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TEN LESSONS IN MARKETING—Lesson IX

Methods of Business Organizations

The Cooperative Association

By DR. HECTOR MACPHERSON

Revised by DR. MILTON N. NELSON

In Lesson VII we saw that all industry and business require money or capital in order to go on. Each of the marketing agencies studied in Lesson VIII must have a certain amount of money or capital to do business. Bankers do not care to lend money to any agency which does not have some capital of its own as a guarantee of the safety of the loan. The amount of capital required varies greatly according to the kind of business. This difference in the amount of capital needed is one of the reasons why agencies for marketing may be organized on several different plans. We shall study briefly the four principal forms of organization to do business.

1. **The individual in business.** Any person who has an amount of capital of his own may invest it in any one of the different kinds of business we have been studying, and may himself manage the business. Many of our country buyers and shippers operate on this plan. They have saved up their money and invested it in stores or warehouses and other equipment, and they personally attend to the buying and selling, hire whatever help they need, and supervise all the activities connected with their business. This is called an individually owned business, and the man who owns it is sometimes called an entrepreneur.

2. **The partnership.** Sometimes two or more men unite their capital in order to finance a business. When they join together in this way, they are said to be partners in the business, which is called a partnership. The partners usually agree to a certain definite arrangement of the management, and whatever profits or losses are

Oregon State System of Higher Education
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Oregon State College
Corvallis

sustained fall upon each of the partners in accordance with their agreement and the laws governing partnerships.

3. The corporation. Another form of organizing a business is called the corporation. Under this plan an estimate is made of how much capital will be required to run the business. If it is decided, for example, that \$100,000 will be needed, a plan is drawn up providing that the ownership of the \$100,000 capital may be divided up into a number of shares. The size of share most frequently used is \$100. Using this as the size of a share, we see that the ownership would be divided into 1,000 shares. Shares are frequently offered for sale to any one who cares to put money into the particular kind of business. A person may usually buy as many shares as he desires or can pay for. The shares are called "capital stock." The person who buys them receives a certificate of ownership for the number of shares of stock purchased.

We can easily see that a corporation might have a great many different stockholders. Consequently, it would be difficult or impossible for them all to participate in managing the business. The management is usually taken care of by a board of directors elected by the stockholders from among their number. In voting for directors, or on any other corporation business, the shareholder may have one vote for each share of stock that he holds. When a board of directors has been elected, it hires the manager and maps out for him the way in which the business is to be conducted.

The principal reason why people buy shares of stock in a corporation is to obtain some of the profits which they hope the company will make. After all the costs of running the business have been met, whatever surplus remains may be divided among the shareholders in proportion to the number of shares each holds. The amount paid the stockholders on a share of stock is called the dividend, which may be distributed annually or more frequently.

From this discussion, it will be clear that the corporation has several advantages. It makes it possible to get capital together in any quantity necessary, from a few hundred dollars for a local telephone company, to the billion dollars or more invested in the United States Steel Corporation. It gives any one a chance to invest his savings directly in business and industry without its being necessary to give much of his time to the management. Through it, a person may have investments in many different enterprises. Another important advantage is that practically all corporations provide limited liability for their shareholders. That is, if the corporation fails in business, the shareholder will only lose the amount represented by his capital stock. In banking corporations, however, he may be held liable for double the amount of his stock, in case the bank fails. In individual enterprises and partnerships, on the other hand, if the business fails, the persons owning it are liable to lose all they possess.

4. **The cooperative association.** Cooperation is now regarded as of such importance that practically all states and civilized countries have special laws providing for the organization, protection and regulation of cooperative associations.

Our Oregon cooperative law provides for two types of cooperative association. One of these is formed by selling capital stock just as in organizing a corporation. It is important, however, to remember four important differences between the cooperative association with capital stock and the ordinary corporation.

(1) Under our law no one person may own more than one-fifth of the capital stock of any cooperative association. There is no such limit on stock ownership for corporations.

(2) Each stockholder of a cooperative association has only one vote no matter how many shares he may own, although the by-laws may provide that the members, under certain circumstances, may have a voting strength in proportion to the amount of business they do through the association. In corporations, as we have seen, stockholders usually have a vote for each share of stock they own.

(3) Another difference is the limitation of the dividend which may be paid on capital stock. Our law limits payments on capital stock to eight per cent annually. In the case of corporations, dividends of 100 per cent or more on capital stock are not uncommon.

(4) All surpluses accumulated in the course of business after meeting operating expenses, building up the reserve fund and paying not to exceed 8 per cent on capital invested, are required by law to be distributed among those who do business with the association in proportion to the amount of business done. This distribution of earnings on the basis of business, rather than on the investment in stock, is probably the most distinctive feature of the cooperative association. On this account many cooperatives admit as members only those who buy or sell through the association. Cooperative associations are managed by boards of directors, who hire the manager and lay down rules for the conduct of the business very much as do the directors of regular corporations. The cooperative laws also provide the same limited liability for members enjoyed by stockholders in corporations.

The other type of cooperative association which may be organized under the Oregon law is one without capital stock but providing for a membership fee in return for which the member is given a membership certificate. The fee may be large or small depending upon the amount of capital which the association plans to raise by this means. No interest or dividends are allowed upon capital invested in membership fees. In other respects the non-stock cooperative associations are under the same regulations as those having capital stock.

5. **The importance of cooperation.** Cooperation is relatively more important in Europe than in this country. All kinds of cooperative associations have flourished in Europe for a long time. Denmark, for example, though naturally a poor country, has become a nation of cooperators, and cooperation is given a great deal of credit for the prosperity which exists among the small farmers and city workers of that country.

On account of its greater prosperity, the United States has been slower in the development of its cooperative movement. Nevertheless, cooperation is steadily increasing in importance. The census of 1920 shows that the farmers of the United States were doing \$806,599,308* worth of business through cooperative associations. The amount varied greatly for the different states. At the bottom stood Nevada with a total of \$8,300 and at the top, California, with \$132,312,110. These cooperative associations embrace many different kinds of business. They cover the ownership of telephones, irrigation ditches, insurance, merchandising, credit and banking, many kinds of manufacturing and marketing, etc.

In 1924 the United States Department of Agriculture found 10,160 different cooperative associations in this country. The growth in numbers, however, does not indicate the increasing importance of the movement. More and more in recent years, cooperative associations have been organizing on a large scale so that one association may market the product from a large territory. Our Pacific Cooperative Wool Growers, for example, handled in one year 8,000,000 pounds of wool, and included producers in Oregon, Washington, California, Idaho, and Nevada. California has a number of large associations which practically control the output of certain products, such as citrus fruits, raisins, walnuts, prunes, etc. Judging by the present indications the future is likely to see a still greater development of these large associations specializing in one commodity or two or more similar products, and controlling the output for a given geographical area.

QUESTIONS AND EXERCISES

1. Think out and write down the reasons for each of the four differences between cooperative associations and corporations.
2. Visit and describe at least one cooperative association.

* The World Almanac for 1934 reports the combined sales (\$892,481,000) and purchases (\$125,048,000) for Farmers Cooperative Associations for 1929 as \$1,017,529,000. Reprinted, January 1940.