



Unit 2 – Cooperative Business Principles

Objective

The objective of this unit is to teach the student the basic principles on which the cooperative form of business operates.

After completion, the student should:

1. Be able to provide a definition of a cooperative and gain an understanding of what a cooperative principle is.
2. Be able to recite the two-word contemporary principles that distinguish a cooperative from other businesses.
3. Be able to identify and understand the historic Rochdale principles.
4. Be able to explain what each of the three contemporary principles mean.
5. Have gained exposure to the Statement of Cooperative Identity and principles of the International Cooperative Alliance (ICA).

Instructor Directions

1. Become familiar with the discussion guide, reference materials, and quiz.
2. Lead the discussion using the PowerPoint slides and/or the selected references provided. The discussion guide serves as an outline.
3. Identify a cooperative in your area, and research those principles that are practiced and the reasons why. This can be done by interviewing the manager and others, as well as by looking at a copy of the cooperative's bylaws.

Unit 2 – Index and References

Teaching Tools

Instructor Discussion Guide

Handout 2 - International Cooperative Alliance (ICA): Statement on the Cooperative Identity

Quiz 2

Quiz 2 Answers

Unit 2 PowerPoint Slides

S 2.1 Cooperative Definition Reviewed

S 2.2 Definition of a Principle

S 2.3 - S 2.5 Contemporary Cooperative Principles

S 2.6 - S 2.7 Rochdale Principles

S 2.8 - S 2.9 Traditional Cooperative Principles

S 2.10 Quote (Abraham Lincoln)

S 2.11 Contemporary Principles Explained

S 2.12 International Cooperative Alliance

Teacher References

CIR 55: Co-ops 101

CIR 5: Cooperatives in Agribusiness

CIR 11: Cooperatives: What They Are and the Roles of Directors, Members, Management, and Employees (chapter 1)

CIR 11 Chapter 1 PowerPoint

CIR 45, Section 2: Cooperative Business Principles

International Cooperative Alliance Website: <http://www.coop.org/ica/info/enprinciples.html>

Student References

CIR 5: Cooperatives in Agribusiness

CIR 11: Cooperatives: What They Are and the Roles of Directors, Members, Management, and Employees

CIR 45, Section 2: Cooperative Business Principles

Unit 2 - Instructor Discussion Guide

Corresponding slides are in parenthesis with associated discussion points, denoted "S" for slide and by number.

I. Definition of a cooperative (S 2.1 & S 2.2)

1. A cooperative is a business owned and controlled by persons who use its services. Benefits are derived and distributed equitably on the basis of use.

It is mainly distinguished from other business forms by three contemporary principles (a principle is a basic idea defining special characteristics).

2. Cooperative Principles (S 2.3, S 2.4, & S 2.5)

a) The User-Owner Principle: The people who own and finance the cooperative are those that use the cooperative.

b) The User-Control Principle: The people who control the cooperative are those that use the cooperative.

c) The User-Benefit Principle: the cooperative's sole purpose is to provide and distribute benefits to its users on the basis of their use.

3. These principles generally define how cooperatives operate. Cooperative principles have been in existence and working for people over a long period of time. Historically, the first set of operating principles were developed by a group in England called the Rochdale pioneers. While dated, the Rochdale principles are still reflected in today's modern cooperative principles.

II. The Rochdale Principles. (S 2.6 & S 2.7)

a) Current day principles evolved from "Rules of Conduct and Points of Organization," put forth by the Rochdale Equitable Pioneers Society, Rochdale, England; probably for the first time in its Annual Almanac of 1860.

b) There were twelve features/principles of the original Rochdale cooperative:

- 1) Voting is by members on democratic basis.
- 2) Membership is open.
- 3) Equity is provided by patrons.
- 4) Equity ownership share of individual patrons is limited.
- 5) Net income is distributed to patrons as refunds on a cost basis.
- 6) Return on equity capital is limited.
- 7) Exchange of goods and services at market prices.
- 8) Duty to educate.
- 9) Cash trading only.
- 10) Assume no unusual risk.
- 11) Political and religious neutrality.
- 12) Equality of the sexes in membership.

Unit 2 – Instructor Discussion Guide (continued)

III. Review of Four Traditional Cooperative Principles (S 2.8 & S 2.9)

Allows for a greater understanding of cooperative operations:

- a) Service at cost - surpluses returned to members
- b) Obligational responsibility and benefits received are in proportion to use
- c) Limited return on equity capital - value of services most important
- d) Democratic control - one member, one vote, or proportional voting systems

IV. Three Contemporary Cooperative Principles Further Explained (S 2.10 & S 2.11)

- a) Abraham Lincoln said, "Important principles may and must be flexible."
- b) Contemporary principles are simple and avoid including specific points some may consider policies or practices. At the same time, they implicitly encompass an array of practices.
- c) Contemporary principles of user-control, user-owned, user-benefit
 - 1) User-control - voting is by members on a democratic or proportional basis.
 - 2) User-owned - equity is provided by patrons.
 - 3) User-benefit - net earnings are distributed to patrons as refunds on a cost basis.

V. Introduction to the International Cooperative Alliance (S 2.12 & Handout 2)

Have students take Quiz 2 and then discuss answers.

Handout 2 – International Cooperative Alliance (ICA)

STATEMENT ON THE COOPERATIVE IDENTITY

Definition: 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.

Values: Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

Principles: The co-operative principles are guidelines by which co-operatives put their values into practice.

1st Principle: Voluntary and Open Membership - Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2nd Principle: Democratic Member Control – Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member, one vote) and cooperatives at other levels are also organized in a democratic manner.

3rd Principle: Member Economic Participation - Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4th Principle: Autonomy and Independence - Cooperatives are autonomous, self-help organizations controlled by their members. If they enter to agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5th Principle: Education, Training and Information - Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of cooperation.

6th Principle: Co-operation among Co-operatives - Cooperatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

7th Principle: Concern for Community - Cooperatives work for the sustainable development of their communities through policies approved by their members.

International Cooperative Alliance Website: <http://www.coop.org/ica/info/enprinciples.html>

Quiz 2

1. Describe in your own words what the following principles mean.
 - a) Service at cost:

 - b) Financial obligation and benefits proportional to use:

 - c) Limited return on equity capital:

 - d) Democratic control:

2. The three contemporary cooperative principles that distinguish a cooperative business from other business forms in the United States are (complete with one word answer)
 - a) User-_____
 - b) User-_____
 - c) User-_____

3. From the list below, identify by number the original 12 features that are known as the "Rochdale Principles."
 - a) Rochdale Principles (circle the correct 12):
 - 1) Voting by members on a democratic basis.
 - 2) Membership is closed.
 - 3) Return on equity capital is limited.
 - 4) Assume no unusual risk.
 - 5) Membership is open.
 - 6) Duty to educate.
 - 7) Equity is borrowed from a bank.
 - 8) Net earnings are distributed to patrons as refunds on a cost basis.
 - 9) Political/religious neutrality.
 - 10) Equity is provided by patrons.
 - 11) Women only as patrons.
 - 12) Cash trading only.
 - 13) Equity ownership share of individual patrons is limited.
 - 14) Equality of the sexes in membership.
 - 15) Exchange of goods and services at market prices.

Quiz 2 (continued)

b) The Rochdale pioneers were associated with what country? _____

4. How many principles are listed in the International Cooperative Alliance (ICA) statement of cooperative identity?

a. _____

b. Name one of the ICA principles that most significantly differs from the Rochdale, traditional, and contemporary cooperative principles that were discussed.

Quiz 2 Answers

1. Instructor should evaluate answers according to reference materials provided and manner in which concepts were taught.
2. (Can be in any order)
 - a) User-Owned
 - b) User-Controlled
 - c) User-Benefits
3. a) 1, 3, 4, 5, 6, 8, 9, 10, 12, 13, 14, 15
b) England
4. a) 7
b) Autonomy and independence; cooperation among cooperatives; or concern for community