

2.3 Legal framework for establishing social enterprises/cooperatives

2.3.3 The cooperative

e-module 2 (Social) Entrepreneurship and cooperatives in theory
April/2021



This lecture addresses the following topics:

- What is a cooperative?
- What kind of business are cooperatives?
- Main differences between trading companies and cooperatives
- What does membership mean?

What is a cooperative?

Cooperatives are companies formed by people who decide to associate with each other to carry out an activity. Partners and / or workers are the owners of the organization and are also its managers.

The cooperative is based on the principle of mutual aid to achieve general objectives, which means that all members have the same rights and the same responsibilities in the future of society.



What is a cooperative?

The property is shared between all the partners, whose number is variable and unlimited.

However, their property is not inheritable or transferable, unless a partner cancels and become part of it another partner.

Everyone decides individually on the company and the liability is collective although limited, that is, it does not affect the personal assets of the partners in the event of bankruptcy.

All cooperatives in the world share the same cooperative principles and values.



In almost all European countries there is a cooperative law.

While in some countries there is a general cooperative law that is applied to all business sectors, in some others each economic sector can rely on a dedicated cooperative legislation.

Despite their differences, which are mainly due to diverse cultural, economic and historical backgrounds, national cooperative laws share the cooperative values and principles, which is what makes cooperative enterprises different.

What is a cooperative?

On the other hand, faced with the great challenge of the Sustainable Development Goals for 2030, the UN points out that only from the location of the sustainable local development goals from the bottom up, they can become a reality. For this reason, UNESCO in 2016 declared cooperativism as Intangible Heritage of Humanity.

Cooperatives belong to the people closest to the business, not investors who are only interested in financial performance. This means that cooperatives focus not only on making profits, but on how to achieve them and what to do with them to add value to their members and the community.



“Co-ops exist to create value for their members and their communities and are not just about maximising profits for shareholders” – Steve Murrells, CEO, The Co-op Group.

What kind of business are cooperatives?



All kinds of businesses can operate cooperatively. Cooperatives span the economy. They operate in robotics, in farming, in graphic design, in education, in housing, in sport, the arts and many other sectors. Whatever the industry or service there is usually a co-op!

Co-ops are often set up to solve a problem or in response to an issue - such as a community coming together to take over a much-loved community space, a group of freelancers coming together for greater job security, or workers who want to have a say in creating a more ethical business

From the outside a co-op may look like any other business - it's what happens inside that makes them different



What kind of business are cooperatives?



Cooperatives are resilient: 76% of new start co-ops survive their first five years compared to 42% of other types of business.

There are 3 million co-ops around the world. in more than 100 countries in Europe, Africa, Asia, the Americas and Oceania.

There are international co-ops too, like the Pachamama Coffee Cooperative, which is owned and run by thousands of farmers from around the world.

The impact of cooperatives in the world.
Source: International Cooperative Alliance
(<https://www.ica.coop/en>)

Watch the following videos and get inspired!!



Video-Cooperatives are everywhere!

<https://www.youtube.com/watch?v=8RCZPrUIU0o>



Video-Own the change

<https://www.youtube.com/watch?v=8G1-SYMatNc>



Main differences between trading companies and cooperatives



Cooperatives are "companies", so it is necessary to banish myths or trends that bring them closer to NGOs, associations, foundations, etc.

On the other hand, it must be emphasized that there are different ways and means of conceiving and, above all, of "doing business" with great differences that separate them from traditional or capital companies.



Main differences between trading companies and cooperatives



The basic difference lies in the primacy of the person over the capital, which is reflected in aspects as essential as that in cooperatives each member has one vote, regardless of the capital that has contributed to the company.

The distribution of profits or surpluses will be correlated with the activity carried out and never according to the subscribed and paid-up capital.

Adapted from: FAECTA, Practical guide for the constitution, maintenance and consolidation of cooperatives in Andalusia

Trading companies	Cooperatives
Capital Corporation Objective to benefit shareholders	Society of people Objective: create jobs and offer quality services/products
Power is determined by the number of shares owned by each partner. Capital decides. Companies managed by a small number of people. 1 share 1 vote	Democratic management. The society is managed by all the partners. Each partner has a voice and 1 vote independent of his contributions. One partner, 1 vote
Pyramid company	Horizontal company
Dividend distribution based on invested capital	Profit sharing based on the activity carried out
Closed Company	Membership and voluntary withdrawal. Open door principle
Link with the entity Partner manage but does not work	Identity principle The partner manage and works
General taxation	Own taxation: tax benefits

Main differences between trading companies and cooperatives

It is clear that there is, with respect to capital entities, another way of generating an economy and distributing wealth, and it can be said that the main asset that a cooperative has is its human capital, that is, the people who make it up (FAECTA, 2019).

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Trading companies

Capital Corporation
Objective to benefit shareholders

Power is determined by the number of shares owned by each partner.
Capital decides. Companies managed by a small number of people. 1 share 1 vote

Pyramid company

Dividend distribution based on invested capital

Closed Company

Link with the entity
Partner manage but does not work

General taxation

Cooperatives

Society of people
Objective: create jobs and offer quality services/products

Democratic management. The society is managed by all the partners. Each partner has a voice and 1 vote independent of his contributions. **One partner, 1 vote**

Horizontal company

Profit sharing based on the activity carried out

Membership and voluntary withdrawal. **Open door principle**

Identity principle
The partner manage and works

Own taxation: tax benefits

What does membership mean?

Co-ops are businesses owned and run by people just like us. Who are the members of the cooperative depends on the type of cooperative.

Membership is open and voluntary - so anyone should be able to join, and they have to want to join, you can't force someone to become a member!

One member one vote - membership is democratic and everyone has an equal say. There are no majority shareholders here.



What does membership mean?

Members put something in and get something out - co-ops are not charities, so each member contributes but also receives something in return. The contribution could be working for the co-op, investing in the co-op, shopping or trading with it. Any surplus made after all the costs are covered can be shared between the members (sometimes known as a dividend) or reinvested back into the co-op.

There are many benefits of being a member of a co-op. It might be a financial return on your investment, or a dividend payment or cash bonus at the end of the year or having more power to sell the products and getting a higher price for them.



What does membership mean?

Maybe it's the feeling of solidarity of being part of a global movement or supporting your local community? Some members join because they want to create a decent job in an ethical business where everyone is valued.

An established work team also provides a competitive advantage. Generally, in these projects, the team already exists.





TRAIN-CE-FOOD project

<https://trancefood.si/en/home-english>

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