

Thoughts and success stories

AUGUST 17, 2017 - KYLE WHITE

5 Reasons Co-ops Can Fail

Overall, co-operatives have a proven track record of being more sustainable than other forms of business – with over 90% remaining successful after 3-5 years.

But, like other business and organizational models, co-operatives can fail. Often this is the result of common issues faced by businesses, such as market dynamics, access to capital, or mismanagement.

Here are five reasons co-operatives fail:

Failure to incentivize shareholders

Participation in a co-operative often includes some investment of time and/or money. Shareholders typically participate in a co-operative because they see some form of benefit for themselves that comes from their involvement with the enterprise.

These benefits may include a dividend, a patronage refund, access to a new product or service, greater market certainty, or the ability to get involved in an organization. Failing to provide tangible incentives, or poorly communicating them, will limit member applications and shareholder participation.

Having incentives and clearly communicating them helps co-ops avoid this potential difficulty.

Power becomes centralized

Co-operatives often have more inclusive governance structures and should provide forums for more people to get involved. This inclusiveness and diversity of ideas can contribute to a co-operative's success, and co-ops do best when this is nurtured and properly managed. Platform co-op [Stocksy United](#) provides an innovative solution to this problem by rotating members of its executive team as moderators on their online member discussion forum.

When power and authority within a co-operative begins to centralize around a few individuals like boards or managers, shareholders may feel disengaged or excluded from a business in which they are an owner. This can lead to unexpected resolutions and attempts at hostile redirection during annual general meetings.

The overall strength and longevity of co-operatives worldwide is closely linked to their ability to listen to and serve their shareholders or members. Make sure you have clear communication channels for shareholders and members, and mechanisms for addressing their concerns or suggestions on a regular basis.



Wrong people in the wrong places



[hubris that signal a co-operative's failure.](#)

But shareholders also have a responsibility to hold leadership accountable when their actions undermine the co-operative's goals, values, and ideals. Clear, ongoing member and shareholder engagement helps co-ops navigate this challenge.

Lack of market or community support

Co-operatives work best when the idea and development of the business is led by the group that will be involved with the co-operative (e.g. the people that will shop there, work there, or sell products there). This can create a sense of ownership and loyalty not commonly found in other business models.

When a co-op is imposed by a group outside the community or market, this sense of ownership does not emerge organically. In these cases, the community may be mistrustful of the co-operative or have mixed expectations of their role in its operation.

Likewise, just because a service might be needed in a community or market doesn't mean there's a market or appetite for it. Like any business, make sure to do a proper feasibility study and business plan before deciding the idea is good to go — or whether the co-op model is the best fit.

Not planning for succession

Co-operatives, like any other businesses and organizations, need to plan for their future. Leaders and managers will eventually retire or leave the co-operative, creating a need for someone new to fill the gap.

From a broader perspective, co-operatives need to actively recruit new members as older members leave to ensure their business has a sustainable, supportive base. Failure to recruit new members or shareholders can lead to a variety of challenges, such as reaching quorum at meetings or an insufficient number of directors on the board.

Moreover, developing capacity in members or shareholders over time will help ensure the co-operative has access to the human and leadership skills required to continue over the long term, and potential for raising capital when needed.

Bringing in new, sometimes younger, people also acts as a catalyst for fresh ideas and trends. And this renewal can bring with it good ideas related to operations, but also for governance and policy.

The lowdown

Co-operatives are most successful when they are built on good governance, a clear understanding of purpose, and a potential market. A failing co-operative will show signs early on, and it's never too late to regroup, rework, and reposition the co-op. But it's also important to remember that failing co-operatives do not always need to be saved.

If you like this, you might want to check out [this report](#) by Dr. Murray Fulton (Centre for the Study of Co-operatives & Johnson Shoyama School of Public Policy) and Peter Couchman (Plunkett Foundation). The report presents five reasons big co-operatives fail and highlights important characteristics exhibited by large co-operatives that usually signal their end.

If you could use some guidance on how to go about building a new co-op or rejuvenating an existing one, [contact us](#).

PREVIOUS



5 ways co-ops improve economic growth in rural and remote communities

NEXT



First Nations exploring economic growth through agriculture

Stay in the know.

Sign up for our monthly newsletter.

First Name



Your email address

SIGN UP

We will always respect your privacy.

Funded by the [Co-operative Retailing System](#) and [Federated Co-operatives Limited](#), Co-operatives First promotes and supports business development based on the co-operative model in rural and Indigenous communities across Western Canada.

4-1810 8th Street East Saskatoon, SK
306.382.4410 | info@cooperativesfirst.com

© 2020 Co-operatives First |