

## Co-op Corner

# Co-ops & Business Education: Language Matters

By Erbin Crowell

As a lecturer at the University of Massachusetts, I find that the first few weeks of my class on the co-operative movement usually involve discussion of the meaning of a few basic words. A co-operative is a business, so why are we talking about “membership?” Aren’t businesses owned by entrepreneurs or investors? What is “patronage” — and why does it matter? If the profit motive is the engine of our economy, what is “surplus” or “net savings”?

I was reminded of this recently as I came across a pamphlet titled *Learning the Language for Study and Action*. Originally published in 1940 by the Cooperative League of the USA (now the National Cooperative Business Association) and revised in 1971, the Introduction is surprisingly relevant: “Business mergers are widespread; economic power is highly concentrated,” the authors note. “Can we really have much free enterprise in our country if the average citizen

doesn’t know what’s going on?”

Co-ops began as a grassroots economic movement with a focus on economic literacy. In keeping with this history, education remains a basic principle of the International Co-operative Alliance’s (ICA) Statement on the Co-operative Identity, which affirms that co-ops must work to “inform the general public — particularly young people and opinion leaders — about the nature and benefits of co-operation.”

Today, the co-op business model is enshrined in our state laws, providing a legal framework to empower people to work together to meet their needs. From farmer co-ops to food co-ops, worker co-ops to credit unions, housing co-ops to artisan co-ops, there are an estimated 40,000 co-operatives in the US, active in all aspects of our economy.

A central challenge for co-ops, however, is that students do not generally learn about them in our schools, colleges, and universities — much less our business schools. As a result, co-op education must

begin with the terms we use to describe co-operative enterprises and how they operate.

On the other hand, this is also an opportunity. Learning a new language offers new ways of seeing the world, and the words that we use to talk about economics are no different. In this sense, co-op terminology is best seen as a tool for communicating what makes this business model unique.

For example, “membership” in a co-op usually involves the purchase a membership share. This makes you an owner of the enterprise — but only in a collective sense. What can be difficult to communicate is that this ownership does not give a member individual property rights that can be sold, or any individual control over the business as a sole proprietor has. Rather, membership confers on the holder specific benefits as a “user” of its products and services, and a role in the democratic governance of the enterprise.

“In essence, membership



Students in classroom

means that there should be a special relationship between the co-operative and the people whose needs it is established to serve,” reads the ICA’s *Guidance Notes on the Co-operative Principles*. “Co-operatives are user-driven organizations... established by, owned by and operating to meet their members’ common economic, social and cultural needs and aspirations.”

Co-ops are best described as not-for-profit enterprises, as opposed to for-profits or non-profits, in that they are designed to operate at cost, generating sufficient profit to meet member needs and goals rather than maximizing returns for investors. (Co-ops may have investors but they have no vote in the business and their financial return is limited.) Any

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money left over at the end a given year — in basic terms, the difference between income and expenses — is often described as “net savings” or “surplus,” or what conventional businesses call “net profit.”

So, why not just use conventional business terms? The authors of *Learning the Language* point out that surplus is “not true profit, to be paid to the absentee owners of invested capital. In a co-operative, it is ‘savings’ to be returned to active user-owners, in proportion to their use of the business — or used to strengthen their co-operative.” Therefore, the words that we choose are an opportunity to help “educate members and the public to understand co-op principles and objectives.”

This brings us to “patronage.” In contrast to conventional businesses, ownership of a member share in a co-op does not entitle the member to a financial return. Rather, as “patrons” or “users” of their shared enterprise, members receive an economic return in the form of desired products, services, and/or employment. They also receive social returns such as stronger communities, sustainable food systems, and more stable local economies, in keeping with the policies that they help establish.

Any financial resources left over at the end of a given fiscal year are reinvested in the co-operative to improve these services or expand the business, or returned to members as “patronage rebates” or “refunds.” In contrast to an investor-owned business, in which profit is distributed based on how much capital is owned, a co-op may return a portion of its “surplus” to its members on the basis of their patronage, or use of its products and services. In a consumer co-op, this means a member’s purchases; in a producer co-op, the amount of product processed and marketed through the business; and in a worker co-op, the labor contributed to the business. (To make things even more interesting, “multistakeholder” or “solidarity” co-ops can have a variety of member types with different “patron-



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age” relationships to the enterprise.)

Language matters, demonstrated by the fact that in many states, it is illegal to include the term “co-op” or “co-operative” in the name of a business unless it is incorporated as such and operates in keeping with co-operative statutes. The words we use can also play a powerful role in empowering people to envision a better, more participatory, and inclusive economy:

“How can we restore democratic control over American business if the people themselves do not understand business?”

the authors ask in *Learning the Language*. “We need millions of Americans who understand corporate business. And where can an American gain better training than belong to a co-operative...? Indeed, it’s almost the *only* way many Americans ever get a practical business education.”

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