

In Praise of Allocated Equity!

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Cooperatives have two types of equity. Allocated equity, which included membership stock, retained patronage and preferred stock, and unallocated equity. Allocated equity has a name associated with it and a clear property right. Unallocated equity is a general reserve fund. The members collectively own unallocated equity but it is not associated with any specific member, hence the term “unallocated”. While allocated equity is a central part of the cooperative business model it is rare to hear it discussed and even rarer to hear someone excited about building more of it. That is a shame because allocated equity is a good thing to have with many benefits.

Allocated equity gives members the clearest sense of ownership. Each member knows that they are an owner because they have a balance with a specific value. As the balance grows, some members suddenly wake up and conclude: “I have a real stake in this cooperative!” Watching allocated equity growing is exciting because it is personnel and represents a future payment. Watching unallocated retained earnings grow is abstract since the member does not have a specific share and there is no future distribution.

Cooperative principles state that members have a responsibility to help finance the cooperative. Allocated equity helps members understand that responsibility. They can see their specific investment. They can see on an annual basis how they are both immediately benefiting through cash patronage and reinvesting in the cooperative through retained allocated equity. Allocated equity helps members to understand that it is not the board of directors who are reinvesting in the cooperatives, it is the members.

Most people treat things that they own differently than things that everyone owns. You may have heard the saying “When everyone owns it, nobody owns it!” For that reason, cooperatives work best when the people owning the cooperative are also the people using the cooperative. You might note that the cooperative slogan is “user owned” not “former user owned”. In order to keep ownership in proportion to use we must have some mechanism to build and track the ownership of active users and eventually return funds to former users. Allocating equity allows us to create those systems.

Allocated equity gives members ownership! Allocated equity gives members benefits! Allocated equity funds reinvestment! Allocated equity helps keep ownership proportion to use! Allocated equity is a good thing to have! Let us all remember to say more good things about it!

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