

Developing a conceptual framework for the co-operative and mutual enterprise business model

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Abstract

The co-operative and mutual enterprise business model represents a unique type of organisation that has a dual purpose focused on both economic and social goals. For nearly two centuries it has played an important role in economic development, job creation and addressing market failures. However, despite its potential importance to economic development it has been largely ignored within the mainstream economics and management literature. This paper provides an overview of the nature of the co-operative and mutual enterprise business model and also proposes a business model framework or ‘canvas’ that can be used for research, teaching and strategic analysis.

Keywords: co-operative and mutual enterprise, business model, economic development

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INTRODUCTION

A business model is a conceptual tool used to draw together the logic behind a business enterprise that defines how it will create value for its customers, profit for its shareholders, and how it will allocate key resources and employ processes to achieve its purpose. From an academic perspective, the business model concept remains a work in progress. However, it has captured the attention of both policy makers and practitioners because without appropriately designed and effective business models, economic growth and business sustainability will be adversely impacted (Teece, 2010).

This paper contributes to a better understanding of the nature of the co-operative and mutual enterprise (CME) business model, a unique type of business form that has a long history and global reach (Birchall & Simmons, 2011; International Co-operative Alliance [ICA], 2015). Despite this, the CME business model remains poorly understood, and has been marginalised within the economics and management literature (Kalmi, 2007). These enterprises have been identified as having a potentially significant role in alleviating poverty (Birchall, 2004; Birchall & Simmons, 2007, 2009). They have also been proposed as offering a useful tool for economic development (Gringras, Carrier, & Villeneuve, 2008; Kangayi, Olfert, & Partridge, 2009; Vieta, 2010; Tonnesen, 2012). However, they have also been identified as having inherent ‘generic’ problems or weaknesses in their business model (LeVay, 1983; Cook, 1995; Nilsson, 2001; Ortmann & King, 2007). Their competitiveness and economic

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efficiency in relation to investor-owned firms (IOF) has also been questioned (Soboh, Lansink, & Van Dijk, 2012).

The CME is a 'hybrid' that can fill the gaps between state-owned enterprises (SOE), not-for-profit social enterprises (NFPSE) and for-profit IOF (Levi & Davis, 2008; Novkovic, 2008). It has been viewed as offering greater resilience and stability in comparison to many alternative business models (Birchall & Ketilson, 2009; Birchall, 2013; Brown et al., 2015). The CME business model is also now being actively promoted by governments in the Asia-Pacific region as a complementary organisational form alongside other corporate models (Michie & Lobao, 2012). For example, Malaysia has positioned the CME sector as a core part of its economic development strategy with the launch of the *National Co-operative Policy* in 2002 and will continue until 2020 (Othman, Mansor, & Kari, 2014).

However, despite the potential value of the CME to economic development, relatively little attention has been given to a systematic analysis of the business model structure that underlies this type of organisation. There is a gap in the literature associated with the design of the CME business model, and in particular the attributes it has that make it of potential value. The aim of this paper is to explain the key elements of the CME business model and in doing so address the following research questions:

1. What are the key attributes, components or building blocks that comprise the CME business model?
2. How might the CME business model be designed to ensure its sustainability and resilience?

The remainder of the paper is organised as follows. First, we explain the nature of CMEs before turning to an overview of the business model concept and its evolution. We then review the business model conceptual framework developed by Osterwalder and Pigneur (2010), before discussing the CME business model and how it differs from other types of enterprise. The paper then outlines the CME business model in detail, before discussing the theoretical and applied contribution that this framework makes. Finally, to conclude, the contributions of the paper and implications for further research are discussed. This work is conceptual in nature.

WHAT IS A CME?

The acronym CME has its origins in a paper published by Co-operative Futures (2000), as a potential framework for research, policy and practice. Like the acronym SME, for small and medium enterprises, the acronym CME helps to unite the otherwise disparate co-operatives and mutual enterprise sectors (Yeo, 2002). It has now started to gain more common use in academic and industry circles (Ridley-Duff, 2012, 2015).

The nature and origins of CMEs

Historically, co-operatives can trace their origins back to the Middle Ages, with more recent examples found in France, Scotland and Germany from the 18th century (Gide, 1922; Williams, 2007), and globally during the 19th century (Fernández, 2014). However, the origins of the modern co-operative business model can be found in the *Rochdale Society of Equitable Pioneers* in 1844 (Drury, 1937; Fairbairn, 1994). Founded by self-employed weavers in Rochdale, England, its purpose was to undertake a range of economic and social activities to enhance the well-being of its members (Wilson, Shaw, & Lonergan, 2012). The founding principles laid out by the Rochdale Society have remained a blueprint for co-operatives, encompassing: member ownership, democratic governance (i.e., 'one-member-one-vote'), accumulation of share capital and profit distribution based on patronage, and member education. Both social and economic objectives were inherent in its constitution (Rochdale Society, 1877: 21). With only a few minor changes, the general principles and values established by the Rochdale Society have continued to guide the global co-operative movement (ICA, 2015; Nelson, Nelson, Huybrechts, Dufays, O'shea, & Trasciani, 2016). Table 1 outlines these principles and values.

TABLE 1. CO-OPERATIVE PRINCIPLES

Title	Description
1 Voluntary and Open Membership	Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination
2 Democratic Member Control	Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner
3 Member Economic Participation	Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership
4 Autonomy and Independence	Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy
5 Education, Training and Information	Co-operatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their co-operatives. They inform the general public – particularly young people and opinion leaders – about the nature and benefits of co-operation
6 Co-operation among Co-operatives	Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures
7 Concern for Community	Co-operatives work for the sustainable development of their communities through policies approved by their members

Source: International Co-operative Association, 2015.

These principles have been viewed as a potential alternative to mainstream approaches to economic development during times of crisis such as the Great Depression (Albrecht, 1937; Drury, 1937; Hall & Watkins, 1937; Miller, 1937; Warbasse, 1937; Heriot & Campbell, 2006; Royer, 2016). They have also been seen as a guide to success for co-operatives if followed strictly and abandoned at their peril (Drury, 1937).

Mutual enterprises, or societies, can also trace their origins back to the Middle Ages, but they emerged strongly in the late 19th and early 20th centuries offering mutual pooled funds for workers and professionals to provide financial, insurance and health services (Grijpstra, Broek, & Plooi, 2011). For example, in the United Kingdom, friendly societies such as the *Independent Order of Oddfellows*, *Independent Order of Rechabites*, *United Ancient Order of Druids* and the *Ancient Order of Foresters*, emerged to offer pharmaceutical, financial and insurance services for their members (Lyons, 2001). During the 1830s and 1840s these organisations spread to countries such as Australia where they offered affordable medicines and medical services (Green & Cromwell, 1984).

Today, mutual enterprises remain a significant part of the national economy of most countries. For example, in Europe, it was estimated that mutual enterprises provide health and financial services to around 230 million members and policy holders, employ around 350,000 people and underwrite about €180 billion insurance premiums (Grijpstra, Broek, & Plooi, 2011).

TABLE 2. COMMON PRINCIPLES OF MUTUAL ENTERPRISES

Title	Description
1 Absence of shares	Mutual enterprises are a grouping of persons (physical or legal), called members, and not a pooling of funds as in the case of corporations
2 Free membership	Free entry (and free exit) for everyone who fulfils the conditions laid down in the by-laws and abides by the principles of mutuality
3 Member solidarity	An historical principle rooted in the 19th century workers' movement and the ideology of the solidarity movement. Today, that means joint liability and a cross subsidisation between good risks and bad risks and no discrimination among members
4 Democratic governance	Conveyed by the principle 'one person, one vote' in contrast to the rule 'one share, one vote' which is symbolic of corporate governance. The board's members are volunteers, in contrast to the corporations' practice paying their directors a fee
5 Independence	Mutual enterprises are private and independent organisations, neither controlled by government representatives nor funded by public subsidies
6 Limited profit sharing	The profit of a mutual can be shared among the owners/members, usually as discounted premiums or rebates, but the main part of the company's proceeds is reinvested in it to improve services, finance the development of the business or to increase its own funds

Source: Archambault (2009).

Some of the key characteristics or principles that define mutual enterprises are summarised in Table 2, where it can be seen that there are many commonalities between the principles that guide the co-operative and those that guide mutual enterprises.

The history of the co-operative and mutual societies is both long and complex, and it is not the purpose of this paper to address it in detail. However, the CME sector is diverse and its history, as illustrated in Britain, suggests a pattern of periods of rapid growth, followed by periods of relative decline. This was often characterised by problematic relations with political movements and trade unions, plus competitive pressure from IOF (Black & Robertson, 2009; Gurney, 2012, 2015). This is a pattern found in many countries (Gide, 1922; Balnave & Patmore, 2008; Birchall, 2011). It is therefore acknowledged that many differences will exist between CMEs, and within the two sub-sectors. Nevertheless, while these differences are acknowledged, it is our view that sufficient common foundations can be found within their underlying business models, to suggest a framework that can assist directors and managers of these businesses to better understand the strategic issues likely to shape their fortunes.

Defining CMEs

While CMEs share many common attributes, they also have some key differences. These are reflected in the definitions that are used for these firms. The International Co-operative Alliance (ICA), founded in London in 1895, acts as the global steward of the *Statement of Co-operative Identity*. It defines a co-operative as follows:

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

However, this definition does not fully capture the nature of the mutual enterprise (e.g., mutual insurance firms, mutual health insurance funds, building societies, credit unions and friendly societies), which are not co-operatives, and have not traditionally embraced their principles (Birchall, 2014). While there is no universal definition of a 'mutual enterprise', the European Union defined them as:

Voluntary groups of persons (natural or legal) whose purpose is primarily to meet the needs of their members rather than achieve a return on investment, which operate according to the principles of solidarity between members, and where members participate in the governance of the business (Grijpstra, Broek, & Plooi, 2011: 14).

By contrast, the UK government defines the mutual enterprise as follows:

A mutual is a private company whose ownership base is made of its clients or policyholders. The defining feature of a mutual company is since its customers are also its owners, they are entitled to receive profits or income generated by the mutual company. It is owned by, and run for the benefit of its members (UK Government, 2011).

However, there are many different definitions of ‘mutual enterprise’ found around the world.

Unsurprisingly, the definition of a ‘CME’ remains vague, due to the inherent challenge of classifying CMEs, which share a common focus on member economic and social benefit, but also have dissimilarities in relation to some aspects of governance and ownership. Ridley-Duff suggests that CMEs ‘...are defined by a commitment to (or innovative systems for advancing) trade through democratic/inclusive enterprises’ (2015: 46). Yet a formal definition does not exist. Birchall (2011) proposed one for a ‘member-owned businesses’:

A business organisation that is owned and controlled by its members who are drawn from one (or more) of three types of stakeholder – consumers, producers and employees – and whose benefits go mainly to these members” (Birchall, 2011: 3).

For the purposes of this paper, we use as a working definition of a CME:

A co-operative or mutual enterprise (CME) is a member-owned organisation with five or more active members and one or more economic or social purposes. Governance is democratic and based on sharing, democracy and delegation for the benefit of all its members.

THE METHODOLOGICAL FOUNDATIONS OF THIS STUDY

The conceptual framework of the CME business model described in this paper has been developed from a ‘bottom-up’ methodology the authors have undertaken over a period of approximately 10 years. Commencing in 2008, we undertook a major review of the literature relating to the CME, and examined it against the extant conceptual foundations of the business model (Mazzarol, 2009; Mazzarol et al., 2011).

This was followed by a large-scale study involving the collection of data and case studies from multiple countries and the publication of a research handbook that examined the co-operative enterprise business model (Mazzarol, Simmons, Mamouni Limnios & Clark, 2014). In the light of this research, revisions were made to the design of the CME business model development canvas and incorporated it within educational programs. The business model canvas described in this paper was subsequently used in an executive leadership and strategy programme for the directors and senior executive managers of CMEs over a period of 4 years. This provided an opportunity to validate the structure and usefulness of the framework with a wide cross-section of CMEs from multiple industries, sizes and countries. It has also been successfully used in consulting projects with directors and executive managers from CMEs, and has demonstrated its usefulness for both established and young businesses as a strategic planning framework.

THE BUSINESS MODEL AS A CONCEPTUAL FRAMEWORK

Before we explain the CME business model it is appropriate to overview the conceptual and theoretical foundations of the business model concept. The historical antecedents of the term business model can be traced back to the middle of the 20th century, with mentions of ‘business models’ found in the works of Drucker (1954), Bellman, Clark, Malcolm, Craft, and Riccardi (1957) and Jones (1960). However, despite some ongoing use of the term in the 1970s (e.g., Mulvarney & Mann, 1976), the concept began to find its way into the management literature in the 1990s and 2000s via the field of electronic commerce (Mahadevan, 2000). One of the first definitions was provided by Timmers (1998), who described it as:

An architecture for the product, service and information flows, including a description of the various business actors and their roles; and a description of the potential benefits for the various business actors; and a description of the sources of revenues (Timmers, 1998: 2).

At the start of the 21st century the concept of the business model began to take a prominent role in the fields of innovation and entrepreneurship (i.e., Chesbrough & Rosenbloom, 2002; Thomke & von Hippel, 2002; Davis, 2002a). Academic researchers investigated and analysed the nature of business models. They acknowledged that there was a paucity of agreed definition, other than being largely associated with *'the logic of profit generation'* (Stewart & Zhao, 2000), and an equal paucity of *'theoretical underpinnings'* (Amit & Zott, 2001).

A review of the literature undertaken by Morris, Schindehutte, and Allen (2005) identified an *'integrative framework'* for understanding the business model concept. This was based around six key questions: (i) how does the business create value? (ii) who is the business creating value for? (iii) what is the source of the firm's competence? (iv) how does the business competitively position itself? (v) how does the business make money? and (vi) what are the time, scope and size ambitions for the venture? Around the same time other researchers in the field of management and economics were taking an interest in the business model concept (e.g., Osterwalder, 2004; Osterwalder, Pigneur, & Tucci, 2005; Shafer, Smith, & Linder, 2005; Hrebiniak, 2006; Teece, 2006; Zott & Amit, 2007; Markides, 2008). Chesbrough (2007) provided a list of the key 'functions of a business model' (see Table 3).

TABLE 3. FUNCTIONS OF A BUSINESS MODEL

The functions of a business model are:

1. Articulate the value proposition, that is, the value created for users by the offering
2. Identify a market segment, that is, the users to whom the offering is useful and for what purpose
3. Define the structure of the value chain required by the firm to create and distribute the offering, and determine the complementary assets needed to support the firm's position in this chain. This includes the firm's suppliers and customers, and should extend from raw materials to the final customer
4. Specify the revenue generation mechanism(s) for the firm, and estimate the cost structure and profit potential of producing the offering, given the value proposition and value chain structure chosen
5. Describe the position of the firm within the value network (also referred to as an ecosystem) linking suppliers and customers, including identification of potential complementors and competitors
6. Formulate the competitive strategy by which the innovating firm will gain and hold advantage over rivals

Source: Chesbrough (2007).

Despite this growing interest in the business model, by the end of the decade Teece (2010) issued a warning and a challenge to academic researchers, and those using the business model concept for start-up ventures and other purposes. He noted that:

The concept of a business model lacks theoretical grounding in economics or in business studies. Quite simply there is no established place in economic theory for business models; and there is not a single scientific paper in the mainstream economic journals that analyses or discusses business models in the sense they are defined here (Teece, 2010: 175).

This 'challenge' coincided with a flurry of papers published on the topic of business models (i.e., Chesbrough, 2010; Nenonen & Storbacka, 2010; Zott & Amit, 2010; Casadesus-Masanell & Ricart, 2010; George & Brock, 2011; Zott, Amit, & Massa, 2011; Amit & Zott, 2012; Baden-Fuller & Haefliger, 2013; Coombes & Nicholson, 2013; Lambert & Davidson, 2013; Markides, 2013).

Over time, academic investigation into the business model concept has seen a convergence of research relating to the fields of strategic management, technology and innovation management, and organisation (Wirtz, Göttel, & Daiser, 2016a; Wirtz, Pistoia, Ullrich, & Göttel, 2016b). This reflects the interdisciplinary nature of business model research, which has focused on: strategy (e.g., Mitchell & Coles, 2004; Shafer, Smith, & Linder, 2005; Afuah, 2009); entrepreneurship (Zott & Amit, 2007; Fiet & Patel, 2008; Doganova & Eyquem-Renault, 2009); information systems (Berman, Kesterson-Townes, Marshall, & Srivathsa, 2012; Daas, Hurkmans, Overbeek, & Bouwman, 2013); marketing

(Mason & Spring, 2011; Mason & Mouzas, 2012; Coombes & Nicholson, 2013); innovation management (Smith, Binns, & Tushman, 2010; Baden-Fuller & Haefliger, 2013); and international business (Casadesus-Masanell & Ricart, 2010).

Research has also focused on identifying the conceptual foundations of the business model to help explain its operation and application (Foss & Saebi, 2017). This has included an activity system perspective involving the firm’s supply or *value chain* (Zott & Amit, 2010), a value creation, delivery and capture perspective (Teece, 2010), and perspectives focused on activities that can be replicated so as to sustain growth (Zook & Allen, 2011), or applied into dynamic and uncertain markets (McGrath, 2010). Similar investigations were also made into the use of business models for opening up new markets and addressing poverty and human suffering (Thompson & MacMillan, 2010), as well as social and environmental sustainability (Lüdeke-Freund, Massa, Bocken, Brent, & Musango, 2016). It is in this area that the business model concept offers the most direct potential within the field of regional economic development. This is also where the CME business model has its natural place.

BUSINESS MODEL DESIGN AND THE CONCEPTUAL FRAMEWORK

As the business model moved through its conceptual evolution, a consensus has emerged over what comprise the core components or ‘*building blocks*’ (Chesbrough & Rosenbloom, 2002; Osterwalder, Pigneur, & Tucci, 2005; Johnson, Christensen, & Kagermann, 2008; Teece, 2010; Zott, Amit, & Massa, 2011; Wirtz, Göttel, & Daiser, 2016a; Wirtz et al., 2016b). Table 4 summarises this literature and the generally agreed building blocks of a business model.

TABLE 4. THE BUILDING BLOCKS OF BUSINESS MODELS

Pillars	Chesbrough and Rosenbloom (2002)	Osterwalder, Pigneur, and Tucci (2005)	Johnson, Christensen, and Kagermann (2008)	Wirtz et al. (2016b)
Purpose	Competitive strategy Value proposition	Value proposition	Customer value proposition	Strategy model
Profit formula	Market segment Cost structure	Target customer Cost structure	Profit formula	Market offer model Financial model
Key processes	Revenue generation Value chain structure	Revenue model Distribution channel Customer relationships Value configuration	Key processes	Revenue model Customer model Manufacturing model Procurement model Resources model
Key resources		Core competency Partner network	Key resources	Resources model Network model

An examination of these different components suggests that most recognise the business model as a strategic tool, focused on securing and sustaining a competitive advantage in the market. To achieve this the core focus is on the identification and capture of value, with an emphasis on understanding the value from the customer’s perspective. This leads to the need for the business model to make a ‘*customer value proposition*’, that will not only attract customers, but that can be sustainably delivered over time. Strategically this focuses the business model design around a clear ‘*purpose*’ that underlies the competitive strategy. Once this is defined the focus shifts to the ‘*profit formula*’ (i.e., cost, volume,

profit analysis), and the key processes and resources needed to make the business model work. Within these areas attention needs to be given to distribution channels, customer relationships, value chain configuration, strategic partnerships, and both tangible and intangible resources.

These elements draw on a foundation of well-established strategic and marketing concepts. They have been developed into a series of conceptual tools that have become a foundation for students, teachers and practitioners seeking to design and development sustainable and resilient business models. One of these is the *Business Model Generation Canvas* system for business model design (Osterwalder & Pigneur, 2010), with books on its use by entrepreneurs (Osterwalder, Pigneur, Bernarda, & Papadakos, 2015).

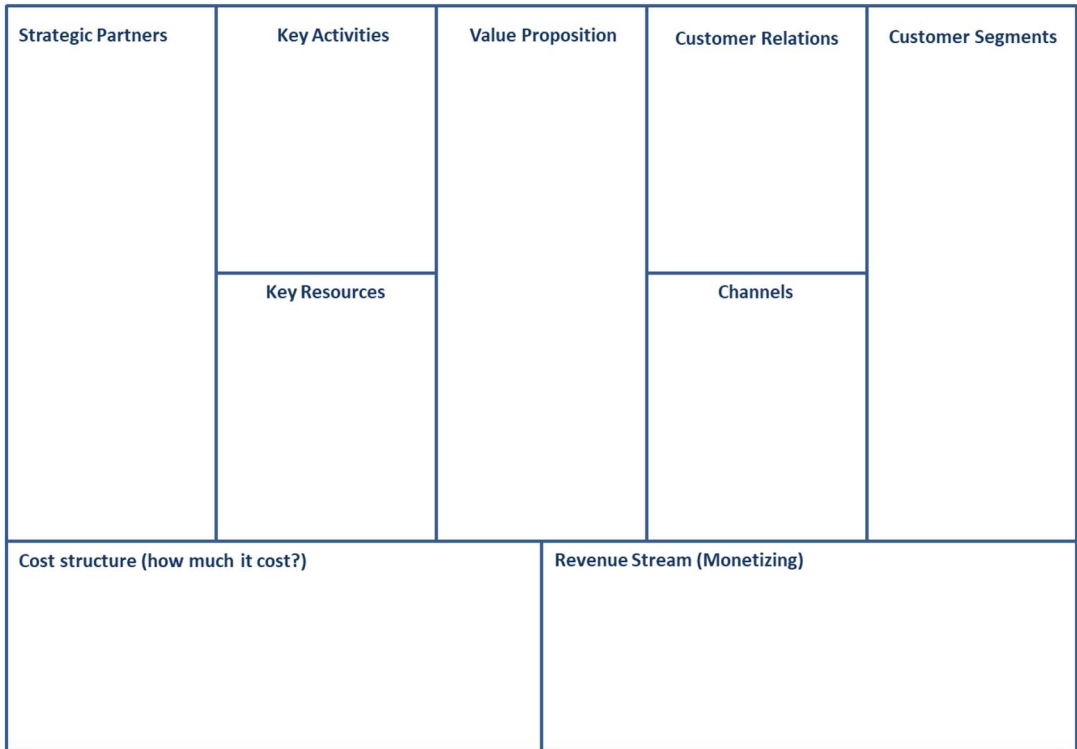


FIGURE 1. BUSINESS MODEL GENERATION CANVAS

As illustrated in Figure 1, the *Business Model Generation Canvas* is a schematic framework that comprises nine ‘building blocks’: (i) customer segments; (ii) value proposition; (iii) channels; (iv) customer relationships; (v) revenue streams; (vi) key resources; (vii) key activities; (viii) key partnerships; and (ix) cost structure. Each ‘block’ has a series of questions that need to be addressed to help validate the model and guide strategy (Trimi & Berbegal-Mirabent, 2012). The ‘*Business Model Generation Canvas*’ has become a popular tool for start-up business ventures. This helps entrepreneurs systematically think through the nine ‘building blocks’, to identify how value is to be generated and delivered, the role of strategic alliance partners, and how the resource configuration will need to be organised so as to secure competitive advantage (Ebel, Bretschneider, & Leimeister, 2016).

Our analysis has found that although the components of the business model may be discussed using different terminology, or be grouped together in different ways by various authors, there is a high level of consistency in the basic building blocks of business models. This is very important for future work

by both scholars and practitioners as they undertake further research on business models or implementation of the business model framework with companies (Lambert & Davidson, 2013). It is also useful in helping to understand the CME business model.

CMEs AS A DISTINCT BUSINESS MODEL

An important question in the analysis of the CME business model is whether it is uniquely different from other types of business. It needs to be compared with other existing business forms such as IOF, NFPSE and SOE. The key points of differentiation are purpose, ownership, governance and funding. For example, SOEs can take a variety of forms with ownership and funding being either public, private or public–private. Governance can also be independent of government, but the influence of government on the organisation’s mission and performance metrics is usually strong (Perry & Rainey, 1988). The role of government also has a strong influence on the purpose of these entities, with the need to provide some element of ‘public good’ as a justification for their activities.

NFPSEs may also have a variety of ownership types, and may have membership models that engage members in its governance. Their purpose is typically focused on delivering services or benefits to the community, or specific groups (e.g., the poor, children with needs, the disabled). However, NFPSEs generally don’t recognise members as owners of the share capital, or allow them to contribute to or receive dividends, rebates or additional shares (Ridley-Duff, 2015). Although many CMEs are not-for-profit or ‘non-distributing’ enterprises, their ownership structures and treatment of share capital (whether or not distributed), generally differentiates them from NFPSEs (Ridley-Duff, 2012; Ridley-Duff & Bull, 2015).

Differentiating the CME from the IOF is complicated by the many organisational forms that CMEs take. For example, CMEs can be ‘non-distributing’ not-for-profit enterprises, or ‘distributing’ thereby containing a share capital structure in which shares are valued and dividends paid to members (Mamouni Limnios, Watson, Mazzarol, & Soutar, 2016). However, a key difference between CMEs and IOFs is the democratic nature of their governance where the ‘one-share-one-vote’ model of the IOF is replaced with a ‘one-member-one-vote’ model (Bacchiega & de Fraja, 2004). Although some CMEs, particularly mutual enterprises, don’t adhere to the ‘one-member-one-vote’ principle, the inherent democracy of the CME business model is a key differentiating attribute (Apps, 2016).

Other key differentiators between CMEs and IOFs relate to their purpose, how profits are managed, and the nature of the relationship that such firms have with their shareholders (Roy, 1976; Staatz, 1987). In relation to purpose, the IOF is primarily created with the purpose of generating positive returns to its investors, which it achieves by maximising profits (Chaddad & Cook, 2004; Birchall, 2011; Royer, 2014a, 2014b). By comparison, the CME’s purpose is typically focused on providing economic and social benefits to its members, usually through maximising member value through patronage and customer satisfaction (Talonen, Jussila, Saarijavi, & Rintamaki, 2016). The purpose for which the CME was created remains its overarching *raison d’être* and should be its primary strategic guide. This typically has both an economic and social aspect (MacPherson, 2012). Further, if the CME loses sight of its purpose it can be at risk of degeneration and demutualisation (Battilani & Schröter, 2012).

In relation to profits, the focus on delivering member benefits rather than investor returns influences the way the CME board and executive management team deal with profits and profit distributions. Rather than maximising profits to provide shareholders with enhanced dividends or increasing share value, the CME is focused on increasing the total welfare of their members (Staatz, 1987). This might take the form of offering lower prices to consumer members, or higher prices to supplier members, even if this pricing strategy reduces the overall profitability of the CME business. Some CMEs might even choose to follow a zero-surplus strategy and generate no net profit margin if that delivers the best value to members (Helmberger & Hoos, 1962).

Within the CME, profits are reinvested in the business, and/or returned to members based upon their level of patronage, and any share capital accumulation that might occur within the CME by members is generally based on patronage (Chaddad & Cook, 2004). The organisational design of the CME, particularly those with farmers or small businesses as members, has been likened to that of a 'network form', in which the CME as a firm, is owned in mutual by other firms (Sexton, 1983). This has led the CME to be described as a 'nexus of contracts' (Statz, 1987), where the CME, despite being a separate business, is owned and controlled by its members who are also its suppliers and customers.

Condon (1987) explains that while the control over resources and how they are used within an IOF generally rest with the shareholders, it is the size of the shareholding that determines who has the final decision-making power. Further, strategic decisions within IOFs are usually determined on the basis of what will generate the best returns to the capital invested. By contrast, within a CME, the ownership and control rights are vested with the members who are also patrons of the business. If share ownership and voting rights are also linked to active patronage, and the CME has a 'one-member-one-vote' rule in place, the ownership and control rights take on a different strategic role. Strategic decisions in the CME are more likely to be made on the basis of member value rather than shareholder or investor returns. In effect, there is a *value in use* rather than a *value in ownership* dimension that differentiates the CME from the IOF business model.

Another aspect of the CME business model that differentiates it from the IOF is its focus on both the economic and social well-being of its members (Novkovic, 2008). This hybrid or dual function of CMEs to simultaneously operate as a business, while also maintaining a union or alliance of members, is reflected in the co-operative principles (Fairbairn, 1994). This approach means that while the CME needs to operate effectively and efficiently to generate a financial surplus to operate sustainably, it only retains sufficient funds to continue to deliver services to members (Mooney, Roaring, & Gray, 1996; Mooney, 2004; Levi, 2006).

DEVELOPING A CME BUSINESS MODEL CONCEPTUAL FRAMEWORK

To customise a business model framework for CMEs, we started by drawing upon the core components of the generic business model design and adapted them to suit the nature, activities and outcomes of CMEs. An important starting point in this process was to assess the differences that exist between CMEs and IOFs in relation to strategic decision making at the board level. Table 4 compares the two organisational types. Consistent with our earlier review of the CME versus the IOF, there are quite fundamental differences between these two types of enterprise, which link to their foundational principles and priorities.

In keeping with the evolution of business model tools such as the *Business Model Canvas* (Osterwalder & Pigneur, 2010), we developed a business model canvas framework for CME business models. This is illustrated in Figure 2, where it can be seen to have nine elements – as is the case for the conventional business model canvas – but these have been adapted to the specific attributes of the CME business model. As can be seen, only three elements are similar.

Purpose

The first element of our proposed CME business model framework is *purpose*, which is one of the three core pillars upon which the business model is constructed. As noted earlier, the purpose for which the CME was created guides the enterprise and is its *raison d'être* and primary strategic goal. It should be focused on both economic and social objectives (MacPherson, 2012), and any loss of focus on the purpose can place the CME at risk of degeneration and demutualisation (Battilani & Schröter, 2012). It is important to identify the CME's purpose during its establishment as it assists with keeping the members engaged (Shah, 1996), and in fostering shared identity and values (Nelson et al., 2016).

TABLE 5. COMPARISON OF BUSINESS DECISION MAKING IN CO-OPERATIVE AND MUTUAL ENTERPRISE (CMEs) AND INVESTOR-OWNED FIRMS (IOFs)

<i>Business decision making</i>	<i>CMEs</i>	<i>IOFs</i>
Identify purpose	Embed mission and co-operative principles to meet member needs	Focus mission on outcomes for investors
Articulate the value proposition	Maximise member benefits	Satisfy customer needs and maximise shareholder returns
Identify the market segments	Target areas of greatest member need	Target most lucrative opportunities
Define the value chain configuration	Suppliers and customers are owner-members of the firm	Suppliers and customers are outsiders to the firm
Estimate cost and profit potential	Offer higher prices to suppliers and lower prices to customers	Reduce supplier costs and premium price customers
Define position within the value chain	Block substitution threats and form strategic partnerships within the co-op membership	Block substitution threats and form strategic partnerships within complementary actors
Formulate a competitive strategy	Offer members best value	Exploit future opportunities with existing resources
Evaluate performance	Economic value and social capital	Primarily economic value

Purpose	Key Processes	Member Value Proposition	Governance	Share Structure
<p>Mission: What is the overall reason for existing?</p> <p>Constitution: How are mission and principles embedded in the Constitution?</p> <p>Members: Who are members?</p> <p>What are their needs and are they very homogenous or very diverse?</p>	<p>Operations management</p> <p>CRM systems</p> <p>Financial control systems</p> <p>HRM Systems</p> <p>Rules, policies, metrics</p>	<p>How does the business help the member?</p> <p>Do all members have the same needs?</p> <p>What roles do they have as:</p> <ul style="list-style-type: none"> • Patrons • Investors • Owners • Members of the community 	<p>Size of Board?</p> <p>Structure of Board?</p> <p>Board relationship with:</p> <ul style="list-style-type: none"> • Executive • Members 	<p>Type of CME: Distributing or not?</p> <p>Ownership rights: Is share capital to be restricted members? Linked to patronage? Linked to voting rights?</p> <p>Share capital: Redeemable or not? Transferable or not? Convertible to publicly tradable stock?</p>
<p>Economic and Social Performance</p> <ul style="list-style-type: none"> • Is MVP effectively delivered over time? • What economic returns accrue to members? • What other economic value does the business generate? (e.g. jobs, infrastructure) • What social capital / benefits are created? 		<p>Profit Formula</p> <p>Products/Markets: What are the main services/products offered?</p> <p>Pricing Strategy for Members: How are they priced for members & non-members? Are rebates paid?</p> <p>Dividend Policy: How will surplus profits be dealt with? How will share capital valuation be addressed?</p>		

FIGURE 2. CO-OPERATIVE AND MUTUAL ENTERPRISE (CME) BUSINESS MODEL KEY ELEMENTS

The purpose can be enshrined in the organisation's constitution, along with the seven co-operative principles, to assist with decision making and ensure that the enterprise does not lose sight of its original *raison d'être*. This type of formalisation of purpose can become particularly important as CMEs increase in scale over time and may seek to diversify their scope. As an example of legislative requirements, under the Australian *Co-operatives National Law Act of 2012* all co-operatives must adhere to the co-operative principles and are required to include a clear statement of the purpose for which the co-operative has been established:

...the primary activity or (if more than one) the primary activities taken together must form the basic purpose for which the co-operative exists and a significant contribution to the business of the co-operative; (Co-operatives National Law Act 2012 No. 29, Section 149(2)(a)).

Although this legally applies to co-operatives, many mutual enterprises in Australia are also adopting formal statements of their purpose, which are being used to guide their strategic engagement with their members and the wider community. An example of this is Bank Australia, originally a credit union founded in 1957, that became Australia's first customer-owned mutual bank in 2011. By 2016 Bank Australia has established a strong presence in the market with 125,327 members and total assets of more than AUD \$4 billion (Business Council of Co-operatives and Mutuals [BCCM], 2016). Operating in a highly competitive market Bank Australia has chosen to embrace its mutuality and its formal statement of purpose reads:

Our purpose is to create mutual prosperity for our customers in the form of positive, economic, personal, social, environmental and cultural outcomes (BCCM, 2016: 47).

As illustrated in Figure 2, the purpose encompasses the mission and the reason why the CME was established. This should be developed with an understanding of who the members are, as well as their needs. This is important because the greater the diversity of the membership base within the CME the more difficult it is to generate a common purpose (Staatz, 1987). This purpose can be related to the needs of a particular region or regional community, to address economic and social goals (Allemand, Brullebaut, Ditter, & Reboud, 2016; Reboud, Tanguy, & Martin, 2016). Further, the purpose for which the CME was founded is usually a response to market failure, but if this purpose ceases to be relevant to members the strategic justification for the enterprise is placed at risk and potential dissolution (LeVay, 1983).

CASE EXAMPLES: ARTICULATING PURPOSE

Arla Foods, a Danish dairy co-operative articulates its purpose as follows: *Arla's mission is to secure the highest value for our farmers' milk while creating opportunities for their growth. As a co-operative 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.*

Bank Australia, an Australian customer-owned mutual bank articulates its purpose as follows: *Our purpose is to create mutual prosperity for our customers in the form of positive, economic, personal, social, environmental and cultural outcomes.*

Common Equity Housing Ltd (CEHL), an Australian housing co-operative articulates its purpose as: *Provide affordable, secure, well-managed housing to people wishing to access co-operative housing*

Many CMEs face this strategic challenge and move through a life-cycle where their own success can result in their becoming less relevant to their members' needs and must either revise their purpose and business model, or cease to exist (Cook, 1995). Finally, the mission or purpose statement, and the organisational values (or the co-operative principles) should be embedded into the constitution.

Member value proposition

The second major pillar in the CME business model canvas is the '*member value proposition*' (MVP). As the CME is focussed primarily on creating value for its members, the MVP is central to the CME business model framework and it replaces the customer value proposition component found in conventional business models which focuses on target markets for specific products. Members of a CME can be either individuals (natural persons) or corporate organisations (legal persons) who are users of its services and participate in its business enterprise as consumers, workers, producers or independent business owners. Building on the CME's purpose, an MVP can be developed that offers a combination of economic and social benefits likely to attract and retain members. This 'co-operative value' should be difficult to obtain from alternative business models such as IOFs (Nha, 2006).

CASE EXAMPLES: MEMBER VALUE PROPOSITION

Dairy Farmers of America (DFA), a US dairy co-operative articulates its MVP as follows:

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.

Health Insurance Fund of Australian, an Australian mutual health insurance fund articulates its MVP as follows: *Unlike many Australian health funds, we do not have shareholders. Moreover, cash dividends are not paid directly to our fund members. Instead, we return any surpluses to our members in the form of lower premiums, increased rebates and new benefits and services. This is our way of rewarding our loyal members.*

Talonen et al. (2016) suggest that customer or member value in CMEs is generated through patronage and value in use, which follows the service dominant logic theory proposed by Vargo and Lusch (2004, 2008). This value can be created within the CME in various ways including: economic value (e.g., better pricing, shareholder returns); functional value (e.g., reliability, quality of service); emotional value (e.g., sense of ownership); social value (e.g., shared identity and mutual purpose) (Talonen et al., 2016). These four attributes of potential value conform to the roles of: patron, investor, owner and member of a community of purpose proposed by Mazzarol, Simmons, Mamouni Limnios and Clark (2014).

Sexton and Iskow (1988) suggest that the foundation of the CME requires the ability to assemble as many people as possible in the common purpose for which the enterprise has been created. Early engagement of the wider community that is to form the business will help to clarify the MVP. Birchall and Simmons (2004) note that participation in a CME is contingent on the existence of shared goals, values and a sense of community or what they call the *Mutual Incentives Theory*.

Share structure

The third key pillar in the CME business model canvas is the design of its share structure and associated distribution of any profits. As noted earlier, this is a critical point of differentiation between the CME and IOF business models. An initial decision needs to be made in relation to dividend policy, or whether the CME is to be *distributing* or *non-distributing*. The first of these is viewed as a for-profit enterprise and issues dividends to members based on their ownership of share capital. The second type is essentially a not-for-profit enterprise and apart from rebates, will retain all profits for reinvestment into the business. This decision on the type of dividend policy the CME pursues is likely to depend on the interests and objectives of its members and the purpose for which it was established (Royer, 2004). It is a decision that has little to do with its ability to remain competitive, and more to do with the perceived value it offers to members (Sisk, 1982).

Of particular importance in determining share structure is how share capital is to be managed. For example, is it to be issued only to members, and is it linked to patronage and voting rights? These decisions have strategic implications. CMEs suffer from what has been described as five generic problems that can place it at a disadvantage over IOFs, and which have their origins in the vaguely defined property rights associated with mutual ownership structures (Porter & Scully, 1987; Cook, 1995; Nilsson, 2001). These are the: *'Free Rider'*, *'Horizon'*, *'Portfolio'*, *'Control'* and *'Influence-Cost'* problems.

The *free rider problem* is caused by members' property rights, or share capital ownership in the CME, being insecure, unassigned or incapable of being traded. This can result in members choosing to trade with the CME only when it suits them, or to join only once the CME has been established and the early investment by pioneering members has reduced the risk. The *horizon problem* is caused when the member's ownership rights via share capital cannot be transferred or liquidated via a secondary market. The pressure to force many co-operatives into demutualisation has been driven by members seeking to extract value from their ownership rights when no other option for recovery of their share capital is possible (Cook & Iliopoulos, 1999; Fahlbeck, 2007). The *horizon problem* also leads to short-term thinking within the membership of the CME because if they cannot redeem or trade their share capital, any long-term investment will not be of perceived value (Nilsson, 2001).

The *portfolio problem* is created by the lack of transferability, liquidity and capital appreciation within the share capital structure. Further, the mutual ownership structure means that any diversification of the share capital within the CME is virtually impossible (Nilsson, 2001). This results in members seeing no value in their membership and ownership of the CME other than through patronage of its services. It also sees members adopting risk averse decisions in relation to the CME because there is no perceived value in the CME undertaking investments that won't return immediate benefits to the member via services or enhanced pricing (Cook, 1995).

The *control problem* and *influence-cost problem* are related less to share capital structure and more to governance issues. However, the first occurs where the strategic interests of the membership and their elected representatives on the board, diverge from those of the CME's management. This can be exacerbated by the CME losing sight of its purpose, or increasing diversity in its membership base (Staatz, 1987). Finally, the *influence-cost problem* arises from a divergence of objectives if the CME takes on too many diverse purposes and has a highly diverse membership base (Milgrom & Roberts, 1990; Storey, Basterretxea, & Salaman, 2014).

Whether the share capital can be issued to members only, and whether it accumulates as a reward for patronage are key decisions that should be made in the design of the CME business model. Its ability to be redeemed, transferred or traded will also have significant impact on the configuration and operation of the CME, with multiple types of business models likely to be generated (Chaddad & Cook, 2004).

CASE EXAMPLES: SHARE STRUCTURE

Geraldton Fisherman's Co-operative (GFC) is an Australian fishing co-operative specialising in the export of live, ocean caught, rock lobster to China and other Asian markets. All members are shareholders, and a 'one-member-one-vote' system of democratic governance operates. As a distributing co-operative, GFC enables its members to participate in a 'loyalty bonus' based on the volume of supply each member of the co-operative contributes throughout the fishing season. However, to be eligible for the profit distribution, a member must agree to provide the co-operative with all their catch from the commencement of the season.

Capricorn Society Ltd is a co-operative servicing the needs of the Australian and New Zealand automotive services sector, with around 18,500 small business members. It is a 'distributing co-operative' and offers members shares that pay dividends as a distribution of profits at the discretion of the board. While all members have equal voting rights via the 'one-member-one-vote' principle, share allocations are based on patronage. Members must join the co-operative and open a trading account, which must be in operation for an initial trial period of up to 12 months. They must meet Capricorn's eligibility criteria (based on volume of patronage), and then apply to invest in a minimum of 200 ordinary share at an issue price of \$1.00 per share. Members can elect to receive their dividends, when issued, by way of further shares, or as full franked (tax paid) disbursements of profits.

This need to balance the often-competing interests of the *investor* and *patron* functions of the member led to the creation of *New Generation Co-operatives* in the United States during the 1990s (Harris, Stefanson, & Fulton, 1996). In traditional co-operatives share capital is restricted to members as patrons and while it may be redeemed at the discretion of the board, it cannot be transferred and carries no residual claims once the member ceases to be an active patron (Chaddad & Cook, 2004). However, in the new generation co-operatives, share capital is closely aligned with patronage with the aim of keeping both in balance and membership is restricted rather than open. Their structure is designed to mitigate the generic problems facing traditional CME business models (Katz & Boland, 2002).

In agricultural new generation co-operatives, members must buy stock in the co-operative to secure their patronage rights, and both the member and the co-operative are bound by contract to supply and buy the amount of produce associated with the value of the share capital purchased (Harris, Stefanson, & Fulton, 1996). Although new generation co-operatives still mostly adhere to the 'one-member-one-vote' principle (Carlberg, Ward, & Holcomb, 2006), they have become quite common and many are also quite large (Skurnik, 2002). However, they also demonstrate lower levels of trust between the member and the co-operative (James & Sykuta, 2005).

Ultimately there can be many different ways for the CME to arrange its share capital, each of which has significant strategic implications (Chaddad & Cook, 2004; Cook & Chaddad, 2004; Bekkum & Bijman, 2006). Decisions relating to the final capital structure, and the cost of shares purchased in the CME, may depend on the relative value members place on their role as *patrons* compared to that of *investors*. New members might view patronage of greater value than established members (Canassa & de Moura Costa, 2016), suggesting that the design of any capital structure and distribution policy should be flexible and linked to the MVP.

Governance

Once the three main pillars of the CME business model (purpose, MVP and share structure) have been determined, the focus can shift to four additional building blocks that serve to link these pillars

together. The first of these is *governance*, or the design of the CME's corporate structure. This includes consideration of the size and structure of the board, as well as how the board will engage with its members on one side, and its executive management team on the other.

The inclusion of *governance* as a component in the CME business model reflects the influence of member ownership and participation on how the enterprise is governed and managed (Birchall & Simmons, 2007). How the CME sets out its constitution, structures its rules and policies, and appoints its board and executive leadership team is a critical element of the business model which may influence the overall success or failure of the organisation. The design of the CME's system of governance should consider the best interests of the members, the efficiency of the enterprise as a business and the welfare of its employees, the structure of its board and executive team, and the contribution that the organisation can make to its community (Prakash, 2003). In their study of the administrators' motivations in a co-operative bank in France, Allemand et al. (2016) identified a willingness to contribute to the economic development of their region as a strong priority, coupled with conviction that being an administrator of the co-operative would serve their community.

CASE EXAMPLES: GOVERNANCE

Fruitière vinicole d'Arbois co-operative (FVA), is a French co-operative established 1906 in the Jura region. It has around 100 members, 27 employees, 11 directors of the board and an annual turnover of more than €7 million. All directors are farmer members, two are women and the values and principles of the co-operative are strongly supported and practiced by the board. The values of the co-operative are communicated by former directors, and all board members know each other well and work in the same area. The appointment of new directors is undertaken via a submission to the board for approval, and the applicant must demonstrate that they understand the values and practices of the co-operative. The board will also assess the morality of the candidate and investigate their background to ensure that they are an appropriate fit with the co-operative's values and purpose. As noted by a board director: *'New members will be accepted depending on their morality, their ability to contribute to the co-operative and their respect of the co-operative's targets'* (Allemand, Benedicte, & Raimbault, 2014: 279).

Private Health Insurance Mutual Funds, in Australia are quite different from the more open governance structures found in co-operatives. Rather than a 'one-member-one-vote' system of democracy, the private health insurance (PHI) mutual funds are governed by a small group of company-members, who represent the larger community of member-policyholders. It is these company-members who have voting rights at Annual General Meetings, rather than the policyholders. According to directors of PHI mutual funds, this is potentially a mechanism to help preserve the mutuality of these PHI funds. As noted by one director: *'I examined governance models of health insurance mutuals, and I'd say that a lot of governance models could be very tactical in nature. They're set up so that you cannot break into the fortress. In other words, you would have to persuade a lesser number of people, in order to sell the company, so I don't think their particularly open'*.

Ideally the way the CME structures its system of governance will bring together the membership and management in a process of strong participative democracy (Chaddad & Cook, 2004; Cornforth, 2004; Birchall & Simmons, 2007). Implementing a highly democratic approach of one-member-one vote can become difficult as CMEs increase in size, leading to representative systems such as stakeholder councils to increase participation and selection processes for board members. Under Australian co-operative law, the appointment of 'independent directors' (i.e., non-members) is possible so long as their numbers are not such that they outnumber the members. These appointments are typically made

in order to bring outside expertise onto the board so as to enhance strategic decision making. However, it should be noted that mutual enterprises have different governance structures without the 'one-member-one-vote' democracy, but still with a focus on member benefits and mutuality.

Membership and community

To be successful community-based enterprises such as CMEs need to mobilise their community's skills and find a way to unite a diverse range of individual aims into a common purpose to which all members can participate (Peredo & Chrisman, 2006). As a mutually owned enterprise it is important that the CME business model considers how it will design its relationship with its membership base. Will the membership be open or closed? Will all members have equal share ownership rights, and will membership be contingent on active patronage? These issues have been largely addressed in the previous discussion over share capital structure and governance. How the CME approaches its membership and engenders a sense of shared values, identity, trust and mutually beneficial reciprocal engagement will determine its success and sustainability (Zucker, 1986; Nowak & Sigmund, 2000; Leimar & Hammerstein, 2001; Palmer, 2002; Pesämma, Pieper, Vinhas da Silva, Black, & Hair, 2013; Nelson et al., 2016).

CASE EXAMPLES: MEMBERSHIP & COMMUNITY

National Health Co-operative (NHC), is an Australian non-distributing (not-for-profit), member-owned co-operative that provides general practice (GP) medical services. It was founded in 2006 and opened its first GP clinic in Canberra in 2010. The creation of the co-operative was in response to a lack of 'bulk-billed' (i.e., fees are not charged to the patient, but paid via the national health insurance programme *Medicare*), affordable GP services in Canberra. Success of NHC has been such that it has opened clinics in the state of New South Wales, and the board is planning expand the co-operative nationally. In 2016 NHC had 36,000 members who used the co-operative's services as patients. All members pay a joining fee of \$30 and pay a monthly fee of \$10, which entitles them to unlimited access to 'bulk-billed' primary medical services. Children aged less than 18 years are free, and free membership is made available to patients on a case-by-case basis. In response to its membership, NHC has expanded its services to include psychological, physiotherapy, age care, obstetrics, gynaecology and neuropsychological services.

Rumbalara Aboriginal Co-operative Ltd, is a community-owned and controlled, non-distributing co-operative located in Shepparton Victoria. Founded in the 1970s, Rumbalara is a registered charitable organisation that provides health, aged care, home care, child care, education, housing, legal support and other personal services to the Aboriginal and Torres Strait Islander community within the traditional lands of the Yorta Yorta Nation. As one of around 220 co-operatives that operate in Australia to support the Aboriginal and Torres Strait Islander communities, Rumbalara delivers a holistic support services model to its members. This is a system known as *Galnyan Yakurrumdja* that focuses on addressing the economic and social needs of its members. Given the nature of indigenous communities in Australia, a member's individual needs are typically contained within a wider network comprising their immediate and extended family. This requires attention to the members' health, family support, financial, housing, education and general welfare needs. The aim is to move the co-operative's members off welfare. As noted by the CEO of Rumbalara: "We need to focus on how do you give a person a hand up rather than a hand out?"

Further, as a socially focused enterprise, what will the CME seek to do with respect to its wider network of community stakeholders? Networks are important as they represent the connections

between the individual CME members socially, as well as the enterprise's relationships with key actors, such as suppliers, customers, regulatory agencies and financial institutions. This is also the opportunity for a CME to demonstrate its importance to a region and strengthen its relationships with a regional community (Allemand et al., 2016; Reboud, Tanguy, & Martin, 2016). Social capital connectivity provides access to flows of information, knowledge and resources for individual co-operative members, as well as creating links to communities, and bridging gaps between diverse groups (Burt, 1997; Adler & Kwan, 2002; Peredo & Chrisman, 2006; Chiffelleau, Dreyfus, Stofer & Touzard, 2007).

Key resources and processes

The *key resources* of a CME business model, includes a consideration of the core competencies, team structure, physical and financial resources required to deliver its MVP and fulfil its strategic purpose. These may be similar to competitor IOFs, they might require specific alliances and networks due to the strategic network form that CMEs typically comprise (Gall & Schroder, 2006; Garcia-Perez & Garcia-Martinez, 2007; Simmons & Birchall, 2008). This highlights the need for convergence between the region, the community and the development of the CME.

The *key processes* for a CME includes the processes to generate benefits for members such as the organisational structures, systems and activities that allow for member participation in decision making

CASE EXAMPLES: KEY RESOURCES AND PROCESSES

Co-operative Bulk Handling (CBH) Group Ltd, is an Australian non-distributing (not-for-profit), co-operative located in Western Australia. It was established in 1933 in response to a need to provide bulk grain handling and storage services to farmers. Its initial key resources and processes were focused on the provision of grain receipt and storage facilities made from corrugated steel and concrete. This network grew throughout 1940s, 1950s and 1960s, whereby CBH had over 300 bulk grain storage sites by 1969 capable of storing 3 million tonnes. In the 1970s, CBH built a major grain storage facility and shipping terminal in the seaport of Kwinana, that was the largest facility of its kind in the world at the time. This new facility required CBH to raise a bank loan of \$42 million, which was the largest bank loan ever issued in Australia to that time. During the 1980s, CBH enhanced its grain handling and storage services, upgraded its ports, and invested in climate controlled grain silos with sealing and fumigation to protect against insect and vermin infestation. Since the 1990s, CBH has expanded its key resources and processes. This has included acquiring the Grain Pool of WA, to provide a global grain marketing capability, forming a joint venture within Asia to operate a network of flour mills, establish rail transport and shipping subsidiaries, and a logistics management system called *Grain Express*, to enhance member services in relation to grain transport and storage logistics.

Crémant de Bourgogne Co-operative, is a group of wine producing co-operatives located in the Burgundy region of France that specialises in the production and marketing of Crémant sparkling wine. The co-operative was established in response to problem caused by a lack of quality grapes for the production of the Crémant due to the wine being viewed as a by-product of higher quality wines. This negatively impacted both the quality and quantity of the Crémant product. In response the co-operative established processes whereby, the wine producers made a decision early in the season as to what type of wine they would produce and supply. This enhanced both the quality and quantity of the wine, and improved its official *Appellation d'Origine Contrôlée*. In turn this innovation in the organisational process, significantly boosted the reputation of the Crémant wine, and the marketing and sales of the grape and wine produced by the co-operative's members.

and delivering its products/services. These key operational elements of the business model will vary from business to business and be defined by the organisation's purpose and how it seeks to create its MVP. Linked to these operational elements, there is an underlying assumption in our approach to the CME business model, that all such enterprises are essentially service businesses. Irrespective of whether they are processing milk, storing and handling grain, or dealing with financial transactions, the enterprise offers its members a service experience that may involve tangible assets as well in the delivery.

In addition, many large CMEs are key actors in supply chains. For example, producer co-operatives such as found in agricultural sectors, or retail and shared services co-operatives that have members who buy through the business rather than supply to it. There is some evidence that agricultural co-operatives can maintain strong supply chains due to their common ownership structure (Nunez-Nickel & Moyano-Fuentes, 2004; Katchova & Woods, 2011). However, their effectiveness is largely contingent on the quality of their corporate governance, the strength of member commitment and the diversity of the membership (Palmer, 2002).

Outputs: profits and economic and social performance

The *profit formula* component of the CME business model reflects the way in which the enterprise views its purpose from a financial perspective. This includes the basis of the revenue model, costs and benefits, which will be broader than for an IOF as member welfare is maximised rather than just profits (Giannakas & Fulton, 2005). Reflecting the hybrid nature of the CME, the business model framework seeks to map both *economic and social performance* through the generation of both economic and social capital outcomes (Fairbairn, 1994; Novkovic, 2008; Neck, Brush, & Allen, 2009). This involves an assessment of the delivery of MVP, as well as the economic value created by the enterprise and other possible benefits such as wealth, jobs and assets.

From an economic development perspective, the outputs generated by the CME can be measured in both direct and indirect effects. Direct outputs are jobs created, infrastructure built and financial benefits to members. Improving the financial position of members may involve encouraging savings (e.g., credit unions and co-operative banks), or increased prices or lower costs from collective production and marketing or procurement (e.g., agricultural producer co-operatives). Job creation can arise from increased productivity, better industrial relations and fewer dichotomies between remuneration of employees and senior managers (Bartlett, Cable, Estrin, Jones, & Smith, 1992; Kalmi, 2013). CMEs may also create significant assets such as valuable infrastructure that would not have existed without them (Birchall & Simmons, 2010; Birchall, 2011).

However, the CME business model can also make indirect contributions to economic development. This can take the form of fostering entrepreneurship on an individual or collective level (Cook &

CASE EXAMPLES: PROFIT, ECONOMIC AND SOCIAL PERFORMANCE

Co-operative Bulk Handling (CBH) Group Ltd, is also one of the most significant agribusiness firms in the nation and a major player in the grains industry. In 2014/15 CBH contributed around \$2.98 billion to the WA state economy. It invested about \$1.2 billion into capital projects and it has been estimated that its 4,200 grower members accounted for 25% of the total economic activity of the WA agricultural sector. In addition to these activities, CBH also undertakes wide range of community and social benefit programmes. This includes spending \$1.5 million on sport and recreation, health, safety and the arts via its Community Investment Program. It also spent \$880 million on upgrading road and rail transport systems across the 300,000-km² wheat growing areas of the state, that also benefit local communities. A further \$600,000 was donated by the co-operative over the previous 4 years to charitable organisations such as the Royal Flying Doctor Service, the WA Country Football League, Ronald MacDonald House, Hockey WA and Musicavia (Deloitte Touche Tomatsu, 2016).

(Continued on next page)

COCEBI Organic Burgundy Cereals Agricultural Co-operative Company, was established in 1983 in Burgundy, France, and is a leading French organic cereals co-operative. It was founded in response to a need to have a single entity that could grow, harvest, process and market the organic cereals. This was difficult for the farmers who wished to grow organic grains, due to hostility towards organic product. Although the production of organic cereals remains relatively niche at time of writing, it is growing substantially year on year. COCEBI was required to create the organisational structure and its resources and processes that could deliver this vision of a 'rural eco-development ideal' as desired by the founders. To do so the co-operative established management, transport and batch identification systems supported by contracted co-operators.

Plunkett, 2006; Peredo & Chrisman, 2006). It can also help to build up community social and economic capacity through the CME offering a potentially resilient business model (Borda-Rodriguez & Vicari, 2013, 2014), which can have positive benefits to social (Defourny & Nyssens, 2012) and environmental (Downing, Volk, & Schmidt, 2005) objectives. Nevertheless, while the CME can make a strong contribution to economic development at the local level, its ability and willingness to do so will depend on the organisation's purpose and the goals and aspirations of the community that comprises its membership (Levi & Pellegrin-Rescia, 1997; Khumalo, 2014; Kurjanska, 2015).

CMEs, THE SOCIAL ECONOMY AND SOCIAL ENTREPRENEURSHIP

The CME business model has been described as representing a model of 'collective entrepreneurship' (Cook & Plunkett, 2006). The hybrid nature of the CME business model, is reflected in their dual focus on economic and social outcomes (Novkovic, 2014). This positions them between the government sector SOEs and the private sector IOFs, into what has been identified as a third sector (Birch & Whittam, 2008). It comprises what has been labelled as the *social economy*, a concept that can be traced back to at least the late 19th century (Rabbeno, 1892; Rowe, 1893). This represents a 'third-way', or 'middle path', that seeks to achieve a balance between purely economic and purely social purposes. The values, governance and strategic purpose of the CME generally conform to the characteristics of a social enterprise (Opie, 1929; Levi, 2006; Hagen, 2007).

Although CMEs share many characteristics with NFPSE (with many CMEs being not-for-profit and charitable enterprises), through their focus on social purposes, they are also economically rational businesses that aim for self-reliance rather than dependency (Moulet & Ailenei, 2005). This has led some observers to suggest that the CME fits within a 'fourth sector' that is an 'intersection between public, private and social sectors of the economy' (Sabeti, 2009). However, while this 'fourth sector' remains ill-defined and poorly supported by evidence (Alessandrini, 2010), the CME business model seems to play a role within the rapidly expanding domain of *social entrepreneurship* (Ratten & Welpel, 2011; Bacq & Janssen, 2011) (Table 5).

Neck, Brush, and Allen (2009) propose a typology of entrepreneurial ventures which is illustrated in Table 6. As shown they identify a 'hybrid' enterprise that encompasses both economic and social goals in its strategic purpose and overall outcomes. However, they do not relate this to CMEs, nor do they elaborate on what this type of venture might be. Based on the characteristics of the CME we have described above, it would seem logical to place the CME into this 'hybrid' category, which is not identical to that of the NFPSE organisations.

It is disappointing that CMEs were given no mention by Neck, Brush, and Allen (2009), although they were recognised by Bacq and Janssen (2011) in their examination of social entrepreneurship. Porter and Kramer's (2011) analysis of the concept of *shared value* and its ability to stimulate and strengthen economic and social conditions described hybrid organisations that served both economic and social purposes, blurring the boundaries between for-profit and not-for-profit enterprises. Yet they also gave no recognition to CMEs, which are acknowledged as operating on a shared value model

TABLE 6. ENTREPRENEURIAL VENTURE TYPOLOGY

		Mission/purpose		Outcomes/impact	
		Economic	Social	Economic	Social
1	Traditional	√		√	
2	Social consequence	√			√
3	Social purpose		√	√	
4	Enterprising non-profits		√		√
5	Hybrid	√	√	√	√

Source: Neck, Brush, and Allen (2009).

(Talonen et al., 2016), as well as process of shared values (i.e., trust) (Pascucci, Gardebroek, & Dries, 2012).

Further evidence of the tendency for entrepreneurship researchers to overlook the potential of the CME business model is the case of Shepherd and Palzelt (2017). In their otherwise excellent book on the future directions for entrepreneurship research, they devote an entire chapter to sustainable entrepreneurship with a focus on the importance of social entrepreneurs, the need to provide both economic and social capital outcomes to help sustain communities, as well as fostering self-sustaining, socially responsible economic development for impoverished regions. However, nowhere do they mention CMEs as potentially useful business model, nor anywhere else in the book.

This reflects a historical trend towards the marginalisation of academic research into CMEs (Kalmi, 2007), which has been attributed to their ‘hybrid’ nature not fitting comfortably into either the mainstream IOF business model, or the NFPSE environment (Levi & Davis, 2008). Although the CME business model challenges some of the assumptions of mainstream economics, it is an alternative form of organisation that has a long history of contributions to individuals, organisations and communities (Novkovic, 2008; Whyman, 2012; Rowley & Michie, 2014). However, they have not been widely or routinely studied in the management sciences or core business disciplines.

We seek to address these gaps through the proposal outlined in this paper of a business model ‘Canvas’ for CMEs. This framework has been used in executive education programmes with the directors and executive managers of both small and large CMEs, with positive results that suggest the framework has both relevance and utility for practitioners. In that context, the CME business model ‘Canvas’ has assisted both large established firms and young start-up enterprises to systematically think through the logic of their business model and overall strategy.

For researchers, we seek to stimulate discussion and further investigation into the CME business model. Our business model canvas offers a potential framework for future investigation of the interactions between the nine ‘building blocks’ that comprise it, and comparisons between the CME business model and that of the IOF. One area in which the CME business model can be applied to future research is in the field of regional economic development. Relatively little use has been made of the business model concept in this area (Osterwalder, Rossi, & Dong, 2002; Chambers & Patrocinio, 2011). However, while business model research has been viewed as ‘an extension of strategy, not a new field’ (Massa, Tucci, & Afuah, 2017: 98).

Spear (2000) identifies at least six reasons why the CME business model is a potentially valuable tool for regional economic development. First, the creation of a CME is an effective response when government SOE, or private sector IOF enterprises, are unable or unwilling to provide goods and services (Goddard, Boxall, & Lerohl, 2002; Heriot & Campbell, 2006; Birch & Whittam, 2008; Yadoo & Cruickshank, 2010; van Oorschot, de Hoog, van der Steen, & van Twist, 2013). Second, due to their democratic governance and mutual ownership, they engender greater community trust

than IOFs (Ole Borgen, 2001; Hansen, Morrow, & Batista, 2002; McClintock-Stoel & Sternquist, 2004; James & Sykuta, 2005; Rice & Lavoie, 2005; Österberg & Nilsson, 2009; Pesämma et al., 2013; Sabatini, Modena, & Tortia, 2014; Verhees, Sergaki, & Van Dijk, 2015).

Third, they foster economic self-determination within the community that is free of dependence on government welfare or charity (Angelini, Di Salvo, & Ferri, 1998; Davis, 2002b; Birchall, 2004; Holford, Aktouf, & Ebrahimi, 2008; Majee & Hoyt, 2011; Chaves & Monzón, 2012; Phillips, 2012; Roelants, Hyungsik, & Terrasi, 2014). Fourth, they foster and strengthen social capital thereby enhancing the underlying civil society within the community (Mutersbaugh, 2002; Holford, Aktouf, & Ebrahimi, 2008; Simmons & Birchall, 2008; Liang, Huang, Lu, & Wang, 2015). Fifth, the co-operative principles outlined in Table 1 encourage community participation and collaboration, and thereby offer more resilient business structures (Doyon, 2002; Birchall, 2013; Sonnino & Griggs-Trevarthen, 2013; Ketilson, 2014; Sabatini, Modena, & Tortia, 2014).

Finally, they create 'positive externalities' by building up social capital, individual empowerment and community linkages (Woolcock & Narayan, 2000; Vásquez-León, 2010; Majee & Hoyt, 2011; Kalmi, 2013). This enhances the overall social efficiency within the community (Puusa, Hokkila, & Varis, 2016; Martínez-Campillo & Fernández-Santos, 2017). Further, the structure of network relationships in CMEs is generally horizontal in nature rather than vertical, and as such it offers a potentially good foundation for effective policy initiatives (Putnam, 1995; Goddard, Boxall and Lerohl, 2002; Swain, 2003).

CONCLUSIONS

The CME business model framework outlined in this paper shows how these organisations differ from alternative organisational forms such as IOFs, SOEs and NFPSEs. It also highlights the key elements or 'building blocks' that should be considered when designing or redesigning the CME business model. In addressing our first research question, our analysis of the CME business model suggest that its structure should focus on the three key pillars of 'purpose', 'MVP' and 'share structure'. This differs from the IOF business model due to the strategic importance of focusing on 'purpose', which should address both economic and social objectives. While both the CME and IOF business models place the creation of value at the centre of their design. The CME business model is focused on members rather than customers and as such is concerned with the member as a patron, investor, owner and member of a community of purpose.

Within IOFs the allocation and distribution of share capital is based on investment through the purchase of shares and follows procedures that are fairly well established. However, the design of share structure within the CME is more complex and can have a significant impact on the firm's sustainability if not appropriately designed. It is for these reasons that the elements of 'governance' and 'membership and community' have replaced those of 'customer relations' and 'channels' in the CME business model framework. This reflects the centrality of the member and their engagement within a community of purpose within the CME business model. It is an important issue in addressing our second research question, and highlights the need for CME business model design to consider the need to engage the loyalty of members by balancing their often-competing roles of patron, investor, owner and community member.

The CME business model canvas provides a new template that can be used by managers, board members, and consultants to evaluate both current and future activities and performance. It can also be used to help formulate the business model design when establishing a new co-operative or mutual enterprise. This is a potentially valuable tool for practitioners that can identify and isolate the specific factors involved in organising the CME's activities. It also provides a structure for researchers from universities and government organisations to develop case studies and do comparative research on CMEs. This CME business model framework therefore potentially contributes to future research, practice and policy.

The CME is not a solution to all economic or social problems, and it does not replace the IOF, SOE or NFPSE business models. It is also a complex enterprise to manage due to the hybrid nature of its

strategic purpose, and the democratic nature of its governance. The five generic problems that confront the CME business model in its traditional form have been a cause of the demutualisation of many mutual and co-operative enterprises (Lang, 1995; Birchall, 2011). For example, many co-operatives have found it difficult to adjust to market changes and increasing competition (Birchall & Simmons, 2010).

Given the dynamics of global and regional markets, organisations including CMEs need to continue to evolve and change over time. Specific challenges that are already evident for implementing the CME business model include how to handle international growth and when, or if to demutualise. The CME business model canvas offers a strategic lens through which these forces can be viewed. For example, the free rider, horizon and portfolio problems all relate to the largely economic issues of investment and patronage. Effective design of the share structure, pricing and dividend policies within the business model design can offer solutions to these issues. By contrast, the control and influence-cost problems are more of a social issue and relate to the memberships' sense of ownership and community membership. Here the design of governance, membership and community engagement elements within the business model will offer potential solutions.

Our study has some limitations. The CME business model canvas proposed here is conceptual in nature and development from an analysis of a wide cross-section of available literature relating to this type of enterprise, and its value to economic and social development. It is therefore not without some need for further refinement. Future research will need to apply the canvas in a variety of enterprises and organisational contexts. Its application to both CMEs, and CMEs across different industries, membership types (e.g., producer or consumer owned), and jurisdictions, will also be required. Nevertheless, the business model concept has now become relevant to the field of regional economic development, and the CME business model is a potentially valuable tool for use within this context.

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