Purpose, Identity and the Member Value Proposition in Co-operative and Mutual Enterprises

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PURPOSE, IDENTITY AND MEMBER VALUE IN CO-OPERATIVE AND MUTUAL ENTERPRISES

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ABSTRACT

This paper examines the issues of purpose, identity and the development of member value within co-operative and mutual enterprises (CMEs). It aims to explain the nature and importance of “purpose” in CMEs and how this is communicated by such firms to their members. The paper finds that while the concept of purpose is still ill-defined and informally applied by most enterprises, it remains a key part of the way in which CMEs seek to differentiate themselves from other types of business. The paper also examines the nature of “identity” in CMEs and the important role that the co-operative principles and values play in defining these enterprises. The importance of social capital is also examined and the role it plays in the fostering of loyalty and commitment by members. The need for CMEs to develop a clear understanding of their “purpose” and “identity” and communicate this to members is highlighted. This is particularly important for CMEs that have highly diverse membership communities, or where the “generic problems” poses a major risk to the enterprise over the longer term. Recommendations for future research and practice are outlined.

Key words: co-operatives, mutual enterprises, purpose, identity, member value, horizon problem.

THE IMPORTANCE OF PURPOSE IN CMEs

The nature of “purpose” in co-operative and mutual enterprises (CMEs) has been recognised throughout their long history as a way in which such organisations can be differentiated from other types of business such as investor owned firms (IOF), state owned enterprises (SOE) and not-for-profit (NFP) businesses. An examination of the history of the co-operative movement suggests that despite many differences across country of origin, industry sector, organisational structure, governance and financing, the key element that unites these otherwise diverse businesses is their commitment to a purpose. This is typically focused on the economic and social development of their members and requires the existence of mutual trust between the member and the business and between members. This “dual nature” of the CME, in which the business focuses on a well-defined economic objective, but simultaneously supports social goals via mutual ownership and democratic governance designed to benefit all members, is a key defining principle of this type of enterprise (Battilani and Schröter, 2012).

According to Fairbairn (1994) this dual economic and social purpose of the CME creates a “symbiosis” that often sits uneasily within the enterprise and creates difficulties for management. It can lead to tensions over how best to balance these two often conflicting goals (Levi and Davis, 2008). However, the sole purpose of any CME should be the delivery of value to its members (Van Sickle and Ladd, 1983). In doing this the CME must often address a wide range of different objectives and goals that members may have. To meet these needs and offer the desired perceived value, a CME will need to foster a sense of common purpose and ownership amongst its membership.

CMEs are usually created as a result of a market failure where the members were unable to secure the benefits they receive from the enterprise via alternative business models (Spear, 2000). This response to a common problem is what typically unites the members to form the CME and agree to collaboration and mutual ownership to achieve their collective ends (Peredo and Chrisman, 2006; Birchall and Simmons, 2004).
**Co-operative Principles and Values – the Foundations of CME Identity**

At the heart of the concept of “purpose” within CMEs - particularly co-operatives - are the “co-operative principles” and associated values that are officially recognised by the International Co-operative Alliance (ICA). These principles trace their origins back to the Rochdale Society of 1844, and since the 1930s have been used to unite the co-operative movement at a global level (Battilani and Schröter, 2012). An important feature of these principles is the strong focus on democracy in governance, and the need for all members who join the enterprise to recognise that their participation should not prove to be harmful to the society that has created it (Warbasse, 1937).

Table 1 lists the 7 co-operative principles and the five co-operative values. These principles and values were derived from the original Rochdale Society bylaws and translated into their initial form in 1937 with revisions taking place in 1965 and again in 1995 (Battilani and Schröter, 2012). They are not without their controversy and Birchall (2014) suggests that their use as a definition of what might constitute a CME is fraught with problems.

**Table 1: Co-operative Values and Principles**

<table>
<thead>
<tr>
<th>Principle</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Voluntary and Open Membership</td>
<td>Voluntary and open membership. No barriers to gender, social, racial, political or religious affiliation.</td>
</tr>
<tr>
<td>2. Democratic Member Control</td>
<td>Controlled by members. One-member-one-vote.</td>
</tr>
<tr>
<td>3. Member Economic Participation</td>
<td>Members contribute equitably. Part of the capital is common property of the co-operative.</td>
</tr>
<tr>
<td>5. Education, Training and Information</td>
<td>Provide education and training for members, employees and directors. Inform the public about co-operative business.</td>
</tr>
<tr>
<td>6. Co-operation among Co-operatives</td>
<td>Co-operatives work with other co-operatives to strengthen the movement.</td>
</tr>
<tr>
<td>7. Concern for the community</td>
<td>Co-operatives work for the sustainable development of their communities.</td>
</tr>
</tbody>
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Co-operative Values
- Self-help
- Self-responsibility
- Democracy
- Equality
- Solidarity

Source: International Co-operative Alliance (2014)

According to Birchall (2014) the 7 principles don’t fully capture all the aspects of the business model of the CME and are also subject to change. Further, they tend to suit consumer co-operatives such as the Rochdale Society was back in the 19th Century and are potentially of less relevance to many other types of CME business. They have also never been commonly accepted within the mutual enterprise sector which lacks the underlying heritage of these guiding principles and common values.
Birchall (2014) also suggests that of the seven principles the first four are likely to “carry more weight than the last three”. Of these, principle 4 (autonomy and independence) is probably the most important because it recognises the unique nature of the CME against other types of enterprises. The next most important is principle 2 (democratic member control) due to its focus on “one-member-one-vote”. Principle 3 (member economic participation) is next in importance as it focuses on members having equal voting rights and the ability to allocate capital in a “fair” manner. Finally, the first principle (voluntary and open membership) is also important because it establishes the basis for individual membership. However, he notes that these four principles, despite their wide spread use and acceptance, still don’t adequately classify all types of CME.

Battilani and Schröter (2012), suggest that principles 4, 6 and 7 are of particular interest as they raise some major issues over the identity of CMEs. They note that the issue of autonomy and independence was not a major concern for the pioneers of the Rochdale Society as this was considered a “natural” state of affairs at that time. However, over the years many CME have been placed under pressure from government and private sector interests seeking to regulate, control and influence these firms. The 6th and 7th principles were added in the 20th Century and form an important point of differentiation for CMEs.

The co-operative principles and values, despite their flaws, are the foundation of what constitutes a clear “identity” for CMEs in the wider market place. MacPherson (2012) traces the history of these principles and how they have changed over their long history. He notes that in the 1990s the ICA sought to develop these principles as “guidelines for action” and promote them as a way for CMEs to “put their values into action”. They were to be viewed as an “integrated package” by which the CME developed its purpose and not just a list of unconnected ideas that could be cherry picked at will.

In the early 1980s there were significant concerns being expressed within the ICA over what was viewed as a “crisis of identity” within the co-operative movement. The rise in demutualisation, member apathy, poor corporate governance and questionable democratic practices within the global CME sector were undermining the credibility and purpose of the movement. A tension had emerged within the wider co-operatives sector between those who sought to promote cooperative economics as a strong social movement, and those seeking more economically focused outcomes. To combat this apparent decline in the CME sector there were calls for these organisations return to their basic values. According to MacPherson (2012) this was summed up by Lars Marcus, ICA President in 1988 who:

...called for increased attention to cooperative ideas ... [and] ... argued “that co-operatives ... started from basic values”, and that is was the duty of cooperators “to analyse [their] basic identity regularly and profoundly”.

CMEs were advised to focus on their “intellectual” and essentially social purpose not just their economic objectives. Subsequent work by the ICA during the 1990s to revise and promote the seven co-operative principles and five values led to today’s “Statement on the Co-operative Identity”. They remain the only internationally accepted framework for the development of a separate identity for CMEs, and as such they are useful, albeit imperfect, starting point for any board and management team to build a corporate identity.

Using the co-operative principles and values as a framework for corporate identity is already well recognised by many CME throughout the world. They place these principles on their corporate documentation, websites and promotional material. In Australia these principles are even enshrined in law within the Co-operatives Acts found at state and territory level. However, as MacPherson (2012) notes, these principles do not encompass the more economic or business aspects of the CME, and ignore employees and managers within the enterprise. Nevertheless, the principles and values of the co-operative movement remain critical to CME
identity. They also help to keep the enterprise focused back onto its social purpose. As MacPherson (2012) summarises his position:

Despite current tendencies within some cooperatives to ape the methods of capitalist enterprise, cooperatives have developed their own effective – if understudied – ways of conducting business. One of the many great tasks of the field of Cooperative Studies is to understand these methods more completely and to show that cooperatives were social enterprises long before some business theorists alarmed over the growing and obvious shortcomings of conventional capitalism popularised that term. Because of their principles, their structures, and their values, cooperatives have always been “social” if they have been true to their values. (p. 105)

THE RISK OF “DEGENERATION”

Although CMEs, as with any business, can experience financial distress leading to closure, one of the most important risks to their sustainability is what Battilani and Schröter (2012) refer to as “degeneration”. They suggest that this occurs when the CME begins to lose sight of its dual purpose and ignores the social objectives in preference to the purely economic ones. As a CME ceases to place value or focus on its more social goals the need for mutuality is eroded leading to demutualisation and conversion into an IOF. As they explain:

Degeneration involves deviation from the social purposes of co-ops...Through this process, co-ops can become similar to or the same as investor-owned enterprises. This process can be internally controlled when co-ops decide to change their character...or uncontrolled when democratic voting just gradually disappears. Indeed, democratic engagement has emerged as the Achilles’ heel of many co-ops. In many cases members were content and did not bother to vote. This of course is an open invitation to management to do what it wants. In several cases managers decided to demutualize the respective coop, and during the process acquire through their insider-knowledge the best pieces for themselves as private property. Lack of democratic practice is a long-term threat to all co-ops. (Battilani and Schröter, 2012 p. 5)

The factors that lead to demutualisation within CMEs have been the focus of research by academics over several decades. For example, Cook (1995) suggested that there was an identifiable “lifecycle” for the majority of co-operative businesses. He drew his view from examining a variety of theories put forth over time. The first of these was Helmberger (1966) who proposed a “wave theory” in which periods of economic downturn such as the Great Depression result in a flourish of interest in CMEs as a solution to economic hard times. However, once the boom times return the focus moves away to alternative business forms. LeVay (1983) also introduced the “pacemaker” theory where the CME, if successful, will become the main industry benchmark for pricing and as its volume of trading from members rises it will be able to offer the best prices. However, if times become difficult the members may reduce volume and go outside the co-operative to seek better prices. This can trigger a "vicious cycle" that if not checked may lead to demutualisation.

A second theory by LeVay (1983) proposed the “wind-it-up” model whereby once the original problem that triggered the formation of the CME has been solved the original purpose for which the business was established may cease to exist. Under these circumstances the members might decide to wind-up the business and direct their resources and energy into something else. LeVay (1983) also introduced the “pacemaker” theory where the CME, if successful, will become the main industry benchmark for pricing and as its volume of trading from members rises it will be able to offer the best prices. However, if times become difficult the members may reduce volume and go outside the co-operative to seek better prices. This can trigger a "vicious cycle" that if not checked may lead to demutualisation.

The fourth was that of the “Mop-Up” theory proposed by Staaz (1987), which suggests that when markets are in decline or static the IOF business model may seek to “act opportunistically”, which can allow farmers to “integrate forward” using co-operatives. This led Cook (1995) to suggest that the co-operative had a defined lifecycle that worked through five distinct stages. Figure 1 illustrates this “co-operative lifecycle theory” model.
In the first stage of the lifecycle the CME is “defensive” in nature and is usually focused on addressing an economic or social problem that its members have not been able to resolve using alternative business models. If the CME offers value to its members through services that address the underlying problems it will grow and can pose a strong competitor to alternative business models such as IOFs. However, over time the market conditions that created the initial problem may change and this can remove the competitive advantage of the CME over rivals in the IOF sector.

If the competitiveness of the CME is challenged by IOF competitors or the original purpose of the business has ceased to be relevant to their needs, members will become dissatisfied and tensions may arise. Sometimes this tension may take the form of members wanting to extract financial benefits from their years of patronage as they reach retirement, or as conditions change in their industry. This was a point highlighted by Nilsson (2001) who described members being pulled between their role as patrons and their role as investors. Where the patron role remains a primary motivation for membership the CME is able to maintain its mutuality. However, where the investor role becomes dominant the force for demutualisation is likely to overpower the CME. Of course if neither patron nor investor roles have any appeal to members the CME will simply degenerate.

The crisis for CMEs is the need to find a strategy to transition around a revised purpose and bring the members with them by offering renewed value, or risk demutualisation. CMEs that lose sight of their purpose and fail to adapt to changes in their environment or market will suffer this risk and there are cases of this taking place despite the business having an otherwise strong track record (Mamouni Limnios and Mazzarol, 2014).
OBSERVATION

The “purpose” of a Co-operative or Mutual Enterprise (CME) is strategically important as it helps to define the underlying difference between the CME and alternative business models such as Investor Owned Firms (IOFs). Many CME have drawn upon the principles and values of the International Co-operatives Alliance (ICA) to help define their business, but it is important that they keep focused on their purpose, which typically has both economic and social objectives. CMEs that focus only on economic purposes may risk demutualisation if IOF business models can deliver superior economic returns to most members. Many CME are created to address specific market failures, often in times of economic downturn. For a CME to survive over the longer term it must focus on redefining its core purpose and aligning this with its ability to deliver value to members.

HOW DO LEADING CMEs COMMUNICATE THEIR PURPOSE TO MEMBERS?

As discussed above the purpose of a CME is important and if appropriately defined it can be used as a strategic tool around which to unite the membership. It is still uncommon for CMEs to have a formal “Statement of Purpose” within their corporate communication. However, it is something that the directors of a CME should give serious consideration to. In a review of some of the world’s leading CMEs vision and mission statements evidence of this underlying statement of purpose can be seen. The following case examples illustrate this point.

CASE EXAMPLE: CRÉDIT AGRICOLE GROUP, FRANCE

Crédit Agricole Group is a financial service mutual based in France that is ranked as one of the largest CMEs in the world with annual revenue in 2011 of US $103.6 billion (Co-operative News, 2014). The vision, mission and values statements of Crédit Agricole Group are:

Vision: An international universal bank which sustainably increases its client base and market share paying special attention to middle class customers and agriculture sector, effectively managing cost of risk and profitability.

Mission: Promote honesty, transparency and trust for mutual benefit.

Values:

- **Client-orientation** - We build trust by keeping our word and finding solutions.
- **Employee-orientation** - We rely on every employee by investing in team spirit, professional and personal development.
- **Team spirit** - Putting each individual effort together makes team successful.

Although Crédit Agricole Group does not have a formal statement of purpose it can be seen from its corporate mission statement that there is a clear reference to the need to build “trust for mutual benefit”. This is important because trust is one of the key elements to securing member commitment (Österberg and Nilsson, 2009).

CASE EXAMPLE: ZENKYOREN, JAPAN

Japan’s Zenkyoren (National Mutual Insurance Federation of Agricultural Co-operatives) is ranked as one of the top 10 CMEs globally with annual turnover in 2011 exceeding US $52.3 billion (Co-operative News, 2014). The
The corporate communication of Zenkyoren provides the following statements about the organisation’s mission and purpose:

Zenkyoren (National Mutual Insurance Federation of Agricultural Cooperatives) was founded in 1951 to create “mutual aid” through cooperation under the motto “one for all, all for one.” The JA (Japan Agricultural Cooperatives) Group, to which Zenkyoren belongs, conducts a variety of businesses and provides a wide range of services through its societies (agricultural cooperatives). Zenkyoren is responsible for the JA Group’s agricultural cooperative insurance business. The fundamental goal is to assist members in establishing stable and secure farming and higher standards of living by insuring them against accidental loss of life and property damage. We meet this goal by offering both life and non-life insurance. Zenkyoren continues to strengthen cooperative relationships with local agricultural cooperatives (primary societies) to provide members with improved services and a greater sense of security.

It can be seen from this example that the message Zenkyoren is seeking to communicate is that it values mutuality (e.g. “one for all and all for one”), and is focused on the delivery of benefits to members via services that can help them secure financial security and risk management. It also seeks to cooperate with other co-operatives for the benefit of its members and their long term security.

**CASE EXAMPLE: MONDRAGON CORPORATION, SPAIN**

The Mondragon Corporation of Spain is ranked within the top 20 largest CMEs globally and in 2011 had annual turnover of more than US $23.3 billion (Co-operative News, 2014). A diversified business Mondragon is also strongly committed to the co-operative principles. Its vision and mission statement are:

**Mission:** MONDRAGON is a business-based socio-economic initiative integrated by autonomous and independent cooperatives with deep cultural roots in the Basque Country, created for and by people and inspired by the Basic Principles of our Co-operative Experience. It is firmly committed to the environment, competitive improvement and customer satisfaction in order to generate wealth in society through business development and the creation of, preferably co-operative, employment, which:

i) Is based on a firm commitment to solidarity and uses democratic methods for organisation and management;

ii) Encourages participation and the involvement of people in the management, profits and ownership of their companies, developing a shared project which brings together social, business and personal progress;

iii) Fosters training and innovation by developing human and technological skills; and

iv) Applies its own management model aimed at helping companies become market leaders and fostering co-operation.

**Vision:** We would like to become committed people, with a co-operative identity who form a profitable, competitive and enterprising business group in a global context; who apply a successful socio-business model, offering the market integrated solutions based on experience, knowledge, innovation, inter-cooperation, strategic partnerships, attracting, promoting and generating talent; and which generates sufficient resources to provide value-added employment and sustainable development for the community.

As shown in the vision and mission statements of Mondragon, there is a strong focus on mutuality and both an economic and social purpose. This is evidenced by the reference to applying a “successful socio-business model”, and the use of words such as “solidarity”, “democratic methods for organisation and management”, and “encourages participation and involvement of people in the management, profits and ownership”.

CASE EXAMPLE: DAIRY FARMERS OF AMERICA

The Dairy Farmers of America (DFA) co-operative is a dairy co-operative based in the United States that was ranked in the top 100 largest CMEs with an annual turnover in 2011 of US $11.8 billion. The mission, vision and values statements of DFA are outlined below:

Mission: DFA is a milk marketing cooperative and dairy foods processor dedicated to delivering value to members through secure markets, competitive pricing and increasing value throughout the entire dairy chain.

Vision: Through superior performance, sound operations and integrity-based relationships, DFA will be the marketplace of choice for dairy farmers, the workplace of choice for employees, the supplier of choice for customers and the partner of choice for businesses.

At DFA, we live every day guided by our values of integrity, accountability, community, innovation, quality and passion. Whether it’s our members rising at 5 a.m. for the first milking of the day or our employees putting in extra hours to bring value to our members, DFA’s values serve as a compass for everyone in our organization.

Our Values:
- **Integrity** - We act ethically in all matters without exception.
- **Accountability** - We deliver on our commitments and hold ourselves responsible for our actions.
- **Community** - We are committed to serving, leading and educating in the communities in which we live, and are connected to the greater agricultural community in which we operate. Through our DFA Cares Foundation, we provide relief and education to those in our communities.
- **Innovation** - We support an innovative environment where employees are encouraged to take appropriate risks and challenge the status quo.
- **Quality** - We are committed to quality – the quality of our products, our services and our way of doing business.
- **Passion** - We are passionate about the farmer-owners we work for, our jobs, the dairy industry, and about supplying the nation and the world with safe, nutritious products.

As can be seen from the mission, vision and values of DFA there is a strong reference to a purpose of “delivering value to members” and the desire to maintain both “sound operations and integrity-based relationships”. The social and economic purposes of DFA are clearly stated in their values.

CASE EXAMPLE: ARLA FOODS, DENMARK

Arla Foods is a Danish dairy co-operative ranked as one of the top 100 largest CMEs globally with annual turnover in 2011 of US $9.2 billion (Co-operative News, 2014). The mission statement for Arla Foods is:

_Arla’s mission is to secure the highest value for our farmers’ milk while creating opportunities for their growth. As a cooperative company owned by milk producers, our task is to ensure that we can create as much value as possible from the milk producers’ milk - and thereby achieve a competitive milk price for them - for both our owners and other suppliers._

As shown here the mission statement of Arla Foods reflects their overall purpose, which is primarily focused on economic outcomes. The desire to create value for members is strong; however, the social or mutual benefit within the purpose remains evident with the reference to ownership by milk producers and the creation of a “competitive milk price” for both members and the broader community of dairy producers in Denmark.
CASE EXAMPLE: LAND O’LAKES, UNITED STATES

Land O’Lakes is dairy co-operative based in the United States that is ranked within the top 50 largest CMEs globally, with annual turnover in 2011 of more than US $12.04 billion (Co-operative News, 2014). Its vision, mission and values statements are:

**Vision:** Our vision is to be one of the best food and agricultural companies in the world by being;
- Our customers’ first choice;
- Our employees’ first choice;
- Responsible to our owners; and
- A leader in our communities.

We are committed to doing more than meeting our customers’ needs. We strive to delight our customers by anticipating and exceeding their expectations through an innovative and creative workforce.

We recognize employees as our most important asset and we focus on making Land O’Lakes their first choice for work. We believe in respecting diversity and in encouraging teamwork, involvement, development and empowerment of all employees.

We aim to create greater shareholder value while fulfilling our responsibilities as a cooperative.

Finally, we recognize our responsibilities to the communities in which we operate. We are proactive in dedicating resources to build a better quality of life, operate in an ethical and environmentally sensitive manner and live by our values.

**Mission:** We are a market- and customer-driven cooperative committed to optimizing the value of our members’ dairy, crop and livestock production.

**Values:** The Land O’Lakes heritage is rich in rural values, family and respect for the land. Our cooperative roots run deep. With determination and pride, we will continue our commitment to serve farmers, rural America and our customers. Our values reflect who we are and what we firmly believe in:
- **People** - We believe in people—in valuing and recognizing a work force of diverse individuals as the key to our success.
- **Performance** – We believe in setting high standards—defining clear goals and rewarding initiative that turns ideas into action and goals into reality.
- **Customer Commitment** – We believe the customer is fundamental to our success—working together to meet their needs is the basis for all that we do.
- **Quality** – We believe Land O’Lakes stands for quality—striving to make our best better.
- **Integrity** – We believe in honesty—respecting each individual, fairness and open communication.

With these values as our guide, we will provide more than we receive and succeed both individually and as a company.

It is clear from these statements that Land O’Lakes is a CME that has a strong commitment to economic, social and environmental outcomes designed to benefit and deliver value to a broad range of key stakeholders. While these statements do not specifically mention the co-operative’s purpose, they provide the reader with a very clear understanding of the organisation’s objectives and sense of strategic intent.
CASE EXAMPLE: LANTMÄNNEN, SWEDEN

Lantmännen is a Swedish agricultural dairy co-operative that is ranked in the top 100 largest CMEs in the world with US $5.44 billion in annual turnover (Co-operative News, 2014). The mission statement of Lantmännen is expressed as follows:

*Lantmännen’s mission is to contribute to the profitability of its owners’ farms and maximize the return on their capital. The foundation of our ownership model is an efficient agricultural business. By owning a profitable industrial business, we are able to channel profits back to farmers through a higher value added. Income from industrial operations can also be used for research and to develop new business opportunities.*

As shown in the mission statement the purpose of Lantmännen is clearly articulated as focusing on enhancing the profitability of its members’ farms and assisting to increase the returns to their capital. This is a purpose that is very focused on economic outcomes, presumably reflecting the value proposition desired by members.

OBSERVATION

Although formal statements of purpose are uncommon within CMEs it is clear from a review of the vision, mission and values statements of many of the world’s largest co-operative and mutual firms that they contain strong messages over their economic and social purpose. These statements typically show that the businesses are focused on enhancing their member’s financial security and profitability through better pricing and market share. However, they also highlight the concern they have for their community and employees. Many also make reference to democratic governance and the need for trust, integrity and mutual respect.

USING STATEMENTS OF PURPOSE AS A STRATEGIC TOOL

Within the strategic management literature the notion of “strategic intent” has been recognised for many years (Proctor, 1997). For example, Hamel and Prahalad (1989) described the importance of expressing corporate strategy via a “statement of strategic intent” that draws together the firm’s vision, mission and values in a way that can unite or rally all members to the organisation. A statement of strategic intent is stable over time and draws together the individual as well as the corporate goals and objectives. They give the example of how Canon, then number two in the global photocopier industry, rallied its employees by expressing the simple statement “Beat Xerox” when seeking to challenge the industry leader.

This use of strategic intent statements provides a guide to CMEs in the development of statements of purpose that articulate the overarching strategic purpose of the business. As discussed above the statement of purpose should be designed to unite members and other stakeholders together in a common goal and one that is able to address both economic and social objectives.

In a survey of 36 of the top 100 Australian CMEs undertaken in 2014 the majority (94%) reported that their business was based on “sharing, democracy and delegation for the benefit of all their members”. All the firms surveyed reported using a “one-member-one-vote” principle in their governance (Mazzarol, Mamouni Limnios, Soutar and Kresling, 2014). These findings suggest that the acceptance of the co-operative principles and values, and a democratic system of governance is widely accepted within Australian CMEs. However, what is less common is the use by CMEs of statements of purpose as a form of strategic intent statement that can help to unite members.
The statement of purpose is potentially one of the most significant factors in the development of the CME business model. It serves to clearly define the strategic intent of the business and to focus its activities. It also provides a clear strategic direction for the business. Some of the key considerations in the development of a statement of purpose are:

- **Mission** – what is the overall reason for the CME to exist?
- **Constitution** – how are the firm’s mission and principles embedded in its constitution?
- **Members** – who are the CME’s members, what are their needs and are they very homogenous or very diverse?

The majority of businesses have mission statements that help to define and communicate the firm’s strategic intent. A good mission statement should:

1. Ensure that there is unanimity of purpose throughout the organisation.
2. Serve as a focal point for individuals to identify with the organisation’s purpose and direction.
3. Establish the general organisational climate and culture.

A well written mission statement clearly defines the business and communicates to employees, members and other stakeholders what its purpose is. It is generally a good idea to keep mission statements short, clear and simple, with a focus on the present rather than the future. The future is best addressed by a vision statement. As shown in the review of the CME mission statements outlined above, these statements can be very short or quite lengthy. It is common for them to include references to: i) purpose; ii) key objectives; iii) policies; iv) values; v) customer, market or member needs; and vi) environmental or social considerations.

In a review of how companies in the United Kingdom defined their mission and purpose Strong (1997) found that there were three primary dimensions in most corporate mission statements. The first of these was a statement that outlined the strategic direction that the business was taking. This tended to refer to products or services, organisational philosophy, market leadership ambitions, commitment to financial goals and market or geographical coverage. The second dimension addressed stakeholder concerns and focused on references to customers, employees, suppliers and shareholders. The third dimension was related to strategic success factors with emphasis on areas like quality, innovation and social or environmental concerns. For CMEs the development of a statement of purpose as a strategic tool should build on this framework and consider:

**Strategic Direction**
- What is the purpose of the CME in terms of its delivery of services for members?
- What is the CME’s commitment to democracy and the co-operative principles?
- What are the CME’s aspirations for market leadership?
- What are the geographical boundaries that the CME aspires to (e.g. local, national, international)?

**Stakeholder Concerns**
- Who are the members of the CME and what are their needs that must be served?
- Is membership open or closed and do all members have equal share ownership and voting rights?
- Does the CME require active patronage from members?
- What are the key commitments of the CME to its employees?
- What are the key commitments of the CME to the wider community?

**Strategic Success Factors**
- What is the value that the CME delivers to members in economic and social terms?
- How is value recognised by members?
- How are the main economic and social goals of the CME measured?
LINKING PURPOSE, MEMBER VALUE AND CO-OPERATIVE IDENTITY

In the development of a statement of purpose the board and management of a CME should consider linking their strategic intent to their member value proposition (MVP) and also to the co-operative principles and values which provide the essence of co-operative identity.

There is no doubt that the success of a CME, in a business sense, depends on its ability to offer economic benefits that its members cannot obtain from alternative sources. It must therefore be an efficient and well managed business. Where the CME is providing services in response to a market failure where other forms of business (e.g. IOF) are not willing or able to supply, it will have little or no competition. This is common in the early stages of the co-operative lifecycle. However, as the market conditions change the level of competition is likely to rise.

Well managed CMEs that enjoy the loyalty of their members are usually able to compete successfully against competitor IOFs (Sisk, 1982; Rhodes, 1983). However, if the CME can use its social purpose and adherence to the co-operative principles and values as a mechanism for strengthening member loyalty, it will be able to build a strong competitive advantage.

SOCIAL EFFICIENCY AND THE ROLE OF SOCIAL CAPITAL

This is something Spear (2000) addressed in his paper on “The Co-operative Advantage”. He noted that a CME must be well capitalised, focused on growth, and able to demonstrate “productive efficiency” so as to deliver competitive or superior pricing to that available from IOF competitors. However, he also pointed to the importance of the development of “social efficiency”, which refers to the CME’s ability to meet the collective needs of their members and to complement this with attention to the co-operative principles and values.

These principles and values ensure that all members feel that they own and have an element of democratic control over the business. Adherence to these principles and values promotes trust, mutual reciprocity and networks which are the foundations of social capital (Fukuyama, 2001). According to Adler and Kwon (2002) social capital can be defined as follows:

Social capital is the goodwill available to individuals or groups. Its source lies in the structure and content of the actor’s social relations. Its effects flow from the information, influence, and solidarity it makes available to the actor. (p.23)

It can be developed through social ties that occur within the existing network and outside, and are attributed to both individual and collective actors. Figure 2 illustrates a conceptual model proposed by Adler and Kwon (2002). This model suggests that the “social structure” within an organisation is a key starting point for the generation of social capital. The main elements that are important here are the “market relations”, “social relations” and “hierarchical relations” that exist between the main actors who make up the organisation.

In the case of a CME this “social structure” would consist of the way in which members engage as patrons, shareholders, owners and members of a wider community of purpose. The ability to trade freely with the CME and enjoy mutual benefits based on volume of patronage, transparency of pricing and a sense of democracy and equality between members provides a strong and mutually supportive social structure.

It is important that this social structure fosters the “opportunity”, “motivation” and “ability” for members to generate social capital. Opportunity comes from the ability of a member to connect with others on both an individual and collective level to exchange information and ideas to strengthen ties. The motivation to engage in such interactions is contingent on the reciprocal benefits that the members get. Initially this motivation can
be driven by self-interest, but if the social structure is appropriately configured, the social norms and sense of a “shared destiny” based on mutual trust can strongly reinforce or replace short-term selfish goals.

**FIGURE 2: A CONCEPTUAL MODEL OF SOCIAL CAPITAL**

Also important is the ability of each individual member to possess the competencies and resources to make a strong and mutually beneficial contribution to the wider collective network. In a CME some members may be more active patrons than others. In agricultural co-operatives this is usually due to some producers being larger than others with greater resources and often enhanced managerial and operational competence. While such diversity within the membership is common the coherence of the social capital within the CME is likely to depend on how the firm’s social structure provides equality of opportunity, thereby strengthening motivation for all members to engage, and fostering the ability of weaker members through education and information flow.

Social capital has both benefits and risks. The benefit of a strong social capital base within a CME is that it can assist it to overcome many of the problems that often plague mutual and co-operative businesses (Spear, 2000). These include the free rider, horizon, portfolio, control and influence cost problems (Katz and Boland, 2002). According to Adler and Kwon (2002) social capital generates at least three primary benefits. The first is the flow of information between members and throughout the social network. This is a major benefit that many members of CMEs recognise.

A second benefit is the generation of influence, control and power that can develop within the network (Adler and Kwon, 2002). For example, members of a CME that adheres to democratic principles and has a social structure that encourages members to engage with the business, and with each other to their individual and collective benefit, will foster a strong sense of ownership within its members. However, it is important that the power, control and influence within the CME are not permitted to become concentrated into too few hands. This is a common problem in IOFs where small groups of shareholders capture the majority of shares and use this ownership to control the board and overall strategic direction of the business. It is why the “one-member-one-vote” principle of co-operatives is so fundamental to CME governance and a major factor in fostering social capital.
The third benefit of social capital recognised by Adler and Kwon (2002) is **solidarity**. Strong social norms and beliefs that have been developed through the social networking encourage members to comply with rules and customs and reduce the need for formal controls to keep the community together. Within a CME that has a social structure that generates strong social capital, the sense of solidarity will be manifest in a collective recognition amongst members of their being part of a wider **community of purpose**. Typically, this feeling is strong in the initial years of foundation when the community from which the members are drawn has a common purpose to use the CME as a mechanism for solving the economic or social problems that have triggered its establishment (Birchall and Simmons, 2004). However, over time this sense of common purpose can erode and it is therefore in the longer term interests of the CME to actively foster this solidarity through a reinforcement of the co-operative principles and values (Novkovic, 2008).

Three primary risks of social capital identified by Adler and Kwon (2002) are the same as the three benefits but in reverse. For example, **information risk** can occur when a member of the social structure increases the size of their network to the point where they have many contacts but the cost of maintaining them is too high. Also, the depth or strength of such relationships is weak and the quality of the information flow may be poor. In the case of **influence, power and control risks** the wider the network and the more democratic and open the flow of information the less an individual actor or group may have in influencing or controlling the future direction of the organisation. This can occur in a large CME where the membership feels that their individual power and influence is weak and so they may not participate in voting, attend AGMs, or run for board positions thereby eroding the long term governance of the business. Finally, the **risk of solidarity** is where the strong ties that unite the membership might make the community unwilling to accept or acknowledge outsider influence. This might take the form of opposition to non-member or independent directors being appointed to a board, or a refusal by members to enter into joint ventures or business operations that are perceived to be outside the direct purpose of the CME.

How these positive and negative aspects of social capital are managed depends on the ability to create **task and symbolic contingencies** and **complementary capabilities** (Adler and Kwon, 2002). The first of these relates to the nature of the tasks that have to be performed in order for the social structure to influence the social capital in a positive manner and thereby create value. To explain this process, where the task requires trust and cooperation, strong embedded ties with repeated exchanges between small numbers of network actors is a preferred approach. For example, within an agricultural producer co-operative the supply and processing of primary produce is best done at a local level with strong network ties between members, and between the member and employees of the co-operative. Efficiency of operations, transparency of pricing and a sense of mutual trust, fairness and equity are of critical importance.

However, if the task requires economic rationality and market competition the process is best handled by a wider network of actors who have weaker ties but who’s information exchange is objective and not biased by self-interest or local culture and norms. In the case of the agricultural producer co-operative this would see strategic decisions relating to investment, or major changes to operations, undertaken with the engagement of senior managers, third-party expert advisors, and a board of directors who comprise both member representatives and independent directors.

**Complementary capabilities** also play an important role in influencing social capital. These take the form of ideas and information being shared across a social network, or within the organisation to ensure that good practices are transferred and diffused to all members. Adler and Kwon (2002) give the example of a design firm that generates new ideas for one client by leveraging the ideas developed on earlier projects for other clients. It is why the co-operative principles of "education, training and information" and "co-operation among co-operatives" are so important. Adherence to such principles encourages the sharing of ideas and fosters the
generation of complementary capabilities. This is often a valuable source of innovation and the diffusion of best practice and organisational learning both within the organisation and between organisations.

**DEVELOPING THE MEMBER VALUE PROPOSITION TO INCLUDE AFFECTIVE COMMITMENT**

The core of any CME business model is the identification and declaration of a Member Value Proposition (MVP). Ideally this should have both economic and social objectives and be able to offer attractive benefits to all members that they cannot obtain from going outside the CME (Nha, 2006). Research into co-operatives in the agricultural sector found that producers generally saw the main benefits of being members were:

1. Their ability to secure financial benefit via enhanced pricing;
2. The ability to secure greater market access and the lowering of market risk that flowed from this;
3. Improvements in productivity caused by the pooling of resources and bulk purchasing;
4. Access to resources such as information, knowledge and technology, and
5. Opportunities to build their local community (Krivokapic-Skoko, 2002).

It can be seen from this that the majority of perceived benefits were associated closely with economic goals, but the final benefit is very much focused on social outcomes. Social capital is therefore an important and valuable tool that CMEs can harness to help them strengthen member loyalty and deliver a sustainable MVP.

Jussila, Byrne and Tuominen (2012) suggest that member loyalty within CMEs is driven by "affective member commitment", which is associated with the member’s emotional attachment to or identification with the business. This usually comprises three components:

- The member’s identification with the CME;
- Co-operative based self-esteem; and
- Psychological ownership by the member of the CME.

The first of these is typically driven by the member’s alignment of their individual goals and objectives with those of the CME. This is why the development of a clear statement of purpose that is congruent with the MVP and the principles and values of co-operation can be so important. The second element is associated with the member’s ability to identify with the purpose of the CME and find that it helps to boost their own sense of self-esteem. This was found in a study of Japanese kyodokumiai co-operatives formed by small business owners. A major factor motivating their membership was the strength that it gave to their self-esteem by being able to feel part of a larger organisation (Lee and Mulford, 1990). This ability to identify with the purpose of the CME and to gain a sense of enhanced self-esteem from membership leads to a psychological ownership by the member of the CME.

In a survey of 2,749 members of 9 CMEs the role of financial, functional and emotional value, plus affective and continuance commitment were examined in relation to their impact on member loyalty (Mazzarol and Soutar, 2013). This study found that while financial value (e.g. value for money) and functional value (e.g. quality of service) were important influences on member loyalty (e.g. intention to stay); the strongest of the influencing factors were emotional value (e.g. feeling good about being a member), and affective commitment (e.g. feeling enhanced self-esteem through membership). This same study also found that while most members rated the value they received from their role as patrons most highly, the second most importance in terms of value was placed on their role as a member of their community.

In summary, the CME is a unique business model that has both an economic and social purpose. While it is important for these firms to be efficient and well-managed businesses, this economic productivity is only one aspect of what constitutes a sustainable competitive advantage. Unless the CME’s economic activity is a
monopoly, or has the ability to consistently generate superior financial returns to its members it will be forced to compete with IOFs in contestable markets. Under these conditions it is the CME’s ability to generate social capital and harness this for enhanced loyalty and value creation. There is evidence that CME members see value in being part of a community of purpose and this can be harnessed through the use of statements of purpose and their linking to the co-operative principles and values.

**Observation**

Most organisations have mission statements that help to define their purpose and guide their behaviour. The same is true for CMEs but their mission statements should be developed into statements of purpose that reflect their economic and social objectives, and address how they can understand the continuous delivery of value to members. It is also important for CMEs to link their mission or purpose, to their member value proposition, and relate this to the seven principles and five values of the co-operative movement.

**The Use of Purpose and Identity to Address Generic Problems**

Although the mutuality, democracy and equality that are inherent in the CME business model have significant appeal, it has also been identified as suffering from a range of inherent problems that are viewed as generic to this type of organisation. In this section we examine these “generic problems” and how they have been addressed using largely economic capital responses. However, we also outline a case for addressing them with a strengthening of social capital and the development of a community of purpose and collective identity among members.

**The Generic Problems of the CME Business Model**

There are five identified “generic problems” that if not addressed can pose significant problems for CMEs (Cook, 1995; Nilsson, 1999). These are summarised below:

1. **The Free Rider Problem** – this problem is caused by ill-defined property rights in relation to share capital associated with the CME. Where share capital cannot be redeemed or traded, and where it is not possible to see capital appreciation over time, members are likely to lack loyalty. Their patronage is likely to be contingent on the prices they can get from the CME in the good times and to go outside to secure better prices when competitors offer better deals. Also where the entry of new members grants those equal rights and benefits to existing members who have taken the risks and built the CME over time, there is tendency for members to resist making strategic investments in the business.

2. **The Horizon Problem** – this problem is caused by a lack of transferability of share capital or any real incentive for members to invest in the longer term. Members are often seeking short term dividends or rebates at the cost of not reinvesting into the CME to enable it to grow. Where the membership is static or declining, and where members are seeking to retire and become inactive, the risk emerges of members seeking to demutualise the CME so as to redeem financial benefit from the business. Where the CME is operating in a benign market environment this may not be a problem. However, in competitive markets the need for the CME to make long term strategic investments is likely to be constrained by members unwilling to see the benefits such initiatives have to them (Nilsson, 1999).

3. **The Portfolio Problem** – this problem is more of a concern from the CME management’s perspective and occurs because the lack of transferability, liquidity and capital appreciation of shares within the
business results in members holding sub-optimal portfolios (Cook, 1995). Where the CME is focused on a fairly narrow range of activities that have direct benefit to members this is rarely a problem. However, once the business grows and seeks to engage in strategic investments that might be distant from the member, or returning limited direct benefits, the ability of the management and board to convince members to make such strategic investments is likely to diminish. In CMEs owned by primary producers or small businesses this can be of particular concern as the members will be prone to want to invest any surplus profits into their own businesses rather than the CME.

4. **The Control Problem** – also referred to as the “follow-up problem” (Nilsson, 1999) it arises from the divergence of interests and goals between the members and the CME board and management. CMEs that grow into large and complex organisations are more likely to experience this problem. Smaller CMEs that have relatively simple structures and a narrowly focused purpose are usually able to enjoy a strong flow of information from the business to the membership. However, where the firm becomes large, complex and operating across a wide range of geographic areas, with a diverse range of products or services, the problem is compounded. Information flow to the members becomes difficult and the board and management tend to make decisions increasingly independently of the members. This can result in an erosion of trust between the members and the business leading to reduced loyalty and a sense of ownership by the members.

5. **The Influence Cost Problem** – this problem, also known as the “decision-making problem” (Nilsson, 1999) is caused by the CME developing a broader range of purposes and a highly diverse membership base as a result. Where the CME has a single purpose it is relatively easy for the board and management to know what the membership wants, and what is likely to generate value for members. However, where the CME expands its operations and broadens its purpose it risks creating a more diverse membership base and this can make it more difficult for the board and management team to know what is in the best interests of members and to formulate a member value proposition.

| TABLE 2: GENERIC PROBLEMS AND THE “TRADITIONAL” VERSUS “NEW GENERATION” CO-OPERATIVE |
|---------------------------------|---------------------------------|---------------------------------|
| **Generic Problem**            | **Traditional Co-operative**    | **New Generation Co-operative** |
| 1. Free Rider Problem           | Individual benefits and property rights are not well aligned to assure owner-patrons bear the full costs/benefits of their actions. | Investment and optimal levels of product flows are determined before the firm begins trading. |
| 2. Horizon Problem              | Lack of liquidity through secondary markets for share capital as well as lack of tradability and redemption of shares. | Stock can be traded to allow entry and exit from the firm as required. |
| 3. Portfolio Problem            | The investment decision is tied to the patronage decision. Member-owners are forced to accept more risk pressure from board and managers to rearrange the asset portfolio to be less risky. | Risk is aligned with the member as owner because the level of investment in assets is decided before the co-op begins trading. Sale or transfer of shares is allowed after the co-op is established to align risk. |
| 4. Control Problem              | The information and external pressure by public trading is not present in the traditional co-op. | New Generation co-ops are less complex and seek greater property rights alignment through patronage-based voting. |
| 5. Influence Cost Problem       | Influence depends on centralisation of authority and homogeneity of members. | New Generation co-ops are centralised and limited to a specific purpose. |

Source: Katz and Boland (2002)

The desire to address these “generic problems” led to the creation of **New Generation Co-operatives** (NGCs) in the 1990s that were structured so as to mitigate the underlying causes that lead to such problems (see Table
2). The main elements that differentiate “traditional” from NGCs are restricted membership and delivery rights. This sees the principle of voluntary and open membership abandoned in favour of restricted entry and exit based on the trading of share capital. Patronage in the form of delivery rights in producer co-operatives are usually determined in advance and linked to the accumulation of share capital. The “one-member-one-vote” principle of equality for all is not necessarily accepted within the NGC business model. The accumulation of share capital is typically linked to patronage and many NGCs issue preference shares to non-members, although such shares typically don’t carry voting rights (Katz and Boland, 2002).

Since their emergence in the 1990s NGC have spread across a range of industries particularly in the agriculture sector (Downing, Volk and Schmidt, 2005). However, they have been criticised for their abandonment of many of the co-operative principles and the restricted membership and high costs of entry. Some of the problems of NGCs in the United States were that boards were so closely engaged in the oversight of every minor transaction that they could not adequately govern the business. Alternatively these NGCs hired executive managers who lacked an understanding of the co-operative business model and this resulted in tensions between the board and the executive. Where outside equity was brought in to help grow the business, the result was a dilution of the organisation’s purpose and strategic focus (Torgerson, 2001).

**MEMBER COMMITMENT VIA OWNERSHIP AND COMMUNITY MEMBERSHIP**

While the restructuring of member ownership rights in relation to share capital can address the “generic problems” of the traditional CME business model, the more that the entity dilutes its mutuality the closer it moves towards demutualisation. For example, the NGC business model is halfway towards becoming an IOF (Chaddad and Cook, 2004). Further, the adjustment of ownership rights and the restructuring of share capital in terms of its ability to be redeemed, transferred, decoupled from patronage or even the democracy of “one-member-one-vote” requires fundamental changes to the governance structure and even the purpose of the CME. It also places a significantly greater focus on the investor role of the members and one that is more about building economic than social capital.

An alternative is to focus on building up the sense of ownership and membership of a dedicated community of purpose within the CME’s members. This is in many respects a return to the original foundations upon which many co-operative and mutual enterprises were established, whereby the aim was to cooperate for both individual and community or collective economic and social benefit via self-help and democratic principles (Torgerson, 1977). The key to achieving this is to see social capital building as being of equal importance to the building of economic capital within the CME.

Within the CME business model the member is both patron and investor. As noted by Nilsson (2001) the tensions that can emerge in relation to these two roles can be potentially destructive for a CME that cannot find a way to balance them. As described earlier the use of economic capital in the form of adjustments to ownership rights has been the main approach to reinforcing the sustainability of the CME business model. Yet it is also acknowledged that member loyalty and commitment can provide a strong foundation for enhancing the survival of CMEs (Fulton, 1999).

Fulton and Adamowicz (1993), in a study of the Alberta Wheat Pool co-operative found that member loyalty and commitment were driven primarily by the competitive pricing, dividend payments and efficiency of service. There was little social purpose found amongst members who saw the co-operative as “just another agribusiness firm”. There was also some suggestion that many members were free-riding on their more loyal counterparts. However, the study also found evidence of older members having non-economic motivations for loyalty:
Older members may be more loyal to their cooperative organization due to a sense of pride in ownership. Many older members either participated in the original organization and development or in major restructuring activities of the cooperative. In a utility theoretic framework one can explain this activity by the fact that these older members may derive intrinsic value from knowledge that the organization will continue to serve members in the future. (Fulton and Adamowicz, 1993, p. 50)

Fulton (1999) suggests that member commitment can be strengthened with non-economic factors, but that in developed countries such as Canada the emphasis has been on price and dividends. He also proposes that where member commitment is weak the CME will experience the “generic problems” discussed earlier. For CMEs that have experienced changes to their market environment and increasing competition from IOFs their options are to either demutualise or transform into new structures such as the NGC model. However, the track record of many NGC in North America is that they are usually highly focused on niche markets and fairly small in size, usually filling in market segments that have been abandoned by IOFs. Fulton (1999) concludes with the statement:

The traditional form of member commitment, however, appears to be waning. This loss of member commitment is coming at a time when cooperatives are facing some tremendous challenges. The more important among these challenges are the opening up of what have been traditionally closed market areas to outside competition and the development of marketing systems in which product quality and differentiation is essential ... Cooperatives therefore need to find ways of re-introducing member commitment to their organizations. Member commitment is created when the co-op finds a set of characteristics that appeal to the members but not to the non-members. The development of agricultural policy issues, for instance, is one activity that many cooperatives have used to differentiate themselves from their competitors. While some of these traditional mechanisms for creating member commitment may still work, co-ops need to look for new ways of connecting with their members. (pp. 434-435)

Building member commitment without recourse to purely economic incentives requires consideration to be given to the fostering of social capital within the CME. Among the principles of social capital formation are the level of “autonomy” or “embeddedness” that exists within the community and whether the process is “top-down” or “bottom-up” (Woolcock, 1998).

If we apply this framework to a CME, at the micro-level (i.e. the level of the member) embeddedness refers to the relationships or “ties” that exist between individuals and groups within the membership base. By contrast autonomy at that level refers to the networks that exist between the membership and outsiders. This is where bottom-up social capital building takes place. At the macro-level of the wider society autonomy refers to the capacity and credibility of the CME as an institution, and embeddedness refers to relationships between the CME and society. This is where a top-down approach to social capital building is examined.

Levi and Pellegrin-Rescia (1997) note the success of bottom-up co-operatives as opposed to top-down government led initiatives. They point to the success of the Israeli Kibbutz as a community-owned, self-help organisation with incorporating many of the principles of the Rochdale Society. Yet even this bottom-up and highly iconic cooperative entity that has such strong embeddedness at the local level has suffered in recent times from privatisation, loss of focus on member patronage and a separation of member from management interests in what they refer to as “managementship”. However, they also point to the introduction of Social Co-operatives in Italy as an example of a top-down approach to a potentially successful model. What makes such organisations successful is their embeddedness, either at the micro or macro-level as leaders of social change (Defourny and Nyssens, 2010).

By contrast Golovina and Nilsson (2011) provide evidence of a top-down government-led program to create co-operatives in Russia that failed, primarily due to the inability of the government officials to understand the
farmer members of these co-operatives and create the necessary conditions for positive *embeddeness* and *autonomy*.

The success of a CME in developing its social capital is to focus on both the *bottom-up* and *top-down* approach simultaneously. In the first instance this requires the CME board and management to enact strategies that can strengthen the ties between members at the intra-community level. This can be facilitated by providing members with a common sense of shared ownership of the CME as a business and a recognition that they are mutually dependent on each other for any economic benefits they might derive from their patronage. Education and communication programs targeted at the membership that provide information on how the business works and why loyalty and patronage at the individual and collective level are mutually dependent are important.

However, a *top-down* approach led by the CME board and senior management also needs to occur that shows how the organisation is engaging with the wider society and the role that it is playing in strengthening the economic and social development of the community to which the individual members belong. For a CME that might involve taking on an advocacy role for their member communities with government, or working with other firms, particularly other CMEs, to secure enhanced pricing, greater market access or the provision of infrastructure.

In this manner the CME is aiming to strengthen the sense of *community of purpose* amongst its members. Birchall and Simmons (2004) note that collective action amongst people requires three key variables:

1. **Shared goals**: people express mutual needs that translate into common goals;
2. **Shared values**: people feel a sense of duty to participate as an expression of common values; and
3. **Sense of community**: people identify with and care about other people who either live in the same area or are like them in some respect.

They draw upon the “*mutual incentives theory*” to suggest that member participation and engagement with a CME requires the presence of these three variables plus the movement through a “*participation chain*”. This starts with the members having sufficient “*resources*” (e.g. time, money, skills and confidence) to participate. It then moves to “*mobilisation*” (e.g. activities and ‘recruitment’ efforts) where the members are drawn together either through *bottom-up* or *top-down* processes at the community or corporate level. Finally, there are the “*motivations*” that members must have to engage and continue to remain engaged with the CME. Their study of 448 members from UK based co-operatives found that the active members were motivated by shared values, shared goals and a sense of community. Of these, the last was the most significant.

Birchall and Simmons (2004) suggest that CMEs seeking to grow their membership or enhance their level of member engagement should focus on strengthening each of the three elements of the *participation chain*. They suggest that *resources* can be strengthened through information, communication, education and even training campaigns designed to build up members’ knowledge, skills and confidence. An example of this is the Murray Goulburn Co-operative’s *Next Generation* program that is targeted at fostering the growth of a future generation of Australian dairy farmers. The program provides financial support (via investment rebates), assistance with capitalisation, financing, workforce support and new business creation assistance. It also brings the younger farmers into training programs designed to make them knowledgeable about the operations of the co-operative as a business (MGC, 2015).

To strengthen the *mobilisation* link requires the CME to engage members around their interests such as the maintenance of prices, market access, supply chain efficiency, quality and fairness in trade. Some of these
activities are likely to be task-focused and others more social in nature. The mobilisation of the community to work cooperatively for a common goal is usually what drives the initial establishment of a CME. For example, the collapse of HIH Insurance Group in 2001 triggered a crisis in the Australian building industry as builders were unable to obtain the necessary insurance cover to allow them to operate. This mobilised the smaller builders in WA to form the Wesbuilders Co-operative in 2004 that was able to collectively source affordable builders’ insurance and has subsequently used this collective effort to negotiate prices for other key supplies. However, when the crisis passes it becomes important for the CME board and management to keep in constant touch with members, engender trust and identify ways to mobilise member engagement as part of the delivery of member value.

The strengthening of the motivations link requires the CME to build a strong sense amongst members of being part of an important community of purpose with shared goals and values. Developing this requires more than an appeal to the financial and functional value offered by membership of the CME. Those are important to retain membership but they are insufficient to develop the level of motivation to retain loyalty. In a study by Cechin, Bijman, Pascucci and Omta (2013) of the factors motivating member commitment within agricultural co-operatives a series of nine factors were identified as playing a role.

Table 3 lists the seven factors examined by Cechin et al. (2013) as influences of member commitment. It can be seen that four of the seven factors were found to have a significant impact on motivating members’ to make a commitment to collective action. The first of these “Democracy voice” is a measure of how members see their participation in the CME allows them an ability to have a say in the decisions made by the business and whether the board is operating in the best interests of the members. This factor also measures the sense amongst the members of feeling like owners of the business, who can shape its future direction and secure economic benefits from their participation.

The second factor that was found have a significant impact on member commitment was “Hierarchy control”, which is a measure of how the member views the CME’s organisational influence on the management of the supply chain and the associated quality and operational aspects. While statistically significant (at the .05 level) this factor was less significant than the other four factors that had confidence intervals greater than 99%.

The third significant factor was “Community involvement”, which measures the members’ involvement in various committees or governance roles within the CME. This relates to the sense of ownership over the CME and ties into the “Democracy voice” factor. Finally the last significant factor was “Market incentives”, which is a measure of the members’ satisfaction with the prices paid by the CME and whether there is a sense that pricing is correlated with volume of patronage.

In summarising the managerial implications of their research Cechin et al. (2014) made the following observations:

Our results can contribute to solving the managerial challenge of strengthening commitment in such a complex organization as the agricultural cooperative. A first implication for managers and directors of an agricultural cooperative is that if the cooperative has to vertically coordinate in high-value supply chains, rewarding farmers appropriately is important for maintaining commitment both to collective action and to a customer-oriented strategy. A second implication is that giving “voice” and building a social community for members and their families are important. Involved members are more committed to collective action, that is, more willing to sacrifice short-term economic gains for the sake of the cooperative’s long term performance, while communication is an important tool for enhancing farmers’ commitment to a customer oriented strategy. Finally, to facilitate customer-oriented strategies, while maintaining member commitment to collective action, it is advised to combine market incentives, hierarchy control, community involvement, democracy voice, and communication. (p. 56)


**Table 3: Factors Influencing Member Commitment in Agricultural Co-operatives**

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<tr>
<th>Factors</th>
<th>Components</th>
<th>Impact on member commitment</th>
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<tr>
<td>Democracy voice</td>
<td>• Members can vote in every important decision.</td>
<td>Influence on members’ commitment to collective action is strongly significant (e.g. ( p &lt; .01 )).</td>
</tr>
<tr>
<td></td>
<td>• Strategic decisions are made by members.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Board of directors considers members interests in their decisions.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Participation influences own economic benefits.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Member is a co-owner of the co-operative.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Participation influences co-operative’s path.</td>
<td></td>
</tr>
<tr>
<td>Hierarchy formalisation</td>
<td>• Deliverance is made in predetermined dates.</td>
<td>Not a significant influence on members’ commitment to collective action.</td>
</tr>
<tr>
<td></td>
<td>• Agreements follow formal rules and procedures.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Quality standard is determined in contract.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Co-operative uses written docs to inform expected quality.</td>
<td></td>
</tr>
<tr>
<td>Hierarchy control</td>
<td>• Co-operative controls rigorously quality of delivered product.</td>
<td>Influence on members’ commitment to collective action is significant (e.g. ( p &lt; .05 )).</td>
</tr>
<tr>
<td></td>
<td>• Co-operative controls rigorously used inputs.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Received value depends on quality control of delivered product.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Co-operative monitors rigorously productive activity on site.</td>
<td></td>
</tr>
<tr>
<td>Community involvement</td>
<td>• Participation of wife in women committee.</td>
<td>Influence on members’ commitment to collective action is strongly significant (e.g. ( p &lt; .01 )).</td>
</tr>
<tr>
<td></td>
<td>• Occupation of position in the co-operative governance.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Participation in general assemblies.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Participation in youth committee.</td>
<td></td>
</tr>
<tr>
<td>Market autonomy</td>
<td>• Autonomy to choose technology.</td>
<td>Not a significant influence on members’ commitment to collective action.</td>
</tr>
<tr>
<td></td>
<td>• Autonomy to choose variety.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Autonomy to decide how much to produce.</td>
<td></td>
</tr>
<tr>
<td>Market incentives</td>
<td>• Satisfaction with price the co-operative pays for the product.</td>
<td>Influence on members’ commitment to collective action is strongly significant (e.g. ( p &lt; .01 )).</td>
</tr>
<tr>
<td></td>
<td>• Payment is proportional to effort.</td>
<td></td>
</tr>
<tr>
<td>Communication</td>
<td>• Co-operative informs expected quality in informal way.</td>
<td>Not a significant influence on members’ commitment to collective action.</td>
</tr>
<tr>
<td></td>
<td>• Information exchange on quality is frequent.</td>
<td></td>
</tr>
</tbody>
</table>

Source: Cechin, et al. (2013)

It should be clear from the findings of these research studies that for a CME to secure the commitment and loyalty of its membership it needs to build a strong foundation of both economic and social capital outputs. Ensuring that pricing and any return to investment is competitive and linked to patronage, plus the efficient management of the business are essential to the retention of members. However, this productive efficiency is unlikely to be sufficient to build a strong and sustainable competitive advantage. It needs to be combined with the social efficiency as suggested by Spear (2000). Building social capital through the promotion of the democratic principles of the co-operative movement and fostering a sense of belonging to a community of purpose with shared goals and values is critical to sustainability. Members that are engaged as owners and members of a community of purpose are less likely to be affected by the factors that lead to the five “generic problems” described earlier.
CONCLUSIONS, IMPLICATIONS AND RECOMMENDATIONS

This discussion paper has examined the nature of purpose, identity and the member value proposition within CMEs. The review of the academic literature undertaken for this paper highlights the need to recognise that these enterprises are a hybrid business model with a dual economic and social purpose. While some CME are more economic or social in their orientation, they cannot and should not ignore this “symbiosis” (Fairbairn, 1994). A socially focused CME that ignores sound business principles and loses its productive efficiency is unlikely to remain viable for long (Spear, 2000). However, the reverse is true of a CME that seeks to primarily focus on economic outcomes. This is likely to render the business without a strong social capital base and that is likely to result in its eventual demutualisation.

The development of a clear statement of purpose is a mechanism by which the board and management of CME can make these economic and social goals manifest. It was the approach taken by the early Rochdale Pioneers who wrote their bylaws around an interlocking web of principles that have survived to the present day as the internationally recognised co-operative principles and values of the global co-operative movement. Although these principles have been debated in relation to their ability to fully define the nature of a CME, or even if they are all relevant to every business, they remain a core part of what constitutes the identity of these enterprises.

CMEs that fail to maintain a clear purpose that is relevant to their members risk degeneration (Battilani and Schröter, 2012). This is often triggered by a loss of member commitment, interest in the social as compared to the economic goals, and the ability to remain relevant. While well-managed CMEs can compete effectively with IOFs their ability to avoid degeneration and the problems that beset them during their lifecycle (Cook, 1995). As shown in the survey of seven of the world’s largest CME, while a formal statement of purpose is uncommon, most have well-considered mission and vision statements plus lists of values that embrace both the social and economic goals they aspire to.

The development of a statement of purpose is a mechanism by which the board and senior management can formally declare their organisation’s raison d’être and use it to unite their members into a community of purpose with shared goals and values. This can also help to foster the appropriate climate and culture within the organisation. In shaping such a statement of purpose CME boards and senior managers should ensure that they encompass the organisation’s strategic direction, stakeholder concerns and strategic success factors (Strong, 1997). However, these should be configured to address both economic and social objectives.

Simultaneously developing the productive and social efficiencies of the CME should be the primary aim of the board and this requires investments to be made in both economic and social capital. For most CMEs the first type of investment is already a key part of their decision making. For example, the purchase or upgrading of plant and equipment is an ongoing and necessary part of the board’s functional responsibilities. However, there is often less attention given to the investment decisions associated with the building of social capital.

As discussed above, social capital is intangible and found within the minds and hearts of the people who comprise the social community that form the organisation (Adler and Kwon, 2002). It is comprised of trust, mutual respect and reciprocity via formal and informal ties and networks between individuals and groups (Fukuyama, 2001). Because of the intangible and rather amorphous nature of social capital it is difficult for company directors and managers to understand and measure. For this reason it is either ignored or viewed as a force over which the business has little real control.

However, as we have attempted to show in this paper, there are ways in which social capital can be identified and its key elements understood with a view to applying pragmatic action. A starting point is to understand
the social structure of the organisation and to ensure that the way in which the members are engaged, organised, resourced and mobilised is congruent with both productive efficiency and social efficiency (Adler and Kwan, 2002; Spear, 2000). Members must be provided with the opportunity, motivation and ability to fully participate in the CME. This requires attention not only to the economic processes of patronage and payment between the CME and its members, but also their sense of belonging to an organisation over which they feel a sense of ownership and being part of an important community of purpose.

As noted by Adler and Kwon (2002) the fostering of social capital development should consider the task and symbolic contingencies and the complementary capabilities that can shape the positive and negative outcomes of social capital. The engendering of a strong sense of collective social norms will help to build solidarity and a sense of community of purpose. Information flow and the members’ sense of their individual and collective power, influence and control over the CME are also important to achieving the right outcomes. This is shown in the study by Cechin et al. (2013) where the importance of the factors Democracy voice and Community involvement were so significant. They were equal or superior to those of Market incentives or Hierarchy control, which focus on financial and functional values rather than emotional value and affective commitment.

The five “generic problems” of the CME are major strategic challenges for boards and senior management teams. As discussed above the principal remedies that have been prescribed for them have focused on economic rather than social mechanisms. Changes to the ownership rights within the CME via a redesign of the way share capital is distributed, traded, redeemed and valued, plus abandonment of the core principles of open and voluntary membership and “one-member-one-vote” democracy have been the prices that have been paid. In some cases this has helped to save the CME from dissolution, but in many cases a departure from co-operative principles has ultimately resulted in demutualisation (Bekkum and Bijman, 2006). In most cases this has seen a few members and directors secure short term economic gains, but over the long term the net result has been the loss of market bargaining power by the remaining members who continue to require the services for which the CME was established.

RECOMMENDATIONS FOR FUTURE RESEARCH

The review of the academic literature undertaken for this paper suggests that there is still a good deal of work to be done within the co-operative and mutual enterprise research community on understanding the power of social purpose within CMEs. The role of social capital is also an area that requires better understanding within the CME business model. While there is a fairly strong body of research encompassing the use of changes to ownership rights from an economic capital perspective, relatively little work has been done in relation to the use of social capital as a mechanism for enhancing member loyalty and commitment.

According to Jussila et al. (2012) there is little or no empirical research available on the role of affective commitment as a mechanism for enhancing member loyalty and engagement in CMEs. They also note that while some qualitative research is available there is a lack of empirical work to indicate the impact of “geographic compactness” (i.e. how geographically proximate the membership is) on affective commitment, plus any differences between CMEs across industry and business type. They note that Fulton (1999) suggested that affective commitment might be more difficult to build within agricultural co-operatives than in consumer co-operatives. Other fields of inquiry should focus on how management of a CME might facilitate the growth of social capital and affective commitment amongst members and the role of education in that process.

These suggestions are recommended and in the exploration of the fostering of social capital the researcher might build on the framework offered by Adler and Kwon (2002) perhaps commencing with case studies to generate hypotheses that can be tested using empirical analysis. The construct measures for affective commitment are already well established (Allen and Meyer, 1990a/b).
RECOMMENDATIONS FOR POLICY AND PRACTICE

For the directors and managers of CMEs there are several recommendations that should be considered. First, it is important to recognise and embrace the unique identity of the CME business model and to never forget that it is a hybrid structure with both an economic and social purpose. For CMEs the social purpose is much more than the inclusion of corporate social responsibility (CSR) policies into the firm’s strategic planning. It should be an integral part of the DNA of the enterprise. For this reason it is recommended that the board review its mission, vision and values with the aim of aligning them to reflect this “symbiosis” and embrace the principles and values of the co-operative movement. The development of a formal statement of purpose is one way to achieve this and in doing so to highlight the unique identity of the CME against its IOF competitors.

A second recommendation is that the directors and management of the CME develop a program to invest in and monitor how members understand the value they receive from their engagement with the enterprise. This should consider both the economic and social aspects of the relationship. Measuring economic outcomes is relatively easy and most CMEs already do this with financial data of income generated, profits made, rebates and dividends paid, and capital invested. However, a set of social capital and member commitment indicators are also important.

Social capital should be viewed as being as important as economic capital within the CME. Currently the appropriate measures for this are difficult to find and there is no uniformly accepted set of key performance indicators (KPI). However, studies such as those undertaken by Cechin et al. (2013) provide a guide. The measurement of social capital within the wider society has been undertaken by such indicators as:

1. Social participation, social engagement and commitment;
2. Level of empowerment, control and self-efficacy (e.g. belief in being able to achieve goals);
3. Perception of being part of a community;
4. Social networks, social support and social interaction; and
5. Trust, reciprocity and social cohesion (Bryant and Norris, 2002).

Such measurement frameworks can be adapted to use within CMEs to provide a working set of KPI.

Finally, in a study of Australia’s largest CME the majority (81%) of respondents felt that they had a clear understanding of their member value proposition (MVP), and 61% felt that their members had a clear understanding of this MVP. However, only 33% felt that the wider community understood this MVP and only 25% felt that the level of community support for their business had strengthened in the previous 12 months. Further, only 6% of respondents felt that membership growth had been strong over the previous year (Mazzarol, et al. 2014).

These findings indicate that more can and should be done by CMEs to formally identify and declare their purpose and the value they offer to members and the wider community. They should also develop measures of both their economic and social capital and use these to monitor their performance and argue their case in the wider political debates. Only by having good measures and reporting on such areas can the argument be put as to why co-operative and mutual enterprises deserve to be recognised and given special consideration by policy makers and regulators.
REFERENCES


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Tim Mazzarol is a Winthrop Professor in Entrepreneurship, Innovation, Marketing and Strategy at the University of Western Australia and an affiliate Professor with the Burgundy School of Business, Groupe ESC Dijon, Bourgogne, France. He is also the Director of the Centre for Entrepreneurial Management and Innovation (CEMI), an independent initiative designed to enhance awareness of entrepreneurship, innovation and small business management. Tim is also a Qualified Practising Market Researcher (QPMR) as recognised by the Australian Market and Social Research Society (AMSRS), and President of the Small Enterprise Association of Australia and New Zealand (SEAANZ). He has around 20 years of experience of working with small entrepreneurial firms as well as large corporations and government agencies. He is the author of several books on entrepreneurship, small business management and innovation. He holds a PhD in Management and an MBA with distinction from Curtin University of Technology, and a Bachelor of Arts with Honours from Murdoch University, Western Australia.