

## What is a Cooperative?

A cooperative is a business owned and democratically controlled by those who use its products, supplies, or services. Cooperatives are formed to meet members' specific objectives and are structured to adapt to members' changing needs.

***“A cooperative is an autonomous association of persons united to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.” – International Cooperative Alliance***

The primary objective of a cooperative is to serve its members rather than maximizing profits for external shareholders. Cooperatives are owned and operated by a group of individuals or businesses who come together voluntarily to meet their common economic, social, and cultural needs and aspirations.

A cooperative is a state-recognized business organized and operates as a corporation under applicable state laws of Chapter 35 of the Montana Code Annotated.

### Types of Cooperatives

Cooperatives exist in all business sectors, such as utilities, agriculture, telecommunications, financial, retail, professional services, housing, and childcare. Cooperatives can take various forms of membership—a few examples are consumer, worker, producer, and multi-stakeholder cooperatives. Each type has its unique characteristics, but they all share the fundamental principles of cooperation and democratic control.

Montana has over 170 cooperatives ranging from rural electric cooperatives to agriculture cooperatives to consumer cooperatives to credit unions. Here is a list of the most common cooperatives formed in Montana:

**Consumer cooperatives** are owned and governed by the customers of the cooperative who benefit from the products or services offered by the cooperative. Examples of consumer cooperatives include food cooperatives, credit unions, and housing cooperatives.

**Worker cooperatives** are owned and managed by their employees. Workers have an equal say in the decision-making process, and profits are typically shared among the members based on their contributions to the cooperative.

**Producer cooperatives** are formed by agricultural producers who join forces to collectively market their products or obtain better access to inputs and resources. Individual producers work together to buy supplies and services and sell, market, and distribute their products. Producers save costs and acquire access to goods that would otherwise be unavailable or too costly alone. This type of cooperative allows small-scale producers to compete more effectively in the market.

**Community development cooperatives** or investment cooperatives are community impact funds made up of local community members and investors who identify businesses, projects, or causes into which they choose to invest together.

**Multi-stakeholder cooperatives** involve multiple groups, such as consumers, producers, employees, and community members, who collaborate to meet their shared needs and goals. This model allows diverse perspectives and interests to be represented within the cooperative.

**Shared service cooperatives** provide shared services and resources to their member organizations. They are formed when multiple organizations or individuals, typically from the same industry or sector, collaborate to establish and operate a cooperative entity to meet their common needs. The member organizations of a shared service cooperative typically benefit from economies of scale, reduced costs, increased efficiency, and improved quality of services.

## Cooperative Structure

By pooling resources, sharing risks and rewards, and promoting democratic decision-making, cooperatives create sustainable and equitable enterprises that prioritize the well-being of their members and the communities they serve.

- **Control:** Management is controlled by a board of directors who are elected members. Each member has only one vote regardless of the amount of equity a member has in the cooperative.
- **Capital:** Equity comes from membership rather than outside investors. The member's liability is limited to the amount they have invested.
- **Earnings:** Earnings and losses are allocated to the members based on the use of the cooperative during the year, not equity held. The allocation may be distributed in cash or retained as additional equity.
- **Taxes:** Earnings are taxed once, either as the cooperative's income when earned or as income of the members when allocated to them.
- **Life:** A cooperative is designed to have perpetual existence. Members can routinely join or resign without disrupting ongoing operations.

## Guiding Values and Principles

Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity.

Members of cooperatives believe in the ethical values of honesty, openness, social responsibility, and caring for others.

Cooperatives must follow their country and region's laws; however, communities worldwide use the same **Seven Principles** to guide their cooperatives. Adopted from the Rochdale Principles, these principles encompass cooperative values. The Seven Principles serve as a framework for all cooperative organizations to operate in a democratic, transparent, and socially responsible manner.

## The Seven Cooperative Principles

### 1. Voluntary and Open Membership

Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership without gender, social, racial, political, or religious discrimination.

### 2. Democratic Member Control

Co-ops are democratically controlled by their members, who set policy and make decisions for the cooperatives. Members have equal voting rights—one member, one vote. Members can never have more than one vote in a cooperative, regardless of longevity or investment.

### 3. Member Economic Participation

Members equally contribute to and democratically control the capital of the co-op. Members can receive a limited distribution of capital through patronage or dividends in proportion to the amount of business conducted through the coop rather than capital invested.

### 4. Autonomy and Independence

Cooperatives are autonomous organizations democratically controlled by their members. If they enter into agreements with other organizations or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

### 5. Education, Training, and Information

Cooperatives provide education and training for members, board members, managers, and employees to contribute effectively to their cooperatives' development. They inform the general public about the nature and benefits of cooperation.

### 6. Cooperation Among Cooperatives

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, regional, national, and international structures.

### 7. Concern for Community

Cooperatives work for the sustainable development of their communities through policies approved by their members. Cooperatives exist to benefit members and the communities they serve.

## History of Cooperatives

The concept of cooperation can be traced back to various ancient civilizations, where people collaborated to achieve common goals, such as agricultural tasks or building projects.

The modern cooperative movement is often attributed to the Rochdale Pioneers, a group of tradesmen in Rochdale, England. In 1844, they established the Rochdale Society of Equitable Pioneers, an early consumer cooperative store to buy and sell basic goods at affordable prices.

The Rochdale Pioneers introduced key principles such as democratic control, open membership, and the distribution of surplus among members. They established the Rochdale Principles, now known as the seven cooperative principles, that are still in use today.

The electrification of America by electric cooperatives played a significant role in the cooperative movement in the United States. This effort, known as the Rural Electrification Administration (REA) program, had a transformative impact on rural communities and contributed to the growth and relevance of the cooperative movement in the country. The cooperative movement expanded to include various sectors, such as agriculture, credit, housing, and worker cooperatives.

The cooperative movement remains active and diverse in the modern era, with cooperatives operating in a wide range of sectors, including agriculture, finance, healthcare, education, housing, childcare, community impact, and more.

Throughout its history, the cooperative movement has demonstrated its ability to empower individuals and communities, promote economic democracy, and provide sustainable solutions to various societal challenges. Cooperatives have been instrumental in fostering a sense of community, promoting social responsibility, offering alternatives to traditional business models, and contributing to the economic development and resiliency of communities.