



ISSN 2278 – 0211 (Online)

Similarities and Differences between Social Venturing Co-operative Entrepreneurship Business [SVCE-bm] Model and New Generation Co-operative Business Model [NGC-bm]

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Abstract:

The innovations in the New Generation Co-operative business model (NGC-bm) have effectively ameliorated the traditional co-operative business model headache. Having started in United States of America, the NGC-bm has been adopted with minor variations in many developed countries such as Canada and many European countries. The application of NGC-bm in agribusiness has brought about the desired social-economic benefits to co-op members and the business model has proved to be just effective as the investor owned firms.

However, by unveiling similarities and differences between NGC-bm and social venturing and co-operative entrepreneurship business model, the paper argues that SVCE-bm unlike the NGC-bm is best suited for developing countries like Zambia that are characterized by adverse economic and social challenges affecting smallholder farmers and weak institutional framework. SVCE-bm is in its infancy but gives hope as an alternative business model to the traditional models that are based solely on main stream economic theories, the classic and neo-classic theories, to accelerate socio-economic development of agribusinesses in developing countries.

The paper starts with the introduction, the theoretical framework and methodology. It then looks at the traditional co-operative business model (TC-bm) weaknesses and proceeds to look at how NGC-bm has ameliorated the TC-bm weaknesses and further compares the NGC-bm with SVCE-bm.

1. Introduction

The development of Zambian agribusiness, especially peri-urban and rural areas require a new innovative business model. The traditional co-operative business model that Zambia adopted since independence in 1964, has failed to bring tangible economic development. Even the investor owned firms (IOFs) business models have failed to bring inclusive economic development for the majority subsistence dwellers. Only a small sector of the population, the urban elite have benefited from the economic boom the country experiences; several mining, textiles, manufacturing, construction conglomerates have come, and others have come and gone, without leaving much sustainable development for the locals. Lolojin (2009, piv), Africa Economic Outlook (2012, p11), USAID/ZAMBIA (2011-2013, p3), Mwitwa and Kabemba (2007, p13), Seshamini and Simeo's (2005, p6-9), Brooks (2010, p113-116), Sherpa et al (2009, p1-16), and Mwambwa et al (2010), research findings attest to the above claims.

However, the co-operative business model, especially the New Generation Co-operative (NGC) business model has been successful in many other parts of the world as a tool for economic development for agribusiness, Birchall & Ketilson (2009, p2), Skurnik & Vihriälä (2002, p103-124), and Nilsson (1997).

The NGC business model was first used in the USA upper Midwest in the early 1970s, but the organizational form became popular in the early- to mid-1990s for producers interested in collectively adding value to their commodities and has been adopted and adapted in other parts of the world, especially European countries, Iliopoulos (2005, p1), Lockart (1967), and Ollila & Nilsson (1997), and Nilsson & Gert van Dijk (1997, p94-109).

In Africa, particularly in Zambia, Social Venturing Co-operative Entrepreneurship business model (SVCE-bm) is proposed and not New Generation Co-operative business model (NGC-bm) as a tool for inclusive economic development for agribusiness along the value chain.

The objective for undertaking this study is to delineate the salient features of NGC-bm and SVCE-bm and justify why SVCE-bm is a better model for agribusiness firms in agricultural value chain for developing country like Zambia to adoption and adaptation to

specific economic and socio-cultural environment. The thrust for the study is to justify SVCE-bm and not NGC-bm as a better option for adoption and adaptation to Zambian local environment.

The paper proceeds with methodology, the traditional co-operative business model (TC-bm) perspective of why it has failed and then proceeds to look at the NGC-bm structure and the SVCE-bm envisaged structure and finally compare the two.

2. Theoretical Framework

The theories relevant to understanding the historical and current developments in traditional co-operatives, NGC and well as SVCE-bm is new institutional economics (NIE) and its varying brands such as transaction cost, evolutionary economics, historical institutionalism, ethnomethodology, organizational culture and identity, of which, put together is seen as part of a larger fabric (Scott and Meyer, 1994; Scott 1995, 2001).

North C. Douglass contends that NIE differs from mainstream neo-economical economics. It builds on, modifies and extends neo-classical theory to permit it to come to grips and deal with an entire range of issues. It retains and builds on the fundamental assumption of scarcity approach and hence competition which is the basis of the choice theoretical approach that underlies macro-economics. It abandons instrumental rationality, the assumption of neoclassical economics that made it an institution-free theory.

Major strides in specifying how markets and organizations define, and then function with, property rights, what they call mechanisms of governance, is a major thrust in the new institutionalist school of thought, especially associated with the work of Williamson (1975, 1985). These theories shed light on the common inherent problems of co-operative form of organization, namely free-rider, horizon, portfolio, control and influence cost problems caused by vaguely defined property rights. An analysis of the future of co-operatives in general, based on a NIE approach, suggests a life cycle for co-operatives (formation, growth, reorganization or exit) as they adapt to a changing economic environment characterized by technological change, industrialization of agriculture and growing individualism. This is a departure from traditional economic analysis theories such as classical and neoclassical that locates the existence of profit as primarily a function of market structure. Working with this assumption, economists traditionally tended to neglect the internal structure of incentives in organizations (Shoemaker, 1990).

The NIE also helps to explain the bases of organizational similarity and differentiation, the relationship between structure and behaviour, the role of symbols in social life and the relationship between ideas and interest which is important in understanding SVCE-bm as it relates and departs from the existing NGC-bm and the TC-bm.

One of the advantages of applying a new institutionalist approach to agricultural cooperatives, or business firms in general, is organizational strategy understanding. Sporleder (1992), applied this method of analysis in understanding trends of vertical coordination and strategic alliances in agriculture and is vital in SBCE-bm. Cook 1995, contends that property rights are a critical instrument for enabling co-operatives to be sustainable, producer controlled businesses. In his view, by first accomplishing internal stability with adequately defined property rights, co-operatives can then carry out a role in improving market performance or in his words, "correcting market failures".

Agricultural producers are often confounded with asset fixity or specificity problem that may render them vulnerable to opportunistic behaviour by product purchasing firms. Williamson and other economists using a new institutionalist approach have identified this type of vulnerability as a rationale for vertical integration (Williamson, 1971). It is apparent that SVCE-bm mitigates this type of potential market failure.

The SVCE-bm should be seen as an integral part of the economic organization of agriculture that enables farm operators to enhance their status as entrepreneurs through vertical collective action. It aims to harmonize transactions and in so doing, lower transaction costs reducing the margin between the farm and retail prices. This joint action is necessary for farmers to accomplish vertical integration because of disparities between the minimum efficient scale of operation in farming in relation to the upstream and downstream industries (Sexton, 1995). Farm operators are able to better deal with market power of processors by using vertical integration through social venturing co-operatives and provide direct economic benefits to them.

Modern organization structures are a product not only of coordinative demands imposed by complex technologies but also of rationalized norms legitimizing adoption of appropriate structural models. These can be viewed as two quasi-independent sources of structures, in the absence of which, organizing efforts are crippled (Scott and Meyer 1983). Scott (2004, p15) argued that technical forces primarily shape the "core" functions, including work units and coordinative arrangements, while institutional forces shape the more "peripheral" structures, such as managerial and governance systems.

3. Research approach

The study was undertaken using desk research or sometimes known as secondary research. A review of findings of prior and current studies in order to elicit the embedded structures on TC-bm, NGC-bm, and SVCE-bm was done. The internet search engines were used to locate useful, published information, academic papers or journals. Academic library were also used to locate published books. The business dictionary defines desk research as gathering and analysing information, already available in print or published on the internet.

The reports, journals, papers of re-known academicians, researchers, writers, publishers or gurus in co-operative enterprise were targeted in order to demonstrate useful sampling designs that allow more precise and comprehensive data about the existing TC, NGC and SVCE business models.

4. Traditional Co-operative Business Model

4.1. Introduction

The co-operative enterprise is one of the oldest and most enduring forms of business although they are largely overlooked within mainstream economics and management theory. 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. In this section, the features of the TC-bm are examined in order to shed light on its weaknesses. This will help us to see how the NGC-bm and the proposed SVCE-bm incorporates new innovations that mitigate TC-bm challenges but still return its fundamental principles.

4.2. The nature of TC

A traditional co-operative (TC) is generally described as a business that is organized, owned and democratically controlled by the people who use its products and services, and whose earnings are distributed on the basis of use of the co-operative rather than level of investment. A distinct feature of a co-operative organization is that the role of owner and patron or user is closely connected. A patron or user refers to a person who conducts business with the co-operative. A co-operative is distinct because there is a linkage between the ownership and the users of the business. A member is an individual who owns the co-operative and who is also a user of the co-operative in some way. 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), contends Mazzarol et al. (2011, p4). The sustainability of the co-op can depend on how well it satisfies these dual and often competing demands from its membership (Nilsson 2001).

The TC-bm has been an institutional framework of collective entrepreneurship for user-owned, user-controlled, and user-benefited agricultural businesses that has helped farmers around the world for more than a century; Iliopoulos (2005) quotes Lockart (1967); (Birchall & Ketilson, 2009 p10; Zeuli & Cropp, 1980). With the 21st century new demands of global economy, the TC-bm was found to be ineffective in exploiting market opportunities due to its inherent investment, and collective decision-making constraints. The investment constraints being the free rider, the horizon, and the portfolio problems; while the collective decision-making problems refers to the control and influence costs problems, Cook (1995 & 1997 p77-91) and Harte (1997 p31-41). These five problems constitute **property rights constraints** arising from the adoption of co-operative principles where residual claims are restricted to agent group that supplies patronage under the organization’s nexus of contracts – the member-patrons and whose board of directors is elected by the same group (Vitaliano, (1983). The property rights problems are presented in Table 1 below:

TCs business model property rights constraints		
Investment constraint	Free rider	Free riding problem arise when 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 (property rights) to be traded and for members to hold equal voting rights regardless of their patronage (Cook 1995). Cooperative property rights are not well suited and enforced to ensure that current member-patrons, or current non-member-patrons, bear the full costs of their actions and/or receive the full benefits they create. This is typical to open membership co-operatives.
	Horizon	Horizon problem arise when 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). In a TC-bm, members may have little incentive to support long term investments that will pay off after they retire. This problem is caused by restrictions on transferability of residual claimant rights and the restricted liquidity through a secondary market for the transfer of such rights. The horizon problem creates an investment environment in which there is a disincentive for members to contribute to growth opportunities. This problem is particularly severe with respect to investment in research and development, advertisement and other intangible assets.
	Portfolio problem	Portfolio problem 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 asset portfolio to their personal level of risk (Cook 1995). In TC-bm, the investment decision is “tied” to the patronage decision and thus, from an investment point of view, members hold suboptimal portfolios. As a result, members attempt to encourage co-operative decision-makers to rearrange the co-operatives investment portfolio even if the reduced risk means lower expected returns. Also, contends Harte (1997,p40) by excluding outside investors in a TC-bm, members are forced in aggregate to bear risks that outside investors could diversify. And thus it is predicted that members will require higher returns on their investment or will be reluctant to invest than shareholders in IOFs.

Collective decision-making constraint	Control problem	<p>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. Objectives and interests of managers (agent) and shareholders (principal) do not always coincide; as such, ‘principal-agent’ problem arise in every organization where managers (agent) conduct business on behalf of members (principals) and is considered to be more severe in TC-bm because of lack of freedom to transfer shares between members and absence of range of equity-based management incentive mechanisms available to IOFs.</p> <p>Lack of freedom to concentrate claims in the hands of few shareholders, dilutes the incentive to take difficult decisions. In a TC-bm, only a very small proportion of the gains or losses from decisions can be captured by an individual member. Accordingly, members, managers, even boards of directors have a low incentive to innovate or take unpalatable decisions such as disciplining management or initiating management change. For this reason TC-bm are regarded as poor innovators and likely to have difficulty in complex and dynamic business environments. TC-bm is regarded also as an ineffective organization form for new business entry because it fails to enter into new areas of activity even with significant head starts in the form of government support and grant aid.</p> <p>In TC-bm, no share ownership and share option schemes are present to compensate and motivate management. Similarly, since share transfer is inhibited and there is no market in the shares TC-bm does not have incentive mechanism for management and therefore makes it difficult to attract and return good management in a competitive labour market.</p> <p>The absence of market in shares is a control deficiency that deprives members to objectively monitor the value of co-operative and adds difficulty in evaluating the management performance.</p>
	Influence	<p>The influence cost problem is cause by the co-op’s strategic focus becoming fuzzy as it seeks to balance the returns to the enterprise and the members. In TC-bm, members attempt to influence collective decision-making to their own advantage. As shares in most co-operatives are neither transferable nor tradable, members that cannot exit the co-operative are left with only the voice option (Hirschman, 1970). Especially if the co-operative is engaged in a wide range of activities, influence activities complicate collective decision-making, and lead to wrong decisions or no decisions at all or dissolution.</p>

Table 1: Property rights problems

Addressing these five generic problems (property rights problem) is the key challenge facing the managers of TC-bm. 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). Similarly, Fulton (2001, p19), points out that asset specificity and relationship risk evade the TC-bmand that NGC-bm are well suited to deal with them by maintaining strong delivery rights.

In TC-bm property rights are generally not properly defined, therefore, TC-bm is associated with higher transaction costs - horizon, portfolio and control. In the absence of the need for vertical integration, TC-bm would not be an ideal form of organization, Williamson (1985, p103). Traditional agricultural co-operatives have tried to solve these problems by adopting strategies designed to minimize conflicts among their membership and generate capital for future growth. Such strategies include, among others, the creation of subsidiaries, joint ventures with other co-operatives and/or IOFs, in order to access capital; the use of marketing contracts with the members in order to mitigate the free rider problem; the implementation of base capital and proportional investment by members according to their level of patronage to address the horizon problem; proportional voting to address the control problem; and multiple pool systems to address the portfolio problem. However, many agricultural producers are responding to the changing environment by co-operating with other producers to develop value-added businesses. One common organizational form that producers are using is the New Generation Co-operative (NGC).

5. New Generation Co-operative Business Model [NGC-bm]

5.1. Introduction

The NGC-bm emerged in the United States due to the economic and social conditions in which farmers in Minnesota and North Dakota found themselves during the late 1980s and early 1990s. The TC- bm was found to be inadequate and innovations were introduced to TC-bm that culminated into various business models¹, the most prominent one being the NGC-bm. An NGC is a form of business organization that combines features of a TC with those of an investor-owned firm (IOF). An NGC is primarily involved in the value-added processing stage of an agricultural product. The NGC focuses on value-added processing and marketing as opposed to commodity production. Commodity production is the primary focus for the farmer, a member to NGC. A NGC co-operative uses delivery rights and obligations to encourage business loyalty and provides vertical integration. The important organizational feature of NGCs is the linking of producer capital contributions and product delivery rights.

¹ Mazzarol et al. (2011, p7)- Chaddad & Cook 2004 taxonomy

The NGC model requires producer agreements as well as up-front equity investments from members. NGC members, sell their commodities to their co-operatively-owned processing business. Any earnings that the NGC generates from value-added activities are then distributed back to the members in proportion to the amount of commodity they delivered to the co-operative, Johnson (1995), Egerstrom (1994), and Fulton (2001).

5.2. The NGC structure

The NGC is essentially an organizational mechanism whereby the production of the farm commodity and the production of the processed good can be carried out together, Fulton (2001, p7). It attempts to emphasis less on commodity supply but more on products supply to the market. Individual farm holder members of NGC, however, focus more on commodity production in order to meet their contractual delivery rights. The common features of NGCs discussed in this chapter shed light to the NGCs organization form or business model that are important in our later discussions with SVCE-bm.

5.2.1. Delivery rights tied to equity

In NGC, there are two types of shares; the membership and special investment shares. In most cases, each individual producer holds only one membership share, but can hold more than one special investment share. Sometimes producers are required to purchase a minimum amount of special investment shares to be considered for membership in the NGC. Voting rights are attached to membership in the co-operative, and therefore each producer only has one vote in the co-operatives affairs, regardless of how many special investment shares he may hold. This is consistent with the democratic principle of one member, one vote that characterizes most co-operatives. The cost of a membership share is normally a nominal amount. The special investment shares sometimes known as delivery rights shares convey delivery rights and obligations. In the case of an NGC that processes livestock, the share may give the producer the right and obligation to deliver one animal to the co-operative every year. Because delivery rights are tied to special investment shares, they ensure that members provide up-front equity capital to the NGC that is proportional to their level of use of the co-operative. If a co-operative generates patronage fund, it is distributed to members according to the level of product delivered to the NGC, Harris et al.(1996, p16).

Members receive two streams of income from the NGC during the year; they are paid a determined amount for the commodity they deliver to the firm. At the end of the year, they also receive a portion of any value-added processing returns that the co-operative has generated throughout the year.

Delivery rights shares obligate the producer-members to deliver product each year to the co-operative, and in turn they obligate the co-operative to accept delivery of the product. Each member sign producer contract with NGC outlining the quality specifications and delivery methods that the member must follow. The contract also indicates the method of valuing the commodity to be delivered and how the producer is paid. It also stipulates the measures to be taken when a member fails or refuses to deliver the quality and amount of commodity specified under the agreement. Each NGC will structure producer contracts or agreements to serve their particular needs.

The total quantity of delivery rights equity shares that the NGC sells to producers depends on the processing capacity of the co-operatives operations. The co-operative only sells enough shares so that it meets its efficient capacity level. If the co-operative plans to operate a facility that has a capacity to process 75,000 tonnes of grain each year, then it will sell 75,000 equity shares. This obligates the owner to deliver one tonne of grain annually to the co-operative. In some cases, depending on changes in sales forecasts, the NGC will reserve the right to lower the amount of commodity that is to be delivered.

The price of each special investment share in an NGC is determined by dividing the total amount of equity capital that the co-operative requires to finance the business by the processing capacity of the co-operatives facilities. If the co-operative determines that it requires K20 million in equity capital to establish a 100,000 tonne annual processing operation, the price per special investment share is found by dividing K20 million by 100,000 tonnes, giving us K200. The future special investment price will be determined by market conditions – appreciate or depreciate in value.

5.2.2. Defined membership

The NGC has *close selected membership* unlike the TC which that accept new members on a continual basis. Once the targeted amount of special investment shares are sold, new members will only be allowed if an existing member wishes to sell some shares to another producer. This ensures a stable level of supply of product for the NGC. Membership changes when producers sell some of their special investment shares, but does not change the supply of product being delivered to the co-operative. The sale of shares between producers requires approval from the board of directors to ensure that shares are purchased by eligible persons.

5.2.3. Initial equity investment

Because of delivery rights, the initial equity investment required from producers is higher for a NGC than that found in TC. In U.S., between 30 and 50 percent total capital requirements in NGC is raised from the sale of delivery rights. Depending on the assessment of risks involved, lenders want to see a 40 to 50 percent member equity position for new co-operatives before they invest their moneys, while financial institutions in Canada will evaluate the NGC's potential based on its strengths and weaknesses, Patrie et al. (1998, p7).

In order to participate in the co-operatives value-added processing, producers must provide up-front capital by purchasing shares that convey delivery rights. The NGC usually sets a minimum required number of delivery rights shares that an individual producer must

purchase in order to be eligible for membership. Because the members invest a significant amount of equity and are obligated to deliver product, they tend to remain more committed and involved in a NGC than they might be in a TC.

Since the members invest a significant amount of capital up front, most of the net earnings generated are returned to members at the end of the year rather than used as retained equity financing for the business. The added value that the NGC has contributed to the members' commodity is therefore returned to the members each year. Because equity is received prior to start-up, the NGC may be able to avoid difficulties that sometimes occur when trying to raise capital. If the NGC decides to expand its operational capacity, then it issues more delivery rights shares, which provide the necessary equity financing for the expansion.

5.2.4. Equity transferability, appreciation or depreciation & delivery rights shares

In NGC, members are allowed to transfer their special investment shares to other members or other producers who wish to become members. The price of special investment shares that are sold among producers is negotiated by the producers themselves, according to the perceived market value of the shares and fluctuates according to the performance of the co-operative. The selling member would be able to realize a capital gain or loss from the appreciation or depreciation of the share value. If the buyer is not a member of NGC at the time of purchase, the purchase of shares are made conditional on becoming a member of the co-operative.

5.2.5. Business expansion

The future expansion of NGC is financed by issuing special investment shares to existing members first and then to outsiders. The issue price is determined according to the processing capacity of the expanded facilities. By issuing further delivery rights shares, the NGC is able to rely on new financing rather than retained earnings of the business to finance expansion activities, Harris A. (1998).

5.2.6. Success factors for starting NGC

The primary reason for starting up an NGC must be a compelling economic need rather than a rural development objective. If an NGC is started mainly to create jobs and tax dollars in a local economy, it likely won't last very long, Bostrom (1994). The fundamental reason for starting a business is because there is an economic need to be fulfilled in the marketplace. The key questions to ask are: Is there a customer market for the finished product? Can the NGC meet customer needs and earn a profit? Are there programs and institutions to support NGC?

The availability of supporting programs, institutions, leadership, resource, and business opportunity in a marketplace are fundamental for the success of NGC. Author M. Scott Peck in his book, "In Search of Stones," claims that the popularity of value-added NGC in North Dakota is attributed to availability of programs and supporting institutions that provided financing for feasibility studies, loans to farmers interested in investing in value-added co-operatives, the expertise of loan officers, especially Lee Estenson, numerous consultants in providing legal counsel, accounting firms familiar with co-operative accounting and tax issues and those providing business planning services were important, Patrie et al (1998, p8-12), Fulton (2001, p11).

Leadership for the NGC needs to come from within the producer group rather than from outsiders such as government consultants. Leaders (or "project champions," as they are sometimes called) are agricultural producers who will be members of the NGC. Although outside advisors such as co-operative development specialists will be needed during the formative stages, these individuals are there to contribute to rather than control the project.

Leaders need to understand the economic objective of the NGC. They should have a realistic vision of what the NGC is to accomplish. Leaders need to have the time and energy available to devote to the project. The organizing members of many of these new "value-added" co-operatives are college educated, aggressive, and young. They are not intimidated by sophisticated marketing and processing plans. Many of these farmer-investors already operate profitable farms. To them, investing in a processing co-operative is simply an extension of their current enterprise, Patrie et al. (1998, p7-8).

The NGC success is based on the availability of resources and common values, argues Patrie(p10) by quoting (Cooperrider 88, p.4). NGC are new when they are based on "appreciative inquiry²." They are based on resources already at hand, ranchers have the cattle and they have the land. They only lack the processing and marketing components. Farmers already own most of the required assets to control the food industry for their benefit. Farmers already have leaders, research institutions, networks, relationships and, more than most other economic sectors, they have time to think about their own futures. Mary Ann Rainey, in her case study in 1996 defined appreciative inquiry as: "Appreciation is a selective perceptual process which apprehends 'what is' rather than 'what isn't.' It represents a capacity to be selectively attentive to the lasting, essential, or enlivening qualities of a living human system. Appreciative management, as a process of valuing, consists of a rigorous ability to disassociate all seeming imperfections from that which has fundamental value (Cooperrider 1987, p.4). Appreciative Inquiry is a form of organizational study that selectively seeks to locate, highlight, and illuminate the 'life-giving' forces of a firm's existence."

Differentiating the pace at which NGCs have developed in the US and Canada, Fulton (2001, p2, 12) points out that NGCs have developed in the US in large part because of the significant amount of financial and development assistance they have been given, whether this be in the form of development officers who work closely with producer groups, funding for business plans, or access to credit. This type of assistance has not been present in Canada and is likely the single largest factor in explaining the lack of NGC development in this country. To a lesser note, Fulton recognizes tax advantages, antitrust exemptions, ethnic background, and previous

²"Appreciative Inquiry," David L. Cooperrider, Peter F. Sorensen Jr., Diana Whitney, Therese F. Yaeger, Editors, Stipes Publishing L.L.C. Champaign, Illinois, 2000, Page 144

positive co-operative experience as attributing success factors. Fulton also admits that the NGC model is not static, but is adapting and evolving. Despite the changes occurring in the model, a number of features, such as high capital investments, delivery rights, and a clear sense of member ownership and control, are critical to its successful operation.

Patrie S. William believes it is common values among investor members that make “new generation” cooperatives work. The lack of common values can also make cooperatives or any other business organization fail. It has something to do with what we value and how we act on those values - terminal or end values drive you forward to consider New Generation Cooperatives in Alberta. Terminal values being: a comfortable life, an exciting life, a sense of accomplishment, a world at peace, a world of beauty, equality, family security, freedom, happiness, inner harmony, mature love, national security, pleasure, salvation, self-respect, social recognition, true friendship, and wisdom. He warns against instrumental value as an end in itself - ambitious, broadminded, capable, cheerful, clean, courageous, forgiving, helpful, honest, imaginative, independent, intellectual, logical, loving, obedient, polite, responsible and self-controlled. Any of those values can be distorted by over-emphasis when applied to leadership in a new generation cooperative. Ambition, courage and imagination, unchecked by honesty, responsibility and self-control, will lead to get-rich quick schemes that can cost investors millions of dollars. It has happened often in the United States. The very nature of a cooperative enterprise allows it to be pirated by leaders who appear helpful, intellectual, broadminded and capable but have personal ambition as their dominant value. Patrie William summarised the terminal and instrumental value system with Adam Smith basic value “enlightened self-interest”.

5.2.7. NGC & TC

Even though NGCs adopt an innovative organizational structure, they retain the most fundamental TC principles. Control of the co-operative is exercised through the democratic principle of 'one-member, one-vote' as in traditional agricultural cooperatives. Also, the board of directors is elected from the membership by the membership, and any excess earnings are distributed among members as patronage refunds (dividends).

5.2.8. NGCs Challenges

The huge up-front investment required means that some producers can't afford to get in. Capital requirements for the co-operative business are so large that there is not sufficient membership to support the investment. Farmers who want to buy in after the initial equity drive will have to pay more if the share value has increased. Financial risk implications make it difficult to raise investment funds. Aligning goals of the co-operative with goals of the owners can be difficult, Torgerson, (2001), Patrie et al. (1998). The NGCs, according to Fulton (2001, p2), are facing a number of challenges, such as intergenerational transfer, the nature of delivery rights, the need to work with other NGCs, and new models that can provide farmers with access to intellectual property.

6. Social Venturing Co-operative Entrepreneurship Business Model [SVCE-bm]

6.1. Introduction

Significant changes in the agricultural economy are having profound effects on the viability of communities that are dependent on profitable and innovative agricultural businesses. The new cooperatives have sprung up in virtually every sector of agricultural production in US, Canada, Europe and New Zealand and many other parts of the World and account for a significant share of nations' economic activity, Coltraill et al. (1999, p3), Evans and Meade (2005, p1), Tortia et al. (2013), Fulton (2001, p1). It is not the traditional co-operative business model but several innovative variations that have evolved from the traditional co-operative business model especially the NGCs and other hybrid organisational forms, which place greater emphasis on investment returns, and share more similarities with IOFs, than do traditional cooperatives.

Over 68% of Zambian population is engaged in smallholder agriculture and relying on consumption and sale of agriculture commodity for livelihood. Eighty percent of rural Zambians are poor while 64% fall below the \$1.25 per day threshold. The economic growth experienced during the last decade has not translated into significant reductions in poverty and improved general living conditions of the majority of Zambians, (USAID Zambia, 2011-2015, p3; Africa Economic Outlook, 2012, p11; and Lolojih, 2009, p1). One way for small and midsize farms to remain viable businesses is to increase income to their operation by participating in profitable value-added processing and marketing activities. Co-operatives play a prominent role in the agricultural sector, both in developed and developing countries. However, Lolojih (2009, p1v), findings of the study indicate that the Zambian co-operative movement is generally weak in regard, to its income base and organizational structures. Most co-operatives are either defunct or non-performing.

Having demonstrated, in the first paragraph that NGC-bm successful in US and elsewhere through adoption and adaptation, the second paragraph has shown that Zambia's co-operatives organization structure have not changed to take advantage of the global environment dynamics. In short, co-operatives in Zambia have not embraced Gert van Dijk (1997, p94) sixth reason for co-operation. Zambia's co-operatives require a new innovative business model to bring about the desired economic and social benefits to over 68% of the population that depend on smallholder agriculture for livelihood.

Applying appreciative enquiry, Is the NGC-bm applicable to Zambian environment characterised by inadequate support programs, resource (human & financial), value system³ and institutions? The answer is no. The NGC-bm is most successful when members have resources already at hand. In the US and other industrialised countries where NGC-bm has been successful, at least farmers have for example, ranchers, cattle and land. They only lack the processing and marketing components. Farmers already own most of the

³“The Nature of Human Values” by Milton Rokeach, Collier Macmillan Publishers, The Free Press, New York, 1973, Page 5

required assets to control the food industry for their benefit. Farmers already have leaders, research institutions, networks, relationships and, more than most other economic sectors, they have time to think about their own futures, (Patrie, p10). But this is not the case for a developing country like Zambia and, therefore, SVCE-bm is suitable for the kind of environment, our main discussion in this chapter.

6.2. *The Social Venturing and Co-operative Entrepreneurship*

Social Venturing and Co-operative Entrepreneurship (SVCE) school of thought is new and still evolving. The ontological and epistemology status is equally being refined as new research evidence emerges. The architect and proponents of SVCE are eminent academics and researchers, Gert van Dijk, Henk Kievit, and Mike Groot, and eminent practicing social venturing entrepreneurs, Meindert Witvliet and Emmy Jansen, who have been tirelessly finding an alternative route to respond to market failures, in developing nations, as a result of corporations focus on neoclassical and classic economic theories, profit maximization and free market economy. The existing researches on the epistemology are still based on establishing unified ontology within this economic school of thought.

At the center of SVCE is social venturing co-operative entrepreneurship business model (SVCE-bm), which, some of the elements slightly depart from those of NGC-bm in order to make it applicable to a developing nation like Zambia. SVCE-bm still returns the fundamental principles of the TC-bm just like NGC-bm but departs from NGC-bm in a manner the enterprise is financed, managed, set objectives and exit strategies. Indeed future research will be conducted to test various hypotheses within SVCE-bm.

6.3. *SVCE Ontology*

- **Social venturing entrepreneurship (SVE) - economics** is defined as the contribution to solving wicked societal problems by entrepreneurial methods, Kievit and Gert (2008, p20-25). This definition, according to proponents of social venturing, is embedded in Adam Smith concept of sympathy. According to Smith, humans have a natural tendency to care about the well-being of others for no other reason than the pleasure one gets from seeing them happy. He calls this sympathy, defining it "our fellow-feeling with any passion whatsoever" Doomen (2005 p111-122). Smith was concerned about the danger of the market mechanism "invisible hand", to describe the apparent benefits to society of people behaving in their own interests. The market ought to be impartial in Smith's view as it is just an efficient coordination mechanism; however, this has not been the case under classical and neoclassical school of thought that emphasize on wealth maximization and market capitalism, Kuhn and Ashcraft (2003, p5-6).
- **Social venturing entrepreneur (SVE):** they combine the passion of a social mission with an image of business-like discipline, innovation, and determination. The stimulation of entrepreneurship is a key element of social venturing and pursues the creation of new opportunities or satisfies society needs by means of innovation and the initiation of business-like activities. Besides the active usage of business means also heavily is drawn on the existence of social capita or the development of it using **tacit knowledge**⁴, which is a requisite for the participation of regions, groups, individuals or society sectors in economic growth of the society. They distinguish themselves as entrepreneurs who are willing and able to address wicked problems, Gert et al. (2008, p20-25). Wicked problems are those that are expressed by the community itself, some may be lack of justice, uneven access to resources, market imbalances, while others may appear to be unsolvable perhaps due to lack of incentives for anyone to provide solution and people are not willing to contribute entrepreneurially to the solution of their own (wicked) problems. If the reason is lack of incentives, lack of incentives itself is to be regarded as a wicked problem.
- **Social Investor:** This type of entrepreneurial behaviour is current and commonly exhibited by entrepreneurs who benefited from the first successful developed phase of their entrepreneurial lifecycle. They got attention for society problems and want to establish, as a matter of significance, by solving these issues in an entrepreneurial way, drawing on their entrepreneurial talent, persistence, networks and finance. These social ventures are very much driven by a clear vision on solving society issues and a dedicated worldview. They want to leverage their creativity and social investments to bring ideas to sustainable practice in solving social problems, where no proper market function is available and the market mechanisms will produce a poor lasting result. Social venturing and entrepreneurship has the origin in the corporate investment and venture capital world of leading entrepreneurs. *They seek for social return on their wealth by employing available networks and entrepreneurial power to satisfy their needs to have a significant impact in solving a particular social issue.* They use their investment capability combined with proven tools of business management and their ability for entrepreneurial judgment and leadership to help build with passion a lasting result to a social problem. They are inspired by legendary entrepreneurs like Van Leer, Kröller, Carnegie or Rockefeller, but also people like Raiffeissen. They target societies where their actions would cause multiplier effect and independence.
- **SVE- Venture Philanthropy:** these are civil society organizations that undertake activities that are of greater benefit to society. They execute project for support, exploration and expansion of culture, education, investment or employability of target groups, missing the connection to economic viable circuits in society. There emerged, in this philanthropic sector during the last decennia, a new practise of venture philanthropy in the United States of America. This approach demands an active involvement of people in philanthropic projects. They carefully define an expectation of the expected risks and try to

⁴Smith, M. K. (2003) 'Michael Polanyi and tacit knowledge', the encyclopaedia of informal education, <http://inf.ed.org/mobi/michael-polanyi-and-tacit-knowledge/>. Retrieved: 01-01-2014.

get a firm grip on prescribed social return. The result is a close cooperation in a business-like setting of these venture philanthropists projects. Social venturing as well as venture philanthropy firmly focuses on the development of social entrepreneurship. They take their own responsibility and develop ownership to move towards a much more independent position in society. This forms a difference with the traditional forms of philanthropy, were in the long run people stay independent of gift-giving and the kindness of donors. Social Venturing & Entrepreneurship research is situated in between and moves back and forth the area of corporate social sustainability and venture philanthropy to develop a lasting vision to solve society issues in an entrepreneurial manner for the greater economic and social benefit, Gert van Dijk et al. (2008, p20-25).

- **SVE – Investment on Return:** The key factor with Social Venturing Entrepreneurship is to match ideas together with social venture capital to bring societal problems towards a satisfactory solution creating public benefit. The investments of knowledge, vision, (business) networks and finance in these social venture projects are done in the context where necessary commercial investments, markets and (extraordinary) government support is lacking.

The return of social venture investments is still hidden and hard to express in monetary values. It definitely targets acknowledged social return and has to satisfy financial return in the sense that the enterprise has to sustain in a healthy manner. Social investment strives to optimize 'multiple organization targets' in the business activities. In view of sustainable entrepreneurship with the Triple-P (People, Planet en Profit) approach, SVE focuses on People, Someren & Nijhof (2010, p227-237).

- **SVCE Business Model:** There is a considerable variation in business model definitions and thus, there is no universally applicable business model definition, Reporting (2012, p15-19). The proposed definition below aims to bridge varied interpretations from the works of social venturing & co-operative entrepreneurship proponents, Professor Gert van Dijk, Prof. Meindert Witvliet and Dr. Henk Kievit (1995, p103; 2008, p20-25); the proponents of business model development, Osterwalder Alexander, Pigneur Yves (2010, p14-43); and contemporary entrepreneurship writers, Baker Ted & Nelson E. Reed (2005 p329-366).

The Social Venturing and Co-operative Entrepreneurship Business Model can simply be defined as multi-actor business architecture for value creation, delivery and capture.

Multi-actor architect, in the case, refers to a collection of cooperating actors, together with the work processes, sign structures, and objects that these actors see as belonging to the organization, Gazendam and Homburg (1996, p2). The multi-actors work cooperatively to create value that is delivered to customers within and outside the network and capture the value, be it economic or social.

The SVCE business model is most appropriate to firms operating in developing economies characterised by Schulze-Raiffesien environment such as inefficient markets, lacking political and economic institutions to provide low-cost transacting. Indeed, the core of SVCE business model program is constituted by several key assumptions. First, it is modelled to create value for some stakeholders (customers, suppliers, shareholders, social investor(s) etc.) and this requires focusing not only on a given organization but also considering the way in which it is embedded in a network of external organizations, social capital or individuals. Second, the business model seeks to deliver the value to internal and external customers; thirdly the model seeks to capture the value through various revenue streams. Fourth, products and services offered are inseparable from operations and activities, and appropriate technology, skills & knowledge as key to value creation. Fifth, decision on social investor(s) appropriate exit strategies are spelt out and agreed upon from the onset, and finally, entrepreneurs and managers make democratic decisions about how their business is run, more so focussing on governance.

6.4. SVCE-bm FEATURES

In a SVCE-bm unlike NGC-bm, the focus is to achieve economies of scale using strategies such as aggregation, and many more, aimed at building capacities of smallholder farmers to produce commodities or right quantity and quality for delivery to co-operatively owned value addition enterprise at the secondary and tertiary levels as shown in fig 1. The delivery rights in SVCE-bm are similar to those of NGC-bm except that they are temporal dependent on satisfactory performance at their smallholder because equity at either secondary or tertiary level is loaned to them. The smallholder farmer, in Zambia does not have the capacity to raise 30 – 50% equity to plough in a value addition co-operative and therefore a social venturing investor or philanthropist comes with initial equity for setting up the facilities at the mentioned levels. A combination of government, social venturing investor, philanthropist, banks, companies non-governmental organizations (NGO's) or independent entrepreneur can pool initial investment capital as loan to smallholder farmers on condition that they become successful at farm level. The sale of commodities as delivery rights to the co-operative and the participatory residual income realised at co-operative level is incentive enough to get commitment and be able to cooperatively pay back the loan. Those who fail to meet the milestones at commodity production are replaced with others and are made to relinquish the delivery rights to the new smallholder farmer. Since it is in the interest of the equity provider that smallholder farmer grows and prospers, the equity provider or the co-operative itself and other interested stakeholders would assume aggregation role to build the smallholder farmer. Smallholder production per hectare is less than 15% that of commercial farmers.

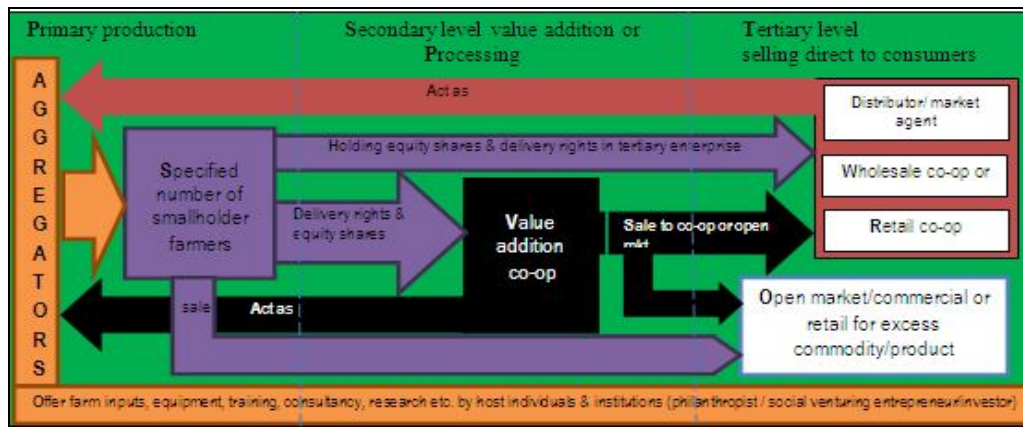


Figure 1: SVCE-bm spanning sphere

This difference is attributed to inadequate or poorly-timed inputs such as fertilizer, lack of access to improved technologies, absence of extension services, and poor or no access to markets. Activities to support this result will increase application of improved techniques such as conservation farming and improved seed and smallholder focused research, USAID-Zambia 2011-2015, p26-27. Applying appreciative enquiry on “a political commodity” maize, the staple food for Zambia, since 39% of the 2011 total agriculture budget was assigned to procurement and distribution of maize through Food reserve Agency (FRA)⁵ and input subsidies through Farmer Input Support Program (FISP) and the percentage keeps on increasing, for 2014 agricultural budget, 48.7% has been allocated to FISP and FRA. That amount of money can be better used sustainably to support SVCE firms, government acting as social venturing investor. In this arrangement, smallholder farmer sales maize to an inefficient parastatal FRA, that occasionally does not buy at cash. Although FRA offers farmers a better price than other players in the market, it takes time before paying the farmer and by the time the farmer gets money, they will have entered into other debt such that the money received goes to meet unintended issues other than smallholder investment. FRA eventually sales the maize to millers who are the final beneficiaries of value added maize products. Starting SVCE firm in this political commodity would bring about enormous economic benefits to the entire Zambian population. Business incubation would be the best strategy in rolling out the SVCE firms in provinces.

The number of smallholders in a SVCE firm would be regulated just like in NGC. Equity transferability would arise when the social venturing investor has exited. The smallholder farmer in consultation with the board of directors would sale the shares at market price to another approved smallholder farmer. New delivery right issues would be used from co-operative expansion.

6.5. SVCE Challenges

The major challenges for SVCE-bm firms to succeed would be group as institutional, information asymmetry, smallholder farm ownership, youth participation, and value system.

6.5.1. Institutional Framework

The success of NGC in the U.S and the late development of the same in Canada then are attributed to the availability of institutions, resources and common values, Fulton (2001) and Patrie (1998). Author M. Scott Peck in his book, “In Search of Stones,” attributes NGC-bm success to availability of programs and supporting institutions – Institutions funding feasibility studies, willingness of banks to make loans to farmers interested in value-added co-op, numerous consultants involved in studying opportunities, legal firms providing advice, accounting firms providing co-op accounting and planning, experiences business planners providing business planning services, enactment of favourable legislations and policies availing zero or low interest loans to farmers and antitrust laws exempting NGC, USDA (1998, p7-9). Similarly, success for SVCE-bm in Zambia largely depends on a committed leadership that brings together institutions with required resources to support the business model. Foremost, a committed leadership with unwavering conviction and endowed with not only instrumental values but also terminal values, is instrumental in driving the SVCE-bm.

However, research depicts weak institutional capacity – low absorptive and weak organizational capacity of local Zambian institutions/partners, USAID/Zambia (p13). Some 67% of the population is without access to financial services, meaning that effective savings mobilisation is inhibited. Low domestic savings in turn are another hindrance to financial intermediation, with the country lacking the critical mass of resources to finance investment and spur growth, and high interest rates remain a barrier to accessing credit, especially for small businesses⁶. On the brighter side, development partners in Zambia are more than willing to partner with the government and private institutions as long as development goals are aligned with foreign assistance priorities and development goals in agribusiness development aligns with a number of them, such as USAID/Zambia, ILO, UNDP.

⁵Dr Stumbeko Musokotwane, Minister of Finance and National Planning. 2011 Budget address delivered to National Assembly. October 8 2010 & 2014 budget address by Alexander B. Chikwanda, Minister of Finance – Friday 11 October 2013

⁶ Africa Economic Outlook 2012, p5&9: ©AFDB, OECD, UNDP, UNECA

6.5.2. Human Capital and Value System

Similarly, Fulton E. Murray, Paties S. Williams and USDA's RBS services report 54 attest to the fact that many members of value-added co-ops were college educated, aggressive and young. They were not intimidated by sophisticated marketing and processing plans. Many of the farmer investors already operated profitable farms. In fact, right people with right experience and skills appeared in the right place and time.

However, the situation in Zambia is opposite of the above stated scenario. In 2011, Zambia was ranked 164 out of the 187 countries on the United Nations' Human Development Index (HDI) with a score of 0.43, which was lower than sub-Saharan Africa's mean HDI of 0.46. Education constraints limit the ability of many Zambians to fully participate in economic opportunity. 51% of the Zambian population is women and 24% of the farm households are headed by women but lack access to land, credit, technology, education, USAID-Zambia 2011-2015 report and Africa Economic Outlook 2012. Other two studies awaiting publication show that the majority of people managing co-operatives are above 45 years and have low education levels while those with college certificates do not have relevant qualifications in co-operatives. Therefore, championing SVCE-bm demands for a simultaneous education programme to empower smallholder farmers with relevant knowledge and skills to comprehend operations, inculcate trust and commitment to the cause.

Every society has deeply held value system belt over a period of time. It becomes easier to work with a team that has similar values because they will attach similar meaning to what they want to achieve. Zambia has a negative history about co-operatives, that they are not successful and that they are a means to receive government farm inputs every year. There is proliferation of opportunistic co-operatives that tend to be formed with the sole motive of gaining benefits from the Government's FSP. Although such a programme provides an opportunity for co-operators to improve their farming, it does not guarantee the development of sustainable co-operatives. To illustrate, some beneficiaries have been known to access subsidized fertilizer from the programme, and then sell it for other uses, Lolojih (2009, pvi).

For SVCE-bm to succeed the leadership and its members must have the credibility and character and a deliberate effort must be taken to explain both instrumental and terminal values. The SVCE-bm champions should endeavor to capture tacit knowledge so that they have similar interpretations to the values and what they want to be achieved. If people go into SVCE-bm with different objectives in line with different values they hold, it will be difficult to achieve. Patrie S Williams warns that Dakota Growers Pasta Company was organized as a co-operative. The members of that co-operative voted to convert to a "C" corporation. In the debate over that conversion, it became clear that members had different values and had invested in the co-operative for different reasons. Similar conflict of values is avoidable only if people are clear at the beginning about the reasons they are forming new generation co-operatives.

6.5.3. Smallholder Land Ownership

Smallholder farmers in most cases may not have title deeds for the land. In peri-urban resettlement areas, smallholder farmers will have title deeds but elsewhere, smallholder title deeds are not there, more especially for women Machina Henry (2001, p16) and Jayne et al. (2008). Brown (2005, p88-90) argues that title conversions from customary holdings to leasehold have been concentrated in peri-urban areas and in those parts of Zambia where commercial agriculture and tourism have the most potential. However, Brown contends that no poor or even middling households have secured leasehold land because of high the transaction costs. This may pose a challenge to those farm members of SVCE-bm for they cannot use the smallholder land as surety when obtaining loan. Similarly, women who are the major stakeholders in smallholder farming are generally constrained by a lack of access to land, credit and education, USAID/Zambia (1998, p25). For SVCE-bm to succeed deliberate effort be put in place to make sure that smallholders have titles and high women representation in the business model is done. This may requires government participation to bring about favourable policies and programs for land ownership, easy access to low interest loans.

Smallholders' productivity is low. Zambia's Comprehensive Africa Agriculture Development Programme (CAADP) Compact, which was signed on January 18, 2011, defines the GRZ plan and commitment to agricultural development in greater detail. Specific constraints to agricultural livelihoods include poor productivity among smallholders, limited market access for inputs and farm produce, a policy environment that distorts incentives in production and marketing, and production patterns that degrade the environment, USAID/Zambia (1998, p24).

6.5.4. Youth Participation

Research has shown that the NGC in North Dakota were young college graduates able to understand marketing, operations and planning. However, in Zambia, youth do not significantly feature in co-operative leadership. For SVCE-bm, to succeed you need an infusion of youth so that they are able to take long term financial risks that offer long term profitability to the co-operative. The current state of affairs where the average age of co-operative leaders is above 45years cannot provide the required business model vibrancy – "co-op fever".

6.5.5. Overcoming Property Rights

Numerous scholars of co-operative theory (Peterson, Center, Cook, Iliopoulos, Staatz, Peter, Scullu, Gert van Dijk, and Nilsson etc.) have observed and identified organizational limitations in TC-bm. These limitations are a result of vaguely defined property rights that lead to high transactional costs. Therefore, the design of collective entrepreneurship business model in the 21st century and beyond

must overcome the property rights constraints of the TC-bm. The table below shows how property rights problem is mitigated in SVCE-bm and NGC-bm.

Generic problem	SVCE-bm	New Generation co-operative
Free rider problem	Optimal smallholders selected to deliver sufficient commodities and social venturing investor(s) provides sufficient investment capital as loan to smallholders. Closed membership	Investment and optimal levels of product flows are determined before the firm begins conducting business. Closed membership (Nilsson 1997, p4). Value of unallocated capital is reflected in tradable share prices
Horizon problem	Before social venturing investor exit period, poor performing smallholders are replaced by better performers. After exit, shares and delivery rights are traded to allow co-op members entry and exit	Stock can be traded to allow entry and exit from co-op as desired
portfolio problem	Risk is aligned with members at selection point when they agree on the amount of shares and delivery rights they are prepared to buy. Members, thereafter can trade shares and 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	Co-op members gradually own full property and voting rights at a time when social venturing investor exits. Performance determines when member gains full property rights and alignment of risk via patronage-based voting	NGC seek greater property rights and alignment of risk via patronage-based voting
Influence cost problem	Similarly, in a SVCE-bm the board of directors or agents are responsible for optimal marketing, operational decisions, whilst co-op members are responsible for formulation of vision, mission objectives and policies.	NGC are centralised and limited to specific purpose
Asset fixity		

Table 2: SVCE-bm versus NGC-bm

Source: Modified Mazzarol et al (2011, p6) who Adjusted from Katz and Boland 2002

6.5.6. SVCE-bm & NGC -bm Similarities & Differences

The business model concept first emerged in the 1950s (Bellman, Clark et al 1957). However, it really came to prominence within the academia literature in the 1990s (Osterwalder et al 2005). 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). 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. It describes the rationale of how an organization creates, delivers, and captures value, (Osterwader & Pigneur 2010). It shows its structural and functional relationships. Osterwalder's work proposes a single reference model, called Business Model Canvas based on the similarities of a wide range of business model conceptualizations. It is nowadays one of the most used frameworks for describing the elements of business models. In the global environment, firms, be it collectively or IOF owned, compete on business models; those forms with innovative with low transactional costs tend to survive and are profitable, (Zott et al., 2010; Morris et al., 2005; Casadesus-Masanell & Ricart, 2010; Magretta, 2002).

The preference to adopt SVCE-bm as opposed to NGC-bm in developing countries such as Zambia, characterized by weak institutional framework, un developed smallholders, lack market access, lack of loan capital, etc. are exemplified in table 3 below where SVCE-bm and NGC-bm major elements and features are compared.

Key Business Model Elements	NGC-bm	SVCE-bm
Initial capital	Raise between 30 and 50% of their total capital requirements through the sale of delivery right shares. Remaining capital requirements are met through debt or the issue of preferred shares, Harris et al. (1996, p16).	The co-op members cannot raise 30-50% of initial capital requirements. The SVE provides 60-70% initial capital as conditional loans as shares to selected co-op members. The loans carry varied delivery rights but equal voting rights. Once conditions are fulfilled, ownership co-op members acquire full share and delivery rights at a pre-determined exit time/period. The remaining capital is raised as loan from the market.
Identify key partners to work with	Partners are selected for business motives and have no stake in NGC other than to make money	The first set of partners is selected to provide economic and social capital required to build co-op capacities and are expected to exit at a pre-determined period; while the second set of partners is similar to that of NGC.
Articulate the value proposition	Satisfy customer needs & maximise co-op members returns	Satisfy customer needs to remain afloat, meet partner requirements, to sustain goodwill and provide member benefits (social and financial)
Identify the market (customer) segments	Target most lucrative opportunities	Target areas of greatest member need as well as most lucrative opportunities to generate sufficient income to ploughed back to build member's capacities and meet their needs and wants
Define the value chain configuration	Most suppliers are members with delivery rights & most customers are outsiders to the firm	Most suppliers are members with delivery rights & most customers are outsider to the firm.
Estimate cost & profit potential	Reduce supplier costs & premium price customers	Reduce suppliers cost & premium price customers
Define position within the value chain	Block substitution threats & form strategic partnerships with complementary actors	Block substitution threats & form strategic partnerships with commentary actors
Formulate a competitive strategy	Exploit future opportunities with existing resources	Exploit future opportunities with internal and external resources
Build effective partner relationships	Relying on efficient contracts as main transaction element with partners, Hart and Holmström, 1987:71	Build social capital to achieve efficient relationship management, (Nahapiet & Ghoshal 1998, p260; Gabbay & Leeders 2001, p4; Adler & Kwon 2002; Cohen & Prusak, 2001; Fischer et al., 2007) and ensure that initial conditions and roles are defined, partners are interdependence and power relations are balanced, (Doz 1996; Kumar et al., 1995, p 345; Huxham & Beech, 2008, p555), and use of tacit knowledge to build rules & values (Patrie, ;Polanyi, 2002[1958], p49-50; Cooperider, 2000, p210; Rokeach, 1973, p3)
objective	Primarily economic and a lesser extent social	Multifaceted objectives: economic and social carry equal weight
Equity transferability	Equity shares & delivery rights are tradable, subject to the approval of the cooperative's board of directors	SVE transfers equity shares to co-op members at point of exit. At that moment, co-op member is free to trade in equity & delivery rights subject to board approval.
Equity composition	Predominantly member's equity and delivery rights shares; and lesser extent debt or preference shares (younger, higher levels of education, more off-farm income and higher net worth) p32	Primarily debt at the beginning and equity at time of exit. Delivery right shares are given at the beginning. And debt or preference shares. (mixed age group, moderate education level, no extra income from elsewhere and negligible net worth)
Business Expansion	Special investment shares & delivery rights shares are issued, NGC is able to rely on new financing rather than retained earnings	Special investment shares & delivery rights shares are issued if possible, otherwise, new debt is sought from SVE

Membership	Closed membership	Closed membership
Exit strategy	No exit strategy by equity shareholders, other than trading	Social venturing investor exit by transferring equity shares to co-op members who in turn are free to trade.

Table 3: The Business Models of the NGC and SVCE enterprise
 Source: Adjusted from Mazzarol et al. (2011, p10) to meet SVCE-bm

6.5.7. SVCE-bm and NGC-bm components & configuration

Despite the highly diverse nature of the business model components, there is one overarching aspect inherent in the business model that unifies all of them.

Infrastructure	Key partners	•Co-op members/suppliers • Research, training, financial, & insurance institutions; • Legal, accounting & business services practitioners
	Key resources	• Plant & equipment; • Procurement & distribution network; • Technology • Quality & quantity commodity & input supplies; Qualified HR; • Partnerships & alliances
	Key activities	• Production & operations management; • Planning & co-ordination; • Product & market development; •Financial & management accounting
Value Proposition(MVP)	1. Customer Value proposition (CVP) • Guaranteed product health, nutrition & safety; • Guaranteed right quantity, time and place delivery • Chemical & hormone-free products 2. Member Value Proposition (MVP) • Profits from two raw commodity and processed product; • Defined and socially & legally enforceable property rights; • Share of farm marketing & farm production expenditures; • Keep input & basic commodity prices fair; • Access to market; • Receive dividends on equity; • Reduced hold-up problems	
Customers	Customer segment	•Target niche markets
	Customer relationship	1. Customers • Contract management; •Quality assurance; • Timely response to queries; • product/service availability; • Ethical communications & point of sale adverts 2. Member customer • Timely financial & operational reports; Adherence to common ethics, values & contractual obligations; •Efficient communication through official channels
	Channels	1. Customers •Own outlets as well as agents; • Point of sale adverts; • Local/public print/audio media; •Promotions 2. Member customer • Workshops & seminars • scheduled meetings
Finances	Costs	• Capital intensive operations; • High proportion of variable costs; •Cost & Benefit Structure; •Margin Model •Resource Velocity (e.g. break-even, cash cycle, cost-profit-volume)
	Revenue streams	• Product sales revenue; • By-product sales revenue; •Hiring/leasing fees; • Intellectual property rights etc.

Figure 2a: NGC-bm

Source: Modified Business Model Generation – Alexander Osterwalder & Yves Pigneur (2012) – businessmodelgeneration.com

Each business model component can be regarded as a building block of the firm’s core logic for creating and capturing value, Morris et al., (2005, p728). Figure 2a above illustrates the key elements ofNGC-bm and figure 2b below illustrates SVCE-bm key elements.

Infrastructure	Key partners	Class A = Capital • Social venturing investors • Philanthropist • Government • NGO's Class B = Debt & risk• Financial institutions; • Insurance • Class C = Service provision • Training institutions • Legal practitioners • Accounting Class D = Product development •Research institutions • Class E = Business partners • Wholesalers • Retailers •Export/Import agents • Transporters etc.
	Key resources	• Plant & equipment • Procurement & distribution network; • Technology; • Input supplies; Qualified HR; • Partnerships & alliances; • Intellectual property rights
	Key activities	• Production & operations management; • Planning & co-ordination; • Product & market development; •Financial & management accounting• Human resource development; • Relationship management
Value Proposition (CVP, MVP & PVP)	<p>1. Customer value proposition (CVP) • Guaranteed product nutrition, health & safety; • guaranteed right quantity, time and place delivery</p> <p>2. Member value proposition (MVP) • Profits from raw commodity and processed product; • Defined property rights, socially & legally enforceable; • Share of farm marketing & farm production expenditures; • Fair input & commodity prices; • Access to market; • Receive dividends on equity; • Reduced hold-up problems; Co-op Members skills & knowledge development; • Retained ownership & control</p> <p>3. Partner value proposition (PVP) • Jobs created; • Contribution to local economy (taxes); • Improved standard of living; • Needs met, problems solved & opportunities created; •</p>	
Customers	Customer segment	• Niche market
	Customer relationship	<p>1. Customers • Contract management; •Quality assurance; • Timely response to queries; • product/service availability; • Ethical communications & point of sale adverts</p> <p>2. Co-op member & partners • Timely financial & operational reports; Adherence to common ethics, values & contractual obligations; •Efficient communication through official channels</p>
	Channels	<p>1. Customers •Own channels or other distributors or both; • Point of sale adverts; • Local/public print/audio media; •Promotions</p> <p>2. Co-op member & partners • Workshops & seminars • scheduled meetings</p>
Finance	Costs	• Capital intensive operations; • High proportion of variable costs; •Cost & Benefit Structure; •Margin Model •Resource Velocity (e.g. break-even, cash cycle, cost-profit/vol.
	Revenue streams	• Product sales revenue; • By-product sales revenue; •Hiring/leasing fees
Impact & exit strategy assessment	• Member retained ownership & control; •Member welfare; • Education & skills training received	

Figure 2b: SVCE-bm

Source: Modified Business Model Generation – Alexander Osterwalder & Yves Pigneur (2012) – businessmodelgeneration.com

6.5.8. SVCE-bm elements

6.5.8.1. Customers

Customers’ element is subdivided into customer segment, customer relationship and channels.

6.5.8.1.1. Customer Segment

The economic and social need to be fulfilled in the marketplace is the main reason social venturing entrepreneurs seek when making a decision to invest. The co-op business model, Mazzarol et al., (2011, p16) argue; can create substantial social value while also creating economic value. The co-op business model, according to Mooney (2004, p87), offers a “happy medium between public regulation and private power”. In SVCE-bm, excess earnings, according to Gert van Dijk’s expression, can be used to solve the “ill” problems the society is facing in a sustainable manner; were in the long run people stay independent of gift-giving and the kindness of donors. The questions they ask are: Is there a customer market for the finished product? Can the SVCE-bm meet customer needs and earn a profit? Therefore, the starting point for SVCE-bm element is the identification of customer need, problem, pain to be solved, gap or opportunity to be filled, just like NGC-bm, (Harris et al., 1996, p17-19; Stefanson & Fulton, 1997, p3-8; Fulton, 2001, p11 &18).To build an effective business model, a company must identify which customers it tries to serve. When customers are segmented on the basis of needs and attributes, an appropriate corporate strategy that meets the characteristics of selected group of clients can be deployed. This requires a feasibility study to be undertaken in order to unveil the nature of the niche opportunity before spending extra resources on business plan for sourcing money for investment, Fulton, 2001).

For NGCs identification of niche markets is paramount for their success. USDA-RBS⁷ (1998, p4) report recounts “The Senechal, Jorgenson, and Hale firm of Danvers, Mass., was the major player among numerous consultants involved in studying opportunities.

⁷ United States Department of Agriculture (USDA) Rural Business-co-operative Service (RBS). Service report 54 of 1998.

Their understanding of the marketplace and cooperatives made it possible to spot narrow opportunities and exploit them for farmers' benefit".

6.5.8.1.2. Customer Relationship

To ensure the survival and success of SVCE-bm identify and create the type of relationships that customer segments, co-op member's, and partner's desire. For NGCs, only customer segment and co-op member relationships are important. In SVCE-bm customer segment relationships are important for creating customer loyalty and brand name. Creating relationship with co-op members is important for building trust and continuous commitment. These are important for lowering transaction costs. Partner relationships are vital to ensure continuous financial and technical support required for SVCE-bm to succeed, (USDS – RBS, 1998, p4-7). In SVCE-bm, everybody needs everyone because everybody needs each other's resource unlike the NGC-bm that thrives on already existing resources that co-op members possess, (Patrie, 2003, p10).

The customer segment relationships are different from co-op member and partner relationships; while co-op member and partner relationships are the same. Various forms of customer relationships include: employee-customer interaction performed either during sales, after sales, and/or both; intimate or hands on personal assistance where a sales representative is assigned to handle all the needs and questions of a special set of clients, quality assurance, timely response to queries, product/service availability, ethical communications & point of sale adverts. The co-op member and partner relationship may include: timely financial & operational reports, adherence to common ethics, values & contractual obligations, efficient communication through official channels.

6.5.8.1.3. Channels

A company can deliver its value proposition to its targeted customers through different channels. Effective channels will distribute a company's value proposition in ways that are fast, efficient and cost effective. An organization can reach its clients either through its own channels (store front), partner channels (major distributors), or a combination of both. This may include also point of sale adverts, local/public print/audio media, and promotions for information. For co-op members and partners, while the above mentioned are applicable, workshops & seminars, scheduled meetings information communication channels may be used. This is applicable to both SVCE-bm and NGC-bm.

6.5.8.2. Value Proposition Element

For SVCE-bm, you have three main stakeholders to contend with; demonstrate why customers should buy your product or service, explain what benefits co-op members will accrue and justify why the funders should risk to fund your business. For the customers, they are becoming more and more demanding regarding product specifications, timeliness and security of supply. They are concerned with health issues and food safety and are demanding chemical and hormone-free foodstuffs. You need to specify exactly what benefit the SVCE-bm will deliver to customers, (Fulton, 2001; Stefanson and Fulton, 1997, p8). For the co-op members and key partners, they are not only interested in knowing the value or benefit the product or service to the customer but also would like to know their benefits and whether the business model is capable to deliver. Therefore, SVCE-bm must deliver specific socio-economic requirements and justify that the business model offers the lowest transaction costs by ameliorating the property rights, (Cook and Iliopoulos, 1999, p528-529). Partner value proposition (PVP) is important to SVCE-bm because the co-op members do not have the capacity to raise about 30-50% member equity but seek partners to provide them as long term low interest rate loan. The co-op members in NGC-bm raise 30-50% equity themselves and seek debt for the remainder and therefore do not need partners to provide them with equity (Harris and Fulton, 1996, Bielik). This is the differentiating factor why NGC-bm cannot work in developing countries where co-op members do not have the finance or knowledge and skill to form a successful NGC-bm. According to Osterwalder, (2004), a company's value proposition is what distinguishes itself from its competitors. The value proposition provides value through various elements such as newness, performance, customization, "getting the job done", design, brand/status, price, cost reduction, risk reduction, accessibility, and convenience/usability

6.5.8.3. Infrastructure

Infrastructure element is decomposed into key partners, key resources and key activities.

6.5.8.3.1. Key Activities

Key activities element denotes most important activities in executing a company's value proposition such as manufacturing, efficient logistics, process quality control, etc. aimed at driving the cost down.

6.5.8.3.2. Key Resource

The key resources elements constitute both tangible and intangible. These are the basic inputs used in the business model and may include, cash for investment, useful technologies, equipment, capable employees. Tangible resources are visible and may constitute office building, computer equipment, raw materials, etc. while intangible resources are invisible and difficult to measure or access, such as intellectual property, brand name or firm reputation. For a smallholder in Zambia, key resource would be farm tractor, and farm inputs.

The industry in which you are, the nature of your product or service, the target customers, and broad based strategy you have chosen, determines the business model key resources and activities. If the key resources and activities are success factors in the industry, and

become core competences of your business model, then your business model gives you a competitive advantage in the marketplace due to lower transaction cost. Colloquially, the lower the business model transaction cost, the higher the executed and created value for your customers. The activity and resource elements are the same in NGC-bm and SVCE-bm.

6.5.8.3.3. Partner Networks

In order to optimize operations and reduce risks of a business model, organization usually cultivate buyer-supplier relationships so they can focus on their core activity. Complementary business alliances also can be considered through joint ventures, strategic alliances between competitors or non-competitors.

While the prior assertion is true for both NGC-bm and SVCE-bm, partner network element in SVCE-bm goes beyond what has been stated above. The business environment in developing countries like Zambia lacks institutional support, the co-op members lack financial and technical resources, and they lack knowledge and skill. Therefore, the partner network in SVCE-bm is aimed at filling the void, Lolojih (2009, pvi). As such, partners are strategically chosen to provide the required resources for launching the SVCE-bm. Consequently, you need social venturing investors or entrepreneurs as key partners to bring in the initial capital required to start the value-adding co-operative. A government, philanthropist, social investor or a government department may be created to act as a social venturing investor. You also need other partners to provide loans, legal advice, research and consultancy, co-operative accounting, knowledge and skills development and business planning services.

For SVCE-bm, some of these partners may have a temporal stake in the business model but exit at some point when co-op members are able to manage the business without help.

6.5.8.4. Finances

Similarly, finances element is divided into costs and revenue streams.

6.5.8.4.1. Cost Element

The generic corporate strategy the co-operative opts to use, i.e. (i) low cost strategy, whereby the co-operative wants to be the lowest-cost product or service producer by minimising all costs and having no frills; (ii) differentiation based strategy, whereby the co-operative focuses on uniqueness and value of the product or service and less concerned with cost; (iii) focus or market niche strategy based on low cost; or (iv) focus or market niche strategy on differentiation, whereby the co-operative customises the product or service to customer tastes and requirements, has an implication on the business model cost structure.

Therefore, the generic strategy the business model deploys will have an effect on the amount of fixed and variable costs of the co-operative. Since fixed costs remain unchanged up to a certain point of output, economies of scale are often used to drive down the unit cost per product or service. Economies of scope are also utilised to reduce costs by incorporating other businesses which have a direct relationship to the original product or service. An example of economies of scope is when a co-operative finds use for the by-product of the original product and starts producing and selling i.e. by-product of corn to be sold as animal feed.

6.5.8.4.2. Revenue Streams

Revenue streams encompass innovative ways a company makes income from each customer segment. There are several ways to generate a revenue stream such as asset Sale, usage fee, subscription fees, lending/leasing/renting licensing, brokerage fees, or advertising. The co-operative must try to find innovative means of generating revenue, especially non transaction cost revenue, earning before use, intellectual property rights. Osterwalder (2011) in testing the business model capability to generate revenue poses the following questions: Does the business model produce recurring revenue? **Do you earn before you spend?**

6.5.8.5. Impact & Exit Strategy Assessment Element

In SVCE-bm unlike NGC-bm, impact and exit strategy assessment element is included in the business model.

The starting point is that social venturing entrepreneurs or investors are purpose-mission driven and are interested in socio-economic results and impact. Social venturing entrepreneurs are pragmatic visionary who achieves large scale, systemic and sustainable social change through a new invention, a different approach, a more rigorous application of known technologies or strategies, or a combination of these. They are able to unlock, stimulate and lead the innate capacity of people to contribute meaningfully to economic and social development. They have a driving passion to make that happen. They apply practical but innovative stance to a social problem, often using market principles and forces, coupled with dogged determination, that allows them to break away from constraints imposed by ideology or field of discipline, and pushes them to take risks that others wouldn't dare. They have the zeal to measure and monitor their impact. Entrepreneurs have high standards, particularly in relation to their own organization's efforts and in response to the communities with which they engage. Data, both quantitative and qualitative, are their key tools, guiding continuous feedback and improvement.

At the beginning, they will have explicitly agreed with co-operative members the achievable milestones and exit strategies. They will constantly measure the agreed objectives or benchmarks such Co-operative financial performance level, co-op members' managerial competency, productivity level of co-op member smallholder, etc. When co-op members attain the acquired desired financial and social capacities to stand on themselves, they exit by giving the co-op members full equity ownership rights.

Their aim was to invest in an innovative SVCE-bm with resources that co-operative members lack and capture value through business model revenue streams; part of the economic value being generated is being used to solve the root cause of societal problems. These

views are supported by Carrol's four part definition of corporate social responsibility, (Carrol's, 1983, p604; Carrol, 1999, p283; Epstein, 1987, p104). Drucker further contends that business ought to "convert" its social responsibility into business opportunities, (Drucker 1994, p62). These views were in fact expressed by Adam Smith in his book *The Wealth of Nations* where he supported individual self-interest; that meant that it was a good idea for individuals to try to better themselves; but got misrepresented to mean a kind of Darwinian survival of the fittest – the kind of pursuit for profit at the expense of everything else we see today being practiced by many multinational corporation that have no heart for society where they operate.

7. Conclusion

The focus for this paper was to differentiate NGC-bm from SVCE-bm and justify that SVCE-bm is best suited for business environment characterized by inadequate business institutional support framework commonly found in developing countries like Zambia. The paper has demonstrated that NGC-bm works well in business environments with supportive institutional framework and that the co-operative members have sufficient capital, run successful farms and have expertise. In instances where co-operative members do not have sufficient or no capital, run unproductive smallholders, their education levels are inadequate and lacking business institutional support, then SVCE-bm is the way to go. The paper has shown that both business models have overcome the TC-bm inadequacies - property rights. The fundamental difference lies on the key partner combination, where they are expected to provide the initial capital in form of loan to co-op members in SVCE-bm unlike in NGC-bm. The co-op members will have full delivery rights like in NGC-bm but no ownership right in SVCE-bm until they pay back the loan and meet the agreed benchmarks when full equity ownership is given. During the operational period, realized profits will be channeled towards paying back the loan, and the rest will be given back to co-op members according to the amount of delivery rights and will be guided on how to use the financial resources to improve their smallholders, up until they acquire full equity rights. This may not be the case with NGC members; they are free to use the profits as they wish from the start. In SVCE-bm, the pursuit of both economic and social objectives is mandatory. The social objective in SVCE- is aimed at solving the ill problems co-op members face such as expert knowledge. This may not be the case with NGCs. Finally, in SVCE-bm, the key partners ought to exit and leave complete ownership with co-op members; this is not the case in NGCs.

SVCE-bm is still in its infancy and more and more research need to be undertaken to prove that it is the best model suited to developing countries where New generation Co-operative Business Model cannot be implemented due to non-availability of institutional support.

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