“Types of Cooperatives and Other Cooperatively Oriented Enterprises”

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Most people have encountered at least one type of cooperative: maybe a producer co-op, like food giants Land O’ Lakes or Ocean Spray; a consumer co-op like most local food co-ops or big retailers like REI (Recreational Equipment Incorporated); a credit union or a mutual insurance company; or a rural electric cooperative, which are common around the country. Some people are members of housing co-ops, or co-housing communities that may not be incorporated as co-ops but still function that way.

Cooperatives co-owned by artists and small food producers--usually linked to a physical common space--also can be seen in cities and towns around the country. These are organized in various ways, but in general they are marketing co-ops designed to help small-scale producers promote and sell their wares. Some of these co-ops may also have special relationships for selling to restaurants or galleries or other establishments.

Even with all these familiar examples, it’s not common to connect the dots or to consider all the types that exist or would be possible. Plus, there’s often little awareness by members of a co-op such as a credit union that their membership entails certain benefits; and in this case is different from their being a client at a standard bank.

Cooperative

[kōˈäp(ə)rədiv]

adjective

1: 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. - ICA

A good place to start is with a definition of cooperatives. **The International Cooperative Alliance (ICA)** defines a co-op as “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.” This language casts a broad net, but it expresses the two main dimensions of co-ops as member-controlled businesses: member ownership and member governance. These are sometimes called the economic and the social-structural sides of cooperatives. Ownership means literally that members share the equity or value of the firm, whether the co-op is consumer, producer, or employee-owned (or some combination or variation). Governance refers to the decision making around key policies and plans, understood to follow the core agreed-upon values of the firm. As part of governance, cooperatives have boards of directors drawn completely or largely from their membership. Specific arrangements vary, of course, depending on the type of business, what kind of participation is expected of members, and how active members are.

For example, most credit union members are not very engaged in the decisions of the organization; they act much like consumers at a standard bank. Still the choice to be a member in a credit union may represent support for those values as well as the expectation of occasional dividends and other benefits.

Ownership means literally that members share the equity or value of the firm. In most cases, member ownership has certain monetary benefits: that can range from discounts at the local cooperative grocery store, to dividends paid to members as a percentage of profits, to access to lower interest rates, to actual ownership—meaning a share in the capital, the equity representing the firm. Dividends paid to members are generally called “patronage dividends,” stressing the fact of membership in the co-op. In the ICA definition above, the word “autonomous” is also important: this means that a true cooperative is not subject to control by outside investors, as, by contrast, it would be in a publicly traded corporation.

There are dozens of other definitions of co-ops, but this one captures well their distinctiveness. Still, it's true that many non-co-ops—especially ESOPs (or Employee Stock Ownership Plans) function cooperatively. ESOPs have their own legislative and tax history, but the important point here is that some ESOPs behave much like co-ops. For example, **Gardener's Supply in Burlington, Vermont** not only devotes a substantial portion of equity to employees and strives to embody democratic practices but also makes significant contributions to the larger community.

A frequent misconception about various kinds of co-ops is that they are not-for profit. Those of us consulting on co-op start ups hear this question a lot. There's a common stereotype that co-ops aren't really that interested in or good at making money! This is just one of the stereotypes about cooperatives in the US that need to be overcome. Another is that co-ops can't grow; yet, there are examples of cooperatives with hundreds or even thousands of members.

In reality, most co-ops are for-profit enterprises. However, due in part to highly variable corporate and tax laws across the states, in some cases, it can be more advantageous for a new co-op to incorporate not as a cooperative but as a different business form, such as an LLC (limited liability corporation) or a non-profit (of which there are several types under federal tax codes). Such a move for the founding group can allow them to function cooperatively (in both senses described above) yet have a business status that works well for them in terms of their mission and goals and in the state in which they are operating.

For example, the **Colorado Grain Chain** was incorporated in 2019 as a way to bring together growers, distributors, millers, brewers, bakers, and consumer representatives in a collaborative enterprise that is organized both vertically (in terms of seed to mouth, if you will) and horizontally as a network for shared resources and coordinated efforts. Ultimately, the founders decided to incorporate as a 501(c)5 non-profit, which is especially for non-profit labor and focused on agricultural and horticultural associations. One of the great strengths of the Grain Chain is in rural-urban linkages. That is also one of its most important lessons for responsible and creative initiatives in food systems—building bridges from farm to table.

Other types of co-ops that may frequently be incorporated as non-profits are housing co-ops (for specific real estate needs) and community service co-ops (like day care centers). Community service co-ops are quite common in Canada and in parts of Europe, where they may be seen as part of the fabric of organizations and institutions that is understood as the "social capital" of a community or region.

A non-profit status is typical for cooperative development centers around the US. RMFU, for instance, is a 501(c)5 foundation, under which a 501(c)3 co-op center operates. In some cases, co-op centers are connected with universities: for example, at the University of Wisconsin, Madison or Kent State University, Ohio. Co-op development centers may also arise independently, although in every case, they are well embedded in local, state or regional networks. **Cooperation Jackson (Mississippi)** is a good example of where there is a large-scale effort to promote and connect many co-ops. Co-op development centers are in practice economic development organizations.

If we look again at the two dimensions of cooperative involvement: member ownership and member governance, there's a type where both dimensions—economic and social--can be maximized. That is a worker- or employee-owned co-op. There are worker co-ops in more than 50 different industries in the US, from food and beverage sales to machine shops to taxi services to home health care. In fact, one of the largest worker co-ops in the US is Cooperative Home Care Associates, in the Bronx, New York, with hundreds of trained worker-member-owners who are part of a dispersed network of service providers.

Two Main Dimensions of Co-op as Member-Controlled Business

Member Ownership	Member Governance
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Whereas in the case of ESOPs in the United States, a portion of the equity or value of the firm is literally owned by employees, in a worker co-op it is mandated that all or nearly all of the equity is owned by worker-members. The only exception is when the co-op decides to sell a certain amount of stock to raise capital beyond what worker-owners are able to invest themselves. That additional capital is normally "class B" stock, where investors have no voting power and therefore cannot influence the policies or directions of the company. Investors endorse the values of the firm and usually receive modest dividends.

Equal Exchange of Massachusetts, a well-known vertically as well as horizontally organized maker of food products (like coffee, chocolate, etc.), is primarily a worker co-op. Equal Exchange has close relationships with growers and producers, notably in Latin America. At the same time, it takes on a "hybrid" aspect by occasionally selling class B stock to consumers and other supporters.

Full-blown "hybrid" cooperatives are where investors have significant investments alongside the equity owned by other members. If these are worker cooperatives that abide by traditional principles of capital control, the dividends for outside investors cannot exceed 8% and may be fixed, say, at 5%. The incentive for moving in a hybrid direction is not only to expand the capital base of a co-op but also to allow for significant expansions—such as when a group of growers decide to create their own food-processing facilities.

What are commonly termed "next generation cooperatives," some agricultural production co-ops will require large investments of member-owners in order to cover machinery and technology which will then be owned by the co-op. In this way, the co-op moves to value-added processing by the producers themselves. These are most common on the Great Plains in the US and Canada for grain and other food production. NextGen co-ops are also found in fishing and forestry industries.

Considering different types of financial investment leads naturally into co-ops with different types of membership: multi-stakeholder co-ops. In all the types we have discussed so far, there is one principal class of membership—producer, consumer or worker. In recent years, cooperators have been pushing the boundaries of the idea of a single type of membership. For example, a food co-op can include two or even three classes of members: producers, workers, and consumers. Multi-stakeholder co-ops then need to delineate different types of involvement, investment, voting privileges, and dividends in accord with these classes.

A multi-stakeholder co-op can be a viable route for other fields, too, like journalism and media, where maintaining sufficient financial support and a wide readership is even more critical today than ever before. Although the new media and newspaper co-ops vary in terms of membership/ownership structure and extent of reach, a good example of a multi-stakeholder co-op is the employee-and-readership owned alternative weekly is **The Devil's Strip in Akron, Ohio**, with over 200,000 members.

The big take-away here, besides the power of cooperation, is about creativity in organizing work and business as well as seeing co-ops as part of larger community and regional networks. This is exactly why many co-ops are establishing new and diverse partnerships, for example, to include co-op education as part of the small-business curriculum in community colleges, as has occurred in Austin, Texas through the efforts of the **Austin Cooperative Business Association**. While entrepreneurship centers, whether in business schools and or in municipal programs, have traditionally had little connection to co-ops of any kind, that is changing.

Thus, co-ops can bring together what would normally be independent entrepreneurs, creators, and inventors—which is another example of where cooperatives can defy stereotypes.

For example, 4 Corners Invents! Is a newly incorporated worker co-op of in the town of Aztec, New Mexico, formed through the facilitation of RMFU. This co-op strives to provide everything from technical assistance to legal support, to camaraderie, first, for its member-owners but also to a broader community of entrepreneurs that can eventually range across the state.

Another important bridge is between co-ops and organized labor. It was, after all, early labor organizations in the US that first created worker co-ops, dating back to 1794 on the East Coast. The separate ways that unions and co-ops have gone are again coming together in the form of union-worker co-ops in Cincinnati and elsewhere. Typically, in these firms, the union takes a worker-advocacy role within a structure where all employees are owners and engaged in governance through the one-member, one vote principle.

Finally, we increasingly see cooperation among co-ops, or what's generally called inter-cooperation. For example, **Namaste Solar** in Boulder, Colorado, which focuses on solar power installation, has helped to create a co-op cluster—a federation--where distinct co-ops have different business emphases like purchasing and financing. Such a diversification and mutual support strategy engages diverse stakeholders and strengthens the market position and influence of the co-ops within that industry.

As the **National Cooperative Business Association** reminds us on its website, co-ops may look on the outside to be little different from other types of businesses. But, behind the scenes what makes most of them distinctive is their culture as well as financial and organizational structures. Co-ops try to embody certain principles, especially shared equity and democratic practice, and make them a part of their daily functioning. The Community Purchasing Alliance in Washington, DC (https://www.cpa.coop/) , consists of churches and schools that came together to share utilities and other costs but now is also engaged in incubating small, community-oriented businesses.

Although there isn't the space here to discuss all of the cooperative principles (as we'll talk about in other newsletters to come) the stress on shared values, such as democracy, equity, and responsibility—are what hold co-ops together and make them vital parts of communities.

Types of Co-ops
Producer: For marketing purposes or bulk purchasing, among other activities and shared resources
Consumer: Sometimes called community-owned
Worker-Owned and Governed (or employee-owned)
Housing (including the co-housing model)
Financial: Credit unions and mutual insurance firms
Utilities: Rural electric and other
Hybrid: For example, with significant investor involvement
Multi-Stakeholder: For example, including consumers and producers, or consumers and workers
Next (new) Generation: For example, by controlling value-added food processing
Union-worker Co-ops: Where organized labor performs specific functions within the co-op
Co-op Clusters or Federations: For collaboration and concentration in different parts of the same industry
Also:
Employee Stock Ownership Plans (ESOPs)
Uses of LLCs, or other non-profit models for incorporation of businesses operating cooperatively or for associations supporting cooperatives