

Co-op Comparisons

Co-operatives and Private Business Models

Considerations	Co-operative corporation	Business corporation	Partnership	Sole proprietor
Values	Democratic equality, sharing, community focus, needs-based; International Co-operative Principles.	Hierarchical, profit-focused, maximize shareholders' wealth.	Depends on partners' value system.	Personal values of owner.
Application	Applies to any kind of business or need.	Applies to any kind of business.	Usually small businesses and some professionals.	Usually small businesses.
Ownership	Worker – 3 or more employee-members Other – 5 or more members	One or more individuals or corporations.	Two or more individuals or corporations.	Individual.
Decision-making	Democratic – one member one vote.	Based on number of voting shares held.	Informal or as set out in written partnership agreement.	Owner makes the final decisions.
Legal Set-up • Legislation • Cost	Simple to Complex • <i>Co-operative Corporations Act</i> • \$1,000 plus (less than \$500 for incorporation fees)	Simple to Complex • <i>Ontario Business Corporations Act (Ontario Not-for-Profit Corporations Act for NFPs)</i> • \$1,000 plus (less than \$500 for incorporation fees)	Simple to Complex • Business Registration • \$150 plus drafting partnership agreement	Simple • Business Registration • \$150
Profit or Not-for-profit	Both are possible.	Only profit.	Only profit.	Only profit
Capitalization (for profit)	• Member (voting) shares. • Preference (non-voting) shares (various classes). • All shares are par value • Bonds, debentures, loans. More than 35 security holders – must issue offering statement unless meet exemption criteria.	• Shares may be voting or non-voting. • At least one class of shares must participate in distribution of surplus. • Shares do not have par value; allows capital gains. • Bonds, debentures, loans. More than 35 security holders – must issue prospectus.	Usually limited to partners, family, friends and bank loans.	Usually limited to owner, family, friends and bank loans.
Market for Shares	Limited – usually sold back to co-op on termination of membership. Do not significantly appreciate or depreciate in value (i.e. par value).	Limited market for private company shares – sale is usually constrained by shareholders' agreement. Public companies' shares are freely traded on stock exchanges. Appreciate and depreciate in value (capital gains and losses are recognized on sale).	No shares – sale of partnership interest often only to remaining partners.	No shares – assets (including goodwill) may be sold as an ongoing business.
Ease of Start-up	Depends on size, complexity, capital required, teamwork.	Depends on size, complexity, capital required, teamwork.	Requires team work to be simple and quick.	Usually simple and quick.
Return on Investment (if profitable)	After payment of fair return on capital, surplus is distributed in proportion to the business that members transact with the co-op.	Unlimited return on investment, including capital gains on the sale of assets or shares traded on stock exchanges.	Unlimited return.	Unlimited return.
Financial Liability	Limited to investment – members and shareholders have no liability for business debts.	Limited to investment – shareholders have no liability for business debts.	All partners' personal assets; can be limited. Unlimited liability for debts of business.	All personal assets; unlimited liability for debts of business.
Income Tax	Patronage rebates are expensed before calculating corporate taxes. Patronage and share dividends are usually taxed in the hands of members. Patronage dividends from retail co-ops are generally tax exempt.	Dividends are expensed on after-tax corporate income. Dividends are taxed in the hands of shareholders. Capital gains taxes are only applied to 50% of the gain.	Income is taxable at in hands of partners. Provides flow through income tax benefit.	Income is taxable in hands of owner. Provides flow through income tax benefit.
Agility	Democracy takes longer, but can result in better decisions and more commitment.	Depends on size and management style.	Depends on partners' relationship and management style.	Depends on owner's decision-making style.
Local Economy	Money and jobs stay in the local economy.	Money goes to shareholders, jobs to cheapest jurisdiction.	Money and jobs usually stay local.	Money and jobs usually stay local.
Survival Rate	Co-operatives generally have twice the survival rate of other businesses: > 60% after five years > 40% after ten years	• 35% after five years • 20% after ten years	• 35% after five years • 20% after ten years	• 35% after five years • 20% after ten years

Developed by Russ Christianson, Rhythm Communications, for the Ontario Co-operative Association. Updated April, 2018.



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