

Stream 1 Reshaping Management for Impact
Competitive Session Abstract Only in Program

**DEVELOPING A CO-OPERATIVE ENTERPRISE BUSINESS MODEL:
IDENTIFYING THE CORE COMPONENTS FROM THEORY AND PRACTICE**

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**Developing a Co-operative Enterprise Business Model: Identifying the Core
Components from Theory and Practice**

ABSTRACT:

Co-operatives enterprises are member-owned organisations which operate on quite different principles to mainstream investor-owned firms. Although co-operatives are significant contributors to economic growth and social development around the globe, they have not been widely studied in the management disciplines. In this paper, we outline the development of a business model for co-operative enterprises drawing upon the literature and prior international research. The seven core elements of this customised business model include purpose, share structure, product/markets, governance, membership & community, organisation, and economic & social performance. Details of the core components are identified and illustrated from an in-depth case study of an agricultural co-operative. This analysis highlights the importance of embedding the mission and member value creation within the strategic and operational decision making processes of the co-operative.

Keywords: co-operative enterprises, business models, core components, member value proposition, organisational processes, case study

INTRODUCTION

Member-owned co-operative enterprises are significant contributors to economic growth and social development around the globe. The World Co-operative Monitor's 2013 report analysed 2,032 co-operatives in 56 countries with a total turnover of US\$2,578.5 billion; this includes 1,465 co-operatives with turnover over US\$100 million in 42 countries (WCM, 2013). Co-operatives operate in a wide range of different industries and are found in highest concentrations in agriculture and food industries, insurance, wholesale and retail trades (WCM, 2013). Co-operative organisations have a rich history which traces back to cheese makers in France in the Middle Ages, weavers in Scotland in 1761, and rural credit unions in Germany in the 1840s (Williams, 2007). The Rochdale Society of Equitable Pioneers, established by 28 weavers in cotton mills in the north west of England to buy food and other goods at affordable prices, established a set of guiding principles to enhance the economic well-being of its members (Wilson et al, 2012). These principles, with only minor changes, continue to guide co-operative organisations today as summarised by the International Co-operative Association (ICA):

“Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others” (ICA, 2014).

Most management theories have developed from studies of large investor-owned firms (IOF) which operate on quite different principles to co-operative enterprises (ICA, 2012). In spite of their scale and

scope for national economies, co-operative enterprises have not been widely studied in the management sciences. Although they are examined in agricultural economics and in social policy fields, co-operatives appear to have been rejected from mainstream economics because of their dual economic and social nature (Kalmi, 2007; Levi & Davis, 2008). However, it is this combination of their complexity, history, and significance, which makes them interesting, relevant and valuable for research in the strategy and management fields. How do co-operatives simultaneously meet their financial and social goals? How does the co-operative nature of the enterprise impact on their ability to compete? What are the challenges of leading a member-owned enterprise? How does a co-operative enterprise operate in both local and global markets? In this paper, we begin to address these questions by examining the nature of the co-operative enterprise focussing on the elements in the business model. First, we provide a brief overview of the nature of co-operative enterprises. Then we review the business model literature and outline the development of a customised business model framework for co-operative enterprises. The components of the business model are illustrated using a detailed case study of a New Zealand co-operative. In conclusion, the contributions of the study and implications for further research are discussed.

In terms of research methods, our project included reviewing the literature on co-operative enterprises and business models, and synthesising a new conceptual business model for co-operative enterprises. This business model framework was examined in a major international research programme of co-operatives addressing a series of research questions using historical narratives, interviews, surveys and case studies. In this paper, we outline how we have modified the co-operative business model to address issues raised in the international programme and to provide a more detailed strategic enterprise-level framework for co-operatives. This new business model framework is outlined and the components are illustrated from an in-depth case study of an established co-operative (Yin, 2009). Data was collected from industry and company sources, as well as a series of semi-structured interviews (Patton, 2002).

CO-OPERATIVE ENTERPRISES

A co-operative is defined as:

“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” (ICA, 2014).

While there are different types of co-operative (Birchall, 2011; Chaddad & Cook, 2004) and they operate under different legislation according to national jurisdictions, co-operatives are established to deliver value to their members. The co-operative principles, listed in Figure 1, provide the foundation for consistency amongst co-operatives by acting as guidelines for translating their values into practices.

In addition, the co-operative principles serve to define the characteristics of co-operative enterprises and thereby help to clarify differences between them and other mainstream businesses or IOF.

Insert Figure 1 about here

Member ownership of co-operatives is also reflected in democratic controls and voting rights (one vote per member), participation in board processes, accountability to members, plus active involvement in fund raising and community development activities. Whereas in IOF, the primary purpose is to maximise shareholder returns, shareholders have controls linked to their investment levels, professional boards are appointed, funds are raised through capital markets, and dividend payments are optional (ICA, 2012). In addition, co-operatives differ from IOF in that customers or suppliers are often also the owners, which create a unique structure. Profits are reinvested in the co-operative and/or returned to members based upon how much business they conducted with the co-operative that year (patronage). A comparison of their approaches to core business decisions, provided in Table 1, highlights further differences between these two major types of enterprises. To understand these differences and identify how co-operatives organise their business activities, we will develop and apply a business model framework for co-operative enterprises.

Insert Table 1 about here

BUSINESS MODELS

Business models have been of increasing interest to scholars and managers since the 1990s when the internet emerged to enable quite different ways of doing business (Osterwalder et al. 2005; Shafer et al. 2005, Zott et al, 2011). Identifying the underlying business model which shows how an organisation designs and defines its value creation, delivery and capture mechanisms (Teece, 2010) is fundamental for its strategic positioning and performance. Indeed, understanding the *logic* of how a business creates and delivers value to customers in a profitable way has always been a focus for managers. In that sense, the 'business model' concept is not necessarily new and clearly technology is only one of the factors involved (Chesbrough, 2007; Nenonen & Storbacka, 2010). Although there is not a standard definition of business models in research or in practice (Teece, 2010; Coombes & Nicholson, 2013), the use of this term in business and the academy has certainly increased (Baden-Fuller & Haefliger, 2013; Zott et al. 2011). A symposium on business model innovation and competitive advantage at the 2012 Academy of Management annual meeting featuring ten leading scholars from around the world (Lieberman, Teece, Barney, Ricart, Tushman, Markides, Peteraf, MacMillan, Amit, and Zott) highlighted the value of business models for strategic analysis by practitioners, and the lack of a consistent approach to defining the content or components of business models. The different perspectives on business models reflect these developments emerging in parallel from a series of silos focussed on e-business, strategic issues, and innovation and technology management (Zott et al., 2011),

as well as quite different views on how the business model connects with the strategy process (Teece, 2010, Casadesus-Masanell & Ricart, 2010a; Markides, 2008; 2013; Amit & Zott, 2012).

From their analysis of the commercialisation of new technologies by Xerox, Chesbrough and Rosenbloom (2002) provided a business model framework of six core components which included: (1) articulating the value proposition, (2) identifying the market segment, (3) defining the structure of the value chain, (4) estimating the cost structure and profit potential, (5) evaluating the value network linking suppliers and customers, and (6) formulating the competitive strategy. Osterwalder, Pigneur and Tucci (2005) proposed nine building blocks of business models grouped into four pillars as shown in Table 2. This model, which has been widely adopted by business consultants within Europe (Osterwalder & Pigneur, 2010), is consistent with Chesbrough and Rosenbloom (2002) in prioritising the value proposition for target customers in specific segments, as well as understanding the organisational infrastructure and financial implications to deliver these products/services. Relationships with key partners and key customers are also recognised as part of the foundations for a business model.

Insert Table 2 about here

A third framework for business models, which aligns closely with the components in these two approaches, was proposed by Johnson, Christensen and Kagermann (2008). From their analysis of breakthrough or radical business model innovations, these authors identified the focus on the customer value proposition (CVP) as the first step in developing a successful business model innovation; this includes understanding the job to be done by the target customer so that the new offering can be customised to meet their needs. Their other three main components focus on the 'key resources' and 'key processes' needed to deliver the value to the customer, and the 'profit formula' which defines the value created for the business from this particular innovation. As the specific details of these components overlap or complement the business model activities identified in the first two frameworks, we chose to combine and adapt them to develop our co-operative enterprise business model framework.

However, given the interdisciplinary nature of business models, there are also many other studies considering the nature of business models from different perspectives including strategy (Shafer et al, 2005; Afuah, 2009; Mitchell & Coles, 2004), entrepreneurship (Doganova & Eyquem-Renault, 2009; Fiet & Patel, 2008; Zott & Amit, 2007), information systems (Berman et al., 2012; Das et al., 2013), marketing (Mason & Spring, 2011; Mason & Mouzas, 2012; Coombes & Nicholson, 2013), innovation management (Smith et al., 2010; Baden-Fuller & Haefliger, 2013) and international business (Casadesus-Masanell & Ricart, 2010b). Zott and Amit (2010) adopt an activity system perspective to describe the business model value creation process within and across firm boundaries; this approach recognises the role of suppliers, partners and/or customers in exploiting business opportunities.

Teece (2010) considers the business model as the design or architecture of the value creation, delivery and capture mechanisms employed by the firm; this identifies “what customers want, how they want it and what they will pay, and how the enterprise can organise to best meet customer needs, and get well paid for doing so.” From their study of high performing firms, Zook and Allen (2011) found repeatable business models were important for generating sustained growth by turning sources of differentiation into routines, behaviours and activity systems. McGrath (2010) proposes discovery driven planning processes and experimentation to identify and evaluate new business models for dynamic and uncertain markets. This is extended by Thompson and MacMillan (2010) who advocate developing new business models to open up new markets and create societal wealth by addressing the challenges of poverty and human suffering. In addition, Casadesus-Masanell and Ricart (2010b) use a business model approach which maps choices, consequences and theories to understand virtuous cycles leading to improved international competitiveness.

DEVELOPMENT OF THE CO-OPERATIVE ENTERPRISE BUSINESS MODEL

To customise a business model for co-operative enterprises, we started by drawing upon the corporate business models by Chesbrough and Rosenbloom (2002), Osterwalder et al (2005), Johnson et al (2005) and Teece (2010). The initial model has four major elements as shown in Figure 2. The ‘purpose’ moves from a focus on customers to members and delivery of the ‘member value proposition’ (MVP). In the ‘profit formula’, the basis of the revenue model, costs and benefits for co-operatives will be broader than for a traditional corporate as member welfare is maximised as opposed to just profits (Giannakas & Fulton, 2005). In terms of the ‘key resources’ for a co-operative, this element includes evaluation of the core competencies, team structure, and strategic alliances and partnerships, which are also likely to be different to the IOF model given their community-based strategic network approach (Garcia-Perez & Garcia-Martinez, 2007; Simmons & Birchall, 2008). The ‘key processes’ for a co-operative includes the processes to generate benefits for members such as the organisational structures, systems and activities that allow for member participation in decision making and deliver its products/services.

Insert Figure 2 about here

The co-operative in a systems context

The next stage of the conceptual development of this co-operative business model recognised that this enterprise-level model was embedded within a broader context at the macro or systems level. As shown in Figure 3, this conceptual framework for co-operative enterprises recognises that there are four major inputs and two key output factors that need to be considered to understand the dynamic nature of the co-operative (co-authors, 2014). The four input factors include: (1) the need for there to be an environment within the community that is conducive to social cooperation; (2) the role of

government regulation and support; (3) the dynamics of the industry structure in which the co-operative is seeking to operate; and (4) the impact of the natural environment, particularly on agricultural producer co-operatives. The two output factors are the co-operative's ability to generate economic and social capital - which reflects the dual function or 'symbiosis' of the co-operative and its role as a social business (Fairbairn, 1994; Novkovic, 2008). This co-operative enterprise framework was used as the basis for a major international research programme which examined a series of key research questions in 38 co-operatives in 16 countries (Co-authors, 2014). From this programme, further research was recommended on the enterprise level co-operative business model to address issues which arose during the study.

Insert Figure 3 about here

In addition, this co-operative enterprise framework recognises that there are also micro-level factors which impact upon the co-operative enterprise business model. Here the focus is on the membership of the co-operative recognising that members have multiple motivations to engage with the co-operative. There are four specific roles the member can play: (1) as a patron who trades with the co-operative – which has been the primary role of co-operatives throughout their history (Giannakas & Fulton, 2005); (2) as an investor who owns share capital in the enterprise – an area which is becoming more complex with at least 6 options for financing (van Bekkum & Bijman, 2006), (3) as an owner with expectations for control and rights to have a voice in decision making (Chaddad & Cook, 2004) and to participate in the democratic governance of the co-operative (Birchall & Simmons, 2004); and (4) as a community member with concerns for congruent goals between the community and the co-operative (Novkovic, 2008).

Key elements of the co-operative enterprise business model

The enterprise level co-operative business model has been extended in this framework to include two additional core elements which emerged as being critical in our pilot analysis of co-operatives: 'share structure' and 'governance'. As the types of co-operatives have evolved, the options for financing have also become more complex. Hence to examine the ownership of shares and how they are redeemed, transferred or traded becomes important in the analysis of a co-operative's performance. Similarly, the addition of governance to the co-operative business model reflects the influence of member ownership and participation on how the cooperative is governed and managed (Birchall & Simmons, 2007). The details of this adapted co-operative enterprise business model framework are illustrated in Figure 4.

Insert Figure 4 about here

As shown in Figure 4 the core of the co-operative business model is the "member value proposition" (MVP). It substitutes for the CVP found in conventional business models, but is

reflective of the fact that a co-operative is focused primarily on the creation of value for its members and all other elements of the business model must be configured so as to deliver the MVP sustainably over time. As noted above, the member's perception of the 'value' they receive from engagement with the co-operative may be influenced by the role they play. For the member that wishes to engage primarily for patronage, the MVP is likely to revolve around quality of service and cost-effectiveness of services. However, for a member that is more concerned with return on investment, the MVP might revolve around share capital ownership and dividend payments (Nilsson, 2001). However, through the fostering of a sense of ownership over the co-operative by members, and by encouraging members to see their involvement in the co-operative as part of a greater purpose to contribute to their communities, it is possible to strengthen loyalty to the co-operative (Simmons & Birchall, 2009; Levi & Pellegrin-Rescia, 1997).

The 'purpose' for which the co-operative was created is the next key element in the model. This is what guides the co-operative's overall reason for existence and must be clearly identified in the establishment of the business. The 'purpose' of the co-operative is important because it is the primary reason why the business was created and what keeps the members engaged (Shah, 1996). This 'purpose' for which the co-operative was formed can be enshrined in the organisation's constitution along with the seven co-operative principles so as to ensure that the business does not lose sight of its original reason for existing. For example, under the Australian Co-operatives National Law Act of 2012 all co-operatives must adhere to the co-operative principles and there should be a clear statement of the purpose for which the co-operative has been established. For example, in relation to the formation of a co-operative the relevant factors and considerations include:

“...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))

The 'profit formula' refers to the way in which the co-operative views its purpose from a financial perspective. For example, there are 'distributing' and 'non-distributing' co-operatives. The first type (as defined under the Australian Co-operatives National Law Act 2012) is refers to those that pay out dividends on surplus profits or share capital. Such co-operatives must have share capital and at least 2 or more co-operatives as members, or 5 or more active members. The second type is refers to a co-operative that is prohibited by its constitution from paying out returns to members from surplus profits or share capital other than the nominal value of the shares (if any) at liquidation. These non-distributing co-operatives may or may not have share capital but also need at least two co-operatives that are members, or 5 or more active members. The decision to adopt either of these forms is likely to depend on the interests and objectives of its members and the purpose for which it was established (Royer, 2004). Whether or not a co-operative is distributing or not, it is able to remain a competitive business and can compete successfully against investor owned firms (Sisk, 1982).

The 'process' and 'resources' 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. It is an underlying assumption in our approach to the co-operative business model, that all co-operatives are essentially service businesses. It does not matter whether they are processing milk, storing and handling grain or dealing with financial transactions, the co-operative offers its members a service experience that may use tangible assets to deliver. Many co-operatives are key actors in supply chains. This can involve 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 co-operatives can maintain strong supply chains due to the common ownership structure (Nunenz-Nickel & Moyano-Fuentes, 2004). 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).

The 'share structure' of the co-operative will depend on the organisation's 'purpose' and 'profit formula', specifically whether it is a 'distributing' or 'non-distributing' entity. How co-operatives' set their share capital structure varies significantly around the world. The combination of ownership rights to share capital and the redemption of such share capital has been developed into a typology by Chaddad and Cook (2004). This recognises at least six different types of co-operative depending on whether or not the share capital is restricted only to members, whether or not it can be redeemed and transferred, whether the accumulation of shares is linked to patronage and whether share capital can be converted into equity held within non-co-operative businesses or publicly traded. Under Australian National Co-operatives Law, share capital needs to be of a fixed amount that is specified in the rules or constitution of the co-operative. It is possible for co-operatives to have more than one class of shares so long as the ownership of shares does not conflict with the co-operative principles (specially the 'one-member-one-vote' principle of democratic member control).

The final element of 'governance' is related to the way in which the co-operative sets out its constitution, structures its rules and policies, and appoints its board and executive leadership team. It is a critical element of the overall business model and may influence the overall success or failure of the business. The design of the co-operative's system of governance should consider the best interests of the members, the efficiency of the co-operative as a business and the welfare of its employees, the structure of its board and executive team, and the contribution that the co-operative can make to its community (Prakash, 2003). Ideally the way the co-operative structures its system of governance will bring together the membership and management in a process of strong participative democracy (Birchall & Simmons, 2007).

Although governance models differ across the world an example of the way in which Australian National Co-operative Law Act 2012 has addressed the management of a co-operative is illustrative. The board of a co-operative must have a minimum of 3 directors of which 2 must be resident in Australia. Appointment is via election as specified in the firm's constitution. Board members can be

active members ('member directors'), or persons who are not-active members ('non-member directors'), but who are deemed to be qualified to hold office as specified in the rules of the co-operative. Employees can be appointed to the board, but the majority of directors should be 'member directors' unless the constitution is written to the contrary. Co-operatives must also have a secretary who must be resident in Australia, and all directors of the business must make decisions in good faith and taking into account the co-operative principles.

Developing the dynamics of the co-operative enterprise business model

Specific issues to be addressed in reformulating the co-operative enterprise business model included: (1) given the significance of the 'constitution' of a co-operative in making the co-operative principles explicit, these details are really core elements to be included in the co-operative business model within the Purpose section; (2) the need to explicitly define or identify the product/service portfolio of the co-operative as a core component of the business model and consider how they are priced, distributed and differentiated from other providers; (3) the need to recognise the importance of share structure and governance in the co-operative business model; (4) the separation of 'key resources' and 'key processes' into two separate core components is difficult for strategic analysis of these areas as they are overlapping/intertwined and need to be considered together; (5) as the membership and community relationships are an important and distinctive feature of co-operatives this needs to be reflected in the core components of the business model; (6) identifying and showing connections between the core components of the business model was signalled as important for the next iteration of the model; (9) linking the business model to the organisation's strategy and adding an outcome component is important to create an effective tool for strategic analysis, i.e. to show connections between the purpose and the performance of the co-operative on both economic and social levels.

Each of these issues was considered in developing the next iteration of this co-operative enterprise framework. An overview of the revised co-operative enterprise business model is shown in Figure 5 and the more detailed summary of the key elements and components of this model is summarised in Table 3. This model extends the earlier version by starting with the Purpose of the co-operative, then showing how this is reflected in its Share Structure, Product/Market portfolio and Governance. The next two major elements, Membership & Communities and Organisation, capture the implementation activities which lead to the final Economic & Social Performance or outcomes of the co-operative.

Insert Figure 5 about here

The descriptions of all of the components provide the basis for evaluation of the co-operative business model. As discussed, these have been customised for co-operative enterprises and reflect the importance of alignment of the purpose and values throughout the co-operatives' activities and

processes. Each of these components will be illustrated in the next section which summarises details for a specific co-operative.

Insert Table 3 about here

CO-OPERATIVE ENTERPRISE BUSINESS MODEL FOR LIC

To demonstrate how this new business model framework is applied we have used an in-depth case study of an established New Zealand co-operative, Livestock Improvement Corporation (LIC). LIC is a new generation agricultural co-operative which provides animal information, genetics and technology products and services to 10,300 dairy farmer members in New Zealand. Established in 1909, LIC has a long history of innovation in artificial breeding and herd testing. The co-operative invests significantly in scientific research for the benefit of co-operative members, while maintaining high levels of profitability (average 19.1% NPAT from 2007-2011). Also, LIC engages in international business activities in 15 countries - primarily exporting of genetics products.

The Purpose components in the co-operative enterprise business model include the *mission*, *constitution* and *membership*. As outlined in Table 4, LIC's mission focuses on creating value for members by improving the productivity and profitability of their dairy farms. By embedding the mission and co-operative principles in their Constitution, LIC ensures that they are prioritised in the co-operative's activities. Not only is membership of this co-operative clearly defined, the MVP is also creating multiple sources of value for LIC's members directly and indirectly.

Insert Table 4 about here

The Share Structure components for LIC include the *type of co-operative*, *share ownership rights*, *share redemptions and transfer rights*, *convertibility of share capital*, and *dividend and share capital valuation* as discussed briefly in Table 5. As a trading co-operative, LIC's voting share ownership reflects patronage, however, having non-voting investment shares as well allows for the financial value of the co-operative to reflect market value.

Insert Table 5 about here

The Products/Market components for LIC include the *product/service* portfolio and how they are *positioned* in terms of price, channels and differentiation are summarised in Table 6. The co-operative has three core business areas which focus on herd testing, artificial breeding and farm management tools. LIC provides members with advanced technological products which are based on leading-edge science. Pricing at commercial rates was introduced with a change in legislation in New Zealand when LIC became an independent co-operative in 2002. The co-operative collects and aggregates information on performance of dairy animals and farms, which is then able to be used for breeding and farm management purposes. LIC's longstanding track record for successful innovations

not only underpins the value of the product/services offered to members, but also contributes to their brand and differentiation.

Insert Table 6 about here

The Governance components for LIC include the *board structure, relationship between the board and executive* and the *relationship between the board and members*. With clear requirements for ‘active’ membership and rigorous democratic election processes, LIC’s board is mostly engaged farmers who represent their peers. The addition of three independent board members with complementary skills strengthens the governance of this co-operative.

Insert Table 7 about here

The Membership & Community components of the co-operative enterprise business model include the co-operative’s *membership structure, strategic partnerships, member communications* and *stakeholder connections*. As outlined in Table 8, LIC engages with strategic partners on specific projects to achieve scale or obtain complementary skills. However, the co-operative does not need to use partners for its core business activities. LIC uses an extensive array of communications with members to share information, encourage participation and engagement, and profile its achievements. In addition, the co-operative has a vast social network of strong and weak ties to key players in the dairy industry and local communities throughout the country. This type of analysis is important to reflect the ownership, as well as the social and community expectations of co-operative enterprises.

Insert Table 8 about here

The Organisation components of the co-operative enterprise business model include the *structure, processes, and resources/capabilities*. As outlined in Table 9, these components capture all the major organisational infrastructure and operational processes and activities which LIC uses to deliver its products/services. This analysis highlights the importance of embedding LIC’s mission and MVP within the strategic and operational decision making processes for the co-operative. Keeping the value to members front of mind provides a consistent basis for prioritising and achieving strategic goals and KPIs, as well as creating MVP.

Insert Table 9 about here

The Performance components of the co-operative enterprise business model include the *member value outcomes, financial returns, economic capital, social capital, and comparative benchmarks*. In this LIC case study, as shown in Table 10, the performance of the co-operative in terms of all of these measures appears to be exceptional. Focusing on delivering MVP, not only creates value for members but given the significance on this co-operative in the New Zealand dairy industry, LIC also contributes

to the industry and the national economy. Reporting on performance within the business model framework is an important element as it connects to the co-operative's purpose and strategy. Evaluating the impact on performance is fundamental to strategic decision making for co-operatives of all types.

Insert Table 10 about here

CONCLUSIONS

Given the significance of co-operatives to economic growth and social development around the globe, and their fundamental differences from mainstream investor owned firms, it is important to understand how they organise and manage their business activities. In this paper we have outlined the development of a new business model for co-operative enterprises which is a potentially important contribution to theory and practice. Our study draws upon the key literature on the emerging field of business models and extends the framework already tested in a major international research programme on sustainable co-operative enterprises. Further, to demonstrate the nature of the core components in this business model, we have provided details and analysis from an in-depth case study of LIC, a leading agricultural co-operative in New Zealand.

This business model explicitly connects Purpose to Economic and Social Performance which has not been the approach taken in other research to date. It identifies the Share Structure, the Product/Market portfolio and Governance, and then considers implementation processes via Membership & Community and Organisation. By defining the core components for each of these key elements, we have customised the business model to focus on *both* corporate/business norms and the unique expectations for co-operative enterprises. From the LIC case it is clear that centralising commitment to creating and delivering value for members at the heart of the co-operative's business activities leads to alignment between the core components and underpins the success of this co-operative enterprise.

In further research we will explore the components as defined in this new business model in a series of other co-operatives using a comparative multi-sector study. There will also be more conceptual work to do on the components and to develop measures to use in empirical work. Adopting a strategic approach for this co-operative enterprise business model by linking Purpose to Economic and Social Performance, can also be considered for the IOF business models; and thus contribute to clarifying the links between business models and strategy. Further developments of this co-operative business model framework to create a project management tool and/or provide an alternative type of value chain analysis could also be considered in future. In terms of implications for practice, this business model and the LIC case demonstrate the importance of identifying and articulating the member value proposition to ensure that the co-operative focuses on the members' needs. Furthermore, integration of member value creation into strategic and operational decision making, as exemplified in this case study, is fundamental for co-operative enterprise success.

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Figure 1: Co-operative Principles**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, 2014.

Table 1: Comparison of Business Decision Making in Co-operative Enterprises and Investor-Owned Firms

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

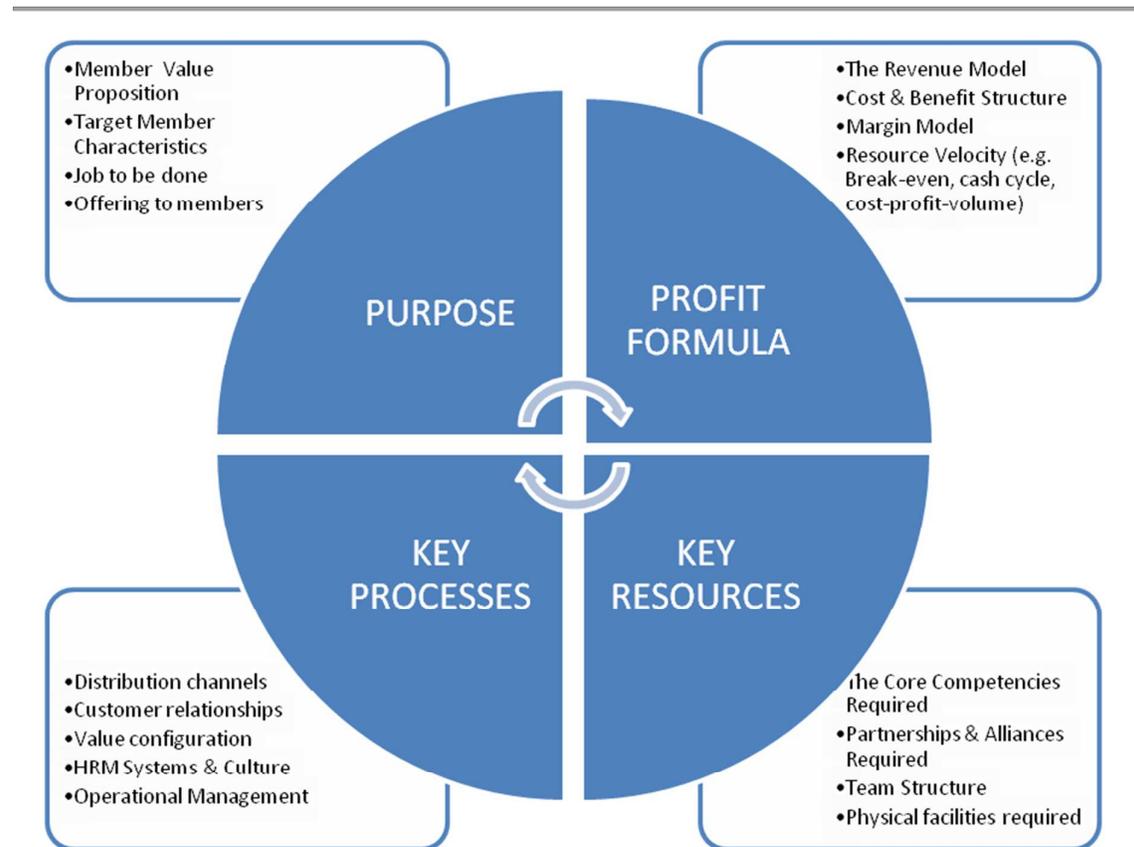
Source: Authors (2011).

Table 2: The Building Blocks of a Business Model

Pillar	Building Block	Description
Product	Value Proposition	Gives an overall view of a company's bundle of products and services.
	Target Customer	Describes the segments of customers a company wants to offer value to.
Customer Interface	Distribution Channel	Describes the various means of the company to get in touch with its customers.
	Relationship	Explains the kind of links a company establishes between itself and its different customer segments.
Infrastructure Management	Value Configuration	Describes the arrangement of activities and resources.
	Core Competency	Outlines the competencies necessary to execute the company's business model.
Financial Aspects	Partner Network	Portrays the network of cooperative agreements with other companies necessary to efficiently offer and commercialise value.
	Cost Structure	Sums up the monetary consequences of the means employed in the business model.
	Revenue Model	Describes the way a company makes money through a variety of revenue flows.

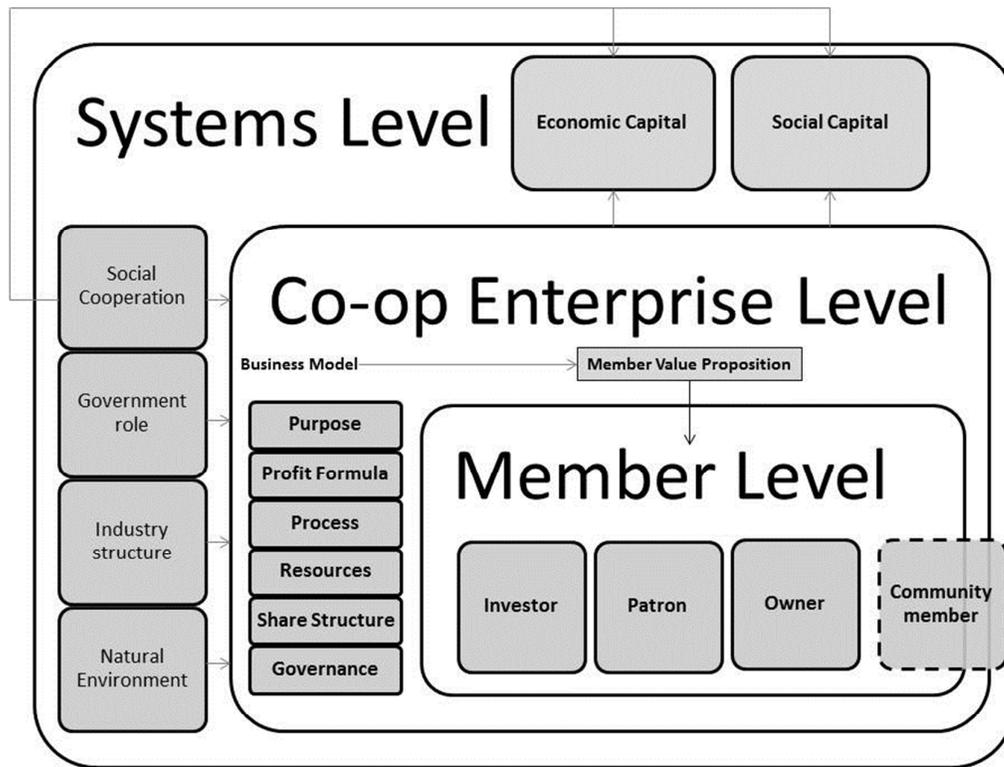
Source: Osterwalder, Pigneur and Tucci (2005).

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



Source: Adapted from Chesbrough & Rosenbloom (2002), Osterwalder et al (2005), Johnson et al (2005), Teece (2010)

Figure 3: Co-operative Enterprise Research Framework



Source: Authors (2014). Research Handbook on Sustainable Co-operative Enterprise.

Figure 4: Co-operative Enterprise Business Model Key Elements

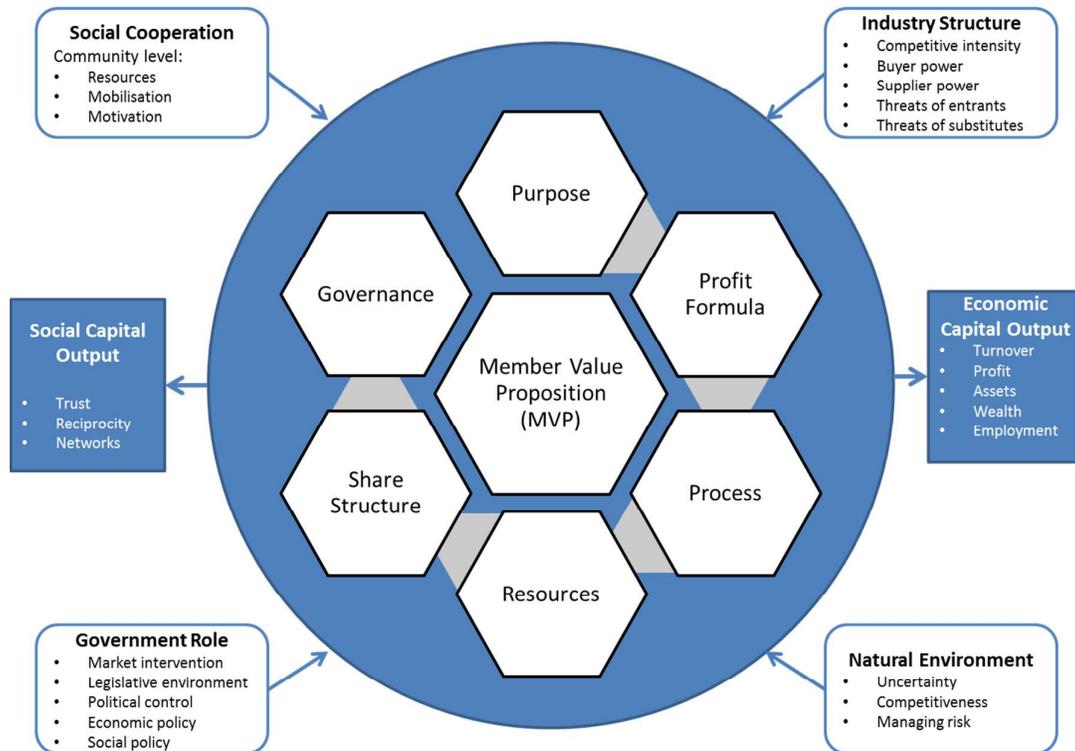


Figure 5: Co-operative Enterprise Business Model Dynamics

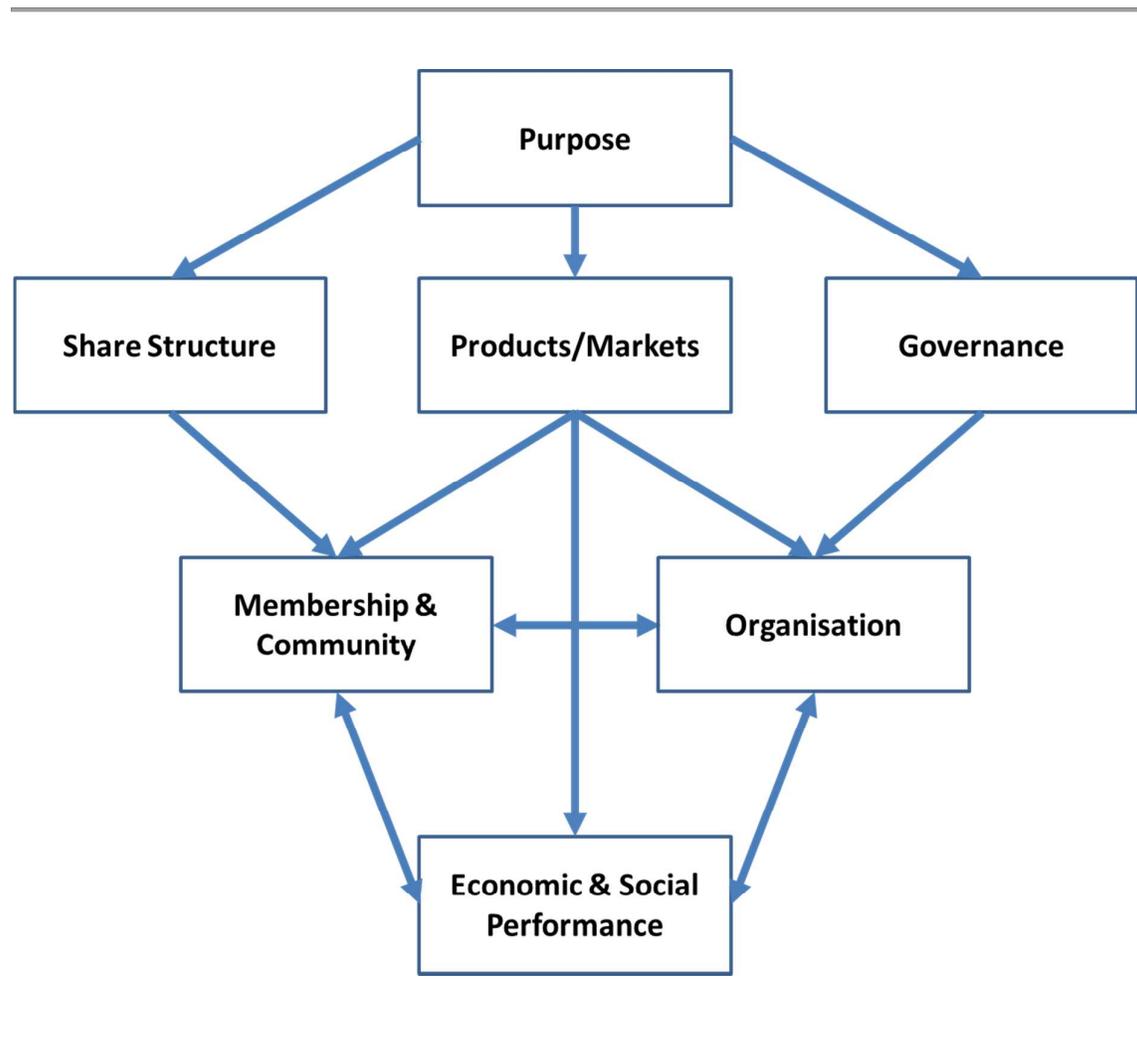


Table 3: Co-operative Enterprise Business Model Foundations

Elements	Components	Description
Purpose	Mission	What is the co-operative's over-riding strategic reason for existing?
	Constitution	How are the co-operative's mission and principles embedded within the Constitution
	Members	Who are the members of the co-operative and what is the value proposition for members (MVP) – as patrons, owners, investors and community members?
Share Structure	Type of co-operative	Is the co-operative distributing and if so what should its share capital structure be? Is the co-operative non-distributing and if so will it have share capital and what structure will this have?
	Share ownership rights	Will the share capital be restricted to members only? Will the share capital accumulation be linked to patronage? Will share capital ownership confer any special voting privileges?
	Share redemption and transfer rights	Will the share capital be redeemable? Will the share capital be transferrable? Will the share capital be redeemable by repurchase by the co-operative or via transfer to other members? Will the share capital be transferrable and redeemable to non-members? How will the share capital of the co-operative be dealt with upon wind up of the business?
	Convertibility of share capital	Will the share capital be convertible to publicly tradable stock?
	Dividend and share capital valuation	What will be the policy for distribution of surplus profits to members via dividends? Will the share capital accumulate value over time and if so how will this valuation be undertaken?
Product/Markets	Products/Services for members	What is the co-operative's product/service portfolio?
	Positioning	How are the co-operative's products/services <i>priced</i> for members, and if appropriate, for others? What <i>channels</i> are used to provide the co-operative's products/services? How are the co-operative's products/services <i>differentiated</i> from other providers?
Governance	Board structure	What is the size and composition of the Board of Directors? How are the co-operative's members represented on the Board? What will be the mix of "member-directors" and "non-member directors"? Will "non-member directors" have full voting rights?
	Relationship between board and executive	What are the divisions of responsibility between the board and the executive and how are they defined in policy and regulations?
	Relationship between board and members	What are the linkages between the board and the members and how are the interests of members reflected in the selection and training of board members?
Membership & Community	Membership structure	Is membership open and closed? How heterogeneous or homogenous are members? Are all members equal in terms of share ownership rights? Will the co-operative have 'active' and 'non-active' members and will 'non-active' members have voting rights?
	Strategic Partnerships	Who are the co-operative's key strategic partners and how

	& Alliances	do they contribute to the co-operative's value creation processes?
	Member Communications	What are the communication strategies, processes and channels to enable member participation and engagement?
	Stakeholder Connections	Who are the co-operative's key stakeholders and how are they connected to the co-operative?
Organisation	Structure	How is the co-operative structured to provide products/services for members? What is the size and composition of the co-operative's executive leadership team?
	Processes	How effective are the co-operative's strategic and operational activities? What process is adopted to develop and revise the co-operative's strategy? How do the HR processes reflect the co-operative's purpose and values? How do the marketing and communication processes reflect the co-operative's purpose and values? How do the operational processes reflect the co-operative's purpose and values?
	Resources & Capabilities	What are the co-operative's key tangible and intangible resources and capabilities? How are the co-operative's financial resources managed and allocated for short and long term benefits for members? How effectively are the co-operative's physical resources utilised to create value for members? How is the co-operative's social capital created and increased? How is the co-operative's intellectual capital created and increased?
Economic & Social Performance	Member Value	How effectively does the co-operative deliver on the member value proposition?
	Financial Returns	What are the overall financial returns from the co-operative's activities, to members via: i) patronage; ii) rebates; iii) dividends; iv) share capital yield?
	Economic Capital	What are the overall economic benefits from the co-operative's activities (e.g. employment creation, investment in economic infrastructure, taxation payments)?
	Social Capital	What are the overall social benefits from the co-operative's activities: i) to members; ii) to the broader community?
	Comparative Benchmarks	How does the co-operative's performance compare with strategic goals, competitors and industry leaders?

Source: Adapted from Authors, 2014; 2011; Teece, 2010; Johnson et al., 2008; Osterwalder et al, 2005

Table 4: Co-operative Enterprise Business Model Components – LIC Purpose

Components	
Mission	“to help farmers become more productive and profitable through superior dairy cow performance, information and technology that make it easier to farm”
Constitution	The mission and co-operative principles are specified in LIC’s constitution in two sections (1) Principal Activities and (2) Co-operative Principles
Members	10,300 New Zealand dairy farm owners or sharemilkers (95% of NZ dairy farmers). <i>MVP</i> includes products/services which improve productivity and profitability of dairy farms, increasing value of the co-operative reflects in increased share price and dividends, and increasing value of their farm businesses; plus voting rights and participation in new product development; connectivity to the co-operative via communications and activities.

Table 5: Co-operative Enterprise Business Model Components – LIC Share Structure

Components	
Co-operative Type	LIC is a trading (distributing) co-operative and has had a dual share structure since 2004.
Share Ownership Rights	Share capital is restricted to members only. <i>Co-operative Control Shares</i> are the voting shares issued to NZ dairy farmers who sell milk to a licensed milk processor in NZ and purchase at least \$500 worth of LIC qualifying goods. These shares are allocated at the end of each dairy season and equal 4% of money spent on qualifying products and services during the season.
Share Redemption Rights	<i>Investment Shares</i> are the non-voting shares. Since 2008, ownership of these shares has been optional with a maximum of 5% of the total <i>Investment Shares</i> allowed per shareholder. As these shares are listed on the Alternative New Zealand Stock Exchange (NZAX), their price is set at market value – \$4.90 on 24 July 2012 (at the time of the case analysis; \$7.25 on 12 July 2014). Farmers leaving the industry have 2 years to sell their <i>Investment Shares</i> .
Convertibility of Share Capital	Shares are not available for non-members.
Dividend and Share Capital Valuation	Surplus profits are distributed as dividends to members or reinvested in the co-operative.

Table 6: Co-operative Enterprise Business Model Components – LIC Product/Markets

Components	
Products/Services	<i>Portfolio</i> : offers members an integrated range of specialist, high technology products and services from herd testing and milk analysis, to artificial breeding, animal health, farm advisory, herd recording, DNA analysis, farm automation and farm mapping systems. Farmers use combinations of tools from this portfolio to improve their herds’ and farm performance. LIC also sells genetics products to international clients in 15 countries.
Positioning	<i>Pricing</i> : fair prices to members set at commercial rates since 2002 <i>Channels</i> : members have access to the various products via online and print catalogues, customer relationships managers, on farm demonstrations, and service delivery (e.g. for herd testing and artificial insemination) <i>Differentiation</i> : LIC’s products are developed in-house based upon world-leading R&D programmes in genetics, genomics and farm technology tools. Long term investment in science and research provides a product pipeline and a science pipeline that are longer than those of other companies.

Table 7: Co-operative Enterprise Business Model Components – LIC Governance

Components	
Board Structure	<i>Board size:</i> ten directors <i>Board composition:</i> seven farmers elected from four regions (active farmers using LIC's products/services – including at least one of the herd testing options and submitting at least 60% of their herd for artificial breeding with semen marketed by the co-operative) and three independent directors with skills to complement the other Board members.
Board-Executive Relationships	The Board's focus is on the performance of the company and it has all the powers to manage, direct and supervise the management, business and affairs of the company, except to the extent that the Constitution or Dairy Industry Restructuring Act 2001 requires the powers to lie elsewhere.
Board-Member Relationships	The elected farmer Directors serve a four-year term with elections held on a rotational basis. Farmers are also represented on the Stakeholder Council – with one elected representative for each of the 21 wards nationwide. Councillors are required to meet the same criteria as Directors and they serve four-year terms by rotation. The Council's role is defined in the Constitution and developed further in a vision statement to ensure it adds value to the co-operative.

Table 8: Co-operative Enterprise Business Model Components - LIC Membership & Communities

Components	
Membership Structure	<i>Membership</i> is open to New Zealand dairy farmers and sharemilkers. Voting shares are linked to patronage which reflects the trading nature of this co-operative. There are no non-active members. Members are not required to own non-voting shares and these are restricted to a 5% limit for any individual shareholder.
Strategic Partnerships	<i>Key Partners:</i> LIC works on joint research projects with others to deliver new systems and technology for the dairy industry. For example, shared investment in a joint venture with a Fonterra subsidiary in genomics (BoviQuest), strategic collaborations with Dairy NZ, and long standing scientific collaborations with the University of Liege (Belgium) in genomics. Such strategic alliances and partnerships provide scale or bring together complementary skills for a specific project. LIC has the expertise and track record needed for its core business areas to be developed without outside partnerships or alliances.
Member Communications	<i>Communications:</i> LIC has an inclusive approach to communication with members, sharing information in a range of formats to keep members up to speed on the co-operatives' activities and new developments. Communications include historical profiles of specific achievements which include stories from the key people and farmers who have piloted or contributed to new developments. Farm discussion groups and innovation days are also used to show how new and improved products work and integrate with other LIC products. LIC provides performance data to assist with decision making on farm as part of the core products/services. All of these activities encourage participation and engagement with the co-operative.
Stakeholder Connections	<i>Key Stakeholders:</i> LIC's community of staff and shareholders have networks and connections to all of the key players in the dairy industry.

Table 9: Co-operative Enterprise Business Model Components – LIC Organisation

Components	
Structure	The CEO at LIC works with an executive team including nine General Managers, a Chief Operating Officer and a Communications Manager. Each GM has a set of direct reports who in turn have teams of staff focused on their particular areas of responsibility. The structure is relatively flat for an organisation with 699 permanent staff which includes scientists, technicians, analysts, engineers, managers, customer relationship managers and administrators. In addition, up to 1600 seasonal contractors deliver LIC's artificial breeding and herd testing services.

Processes	<p><i>Effectiveness:</i> The strategy and operational processes are all targeting the MVP and incorporate the co-operative principles and values from LIC's mission and constitution; this ensures that they are focussed and effective.</p> <p><i>Strategy process:</i> LIC has formal strategy process led by the CEO which includes a structured strategy refresh process every 5-6 years with the Board, Shareholder Council, staff and members. Strategy is executed via an annual strategy planning process in which every business group prepares their 'strategy on a page' connecting their activities to the corporate strategy. The strategy cascades down from there to annual tactical plans and budgets.</p> <p><i>HR processes:</i> HR practices for recruitment, induction, staff development, performance management and reward systems reflect LIC's values and include a strong commitment to being customer-driven and cost effective.</p> <p><i>Marketing:</i> LIC's marketing utilises their logo and brand values; 9 regional managers and 75 customer relationship managers who work with members.</p> <p><i>Communications:</i> Strategic communications are designed to enable sharing of information across the co-operative in either 'big picture' or 'precise detail' formats to cater for the range of people involved. Team newsletters, short briefings, community events, historical profiles published on key people, animals and activities; plus emails, website, and social media (Facebook and Twitter) are all used to reflect LIC's values, record achievements, create a sense of community and pride in accomplishments, and provide profile externally with business, industry, government etc.</p> <p><i>Operational processes:</i> Other key operational processes include R&D, software development, farm management, herd testing etc. which are targeting improved productivity and profitability for farmer members.</p>
Resources & capabilities	<p><i>Tangible:</i> LIC's tangible resources and capabilities include physical assets, technological assets, and the integrated animal database; plus effective delivery of herd testing and artificial breeding services.</p> <p><i>Intangibles:</i> LIC's intangible resources and capabilities include R&D expertise in genetics, genomics, and farm technology tools; culture, commitment and loyalty from members and staff; reputation for quality and adding value to farm productivity and profitability; processes which align with the mission and values of the co-operative.</p> <p><i>Financial management:</i> LIC's financial resources are carefully managed and monitored to ensure targets and KPIs are met; yet decision making also reflects the value creation potential for the co-operative in the long term. For example, LIC invests up to 25% of revenue on R&D each year to provide new and improved products and services for members.</p> <p><i>Physical resources:</i> The effectiveness of physical resources for creating value for members is considered as part of the annual budgeting and reporting process. This includes reviewing the farms which LIC owns for developing, trialling and showcasing new products, as well as operating as a commercial farm.</p> <p><i>Social capital:</i> LIC develops social capital by facilitating communications and activities for members and staff which encourage and develop a sense of community and wellbeing. This includes opportunities to meet, share ideas, and create connections with other co-operative members and community members.</p> <p><i>Intellectual capital:</i> LIC has invested in R&D to improve animal breeding, to increase the number of inseminations from top bulls, to improve the conception rates in cows, to monitor milk quality and provide information for farm management decisions (via software products). These investments in science and technology are aimed to target improvements for the farmer members of the co-operative and not just 'science for science's sake'.</p>

Table 10: Co-operative Enterprise Business Model Components – LIC Economic & Social Performance

Components	
Member Value	<p><i>MVP:</i> LIC delivers on the MVP by providing a portfolio of innovative products and services which increase the productivity and profitability of their members' dairy farms. In addition, by running the co-operative successfully from a commercial perspective, LIC increases the value of the co-operative – which in turn increases the</p>

	share price, provides for dividend payments and enables LIC to continue to invest in new innovations: “Every dollar of revenue collected by LIC is either re-invested in the business or paid back to New Zealand dairy farmers as dividends”. MVP is also created by the democratic processes which enable members to exercise their voting rights, participate in new projects and contribute to social and community events.
Financial Returns	<p><i>Revenue:</i> 48% increase in revenue from 2007-2011 to \$166M</p> <p><i>Profitability:</i> NPAT averaged 19.1% over the 5 years 2007-2011 – in spite of industry volatility and the global financial crisis.</p> <p>Return on capital was 9.52% in 2011.</p> <p>LIC’s share value had increased 219% to \$4.85, since listing in 2004.</p>
Economic Capital	<p><i>Economic benefits:</i> LIC pays tax at the standard corporate rate (30% in 2011 \$8.3M; 28% from 2012). The co-operative provides employment for 699 people, as well as another 1600 seasonal contractors. To illustrate LIC’s contributions to the NZ dairy industry and economy, one of LIC’s innovations called the ‘Sire Proving Scheme’ had generated \$17B for the NZ economy by 2011.</p>
Social Capital	<p><i>Social benefits:</i> LIC creates social benefits by providing activities for members and staff to interact as a community albeit spread throughout the country; also by providing employment, LIC supports families and their local communities.</p>
Comparative Benchmarks	<p><i>Strategic goals:</i> LIC’s strategy provides direction and ensures the co-operative principles in the constitution are embedded in the co-operative’s processes and practices. Having the mission and MVP front of mind for strategic and operational decisions ensures that the co-operative achieves its strategic goals.</p> <p><i>Competitors:</i> With 95% of the NZ market, LIC is the market leader in NZ; an international competitor has entered the market with what looks to be a very similar (imitation) product portfolio.</p> <p><i>Industry leaders:</i> LIC’s investment in R&D sets the co-operative apart as its world-leading science program is funded by members, rather than from government research funding. As an agricultural co-operative, LIC stands out for sticking to the co-operative principles, whereas other co-operatives have moved to a more corporate approach as they have increase in size and complexity. LIC has had a ‘staircase’ of innovations over time; one of the early innovations to identify and breed elite bulls has subsequently sired three out of four dairy cows in NZ.</p>