achieve the goals of the enterprise. The co-operative option could then prove to be the best legal choice because it is an organizational tool designed to meet the needs, and facilitate the operations, of both small and large groups of people. It offers a proven legal framework for governing collective decision making and for protecting everyone's interests.

If you are attempting to meet an economic or social need that cannot be met by individuals acting alone, a co-operative may be the best way to resolve the problem with others who share the same goals. For example, you might be looking for a way to obtain affordable quality housing, or access to high-speed internet, or any other product or service unavailable in your region. Or you might want to create a job corresponding to your abilities and your requirements, or to reduce your costs of production.

By forming a consumer co-operative, you will be able to obtain:

- products or services you need. As co-owner of an enterprise operating according to democratic rules, you will be able to define the characteristics of the products or services with the other members;

- products or services at a lower cost. The enterprise is not designed to maximize profits to shareholders, but to maximize members' co-operative advantage, i.e. quality products and services at the best price.

By forming a workers' co-operative, you will be able to obtain:

- the job you do not have or the job you would like to have;
- the right to take part in defining your working conditions (salary, benefits, organization of work, health and safety in the workplace, etc);
- the right to share in surpluses in the form of returns in proportion to your salary or your hours of work.

How many people are needed to form a co-operative?

This varies according to provincial legislation on co-operatives. The federal legislation requires at least three founding members. Some provincial legislation can require up to twelve founding members to form consumer, service or producer co-operatives and only three or five to form a worker co-operative.

What is a new generation co-operative?

A new generation co-operative (or NGC) is a producer-owned enterprise that adds value to primary products. This type of co-op typically operates in agriculture, where NGCs produce products such as ethanol from corn, pasta from durum

wheat, or gourmet cheese from goat's milk. The primary purpose of the NGC is to help member-producers gain a larger share of the consumer dollar by sharing in the processing revenue.

The NGC model has adapted some of the features of the traditional co-op model, in order to help meet the capital requirements of these co-ops. For example, NGCs retain core co-op principles such as one-member, one-vote, but membership in the co-op is linked to the processing capacity of the enterprise. The members purchase delivery rights shares, which serve as a two-way contract between the member and the co-op, helping ensure a stable supply of raw material to the co-op, and a guaranteed market for the producer's product. Members make a much higher equity investment in a NGC than in a typical co-op, but this investment is proportional to the member's use of the co-op. The member's share of surplus is also proportional to use.

Is a co-operative non-profit?

Although the primary goal of a co-operative is not to maximize profits but to provide service to members, a co-operative must generate sufficient revenue to cover expenses and ensure its growth. After securing, in a general reserve, the capital needed to finance the expansion of the business, any surpluses remaining can be returned to members.

In accordance with federal and provincial legislation on co-operatives, a co-operative may decide not to distribute surpluses, and



in some situations will meet the definition of a non-profit organization. This is often the case when co-ops aim to address social needs, such as housing, day care, and health care co-ops.

How do co-ops capitalize their operations?

Member shares are typically the first source of capital in a co-operative. Some provincial legislation may determine the dollar value of a co-op share (e.g. ten dollars), but the co-op's by-laws will then determine the minimum number of \$10 shares each member must purchase, so as to meet the capital requirements for start-up. Member shares establish co-ownership of the enterprise and grant one vote per member. In general, the member share does not increase in value.

Preferred shares are sometimes issued by co-operatives – both to members and non-members – although this type of share does not offer title of co-ownership or voting privilege as does a member share. The preferred share is similar to a bond issue, which has a pre-determined rate of interest and a redemption date.

Investment shares are now allowed by most co-operative legislation, and they can be issued to members and non-members. The co-operative can then allocate a portion of its surplus as dividends on those shares. Investment shares generally do not confer voting privilege, and the legislation may place a limit on the percentage of share capital that can be held by non-members.

Does a co-op perform as well as a traditional private enterprise?

Yes. Co-operatives have been competing successfully in the Canadian marketplace for almost a century, many of them leaders in their industries. As in all businesses, however, co-op performance depends on good management and the ability to adapt and innovate in a changing economy. Some co-ops do this better than others.

It's also important to note that rate of return and growth is not the only measure of success in a co-op. The most important measure is how well the co-op meets the needs of its members. For example, a marketing co-op may serve its members extremely well by getting the best price for its members' products in the marketplace.

Yet it may not compare as well with private competitors in terms of return on investment.

Worker co-operatives provide another example of success. Studies comparing the performance of these co-operatives with private enterprises operating in the same economic sector have demonstrated their superiority in two ways:

- lower absenteeism;
- better quality of products and services.

This is the result of the high motivation of workers. They know that the business belongs to them. They know that the better their work, and the greater the surplus the enterprise generates at the end of the year, the more they can increase their income through returns.