

Exploring the Cooperative Advantage

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Nov. 22, 2021

CAP Series 21-1109

At the Nebraska Cooperative Development Center (NCDC), we assist community groups interested in exploring the cooperative business model, to determine if a cooperative is the best incorporation model for their project.

In Nebraska, multi-owner businesses can be organized under these distinct legal structures, “S” Corporation and “C” Corporation, Limited Liability Company (LLC), or Cooperative.

Cooperatives are for-profit businesses, which unlike “S” Corporation and “C” Corporation and Limited Liability Company (LLC) models, are not just formed for the sole purpose of making profit, but also for meeting the economic needs of the cooperative’s member owners.

When the cooperative model is introduced to a group, the conversation takes into account several key **advantages of a cooperative organization:**

- Cooperatives exist to meet their members’ needs. Their focus is on service to members, not on bringing a return to investors.
- Cooperatives have access to special treatment under U.S. tax code that provides them with advantages not typically available to investor-owned corporations.
- Cooperatives are owned and controlled by their members. Cooperatives keep resources in the members’ community and are guided by members’ values.
- Decisions made democratically (each member has one vote) by the membership provide a strong direction that is supported across the organization.
- Profits are returned to members, so members benefit from the business they do with the cooperative.
- Cooperatives contribute to the economic stability of their communities.
- Cooperatives distribute the benefits of real ownership based on time and use, not just the amount of money someone can invest.

As in any evaluation process, the group must also discuss the potential **disadvantages of a cooperative organization:**

- Cooperatives may experience greater difficulty gaining access to capital because of the limitations imposed on non-participating investors, who may expect a seat on the board or specific apportionment of profits in ways that the cooperative structure makes difficult or even impossible.
- Cooperatives need to invest time and money in supporting their democratic process, such as educating members about key issues, holding meetings, and responding to member concerns, all of which can be expensive and time consuming

- There may be legal limits to the scope of operations or membership for a cooperative if formed under a particular body of cooperative law (although this is typically a minor impediment, because a business is generally able to function as a cooperative without relying on a cooperative statute).
- Cooperatives are only as good as their members ask them to be. When members stop investing time and energy, cooperatives can reduce the benefits they provide to their members.
- Worker cooperatives, in particular, may struggle to engage their worker-owners and keep them engaged, because not everyone who works wants to be a co-owner of a business.

Through this community engagement process, NCDC staff guide the group through a discussion of both the advantages and potential disadvantages of the cooperative model. A key discussion point is how disadvantages can be proactively addressed, minimizing the impact. Once this conversation takes place, the community is positioned to move forward using the best incorporation model for their project.

If you are interested in exploring how the cooperative model can be applied to your business, please contact the Cindy Houlden with the Nebraska Cooperative Development Center at choulden2@unl.edu.

Dedicated to assisting people prosper in rural Nebraska through all stages of cooperative business development, the Nebraska Cooperative Development Center (NCDC) is in the Department of Agricultural Economics at the University of Nebraska–Lincoln. NCDC programs abide with the nondiscrimination policies of the University of Nebraska–Lincoln and the United States Department of Agriculture. NCDC is funded in part by the USDA RCDG Grant Program.

Cite this work:

Houlden, C. “The Cooperative Advantage.” *CAP Series* 21-1109, Center for Agricultural Profitability, University of Nebraska-Lincoln, Nov. 22, 2021.