

# Co-operative Entrepreneurship

Co-operate for growth



Diarmuid McDonnell, Elizabeth Macknight and Hugh Donnelly

# Co-operative Entrepreneurship: Co-operate for growth

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**20  
12** UNITED NATIONS  
**INTERNATIONAL YEAR  
OF CO-OPERATIVES**  
We build a better world



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# Guide to the resource

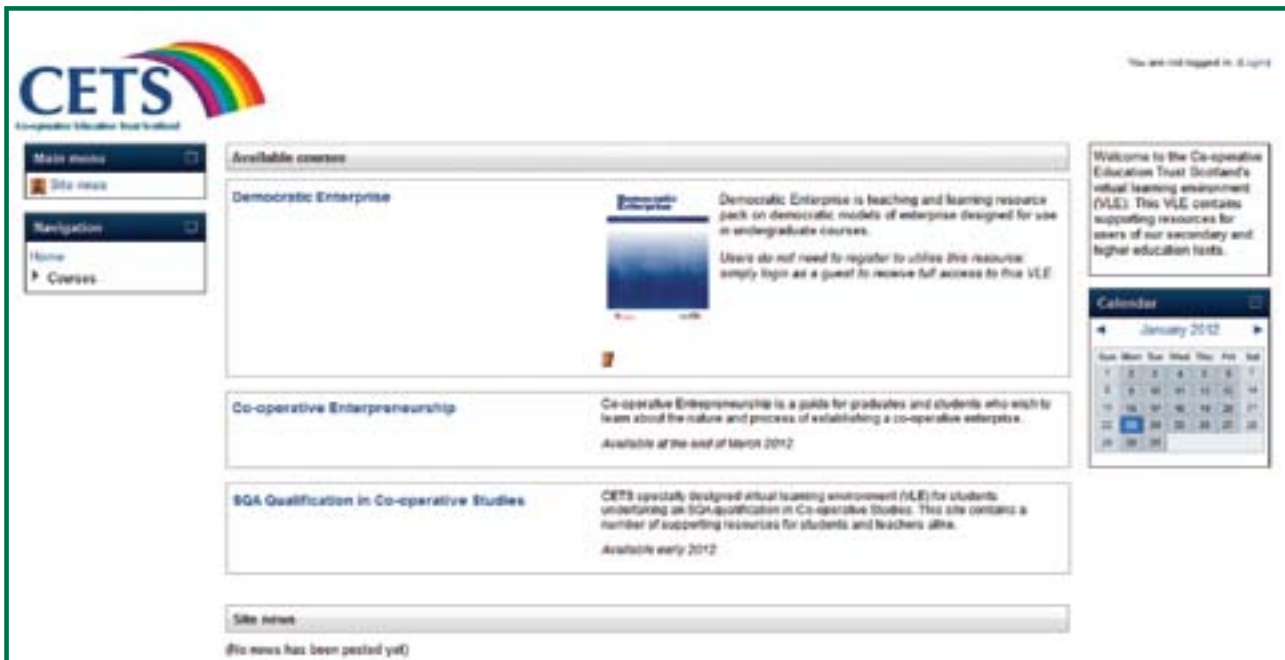
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This resource provides an informative practical guide to the process of establishing a co-operative enterprise. It is designed for student and graduate entrepreneurs, or indeed anyone with a business idea who is interested in the co-operative model of enterprise.

- Chapter 1 explains the unique features that make an organisation a co-operative.
- Chapter 2 looks at the initial stages of new venture creation, focusing in particular on business planning and models, and organisational design.
- Chapter 3 provides an overview of the legal forms relevant to co-operatives, as well as a discussion of financial considerations. The chapter concludes with an analysis of the governance system adopted by co-operatives.
- Chapter 4 offers advice on strategic issues facing co-operatives post-start-up, in particular leadership, education, and networks.

To obtain maximum value from the learning experience associated with this resource, readers are encouraged to use the specifically developed virtual learning environment (VLE) at <http://cets.coop/moodle/>. A range of learning and teaching materials are provided, including:

- Additional case studies
- Business development guides
- Tools and techniques relevant to each chapter
- Links to relevant websites



The screenshot displays the Moodle interface for the CETS (Co-operative Education Trust Scotland) virtual learning environment. The top left features the CETS logo with a rainbow arc. Below it is a navigation menu with options for 'Main menu', 'Site news', 'Navigation', 'Home', and 'Courses'. The main content area is titled 'Available courses' and lists three courses: 'Democratic Enterprise', 'Co-operative Entrepreneurship', and 'BQA Qualification in Co-operative Studies'. Each course entry includes a brief description and availability information. A 'Site news' section at the bottom indicates that no news has been posted yet. On the right side, there is a welcome message and a calendar for January 2012.

# Preface

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I am a hill walker and enjoy many hours climbing Scottish munroes. I like the proverb; ‘to go fast, walk alone; to go far, walk together’. It is as true in business as it is up in the hills.

Co-operatives and employee-owned businesses are a powerful way of people working together to achieve shared goals. Co-operative Development Scotland (CDS) is actively promoting these models as a route to sustainable economic growth.

If you are looking to establish your own venture working with others to gain scale and share risks ... or you wish to work with others in a business that you all own ... or you have an idea for a community owned business ... co-operative models offer you an innovative solution.

We believe that there is significant scope for their wider adoption in Scotland. In Emilia Romagna, the most prosperous region in Italy, co-operatives account for 40 per cent of gross domestic product (GDP).

As such, we are delighted to support the creation of this resource. We very much hope that it will be widely used by students in further and higher education – guiding you on the journey to establish your new venture.

I wish you every success.

**Sarah Deas**  
**Chief Executive**  
**Co-operative Development Scotland**





# Why should you set up a co-operative?

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During a time of economic downturn and high unemployment, particularly among young people, society needs innovative strategies to generate growth. Co-operatives are one strategy based on fairness, democracy, and equality. This business model has a global track record in helping communities become sustainable and achieving more equitable distribution of wealth.

One of the most pressing problems facing communities around the world is the lack of opportunities for young people. The era of ‘a job for life’ has ended. Today’s students and graduates know that their future employment may well depend upon creating their own job. The primary aim of this book is to inform young people of the benefits of establishing a co-operative or employee-owned enterprise and to provide them with the necessary knowledge and tools for doing so.

For students, this text provides an alternative to the standard guides to setting up an enterprise. A useful educational resource in the classroom, this text also shows what is required to establish a co-operative enterprise ‘in the real world’, and not just for a university project. There are many student co-operatives pursuing imaginative activities on campuses all over the world. Some provide affordable housing to their members. Others ensure that members have access to organic and locally sourced fruit and vegetables, or enable members to purchase expensive textbooks at reasonable prices. It is even possible to set up a co-operative that democratically manages a mutual fund for nights out.

For graduates, this text offers ideas for working with like-minded individuals to create employment. It also explains where to go for advice and assistance to translate commercial ideas into real businesses. The co-operative option is a road that is well-travelled, even if its success stories are far less known to the general public than those of capitalist entrepreneurs. This text contains numerous examples of co-operative success stories to highlight the benefits that can be achieved through collective action: from a worker co-operative established by three computer science graduates, to a group of media, marketing and journalism professionals who use a co-operative consortium to tender for bigger contracts, to a jewellery making business that recently became employee-owned. The co-operative option allows graduates to share risk and reward, to combine complementary skills, and to achieve the scale and capacity essential for operating effectively in the market.

For young people struggling under the weight of debt, facing a long stretch of unemployment or unfulfilling jobs, or simply searching for a better way of doing business, the co-operative model of enterprise offers alternatives based on self-help and self-responsibility. It combines democratic processes with economic performance. It aligns ethical sustainable behaviour with innovation and growth. Co-operative enterprise does not pretend to be a cure for all ills. But it does offer hope and practical solutions for building a fairer world. Now is the time for this ‘invisible giant’ to become better recognised and understood.



# Co-operatives and entrepreneurship: what's the big idea?

'I had a need for employment, an interest in social justice, food and drink, its relationship to health, and the environment.'

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Stephen Kelly, co-founder of Highland Wholefoods





# 1. Co-operatives and entrepreneurship: what's the big idea?

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## Co-operative entrepreneurship

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Co-operative entrepreneurship is a form of joint entrepreneurship. Broadly speaking this means that there is more than one entrepreneur involved in the creation of a new venture.<sup>1</sup> A more accurate definition of co-operative entrepreneurship is the establishment of a co-operative enterprise. That is what this text is all about.

Co-operative entrepreneurship has a number of advantages which will be explained in the following pages. Perhaps the greatest advantage is the ability of the participating entrepreneurs to combine different skills and competencies.<sup>2</sup> Central to the success of co-operative entrepreneurship is the relationship between the entrepreneurs.

## What do you need to be a co-op entrepreneur?

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Co-operative entrepreneurs set up businesses. To do this they require many of the same characteristics which other non co-op entrepreneurs tend to possess naturally or to develop by engaging in business activity. For example, most entrepreneurs display determination, a capacity to innovate and 'think outside the box', a willingness to take risks, and good communication skills to promote their ideas to others. Owing to the unique characteristics of co-operative enterprises, co-op entrepreneurs also need to possess a few specific traits and attributes to be able to establish these types of businesses:

- A commitment to working democratically and for the good of the collective, rather than purely for personal gain;
- A willingness to share risks and rewards with other members;
- An understanding of and commitment to the co-operative values and principles;
- An understanding of how co-operation adds value to the business.

Co-operative entrepreneurship becomes possible when there is a group of like-minded individuals who have a need that is not being met by other companies. Co-operative entrepreneurs work together, not in isolation.

# Co-operatives 101

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First and foremost, as businesses, co-operatives are subject to the same market and economic forces that affect all models of enterprise.<sup>3</sup> Financial management and analysis, product marketing, supply chain, efficient processes and operations, competent personnel, are important to all businesses, including co-operatives. Yet co-operatives are unique businesses. They distinguish themselves from other models of enterprise in three key areas: ownership, governance and beneficiary (that is, who primarily benefits from the business, especially in terms of profit). In essence, co-operatives have members who are not only the users of the business' goods or services, but also the owners. Members control and share in the surplus generated.

The purpose of a co-operative is to provide maximum benefit to its members by engaging in economic activities or, to put it another way, by intervening in the market.<sup>4</sup> Member benefits can be defined in economic, social, and psychological terms; there is usually a mix of these for most members. For example, a co-operative may provide food produce at low cost for its members, as well as supporting social initiatives in the members' community. Many co-operatives also seek to achieve environmental objectives at the request of their members (for example, the growing number of renewable energy co-operatives). This focus on providing maximum benefits of various kinds to members contrasts with the focus in the investor-owned model of enterprise where shareholder benefits are defined exclusively in economic terms.<sup>5</sup>

It is important to understand that co-operatives are formed to achieve a mutual objective; the entrepreneurs who set up the business and members who join subsequently must believe that they can achieve more collectively than individually. Make sure you ask yourself whether this commitment to working together exists before continuing with your co-operative business idea.

Another important concept to understand at the beginning of the entrepreneurial process is the nature of risk and reward in co-operatives. Entrepreneurs (and subsequently, shareholders) who establish investor-owned companies generally bear all of the risk and appropriate all of the reward (usually in the form of profit). Co-operatives are different in that risk and reward are shared more equitably (and sometimes equally) amongst the founders. This is especially true in relation to the distribution of surplus – see the Beneficiary section. Budding entrepreneurs should realise that the sharing of risk is an important advantage embedded in the process of setting up a co-operative.

## Ownership structure

A co-operative's members – whether they are consumers, workers, or producers – are the owners of the business as well as the users of the goods and services. The members assume full responsibility for the success of the co-operative but are entitled to appropriate a share of the rewards generated. Member ownership ensures that co-operatives are geared towards meeting the needs of members. It is important that founders and members of a co-operative understand the rights and responsibilities that ownership of a business entails.

## Democratic governance

Co-operatives are governed on a one member/one vote basis (unlike an investor-owned company which adopts a one share/one vote process). Democratic governance by members is one of the co-operative model's greatest strengths; it means that the collective will and knowledge of the members are used actively to further the aims of the business. Democratic member governance is put into practice through the election of a board of directors by the members to represent their interests. Member participation and engagement are central to effective democratic governance and require commitment in the form of time and energy from those involved.

Democratic governance does not mean that every member is involved in every decision; typically, the one member/one vote process is only applied for electing a board and making major policy or business decisions. Decision-making authority for the day-to-day running of the enterprise (operations management) can be delegated to individual or groups of employees/members (just like in any other business).

## Beneficiary

Co-operatives are run for the benefit of their members; they achieve this benefit in a number of ways. First, the co-operative should meet a commonly-defined need. For example, this could be the need for employment amongst a group of graduates; a need for broadband services in a remote community; or the need for social care services in a town/city. Second, the co-operative should generate a range of economic, social and psychological benefits; these could be secure employment, a decent wage, a share of any surplus generated, democratic control over your working life, or addressing a social/community issue. Third, the co-operative should distribute some of the surplus generated amongst its members. A note of caution on the distribution of surplus: while the thought of a large share of the surplus might appeal in the short-term, you will probably not be in business for very long if 100 per cent of the surplus is given to the members. Most co-operatives set a limit on how much can be distributed to members (usually 50-70 per cent) and the rest is retained in the business as reserves. Some co-operatives choose to commit a certain percentage of profit to social and/or community goals as well, fulfilling the seventh co-operative principle explained below.

## Values and principles

Co-operatives can take many forms but attempts have been made to produce a common definition and set of values and principles to unite co-operatives globally. The International Co-operative Alliance (ICA), a global federation of co-operatives, defines a co-operative 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.’<sup>6</sup>

To supplement this definition, a set of values and principles was also produced, in keeping with ideas that drove the original founders of the co-operative movement in the nineteenth century. The values of *equity, equality, solidarity, democracy, self-help, and self-responsibility* are central to the purpose of a co-operative and these values are put into practice through seven principles:

- 1. Voluntary and open membership** Co-operatives are voluntary organisations, 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.
- 2. Democratic member control** Co-operatives are democratic organisations 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 co-operatives members have equal voting rights (one member, one vote), and co-operatives at other levels are also organised in a democratic manner.

- 3. Member economic participation** Members contribute equitably to, and democratically control, the capital of their co-operative. 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 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.
- 4. Autonomy and independence** Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, 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.
- 5. Education, training and information** Co-operatives 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 co-operation.
- 6. Co-operation among co-operatives** Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, regional, national and international structures.
- 7. Concern for community** Co-operatives work for the sustainable development of their communities through policies approved by their members.

Note that the co-operative values and principles are descriptive of what a co-operative should be rather than prescriptive. So long as your business is member-owned, democratically controlled and distributes some of its economic benefits to members, it will generally be accepted as a co-operative.<sup>7</sup> That said, the values and principles provide a powerful platform for conducting business in an economically and socially successful manner.

## Types of co-operatives

There are four main types of co-operative enterprise:<sup>8</sup>

- 1. Producer** – is a type of co-operative where the members are producers of goods/services. Many agricultural co-operatives adopt this model as it allows them to achieve economies of scale and strength in numbers. For example, a group of farmers could form a producer co-operative to purchase machinery and other supplies in bulk. Another example would be a group of self-employed consultants forming a producer co-operative to tender collectively for larger contracts. Many non-agricultural producer co-operatives take the form of consortia in the UK, in which businesses collaborate to get the advantages of scale.
- 2. Consumer** – is a type of co-operative where the members are the customers of the enterprise's goods or services. The consumer model has traditionally been adopted by retail, financial and housing co-operatives. Some of the largest co-operatives in the world are consumer-owned, such as the Co-operative Group in the UK, Rabobank in the Netherlands, and Migros in Switzerland.



**3. Worker** – is a type of co-operative where the members are the employees of the business.

Worker co-operatives have long been established in Western European countries such as France, Italy and Spain, but they began to proliferate in the UK during the 1970s. In Scotland, there are a variety of worker co-operatives operating in myriad industries including Atomised (web development), GreenCity (wholefoods), and Edinburgh Bicycle Co-operative (retail).

**4. Hybrid** – is a type of co-operative that has more than one membership class (for example, consumer and worker). An example of a hybrid co-operative would be Eroski, one of the largest retailers in the Basque country of Northern Spain and part of one of the largest worker co-operative movements in the world, Mondragón Corporation. The retailer has both employees (worker) and customers (consumer) as members.<sup>9</sup>

There is another model of enterprise that will feature in this text, one which offers flexibility and wealth generation for entrepreneurs: employee ownership. Similar to worker co-operatives, employee-owned firms are majority-owned and controlled by their employees, but not necessarily on a democratic basis. Chapter 2 will discuss this model in more detail.

## Benefits of setting up a co-operative

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### Economic

**Employment and wealth generation** – the worker co-operative model offers a flexible and proven vehicle for generating employment, enabling individuals to work collectively on projects whilst shaping their own careers.

**Job security** – co-operatives are operated for the purpose of generating benefits for their members; in the case of worker co-operatives, this means providing sustainable employment for members. Unlike investor-owned enterprises, which sometimes adopt short-term, profit-maximising practices, co-operatives take a longer-term view with regards to their operation and purpose. Research from Canada shows that co-operatives have a survival rate double that of investor-owned enterprises (40 per cent after ten years for co-ops and 20 per cent after ten years for investor-owned).<sup>10</sup>

### Social

**Workplace control and dignity** – worker co-operatives offer people the ability to exercise democratic control over their working lives, reducing exploitation and alienation by placing members at the core of how the organisation is controlled.

**Part of a movement** – co-operatives are united by the internationally-agreed values and principles. Principle six, co-operation amongst co-operatives, is vital for the development of the movement. At local, regional, national, and international levels there are organisations whose purpose is to foster stronger ties between co-operatives and to represent their interests to a broader audience. Individuals who establish co-operatives are part of an ideological and practical community.

## Cautionary observations:

1. Co-operatives need to invest time and money in supporting their democratic process, educating members about key issues, holding meetings, and responding to member concerns. This can be expensive and time consuming, although there is a payback in being able to utilise fully the knowledge and commitment of members.
2. Sometimes there are legal limits to the scope of operations or membership for a co-operative.
3. Co-operatives are only as good as the collective commitment of their members allows them to be. When members stop investing time and energy, co-operatives may witness a reduction in the benefits they provide to their members.
4. Sometimes co-operatives have difficulty gaining access to the capital they need because potential investors often want voting rights.

Source: adapted from [www.edi.coop/beforeyoustart.html](http://www.edi.coop/beforeyoustart.html)

## Co-op interview – Highland Wholefoods

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This interview is with Stephen Kelly, one of the founder members of the co-operative. The full interview can be found on the VLE.

Highland Wholefoods is a worker co-operative situated in the city of Inverness. Founded in 1989, it has a total of thirteen workers, with one of the original four founding members still with the co-operative. The company is wholly owned by its employees and is democratically run with a non-hierarchical structure. It supplies vegetarian, vegan, organic, ethical and environmentally friendly food, drinks and household products across north-east Scotland and the Scottish islands.

### What led you to set up Highland Wholefoods?

**SK:** I had a need for employment, an interest in social justice, food and drink, its relationship to health, and the environment. A small wholefoods workers co-operative shop in Inverness had ceased trading the previous year and there was a gap in the market. GreenCity Wholefoods, a worker co-operative in Glasgow, was struggling to supply the Highlands & Islands in a profitable way and provide an acceptable level of customer service there. They were keen to work in partnership with a group of people interested in forming a new worker co-operative wholesale distributor to serve the Highlands, Islands, Moray & Aberdeenshire.

### Had you any experience or knowledge of co-operatives at that point?

**SK:** Not really but I liked the idea.

## What was the appeal of a worker co-operative structure rather than a traditional private limited company?

**SK:** None of the five founding members of Highland Wholefoods had any capital or tangible assets. All were unemployed. The enormous amounts of ‘pro-bono’ help and goodwill would not have been available had the business been for personal profit. The alternative ethos was attractive to the founding members who were keen to prove that there was an alternative to hierarchical top-down and the ‘loads-of-money’ self-centred ethos of the Thatcher government.

## How important were the co-operative values and principles to the business?

**SK:** Very important, but at the time of founding I was not aware of the wider co-operative movement and the formal existence of a set of values and principles that could be related back to The Rochdale Pioneers.

## What are the key things you need to get right to run a successful worker co-operative?

**SK:** Business is business and the way to conduct good business doesn’t vary very much regardless of the structure of the business. To run a successful worker co-operative it is necessary to understand the importance of the functions/roles within the co-operative and to separate operations from ownership. This means that the function of the secretary is crucial and that sound governance procedures are in place and maintained and improved on a rolling basis.

Getting the division of labour sorted and recognising the importance of the secretary and giving the secretary time to be up-to-date is crucial in a co-operative. This can be hard to explain when other operational/front-line parts of the business are overstretched.

Strategic decision making and the function of the board of directors has to be clearly separated from management of the day-to-day running of the business.

## Practical tools

The following tools are available on the VLE:

The International Co-operative Alliance (ICA) produced the Statement on the Co-operative Identity, which defines what a co-operative is and the values and principles that underpin it. Readers can find this statement at <http://s.coop/30s>; there is also a copy of the Statement on the VLE.

There are a number of case studies outlining the different types of co-operatives, as well as two documents outlining the contribution Britain made to the early co-operative movement.

Take a look at the self assessment form; it will help analyse your motivations for establishing a co-operative enterprise.

For a brief outline of the rights and responsibilities of worker ownership, see the accompanying document on the VLE.

For information on the size and status of the co-operative and employee-owned movements in the UK and further afield, consult the document ‘Co-operatives and employee-owned enterprise, size and status.pdf’.

# Endnotes

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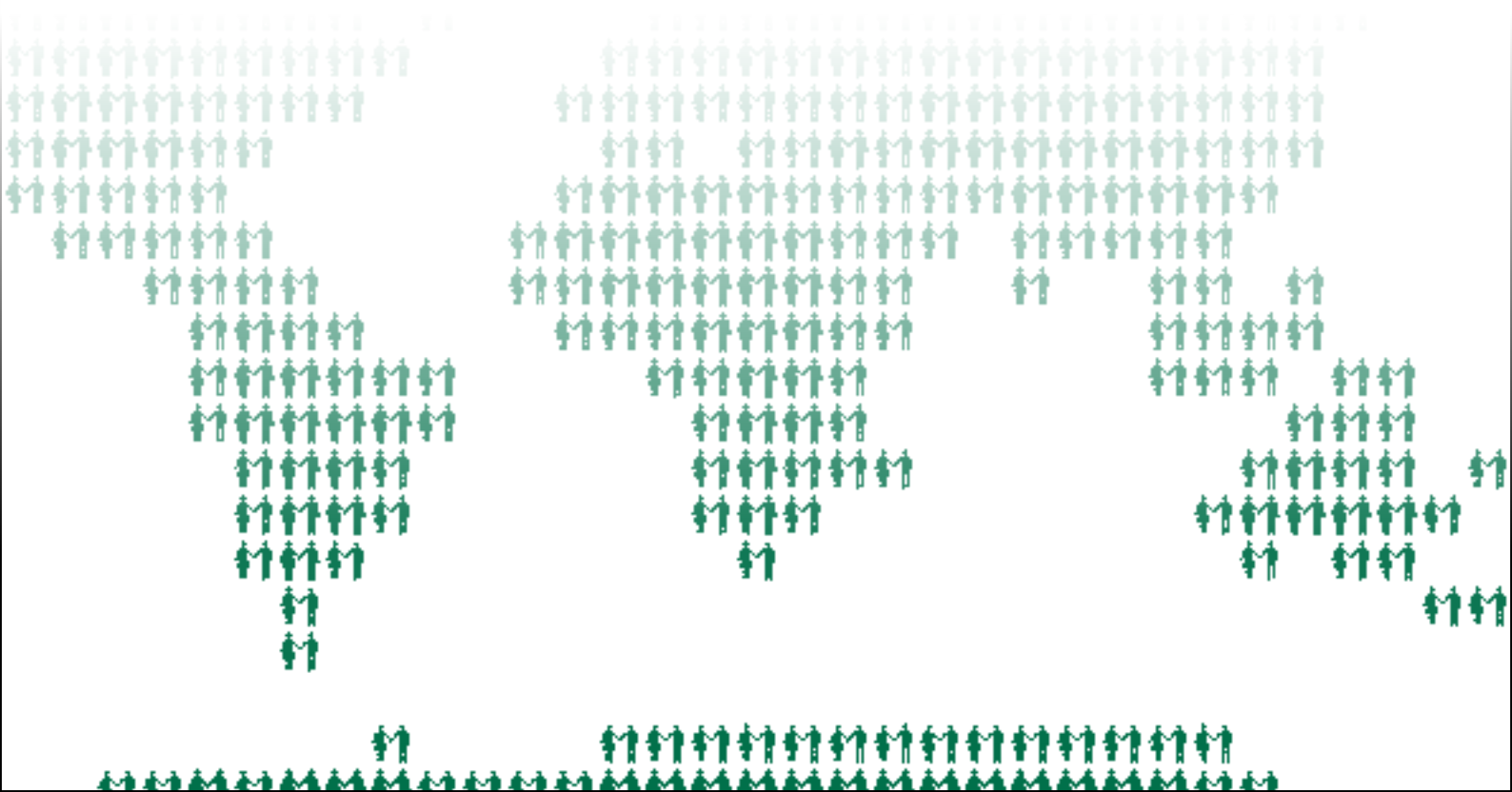
1. E. Troberg, E. Ruskovaara, and J. Seikkula-Leino, 'The State of Co-operative Entrepreneurship Education in Finland: an Exploratory Study' *International Journal of Co-operative Management* 5 (2011): 47–59.
2. Troberg, Ruskovaara, and Seikkula-Leino, 'The State of Co-operative Entrepreneurship Education', p. 56.
3. G. B. Hansen, E. K. Coontz, and A. Malan, *Steps to Starting a Worker Co-operative* (Davis: University of California, 1997), p. 5.
4. D. I. Bateman, J. R. Edwards, and C. Levay, 'Agricultural Co-operatives and the Theory of the Firm' *Oxford Agrarian Studies* 8 (1979): 63–81. See p. 77.
5. K. Zeuli and R. Cropp, *Co-operatives: Principles and Practices in the 21st Century* (Wisconsin: University of Wisconsin Center for Co-operatives, 2004), p. 46.
6. International Co-operative Alliance (ICA), 'Statement on the Co-operative Identity'. [www.ica.coop/coop/principles.html](http://www.ica.coop/coop/principles.html), accessed 4 May 2011. There are other definitions of what constitutes a co-operative. The following definition is generally adopted for co-operative research or study in the US: 'a Co-operative is a user-owned, user-controlled business that distributes benefits on the basis of use.'
7. An informative document on the problems classifying co-operatives is 'Practical tools for defining co-operatives' by Co-operatives UK; a copy of the resource can be accessed at [www.somerset.coop/sites/default/files/Co-operative%20ID.pdf](http://www.somerset.coop/sites/default/files/Co-operative%20ID.pdf).
8. J. Atherton, J. Birchall, E. Mayo, and G. Simon, *Practical Tools for Defining Co-operatives* (Manchester: Co-operatives UK, 2011), p. 9; J. Birchall, *People-centred Businesses: Co-operatives, Mutuels and the Idea of Membership* (London: Palgrave Macmillan, 2010).
9. Representation on the board of the business is shared equally between the two member groups, with six of the board members elected by the workers and six by the employees.
10. Québec Ministry of Economic Development, *Survival Rate of Co-operatives in Québec* (Québec, 2008).

# Business models and planning: co-operate to succeed

‘You have to like and trust each other. Each member must be prepared to invest a certain amount of time regularly ... to ensure the sustainability of the co-operative.’

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Vicky Masterson, The Very People





## 2. Business models and planning: co-operate to succeed

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### Opportunity recognition<sup>1</sup>

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Whether you are establishing a co-operative, investor-owned, or family business, you will need a viable commercial idea. To assist with the development of an idea for a business an opportunity analysis plan is a useful tool. It consists of four sections:

1. the idea and any competitor businesses;
2. the market for the idea;
3. the entrepreneurial team and its characteristics; and
4. an action plan to turn the idea into a new venture.<sup>2</sup>

There are two useful ways of identifying opportunities: solving problems and observing trends.<sup>3</sup> Both are incredibly powerful methods for recognising where there is scope for co-operative development. Solving problems refers to when co-ops are established in response to a market failure, such as the closure of a community resource. Observing trends allows the entrepreneurs to replicate a successful model, such as the worker-owned Arizmendi bakeries in San Francisco, the Energy4All community co-operatives in the UK, and the ESOP model of employee ownership in the US.<sup>4</sup>

Whilst there must be a market opportunity or need, the co-operative must also fulfil the members' needs.<sup>5</sup> If your pressing concern is to find employment, then consider a worker co-operative (for example, graphics.coop). If you are self-employed but are struggling to secure sufficient contracts, then forming a consortium co-operative with other individuals could provide the necessary scale (for example, The Very People). If you or your local community has noticed that broadband services in your area are insufficient, then you could form a consumer co-operative (for example, Whitcomm in Whitlawburn, Glasgow).<sup>6</sup>

Table 1 Conducting a needs assessment

Key things to think about	
Before carrying out a needs assessment you need to consider various questions:	
<ul style="list-style-type: none"> <li>• What do you want to find out?</li> <li>• Who is the information for? Just for your own planning, or will it also be used for a funding application? If so, then will the needs assessment answer the types of questions your funder might ask?</li> <li>• How can you express your questions in plain language that people will understand and respond to?</li> <li>• What specific questions will you ask, and will the answers really tell you what you want to know?</li> </ul>	<ul style="list-style-type: none"> <li>• How will you gather the information?</li> <li>• Who is going to do the research? How much can you do yourselves and with which parts do you need help?</li> <li>• Where are you going to do the survey, or find information?</li> <li>• How much is it all going to cost? Draw up a budget.</li> <li>• How much time have you got and when does it need to be done by? Draw up a timetable.</li> </ul>

Source: M. Bossano and K. Dalmeny. *Food Co-ops Toolkit: a simple guide to setting up food co-ops* (London: Sustain, n.d.), p. 28.

## Organisational design

Once you have demonstrated that your idea has commercial potential, the next stage of the co-operative entrepreneurial process is to construct an organisational design plan (that is, a framework of what your co-operative will look like from an organisational perspective). You need to be able to provide details for the following requirements:<sup>7</sup>

- **Purpose** – a clear outline of the co-operative’s aims and purpose; the need that the enterprise is satisfying (for members and customers) is central to the purpose.
- **Shared objectives** – the founding members should agree on a number of mutual objectives for the co-operative; these objectives should address the needs of the members and fulfil the organisation’s purpose.
- **Ownership structure** – who are the owners (and therefore the members) of the co-operative (for example, workers, customers, community)? How will they become members (for example, through purchasing shares and/or undertaking a probationary period)? Will the assets of the business be commonly or jointly-owned?<sup>8</sup>
- **Democratic governance** – how will members participate in the governance of the co-operative (voting at meetings/AGM; electing a board of directors; other opportunities to participate)? How will decisions be made (at weekly/monthly meetings of the board; by consensus, majority or supermajority voting; by a management committee appointed by the board)?

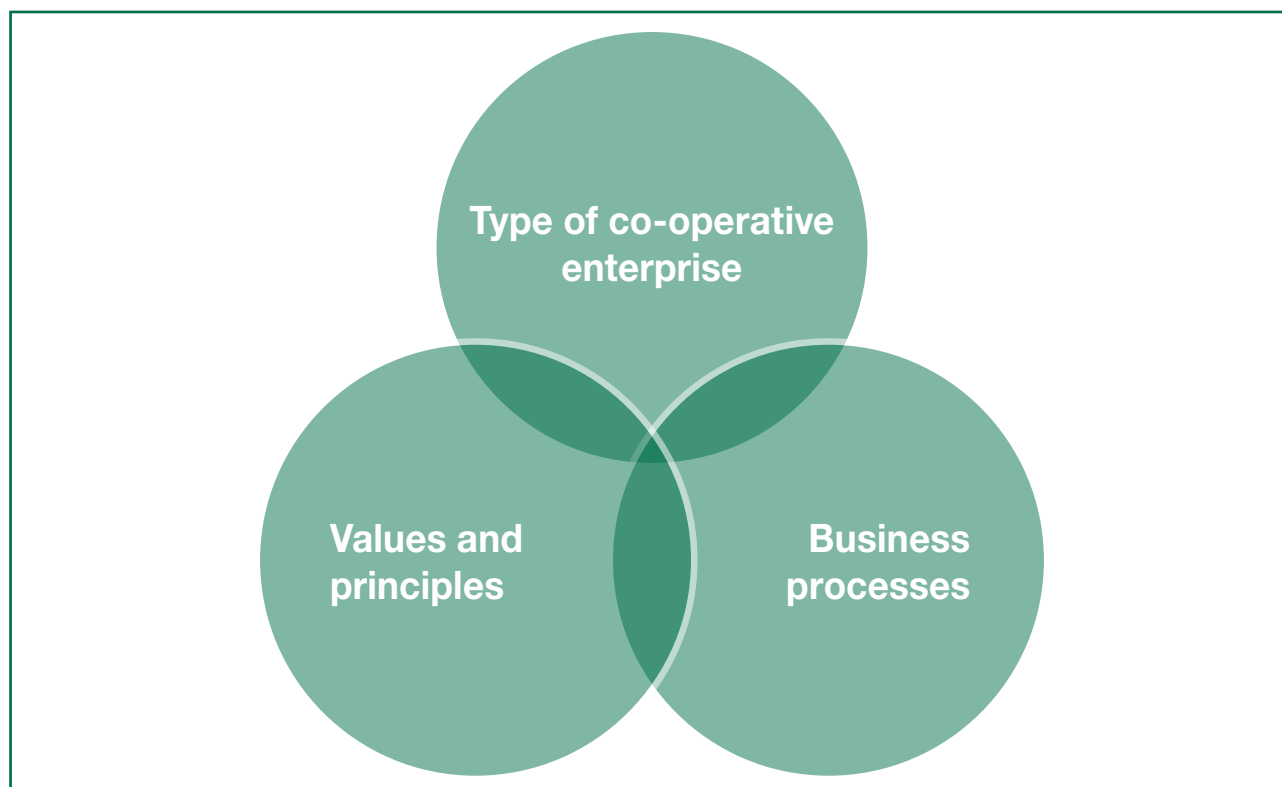


- **Distribution of surplus** – how will members participate in the surplus generated by the co-operative (that is, what percentage are they entitled to)? If the business is to be worker-owned, then what is the pay structure (everyone paid the same or based on another measure)? How much of the surplus is to be retained in the business? Will the co-operative spend some of its surplus on social goals?
- **Membership** – who are the members and more importantly, what is the relationship between the members and the co-operative? What are the motivations of potential members to get involved in the co-operative? Think about the co-operative’s relationship to its other stakeholders as well (for example, employees, customers, suppliers, community, and environment).
- **Capital requirements** – what type of funding does your business need (that is, capital from members in the form of shares or loans, loans from specialist co-operative funds, grants from co-operative development bodies, or loans from commercial lenders). Make sure that your organisational design is suitable for your funding requirements.<sup>9</sup>

## Co-operative business models

‘A business model is a firm’s plan or diagram for how it competes, uses its resources, structures its relationships, interfaces with customers, and creates value to sustain itself on the basis of the profits it earns.’<sup>10</sup> A co-operative must not only address these common business model components, but also take into account its unique organisational design, and the international values and principles.

Figure 1 The co-operative business model



Source: D. McDonnell, E. Macknight, and H. Donnelly, *Democratic Enterprise: Ethical business for the 21st century* (Glasgow: Co-operative Education Trust Scotland, 2012), p. 37.

To explore the development of a profitable and sustainable business model, we will examine three types of co-operative enterprises:

- worker co-operative
- consortium co-operative (referred to as a producer co-operative earlier)
- employee ownership

## Worker co-operative

Worker co-operatives are businesses that are jointly owned, democratically controlled and operated for the benefit of workers (that is, the workers are the members). They are often established as a response to unemployment and offer a sustainable, ethical vehicle for creating wealth amongst a group of members, as well as giving them more control over their working lives. A mutual aim and a strong bond between the members are central to the success of a worker co-operative.

### Typical use

Worker co-operatives are often established by people who are seeking to secure new employment. The co-operative is set up by a group of individuals (typically between three and seven), who also become the members of the business. Each founder will usually make an agreed contribution to the capital of the business – possibly via a loan or phased deduction from wages – and help choose an appropriate legal structure. Once operational, the co-operative is governed on a one member, one vote basis and each member is responsible for the success of the business. Members then participate in any surplus generated by the co-operative and retain some in the business in the form of reserves.

### Graduate idea

A worker co-operative is a great model of enterprise for combining skills and sharing risk and reward. This makes it ideally suited for graduates since it allows them to tackle the difficulties of minimal capital or professional experience through collective action. For example, a group of business studies graduates (a mix of accounting, marketing, and management, say) could collaborate to establish a worker co-operative to provide basic services to local businesses.

### Advantages

*Self-determination* – worker co-operatives distribute decision-making rights and responsibilities to members rather than to investors or management. Worker-members are entitled to govern themselves through the election of a board of directors (the majority of board members are usually elected from the membership). The board and any appointed management are accountable to the members, not to external shareholders.

*Tackle unemployment* – worker co-operatives (and co-operatives in general) are often formed in response to market failures that trigger unemployment. Starting a worker co-operative provides many advantages over other models of enterprise in times of recession and have been shown to be more sustainable in the long run.<sup>11</sup>

*Generate wealth in an equitable manner* – worker co-operatives allow members to participate in the fruits of their labour through the allocation of wages and surplus. Although some investor-owned companies have profit-sharing schemes, there is a difference in a worker co-operative where the members have an inherent right to participate to some degree in the surplus of the business.

## Example

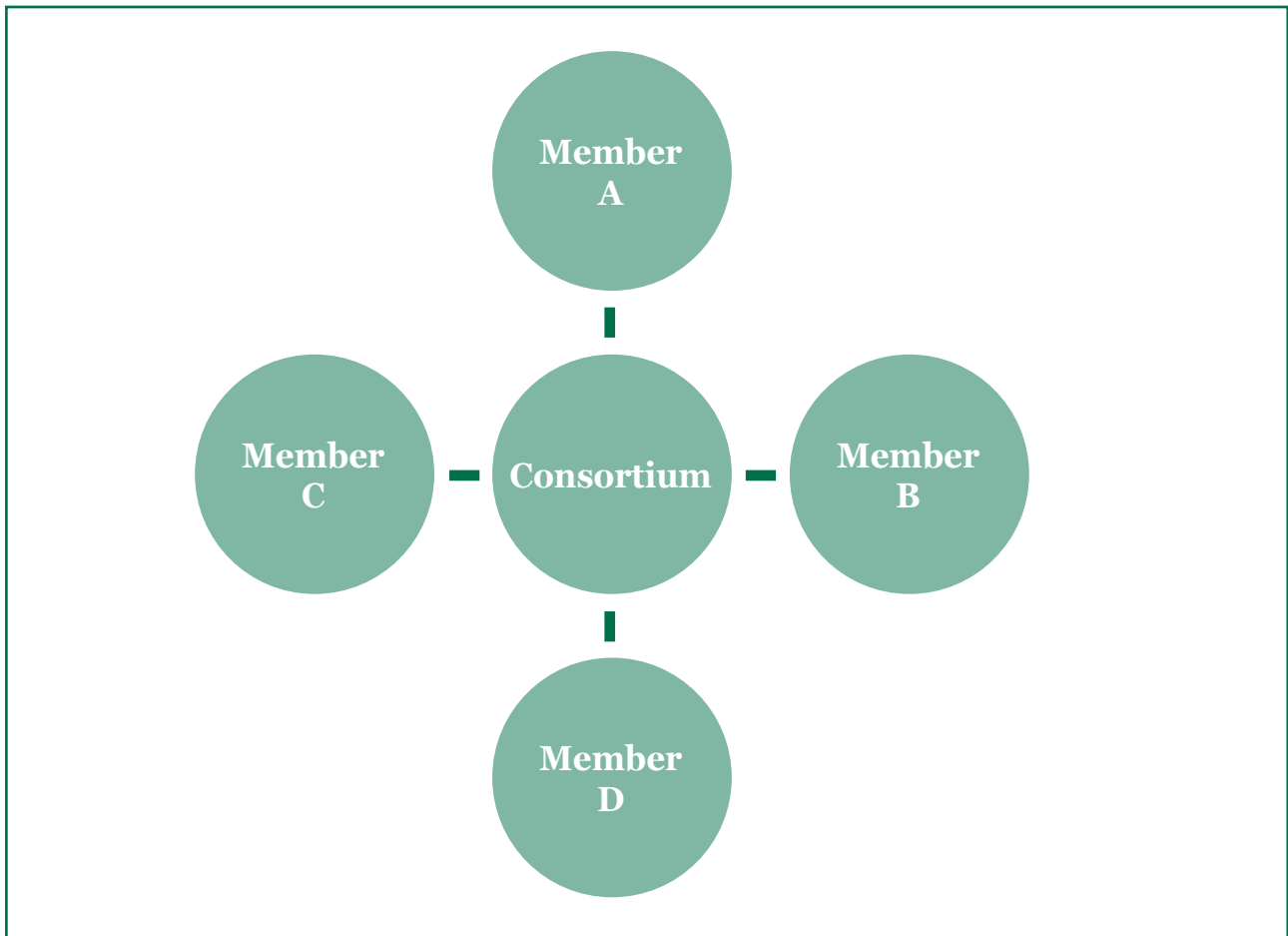
Edinburgh Bicycle Co-operative was formed in 1977 by a group of graduates who shared a passion for all things cycling. The business originally focused on bicycle repairs but soon expanded into retailing and swiftly grew. The co-operative now has over one hundred members and six outlets throughout the UK. It remains one of the UK's most successful worker co-operatives in terms of membership and turnover and is a shining example of a passion commercialised co-operatively rather than individually.<sup>12</sup>

## Consortium co-operative

The members of a consortium are typically businesses, partnerships or individuals, and the co-operative may be for any purpose which supports the members – typically buying, selling, marketing or sharing facilities or services, or joint bidding for contracts.<sup>13</sup> For graduates, this model is a powerful method of achieving economies of scale and accessing bigger contracts while retaining your individual or business identity.

## Typical use

Figure 2 Consortium model



The consortium tenders for a contract on behalf of its members. If it wins the contract, it distributes the work to one, some or all of its members for completion. The members then invoice the consortium for the work undertaken.

The consortium co-operative could be for any purpose that supports its members. Consortia are formed for various reasons and can help businesses to:

- Buy, sell or market on behalf of members;
- Bid jointly for contracts;
- Share facilities, such as back-offices or premises;
- Provide training;
- Promote ownership to apply for and manage funds or to undertake strategic industry or sector development where a sound democratic structure is needed.

Consortia are often tax-exempt and running costs are met by retaining a small percentage of the value of members' trade, so members contribute in proportion to usage.<sup>14</sup> The model works well in any industry where businesses can benefit by pooling resources and buying power.<sup>15</sup>

## Graduate ideas

A group of self-employed IT graduates could form a consortium co-operative to tender for larger contracts. For example, an industry IT project might need the skills of a graphic designer, software developer and web developer. The formation of a consortium co-operative would allow individuals with these skills to collaborate on this project.

In the education sector, given the problems that newly qualified teachers have finding employment, a consortium model may be a useful solution. Nemco (North East Music Co-operative) is a co-operative of qualified music teachers in England. A diverse membership base means the co-operative can offer a wide range of services.<sup>16</sup>

## Advantages<sup>17</sup>

- Reach new markets;
- Access bigger contracts;
- Increase efficiency via economies of scale;
- Better marketing of members' services;
- Shared costs of promotion and advertising;
- More flexibility with less risk as no fixed salary costs;
- Central office – allocation of work to members and administration.

## Example

Yellow Brick House Media is a consortium co-operative of four businesses specialising in new media content and marketing, television production, web development and graphic design. The members are: digital media specialist Inner Ear, TV production company Surefire Television, freelance web and graphic designer Ryan Addams, and Don MacLellan, a freelance web developer and database management specialist.<sup>18</sup>

## Employee ownership

An employee-owned company is one where the majority of employees own the majority of the shares in the business. While not strictly co-operatives, employee-owned companies often implement democratic governance procedures and promote strong employee engagement in management. Employee ownership is possibly the most flexible of the models presented in this chapter and can take one of various forms:

- **Direct employee ownership** – using one or more tax advantaged share plans, employees gradually become registered individual shareholders of a majority of the shares in their company. In comparison to worker co-operatives, votes are usually cast according to the number of shares held;
- **Indirect employee ownership** – shares are held collectively on behalf of employees, normally through an Employee Benefit Trust (EBT);
- **Combined direct and indirect ownership** – a combination of individual and collective share ownership.<sup>19</sup>

### Typical use

Employee ownership typically happens in one of the following scenarios:

- **Business succession** – private owners, such as an entrepreneur or family member, decide to sell the business to their workforce;
- **Professional partnerships** – partners might decide to broaden ownership to cover most or all employees, reflecting the need to attract, retain and motivate talented people;
- **Insolvency or closure threat** – employee buy outs can prove an effective route to recovery for businesses that might otherwise fail;
- **Independence** – companies may decide that a significant and even majority employee stakeholding will demonstrate and help protect the company's independence;
- **Privatisation** – when services (such as the local bus) are going to be privatised there can be opportunities for employee buyouts;
- **Owner vision** – as in the case of John Lewis, Arup Group or Scott Bader, the founder of a business opts for employee ownership at the outset of the business or later.<sup>20</sup>

### Graduate idea

Many engineering firms have some form of employee ownership. A group of engineering graduates who wish to establish a consultancy firm could do so on an employee-ownership basis. This would provide recognition for the fact that the creativity, technical expertise, and innovation of the engineers are vital to the success of the business.

### Example

Accord Energy Solutions, an accounting consultancy servicing the oil and gas industries, is in the process of converting to employee ownership using a combination of an Employee Benefit Trust (EBT) and a Share Incentive Plan (SIP).<sup>21</sup>

# Feasibility study

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Conducting a feasibility study/analysis allows the entrepreneurial team to assess and reflect on their idea before proceeding to the development of a business plan. A suggested checklist is provided in the Practical tools section; only a brief overview will be provided here.

- From a business perspective, conduct thorough market research. This includes analysing your target market in terms of size and audience, competitor analysis, the buying habits of your potential customers and the current market trends.<sup>22</sup>
- SWOT and PESTLE analyses are useful techniques for developing a clear picture of the co-operative's value proposition and the environment in which it will operate; see the VLE for advice on utilising these techniques.
- It is beneficial at this point to seek external expertise in order to critique your idea. Former lecturers, or local enterprise (co-op or otherwise) development bodies can help improve and streamline your idea from an objective standpoint. Friends and family members with business experience may also serve as sounding boards – ask them to be critical!

# Business planning

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The business plan is often referred to in entrepreneurship texts and with good reason. It can be thought of as the paper (or digital) representation of your co-operative, taking into account the various aspects (strategic, operational, marketing, financial, purpose, risk) of the organisation. Friend and Zehle provide a comprehensive business planning process:<sup>23</sup>

- 1. Strategic review** – brings together the work you have done previously, including: the need, purpose, objectives, and values and principles of the business; member and stakeholder analysis; competitor analysis; SWOT and PESTLE.
- 2. Marketing plan** – involves two stages: market analysis (which you will have done in the Feasibility Study) and market forecasting.
- 3. Operational plan** – explains how the co-operative will be structured, the resources it requires and how these will be used.
- 4. Model the business** – this section examines how the co-operative will generate revenue, manage costs, and secure investment. It can be thought of as the roadmap of how the co-operative will be successful economically. This process is different for co-operatives as this roadmap is influenced by the values and principles, as well as the needs of members.<sup>24</sup>
- 5. Evaluate and select strategy** – involves reflecting on and analysing the organisational design of the co-operative, and the marketing, operational, and business model plans. It is useful to consider a number of different plans/business models and evaluate these using agreed criteria.
- 6. Examine funding issues** – a very important stage, it is vital that the co-operative's capital needs are well-served at the beginning of and throughout its existence. Considerations at this stage include the co-operative's projected cash flows, the type of funding required (debt, equity, grant), and short, medium and long-term capital requirements.<sup>25</sup>

**7. Perform risk analysis** – the SWOT and PESTLE analyses are relevant here.

**8. Present and approve the business plan** – the business plan is vital in securing start-up capital (from members and/or commercial lenders) and support from co-operative development bodies.

**9. Implement the business plan** – proceed to the next stage of the venture creation process.

The generic business planning process outlined above neglects to mention one of the most crucial elements of any organisation, its human assets. In a business where the employees are also owners, the skills and suitability of the people who will be involved is crucial, on both levels

It is important to realise that at this stage of the co-op entrepreneurial process, the business plan will most likely not contain a vast amount of detail. Its purpose is to provide an outline of the organisational design of the co-operative, its marketing and operational plans, and how it will generate revenue.

## Co-op interview – The Very People

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This interview is with Vicky Masterson, one of the founder members of the co-operative. The full interview can be found on the VLE.

The Very People is a co-operative of highly experienced editorial, PR and marketing consultants, set up in 2006 to offer combined strengths as senior specialists. Being a co-operative allows the company to pool skills and knowledge to deliver the right mix of expertise and attention for each client brief. It also enables it to deliver high quality work whilst keeping overheads and administration to a minimum – a key selling point in tougher economic times. The Very People provide services to clients across the UK from bases in Glasgow, Edinburgh and London.

### What circumstances led to you setting up The Very People?

VM: A few of us already worked together but it was felt that, to be taken more seriously when bidding for larger contracts, it would be better to formalise the situation.

### Had you any experience or knowledge of co-operatives at that point?

VM: None.

### Why did you choose a co-operative consortium model rather than a traditional private limited company or a partnership?

VM: After a brief meeting with Hugh Donnelly (an expert on co-ops and employee owned businesses) we decided that the simplicity of the model (co-op as marketing vehicle) appealed to us. We would have incurred considerable legal costs and spent a lot of time setting up a partnership and none of us wanted such a rigid model.

### What is the greatest benefit or competitive advantage you derive from being a co-operative?

VM: Being able to field a multidisciplinary and highly experienced team. Clients prefer to know that the people they engage with will actually do the work, not pass it on to someone more junior. We offer marketing as one of our core skills, so we are able to apply it to our own organisation and are in fact currently developing a new marketing strategy and promotional material.

## What is the biggest constraint to your business by being a co-operative?

**VM:** Occasionally the lack of leadership slows decision making and sometimes the other commitments of our members (to their own business) interferes with our progress and business development activity.

## What are the key things you need to get right to run a successful co-operative consortium?

**VM:** You have to like and trust each other. Each member must be prepared to invest a certain amount of time regularly (non fee earning) to ensure the sustainability of the co-operative.

## Advice for budding co-operative entrepreneurs

**VM:** Sometimes there can be an imbalance in the commitment and time individuals are prepared to make in running and developing the co-operative. This results in one or two people doing most of the unpaid work and can become a serious problem. Fortunately we are not in this situation.

## Key outcomes

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After considering the sections contained in this chapter, you should be able to answer the following questions:

**What** – what is your co-operative designed to do? For example, my co-operative will be a worker-owned business providing marketing services to SMEs in my community.

**Why** – why is there a need for this co-operative? What is its purpose?

**Who** – who will be the co-operative's members, stakeholders and founders? Which individuals or groups will take on which tasks and responsibilities in the establishment of the co-op?

**How** – how will your co-op make money? What business model will it adopt? What are its objectives and processes? You should have a well-developed plan for the organisational design (governance and ownership in particular) of your co-op and a business model that complements and enhances this design.

**Where** – where will your co-operative be based? Where are your stakeholders located (that is, suppliers, customers, members)?

**When** – when will each stage in the establishment of the co-operative be achieved? Have you drawn up a project plan with relevant milestones identified and dates allocated for these?

The details needed to answer these questions should be contained in your business plan.



## Practical tools

Co-operatives UK has a number of consortia co-operative case studies on the offline version of its website: <http://s.coop/kn3d>

Sustainweb.org has a number of useful resources for graduates and students who wish to establish a consumer or worker-owned food co-op (accessible through the VLE):

- How to set up a food co-op in a university or college
- Food Co-ops Toolkit – a simple guide to setting up food co-ops

Co-operatives UK has an online guide that provides general advice and resources for individuals wanting to establish a co-operative: <http://s.coop/jkbk>

The Co-operative Enterprise Hub has a free, specialist service for young people who wish to establish co-operatives: <http://s.coop/jkqi>

Chapter four of *Entrepreneurship: Context, vision and planning* by Legge & Hindle contains a number of mathematical models that can be used to construct marketing and financial plans.

P. 20 of *Steps to Starting a Worker Co-op* by Hansen, Coontz, and Malan contains a detailed feasibility analysis form (page 20) that can be used to assess whether you are ready to proceed with your co-operative enterprise; the resource can be accessed at <http://s.coop/jkr7>

## Endnotes

1. It should be noted that the generation of a viable business idea is crucial to the whole entrepreneurial process and has been treated in more detail elsewhere. Readers are encouraged to consult other entrepreneurship textbooks as well as organisations that can assist in the generation of an idea. One example in Scotland is The Ideas Academy Ltd; [www.theideasacademy.co.uk/welcome](http://www.theideasacademy.co.uk/welcome).
2. R. D. Hisrich, M. P. Peters, and D. A. Shepherd, *Entrepreneurship* (New York: McGraw Hill, 2008), p. 153.
3. R. Duane and B. Barringer, *Entrepreneurship: Successfully Launching New Ventures* (New York: Prentice Hall, 2008), p. 30.
4. [www.arizmendibakery.org/about](http://www.arizmendibakery.org/about); [www.energy4all.co.uk/community.asp?ID=COM9&catID=2](http://www.energy4all.co.uk/community.asp?ID=COM9&catID=2); [www.nceo.org/articles/esop-employee-stock-ownership-plan](http://www.nceo.org/articles/esop-employee-stock-ownership-plan).
5. They are not always the same. For example, a worker-owned engineering consultancy needs to serve its members' need for sustainable, valuable employment, as well as its customers' need for high-quality engineering services.
6. [www.graphics.coop](http://www.graphics.coop); [www.theverypeople.co.uk](http://www.theverypeople.co.uk); [www.whitcomm.co.uk](http://www.whitcomm.co.uk).
7. Co-operatives UK, *Simply Start-up* (Manchester: Co-operatives UK, 2011), p. 12.
8. If the assets are held in common ownership, no member has any claim to the value of the assets; if the assets are held jointly, then each member is entitled to a share of the assets of the co-operative (for example, when the business is dissolved). In practice, some of the assets of the co-operative are held in common ownership (for example, retained earnings) and some are jointly-owned (for example, surplus).
9. This is an important point as your organisational design should give the co-operative a sound platform for raising capital. For instance, relying on investors for the majority of your co-operative's capital often leads to the dilution of the members' ownership stake (as investors often require an ownership stake in a business in return for their capital).
10. Barringer and Ireland, *Entrepreneurship: Successfully Launching New Ventures*, p. 100.
11. A. Thomas, and C. Cornforth. 'The Survival and Growth of Worker Co-operatives: A Comparison with Small Businesses' *International Small Business Journal* 8 (1989): 34–50.
12. [www.edinburghbicycle.com/comms/about.htm](http://www.edinburghbicycle.com/comms/about.htm).
13. Co-operative Development Scotland (CDS), *The Consortium Co-operative Model: Grow your business through collaboration* (n.d.).
14. There are certain criteria that the consortium must satisfy to be considered for tax exemption. The most important of these is the purpose of the organisation; it must be run for the mutual benefit of its members. Co-operatives UK produced a detailed guide to consortia co-operatives, which can be accessed on their website and the VLE, and Co-operative Development Scotland (CDS) is the recognised expert on consortia models in Scotland and has a wealth of experience in setting up these enterprise models; details can be found in the Epilogue.

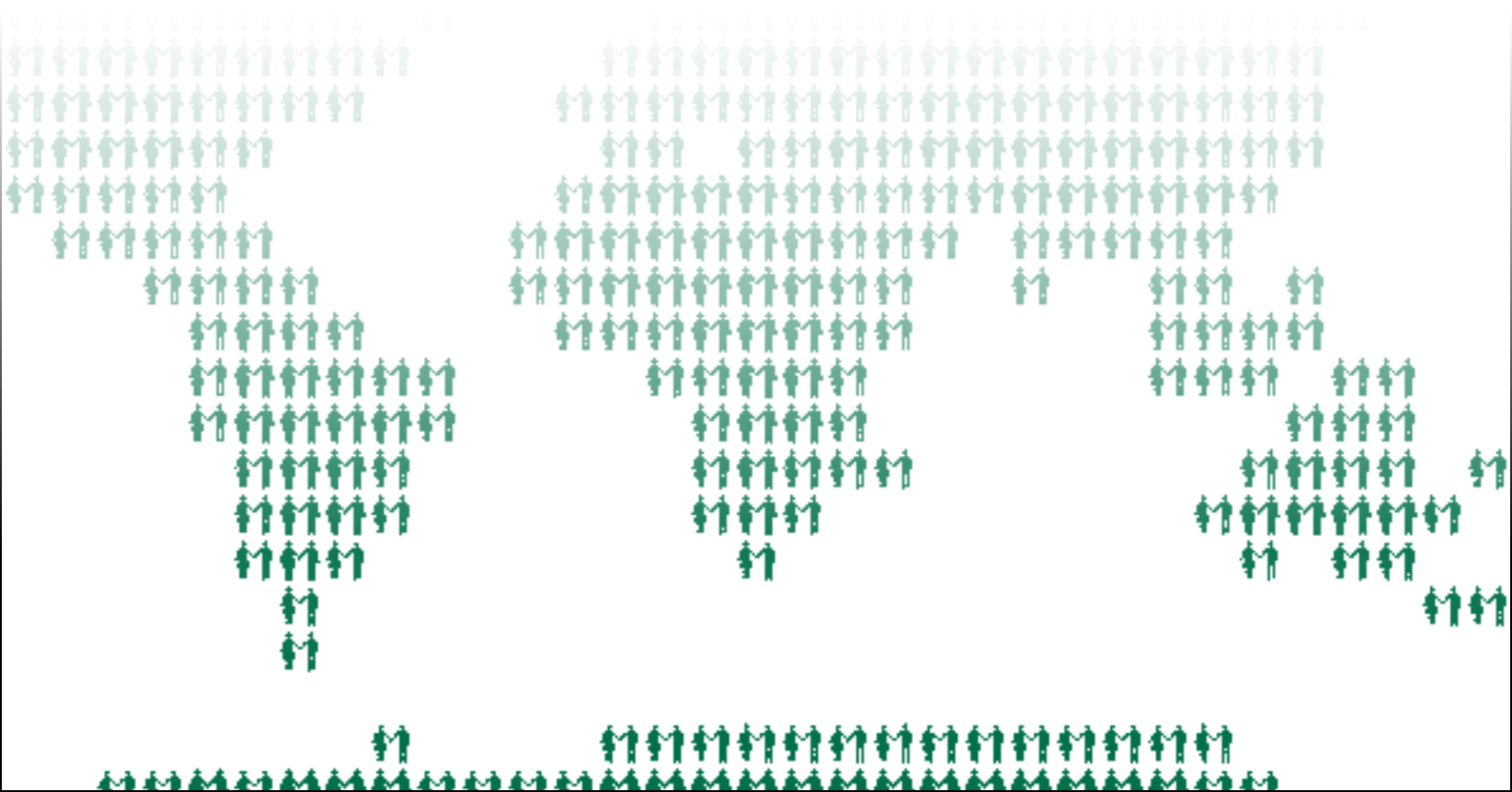
15. [www.scottish-enterprise.com/microsites/co-operative-development-scotland/Business-models/Consortium-cooperatives.aspx](http://www.scottish-enterprise.com/microsites/co-operative-development-scotland/Business-models/Consortium-cooperatives.aspx).
16. [www.nemco.org.uk](http://www.nemco.org.uk).
17. Co-operative Development Scotland (CDS), *The Consortium Co-operative Model: Grow your business through collaboration*; Co-operatives UK, *Trading for Mutual Benefit: A guide to co-operative consortia* (Manchester: Co-operatives UK, n.d.), p. 5.
18. [www.scottish-enterprise.com/Resources/Case-studies/VWXYZ/Yellow-Brick-House.aspx](http://www.scottish-enterprise.com/Resources/Case-studies/VWXYZ/Yellow-Brick-House.aspx).
19. Employee Ownership Association (EOA), 'About Employee Ownership'. [www.employeeownership.co.uk/employee-ownership/about-employee-ownership/](http://www.employeeownership.co.uk/employee-ownership/about-employee-ownership/), accessed 25 April 2012.
20. Employee Ownership Association (EOA), 'About Employee Ownership'.
21. [www.baxipartnership.co.uk/category/news/featured/](http://www.baxipartnership.co.uk/category/news/featured/).
22. Market research, and the subsequent sales and marketing strategy, can be quite detailed tasks so it is useful to follow a prescribed checklist of actions to take. Businesslink has a brief yet thorough checklist for entrepreneurs: [www.businesslink.gov.uk/StartUpHub\\_files/0116\\_Final\\_BusinessPlanning\\_Your\\_marketing\\_and\\_p\\_1.pdf](http://www.businesslink.gov.uk/StartUpHub_files/0116_Final_BusinessPlanning_Your_marketing_and_p_1.pdf). Combine it with the co-operative specific checklist provided in the Practical tools section for maximum benefit.
23. G. Friend and S. Zehle, *Guide to Business Planning* (London: Profile Books, 2004), p. 21.
24. Chapter 2 of *Democratic Enterprise: Ethical business for the 21st century* discusses how a co-operative's business model is influenced by its values and principles and contrasts this with the investor-owned model of enterprise. The text can be accessed at [www.abdn.ac.uk/cets/resources/democratic-enterprise](http://www.abdn.ac.uk/cets/resources/democratic-enterprise).
25. Friend and Zehle, *Guide to Business Planning*, p. 229.

# Legal, governance and finance: putting your house in order

'... everyone needs to realise that they have a share in the business and the business belongs to them. All members pay a stakeholder donation to join which gives the feeling of buying into the business and that you are part of it. All members are equal and know it.'

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Carrie Mancini, Bridges: The Actors' Agency





# 3. Legal, governance and finance: putting your house in order

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## Legal considerations

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The next stage in the entrepreneurial process is selecting an appropriate legal structure for your co-operative. There are a number of options available but first it is useful to clarify what a legal structure is. A legal structure combines an organisation's:

- **Legal form** – what sort of body it is in the eyes of the law; and
- **Governing document** – a statement that details how the co-operative will operate and how it will be governed.<sup>1</sup>

## Factors affecting the choice of legal structure

The legal structure chosen will be critically dependent on the areas outlined in the organisational design section, as well as some of the factors outlined below:

- **Purpose of the co-operative** – for example, you might want to establish a co-operative with the aim of providing sustainable employment for you and the other founders. If so, then you should consider a legal structure that protects this aim (that is, a legal structure that does not permit issuing voting shares to anyone else).
- **Social identity of the founders** – Ridley-Duff and Bull argue that ‘the social identity of the owners (investors, consumers or employees) radically transforms the way the organisation is run, and the way the benefits of ownership and trading are distributed.’<sup>2</sup>
- **Distribution of power** (that is, decision-making rights) in the co-operative – certain legal forms provide protection for member control of the co-operative, others can undermine it;
- **Distribution of surplus** – is it permissible and if so, through what mechanism (for example, based on number of hours worked or salary)?
- **Assets** – who own these (the members or the business) and what happens if the business is dissolved?<sup>3</sup>
- **Capital requirements of the business** – the legal structure must compliment the capital generating ability of the co-operative (for example, if the co-operative requires large amounts of capital to be established and operated, then it may need to raise investment through issuing shares).<sup>4</sup>

# Common legal forms utilised by co-operatives

## Industrial and Provident Society

Registered under the Co-operative and Community Benefit Societies and Credit Unions Act 2010, the Industrial and Provident Society (IPS) legal form has traditionally been adopted by consumer, housing, and credit co-operatives. Registering as an IPS provides co-operatives with a number of characteristics that are compatible with the international statement on co-operative identity, such as:

- one member, one vote;
- return on capital must be limited;
- if surpluses are to be distributed to members, then it must be done on equitable basis;<sup>5</sup> and
- no artificial restrictions on membership.

### *Co-operative example*

The Co-operative Group, the largest consumer co-operative in the UK, is registered as an IPS.

## Private Company Limited by Guarantee (CLG)

Companies limited by guarantee do not have any share capital and members act as guarantors rather than shareholders – therefore they all have one vote. At the time of incorporation, members agree to guarantee a limited amount to creditors (usually £1) in the event of the business being wound up. This legal form is most common amongst charitable and voluntary organisations but has been utilised by co-operatives, particularly worker co-operatives, since it is thought to provide strong protection for the values and principles of the business.

### *Co-operative example*

The Very People, a marketing co-operative based in Glasgow, Scotland, adopted the limited by guarantee model after advice and consultation from Co-operative Development Scotland (CDS). The six members do not hold any shares in the business and operate a one member/one vote governance system.

## Private Company Limited by Shares (CLS)

Private companies limited by shares are prohibited from offering their shares to the general public but still retain the ability to raise capital from external sources through offering shares (for example, from friends and family). A co-operative can have one class of shares for members and another (non-voting) class for non-members. The liability associated with these shares only relates to the value of the capital originally invested (including any unpaid amount on the shares) in the event of the company winding up.

### *Co-operative example*

Equal Exchange Trading, a worker co-operative based in Edinburgh, involves investors through a non-voting share scheme.<sup>6</sup>

The legal forms covered in this chapter do not represent an exhaustive list of the options available to co-operative entrepreneurs. For example, some worker co-operatives have adopted the Limited Liability Partnership (LLP) legal form, while others have chosen to register as Community Interest Companies (CIC).<sup>7</sup> Readers interested in these – and other – legal forms are encouraged to consult Co-operatives UK's *Simply Legal*.

Table 2 Summary of the key features of different legal forms

Legal Form	Does its members have limited liability?	What is its governing document called?	Can it issue shares?	Can it pay a return on shareholdings?	Does it have to register with a regulatory body?	Is it suitable for charitable status?	Does it have an asset lock?*
Industrial & Provident Society	Yes	Rules	Yes	Yes	Financial Services Authority (FSA)	No	No
Company Limited by Guarantee	Yes	Articles	No	No	Companies House	Yes	No (unless a charity)
Company Limited by Shares	Yes	Articles	Yes	Yes	Companies House	No	No (unless a charity)

Source: Adapted from Co-operatives UK, *Simply Legal (Manchester: Co-operatives UK, 2009)*, p. 27.

\* While asset locks are not included as part of the technical definition of these legal forms, there are ways of creating one if members wish. A clause can be entered in the rules or articles of association that defines the assets as commonly owned, thereby ensuring that members have no incentive to dissolve the business to access the value of these assets (an asset lock by proxy).

# Financial planning

Selecting the correct mix of finance will allow your co-operative to commence operations on a sustainable platform, prevent over-dependence on one source, and minimise the cost of capital to the business. Make sure you consider the following important factors before choosing sources of finance:

- **The legal structure of the business** – for example, it is not legally feasible to issue any shares if you are a Company Limited by Guarantee;
- **The requirements and provisos of the source of finance** – for instance, co-operative/community enterprise development bodies might be reluctant to supply grants to a business that distributes the majority of its surplus rather than reinvesting it;
- **The amount of capital needed for starting up and maintaining operations (working capital)** – if only a small amount of capital is needed initially, then it may be more beneficial to raise a loan from friends and/or family members; if a larger amount is needed, then a loan from a commercial source or the issuing of non-voting shares may be the right option.

Table 3 Sources of finance

Source	Type of Finance
Members	Equity Loans 'Sweat equity' <sup>8</sup>
Commercial lenders	Loans Overdraft facilities
Enterprise development bodies	Grants Interest-free or low interest loans Specialist co-operative funds
Investors (local businesses; family and friends; community)	Non-voting ordinary shares Preference shares

## A note on shares

A co-operative, depending on its legal structure, can issue one or more classes of shares:

- *Withdrawable shares* – associated with the Co-operative and Community Benefit Societies legal form, withdrawable shares, as the name suggests, can usually be withdrawn by a member when they leave the co-operative. These shares remain at par value throughout their existence unless they are no longer covered by the value of the assets, in which case their value may be reduced accordingly. Steps must be taken by the co-operative to ensure that it is able to cope with the loss of capital following the withdrawal of shares.



- *Transferable shares* – more common in employee-owned companies, transferable shares can be sold to new members or external investors. The value at which the shares can be bought and sold is usually linked to the increase/decrease in the value of the business.
- *Preference shares* – are similar to some forms of debt as they offer investors a fixed return on their investment (similar to a loan). Preference shares do not usually carry any voting rights and are given preference over other claims on the surplus generated by the co-op except debt. They can be a useful vehicle for increasing investment in co-operatives as they offer investors a return on their capital while protecting the governance rights of members (similar to non-voting ordinary shares).<sup>9</sup>

The risk, reward, and cost of each class of share needs to be analysed before deciding which type (if any) to issue. The purpose of a co-operative is to provide defined benefits to its members and this should be kept in mind when deciding which class(es) of shares to issue in your co-operative. Ordinary shares (that is, transferable ones), of the type commonly found in investor-owned enterprises, are usually not good vehicles of investment for co-operatives. This is because there is the potential to erode the member-controlled aspect of the business (as ordinary shares carry voting rights), as well as the risk that the interests of capital will supersede the interests of members. The payment of interest on shares is also restricted (or prohibited) in certain co-operatives, depending on the legal structure. Again, this is to prevent the co-operative being run in the interest of capital and is enshrined in the international principles (number three). Finally, consider the distribution of power and surplus in the co-operative before selecting one or more classes of shares.<sup>10</sup>

## Governance

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An effective and flexible governance system is central to the sustainable operation of your co-operative. It affects how the people within the business make decisions, distribute power and remain accountable to members. On a basic level, co-operatives are governed on the principle of one member/one vote (that is, democratically). In practice, co-operative governance can take many forms. Founders should consider, not just how decisions are made, but how they are passed: for example, a simple majority vote might be needed, or possibly a large majority (over 75 per cent), or even a system whereby every member needs to agree before a decision can be passed. Other things to consider include the minimum number of members needed to pass a decision (the quorum), as well as what decisions require the input of every member. The manner in which your co-operative is to be governed is documented and formalised in the governing document.

## Governing document

Typically, a governing document will contain the following sections:

- the purpose and objectives of the co-operative;
- membership – who the members are, how to become (or cease to be) one, and the relationship between them in relation to decision-making;
- governance – the role of the decision-making body (how it is appointed, when it meets, and its powers);
- surplus – what use is made of the co-operative's surplus (distributed to members and/or retained in the business);
- assets – what happens in the event of dissolution.<sup>11</sup>

## Co-op interview – Bridges: The Actors' Agency

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This interview is with Carrie Mancini, one of the founder members of the co-operative.

Bridges offers a unique experience for both clients and casting professionals. The company's co-operative business model, whereby the agency is managed and run day-to-day by the very actors it is providing to the industry, allows for a high level of service with a very in-depth knowledge of each client. Bridges is able to build strong professional relationships with casting directors and give proactive clients the opportunity to take control of their careers.

### What circumstances led to you setting up Bridges: The Actors' Agency?

CM: The idea of setting up a co-operative was first discussed in 2006 by a group of eight professional actors who wanted to pool their skills and resources and help each other obtain work in the arts.

### Had you any experience or knowledge of co-operatives at that point?

CM: No. The founders were unaware of the merits of setting up a co-operative, but decided to explore an arrangement where they might collaborate and share resources.

### Why did you choose a co-operative consortium model rather than a traditional private limited company or a partnership?

CM: A Co-operative Development Scotland (CDS) adviser helped register Bridges: The Actors' Agency at Companies House as a private company limited by guarantee. The co-operative is a non profit-distributing organisation. All the members were in agreement that they wanted to work as a co-op where all members are equal.

### What support did you receive during your early years?

CM: The original members approached CDS, who assigned a free business adviser. He helped the members set up a consortium co-op, which would allow the members to work together while retaining their individual identities and independence. Without the adviser's help in registering the business, choosing a co-operative model and filling in numerous lengthy forms, we would have felt overwhelmed.

The CDS adviser helped Bridges: The Actors' Agency draw up a Members' Agreement. This sets out the aims of the co-operative and how the members work together, for example:

- All members enjoy equal status;
- Decisions are made by majority vote;
- Termination of contract – notice and arrangements for contract termination;
- A Grievance Officer has been appointed to settle any disputes involving co-op matters between members.

## Could you give a brief explanation of the organisation's governance model?

CM: All our members are attached to satellite groups with targets to reach throughout the year and we have regular Action Plan meetings to discuss what needs done and the time scale for these objectives. So everyone is involved with the running of the co-op. The bank insists we have office bearers for forms and Companies House like us to have them for all official documents. So we have Secretary, Treasurer, Book keeper and Grievance Officer.

## How important are the co-operative values and principles to the business?

CM: Very important. These principles are why we are all members and why so many actors ask us for representation over a traditional agent. They are really what hold us all together.

## What is your attitude to growth being a co-operative?

CM: We are always on the lookout for new members and have regular enquiries from actors seeking representation. As a group it has been decided to have a top limit of twenty members as we think this is a manageable amount. At the moment there are fourteen of us and we hold auditions twice a year for new members. We have a satellite group who look through all the submissions and present the actors they think we should see as a group.

## What are the key things you need to get right to run a successful co-operative consortium?

CM: Everyone needs to be singing off the same hymn sheet. Just talking about Bridges, everyone needs to realise they have a share in the business and the business belongs to them. All members pay a stakeholder donation to join which gives the feeling of buying into the business and that you are part of it. All members are equal and know it.

## Advice for budding co-operative entrepreneurs

CM: Bridges found it hard to get a bank to understand that we are a non profit-distributing organisation, not a charity and each member has equal status. We bank with the Co-operative Bank as they were willing to deal with us and understood our needs. All founder members of Bridges made a stakeholder donation into a business bank account when we initially started up; this funded office rent, legal fees and telephone line/internet. Initially most of our equipment was either donated or borrowed. Each new member buys into the business with the same stakeholder donation to keep everything equal. Running costs are funded by the commission members pay to the business from acting work. This is set at 10 per cent for theatre and role play, and 12 per cent for all electronic work like TV or radio.

## Practical tools

On the VLE:

Frequently referenced in this chapter, Co-operatives UK's *Simply* series of finance, governance, and legal guides is an invaluable resource for anybody considering setting up a co-operative.

For those wishing to learn more about governance theories and their impact on co-operatives, there is a document entitled 'Governance theories and their impact on co-op governance' which should prove useful.

The 5 C's of Credit is a useful checklist of criteria that most lenders apply when assessing candidates for a loan.

*From Conflict to Co-operation* is an excellent suite of guides to managing the (inevitable) disputes that arise through governing a co-operative.

On a similar note, there are a variety of challenges inherent in governing co-operatives effectively; refer to 'Co-operative governance challenges' for some advice.

To address the particular challenges which governing a worker co-operative presents, Co-operatives UK produced a worker co-operative code of governance.

Links:

The Ontario Co-operative Association produced an interesting and detailed series of videos exploring co-operative governance: <http://s.coop/jynu>

For an explanation of business grants, see <http://s.coop/e6ux>

## Endnotes

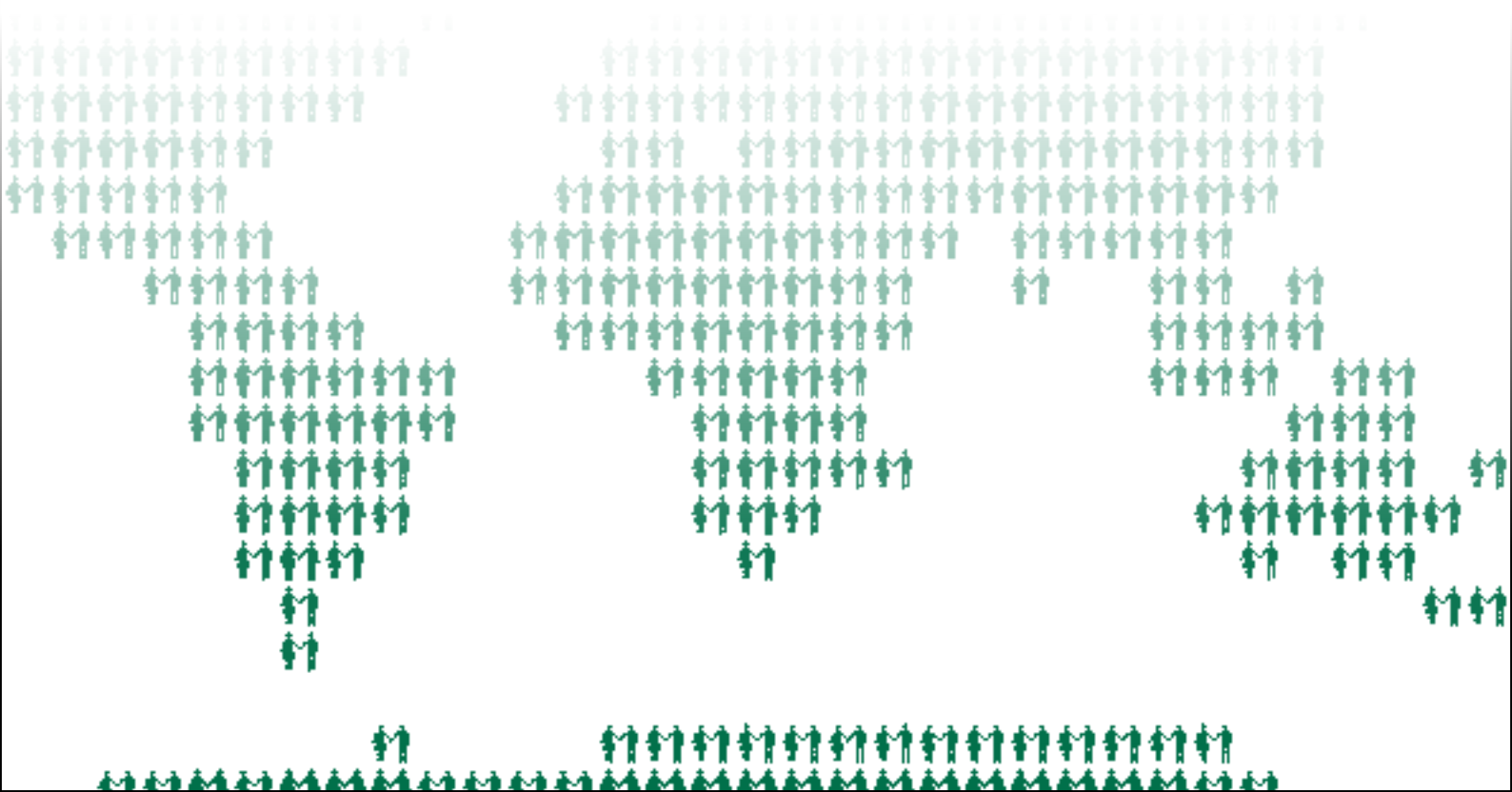
1. Co-operatives UK, *Simply Legal* (Manchester: Co-operatives UK, 2009), p. 8.
2. R. Ridley-Duff and M. Bull, *Understanding Social Enterprise: Theory & Practice* (London: Sage, 2011), p. 138.
3. Refer to the earlier discussion about common and joint ownership. A fuller discussion of these concepts is contained in R. Ridley-Duff, 'New Frontiers in Democratic Self-Management' in D. McDonnell and E. Macknight (eds), *The Co-operative Model in Practice: International perspectives* (Glasgow: Co-operative Education Trust Scotland, 2012).
4. Co-operatives – depending on their legal structure – are able to offer non-voting ordinary shares or preference shares in order to raise long-term finance; this approach is discussed in more detail in the Financial planning section.
5. Examples include distributing surplus based on the amount of trade a member conducted with the co-operative (consumer co-operative) or the amount of hours worked by a member (worker co-operative).
6. [www.equalexchange.co.uk/about/index.asp](http://www.equalexchange.co.uk/about/index.asp).
7. Turo Technology, trading as software.coop, is an example of a worker co-operative registered as an LLP. Co-operatives UK has a detailed case study of the company's legal and organisational structure: <http://s.coop/pvg7>.
8. 'Sweat equity' is a term for any unpaid work members contribute to the co-operative, usually during the start-up phase. It can be a powerful 'source of finance' in that it can save the business considerable money at a time when it is likely to have capital constraints. Sweat equity is dependent on a high level of trust and commitment on behalf of the members and, while highly valuable in certain situations, is not a sustainable 'source of finance'.
9. Co-operatives UK, *Simply Finance* (Manchester: Co-operatives UK, 2011), p. 44-5.
10. This topic deserves a more thorough analysis than can be provided in this chapter; readers are encouraged to consult legal advisors knowledgeable about the co-operative model before creating classes of shares in their organisation.
11. Co-operatives UK, *Simply Governance* (Manchester: Co-operatives UK, 2011), p. 21.

# Managing and leading: co-operative skills for learning, life and work

‘We have succeeded in bringing 100 per cent of new employees into membership and see this as an important goal.’

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Sion Whellan, Calverts





## 4. Managing and leading: co-operative skills for learning, life and work

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At this stage of the co-operative entrepreneurial process, you will have established the business and will be focused on meeting the day-to-day needs of the organisation. This should not deter you from examining a number of crucial, strategic issues that become relevant at this point in your organisation's lifecycle.

### Leadership, management and participation

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Effective leadership in a co-operative will ensure that the business remains true to its purpose and directs its resources in an efficient way to achieve its objectives (thereby providing benefits to members). Some of the core responsibilities of the leaders (that is, the board of directors) of a co-operative are outlined below:

- Ensure the co-operative remains true to its purpose and achieves its objectives;
- Provide strategic direction for the co-operative;
- Hold management to account on behalf of the members;
- Formulate policies that are acceptable to members;
- Evaluate the performance of the co-operative.<sup>1</sup>

Elected leaders are not the only component in the successful governance of the co-operative; the managers and members have a vital role to play alongside the leadership. The success of the co-operative in the long term is dependent on the effective relationship between the members, management, and leadership. To ensure that all three groups function interdependently, they need to adhere to the following principles:

- each group needs to understand its roles and responsibilities;
- there needs to be effective communication between all three groups;
- each group needs to engage regularly in the governance system of the co-operative.<sup>2</sup>

The importance of member participation in the management and leadership of the co-operative cannot be overstated. An engaged, active membership will support the formation of objectives, thereby reinforcing the purpose of the business. Be sure to put in place a system of governance that allows members to participate in the co-operative outside of their inherent right to control the organisation democratically.

If you notice that your members, managers or leaders lack the skills to participate in the governance of the co-operative then ensure there is a programme of education and training to address this.

# Education and training

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Enshrined in the co-operative values and principles, education and training has been a central tenet of the co-operative movement since its inception in Britain over two hundred years ago. It could be argued that education and training is not specific to co-operatives and is an important feature of any successful organisation. It does carry greater significance for co-operatives, however, especially in the following three areas:

**Member education** – a co-operative is only as strong as its members. What this means is that members must be provided with the requisite knowledge, skills and confidence to participate in the governance of the co-operative. For example, if you are a small worker co-operative, the success of your organisation will hinge on the ability of the worker-members to govern and manage themselves successfully. Therefore it is sensible to commit adequate resources to member education in your co-operative.

**Management education** – as Parnell notes, ‘Our education system does not provide sufficient coverage of co-ops & mutuals and generally nothing is taught about the member-controlled enterprise model. The result is that most managers are ill-prepared to manage such enterprises. They often not only lack the necessary knowledge but they are also culturally unprepared and inhibited by their profit-orientated vocabulary.’<sup>3</sup> The contributions of managers who are competent, knowledgeable, and have the skills to perform their role are important. Equally so is their ability to direct the operations of the business in pursuit of member-benefit, rather than for profit maximisation.

**Public education** – it is important for any business to communicate its purpose, operations and contribution to society effectively. Indeed it can be argued that this task is even more important for co-operatives as they rely heavily on the ability to engage and entice potential members to sustain their operations. There are a variety of strategies that co-operatives can implement to communicate effectively with the public: using ‘jargon-free’ language explaining clearly the characteristics of the co-operative; providing a forum for members of the public to engage with the co-operative; or supporting a social initiative in the local community. These actions help to build what is known as ‘social capital’ in the community and by extension, creates public trust in the co-operative.<sup>4</sup>

# Measuring success

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Co-operatives are businesses run for the benefit of members. This means that co-operatives must be successful not *just* as businesses but also in terms of their co-operative nature.<sup>5</sup> We can define this co-operative nature in terms of *purpose, values and principles, and membership*. To that end, there are a variety of approaches that can be used to measure the success of a co-operative.

One approach (designed for worker co-operatives) combines economic and democratic aims, as well as drawing on elements of the values and principles, to create four metrics by which success can be measured:

- economic success;
- democratic aims;
- worker development (for example, pay, conditions and skills development);
- political/social objectives.<sup>6</sup>



A similar approach provides a framework for a co-operative to measure its success based on two overarching criteria:

1. **Performance-related (direct)** – known as objectively ascertainable goals; these include cardinal measures such as profit, sales, and productivity, and non-cardinal measures such as organisational sustainability, competitiveness and flexibility.
2. **Person-related (indirect)** – known as subjectively ascertainable goals as defined by members; these include member satisfaction, democratic participation levels, and members' use of the co-operative.<sup>7</sup>

It is vital to understand that a co-operative's success will be dependent on its ability to balance economic performance with democratic aims. Be aware that it is not always possible to keep these needs in equilibrium and the needs of one will supersede the needs of the other during certain times in the co-operative's existence. When economic performance does not supersede democratic aims *all* of the time, and vice versa, the co-operative can measure its success appropriately.<sup>8</sup>

## Growth

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Growth, in its broadest meaning, is central to the sustainability of organisations of all types. Whether it is through quantitative measures (profitability, turnover, new customers, increased assets) or qualitative (education and training programs, improved working conditions), organisations must aspire to and plan for growth. Co-operatives do not aspire to conventional forms of growth (profitability, increase in share price), however. First, co-operatives take a much longer-term view of operations, as their focus is on meeting member needs rather than maximising value for shareholders (which is an inherently short-term practice); growth needs to be sustainable and organic, not unstable and manufactured (for example through debt). Second, the measures through which co-operatives assess growth are different. For example, a worker co-operative might decide to increase the wages of its members; this results in the co-operative producing less surplus but it has still been successful by growing the benefits of its members. Thus, conventional measures are often not appropriate. The salient point is that growth (and by extension success) in a co-operative must be measured in relation to the original purpose of the organisation. It is against this criterion that all measures of growth and success should be analysed.

The following aspects are critical for co-operative growth:

**Strategy** – it is important to review the strategy you developed in the business plan. Strategies are fluid, not fixed. Plans and provisions need to be in place to incorporate responses to unforeseen events to avoid overly disrupting the strategy. For example, projected revenue levels might not be achievable and may need to be revised, or changes in the regulatory environment might necessitate a review of the current strategy. Every strategic review requires the input of members; remember that your co-operative is purpose-driven and member-focused, and these characteristics should be central to strategy development.

**Capital** – almost all types of growth which an organisation can strive to initiate (such as increasing sales, creating jobs, purchasing new assets, or funding training) require capital. The most accessible and cost-effective means that co-operatives have to finance growth is retained earnings. Distribution of surplus to members is an important aspect of a co-operative's attractiveness to potential members, but there must be recognition of the importance of using retained earnings to support the business. Retained earnings are commonly-owned and therefore not subject to distribution. They can help to overcome the difficulties co-operatives experience in raising finance from external sources, especially from investors.

**Membership recruitment plan** – the growth of a co-operative’s member base (in the context of worker-owned businesses, the creation of jobs), provided it is done in a sustainable and organic manner, should be an important goal for your co-operative. There have been cases where the original members of a co-operative have grown the business, sometimes beyond all recognition, without taking on new members; in these instances, the co-operative has increased its customer base or workforce rather than offer membership to these stakeholders.

## Networks

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The process of co-operation does not end when you have created your co-operative. Just as the members of your business must co-operate to ensure the sustained success of the enterprise, the co-operative must also co-operate with other organisations to optimise its resources and achieve objectives that lie beyond its individual reach. The importance of this idea is reflected in the sixth international principle ‘co-operation amongst co-operatives’.

The major benefit to continued co-operation with other organisations is the added strength your co-operative will derive from being part of a network. Consider how you could form a network in your industry (just like The Very People who we met in chapter 2), with local community organisations (for example, Merchant City Tourism Co-operative), or join a national network that can represent your interests at a higher level (for example, Co-operatives UK).<sup>9</sup> Each network will help your co-operative achieve something that it could not envisage on its own.<sup>10</sup>

The consortium model is important in the network context as it is often the best model for achieving mutual aims and achieving the scale to do so. Many consortium co-operatives are formed to provide services in three areas:

- Achieve wider social and economic aims (for example, an educational program for new members of a community project, or development of a sector by businesses acting collectively).
- Increase purchasing/selling power; and
- Increased marketing/selling power – by a shared brand or joint tendering.

## Co-op interview – Calverts

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This interview is with Sion Whellens, one of the longest serving members of the co-operative. The full interview can be found on the VLE.

Calverts is a communications design and printing company, based in Bethnal Green, London. Founded in 1977, it is a worker co-operative with fourteen members. The firm's assets are owned in common by the workforce and every member of that workforce are paid equally. All members participate in strategic management, and profits are reinvested in the co-operative or used for community aims. Calverts specialises in branding, publications and sustainable print. It produces high quality literature for corporate, community, government and arts organisations such as the British Museum, Tate, Arup, 3i, and the Royal College of Arts.

### What is your attitude to growth being a co-operative?

**SW:** In general we have sought (and achieved) qualitative rather than quantitative growth, that is, going up the value chain in our markets, heavy investment in technology, development of new skills and services. We have succeeded in bringing 100 per cent of new employees into membership and see this as an important goal.

### What is the greatest benefit or competitive advantage you derive from being a co-operative?

**SW:** In order of importance:

Low management overhead costs; very high rates of staff and skill retention and development rate in line with our industry; a high degree of workforce flexibility; a market profile as a sustainable, transparent and ethical business; cultural Unique Selling Point (USP) as a co-operative.

### What is the biggest constraint to your business by being a co-operative?

**SW:** Lack of familiarity with our legal model among financial, legal and commercial partners. No other real constraints.

### What are the key things you need to get right to run a successful worker co-operative?

**SW:** Good, formal governance; investment in new member training and continuing personal development; reinforcement of co-operative ethics and a culture of respect at work; good links with the wider movement.

## Practical tools

For advice on measuring the economic success of a business see:

- Measuring performance – <http://s.coop/7wfo>
- Assess your performance – <http://s.coop/7wfp>

For those looking for some techniques and tools to measure the success of a co-operative in terms of its co-operative nature (democratic aims), Co-operatives UK's CESPI and Canada's Co-opIndex will be of use; there are two documents containing more detail on these approaches on the VLE.

Communicating your co-operative's purpose and offering (its co-operative advantage) will be vital to the sustainability of the enterprise. Tom Webb's excellent *Marketing our Co-operative Difference* outlines the steps needed to create and sustain a co-operative advantage, as well as successfully communicating it to members, policy makers, and the wider public; it can be accessed on the VLE.

Co-operative expert Edgar Parnell has created a website for the dissemination of his lifetime's worth of co-operative knowledge, particularly in the areas of leadership and management: <http://s.coop/kdq5>

## Endnotes

1. M. A. Abrahamsen, *Co-operative Business Enterprise* (New York: McGraw-Hill, 1976), p. 264.
2. Ontario Co-operative Association, 'Co-operative Board & Governance Part 1'. [www.youtube.com/watch?v=1RUb463Up0w](http://www.youtube.com/watch?v=1RUb463Up0w), accessed 16 April 2012.
3. E. Parnell, 'An Education Problem – Management Development'. [www.co-oppundit.org/management.html](http://www.co-oppundit.org/management.html), accessed 04 May 2012.
4. A good example of a co-operative engaging with the local community is the Co-operative Group's Green Schools Revolution, which provides resources and other initiatives to help pupils improve the 'green credentials' of their school; [www.co-operative.coop/green-schools-revolution/about-green-schools](http://www.co-operative.coop/green-schools-revolution/about-green-schools).
5. C. Borzaga, S. Depedri, and E. Tortia, 'Organisational Variety in Market Economies and the Role of Co-operative and Social Enterprises: A Plea for Economic Pluralism' *Journal of Co-operative Studies* 44 (2011): 19-30.
6. M. Mellor, J. Hannah, and J. Stirling, *Worker Co-operatives in Theory and Practice* (Milton Keynes: Open University Press, 1988), p. 105.
7. E. B. Blumbe. 'Methods of Measuring Success and Effect in a Co-operative' in Dulfer, E. and W. Hamm (eds). *Co-operatives: In the Clash Between Member Participation, Organisational Development and Bureaucratic Tendencies*. London: Quiller Press, 1985. The full framework is provided in a document on the VLE.
8. J. Kleer, 'The Co-operative System – Between Participation and Growth' in E. Dulfer and W. Hamm (eds), *Co-operatives: In the Clash Between Member Participation, Organisational Development and Bureaucratic Tendencies* (London: Quiller Press, 1985), pp. 372–3.
9. Merchant City Tourism & Marketing Co-operative Ltd is a consortium co-operative of local businesses in the Merchant City area of Glasgow city centre. It was formed as a means of increasing the number of visitors to Merchant City, which by extension benefits all of the businesses found there. It is a great example of how small-and-medium enterprises (SMEs) can achieve more together than they could apart: [www.merchantcityglasgow.com/aboutus](http://www.merchantcityglasgow.com/aboutus).
10. The Co-operative Group was originally a consortium of independent co-operative societies (the Co-operative Wholesale Society) who joined together to purchase goods in bulk.

# The road ahead

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This guide has sought to provide advice, tools, and techniques for exploring the process of establishing a co-operative or employee-owned enterprise. While many guides exist, none have previously focussed on the relevance of the model to young people who are struggling to find employment or to secure vital services in their community.

Co-operatives can help you to achieve solutions for growth through collective action. Their ethical underpinning ensures that people are at the core of the organisation and attention must be directed toward ensuring each member is treated fairly. Their sustainable business model and practices provide hope in a time of economic recession. Co-operatives have always strived to be innovative, correcting market failures and creating benefits for members.

If by this point you and some potential business partners have committed to the idea of starting a co-operative of some kind, you will be wondering where to go for specialist help. Thankfully, there are a variety of consultancy services available, some of which are free, from organisations based in the UK and other countries. Your first port of call, if you are in Scotland, should be *Co-operative Development Scotland (CDS)*, a subsidiary of Scottish Enterprise, which focuses on developing and growing the co-operative sector, especially employee-owned and consortium co-operatives. CDS has a wide range of contacts that can provide specialist advice relating to your co-operative; details can be found on the VLE. There are two other organisations with a presence in Scotland that could provide any additional advice:

- *Baxi Partnership* is a consultancy specialising in the establishment of employee-owned businesses, in particular those which are created through an employee buyout.
- *The Co-operative Enterprise Hub* is the enterprise development body of the Co-operative Group and can provide up to four days of free consultancy, assisting in the development of business plans and other stages of the entrepreneurial process.

Readers in the UK are encouraged to seek as much support as possible from these three organisations; similar co-operative development bodies exist in other countries (the VLE has further details). Co-operating with other people and organisations will go a long way to ensuring you have a more sustainable and prosperous future.

# Glossary

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**Articles of Association:** a set of rules that define the structure of a UK company and must be registered with Companies House for a business to be incorporated.

**Assets:** a financial term for the economic resources a business possesses. Assets can be tangible or intangible but they must produce value for the firm.

**Bylaw:** a standing rule, not included in the articles of association, which specifies operational practice and policy of the co-operative.

**Capital:** an economic term for a resource that is used to produce goods and services. From a financial perspective, capital refers to the money required by a business to finance its operations.

**Capitalism:** an economic system where the means of production are privately owned and operated for profit.

**Common ownership:** a principle that ensures that the assets of an organisation are held indivisibly, that is, cannot be distributed amongst individual owners.

**Common shares:** are forms of corporate equity ownership. Individuals who purchase common shares in an organisation are granted the right to participate in governance and profit in proportion to the amount of shares they own.

**Community Interest Company (CIC):** a new company form intended as a brand for social enterprise in the UK. It can be registered as a company limited by guarantee (CLG) or company limited by shares (CLS), has limited profit distribution and an asset lock.

**Competitive advantage:** a strategic benefit one organisation has over its competitors. Competitive advantages are created by providing more value to your customers than your competitors can.

**Consumer co-operative:** a co-operative whose membership is made up of those who purchase the goods/services of the business.

**Conventional business/company:** see investor-owned business.

**Co-operative advantage:** the strategic benefit co-operatives have over other forms of enterprise; a co-operative advantage is derived from the unique ownership and governance structure of the business.

**Co-operative Development Scotland (CDS):** is a subsidiary of Scottish Enterprise, CDS provides support and development services to the co-operative sector in Scotland.

**Co-operatives UK:** is the UK-wide trade body that campaigns for co-operation and works to promote, develop and unite co-operative enterprises.

**Corporate governance:** a system for directing, controlling and administering companies.

**Credit union:** a type of non profit-distributing organisation, consumer co-operative that provides savings, credit and other financial services to its members.

**Democracy:** a system of government where citizens are able to participate in the voting process on an equal basis.

**Direct democracy:** a form of democracy where people collectively make decisions for themselves, rather than through elected representatives.

**Director:** an elected or appointed member of the governing body (board of directors) of an organisation.

**Dividend:** a payment made by a business to its shareholders. Payments are usually based on the amount of shares an investor owns. In co-operative terms, dividend refers to the share of surplus a member receives from the co-operative (see Patronage refund).

**Employee-owned businesses:** organisations that are partially or entirely owned by their employees.

**Equity:** another term for the shares or stock in a company. It can also refer to the concept of fairness.

**Ethics:** a branch of philosophy that examines the morality of decisions. It has been applied to business in the past few of years to create the field of professional ethics.

**Fair trade:** a social movement that campaigns for the equitable remuneration of producers in developing countries. Under Fairtrade certification, producers are guaranteed a premium price for their produce.

**Federation:** a union of autonomous organisations that associate together for a common purpose. Examples of co-operative federations include Co-operatives UK and the International Co-operative Alliance.

**Hybrid co-operative:** a co-operative whose membership consists of more than one type of member for example a co-operative whose members are drawn from consumers and workers. It may also be referred to as a multi-stakeholder co-operative.

**International Co-operative Alliance (ICA):** an independent, non-governmental association which unites, represents and serves co-operatives worldwide. Founded in 1895, ICA has 269 member organisations from 97 countries active in all sectors of the economy.

**Industrial and Provident Society:** an organisation that is registered under the Co-operative and Community Benefit Societies and Credit Unions Act 2010. Co-operatives have traditionally registered as Industrial and Provident Societies.

**Investor-owned business:** an organisation where ownership, control and beneficiary rights are granted to those who invest capital in the business.

**Member:** a person that belongs to a group or organisation. Co-operative members jointly own and democratically control the enterprise.

**Mondragón Corporation (MC):** a network of primarily worker co-operatives in the Basque region of Northern Spain. See chapter 6 for more details.

**Patronage refund:** the entitlement a member has to the surplus generated by the co-operative; a member's share of the surplus is based on the amount of trade they conducted with the co-operative in a year. It is more commonly referred to as 'dividend' in the UK.

**Preference shares:** are special types of share that usually carry no voting rights but have priority over ordinary shares when it comes to the distribution of dividends (or assets in the case of dissolution).

**Price/earnings ratio:** a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share.

**Primary co-operative:** a co-operative that serves its members directly. An example of a primary co-operative would be a local co-operative that sells groceries directly to its members.

**Producer co-operative:** a co-operative whose membership is made up of those who sell their goods/ services to the business.

**Profit/surplus:** the amount of revenue left over after all costs, depreciation and taxes have been taken into account. In co-operatives, the profit generated by the business is known as the surplus.

**Proportionality:** the practice of measuring and distributing effort/reward based on the ratio of one element to another. Co-operatives distribute surpluses based on the amount of input a member contributed to the business.

**Representative democracy:** a form of democracy where decisions are made on behalf of people by elected representatives.

**Rochdale Pioneers:** a consumer society established in the town of Rochdale, England in 1844. They are widely cited as the first example of a co-operative enterprise as we know it today (with values and principles).

**Rules:** the equivalent term in an Industrial & Provident Society co-operative for the Articles of Association of a company.

**Scotmid:** the largest independent consumer co-operative in Scotland.

**Secondary co-operative:** a co-operative whose membership consists of other co-operatives. The Co-operative Group was originally set up purely as a secondary co-operative (the Co-operative Wholesale Society) to service the buying needs of its consumer society members.

**Social enterprise:** a form of organisation whose primary purpose in trading is to achieve social objectives rather than maximise profits.

**Society:** a term for an organisation that is established under the Industrial and Provident Societies or Friendly Societies Acts in the UK

**The Co-operative Group:** the largest consumer co-operative in the world with over six million members, focusing primarily on retail and financial services in the UK.

**The Fenwick Weavers:** the earliest co-operative enterprise in the world for which there are full records, the Fenwick Weavers' Society in Ayrshire, Scotland, was established in 1761 and began co-operative trading in foodstuffs in 1769.

**Trustee:** a trustee is a person, whose role is defined in law, who manages an asset (which is held in a trust) on behalf of a defined beneficiary.

**Unallocated patronage:** the amount of surplus generated by member trade that is retained by a co-operative for business purposes. The members have no claim to this portion of the surplus.

**Unincorporated:** refers to an organisation that has not registered its Rules or Articles of Association with the relevant legal body. Individuals in an unincorporated organisation remain personally liable for any losses/debt.

**Worker co-operative:** a co-operative whose membership consists of those who work in the business.



# Key web resources

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Baxi Partnership

[www.baxipartnership.co.uk](http://www.baxipartnership.co.uk)

Business Gateway

[www.yourbusinessgateway.co.uk](http://www.yourbusinessgateway.co.uk)

Co-operative Development Scotland

[www.cdscotland.co.uk](http://www.cdscotland.co.uk)

Co-operative News

[www.thenews.coop](http://www.thenews.coop)

Co-operatives UK

[www.uk.coop](http://www.uk.coop)

Co-operative Education Trust Scotland

[www.cets.coop](http://www.cets.coop)

Employee Ownership Association

[www.employeeownership.co.uk](http://www.employeeownership.co.uk)

European Federation of Employee Share Ownership

[www.efesonline.org](http://www.efesonline.org)

International Co-operative Alliance

[www.ica.coop](http://www.ica.coop)

Ontario Co-operative Association

[www.ontario.coop](http://www.ontario.coop)

Scottish Institute for Enterprise

[www.sie.ac.uk](http://www.sie.ac.uk)

Scottish Agricultural Organisation Society

[www.saos.co.uk](http://www.saos.co.uk)

The Co-operative Enterprise Hub

[www.co-operative.coop/enterprisehub](http://www.co-operative.coop/enterprisehub)

Young Enterprise

[www.young-enterprise.org.uk/programmes/higher\\_education](http://www.young-enterprise.org.uk/programmes/higher_education)

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development  
scotland

**SCOTMID**  
co-operative

The **co-operative**  
membership

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**Co-operative Entrepreneurship** provides an informative practical guide to the nature and process of establishing a co-operative enterprise. Drawing on best practice and international guidelines, this text is suitable for students engaged in new venture creation projects, as well as graduates looking to develop their commercial idea.

Each chapter contains an interview with a person who has collaborated with others to set up a co-operative business. Their success stories, while less well known to the general public than those of capitalist entrepreneurs, show that it is possible to combine profitability with democracy, efficiency with ethics. These real-life accounts, coupled with clear explanations of entrepreneurial processes, make essential reading for young people looking for inspiration and an alternative way of generating employment.