

# Creating a Co-operative Enterprise in Newfoundland and Labrador: Steps in the Co-op Development Process





## Preamble

The Newfoundland-Labrador Federation of Co-operatives (NLFC) is the non-profit provincial organization that represents the co-operative business sector in the province. Our mandate includes the provision of information and support services for people engaged in the development of new co-operative enterprises in Newfoundland and Labrador. The NLFC has a partnership agreement with the provincial Department of Tourism, Culture, Industry and Innovation (TCII) to jointly support this mandate. Services include provision of co-operative information and education programs, opportunity identification and feasibility assessment support, assistance with business planning, and help with the incorporation process.

This guide has been made available as an educational resource to provide a general overview of the steps involved in planning, developing and incorporating a co-operative (co-op). It has been developed to assist individuals and organizations considering the formation of a new co-op and others who are actively engaged in the development process. It is the basis for the workshop “Steps in the Co-op Development Process,” which is available through TCII’s Community Capacity Building (CCB) program.

For those seeking more basic information about the co-operative business model, it is recommended that you complete the introductory workshop, “An Introduction to the Co-operative Sector in NL,” which is also available through CCB. Please contact your regional office of TCII for further information regarding the CCB program and how to access these workshops for your group.



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## 1.0 Introduction

A group that is considering the development of a new co-operative enterprise will be engaged in a number of activities that include:

- confirming that there is a collective need for a service;
- conducting an initial assessment of group/community collective interest;
- learning about co-op structures, development and operations;
- accessing advisory support services to assist with the development process;
- developing co-op by-laws and a business plan;
- understanding and complying with legislative/regulatory requirements; and
- accessing advisory support to assist with start-up and operations.

The development process is usually initiated by a core group of individuals who have identified their collective need for services that the new co-op will provide. Every co-op development project is different. Unique to each project will be factors such as the skills and capabilities of the co-op proponents, the business sector in which it will operate, and the type and level of start-up financing required. It is therefore important to note that the extent to which a group will need to engage in the process outlined in this paper will depend on the size and complexity of the proposed new co-op. Assistance and advice is available from the NLFC and TCII for clarification in this regard.





## 2.0 Identifying a Co-op Development Opportunity

The idea to consider the formation of a co-op enterprise can come from many different sources. It is important to initially determine the appropriateness of the co-op model for meeting the needs of the potential membership base. Is the co-op model more appropriate to meet these needs than other business models? Some considerations should include the following:

- Is there a common need for a service, as opposed to profit or other primary motivations?
- Is there a clear link between members' financial investment and the service they will receive?
- Is there potential for the service to generate sufficient revenue to cover operating costs?
- Will there be support for the project from other community and/or industry sector agencies?
- Is there potential for a steering committee to be formed to lead the project?
- Is there potential to engage the minimum membership required for financial viability?
- Is there an understanding of the co-op model and what is involved in the development process?

It also is important that the initial group who are considering the formation of a co-op understand that they will be leading the development process and doing much of the work involved. They must therefore be able to work together and be willing to devote the time required to address the various tasks involved.



## 3.0 Building the Co-operative Enterprise

The group's decision to proceed to the next stage of the co-op development process demonstrates that they are prepared to make a substantial commitment of time and energy to the development of the proposed co-op enterprise. They will have already made some key decisions, and potential leaders will have begun to emerge. It is at this point in the process that they may wish to proceed with the formation of their steering committee.

### 3.1 The Co-op Steering Committee

Forming the steering committee is an important initial step in the development process as it confirms that the group is taking responsibility for the co-op development process and ownership of the co-op. The committee's role is to initiate and coordinate all of the remaining steps involved in development of the proposed co-op enterprise. It is made up of individuals who are willing to volunteer their time and play a leadership role in the process. It is generally a small group, but it should reflect the size and complexity of the co-op that is under development.

A chairperson is usually elected to lead the committee and to represent the group in dealing with external agencies and/or government. The steering committee meets regularly to implement the next steps in the development process and to address any issues that may arise. A key first task is to develop consensus among the group on the objectives of the proposed co-op and the services that it will deliver. This involves the development of a "co-op concept paper".

### 3.2 Developing the Co-op Concept Paper

Developing a co-op is a consensus building process. It is important to ensure that there is a common understanding and agreement among the steering committee members regarding the services the proposed new co-op will provide; for example, how it will operate and what needs to be done to facilitate its development. The co-op concept paper is a way of capturing and recording this information on an ongoing basis to help ensure that the steering committee and other potential members all have the same expectations as they proceed with the development process. It can also be used to:

- provide information for potential members about the proposed co-op so they can make an informed decision as to whether or not they wish to join;



- inform government and other organizations about the proposed new co-op in order to solicit their assistance and support; and
- provide a consistent and accurate message about the proposed co-op for other external audiences, such as the media and the general public.

The concept paper is a working document that should be updated as the steering committee proceeds with the development process. It should be reviewed on an ongoing basis to ensure that it continues to represent the consensus of committee members. As the proposed co-op moves closer to incorporation, the paper can become part of the co-op's business/financial plan. A basic concept paper worksheet is provided in Appendix "A".

### 3.3 Co-op Education and Group Development

Co-op education should be a top priority for the steering committee and other future co-op members. Initially, this involves general presentations and workshops about the co-op business model, its structure, governance and operations. It is also useful for the committee to learn more about the existing co-op sector as the new co-op they will be establishing will become part of the provincial, national and global network. These activities should continue throughout the co-op development process.

As the steering committee proceeds, there will be a need to engage in more focused learning activities which will include drafting of the co-op's by-laws, development of the business and operational plan, and becoming familiar with co-op legislation and regulatory requirements. There will also be ongoing "experiential" learning taking place. The chair of the steering committee will be developing leadership skills by chairing meetings, and committee members will be learning about democratic governance through their participation in the decision-making process.

Support services are available through the NLFC and TCII to assist the steering committee with the co-op education process. Facilitated workshops are available which provide an overview of the co-operative business model and the steps involved in the development process. Additional workshops include related topics such as the role and function of a board of directors and the strategic planning process.

### 3.4 Developing the Co-op By-Laws

All newly emerging co-ops in the province must develop a set of by-laws. These by-laws are unique for every co-op and provide the framework which governs all aspects of its operations. They are developed by the steering committee in consultation with other potential co-op members. They must comply with the province's co-op legislation and must be submitted to and approved by the Registrar of Co-operatives as a mandatory step for incorporation.

A good starting point for the steering committee is to establish a sub-committee to review the by-laws of existing co-ops that are delivering similar services for members in other jurisdictions. Adapting existing by-laws and adjusting them to meet the unique needs of the proposed new co-op can reduce the time and effort required to address this component of the development process.

There are key sections in the new by-laws that are unique to every co-op and must be developed by the steering committee and other potential members. They include defining the new co-op's objectives and services, deciding on a name and place of business, determining membership eligibility, setting member share purchase requirements, and establishing quorum numbers for meetings and elections. A sample worksheet to assist with by-law development is attached as Appendix "B". The NLFC and TCII can assist with this process.



### 3.5 Member Recruitment and Communications

If the steering committee identifies a need for the proposed new co-op to grow its membership as part of the development process, a sub-committee may be established with responsibility for member recruitment. This process may involve public meetings and/or social media applications to solicit broad-based membership for larger co-ops, such as consumer/retail co-ops. Individual contacts and smaller meetings are more appropriate for other types of co-ops that are focused on specific industry sectors such as agriculture, childcare and film production.

Accurate and consistent messaging is of key importance for member recruitment and communications activities. Online information sharing regarding the proposed new co-op and progress with the development process can be a useful way to keep everyone informed and recruit new members. It can be an effective means to share recent updates of the co-op concept paper as further details about the proposed new co-op become available.

As membership recruitment is often an ongoing activity, the steering committee may need to establish a system to record and manage the process. As an indication of their commitment to join, future members are often asked to purchase an initial share or shares that are refundable if the co-op development process is unsuccessful. The steering committee can establish a trust account at a local financial institution (preferably a credit union) to maintain these funds. A membership list should be kept, with a ledger of shares purchased maintained and receipts provided.





### 3.6 Developing the Business Plan

The co-op business plan should include a description of the intended start-up and ongoing operational activities as well as forecasted sources of revenue to cover projected costs. The plan will guide the steering committee in setting the price for membership shares, the number of shares to be purchased, and what members will pay for the services they receive. It should also identify other sources of financing required which may include non-member equity investment, business loans, and financial assistance from government or other sources. The development and submission of a business plan is a requirement for incorporation in Newfoundland and Labrador.

The business plan may be fairly simple or more complex depending on the size of the co-op, the scope of its intended operations and the industry sector in which it will operate. In some cases, industry-specific assistance may be required to address this component of the development process. Such assistance may be available from government, industry sector associations, academic institutions or other sources depending on the expertise required.

As with other business models, the basic components of a co-op's business plan will generally include annual income statements/projections, monthly cash flow projections, and a balance sheet. These are often a requirement if the new co-op is applying for a business loan or intends to access other sources of external investment. However, each co-op development project will be unique in terms of its business planning requirements. The NLFC and TCII can assist with the business planning process.

Accessing business credit from financial institutions will depend on the lender's assessment of the co-op's potential for viability and capacity to repay. Obtaining loans through government programs often provides more flexibility with regard to interest rates and repayment terms. However, revenue from co-op sales and/or the provision of other member services must become the primary source of revenue over the long term.

Engaging co-op members in the business planning process is important and should be emphasized. Understanding why their equity investment must be in place as a necessary component of the financial plan is critical to the process. Members must also understand that patronizing the co-op and/or paying the agreed upon fees for services they receive are critical to financial success.

## 4.0 Incorporation and Business Start-Up

Once the draft by-laws and business plan have been completed and member recruitment targets have been reached, the steering committee may proceed with incorporation. This generally involves a meeting of the future members and passage of a motion to proceed with the application process. This member engagement further reinforces their understanding that they are the future owners of the business and have collective control of its operations.

### 4.1 Applying for Incorporation

In this province, an application for co-op incorporation must be submitted to the Registrar of Co-operatives at Service NL. Incorporation documents must be completed and submitted along with the co-op's proposed by-laws and business plan. There is also a \$250 incorporation fee. Approval of an application by the Registrar gives a co-op legal status to operate as a limited liability corporation in Newfoundland and Labrador.

Once incorporated, the co-op steering committee evolves into the provisional board of directors. They continue to carry on with the development process, which is now moving towards business start-up. Activities during this phase include ensuring that banking and financial management services are in place, finalizing financing arrangements, and establishing operational policies and procedures. Soon after incorporation, the provisional board also organizes the first annual membership meeting during which the members elect their first board of directors.



## 4.2 Commencement of Business

In many cases, new co-ops do not open for business immediately following incorporation. There are often things that may take some time to complete before business can commence. For instance, there may be staff to be hired and facilities and/or equipment to be obtained. It is often advisable to start small and grow the co-op's business over time to ensure ongoing operational stability and minimize risk. The NLFC and TCII can continue to provide assistance and support during this phase of the development process.

Once operational start-up and official opening dates have been confirmed, the co-op should consider organizing a "grand opening," including a media release and other public relations initiatives to increase public awareness and support for the new co-op venture. These events are of significant benefit from a marketing perspective, particularly if the new co-op is providing goods and services for the general public.

## 4.3 Ongoing Operations

The new board of directors will be enthusiastic and anxious to get things going so that the members can begin to see benefits from the services provided by their new co-op. Ongoing advice from the NLFC, TCII and other agencies that are supportive of the co-op can be most helpful as the board develops its governance framework and implements its business plan.





Key considerations at this point include ensuring that regular board meetings take place, that the meetings are well organized and focused on business start-up, and that decisions are being made to serve the collective interests of all co-op members. The new president/chairperson will be learning how to play a leadership role in ensuring a well-functioning board of directors. Board members will be learning how to exercise their roles and responsibilities as part of the co-op governance process.

Ongoing development of operational policies/procedures will be critical to the effective functioning of the co-op. This helps ensure that all stakeholders understand what the rules are and how they are applied. Policies and procedures address many things from the simple to the complex. Some examples include the member application and approval process; production/quality control; conflict of interest, gender and cultural equity; and response to member suggestions and/or complaints.

As the co-op commences operations, the board, membership and staff will become more confident and comfortable with their roles and responsibilities. This often means they have less of a need for external advice to assist them with governance and day-to-day business operations. However, it is important that strong working relationships be maintained with external support agencies in the event that assistance is required. New co-ops often require advisory support in areas such as legislative and regulatory compliance, internal conflict resolution, board and staff relations, and unexpected business problems that may arise.

As operations continue, it is important that the co-op maintains its organizational support networks and business partnerships to assist with ongoing business stability and to facilitate future growth. This network should continue to include the NLFC and TCII, but may also include other co-ops and credit unions, industry and community development associations, business development agencies, and other government departments.

The new co-op is now a part of a worldwide, mutually supportive global co-op sector. “Co-operation Amongst Co-operatives” is a principle and also a practice. For the most part, established co-ops both within the region and in other parts of the world are always willing to assist each other by providing advice, sharing information and sometimes doing business together. For a newly developing co-op, these sector linkages are an invaluable resource.

## 5.0 General Considerations

There are some important common factors that are essential for all co-op development projects and are keys to maximizing potential for success. They include the following:

### 5.1 Understanding the Development Process

The steering committee must have a clear understanding of what is involved in the co-op development process and their responsibilities in this regard. Knowing the steps involved in developing a co-op and the supportive role that can be played by the NLFC and TCII will ensure that they know what is expected of them before they commit to proceeding.



## 5.2 Adoption of the Co-op Principles and Values

Co-operatives are different from private sector businesses. They all ascribe to a set of operational principles and values that are internationally recognized as the basis from which co-operatives derive their unique approach to meeting the needs of their members and serving the communities in which they operate. It is important that people engaged in the development of a new co-op understand these principles and values and commit to supporting them.

## 5.3 Ensuring Ongoing Skills Development

An important part of developing a co-op is to ensure that the steering committee takes ownership and control of the development process. Leadership development should be encouraged and supported. Other committee members should also become more knowledgeable about their roles, rights and responsibilities as participants in the decision-making process. It is important to facilitate this process to ensure that they have the skills they need to become increasingly independent and capable of directing co-op start-up and future operations.

## 5.4 Engaging Partners and Accessing Support

The engagement and support of other organizations can be of significant benefit to the co-op development process. The NLFC and TCII can assist the steering committee with the development process. However, there are many other organizations that can provide information and advice. This may include knowledge and skills that are technical in nature, such as business feasibility assessment and planning services; or, they may be industry-specific and relate to production, sales and marketing of specific products.





# Appendix A

## Co-op Development Concept Paper

This concept paper worksheet identifies a number of key activities that should be considered when a group has decided to proceed with the potential development of a co-operative in the province. The worksheet can be used by the co-op steering committee as a starting point/framework for the development of the co-op's structure, objectives and business plans as decisions are made throughout the development process.

### **1. Confirming the Need**

Describe the industry circumstances and rationale as to why it makes sense to move forward with the formation of the co-operative at this time.

### **2. Services to be Provided**

What direct services will the co-operative provide for potential members from a short-term and long-term perspective?

### **3. Member/Community Benefits**

What other economic or social benefits will be provided for co-operative members, the industry sector and/or the community?

### **4. Membership Eligibility**

Who are the individuals, enterprises or other agencies that will own the new co-operative and be the direct beneficiaries of the services to be provided?

### **5. Operational Structure**

What is the proposed organizational/operational structure? Will the co-operative distribute surplus revenue to members or retain it to support future service delivery?

### **6. Co-op Compared to Other Business Structures**

How will the co-operative be different from industry associations and/or non-profit agencies that may be operating in the business or social sector in which the co-op will be operating?

### **7. Existing and Potential Development Partners**

Are there organizations that are interested in supporting the development of the co-operative? Will they also support the co-op's start-up and operations?

### **8. Facilities and Location**

What facilities (buildings, processing equipment, etc.) will the co-operative require for business start-up and ongoing operations? Where will these facilities be located?

### **9. Operational Costs**

What is the general estimate of short term costs relating to business start-up, and what are the projections for the longer term?

### **10. Member Shares and Financing**

What will be the value of member shares and how many must be purchased to address the co-operatives start-up financial requirements? How much additional business financing will be required and where will it come from?

### **11. Timelines**

What are the projected timelines for incorporation of the co-operative and start-up of business operations?

### **12. Key Issues to be Resolved**

Are there key membership and/or industry issues that need to be resolved prior to proceeding with development of the co-operative? Is there a plan to have these issues addressed?

Further information and assistance regarding development of a co-operative concept paper is available from the Newfoundland-Labrador Federation of Co-operatives (NLFC) and the provincial Department of Tourism, Culture, Industry and Innovation (TCII).

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## Appendix B

### By-Laws Worksheet

The development of by-laws for a new co-operative is a requirement for incorporation. They provide the framework for its governance and operations. While some aspects of the by-laws are similar for all co-ops, there are a number of sections that will be unique to the specific requirements of each new co-op that is being established. These sections generally include the following:

#### **1. Name and Address**

The steering committee, in consultation with other members, must decide on a name for the new co-op for it to be incorporated. The address is often the location of business operations or another home or postal address.

#### **2. Objectives and Services**

Each new co-operative must establish its own objectives and services to be delivered in order to meet the needs of the membership.

#### **3. Share Capital and Service Fees**

What will be the cost of common membership shares and how many must each member purchase? Will there be an additional service fee for members of the co-op?

#### **4. Membership Eligibility/Application Process**

Each new co-operative must have a process to determine eligibility for membership and how applications are assessed and approved. A process for withdrawal of membership is also required.

#### **5. Board Structure**

How many board members will the co-op require, how will they be elected and what will be their terms of office? Will the board have a chairperson, vice-chair, treasurer and secretary or will another executive model meet their needs?

#### **6. Board Powers/Responsibilities**

The by-laws must reflect which areas of decision making will be the responsibility of the board of directors and/or management (if applicable) and which decisions must be made by the membership.

#### **7. Annual and Special Meetings**

The by-laws should dictate the timing for the annual general meeting (AGM), which is often related to the co-operative's financial reporting requirements. What constitutes a quorum should also be indicated, along with the process for holding special meetings when required.



## **8. Financial Surplus and Reserves**

The group must decide if they wish to retain surplus funds within the co-op to support its ongoing growth and development or pay out surpluses to members once other financial obligations have been addressed.

## **9. Audit and Annual Return**

The by-laws must indicate the financial year end of the co-operative and its financial reporting requirements, i.e. annual review or audit for presentation at the annual general meeting.

Further information and assistance regarding by-laws development is available from the Newfoundland-Labrador Federation of Co-operatives (NLFC) and the provincial Department of Tourism, Culture, Industry and Innovation (TCII).

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## Notes