Co-operative Enterprise: A Unique Business Model?

Conference Paper · January 2011

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Paper presented at *Future of Work and Organisations*, 25th Annual ANZAM Conference, 7-9 December 2011, Wellington, New Zealand.

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ABSTRACT

The co-operative enterprise is one of the oldest and most enduring forms of business. Although globally co-operatives comprise some of the largest businesses, they are largely overlooked within mainstream economics and management theory. In this paper we examine the co-operative as a business model and ask is it a unique form of business and if so how? Co-operatives have been placed within the "Third Sector" alongside non-profits and social enterprises. However, they are not created for social purposes even though they have a social purpose function. Most are driven by economic self-interest. The implications for this and the need for better definition are examined. The nature of the co-operative business model and its role in a "Fourth Sector" are discussed.

Keywords: co-operative enterprises, business models, social enterprise, management theory

INTRODUCTION

Co-operative enterprises (co-ops) have a history that can be traced back to at least 1498 with the formation of the Shore Porters' Society in Aberdeen, Scotland (Shore Porters 2007). They had become well established in France and Scotland by the mid-18th Century (Williams 2007; McFadzean 2008; Birchall 2011). By the end of the 19th Century co-ops were found throughout Europe (Gide 1922), and around the world (Birchall 2011) across a wide range of sectors. In recent years co-ops are estimated to employ around 100 million people and support the livelihoods of a further 3 billion people across the world (ICA 2008). Internationally the 300 largest co-ops have a combined annual turnover of between US$600 million to US$53 billion (Cronan 2007). Further, they are not just agricultural or grower organisations. Edeka Zentrale AG is the largest supermarket business in Germany and is a co-op; while France's Crédit Agricole Group is the largest retail banking group in France and the second largest such enterprise in Europe.

Despite their size and importance to national economies co-ops have attracted little interest from the management sciences, with much of the work associated with them being undertaken in the fields of social policy studies and agricultural or social economics. Kalmi (2007) reviewed the treatment of co-ops within the economics textbooks used within the University of Helsinki from 1905 to 2005. His analysis found that while there had been a strong and vibrant focus on the co-op in the first half of the 20th Century, by the 1950s this had declined significantly. He concluded that they had been rejected by mainstream economics as form of quiet rejection of collaborative or collective approaches to economic organisation.

Levi and Davis (2008) suggest that co-op's rejection by mainstream economic and business studies is due to its position as the *'enfants terribles'* of economics. They are too socially focused to fit comfortably within the mainstream economic structures of the investor owned firm (IOF), but remain too economically focused for the non-profit sector: "*In fact, co-operatives are the only form of corporate entity with a clear entrepreneurial component where the subordination of the economic to the social is inherent in the logic of the organization and is usually stipulated by law"* (Levi and Pellegrin-Rescia 1997, p.160). In this paper we examine the nature of the co-op business model and assess where it fits within the economic landscape that has emerged recently around the social economy or what is referred to as the "Third Sector" (Birch and Whittam 2008). Our focus is on attempting to clarify the nature of the business model as it applies to co-ops and then how this clarification helps to better locate the co-op within the broader economy.

THE NATURE OF CO-OPERATIVE ENTERPRISE

The modern co-operative enterprise movement draws its origins from the establishment of the Rochedale Society of Equitable Pioneers in 1844 (Fairbairn 1994). The 'Rochedale Society' was formed as a means by which a group of impoverished weavers could achieve economic self-determination. It was not the first co-op. As noted above, there were earlier co-ops in Scotland, and France had consumer co-ops in 1750, and a co-op bakery *'Caisse du Pain'* in Alsace at Guebwiller from 1828 (Williams 2007; Gide 1922). However, the 'Rochedale Society' formed around a set of guiding principles that included voluntary and open membership, no religious, racial, gender, social or political biases; and a democratic member control based on one-member-one-vote. Further, membership involved a trading (patronage) relationship with the co-op and an economic rather than a charitable association between the member and the business (Holyoake 1908). These principles continue today with only minor modification to be the defining themes of co-ops across the world (ICA 2010).

Unlike an IOF a co-op has a dual function, or 'symbiosis' in which it plays a simultaneous role of a union or alliance, and also a business (Fairbairn 1994). The primary purpose of the IOF is to maximise shareholder returns through profit taking. However, the co-op has a more complex purpose focused on providing ongoing patronage with benefits accruing to its members while also ensuring that it can generate sufficient retained profit to continue as an enterprise (Mooney et al 1996). Where an IOF will seek to extract the maximum return from its suppliers and customers, a co-op will aim to optimise the returns to both its members and its own operations (Bontems and Fulton 2009). Unlike the IOF where a separation between customers, suppliers and shareholders is common, the co-op member is both a patron (customer/supplier) and owner (shareholder). The sustainability of the co-op can depend on how well it satisfies these dual and often competing demands from its membership (Nilsson 2001).

According to Hansmann (1996) the creation of a co-op is justified where the cost of contracting with a firm's suppliers or customers exceeds the costs of these suppliers and customers owning the firm. Once established the co-op differs from the IOF in at least five important ways. First, the customers of the co-op are also its owners. Second, the price of the co-op's share capital is generally fixed by its articles of incorporation, and the shares are not traded on an open market. Third, co-ops can offer members deferred patronage refunds; essentially returning to them the cost of their transactions with the co-op. Fourth, co-ops can enjoy tax exemptions and may operate with a single tax on income. Finally, the co-op exists for the sole purpose of delivering value to its members as customers (Van Sickle and Ladd 1983). The issue of share ownership and voting rights (one-member-one-vote) also lies at the heart of the co-op business model, and has been seen as a further clear point of difference between the co-op and the IOF (one-share-one-vote) (Bacchiega and de Fraja 2004).

In a traditional co-op profits are distributed according to patronage and shareholding is limited with no secondary market. Membership is open and equity can be quickly diluted as additional shares are issued at a standard price. The 'one-member-one-vote' system of control reduces shareholder power and can create frustrations for members who provide more patronage than others (Roy 1976). Although few modern co-ops still adhere to the original 'Rochedale Society' principles in their business structure, most have limited return to equity, democratic voting rights and the need to deliver benefits to members while simultaneously pursuing the best interests of the co-op entity (Staatz 1987).

The ownership structure of the co-op imposes several 'generic' problems that pose strategic challenges to its business model (Cook and Ilopoulos 1999). First, there is the problem of 'free riding' in which some members engage more actively in patronage than others who still gain similar benefits from their membership. It is compounded within the traditional co-op by an inability for ownership rights to be traded and for members to hold equal voting rights regardless of their patronage (Cook 1995). The presence of a co-op in a market brings the price of competing brands down (Haller 1992), and may set a floor price or benchmark within commodity markets. A second issue is the 'horizon problem', where a member's residual claims over the assets of the co-op are shorter than the life of the asset. This reduces members' incentive to invest in the co-op as they cannot realise the full value of their share capital upon departure (Novkovic 2008). The third is the portfolio problem, which is caused by the lack of transferability and liquidity of member equity, which is tied to the patronage decision. Members are therefore unable to adjust their holding to their personal level of risk (Cook 1995). A fourth issue is the control problem which arises from a divergence of interests between members and the co-op's management. This is due to the need to simultaneously maintain the co-op's dual functions of delivering benefits to members while running a sustainable and profitable business. Finally, there is the influence cost problem, which is cause by the co-op's strategic focus becoming fuzzy as it seeks to balance the returns to the enterprise and the members. Addressing these five 'generic' problems is the key challenge facing the managers of co-ops. In addition to running a sustainable business and delivering benefits to members, the co-op is also expected to make a significant contribution to its local community (Skurnik 2002).

TAXONOMY OF CO-OPERATIVE ENTERPRISE

While the co-op business model is distinctly different from that of the IOF there are many different types of co-op (Krivokapic-Skoko 2002). Numerous typologies have been created by way of classifying these various co-ops. Nilsson (1999) identified four broad types ranging from the ‘traditional’, through the ‘participation’ and ‘subsidiary’ type to the ‘new generation co-op’ (NGC). The differences revolve around member voting rights and rewards to patronage. The NGC was created in the United States in the 1990s in order to overcome the ‘generic’ problems inherent in the co-op business model (Hardesty 2005). It also aims to address the ill-defined property rights and lack of transferability of share capital that often restrict the growth of traditional co-ops (Cook and Iliopoulos 1995). Table 1 illustrates the traditional versus the NGC and how the latter is structured to address the five ‘generic’ problems that beset co-ops (Katz and Boland 2002). While it seeks to preserve the democratic principles of the co-op, the NGC restricts membership to patrons and distributes earnings based on patronage, with preference share issues as a mechanism for augmenting the capital base of the co-op (Downing, Volk and Schmidt 2005). NGC’s are further characterised by closed members, as opposed to traditional co-ops that accept members on a continuous basis (Plunkett and Kingwell 2001).

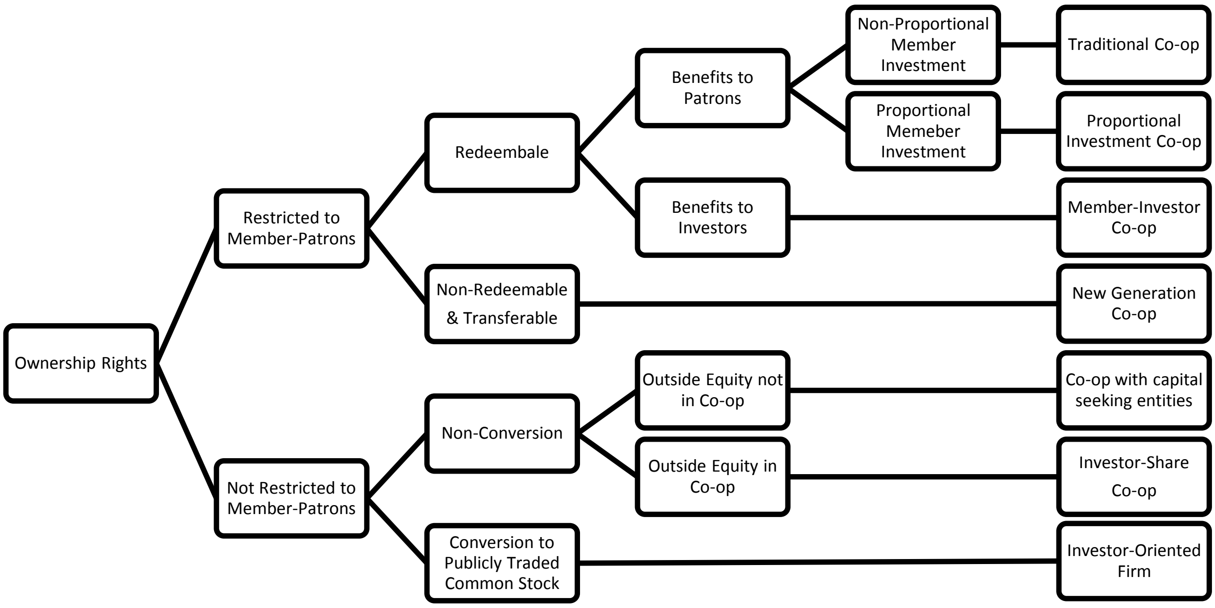
Table 1: The Traditional versus New Generation Co-operative

Generic Problems	Traditional Co-op	New Generation Co-op
Free Rider Problem	Individual benefits & property rights are poorly aligned. Open membership to all persons able to use their services and accept member responsibilities.	Investment and optimal levels of product flows are determined before the firm begins conducting business. Closed membership.
Horizon Problem	Lack of liquidity through secondary market for shares.	Stock can be traded to allow entry and exit from co-op as desired.
Portfolio Problem	Investment decision is tied to patronage. Members often pressure co-op board to structure assets to reduce risk.	Risk is aligned with members strategic goals as the risk profile is agreed prior to the formation of the co-op. Members can trade shares and risk.
Control Problem	Information and external pressure from public share trading is absent.	NGC seek greater property rights and alignment of risk via patronage-based voting.
Influence Cost Problem	Influence depends on centralisation of authority and member homogeneity.	NGC are centralised and limited to specific purpose.

Source: Adjusted from Katz and Boland 2002

Chaddad and Cook (2004) offer a particularly useful taxonomy of co-ops that is based on ownership rights. We reproduce this in a graphic form in Figure 1 by way of showing the multiplicity of co-op forms, and the various means by which membership and patronage can be distributed. As can be seen, there are at least seven potential options, ranging from the traditional co-op to the IOF with the NGC in the middle.

Figure 1: Taxonomy of Co-operatives



Source: Chaddad and Cook 2004

Birchall (2011) has proposed a further taxonomy of 'member-owned businesses' which has been reproduced in Table 2. This is presented here in order to demonstrate the wide range of different organisational forms that the co-op can take depending on its purpose and membership. Each has specific characteristics as define its 'class', 'genus' and 'species'. However, each is part of the co-op business family and is distinctly different from the IOF and other organisational forms.

Table 2: A Suggested Taxonomy of Member-Owned Businesses

Class	Genus	Species	Hybrids
Consumer-owned	General retailing	Consumer co-ops: food, staple goods	Jointly-owned businesses with other retailers
Consumer-owned	Specialist retailing	Consumer co-ops: pharmacy, funerals, travel, garage, services etc.	Joint ventures
Consumer-owned	Insurance	Friendly societies, mutual assurance, life insurance, health insurance	
Consumer-owned	Housing	Market value housing co-ops; non-equity co-ops	Community housing associations (Scotland)
Consumer-owned	Utilities	Electricity, water, telecoms co-ops	Joint ventures with local governments
Consumer-owned	Education	Child care co-ops, co-op schools (Sweden)	Schools with multi-stakeholder governance
Consumer and producer owned	Banking	Co-op banks, credit unions, savings & credit co-ops	Mutual savings banks (USA)
Producer-owned	Retailer-owned wholesaler	Supermarkets, hardware stores, pharmacy	Jointly-owned business with wholesalers
Producer-owned	Shared services for self-employed, SMEs & professionals	A wide variety, including taxi drivers, artisans, market traders, and dentists co-ops	Minority producer-ownership in an IOF
Employee-owned	Continuum: simple labour co-ops to conglomerates	A wide variety of sectors	Employee share-ownership schemes

Source: Birchall 2011

THE CO-OPERATIVE ENTERPRISE AS A BUSINESS MODEL

The concept of a 'business model' first emerged in the 1950s (Bellman, Clark et al 1957). However, it really came to prominence within the academic literature in the 1990s (Osterwalder et al 2005). The business model of an organisation is more generic than the financial or strategic design that is part of its structural configuration. It seeks to generate a mechanism that can deliver value to a target customer or market segment in a sustainable manner allocating resources to achieve this outcome. Despite its common usage the concept of the business model has no established theoretical grounding in economics or business studies (Teece 2010). Four primary elements are generally understood to comprise a business model (Johnson, Christensen and Kagermann 2008). The first of these is the 'consumer value proposition' (CVP) that seeks to address the specific value or benefits that the business model is to offer via its products or services. It requires a good understanding of the target market and customer characteristics. The second element is the 'profit formula', which is how the business will generate profits while also remaining competitive on price. The third element comprises the 'key resources' that the business will require in order to deliver its CVP, and the fourth element encompasses the 'key processes' that the business will employ to help it deliver the CVP. This can include the rules, policies and key performance measures as well as the firm's culture. These four elements are in-turn built on a foundation of 'building blocks' that deal with the specifics of how the product, profit formula, resources and processes are configured (Osterwalder et al 2005; Johnson et al 2008).

The business model concept is closely aligned with business strategy and seeks to link the firm's structure and strategy together with its resources into a competitive system (Chesborough and Rosenbloom 2002). Table 3 illustrates the key elements of a business model and makes a comparison between the IOF and the Co-op. It should be noted that the co-op has quite a different value proposition to the IOF as well as a dissimilar treatment of costs and profits. While the IOF is designed to maximise profits and returns to shareholders, the co-op has multiple aims associated with its business model that are not entirely economic (Royer 2004). Shah (1996) suggests that three conditions must exist to ensure the success of a co-op: i) the purpose of the co-op is central to the members; ii) the governance structure ensures patronage remains cohesive; and iii) the operating system finds competitive advantage in the relationship with members (Birchall 2011).

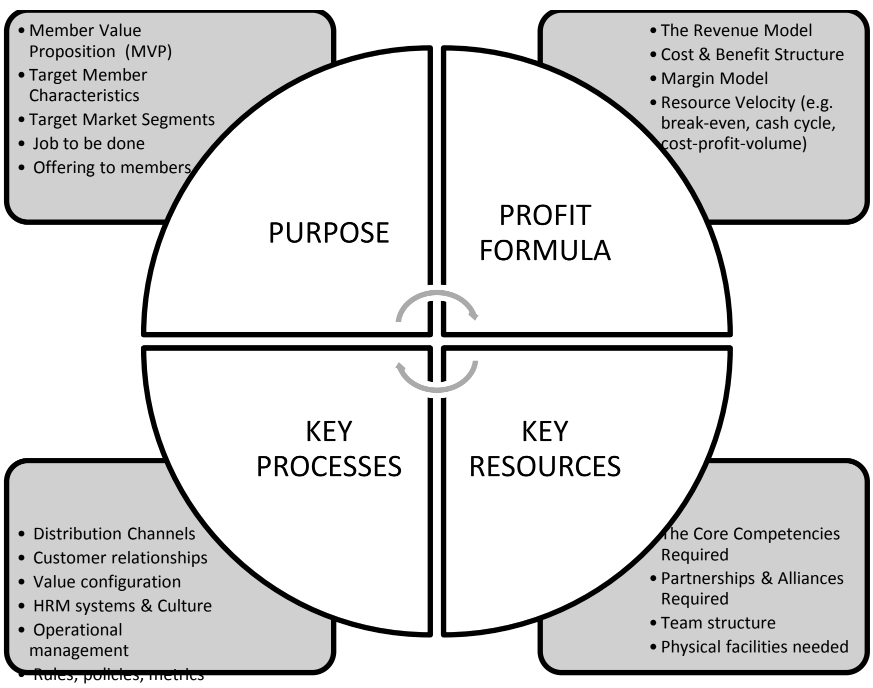
Table 3: The Business Models of the Co-operative and Investor Owned Firm

Key Business Model Elements	Investor Owned Firm	Co-operative

Articulate the value proposition	Satisfy customer needs & maximise shareholder returns	Maximise member benefits
Identify the market segments	Target most lucrative opportunities	Target areas of greatest member need
Define the value chain configuration	Suppliers & customers are outsiders to the firm	Suppliers & customers are owner-members of firm
Estimate cost & profit potential	Reduce supplier costs & premium price customers	Offer higher prices to suppliers & lower prices to customers
Define position within the value chain	Block substitution threats & form strategic partnerships with complementary actors	Block substitution threats & form strategic partnerships within the co-op membership
Formulate a competitive strategy	Exploit future opportunities with existing resources	Offer members best value

In our review of the extant literature on business models we drew together the key themes as identified by contemporary researchers (see: Chesborough and Rosenbloom 2002; Osterwalder et al 2005; Johnson et al 2008; Teece 2010). These elements were developed into the business model framework illustrated in Figure 2, which aims to provide a conceptual structure for the co-op.

Figure 2: Elements of the Business Model for the Co-operative Enterprise



Source: Osterwalder et al 2005; Johnson et al 2008; Teece 2010

As shown in Figure 2 a key starting point for understanding a co-op business model is its ‘purpose’ from which a ‘member value proposition’ (MVP) needs to be developed. These elements replace the more common product and customer value proposition of conventional IOF business models. Of importance is the ability to clearly define the ‘job to be done’ or the co-op’s mission. This emerges from understanding the characteristics of the target members and their expectations, needs and wants. Only then can the co-op’s offer to members be clearly articulated. The other elements of the model comprise the ‘profit formula’, ‘key resources’ and ‘key processes’, which are treated in a similar manner to conventional IOF business models. However, as outlined in Table 1, there are some significant differences in how a co-op would approach its revenue model, as well as its value chain management with members as suppliers/customers. This is due to the nature of the co-op as more of a strategic network than a conventional supply chain system (Garcia-Perez and Garcia-Martinez 2007). It also relates to a member welfare maximising strategy within co-ops as opposed to a profit maximising strategy as followed by the IOF (Giannakas and Fulton 2005). The core competencies, team structure and approach to alliances and partnering are also likely to be different in co-ops.

Corporate governance of the co-op, member commitment to the co-op and how diverse the membership is in its needs and wants are all highly important to how effective the co-op will be (Palmer 2002). Co-op board structures are also different to those within IOF entities. While the IOF typically has boards comprising a mix of major shareholders, corporate managers and independent outsiders, the co-op is often characterised by member-patrons with experience of their own business, but less strategic expertise in the management of a larger entity (Condon 1987). As a result, a co-op board can become overly ‘management driven’, and reliant on the executive team (Silvertsen 1996). Co-op boards also face three key tensions: i) the need to represent the interests of members while protecting the co-op; ii) to see the co-op thrive and grow; and iii) to support management while controlling the co-op (Cornforth 2004). The professional development of the co-op board members is therefore important to ameliorate these challenges (Campbell 2003; 2004). In addition, there must be careful selection of senior executives within the co-op, particularly the CEO and the Board Chairman. For example, a study of French worker co-ops found three types of Chairman: i) ‘mountain climbers’, who grew up from within the co-op; ii) ‘helicopters’, who came in over the top of the ‘mountain climbers’, but from within the co-op via a fast-track promotion; and iii) ‘parachutists’, who were brought into the role from outside the co-op (Bataille-Chedotel and Huntzinger 2004). Those who grew up within the co-op were found to have greater capacity to engender the trust of the Board than those brought in from outside.

THE CO-OPERATIVE AS A SOCIAL ENTERPRISE

One of the seven principles that guide the co-op as a business model is ‘concern for the community’ (ICA 2010). This has drawn the co-op into the social enterprise arena (Novkovic 2008; Defourny and Nyssens 2010). The co-op business model is viewed as a unique alternative to the conventional choices of private vs. public, or public vs. non-profit (Pestoff 1991). As noted earlier, the co-op has a long history and encompasses a wide range of industries (Birchall 2011). There are also calls for the co-op to be used as a foundation for ‘grass roots’ global change to challenge the existing economic system (Williams 2007). However, the co-op’s role within the social enterprise movement must be put into perspective.

As discussed above, the foundations of the co-op movement in the ‘Rochedale Society’ were for pragmatic economic self-development, unfettered by political, philanthropic, religious or social goals. It is worth noting that the majority of the founding members of the ‘Rochedale Society’ were not weavers, but Owenite socialists and ex-Chartists, who viewed the co-op as a mechanism for achieving a wider economic change. Robert Owen, the great English philanthropist and industrialist, had encouraged the principles of cooperation from at least 1810, and helped to establish the London Co-operative Society in 1826. He collaborated with William Lovett and the Chartist Movement over universal suffrage and workers’ rights. Their promotion of the ‘Rochedale Principles’ did much to lay the foundations of the modern co-op movement (Fairbairn 1994; Holyoake 1908). However, as the 19th Century unfolded the co-op movement and the socialist movement began to separate (Gide 1922). While the co-op movement continued to pursue an equitable and fair society via peaceful, non-political and economically rational mechanisms, Marxist socialism adopted a more radical and politically activist approach (Gide et al 1915; Drury 1937). This pragmatic, economic focus of the co-op has helped to distinguish it from the more ideologically focused elements of social enterprise. A point noted by the English Economist Alfred Marshall, who as President of the Co-operative Congress movement in 1889 noted: "*What distinguishes co-operation from every other movement is that it is at once a strong and calm and wise business, and a strong and fervent and proselytizing faith"* (Marshall 1889 p.1).

This pragmatism resulted in the co-op being less influenced by the larger debates that have raged through the fields of economics and political philosophy, leaving the co-op business model relatively weak in terms of its underlying theoretical foundations: "*Because of its lack of preliminary theory, because it feels its way as it goes, and because it is a rather simple and direct way of doing things, co-operation sets up no special goal except what might be represented by an expansion of its up-to-date accomplishments"* (Warbasse 1937 p.15). The co-op departed from mainstream economic theories of the firm primarily around the treatment of capital and profit, with its emphasis on an equitable distribution of dividends based on patronage rather than shareholding (Albrecht 1937). The co-op represents economic democracy (Miller 1937), and this has put it outside the conventional business model of the IOF, yet its economic pragmatism makes it an uncomfortable ally within the philanthropic and socialist traditions of the social economy (Levi and Davis 2008).

THE CO-OP WITHIN THE 'THIRD SECTOR' SOCIAL ECONOMY

The concept of the social economy can trace its origins back to the work of Italian economist Achille Loria who suggested that much of the social, economic and political tensions throughout history were the result of competition for ownership and control by the many for a relatively small finite quantity of land resources (Rabbeno 1892). By the end of the 19th Century economists were already seeking a middle-path between the government or public sector on one side, and the private sector on the other (Rowe 1893). During the Great Depression there was a resurgence of interest in the social economy as an answer to the collapse of the mainstream free market economy (Opie 1929; Tugwell 1930; Berle and Means, 1932). More recently there has been a renewed interest in the social economy as a 'third way' that lies between free market economics and government ownership (Passey and Lyons 2004). Reference is now made to the 'Third Sector', an ill-defined concept encompassing the social economy and households, voluntary, non-profit and philanthropic organisations (Birch and Whittam 2008). From a policy perspective this has been driven by a desire to devolve the cost of many social welfare responsibilities from the state to the community (Lasprogata and Cotton 2003). However, within academic circles it has been encouraged a thriving interest in social enterprise and entrepreneurship (Mort et al 2003; Weerawardena and Mort 2006; Mair and Marti 2006; Paredo and McLean 2006; Martin and Osberg 2007; Neck et al 2009).

Co-ops have been incorporated into the ‘Third Sector’ and viewed as a form of ‘social enterprise’ due to their democratic structure and community ownership, and their greater resilience when compared to non-profit organisations (Mancino and Thomas 2005). An enterprise is deemed to fall within the social economy when it is autonomous, has voluntary membership; with equal rights and obligations, and a purpose that is focused on self-help and member benefit rather than investment returns (Hagen 2007). At least four things define a social enterprise: i) it must be focused on the continuous production of goods and services; ii) it must be voluntarily created by people who have autonomy from government or private sector controls; iii) it must place a significant level of economic risk on its shareholders; and iv) it must employ those who work for it for a minimum amount of paid time (Spear and Bidet 2003). In this way the social enterprise is distinguished from philanthropic, non-profit, voluntary and government organisations. However, a ‘social enterprise’ also has as a primary purpose the pursuit of social objectives, and all surplus profits are reinvested for that purpose rather than being used to maximise returns to shareholders (DTI 2002). This social purpose has been identified as a key organising principle of social entrepreneurship. The social enterprise draws together people and capital to exploit an opportunity to deliver a ‘social value proposition’ (SVP) (Austin et al 2006). While the purpose or mission of an IOF is economic with an economic return, and that of non-profit organisations is social with a social return, the social enterprise has a social mission with economic returns (Neck et al 2008).

Although co-ops have been embraced within the ‘Third Sector’ our examination of their purpose and organisational configuration raises important questions as whether or not they actually fit. The creation of a co-op is typically for an economic rather than a social purpose. Although they can have a social outcome, it is economic self-interest that primarily drives their formation and sustainability. This configuration of economic mission and social impact defines them as a 'social consequence' venture rather than a 'social purpose' venture (Neck et al 2008); although this has usually been the space occupied by firms such as *Body Shop*, *Ben & Jerry's* or *Patagonia* with high levels of corporate social responsibility (Phils et al 2008). This is not to deny its potential as a force for the creation of social value, but it would be wrong to view the co-op as primarily a vehicle for altruism. Further, this tension between the co-op as a social enterprise and business venture remains an area of discussion that has continued throughout its long history (Hogeland 2006). The co-op is therefore a form of social enterprise, although it is something of a hybrid structure.

THE CO-OP WITHIN THE 'FOURTH SECTOR' SOCIAL ECONOMY

The co-op business model fits uncomfortably within the private sector due to its treatment of ownership rights and profit distributions, but is an equally uncomfortable bedfellow within the 'Third Sector'. As a hybrid it has been accommodated within what is now emerging as a 'Fourth Sector' where organisations use business practices to achieve social purposes. The key characteristics of a 'Fourth Sector' organisation is its core mission is that of a social purpose, but that it uses entrepreneurial business practices to achieve it (Sabeti 2009). According to Sabeti (2009) the two key variables used to identify the emerging 'Fourth Sector' are the organisation's purpose and how it generates its income. IOF within the private sector have the purpose of maximising financial benefits to owners and earn their income from 'for-profit' business activities. By comparison, non-profits within the 'social' or Third Sector have the purpose of maximising social benefit, but obtain their income from contributions (e.g. sponsorships, philanthropy). The co-operative sits as a hybrid within the 'Fourth Sector' that aims to create social benefits for its membership but funded by income earned from conventional business activity.

Novkovic (2008 p.2174) suggests that the co-op can be a "*potential breeding ground of social entrepreneurship and social innovation*". However, she cautions that a critical challenge will be for the co-op to adequately measure the intangible asset of social capital. She proposes that one measure that might be employed is adherence to the 'co-operative principles'. This takes us back to the defining feature of the co-op business model, specifically the ‘purpose’ for which it was established, and how it defines its MVP. As discussed earlier in this paper, there are many different types of co-op, with differing ownership rights and distribution structures. However, all have the common features of collectively owned share capital based on patronage. This unique nature of the co-op sees the member as having a dual interest, that of patronage (as customer or supplier), and that of investor (owner/shareholder).

As a social enterprise the co-op can create substantial social value while also creating economic value. The co-op business model offers a “*happy medium between public regulation and private power*” (Mooney 2004 p.87). Within the financial sector co-op banks and credit unions have demonstrated an ability to encourage savings and enhance member personal wealth (Ward and McKillop 1997; Nembhard 2002). In agricultural markets the presence of a co-op also appears to result in superior prices for growers even by IOF (Tennbakk 2004). Co-ops have also been found to achieve superior competitive advantage through their ability to forge strategic alliances (Bruge et al 2003). When faced with turbulent environments and political or environmental threats, co-ops have proven highly resilient enterprises (Nunez-Nickel and Moyano-Fuentes 2004; Mora and Menozzi 2005). They also demonstrate a high level of competitiveness against IOF even in terms of profitability (Lerman and Parliament 1990; 1991). Co-ops have also provided infrastructure where both government and private investment was unwilling (Heriot and Campbell 2006).

CONCLUSIONS

The co-op is what Neck et al (2008) refer to as a ‘hybrid’ form of social enterprise that can move between social and economic purposes depending on the needs identified within their MVP. As with any community-based enterprise, the co-op is built on the skills inherent within its membership, and is dependent on their participation, to achieve a multiplicity of goals that can be economic or social in nature (Peredo and Chrismann 2006). There is evidence that co-ops transition through their lifecycle pulled between these economic and social purposes as they seek to deliver an MVP that must strike a balance between the often competing demands of their members as patron-investors (Cook 1995; Brewin et al 2008). According to Nilsson (2001), where the member values patronage over investment the co-op will be a traditional one focused primarily on collective rights and addressing market failures. However, where they value investment rights over patronage, the co-op will best serve its members by demutualisation and conversion to an IOF. If the members place no value on either the co-op will degenerate and die. Yet if they value both patronage and investment, the co-op is best able to satisfy members. So where does the co-op business model fit? As outlined in this paper co-ops represent a business model that is neither an IOF nor a non-profit enterprise. They therefore do not fit into any of the three sectors currently identified within policy circles. It is possible that they can find a home within the emerging 'Fourth Sector' of the social enterprise. However, even here they may sit at odds with the primarily social purpose focus of such ventures. Given the size of the co-op sector and their contribution to both economic and social capital these are important issues. Future research is required to better understand the co-op business model, its unique task environment, organisational configuration and managerial characteristics. Attention should be given to the development of conceptual frameworks and appropriate taxonomy that can be used to correctly classify the co-operative business model against other forms of enterprise. This should focus in particular on other social enterprises, plus non-profits and non-government organisations that lie within the "Third Sector". Key units of analysis are likely to be ownership structures, organisational purpose and how income is distributed.

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