# 2. A conceptual framework for research into co-operative enterprise

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This chapter outlines a conceptual framework for understanding the business model of the co-operative enterprise. Business model analysis has become popular within management circles. The concept of a 'business model' first emerged in the 1950s (Bellman, Clark et al. 1957). However, it really came to prominence within the academic literature in the 1990s (Osterwalder et al. 2005). A business model may be defined as follows:

> A business model is a conceptual tool containing a set of objects, concepts and their relationships with the objective to express the business logic of a specific firm. It is a description of the value a company offers to one or several segments of customers and of the architecture of the firm and its network of partners for creating, marketing, and delivering this value and relationship capital, to generate profitable and sustainable revenue streams. (Osterwalder et al. 2005, p. 3)

The business model of an organisation is more generic than the financial or strategic design that is part of its structural configuration. It seeks to generate a mechanism that can deliver value to a target customer or market segment in a sustainable manner allocating resources to achieve this outcome. Despite its common usage the concept of the business model has no established theoretical grounding in economics or business studies (Teece 2010). Having made this admission we also acknowledge that the business model concept is now a mainstream tool within business and has been embraced by industry, particularly firms seeking to undertake innovative approaches to market change or the commercialisation of new products and services (Johnson, Christensen and Kagermann 2008). The nature of the business model as a mainstream concept within management was demonstrated by the publication of a special edition of the *Harvard Business Review* on how companies might reinvent their business models (see: Nunes and Breene 2011; Johnson, Nair and Eyring 2011; Cliffe 2011; Casadesus-Masanell and Ricart 2011; Govindarajan and Trimble 2011).

What we seek to do in this chapter is apply the available theory and concepts of business model analysis to the co-operative enterprise. In doing so we aim to demonstrate where the co-operative differs from investor owned firms (IOF) and how it is unique. We also provide a potential framework for researchers and managers to apply to co-operative enterprises when seeking to understand how they can achieve the best configuration of their existing resources. Business model analysis is a strategic process that is used to guide future business strategy.

## AN OVERVIEW OF THE BUSINESS MODEL CONCEPT

Let us turn now to a general overview of the business model concept. In developing this section we draw on a review of the literature relating to business models. Commencing in the mid-1990s there has been an ever increasing focus within the academic literature on the topic of the business model. According to Zott, Amit and Massa (2011), who undertook a major literature review, at least three key patterns have emerged. First, although the total volume of academic papers on business models has grown significantly since 1995, there is a lack of agreement amongst scholars as to what a business model is. Second, much of this literature has developed within silos defined by academic subdisciplines. Finally, although there are differences in how business models are viewed there are some common elements of agreement.

It is generally agreed that the business model concept is a new way to analyse organisations. There is also agreement that the business model concept can be used to look simultaneously at both the content and process of how an organisation does business. In doing this the focus is upon a business or 'focal firm' that undertakes a range of activities, usually involving its customers, suppliers and other complementary partners within its wider strategic network. Broadly speaking the business model concept adopts a systems level analysis of how the firm behaves. Finally, there is general agreement that business models encompass how a business both captures and creates value. As such one of the key concepts that define it is the notion of the 'customer value proposition' (CVP) (Zott et al. 2011).

### The Business Model as an Activity System

One of the key aims of examining an organisation from a business model perspective is to understand how its activities can be configured in order to deliver total value for all its stakeholders. From this perspective the business model can be viewed as an activity system in which a series of interdependent activities occur, either by the firm, or by its customers, suppliers or strategic partners (Zott and Amit 2010). Attention must therefore be given to understanding what activities should take place, how they are performed and who is responsible for performing them.

It should be noted that although there is a link between the business model and business strategy the two concepts are not identical. The field of business strategy or strategic management is substantial and has been the generator of numerous theories, frameworks and models that have attracted academic researchers since at least the 1950s (Feurer and Chaharbaghi 1995). The aim of business strategy within an investor owned firm (IOF) is usually to enable the business to create value for its customers, while generating a profit for shareholders (Lewis 1999).

As an activity system a business model should perform several functions. One of its most important functions is to clearly articulate the 'value proposition' that is to be made to the customer. A second function is for the model to identify and understand the needs and wants of a target market segment in order to determine this proposal of value. Once these conditions are known the business model can define the structure of the supply or 'value' chain that the firm will need to create in order to deliver this value, and how it will operate within this chain. In doing so it will need to explore how it generates revenue

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from these transactions and the cost and profit issues associated with various levels of production and sales volume. The firm will also need to decide how it engages with customers, suppliers and others (e.g. competitors and complementors), plus the competitive strategy it should adopt in order to secure and retain a position in the market (Chesbrough 2010).

Four primary elements are generally understood to comprise a business model (Johnson, Christensen and Kagermann 2008). The first of these is the 'customer value proposition' (CVP), a concept that seeks to address the specific value or benefits that the business model is to offer via its products or services. The development of a CVP requires a good understanding of the target market and customer characteristics. The second element is the 'profit formula', which describes how the business will generate profits while also remaining competitive on price. The third element comprises the 'key resources' that the business will require in order to deliver its CVP, and the fourth element encompasses the 'key processes' that the business will employ to help it deliver the CVP. This can include the rules, policies and key performance measures as well as the firm's culture. These four elements are in turn built on a foundation of 'building blocks' that deal with the specifics of how the product, profit formula, resources and processes are configured (Osterwalder et al. 2005; Johnson et al. 2008).

## The Building Blocks of the Business Model

According to Chesbrough and Rosenbloom (2002) the role of a business model within corporate strategy is to focus attention on how the organisation creates value in the marketplace. It does this by reviewing how the business manages and organises its people, products, processes and resources. They suggest that the business model must address at least six things:

1. Articulate a *value proposition* that defines how the business is to offer benefits to its customers, shareholders and other key stakeholders.
2. Identify a *market segment* or segments into which the business can target its activities.
3. Define the structure of the *value chain* within the business required to create and distribute the products or services, and determine the complementary assets needed to support the firm's position in this chain.
4. Estimate the *cost structure* and *profit potential* of producing the offering, given the value proposition and value chain structure chosen.
5. Describe the position of the firm within the *value network* that links suppliers and customers, including the identification of potential complementors and competitors; and
6. Formulate the *competitive strategy* by which the innovating firm will gain and hold advantage over rivals.

These six elements are configured within the business model to justify the investment that would be made by shareholders. How effectively these elements are configured and matched against the needs of the market, and the competitive pressures of the

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industry within which the business operates, will determine how successful the enterprise is.

Business model analysis has been adapted for e-commerce online businesses (Mahadevan 2000), large telecommunications firms (Aspara et al. 2011), small to medium enterprises (Lindgren 2012); and entrepreneurial companies (Zott and Amit 2007; George and Bock 2011; Trimi and Berbegal-Mirabent 2012). However, are they relevant to the co-operative enterprise, and how does the business model of the co-operative differ from that of a conventional investor owned enterprise? The next section seeks to address these questions.

## A CONCEPTUAL FRAMEWORK FOR RESEARCH INTO CO-OPERATIVE ENTERPRISE

To understand the co-operative business model requires attention to be given to macro, meso and micro-level elements. This enables the co-operative enterprise to be understood within its wider macro systems context, and also from the micro member level perspective. Figure 2.1 illustrates a conceptual model that comprises three primary levels, each of which has multiple units of analysis.

As shown in Figure 2.1, the co-operative enterprise exists within a macro or systems level environment. This has four key input and two key output factors that need to be considered in order to understand the dynamic nature of the co-operative. The four input factors are:

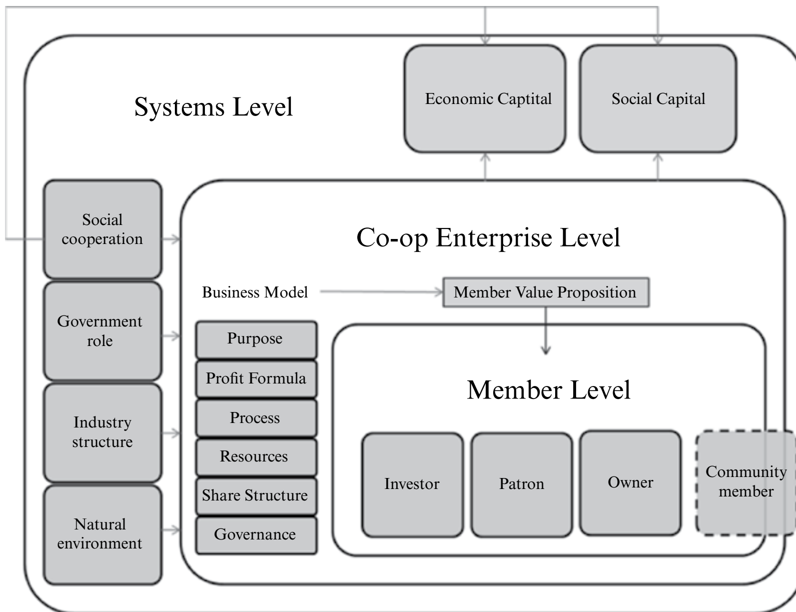


*Figure 2.1 Conceptual co-operative enterprise research framework*

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1. The need for there to be an environment within the community that is conducive to social cooperation;
2. The role of government regulation and support;
3. The dynamics of the industry structure in which the co-operative is seeking to operate; and
4. The impact of the natural environment, particularly on agricultural producer co-operatives.

The two output factors are the co-operative's ability to generate economic and social capital. This reflects the dual socioeconomic function or 'symbiosis' of the co-operative and its role as a social business (Fairbairn 1994; Novkovic 2008).

At the meso-level of the co-operative enterprise the key units of analysis are those of the business model but with 'purpose' replacing 'product', then the 'profit formula' dealing with the financial sustainability of the co-operative, the 'resources' and 'processes' required to fulfil its 'purpose', plus the 'share structure' and 'governance' model used by the business. These elements should be configured to deliver a 'member value proposition'. The replacement of 'product' with 'purpose' within the business model is recognition of the importance of the co-operative's strategic purpose that brought it into existence. This could be predominately economic or social in nature (Hogeland 2006).

Finally at the micro level of the member, attention needs to be given to the differing and often competing motivations of membership. This assumes that the member is motivated to join and remain loyal to the co-operative for a number of reasons. The four units of analysis here are their role as an investor, patron, owner and member of a community.

In the following sections each of these three levels is examined in detail with an explanation as to its theoretical justification within the framework, and its importance.

## SYSTEMS LEVEL ANALYSIS

Co-operatives, as with any organisation, do not exist in a vacuum. To fully understand the nature of the co-operative enterprise it is important to examine the systems level environment that surrounds it. Adopting a systems perspective enables the examination of persistent problems that may be unstructured and highly complex due to their being embedded in different societal domains. These may be occurring at various levels within the task environment in which the co-operative's management team and board must operate. They are also likely to involve various actors with dissimilar norms, values and perspectives (Loorbach 2010).

Systems level analysis focuses on the links that exist between systemic factors and the real-world experiences of the co-operative's management and board. The way in which the co-operative business interacts with the key actors in its external environment (e.g. members, customers, suppliers, the government and competitors) can be understood using classic system-theoretic concepts (Simon 1978; Weaver 1978; Luhmann 1984). These help to explain the emergence and interconnectedness in the possible and the realised relationships of these elements.

A system is thought to be emergent if, after a critical mass has been exceeded, the behaviour of the system can no longer adequately be conceived as an aggregation of its

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parts (Garciá-Olivarez 1993). Under dynamic relational conditions, a complex systems perspective can help to explain individual, group and organisational behaviour. Systems theory offers a conceptual lens within which to analyse both societal and governance complexity within the co-operative enterprise.

There are specific patterns, dynamics and mechanisms that drive change in societal systems (De Haan 2006). Actors involved in governance processes co-evolve with these broader societal systems dynamics. These actors create formal and informal networks because they have partially overlapping interests and/or resource dependencies (Jessop 1997; Klijn and Koppenjan 2000). Within such networks, decisions and strategies are developed, negotiated and implemented that can lead to changes in the political economy and governance of co-operatives.

As outlined in Figure 2.1, our conceptual framework at the systems level has four inputs and two outputs. In the following sub-sections we discuss each of these with reference to their role in shaping the strategic behaviour and sustainability of the co-operative enterprise.

**The Importance of Social Cooperation**

For a co-operative enterprise to form it must have the support of its members who need to be drawn together in a spirit of collective action. The decision to cooperate is complex and may have more to do with a rational assessment that more can be gained from collaboration than competition (Axelrod 1997). An individual's willingness to cooperate may be due to their economic, social position and life stage (Sorokin 1954). Situations in which a person is concerned over environmental or social uncertainty may influence their willingness to collaborate, but such cooperation is likely to be mediated by their ability to communicate and whether they have a sense of group identity (Biel 2000).

Social exchange theory assumes that all human relationships are driven fundamentally by a cost-benefit analysis in which the individual assesses the benefits of maintaining a social relationship with others against the costs of doing so. In this sense it is largely economically rationalist in its approach, and suggests that cooperation amongst humans is based largely on self-interest rather than altruism (Homans 1974; Blau 1964). Critics of social exchange theory suggest that it is too narrow and rationalist (Miller 2005).

According to Peredo and Chrisman's (2006) theory of community-based enterprise there must be strong social capital upon which to draw before a community enterprise can be formed. They suggest that three conditions need to exist within the community. First there should be in existence a foundation of community skills that can be used to help launch the business. Second, there should be a multiplicity of goals, including not only a desire for economic self-interest, but also wider social, cultural or environmental aims that can draw the community together in a common interest. Finally, there should be both willingness and ability for the community to participate in the enterprise.

This is consistent with the social cooperation theory proposed by Birchall and Simmons (2004) to help explain the forces motivating people to establish co-operatives. This suggests that collaboration between people will occur where there is a sense of common or shared goals and values, plus a sense of community whereby they identify with each other and show mutual care and respect for each other. Three key elements

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known as the 'participation chain' should exist in order to allow for social cooperation. These elements are resources, mobilisation and motivations.

Before a co-operative can be established the community must possess the necessary resources (e.g. assets, capabilities, time, money and skills) required to set it up. Without adequate resources it is unlikely that many co-operatives would be founded. However, there must also be the ability for the community to be mobilised and this is likely to require community members to have mutual needs and the capacity to be recruited into the co-operative. Finally, the community should have the motivation to encourage this level of collaboration and to sustain co-operative activity.

## The Role of Government

Governments have a significant influence on the creation and demise of co-operative enterprises. They do this by setting the legislative and regulatory environment in which the co-operative operates. The role of government in shaping the development of co-operatives has been well documented. For example, Gide (1922) outlines the development of the early co-operatives in England following the passing of the Industrial and Provident Societies Acts (1852 and 1862). As he explains:

> The first Act in particular, which was the Magna Charta of cooperation, gave legal rights to the societies, hitherto without guarantees or corporate existence, and whose property could therefore be appropriated by the first member who wished to take possession of it. (Gide 1922, p. 36)

In this early treatise on the nature and role of co-operative enterprises Gide (1922) devotes an entire chapter to their interaction with government. He points to the need for legislation that will help to recognise the existence of the co-operative. It must also help to define the use of share capital and protect both the rights of the members and the co-operative spirit of the business. He also noted the important role played by government in setting the regulations relating to taxation exemptions for many non-distributing co-operatives. More recently, the enabling role of government through legislation and regulation has been explored through, for example ILO Recommendation 193 (see Henry 2012).

Another example of government's impact on co-operatives is in the area of agricultural producer markets. Australia's bulk grain storage and handling systems emerged during the 20th century with the active support of state governments. The passing of the Bulk Handling Act 1936 (WA) in Western Australia provided Cooperative Bulk Handling Ltd with a 20 year monopoly to create a state-wide system of bulk grain handling and storage (Ayris 1999). By contrast the State Government of South Australia resisted farmer pressure to establish a similar system from 1914 until 1954 when the South Australian Cooperative Bulk Handling Ltd was established with state-wide monopoly granted under the Bulk Grain Handling Act 1955 (SA) (Payne and Donovan 1999).

With these handling monopolies and single desk marketing systems controlling pricing and exports the Australian grains industry co-operatives enjoyed significant growth. However, in the 1980s government desire to see greater market deregulation led to the passing of the Wheat Marketing Act 1989 (Commonwealth). This removed the monopoly power of the state-based bulk handling co-operatives and single desk marketing authorities (Ryan 1994). This had a significant impact on these co-operatives, particularly that of South Australia (Thomas 2006).

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A similar pattern of government involvement can be found in the United States. Government regulation of agriculture commenced during the 1880s and legislation relating to co-operative marketing was introduced during the 1920s. Co-operatives were granted exemptions from anti-trust legislation in the Clayton Act 1914 and Capper-Volstead Act 1922 (Looney 1992). The Co-operative Marketing Act 1926 and Agricultural Marketing Act 1929 promoted co-operatives and their power to control market supplies. US Federal Government agencies were also established to assist co-operatives to enforce production and marketing rules and promote exports. Financial support to co-operatives in the form of loans with subsidised interest rates were also issued as part of the New Deal in the early 1930s (Libercap 1997).

Governments can therefore impact significantly on co-operatives through legislative and regulatory controls. They can also support co-operatives in order to help facilitate regional economic development and the enhancement of the social economy (Spear and Bidet 2003; Ingram and McEvily 2007). In many developing economies co-operatives have been given support by governments seeking to enhance the economic conditions for farmers, or as a means of boosting housing availability. However, in some former colonial countries the level of government involvement in co-operatives has blurred the lines between a true co-operative enterprise and government controlled trading organisation (Birchall and Simmons 2010; Birchall 2011).

## Industry Structure

Co-operatives can be found in a wide range of different industry sectors. As shown in this book they operate in agricultural, financial, retail and shared services industries. As a business the co-operative is not immune from the dynamics of the industry environment in which it operates. Porter (1979, 1980, 1981) has provided one of the best-known theoretical frameworks for understanding the dynamics of industry environments. This suggests that attention be given to five 'forces' or elements that influence the level of competition taking place within an industry. These are:

1. The level of competitive rivalry within the industry;
2. The power of buyers;
3. The power of suppliers;
4. The threat of new market entrants; and
5. The threat of substitution.

The ability of an industry to generate attractive and sustainable profits will be contingent upon the nature of these five forces (Peters 1993).

At the centre of this industry analysis framework is the level of rivalry that may exist between firms. This is generally measured by the number of firms that are seeking to compete within the sector. In markets that are open to almost any business there can be multiple players and a system of near perfect competition. At the other extreme there can be a monopoly that is controlled by a single incumbent. The nature of the industry environment is important to determining the way in which the co-operative is likely to operate.

Many co-operatives are founded by small scale producers, small business operators

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or members of the community in order to secure greater power in the market. This was one of the motivations for the establishment of retailing co-operatives in the United Kingdom during the 19th century (Purvis 1990). As outlined in the previous section, agricultural producer co-operatives are often granted monopolies or exemptions from anti-trust legislation. This is usually afforded on the assumption that it offers favourable outcomes for farmers who might otherwise be disadvantaged. While this is generally true, it may not always be the case (Helmberger 1964).

The power of buyers and suppliers is also an important factor in determining the level of competitiveness that might exist within a market. As noted above, the establishment of a co-operative is often a response by those with limited economic bargaining power. Farmers, for example, are typically smaller and have less bargaining power as suppliers or as buyers when seeking to deal with major corporations. There is also an asymmetry of information available to them over pricing, quality or environmental factors. A co-operative can help to alleviate these imbalances (Mikami and Tanaka 2007).

Co-operatives also tend to work in a reverse logic when dealing with supply chain issues relating to buyers and suppliers. For example, within a conventional investor owned business the aim is often to secure superior prices from customers and lower purchase prices from suppliers. Even within more dynamic supply chains the emphasis is on value adding so as to justify any premium pricing (Walters and Lancaster 2000). However, for the co-operative the members are the owners and shareholders, as well as the buyers and suppliers. This typically results in the co-operative seeking to pay higher prices to its supplier members and charge lower prices to its buyer members.

In relation to the threat of new market entrants there are many factors that might impede or facilitate such access. These can include economies of scale and scope, product differentiation, capital investment requirements, control over distribution channels, and government policies or regulations (Porter 1979). The history of co-operatives has demonstrated their ability to use collective behaviour to overcome such barriers in the creation of credit unions, building societies, marketing and bulk purchase systems. In some cases the formation of co-operatives and mutual enterprises has been blocked by the erection of artificial barriers. This was the case in the United States where attempts to establish health co-operatives in the 1930s were blocked in many states by lobbying action from the American Medical Association (AMA) (Birchall 2011).

Finally, there is the threat of substitutions. One of the most common sources of such threats is the emergence of new technologies that can alter a market and make existing products or processes redundant. Market deregulation can also lead to threats of substitution. This can occur in, say, the replacement of rail freight services for road transport, or the use of email to replace surface mail. Substitution threats can be a challenge to co-operatives in much the same way as any other business. For example, Australia has seen the introduction of new technologies that allow farmers to store grain on their own properties rather than delivering it directly into bulk storage and handling sites controlled by the co-operative. This is potentially attractive to some larger producers (SDD 2008).

## The Role of the Natural Environment

The natural environment plays an important and often overlooked role in influencing the strategic decision making of corporations. Many businesses have to come to terms

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with government regulation relating to environmental sustainability (Banerjee, Iyer and Kashyap 2003). From a strategic viewpoint the impact of the natural environment is its ability to create high uncertainty. This can take the form of climate change, pollution, loss of biodiversity or the collapse of fragile ecosystems. These impose conditions of uncertainty and may create moral and ethical dilemmas for business leaders.

For co-operatives, particularly those operating within the agriculture, pastoral, forestry and fishing sectors, changes in the natural environment can be of strategic importance. According to Busch and Hoffmann (2009) at least three types of ecologically induced uncertainties can be identified:

1. Environmental state uncertainty refers to uncertainty over future industry and market conditions.
2. Organisational effect uncertainty relates to the inability to predict the impact of environmental change on individual firms.
3. Decision response uncertainty relates to the lack of knowledge in terms of impact and suitability of response options.

Environmental uncertainty impacts on managerial decisions by influencing managers' ability to effectively assess the changing business environment and the likely outcomes of such decisions (López-Gamero, Molina-Azorin and Claver-Cortés 2011). How an organisation responds to changes in the natural environment is likely to depend on the way its senior managers interpret the level of threat that this might pose (Sharma 2000).

**The Creation of Economic Capital**

In addition to the four influencing factors discussed above, the conceptual framework also examines two key outcomes or outputs from the co-operative enterprise. These are the co-operative's ability to generate economic and social capital. Co-operatives are a hybrid form of social enterprise that can deliver both social and economic outcomes (Neck, Brush and Allen 2009).

Economic capital can be measured in terms of the creation of wealth, jobs and assets. In terms of wealth creation co-operatives have been recognised as enhancing the financial situation of their members. For example, credit unions and co-operative banks have been found to promote savings amongst their members rather than debt (Ward and McKillop 1997). Agricultural producer co-operatives have also been found to generate superior farm gate prices or lower costs of supplies via collecting, marketing and purchasing (Krivokapic-Skoko 2002).

In terms of job creation, Bartlett et al. (1992) suggest that co-operatives can have higher productivity levels, better industrial relations track records and fewer dichotomies between the remuneration of employees and senior managers. Co-operatives are also more likely to employ within their local community and seek to offer opportunities to the unemployed. Co-operatives are also responsible for the creation of significant assets such as valuable infrastructure that would not have existed without them (Birchall and Simmons 2010; Birchall 2011). This includes the creation of bulk grain handling and storage facilities in Australia (Ayris 1999), and regional electricity generation and distribution systems in the United States (Heriot and Campbell 2006).

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Despite these contributions of co-operatives to the creation of economic capital, their overall role within the wider economy has often been underestimated. This is due to the complexity of how co-operatives create such economic capital. Many co-operatives do not distribute dividends to their members and may be tax exempt. They may also not openly trade their share capital or have such share capital accumulate value over time (Nembhard 2002). When compared to investor owned firms the co-operative enterprise can seem to be less of a wealth creator. However, if this wealth creation is measured via the accumulated economic and financial benefits of its members the true contribution of the co-operative is revealed.

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**The Creation of Social Capital**

As a social enterprise one of the key outputs from a co-operative is social capital. This is a more difficult output to measure. Social capital is a complex and poorly defined concept that encompasses a range of academic disciplines (Fine 2001). As outlined in Chapter 1, the key elements that comprise social capital are trust, reciprocity and mutual benefit (Winter 2000; Adler and Kwon 2002). It deals with the interrelationship between people at the individual and group level, which is a key factor in the promotion of co-operative behaviour (Fukuyama 2001). In this way social capital is a key asset that is generated from social relations and networks (Burt 1997; Leana and van Buren 1999).

Within the realm of social enterprises such as co-operatives there are at least four key elements that help to foster social capital (Birch and Whittam 2008). The first of these is 'norms', which relate to the ties or bonds that develop between individuals within a community. A second element of social capital is 'networks' that consist of the extra-community ties that help to bind the society together. A third element is 'links', which refers to the differences between communities that might otherwise be diverse. Finally there are 'holders', who are individuals that serve as change agents or 'bridge builders' and help to draw the community together.

A social enterprise like a co-operative has the potential to bridge gaps between diverse groups of people and help to foster the development of social capital. It does this by drawing people together as members and thereby helping to span social, economic and political boundaries. At the heart of the social capital concept is 'structural hole theory'. This suggests that social capital is a function of brokerage opportunities within a network (Burt 1997). From the perspective of a market, the role of social capital is to help bridge gaps that might otherwise exist between people and stop the flow of information. In a perfect market information will flow freely to all people, but in the real world such information flow is impeded by structural holes. This results in a few individuals getting access to the information and many others missing out. However, if there are strong ties between people, this social capital will be able to fill these holes and empower all.

Social capital is an important output from co-operatives because it helps to enhance the flow of information and knowledge to all members. By becoming members of a co-operative, individuals who might otherwise be excluded from access to particular resources will be able to access them (Leana and van Buren 1999). Co-operatives, like other social enterprises, rely upon social capital to help generate a process of 'bonding and bridging' (Peredo and Chrisman 2006). This involves bonding together the members

within the community who form the co-operative, and then connecting them with people from outside their immediate community via a bridging process. This bonding and bridging role of social capital is important to the formation and sustainability of co-operatives which tend to flourish in environments of high social capital and languish when social capital is low (Birchall 2011).

**Measuring Social Capital**

In summary, social capital is an important and probably essential output from co-operative enterprises. Although difficult to define and measure, it deals with issues of trust, the norms of reciprocity between people and the flow of information (Woolcock 1998). As a 'hybrid' organisation that deals with both economic and social issues the co-operative has an important role to play in fostering social entrepreneurship within the wider community (Novkovic 2008). Although measuring social capital is difficult it can be understood by monitoring its three key components: trust, reciprocity and networks.

The trust that exists between members of the co-operative and between the co-operative and its members is critical to the development of social capital and the long term sustainability of the enterprise. Any deterioration in trust within what is an economic and social network will threaten the co-operative (Knight 2000). This trust must exist at the member to member level, be reinforced by the history and culture of the co-operative, and supported by the governance and management systems that guide its operations (Zucker 1986). Trust between people is built on the foundations of integrity, ability and benevolence (Mayer, Davis and Schoorman 1995).

In addition to trust, social capital must also be underpinned by reciprocity between individuals as a process of engagement either member-to-member or member-to-co-operative. Nowak and Sigmund (2000) suggest that reciprocity can take at least three forms. First, there is 'direct reciprocity' in which individuals give and get in direct response to their actions. Second, there is 'indirect reciprocity', where the individual gives without receiving direct benefits, but obtains them indirectly perhaps by gaining enhanced reputation within the community (Leimar and Hammerstein 2001). Finally, there is 'spatial reciprocity' where an individual's ability to avoid potentially negative 'tit-for-tat' responses for bad behaviour is enhanced by geographic distance. Closely knit, stable communities that don't experience high levels of member turnover are more likely to develop co-operative behaviour than those with highly transient populations or unstable communities (Nowak and Sigmund 2000).

Finally, there is the need for the existence of effective networks, or what researchers call a 'series of connected or tied nodes' (Narayan and Pritchett 1999). Between individuals there is a need to focus on such elements as the existence of structural holes, trust, shared codes of language and the strength or weakness of interpersonal ties (Granovetter 1973, 1983, 1985; De Carolis and Saparito 2006). At the enterprise level the network can be understood from the perspective of three interconnected layers (Holmlund and Tornroos 1997). The first of these is the 'production network layer', which is the vertical supply chain linking the firm to its suppliers and customers. Within a co-operative the dynamics of this supply chain and the way that members engage with the enterprise are critically important to its ability to deliver value within its business model. The second layer is that of the 'resource network'. This is the horizontal layer that includes

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complementary actors that can provide the co-operative with various types of support. This might include government regulatory agencies and the financial institutions. Finally, there is the ‘social network layer’, consisting of the interpersonal relations that take place between people.

## ENTERPRISE LEVEL ANALYSIS

At the level of the co-operative enterprise the conceptual model illustrated in Figure 2.1 draws in the key elements of the business model concept and identifies six ‘pillars’ plus 16 ‘building blocks’ of a business model concept for co-operative enterprises. These are summarised in Table 2.1 where it can be seen that the six pillars comprise the ‘purpose’ for which the co-operative was established, the ‘profit formula’ associated with how it generates and distributes revenues, then the ‘key resources and processes’ the enterprise needs to

*Table 2.1 The pillars and building blocks of co-operative business models*

| Pillar | Building block | Description |
|---|---|---|
| *Purpose* | Member value Proposition (MVP) | A co-operative’s strategic reason for existing and the offer of value that it is able to make to members. |
| | Target members | Who the co-operative’s members should be and whether it is to seek a broad or narrow membership. |
| *Profit formula* | Cost structure | Monetary consequences of the means employed in the business model. |
| | Revenue model | How the co-operative makes money through a variety of revenue flows. |
| | Profit distribution policy | How or if the co-operative will distribute any profits back to members. |
| *Key resources* | Core competency | Competencies necessary to execute the co-operative’s business model. |
| | Physical assets | Financial, human and tangible assets required in order to achieve its purpose. |
| | Partner network | Network of co-operative agreements with other organisations including its members necessary to efficiently offer and commercialise value. |
| *Key processes* | Distribution channel | Means of the co-operative to get in touch with its members. |
| | Relationship | Links a co-operative establishes between itself and its members. |
| | Value configuration | Arrangements of activities and resources. |
| *Share structure* | Ownership rights | Arrangements for the distribution of share capital within the co-operative. |
| | Voting rights | Relationships between share capital ownership rights and voting rights. |
| *Governance* | Board structure | Size and composition of the board. |
| | Management structure | Size and composition of the executive management team. |
| | Member engagement | Arrangements for ensuring that members are appropriately engaged in the governance of the co-operative. |

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achieve its purpose, and finally the way that it structures its share capital and governance systems. In the following sub-sections we examine each of these 'pillars' in more detail.

**Purpose and the Member Value Proposition**

As discussed above, the conventional business model framework comprises a customer value proposition (CVP) specifically developed to attract a given target market, configured into the design of a product (Osterwalder et al. 2005; Teece 2010). However, within co-operative enterprises the central focus should be on the purpose for which the business was created as this is central to what attracts and retains members (Shah 1996).

A co-operative enterprise can be established for a variety of purposes. These can range from the primarily economic to the primarily social and the benefits members get from them can also be both economic and social in nature. For example, within agricultural co-operatives members can secure a range of economic benefits that underlie the purpose for which the enterprise was created (Krivokapic-Skoko 2002). These benefits include enhancing farmer access to markets, enhanced pricing, improved productivity from the pooling of resources and bulk purchasing or handling. The ability of a co-operative to provide stability of pricing and demand for commodities also serves to significantly reduce the level of market risk borne by the farmer.

Yet a co-operative can also offer farmers non-economic 'social capital' benefits in the form of access to information and knowledge, as well as community building opportunities that flow from the co-operative's activities. This combination of economic and social benefits generates what Nha (2006) refers to as 'cooperative value', or the set of benefits that members expect their co-operative to provide that cannot be obtained from alternative forms of enterprise. Social enterprises – of which co-operatives are a hybrid type – usually exist to perform a social purpose and focus their resources on the creation of a social value proposition (SVP) (Austin, Stevenson and Wei-Skillem 2006). This is usually targeted at delivering benefits to the wider community. However, for a co-operative there is a need to address the 'collective self-interest' of its members and align this with the 'collective interest' of the community (Birchall and Simmons 2009). The focus of the co-operative business model should therefore be the clear articulation of a common purpose and the development of a 'member value proposition' (MVP) that appeals to the membership.

The creation of a well-defined MVP requires that the co-operative understands how value is understood by its members and created within its business. The hybrid nature of the co-operative suggests that its MVP should seek to address both economic and social benefits. Finding this balance can allow it to build the 'cooperative advantage' (Spear 2000). This typically identifies member value emerging from the services provided, the outcomes achieved and the trust that is engendered between the co-operative and the members as a result of the process. Also important in this are the issues of equity, ethos and accountability with a close association between the values upheld by the co-operative and the value perceived by its members (Kelly and Muers 2002). Key questions that should be asked in relation to the MVP are:

1. How does the co-operative deliver value for members?
2. What are the best mechanisms to assemble the co-operative's resources to deliver this value?

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3. How might this be sustained so as to ensure that members do not drift away or seek to secure such benefits from other business forms?

**Profit Formula**

The issue of profit generation is a contentious issue within the co-operative movement. Gide (1922) observed that the original Rochdale Pioneers were not averse to making profit, but they sought to distribute this back to members in proportion to their patronage. Nevertheless he acknowledged that the issue of profit creation and distribution 'is one of the fundamental questions of cooperation' (p. 78).

The key considerations within the co-operative enterprise's approach to the profit formula are its cost structure, revenue model and profit distribution policy. As noted in Chapter 1, the establishment of a co-operative is justified in circumstances where members, as owners, are able to secure lower transaction costs than they could obtain by simple contracting as suppliers or customers (Hansmann 1996). The cost structure of a co-operative enterprise is subject to the same pressures as an investor owned business with the key exception that it is not seeking to maximise its profits as a primary strategic goal. As a member-owned business the co-operative is seeking to maximise benefits to its membership.

In determining its approach to the cost structure and revenue model the co-operative enterprise has to balance competing requirements of what its members want and what it needs to do to maintain an efficient and sustainable business. Members in purchasing co-operatives will seek lower prices for the goods and services they buy, while members in supply-side or producer co-operatives will want higher prices for their produce and lower transaction costs or the rebating of these costs. The co-operative will need to develop a cost-profit-volume analysis as part of its MVP and seek to maintain an efficient cost structure to help it to deliver better prices and lower costs to its members.

Due to its collective effort and if its members remain loyal and willing to give all or most of their patronage to the co-operative it should be possible for this type of enterprise to compete successfully against investor owned firms (Sisk 1982). However, the pressure of member demands for lower costs and higher prices for their produce can make co-operatives unprofitable (Garoyan 1983). In this sense the co-operative business model is distinctly different from that of the investor owned firm. How it decides to set up its revenue model, cost structure and profit distribution policy typically requires it to consider what will be in the best interests of its members and trade that off against what it considers necessary to maintain the co-operative as a going concern (Rhodes 1983).

**Key Resources**

The key resources required by a co-operative enterprise in order to achieve its purpose include tangible and intangible assets plus a strategic network of partners. The tangible or 'physical resources' required vary depending on the nature of the co-operative. However, they typically include financial and human resources, plant and equipment, plus business systems (e.g. IT, planning and control). Also of importance are the intangible resources

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that comprise the co-operative's 'core competencies'. These are the knowledge and skills that it needs to operate at an effective level (Prahalad and Hamel 1990).

The resources needed to effectively operate a co-operative are largely similar to those of an investor owned firm. However, there may be some differences in terms of the structure and size of the co-operative's board and the size, quantity and composition of the senior management team. The co-operative's organisational culture, ethos, values and reputation may also play a key role in determining its ability to deliver the MVP. Of particular importance is the co-operative's capacity to unite its membership by aligning their individual self-interest with the collective action required to produce the 'collective good' the business model requires (Streeck and Schmitter 1985).

Another very important resource requirement is the co-operative's ability to manage a strategic network of partners comprising its members and other complementary actors. As a member-owned business the co-operative has been likened to a coalition (Staatz 1983) or a nexus of contracts (Sexton 1983, 1986). Co-operatives that are formed as the focal firm within a producer supply chain (e.g. agricultural co-operatives) or as a purchasing co-operative for small firms perform like the hub of a network. Such firms must focus on their ability to create value for both themselves and their network partners. They must develop core competencies that allow them to manage this network and to foster innovation by aligning their structure and strategy to effectively deliver this value (Lorenzoni and Baden-Fuller 1995).

As noted above, the strategic network of a business organisation can be mapped at the production, resource and social network level (Holmlund and Tornroos 1997). For a co-operative three network layers have been identified (Pollet and Develtere 2000). The first is the 'primary network level', which relates to its engagement with its members as a hub for their economic and social activity protecting commonly pooled resources (Simmons and Birchall 2008). The second is the 'secondary network level', which encompasses the principle of 'cooperation amongst co-operatives' and sees the co-operative engaging with other co-operatives in ways that are mutually beneficial. Examples of this can be found in Mondragon Spain and small manufacturing co-operatives in Northern Italy. Finally, there is the 'tertiary network level', which sees the co-operative developing networks at a national or international level.

## Key Processes

Once the co-operative enterprise has determined its purpose and MVP it must configure its resources to generate processes that can sustainably deliver the benefits it seeks to offer to its members. These processes are embedded in the way the co-operative designs its management systems and the rules, policies and key performance indicators (KPI) that help to monitor its performance. Also of importance are the 'soft systems' that it applies to help build and sustain an organisational culture supportive of the purpose and MVP.

An important issue in the design of such processes is the determination of how the co-operative will engage with its members and the nature of this relationship. As a member-owned business the co-operative must possess processes that allow for member participation in decision making. This can include 'active voice' participation such as when members attend meetings, consider options and vote; and 'responsible voice'

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whereby members' own expertise and experience are recognised and respected, usually via a process of consultation (Ownership Associates 1998).

In order to best configure its processes the co-operative needs to keep focused on its purpose and MVP. At each point where it has contact with or impact on its members it must assess whether it is able to create or deliver value. Both 'hard' issues (such as strategies, structures and systems) and 'softer' issues (such as skills, behaviours, attitudes and leadership style) need to be addressed to ensure ongoing congruence between the goals and needs of the members and the activities, projects and initiatives of the organisation.

For co-operatives that are built around a supply chain relationship, the key processes will be an ability to manage all the activities that increase value for the supply chain participants (Goddard, Boxall and Lerohl 2002). Due to their member-owner structure and member-focused culture, many co-operatives have been found to possess stronger supply chain systems than investor owned firms, with benefits for their sustainability (Nunez-Nickel and Moyano-Fuentes 2004). However, the co-operative must make sure that it structures its supply chain relationships with its members appropriately and manages this network in order to foster common user infrastructure and a free flow of communication up and down the chain (Garcia-Perez and Garcia-Martinez 2007).

## Share Structure

How the co-operative designs its share structure, specifically the ownership rights it confers to its members, has been one of the most complex areas of co-operative corporate governance for much of the past 200 years (Fairbairn 1994). For the Rochdale Pioneers the members' investment capital provided them with nothing more than a fixed rate of interest and the ability to trade with the co-operative to receive fair market prices without credit or profit taking. Any profit generated by the co-operative was distributed to members based on their patronage, and some was reinvested into the business. Share capital did not accrue any capital gains. By the 1930s there were changes to how share capital ownership rights were treated by co-operatives. This included a move towards the payment of fixed interest rates on investment capital and for members to have first claim on any profits after the payment of expenses and any interest charges in proportion of patronage (Hall and Watkins 1937).

During the 20th century the ownership rights share structure arrangements found in co-operatives evolved into a range of models defined into taxonomy by Chaddad and Cook (2004). This is illustrated in Figure 2.2 where it can be seen that the critical issues are associated with several considerations. The first is, who can own the share capital? Will it be available only to members or will non-members have the right to invest? A second consideration is whether or not this share capital can be redeemed and transferred. If it is able to be redeemed, will it be on the basis of a member's patronage or as a process of returns to investment? In the case of the former this reward for patronage can be done to reflect their level of patronage or as a simple distribution to all members. A third consideration is whether or not the share capital is able to be converted into publicly traded stock. In this case there is a risk that the co-operative will surrender its mutuality and become an investor owned firm.

Research into the equity structures and performance of co-operatives and investor owned firms suggests that there is no disadvantage for a co-operative in relation to

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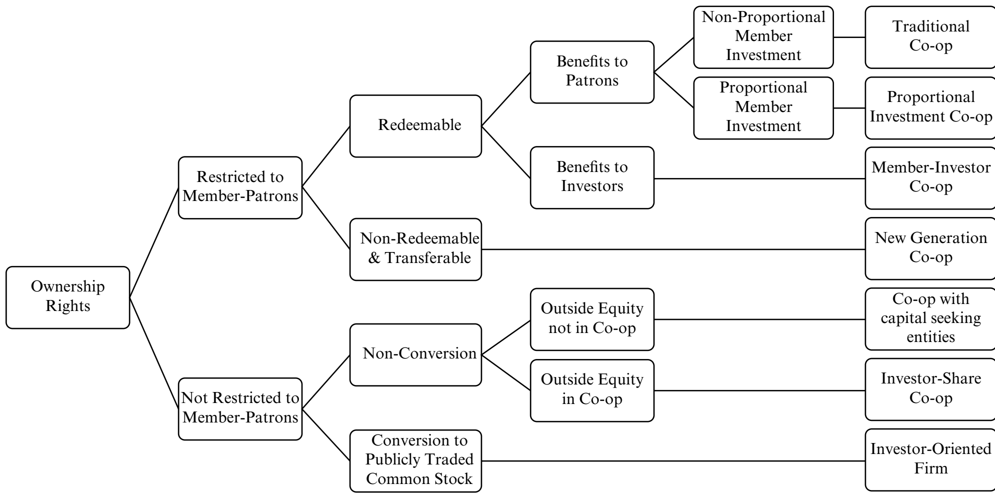


*Source:* Chaddad and Cook (2004).

*Figure 2.2 Co-operative enterprise share structure taxonomy*

profitability, or that such businesses are necessarily 'equity bound' or constrained in their ability to raise funds (Lerman and Parliament 1990, 1991, 1993). If any differences were found it was that the co-operative is more likely to retain earnings for reinvestment while investor owned firms were inclined to pay out profits as dividends to shareholders (Parliament and Lerman 1993).

Another key consideration within the share structure is the voting rights that such share ownership confers. As discussed in Chapter 1, a principle of co-operatives is 'one-member-one-vote', which is a foundation of what differentiates them from investor owned firms. However, the design of the co-operative's share structure ownership rights, particularly if it allows for non-members to hold shares, will raise significant issues in relation to the voting rights of shareholders.

**Governance**

Closely aligned with share structure is governance, which relates to the composition of the board, the size and character of the executive management team and the way the co-operative engages with its members. The model of governance within co-operative enterprises operates within at least four main spheres. These include the board and executive team, the organisational structure of the co-operative and then the membership and its broader community (Prakash 2003).

A governance system within a co-operative should ideally aim to draw together the membership, the management and the board in a way that unites them in the common purpose for which the enterprise was established. This is illustrated in Figure 2.3 as the overlapping of three interconnected spheres (Birchall and Simmons 2007).

As shown in Figure 2.3 the first sphere comprises the level of member participation and links to the co-operative's corporate governance structure (i.e. the committee or board

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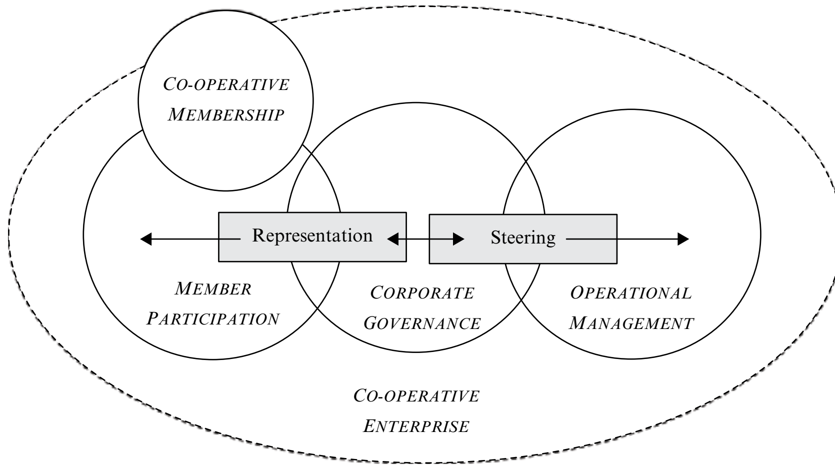


*Source:* Simmons et al. (2007).

*Figure 2.3 Overlaps between participation, governance and executive management*

structure). Here the responsibilities of members for 'active voice' lead them to represent their needs to their elected committee or board members through the opportunities provided for democratic participation. The second sphere of corporate governance links with the spheres of member participation and operational management. The sphere of corporate governance encompasses the role of an elected committee or board that represents the co-operative's membership and oversees the executive managers. Corporate governance structures in co-operatives should therefore not be considered in isolation from more inclusive processes of participation, nor from the operational life of the enterprise.

The interrelationship between the co-operative's membership, board and management is therefore critical to how the enterprise functions. There is some evidence that co-operatives underinvest in their business operations when compared to investor owned firms due to the corporate governance models of the two enterprises (Bacchiega and de Fraja 2004). How the board of the co-operative is composed and whether the senior management team is sourced from within or outside the co-operative have also been found to have an impact on whether the enterprise is successful (Bataille-Chedotel and Huntzinger 2004). While the management team and board should comprise people with expertise in business, finance, legal issues and marketing, it is also important that they understand the unique characteristics of co-operative enterprises, develop a 'collective competence' and understand the underlying philosophies of cooperation and the workings of this type of organisation.

Table 2.2 summarises a typology of governance models in co-operatives developed by Cornforth (2004) and reproduced here with some adaptations. There are six distinct corporate governance models that have specific characteristics dependent on whether there is convergence or divergence in the interests of the co-operative's members and managers. The way the co-operative's board is structured and the role that it plays will in turn be determined by the level of divergence or convergence. A series of interrelated theories are applied to each of these models.

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*Table 2.2 Governance models, board roles and theoretical perspectives*

| Model | Theory | Description |
|---|---|---|
| Compliance | Agency theory | Members and managers have different interests but members have power. Board is composed of members' representatives tasked to safeguard member interests, oversee management and check compliance. |
| Partnership | Stewardship theory | Members and managers have common interests, and board is comprised of experts with a focus on improved performance, value adding to strategy and supporting management. |
| Democratic | Democratic perspective | Members and the wider public have different interests. Board is composed of lay member representatives who represent membership, make policy and control management via political process. |
| Stakeholder | Stakeholder theory | All stakeholders have different needs and board is composed of stakeholders' representatives. It uses a political process to balance stakeholder interests, make policy and control management. |
| Co-optation | Resource dependency theory | Stakeholders and co-operative managers have different interests. Board is chosen for its ability to have influence with key stakeholders. It is focused on boundary spanning, securing resources, managing stakeholder relations and focusing on external not internal issues. |
| 'Rubber stamp' | Managerial hegemony theory | Members and managers have different interests but managers have power. Board is composed of members' representatives but is only there in a symbolic manner to ratify decisions and give legitimacy to managers' decisions. |

*Source:* Adapted from Cornforth (2004).

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The first is a 'compliance model' where the membership has power and its interests are not the same as those of the co-operative's management. Here the concept of 'agency theory' applies and the members elect representatives to the board to oversee the management team and ensure that they comply with policies that will protect the members' interests. By contrast the second type, a 'partnership model', has the membership and management sharing common interests. Here the members may apply 'stewardship theory' that sees the appointment of experts to the board who are trusted to act in good faith and in the best interests of the members and the enterprise.

A third type is the 'democratic model' where there are divergent interests between the members and the broader community that might engage with the co-operative as customers (i.e. in retail co-operatives). Here a political process emerges with lay members being elected to the board to set policy and make decisions with an eye to satisfying the public interest. This is similar to the fourth type or 'stakeholder theory' (Freeman 1986), which suggests that while the board is responsible for acting in the best interests of members as shareholders, they also have to consider other stakeholders (e.g. employees, customers, government, community).

Where stakeholders have different interests to the management but cannot be ignored

the co-operative may adopt a 'co-optation model' that draws on 'resource dependency theory' (Pfeffer and Salancick 1978). The board will therefore work to satisfy the often conflicting interests of key stakeholders and may co-opt onto the board representatives from these stakeholder groups in order to assist them to deal with these vested interests. In this case the board may comprise members and non-members who have been co-opted.

The final type is the 'rubber stamp model' where the power lies not with the members but with management. This draws on the theory of 'managerial hegemony' (Berle and Means 1932). Here the board is little more than a rubber stamp for the executive managers who set policy and strategy with the expectation that the board will simply ratify their decisions and lend legitimacy to them. The larger a co-operative becomes the more likely that the power may vest with the management team rather than the membership, leading towards this model (Itkonnen 1996).

The governance of a traditional co-operative enterprise is different from that of an investor owned firm due to the highly democratic nature of its 'one-member-one-vote' principle. Another factor that influences governance within the co-operative is its network structure, which has been discussed above from a resources perspective. As a governance issue the co-operative might be viewed less as a conventional business entity and more as a coalition of members (Emelianoff 1942). This is particularly relevant to co-operatives where the membership is comprised of businesses (i.e. small businesses or farmers).

Strategic network theory suggests that if firms can do everything alone with no outside help most will chose to do so. It is only where they cannot appropriate the resources they need that they will seek to collaborate and accept common or collective ownership of these resources. In some cases the firm may be able to do everything itself but the cost of doing so is higher than outsourcing this to others (Jarillo 1993). Strategic networks have been found to fail where there is a collapse of network democracy, and where one firm such as the focal firm (usually the largest actor in the network) seeks to appropriate too many resources. Network failure can also be caused where there are uneven rates of growth between the firms within the network. Slow growth firms that feel they are not benefiting from their membership will seek to withdraw. Fast growing firms may also leave the network if they feel they are being held back by the slower firms. A key role for the focal firm, and also co-operatives, is to disseminate knowledge amongst its members and help them to build up their competence and grow steadily (Miles and Snow 1992).

## MEMBER LEVEL ANALYSIS

The third level of analysis within the business model framework focuses on the membership of the co-operative. This recognises that the member has multiple motivations to engage with the co-operative and it identifies four key roles that the member can play. The first of these is the role of a patron who trades with the co-operative. This is the primary role co-operatives have played throughout their long history. The second role is that of investor who owns the share capital in the enterprise. This ownership of share capital gives the member ownership of the co-operative, but how they view this owner role is contingent on their engagement with the enterprise. The third role, member as owner, is

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thus closely connected with the second, but the focus is on the matter of control. Finally, there is the sense that members may have that they are members of a larger community. This community member role is important in co-operatives as they are social enterprises and their principles require them to have concern for the community.

**Member as Patron**

A primary reason for members to engage with the co-operative is to trade with it as a patron. This can take the form of supplier or buyer and requires the co-operative to be an efficient supply-chain manager (Giannakas and Fulton 2005). Member patronage is focused on at least three key issues. The first is the price they can get as a supplier or buyer (Tennbakk 2004). These prices should be competitive with what can be obtained via alternative channels. It is important therefore that a co-operative maintain operational efficiencies so as to keep transaction costs as low as possible. Co-operatives have been accused of being less efficient than investor owned firms. However patronage refunds, usually paid as dividends in proportion to patronage, can enhance the patronage relationship.

The co-operative – regardless of whether it trades in tangible products – is essentially a service business. As the focal firm within a trading network, the co-operative's primary role is to manage collectively owned assets in order to deliver services to its members (e.g. handling and processing of bulk commodities, or wholesaling and retailing services). The quality of these services is therefore important and requires the co-operative to focus on its members and how to satisfy their needs within the delivery of the MVP. In summary, members will be willing to give patronage where they receive fair prices, efficient transactions and quality service.

**Member as Investor**

Although the member of a co-operative may initially join for the patronage rights it confers, they become shareholders and depending on the structure of its share capital, they may be attracted to securing a return to their investment as do shareholders in an investor owned firm. It can be seen from the taxonomy illustrated in Figure 2.2 that a range of ownership rights exist within the co-operative enterprise business model domain. Nilsson (2001) has suggested that if the members' interest in their role as investors exceeds that of their role as patrons the co-operative will risk demutualisation and may become an investor owned firm. Finding a balance between the member's role as patron and as investor is one of the key challenges in the management of a co-operative.

Co-operatives have a range of different options when dealing with this role of members as investors. In a review of over 50 cases of co-operatives around the world, van Bekkum and Bijman (2006) identified at least six options for financing. These included: (i) appreciable and/or internally traded shares; (ii) externally traded subordinated bonds; (iii) external corporate investors at subsidiary or group level; (iv) publicly listed or preferred stock; (v) conversion into member-owned limited liability companies, and (vi) converted listed co-operatives. Each of these options has different types of ownership rights and returns to investment. They require various trade-offs for the member and may see the distribution of share capital to non-members.

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## Member as Owner

The member's roles as investor and owner focus primarily on 'member economic benefits' such as return on investment or patronage outcomes. This is underpinned by expectations of 'distributive justice' (Fehr and Schmidt 1999), whereby economic returns are distributed through sensible rules and fair consideration of members' relative contributions (Ownership Associates 2001). The third role, member as owner, tends to focus on 'member control'. This is underpinned by expectations of organisational democracy and 'procedural justice' (Rawls 1958, 1972; Folger 1996; Folger and Cropanzano 2001), whereby the status of ownership provides rights for members to have a voice in decision-making, and the practice of ownership demands that members fulfil their responsibilities to participate in the democratic governance of the organisation.

While the investor and owner roles of members may be considered to be closely intertwined, their separation within this framework is deliberate and justified on the grounds that ownership carries greater responsibilities than are typically associated with investors. For example, many people own shares in publicly listed companies. Even though they technically 'own' a portion of these firms they are generally powerless in terms of their ability to shape the strategic future of such firms, and they don't view themselves as owners. Many of the taxonomies associated with the classification of co-operatives are focused on membership rights (e.g. Nilsson 1999; Chaddad and Cook 2004). In general the more homogeneity there is between members the more easily the co-operatives can be managed (Palmer 2002). However, there also appears to be a link between ownership rights and the level of member trust in the co-operative (James and Sykuta 2005).

Ownership requires the member to participate actively in the management of the co-operative. This includes attending annual general meetings, exercising voting rights and potentially standing for board membership. The separation of ownership rights from investor rights also reflects the potential for some co-operatives to grant share capital to investors who don't have voting rights. Yet for true ownership there must be a sense among members that the co-operative belongs to them. This may be built on more than the simple ownership of share capital. It often requires the member to identify with the enterprise via a common history, symbols or experience that leads to a 'sense of personal relatedness' with the co-operative (McMillan and Chavis 1986). Members can therefore develop differing intensity in their sense of ownership over the co-operative (Simmons and Birchall 2009).

The sense of ownership a membership has towards the co-operative is therefore not founded purely on economic motivations either as patron or investor. Although members' sense of ownership can vary it is the culture and purpose of the co-operative, in particular the social purpose it seeks to pursue that can enhance the sense of ownership amongst members (Birchall and Simmons 2010).

## Member as Community Member

Community support is a valuable systemic resource for many co-operatives (e.g. Simmons, Sevarlic and Nikolic 2010), and a special feature of co-operatives is their ability to be embedded in their local community (Levi and Pellegrin-Rescia 1997). The member's role as a social actor and member of the community is a feature that should not be ignored.

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Congruence between the goals of the community and the goals of the co-operative can result in a virtuous circle and reciprocal loyalty. Hence, where the level of congruence is high, reinforcement of the member identity can also serve to strengthen the wider community identity and vice versa. Investment in this relationship can also be important for the co-operative to reinforce to the member its co-operative principles as a mechanism for building social entrepreneurship and innovation within the enterprise (Novkovic 2008).

## CONCLUSIONS

The co-operative enterprise is a complex human system that must be understood on several levels. Its dual role as a venture with social and economic outputs is a defining characteristic, as is its collective ownership. Due to its characteristics the co-operative requires a multi-disciplinary approach in seeking to research the dynamics of its business model. The conceptual framework outlined here recognises the need for attention to be given to the interplay between the member, the enterprise and the wider social and economic system in which these two actors exist. It also recognises the need to consider key units of analysis when examining co-operatives, plus the likely influences that these have on the co-operative and its members.

It is our contention that the primary goals for a co-operative enterprise should be to build member identity and commitment, build social capital and build sustainability. To achieve these outcomes the co-operative will need to be both a strong economic business and a strong social venture. Our conceptual framework provides some suggested analysis units for understanding each of these elements, which have been drawn from existing theory. We propose this conceptual framework as a mechanism for academic researchers seeking to understand the behaviour of co-operatives in case studies. It also can potentially form the basis of a framework to assist executive managers of co-operatives who need to recognise (or be reminded of) the complexity and unique character of their business venture.

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