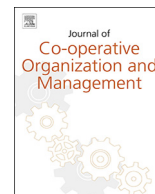




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The member wears Four Hats: A member identification framework for co-operative enterprises

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ABSTRACT

Co-operative and mutual enterprises (CMEs) are organisations in which buyers or suppliers are also the owners, shareholders and members of a community of purpose. Member heterogeneity and commitment have been reported in the literature, but the drivers of member commitment remain poorly understood. This paper proposes that members identify with their CME as patrons, investors, owners, and community members; wearing “Four Hats” (4Hs). A case study analysis of three Australian producer co-operatives examined directors and managers perceptions of factors influencing members’ commitment and delivery of a member value proposition. The 4Hs emerge as stable patterns and the cross-case analysis illustrates their strategic importance and link to member value proposition.

1. Introduction

This paper examines the nature of member commitment and loyalty in co-operative and mutual enterprises (CMEs). It reviews the conceptual and theoretical foundations of CME member commitment and draws on interviews with directors and senior managers of three large Australian producer-owned co-operatives. Data analysis was undertaken using the *Leximancer* text analytic software, which can analyse text and identify, in a grounded manner, the main concepts that lie within and suggest how they relate to each other (Smith & Humphreys, 2006). The primary research question guiding the study was: *What do directors and managers see as the factors influencing members’ commitment to co-operative and mutual enterprises?*

Prior literature relating to CME member loyalty has been prominent in agricultural economics where it has concentrated on the often-competing roles of patron and investor (Nilsson, 2001). We re-define the roles of patron and investor and include two additional member roles, those of “owner” and “member of a community of purpose”. This is developed into a conceptual framework described as the “Four Hats” (4Hs). The paper fills an important gap in the literature by recognising the importance of purpose and commitment in CME member engagement. The paper begins with an initial introduction to CMEs, after which there is a discussion of member commitment. The study’s methodology, analysis, discussion and conclusions are then outlined, as are some implications for future research and managerial practice.

2. Literature review

CMEs have a unique ownership structure that impacts on their governance, operation and management systems. At a global level, CMEs are significant contributors to the world’s economy. There are around 2.6 million co-operatives in the world that generate US \$2.2 trillion in annual turnover, provide employment for an estimated 250 million people, and services for about 1 billion members (ICA, 2017). This is comparable to the GDP of the world’s ninth largest economy (ICA, 2011). CMEs trade with their members to maximise members’ benefits, whereas investor-owned firms (IOF) aim to maximise profit or shareholder return. CMEs can be consumer or producer owned (Birchall, 2010) or a combination of both. Mutual enterprises are generally found in the financial services sector (e.g. insurance, banking), while co-operatives can be found in a wide range of industries, such as agriculture, energy, housing, education and retail.

2.1. Challenges in aligning Member Value Proposition with CME purpose

A key feature of CMEs is that they are usually founded for a specific purpose, which often focuses on social and economic objectives (Novkovic, 2008). This poses a challenge for CME managers and directors, as it requires a careful balancing act between the two, often competing, goals (Novkovic, 2014). This dual role or “symbiosis” creates a situation in which a CME is often positioned mid-way between the IOF and not-for profit (NFP) social enterprise sectors, but does not

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fit into either sector (Levi & Davis, 2008). Further, it is common for CMEs to be created with a business objective, but for them to drift towards a social focus, which can become dominant as the enterprise matures (Palmer, Barrett, & Ponsonby, 2000). This purpose can shape the nature of the interactions between a CME and its members. Further, the ability of the board and management to fully engage with the membership so as to strengthen loyalty and commitment, is likely to depend on how well they can align the CME's identity with the roles and values of its members (Nelson et al., 2016).

CMEs also face challenges in creating a common sense of purpose for members that have differing and, at times, competing needs (Battilani & Schröter, 2012, Chapter 1). While the unique relationship CMEs have with their members as customers and owners of the organisation is a key competitive advantage and a major reason for their resilience (Briscoe & Ward, 2000; Jussila, Byrne, & Tuominen, 2012), it can also introduce significant challenges. These challenges have been attributed to the nature of residual claims and vaguely defined property rights in relation to share capital (Chaddad & Cook, 2004; Chaddad & Iliopoulos, 2013; Nilsson, 1999, 2001; Vitaliano, 1983). Tensions between members' roles as patrons and investors can, if not appropriately managed, lead to a serious degeneration of the CME's mutuality and place it at risk (Nilsson, 2001).

Another important attribute of any business model design is an ability to identify a “customer value proposition” (CVP) (Anderson, Narus, & Van Rossum, 2006; Johnson, Christensen, & Kagermann, 2008; Osterwalder & Pigneur, 2010; Wirtz, Göttel, & Daiser, 2016). This is a clear focus on the way in which the business model delivers value to customers and in a sustainable manner. It is not just about price competition, but an ability to bundle a combination of product or service attributes so as to deliver value to customers in a manner they perceive to be important. The CVP must not only solve important problems or fulfil key needs for target customers, it must also offer a relationship that binds these customers to the business (Johnson et al., 2008).

This also applies to a CME business model, where a critical element is its ability to develop and deliver a clear *Member Value Proposition* (MVP) that is in line with the CME's purpose, resonates with members and is sustainable (Mazzarol, Simmons, & Mamouni Limnios, 2014). As noted by Talonen, Jusilla, Saarijärvi, and Rintamäki (2016), the perception of value amongst co-operative members is a similar process to that of customers in investor owned firms. Further, the perception of value must be determined by the member or beneficiary (Vargo & Lusch, 2008) and is associated with utilitarian (i.e. function and financial dimensions), and hedonic factors (i.e. emotional and social dimensions) (Talonen et al., 2016). As such, the MVP offered to CME members should not necessarily be founded exclusively on financial and functional dimensions. While price, investment returns and the quality or efficiency of service are important, member engagement with and loyalty to a CME may depend on factors that drive emotional and affective commitment.

Over its lifecycle, the resilience and sustainability of a CME may be influenced by many things, such as governance, organisational efficiency, economic performance and access to financing (see: Bijman & Van Bekkum, 2005; Hendrikse & Bijman, 2002; Plunkett, Chaddad, & Cook, 2010; Rebelo, Caldas, & Teixeira, 2002; Van Bekkum & Bijman, 2006). However, most of the research examining these issues has primarily focused on the interplay between members' patron and investor roles, and the tensions this can create if poorly managed (Nilsson,

2001). In particular how evolution of a CME is likely to involve increased heterogeneity in its membership base which exacerbates the “generic” problems that beset the co-operative business model, as members' commitment to the business and its purpose are affected by conflicting issues over patronage and investment motivations (Cook, 1995; Nilsson, 2001). To address these problems the CME's management and directors must respond with appropriate strategies to address control, governance and distribution rights issues (Cook, 1995; Cook & Chaddad, 2004). What has been largely ignored is the important role of purpose, the impact of a clearly defined and communicated member value proposition and the sense of ownership that comes from sharing a common identity within a community of purpose (Nelson et al., 2016).

Recognition should be given to the three “foundational pillars” upon which most CMEs are established. The first relates to purpose (why was it established?), the second to its ability to engage the commitment of members (why join and remain?) and the last to the organisation's ability to compete with IOFs (financial and functional value) (Van Oorschot, de Hoog, van der Steen, & van Twist, 2013). In the development of an effective and sustainable MVP, the directors and managers of a CME should widen their focus from the financial and functional dimensions of member value and include those relating to emotional and experiential value dimensions that evoke affective commitment (Allen & Meyer, 1990a, 1990b), as well as symbolic or social value (Talonen et al., 2016; Sweeney & Soutar, 2001).

2.2. Member commitment

Member commitment in social organisations can be separated into continuance (commitment to participating in the system and continuing one's membership), control commitment (commitment of members to uphold norms and obey the authority of the group) and cohesion commitment (commitment to group solidarity, to a set of social relationships) (Kanter, 1968). Empirical studies of members' commitment, participation, satisfaction, loyalty and other behavioural elements are primarily qualitative or case-study based. Most quantitative studies have focused on producer-owned or consumer-owned CMEs. Most common are studies of producer and marketing agricultural co-operatives, as a whole or in a single sector, such as dairy, grain, animal, wine, or fruit and vegetable (Fulton & Adamowicz, 1993; Bijman & Verhees, 2011; Österberg & Nilsson, 2009, Trechter, King, & Walsh, 2002). Empirical studies of consumer CMEs have examined credit unions (Byrne & McCarthy, 2005, 2014) and have applied *Mutual Incentives Theory* (Birchall, 2010; Birchall & Simmons, 2004) to understand members' motivations.

The importance of the emotional aspects of the relationship between the CME and its members, specifically the CME's adherence to the co-operative principles of: i) voluntary and open membership; ii) democratic governance; iii) member economic engagement; iv) autonomy and independence; v) education, training and information; vi) co-operation amongst co-operatives, and vii) concern for the community have been highlighted (Oczkowski, Krivokapic-Skoko, & Plummer, 2013). Also of importance is the role of “affective commitment”, which is a measure of a member's sense of belonging and emotional commitment to the CME (Allen & Meyer, 1990a, 1990b). This has been identified as a key factor in alleviating the “generic” problems challenging CMEs (Jussila et al., 2012).

This is not surprising, as the separation of individual and collective

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