

Co-operative Enterprise as a Coalition of Small Firms

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SUMMARY

Co-operative enterprises represent some of the largest and most durable business entities in the world. They are found in all countries and across a wide range of industries. Co-ops are member owned businesses that can be formed by small business owners, farmers and the wider community. They have a unique business model that is part economic and part social in its focus. The purpose of co-ops is to provide benefits to their members. They have been likened to a strategic network in that they are owned and managed democratically by their members. Drawing on case study data from Australia and France the paper examines how the conceptual small firm alliancing framework developed by Street and Cameron (2007) can apply to co-operative enterprises. The role of member identity with the co-op as an alliance is highlighted.

Keywords: Co-operatives, strategic alliances and networks, small firms.

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INTRODUCTION

This paper is concerned with the role that the co-operative enterprise business model can provide to small firms seeking to strengthen their competitiveness using strategic alliances and networks. The need for small firms to forge relationships with other firms has been recognised within the academic literature, providing small business owners with enhanced competitiveness via personal networking (Ostgaard and Birley 1994) and proactivity within these alliances (Sarkar, Echambadi and Harrison 2001). Cooperation between firms has also been found to produce competitive advantage within technology-based enterprises (Bruque, Moyano, Vargas and Hernandez 2003).

Within the co-operative enterprise (co-op) literature the strategic network nature of co-ops has been well recognised (Staatz 1983; 1987; Nilsson 1999). The co-operative, in particular those owned by small producers or retailers, can be viewed as a coalition of independent businesses rather than a unified single organisation (Emelianoff 1942). It has also been likened to a 'nexus of contracts' (Sexton 1983; 1986). The co-op is a separate distinct business entity, comprised as it is by this coalition of business owners as members (Helmberger and Hoos 1962). This makes it a unique form of business model. The co-operative has the potential to leverage its coalition of members to achieve a competitive advantage via strength of numbers (Garcia-Perez and Garcia-Martinez 2007). However, the co-op is also vulnerable to excessive heterogeneity within the membership that makes reaching consensus amongst members and setting clear strategic goals for the business difficult (Staatz 1987b).

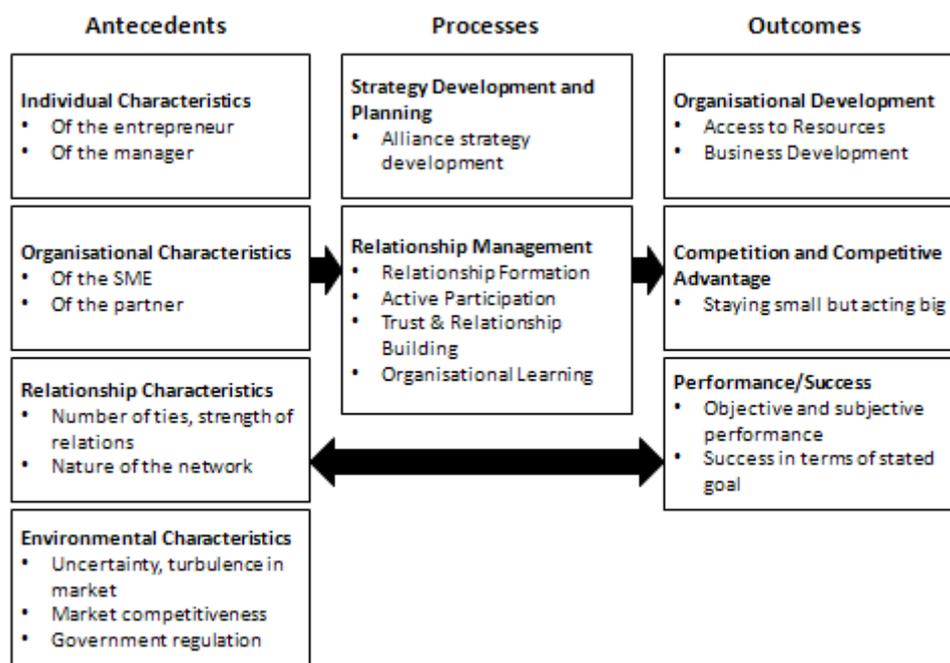
In a major review of the extant literature Street and Cameron (2007) examined the alliance and network research relating to small businesses. From this analysis they generated a conceptual model comprising three interconnected elements: i) antecedents; ii) processes; and iii) outcomes. Each of these was sub-divided into units of analysis that we will examine later in this paper in relation to the behaviour of small firms operating via agricultural producer co-ops in Australia and France. The principle research questions we are examining in this study is whether the conceptual framework developed by Street and Cameron applies to the co-op business model and what are the research and managerial implications of this?

This paper is organised into an overview of the Street and Cameron conceptual framework, then how this might apply to co-ops. Our study then introduces the case study methodology and cases before presenting the results, discussion and implications.

A CONCEPTUAL MODEL OF SMALL FIRM ALLIANCES AND NETWORKS

In their review of the research literature relating to the alliance and network behaviour of small firms Street and Cameron (2007) identified three primary units of analysis focusing on the antecedents, processes and outcomes. As shown in Figure 1 each of these primary elements has a set of subordinate units of analysis that emerged from the research literature.

Figure 1: Conceptual Model of External Relationship Influences, Management Processes, and Effects in Small Business



Source: Street and Cameron (2007)

Antecedents

Four antecedents emerged from Street and Cameron's (2007) analysis. The first of these were the individual characteristics of the owner-manager or entrepreneur in control of the small firm, and/or their senior management team. Of importance here were things such as ethnicity, gender, personal values, and the strength of their existing personal network (BarNir and

Smith 2002). Also of importance were their willingness to learn, to trust others and their self-interest and motivation to forge alliances (Beecham and Cordey-Hayes 1998). These factors can influence whether the small firm will seek to form alliances and establish networks, and also how durable and useful such networks and alliances may be.

A second antecedent was the characteristics of the organisations involved in the alliance or network. On one side there is the small firm and its age, size, products, complexity and competitive positioning (Ahuja 2000; Alvarez and Barney 2001; Baird, Lyles and Orris 1994; Donckels and Lambrecht 1997; Eisenhart and Schoonhoven 1996). On the other side are the alliance partner or partners and their relative power, sophistication and complexity (Baum, Calabrese and Silverman 2000; Carayannis, Kassicieh and Radosevich 2000; Hadjimarcou et al 2000).

A third antecedent are the characteristics of the relationship between the members forming the network (Curran et al 1993). The important variables here are the number of ties and the strength of these relationships as well as their breadth, depth and density (Uzzi and Gillespie 2002; Hite and Hesterly 2001). How complementary the partners in the alliance or network are is also of importance, along with the presence of a common vision or set of goals and nature of the alliance (Hoffman and Schlosser 2001; Volery and Mensik 1998; Oughton and Whittman 1997).

The fourth antecedent are the characteristics of the environment, specifically how much turbulence and uncertainty exists for the firms engaged in the alliance or network (Weaver and Dickson 1997; Sarkar, Echambadi and Harrison 2001). Other issues of relevance here are the structure of the market in which the alliance is being formed (Ebers and Jarrillo 1998). This includes the level of competitiveness and concentration, the ability for firms to form partnerships and what government controls and initiatives exist to impede or facilitate such alliances (Rosenfeld 1996; Davenport, Davies and Grimes 1999).

Processes

Street and Cameron's (2007) conceptual model also identified two processes that relate to the development of strategy and planning involved in the forming of alliances and networks (Baird, Lyles and Orris 1994; Atkins and Lowe 1994; Lu and Beamish 2001; Weaver and

Dickson 1997), and the way in which such alliances and networks are managed by firms once they form (BaNir and Smith 2002; Ahuja 2000; Rothwell and Dodgson 1991). Significantly more research has been undertaken into the latter, which examines how these relationships form, the way in which firms participate in them once they have formed, and the dynamics of inter-firm trust, relationship and organisational learning (Davenport, Davies and Grimes 1999; Tjosvold and Weicker 1993; Brunetto and Farr-Wharton 2007).

Outcomes

The three outcomes identified within the Street and Cameron (2007) model were those of organisational development, competition and competitive advantage, and the performance of the business. In the first instance the outcomes relating to organisational development involved such things as the firm's ability to use the alliance or network to access resources (Spekman, Isabella and MacAvoy 2000). This included social support, information, knowledge, financial capital and access to other networks (Stuart, Hoang and Hybels 1999; Coviello and Munro 1995). There was also the development of the business via its capacity to build up its capabilities and achieve growth outcomes (Brush 2000; Chaston 2000).

The second outcome relating to competitiveness revolved around the firms' ability to use the alliance or network to maintain a competitive position, to defend market share, and to obtain bargaining power and economies of scale and scope (Alvarez and Barney 2001; Oughton and Whittman 1997). The third outcome over the successful performance of the firm was examined in relation to objective measures such as increased sales, growth, enhanced profits, lower costs and innovation (Watson 2007). It was also assessed via more subjective measures such as the perception of the firm's management as to how being a part of the alliance was resulting in them successfully achieving their goals (Dean, Holmes and Smith 1997; Dodd, Jack and Anderson 2002; Guillen 2000; Prevez 2001).

THE CO-OPERATIVE BUSINESS MODEL AND SMALL FIRM ALLIANCES

Co-operative enterprises are a unique form of business model based on the principles of collective ownership, voluntary membership; democratic governance, independence and the benefit of its members as the primary purpose (Birchall 2004). Co-ops have a dual function or 'symbiosis' that requires the organisation to function simultaneously as a business with its own needs for generating sustainable profits, and also as a union or alliance (Fairbairn 1994).

Why Co-operatives are Different

Where the conventional investor owned firm (IOF) is established primarily as a vehicle to maximise shareholder returns via profit taking, the co-op is focused on a more complex purpose. It must provide its members with benefits that they cannot obtain outside the co-op, while also ensuring that it operates as an efficient and sustainable business (Mooney et al 1996). Rather than simply focusing on the returns to its shareholders the co-op must focus on returning maximum benefits to both members and itself (Bontems and Fulton 2009). Because co-ops have a strong social purpose they can provide benefits that are not only measured in financial returns to investment (Mancino and Thomas 2005).

Co-operative's also differ from IOF in the fact that their members are owners who also trade with it as a business. The co-op's share capital is usually fixed by its articles of incorporation so as to avoid any one member or group of members taking control. Co-op's also don't usually trade their share capital openly or issue it to non-members along with voting rights. Yet co-ops do pay members deferred patronage refunds that essentially return to the member the cost of their transactions with the co-op (Van Sickle and Ladd 1983). As a business the co-op can also enjoy some tax exemptions which may depend on whether it chooses to be a distributing or non-distributing business. A non-distributing co-op does not issue dividends to members and only rebates the cost of their transactions. By contrast the distributing co-op issues dividends to members as shareholders and is likely to incur tax liabilities.

The formation of a co-op is usually justified when the cost of contracting with a firm's suppliers or customers is greater than the cost of these same suppliers or customers owning the firm (Hansmann 1996). The design of a co-op varies as a result of decisions about how share capital is to be distributed and also how voting rights are assigned. While the IOF has a principle of "one-share-one-vote", the co-op typically works on the principle of "one-member-one-vote" (Bacchiega and de Fraja 2004). The democratic nature of the co-op as a business protects the rights of smaller members who have the same voting power as larger ones (Staatz 1987b). However, this can create frustrations for those members who are larger and provide greater volumes of patronage to the co-op thereby strengthening its overall business (Roy 1976).

Co-operatives as a Network of Small Firms

A co-op formed by small firms such as farmers or small business owners is a form of network organisation or coalition (Helmberger and Hoos 1962; Staatz 1983). Each member joins the co-op bringing within them different resources and in many cases a slightly different set of goals. Some members may have greater capacity or resources than others, and there may be differences in their need for the services or benefits provided by the co-op. It is therefore important that the co-op members agree on the common purpose for which the organisation has been established and maintain their commitment to trade with it (Fulton 1999). Further, it is also important that the co-op business model is designed in such a manner so as all members share in the costs and benefits of its operations (Fulton and Giannakas 2001). Research into cooperative and competitive behaviour by entrepreneurs has indicated that cooperation is likely to result in more success at securing new ideas, resources and opportunities for business development than competition (Tjosvold and Weicker 1993).

In addition to the creation of economic capital as an outcome, the co-op is a social business and generates social capital, which requires trust, reciprocity and networking often leading to enhanced business knowledge and innovation among small firms (Cooke and Wills 1999). Social capital has been found to exist within entrepreneurial networks as a process that helps bond the members together while simultaneously facilitating the operation of the network (Anderson and Jack 2002). Networking has significant benefits to firms seeking to innovate (Rothwell 1991).

Jarratt (1998) proposed that the benefits small firms typically derive from networks revolve around three things. The first of these is the creation of new value, which is through using the network to expand the range of products and services that can be sold, or to access ideas and technologies to allow for enhanced innovation. It may also assist in the development of new products. The second benefit is the network's ability to help the business access resources to enable it to build its business capability, and the third benefit is to use the network to defend its market position. An examination of the benefits that farmers who join co-operatives derive from their membership suggests that a similar range of outcomes applies (Krivokapic-Skoko 2002). Co-op members, as small business producers, use their membership to gain market access and reduce market risk, secure access to resources that they could not acquire alone,

and defend their market position by collaborating to secure enhance market prices and lower input costs. Membership of the co-op also assists these small producers to improve their business productivity through pooling of resources, and also the transfer of knowledge and information (Rickenbach 2009). Finally, they also gain via the co-op's role in community building (Skurnik 2002).

Supply Chain Networks

Co-operatives, in particular agricultural producer co-ops, are designed structurally as supply chain networks. The successful performance of such networks is contingent on their ability to respond to external market uncertainty and change with coordination and allocation of resources into appropriate responses and jointly owned specific assets. Communication and shared purpose amongst the members is a critical factor in how well the network responds (Garcia-Perez and Garcia-Martinez 2007). Co-ops can provide superior outcomes for small producers engaged in supply chain networks due to their ability to innovate and enhance financial benefits by returning to members the cost of their transactions and bargaining for better market prices (Giannakas and Fulton 2005).

In agricultural markets the presence of a co-operative can have a major impact on the prices paid at farm gate, with producers generally receiving superior prices to those paid when there are no co-ops present (Tennbakk 2004). Co-ops have also been found to compete well against large IOF counterparts because their members are also their suppliers who are often willing to share profits and losses in order to maintain the long term sustainability of the co-op (Nunez-Nickel and Moyano-Fuentes 2004; Mora and Menozzi 2005).

Research into the nature of networks within co-operatives and financial mutual businesses has suggested there may be at least three generic types of coalition (Desrochers and Fischer 2005). The first of these are 'atomised systems' a loose coalition with few formal ties to control activities. The second type are 'consensual networks' that have formed in order to secure economies of scale and scope that can result in lower costs or reduced risk of securing resource inputs. Finally, there are 'strategic networks' that have formal structures for the pooling and sharing of resources. Such networks use formal governance and control systems as found in mainstream co-ops. Of these three the most successful in terms of performance was the third type. Other studies have found that the effectiveness of co-ops is enhanced

where there are well designed systems of governance, strong leadership and the development of trust that helps strengthen member commitment (Palmer 2002).

METHODOLOGY

This research is part of a study into the sustainability of the co-operative business model funded by the Australian Research Council (ARC) and industry partners, Co-operatives WA, Co-operative Bulk Handling (CBH Group Ltd), Capricorn Society Ltd and Ravensdown Fertilizer Co-operative. The French part of the study has been funded by the Regional Council of Burgundy. It has involved collecting case study data from a range of co-operatives around the world with the purpose of understanding how to develop more sustainable and resilient businesses. One area of research focus is the measurement of member benefit from being part of a co-op and it is in this area that our paper has focused. Our aim here is to examine how the Street and Cameron (2007) conceptual model may apply to co-operatives that have small firms as members.

A case study methodology was chosen for this research. Case studies offer a mechanism for exploring in-depth areas that have little well developed theory and have demonstrated this value in the social sciences, in particular in relation to small firms (Chetty 1996). Cases are also an effective mechanism for the development of theory (Eisenhardt 1989). We have selected five cases for this analysis from a larger pool of cases developed within the main study. Our selection of the cases was guided by theoretical rather than random sampling approaches. In choosing cases we drew upon a review of the extant literature relating to the co-operative business and also held discussions with our industry partners to identify suitable organisations to approach. Assistance was then provided in recruiting these firms where required including support from Co-operatives WA who hold databases of co-ops and who facilitated introductions to key executives and board members in these organisations.

The procedure for undertaking the case study development was guided by the work of Yin (1989) and involved developing a detailed case study protocol that guided all case data collection. Also, a pilot case was undertaken with CBH Ltd that was then used to revise the case study method. The data collection process involved collecting published histories where available, plus annual reports and constructing a time line of the co-op from its establishment to the present day. A series of critical incidents were then identified within the time line to

mark periods of major strategic change or importance. This critical incident time line was then used to guide in-depth interviews with current and past board members and executives from each co-op. These interviews typically lasted for around 2 hours with all discussions audio recorded for accuracy of subsequent transcription.

In addition to the interviews with the board members and executive managers, the data collection process involved collecting other relevant company documents. These included published reports, website content, newspaper and press articles and internal organisational reports, memos and presentations. An examination was made during this data collection on the key units of analysis relating to the co-op's purpose, membership, governance and share structure, business operations – specifically value chain processes – resources and strategic decision making. The interplay between the members, the board and the executive were examined in order to observe how these elements impacted on the successful operation of the co-op.

As recommended by Yin (1989) a framework for the reporting of the cases was developed early. This was informed by the pilot case. Once the raw data was collected a descriptive and largely historical case summary was developed that may have contained over 100 pages. This was then sent back to the representatives from the co-ops who were interviewed and any errors, omissions or misunderstandings were corrected. As these cases were designed to examine matters of strategic management the approach taken by Mintzberg and Waters (1982) to case study development was also followed.

CASE STUDY ANALYSIS

The five producer case studies that were selected for this study are outlined in Table 1 and comprise the CBH Group, Murray Goulburn and United Farmers co-ops from Australia, and the COCEBI and the Union Auboise from France¹.

¹ Those two cases have been collected by Corinne Tanguy and Michel Martin, from the CESAER Research Center in Dijon, France.

Table 1: Co-operatives Selected for the Case Studies

Cooperative Bulk Handling Group Ltd (CBH Group)

Established in 1933 CBH Group is Australia's largest co-op and one of the largest bulk grain handling and storage operations in the world. CBH is also one of Australia's major exporters. Headquartered in Perth Western Australia (WA), it has an annual turnover of A\$2.63 billion and 4,500 members representing the grain growers of WA. In 2010 the co-op employed 2,500 people and exported 95% of its harvest to more than 20 international markets. It has total storage and handling capacity for more than 20 m tonnes. Although it is a non-distributing co-op, CBH Group owns joint ventures that include a flour processing business in South East Asia, a shipping company and a rail fleet company.

Murray Goulburn Co-operative (MGC)

Established in 1950 MGC is headquartered in Melbourne Victoria. It is a dairy co-op and Australia's second largest co-operative business with an annual turnover of A\$2.24 billion. MGC is also Australia's largest producer of milk and the largest exporter of processed food products (e.g. milk, butter and cheese) and holds 30% of the milk market on the east coast of Australia. It owns successful retail brands and has diversified into hardware and farm supplies. MGC has some 2,685 members and employs over 2,200 people with nine processing plants located across Victoria. MGC operates as an unlisted public company wholly owned by the dairy farmer suppliers. The co-op is also a major exporter and generates annual export income of over A\$1.16 billion from Asia, North America and the Middle East. It owns a transport fleet and subsidiaries in Asia and Central America.

United Farmer's Co-operative Company Ltd (UFCC)

UFCC was established in 1992 at Morawa Western Australia and specialised in the supply of fertiliser and chemicals. It was established by WA grain farmers who were seeking to lower substantially the cost of these critical inputs. With initial start-up capital of \$5,000, UFCC quickly grew to a membership of 3,000 and had an annual turnover of A\$100 million by 2006. At that time UFCC was the third largest fertiliser supplier in WA. In its growth UFCC developed a network of storage terminals and distribution points. It also diversified into a range of other services but was impacted by drought, rising costs and divisions within the members and the board. By 2008 it had merged into New Zealand fertilizer co-op Ravensdown.

Union Aubeoise (UA)

UA is a federation of co-operatives established in 1967 by 11 wine growers' co-ops from the Aube region of France. Its purpose was to create a common processing and marketing system for Champagne and to regain a more substantial part of the value added for producers. UA currently has 900 members from 12 co-ops who are independent and carry out complementary services. It is one of the major agricultural businesses in the region and owns its own brand "Devaux" which has a prestige reputation, plus other brands that belong to the Alliance Champagne, a federation composed of co-ops from the Marne and Aisne regions.

Société Coopérative Agricole de céréales Bio Bourgogne (COCEBI)

The COCEBI was created in 1983 in Burgundy and today is the leading French organic cereals cooperative. It now counts 171 members, 106 of whom supply grains. The rest is made up of breeders, wine makers and truck farmers for their food supplies or organic enrichment. Members respect one of the cooperative status principles; total financing COCEBI only collects organic products. Collection for 2009/2010 was 10,410 certified organic tons and reached across the Burgundy zone and its border departments. The cooperative has 10 employees and it has a €5.2M turnover. Its certified organic planting activity represents a significant part of the turnover.

The co-operative is conceptualized as an alliance of small to medium size businesses, therefore the elements of the Street and Cameron (2007) framework, namely: 1) external relationship influences, 2) management processes and 3) effects in small business will be

explored in relation to co-op member's businesses, rather than the larger member-owned co-operative organisation. While the co-op member is the unit of analysis, we will refer to both levels of analysis (co-op member and co-operative organisation), as appropriate. Each co-op member develops external relationships with other members and the co-op. Furthermore member management practices impact and are impacted upon by co-op management practices. Lastly, effects in co-op member business are an outcome of their relationship with other members and the co-operative.

Antecedents to the external relationship process

Street and Cameron (2007) refer to the importance of individual characteristics of the entrepreneur and manager, as well as organisational characteristics of the SME and partner. We find that indeed co-operatives are formed by individual member-owners and member-businesses that operate in the same industry and geographical locality, facing the same challenges and opportunities. They commonly come together in this business alliance to provide a service in the form of self-help that is not provided by private industry or the government (CBH, COCEBI and MGC cases, refer to table 2), or use the collective bargaining power of member businesses to achieve a better price for member products, services or supplies (UFCC, UA cases, refer to table 2). Member trust and involvement are key individual characteristics that are strengthened by pre-existing personal and political networks, as well as common ethnicity, values and business challenges faced due to the common nature of member businesses (like the shared passion about organic food in the COCEBI case). Member businesses are initially homogeneous in terms of size, products and available processes and therefore face similar challenges that motivate them into forming the co-operative.

An astonishing example of member support and involvement can be sourced from the history of United Farmers, where the two founding directors had to prioritise the co-op over their own business: *"In the first year of United Farmers I spent 100 days off my farm, 100 days"* (source: 2011 interviews). The directors' farms were worked by their neighbour farmers who all took turns to assist throughout the difficult first year of the life of the co-op.

The co-op network is commonly structured horizontally based on democratic governance principles, all members having equal power (one-member-one-vote principle adopted in some

countries; in others voting is proportional to the amount of trade with the co-op) (Torgerson 1977). The co-operative is positioned centrally in the network, having a supply or demand (or sometimes both) relationship with co-op members. As the co-op is owned by its members there is a process by which member representatives are elected to sit on the co-operative board. Best practice internationally suggests that non-member directors improve the governance of the co-op (Hart and Moore 1996; Cornforth 2004), providing an external perspective, this opinion is shared by the largest co-ops in Australia. It should be noted that a co-op is a network that is more formal than a strategic alliance, but less formal than a franchise network. Whereas a minimum level of trade with the co-op is commonly required, co-op members are free to transact with the co-op and/or its competitors and less loyal members commonly enter or exit the co-op year after year, while free-riding on the existence of the co-op in the market that keeps prices low.

Tensions between co-op members or members and the co-op have been observed to grow as co-operatives increase in age and size and diversity of member businesses. This is commonly attributed to poorly defined ownership rights, a lack of appreciation in the value of co-op shares and a lack of transferability of these shares (Cook and Iliopoulos 1999). As the co-op grows, organizational needs associated with investment and decision-making necessary to ensure co-op success can differ from member needs that may not extend beyond the horizon of the member's own business (Fahlbeck 2007). As members' investment in the co-op is commonly nominal in value and is therefore unrelated to the end value of the co-op, bridging co-op and member-business interests becomes challenging. CBH has faced the threat of privatisation, which was discussed for more than a decade as members were trying to find a way to extract value from the business as they were approaching retirement. A successful relationship management process was critical in enabling members to see the value that CBH adds to their member-business when run as a co-operative. CBH has recently confirmed their member decision to remain a non-distributing co-operative. United Farmers on the other hand identified the need to diversify their purpose to "drought-proof" their business, however failed to successfully communicate this need and materialize the forecasted value of their strategy, eventually losing member trust and support. The retention of member trust is critical to the co-op's ability to achieve cohesion and implement strategic change (Hansen, Morrow and Batista 2002).

Co-op members' ability to successfully form and compete in a co-operative form is highly dependent upon environmental characteristics (Torgerson 1977). Uncertainty is introduced by the natural environment, which has historically increased farmers' and producer co-ops' stress (Galdeano-Gomez, Cespedes-Lorente and Rodriguez-Rodriquez 2006). UFCC's operations were impacted by drought which prevented a reorganization effort in its later years from succeeding. Even large co-ops such as CBH and MGC recognize the negative impact of drought on operational costs and member loyalty. This is a common challenge for processing co-ops, which require member loyalty in low years to maintain low costs per unit. Smaller private competitors can have an advantage in low years and may be able to offer better prices further damaging the co-op that can be trapped in a downward spiral. Furthermore, government policy can play a great role on market characteristics and co-op viability (Tennbakk 2004; Gentzoglanis 2007). For example, the increasing interest toward the protection of the natural environment in France saw the introduction of new laws known as "*Grenelle de l'Environnement*". These laws in turn led more conventional farmers to become interested in the development of organic foods and so the movement towards the establishment of the COCEBI group took place.

In Australia agricultural co-ops operated in less competitive environments until the 1970s and 1980s when national and international deregulation resulted in a gradual opening of markets and increase of competition. That was coupled with government authorities recognizing opportunities for efficiencies, mergers and capital accumulation in newly deregulated markets, changing the ownership of government institutions and providing incentives for privatizations under the new regulatory environment (Brewin, Bielik and Oleson 2008). Finally, currency fluctuations, and international demand and supply impact on export-oriented producer co-ops that market and sell their produce internationally, like they do on any other form of business engaged in such activities. It should be noted that co-op members are thus directly affected by these forces; however they rely on the skills of the co-op's leadership to best manage associated risks and protect member interests.

Table 2: Antecedents

Individual Characteristics	<ul style="list-style-type: none"> ● Common locality, ethnicity, collective values ● Common business challenge/ market failure ● Strong member involvement, trust and sense of self-interest/ self-help
CBH	By 1929 the Great Depression hit Australia hard due to its dependence on agricultural exports. The price of wheat fell dramatically and the labour intensive and expensive grain handling system (bagged wheat) became a matter of political debate. Co-operative Bulk Handling (CBH) was established in 1933 as a result of an ongoing effort and debate over the benefits of bulk grain handling that had taken place for more than a decade prior to its formation.
MGC	In 1949 Soldier settlers in Cobram are coming into milk production, bringing an additional 8000 cows in the district within 2 years. The Shepparton co-operative was unwilling to build a factory in Cobram. 1950 the Murray Valley Co-Operative Dairy Produce and Trading Company is formed by the Murray Valley Soldier Settlers to satisfy the farmers' needs.
UFCC	In 1991 rural Western Australia was in crisis. Successive poor seasons, high interest rates and an international price of wheat below the cost of production drove wheat farmers to protest on the streets. United Farmers' Cooperative Company was formed in 1992 as a progression of the political Rural Action Movement (RAM). UFCC's purpose was to provide farmers with lower cost fertilisers and chemicals, breaking the market duopoly that enjoyed high profit margins in the range of 200% at the time.
COCEBI	Back in the 1980s, seven passionate farmers decided to set up a cooperative in order to organize both the offer and the marketing of their organic products with the objective to sell them. This cereal cooperative that was a pioneer in developing organic cereals was made up of militants, who base their work on a certain ecological ideology. This militancy partly explains the way in which they decided to develop their company; it is considered as alternative and is coherent with the essential purpose of their project.
UA	The interdependence between the two industries, the wine makers and the wine dealers, is at the origin of the <i>Champagne Region balance</i> . These sets of contracts have, until recently, guaranteed that the added value is fairly shared between them.
Organisational Characteristics	<ul style="list-style-type: none"> ● Lack of necessary infrastructure and resources at member business level ● Lack of technological expertise and advanced management practices at member level at time of co-op formation
CBH	Co-op members were farmers' businesses of similar size and age, without the available technology and resources to safely store and transport their product to port.
MGC	Co-op member businesses were milk producers which did not have access to resource intensive milk processing facilities in their locale.
UFCC	Co-op member businesses were small farmers that did not have the volume to strike individual deals with the fertiliser importers and thus paid high prices for what is the most expensive input in the farming business.
COCEBI	In the 1980s the cereal business and operators (conventional collection cooperatives, mills, etc.) were hostile to the idea of organic production. Creating an organic cooperative was thus an indispensable organisational innovation for the first organic farmers in order to sell their harvests.
UA	The contracts' role has always been to regulate the market and balance between the different players in the Champagne region.
Relationship Characteristics	<ul style="list-style-type: none"> ● Democratic governance ● Supply/demand relationships with the co-op ● Horizontal member networks with representation at co-op level ● Increased member diversity as co-ops grow
CBH	Member diversity grew increasing the difficulties associated with managing the co-operative. Value adding through marketing and primarily flour processing ventures.
MGC	Value-adding relationship as the co-op is committed to "grow with its members", enabling them to produce and deliver as much milk as they wish (whereas private processors charge less for excess milk in good years).
UFCC	Member and UFCC goals diverged and relationship management failures led to loss of trust and eventually the merger with Ravensdown.
COCEBI	At the beginning there was no organization for organic products in France. The relationship with regular producers was not very good.

UA	The growing power of the wine dealers enabled them to capture the value created mainly by the wine growers. Wine makers regarded this pressure as a means for Champagne houses to protect themselves from the crises at the expense of wine growers which questions the established partnership.
Environmental Characteristics	<ul style="list-style-type: none"> ● Agricultural markets are highly uncertain due to natural environment factors, currency fluctuations and international demand and supply changes ● Governments have a strong influence through market regulation and privatization initiatives
CBH	Deregulation of the Australian agricultural industry throughout the late 1980s, 1990s and 2000s greatly impacted on the viability of CBH. A visionary management team enabled the merger with a grain marketer and established a flour processing operations in Asia, which today add to the bottom line of the co-operative entity.
MGC	Deregulation in the dairy industry increases competition but also opens international markets. Following an unprecedented growth via mergers and acquisitions, MGC embarked in a series of rationalizations in the 1960s and 1970s and another cost cutting restructure in the early 1980s, gradually positioning themselves as a major export-oriented player. Specialising in various customised dairy based products, MGC and their members aim to reduce their dependence on the fluctuation of the milk price and value add to their product.
UFCC	UFCC succeeded to change the duopolistic structure of the market that was profiteering against their members. However, when the market corrected they lost their point of differentiation. They transitioned from a focus cost leadership strategy to a differentiation strategy, but lacked the financial and marketing resources to successfully implement it. Lacking a clear member value proposition they lost member trust and support.
COCEBI	The evolution of customers' preferences towards more organic food made the lack of industrial organisation for organic food became problematic.
UA	The Champagne business had been suffering from the economic crisis with even higher falls in sales in 2009. The evolution of customers' preferences towards more organic food also impacted on the wine sector.

External relationship process

Street and Cameron (2007) stress the importance of strategy development and planning at the alliance level, as well as the relationship management process. A key feature of producer co-ops is their role as the coordinators of supply chain networks (Goddard, Boxall and Lerohl 2002). In comparison to conventional business networks, co-ops have been found to forge stronger supply-chain linkages that help to draw the suppliers (as members) into the ownership structure of the network (Nunez-Nickel and Moyano-Fuentes 2004). Supply chains can derive significant benefits from a closer engagement of members within the network willing to share information up and down the chain (Collins, Dunne and O’Keeffe 2002). Key elements that must be addressed for effective co-op supply chain networks are the way they are structured, and the mechanisms that the co-op puts into place to coordinate the network, as well as internal and external influences such as environmental uncertainty (Garcia-Perez and Garcia-Martinez 2007). In comparison with conventional business networks managed by investor owned firms (IOF), the co-op tends to adopt a “member welfare maximising strategy” that serves to help reduce the price of agricultural inputs, boost innovation and enhance the farm gate price for producers (Giannakas and Fulton 2005).

Evidence from the case studies suggests that co-op success is dependent upon the development of a sustainable business model that has a strategy in place to deliver a member value proposition through the configuration of the profit formula, co-op processes and resources (Mazzarol, Mamouni Limnios and Reboud 2011). Co-ops may initially be established to correct a market failure or provide a new or not available service, however upon their successful establishment and market correction they commonly play the role of a “pacemaker” in the industry (LeVay 1983). For example, MGC with its strong market share on the Australian east coast effectively sets the farm gate benchmark price for milk within that market.

The near monopoly position of CBH within the WA grains industry has been questioned by some producers over the years; however the co-op has focused strongly on delivery of member value. As CBH is a non-distributing co-op it must strive to reinvest continuously into processes and resources that offer enhanced service or lower handling charges to growers. The demutualisation of the South Australian equivalent of CBH, ABB Grain Ltd and its subsequent takeover by Canada’s Viterra in 2009 has been used by CBH as an example of why remaining a co-op is to the benefit of producers. WA growers have learned from the SA experience that demutualisation can introduce risks of takeover, loss of control and possibly loss of service quality that can directly impact their member-business. There are also concerns over higher handling charges.

Co-operatives suffer from the separation of co-op ownership and control, which leads to what is termed in agency theories agency or control problems (Cornforth 2004). As co-ops grow and professional managers are introduced, management interests can diverge from member interests, the former being driven by organisational profits and growth. The co-op can become management driven and growth oriented, effectively prioritising co-op business growth over member interests (Silvertsen 1996). Such cases can lead to low member satisfaction and either co-op failure or demutualisation. For a co-operative alliance to remain successful it is of utmost importance to align member interests and co-op interests, recognizing that members can simultaneously act as patrons, owners, investors and community members. Co-op strategies and communication processes need to be in place to address the multiple member needs, build social capital and long-lasting member loyalty and commitment (McClintock-Stoel and Sternquist 2004). When CBH moved to establish its

international joint venture “Interflour” it was necessary for the co-op management and board to keep the negotiations confidential. This created some concerns amongst members who could not see the ‘big picture’ associated with the substantial investment that it involved. It was a strategic move designed to “drought proof” the co-op, and today, a decade after its implementation, this investment has proven to add significant value to the bottom line of the co-op and its members.

Co-operatives are member-oriented organisations, and just like IOF they are customer-oriented businesses. However the dual characteristic of co-op members as patrons (customers) and owners alters the nature of the relationship with the co-op. Co-op members have commonly easy access to the control and governance structure of the co-op, which can take the form of direct access to the CEO and board members. The majority of board members are also co-op members elected by their fellow-members. This introduces a political character to the co-op board and challenges associated with a higher degree of personal conflict, as well as the need to represent member interests as well as the interests of the co-op. For example, in the case of CBH the role of the Chairman has been highly influential. During the 1960s, the Chairman Mick Gayfer travelled throughout the state advocating the need for change in relation to the rationalisation of receival points. Many farmers resisted this change (Ayriss 1999). Later, when the “Interflour” offshore joint venture project was in play, CBH Chairman Robert Sewell worked closely with the CEO Imre Mencshelyi to argue the case for the strategy, often in the face of vocal opposition from members who saw it as a move towards “corporatisation” of the co-op (Interviews, 2011). This key role of the Chairman of the co-op has also been highlighted in French co-operatives where those who had been groomed from within the membership (“mountain climbers”) were more likely to embrace collective democracy than those brought in from outside (“helicopters” and “parachutists”) (Bataille-Chedotel and Huntzinger 2004).

Due to these unique challenges and the tight nature of the co-op network, as members are also part of pre-existing personal networks that are sub-groups of the larger network, relationship management processes need to prioritise transparency and information sharing, identify and manage member clusters accordingly and develop opportunities for participation and networking at local levels, as well as at the overall level. In both French cases, members of the two co-ops acknowledged that sharing information between them had helped them to respond quickly and in a uniform manner in order to adapt to the competition. For COCEBI

this was through the creation of the organic food value chain, and in the case of UA the quality labelling system for Champagne.

Managing network relationships becomes increasingly difficult as co-ops expand geographically. Cases where the member network is internationalised are few (with the example of the Australian, New Zealand and African co-op Capricorn and the New Zealand and Australian co-op Ravensdown), with most co-ops choosing to operate as corporations abroad (e.g. the New Zealand dairy co-op Fonterra, CBH and MGC investments overseas via joint venture, or the co-op bank Rabobank operating as a corporate outside the Netherlands). Canada’s *Agropur* co-op established operations in the United States during the 1990s, but did so via acquisition (Doyon 2002). However, an exception has been Spain’s *Mondragon Corpracion Cooperativa* (MCC), which created a dual system of ownership to allow for its international subsidiaries to be engaged as members under a system known as “neo-cooperativism” (Errasti et al 2003). This an area where further research is required to gain better insights into the relationship management process of the co-op’s that internationalise their operations.

Table 3: Processes

Strategy Development & Planning	<ul style="list-style-type: none"> ● Build a sustainable co-op business model that can deliver the member value proposition ● Pacemaker co-ops need to be efficient, strategic and focused on value adding to remain successful ● Member businesses face opportunity cost and risk associated with co-op failure in the market
CBH MGC	CBH and MGC were formed by member need for infrastructure, however as the competitive environment changed they both transitioned to a value adding strategy, became export oriented, diversified into manufacturing and focused on building product brands, thus capturing value down the product chain. Member businesses cannot extract the value that is generated within the co-op business as a private investor in an IOF would. They recognize however that the co-op failure or demutualisation could introduce opportunity costs and increase the vulnerability of their business.
UFCC	UFCC developed a diversification strategy which was not implemented successfully. In the process of implementation costs increased and the member value proposition was not delivered. Members could not see a strategic or operational benefit for remaining with the co-op as the market had corrected itself and they could get the product and services of similar quality at the same or better price from UFCC competitors.
COCEBI	The Cocebi cooperative innovated on an organisational level in order to promote an agricultural and rural eco-development project that did not follow the agricultural productivist model. To implement the project the cooperative relies on a cooperative ideal organisation that distinguishes it from other cooperative organisations.
UA	One of the Union Aubeoise’s strategies was to find a differentiation advantage to emphasise its brand policy. The objective of the Quality Vineyard Approach is to improve qualitative and environmentally friendly methods and is has been implemented in the volunteer vineyards for the past 10 years.

Relationship Management	<ul style="list-style-type: none"> ● Align member and co-op interests ● Build member loyalty and commitment ● Members can act as patrons, owners, investors and community members ● Communication practices between the co-op and its members are more informal than in investor-owned firms and co-op executives and board members are commonly easily accessible. ● Invest in social capital
CBH	The executive invests in trust and relationship building between co-op members and the co-operative. Co-op members have direct access to board members and the CEO. Transparency and knowledge transfer are prioritised and a number of less and more formal events are organized to network with members throughout the year. The co-op invests in local member communities and encourages members and their families to actively participate, get informed, provide feedback and contribute to their co-op. The co-op has established a scorecard that measures and communicates member value creation that constitutes best practice.
MGC	MGC uses the farmer as the central point of any communication and advertising materials, invests in relationship building and the development of services that add value to members. The success of MGC is partly attributed to Jack McGuire who was appointed manager in 1952 and drove the expansion, mergers and acquisitions until 1979, establishing MGC as a leader in the industry. He was a unique historical figure in the Australian dairy industry, a strong leader that had the farmers' devoted trust and support. In 1981 he was asked to return and save the co-op from imminent failure. Within three years "Jack the knife" took drastic measures to cut costs and re-motivate member-suppliers.
UFCC	In contrast to the CBH and MGC cases where diversification was effectively communicated and supported by members, UFCC board and management failed to bring members along in their strategic transition. Members did not understand the need for strategic change. Poor implementation of the new strategy led to rising costs and loss of member trust and support. In 2006/07 the co-op tried to re-establish a member focused approach, but it was too late. Poor member loyalty failed to support the restructure which was negatively impacted by the 2007 drought, leading to the merger with Ravensdown in 2008 which was effectively an exit strategy for UFCC.
COCEBI	There is a strong link between the cooperative and its members; the farmers manage a part of the stockpiling and the transformation in return for financial help
UA	The objective was to become an ineluctable partner and to anticipate supply changes at the Champagne houses that buy half of the federation's cooperatives' production. The Union Aubeoise set up different strategies to create member loyalty. Its development department is responsible for maintaining and increasing membership in the different cooperatives. The technical department offers help to members regarding regulatory, environmental and quality methods of the vineyards. Members accept this help, called Quality Vineyard Approach (DQV) on a voluntary basis. The respect of the environment as well as regulatory changes that also occur (Plan Ecophyto 2018, directives Nitrates, etc.) oblige the Champagne industry's players to adapt to and develop new practices. Studies show, however, that this effort to adapt and to implement new organisational methods has not yet happened and that several years will be necessary to learn to do so.

Small business outcomes

The involvement of small firms in alliances and networks outlined in Street and Cameron's (2007) conceptual framework results in the development of the business organisation through access to resources, services, knowledge and enhanced social capital. Under appropriate conditions it also leads to the individual firm securing a potential competitive advantage through collaboration that assists in lowering costs, maintaining market share or strengthening bargaining power. This is likely to result in improved performances and enhanced success. As noted above, there is evidence that a small farmer producer's engagement in a co-op results in similar outcomes (Krivokapic-Skoko 2002).

As outlined in Table 4 the evidence from the five case studies suggests that small farmer producers secured these same outcomes via their participation as members of the co-operatives. The strategy of these co-ops has been to provide members with secure markets for their produce, and access to lower cost inputs via bulk purchase. New services and value adding via innovation have also been features of these co-ops that have offered benefits to members (Olson et al. 1998). Members also enjoy business development benefits through the ability to add value to their farm product through co-op investments and services (Livingston et al. 1998), and enjoy access to better priced farm inputs, new technology and a greater pool of knowledge and resources (Olson et al. 1998, McLaughlin 1996, Harris and Fulton 2000a, 2000b, 2000c). The above contribute to increased farm income and productivity (Olson et al. 1998).

For example, CBH has mitigated the grain storage risks and transportation costs for its member businesses through its continuous investment in the state of art storage and handling facilities, even in remote locations. MGC, on the other hand, provided dairy producers with access to a reliable purchaser for their milk. Unlike some of the competitor IOF dairies, MGC is committed to taking all the milk that a producer wishes to supply. This allows the dairy producer to grow their business and ensure that they can always get a fair price for every litre of milk. By comparison the IOF dairy processors only take what milk they want and will raise or lower prices above or below the price set by MGC to secure the quantity of milk they need. Similarly, in the case of COCEBI, the strategy of the farmer members was to provide organic food producers with all the elements they needed to efficiently grow, store, handle and market organic produce at a time when this type of supply chain system did not exist.

Benefits of competition and competitive advantage (Street and Cameron 2007) are both one of the key incentives for the formation of co-ops and the key outcomes as co-ops have been proved to acquire and exploit market power overcoming the weak bargaining position of individual farmers (Schrader 1989; Farrell and Tozer 1996, Gasson 1997), as well as overcoming conditions of market failure or imperfect markets (Cook 1995, Schrader 1989, Knutson 1966). Effectively a co-operative strengthens farmer's bargaining position, increases access to value-adding markets (Olson et al. 1998; Bhuyan 2000), can establish local and international markets (Livingston et al 1998) and reduces marketing risk (Olson et al. 1998, Bhuyan 2000) through the creation and management of commodity pools.

For example, the farmers who joined the UFCC secured significant cost savings on their fertilizer and chemicals. They also collectively helped to drive a longer term change to the way the fertilizer market in WA was operating. By introducing a third competitor into the market they strengthened their bargaining power as buyers and affected change from the major incumbents. MGC has ensured that its members are able to improve their market access and secure long term demand for their products. This is achieved by adding value through the development of their Devondale brand for milk and cheeses, and export market development. CBH has produced similar outcomes for its members through its forward integration into overseas markets via the joint venture “Interflour”. Finally, in the case of UA the collective actions of the wine-makers through the co-op helped strengthen their bargaining power with the wine dealers. Then as the Champagne labelling system was applied they were able to secure more value from this quality trademark and secure premium pricing.

Finally in terms of performance and success co-op members enjoy financial benefits arising from economies of scale, capturing profits from another level, (e.g. the export strategies of CBH and MGC), services that otherwise would not be available (e.g. bulk grain storage and handling), assurance of suppliers and markets, and risk reduction (Schrader 1989). A well-run co-op achieves lower operating and marketing costs for its members and reduces their transaction costs (Mirsa et al. 1993, Staatz 1987a), achieving higher prices for equal or better quality service (Misra et al. 1993). In addition to that, co-op members indirectly contribute to the development of grades and standards in agricultural production (Reynolds 2000) that benefit the entire industry.

Table 4: Outcomes

Organisational Development	<ul style="list-style-type: none"> ● Access to resources ● Access to services not provided by private industry or government ● Investment in local communities and creation of social capital ● Member business development through education
CBH	Access to quality service (grain handling) and a grain transportation network that was built by the co-op. For remote farmers transportation costs would have been prohibiting without the CBH rail network. Access to competitive marketing services. Member business further development through co-op innovation, knowledge creation and transfer. Social support and financial support in bad seasons as co-op carries and spreads the cost amongst regions.
MGC	Access to milk processing services and value creation through marketing and investments in multiple retail brands and farm supplies. Ability to grow members’ business with the assurance that all milk produced will be bought by the co-op at the same price.

UFCC	UFCC reduced the cost of the most significant farm input by 60% within the first year of operation, a saving that was maintained for the years to come.
COCEBI	Cooperatives are striving to structure an organic cereal industry by entering into long term contracts and planning part of its production in order to avoid the risks of market destruction. Long term contracts for specific volumes came with a price range that ensured a fair and stable income for the producer.
AU	Consequently, cooperative status for both Champagne and Burgundy cooperatives has implied developing marketing capabilities and has enabled quick information sharing among members as well as membership that facilitates a collective strategy The result is for the Champagne industry, a better appropriation by the growers of the value created.
Competition & Competitive Advantage	<ul style="list-style-type: none"> ● Aggregate member's bargaining power to gain competitive advantage and stronger market position ● Direct financial (dividend or patronage reward) and indirect benefit (lower transaction cost) for member businesses through co-op core operations and/or diversified investments ● Allow to stay small but act/benefit big ● Marketing and other service benefits
CBH	Low transaction costs for grain storage and handling, reducing the risk of grain handling on-site. Members can stay small and benefit by their co-ops skillset, strategies, investments and value creation.
MGC	Dividend and patronage rewards Members can stay small and benefit by their co-ops skillset, strategies, investments and value creation. The co-op sets the floor price for milk and is export-oriented, thus protecting member-farmers against price-wars that can be initiated by private processors and retail outlets.
UFCC	Despite its short history, UFCC has had a lasting impact on the structure of the fertiliser market in WA, which is now highly competitive. Farmer businesses (members and non-members) have benefited over the last two decades and possibly for generations to come.
COCEBI	There are two steps: they have innovated through a network that they have built and thanks to organisational innovations they build the necessary environment to achieve their projects. In a second phase, the step which is legitimized by the socio-political environment, the partners with the biggest organisations grow and the example is now emphasised since it has been legitimised
UA	This approach is able to bring a competitive advantage to the Union Auboise provided that this quality is perceived and valued by its consumers. Indeed, consumer requirements in terms of product and sanitary quality, respect of the environment as well as regulatory changes that also occur
Performance/Success	<ul style="list-style-type: none"> ● (Unlimited) support for sales and profitability growth ● Adding value to products and services ● Lower transaction costs and environmental risks managed by the co-op ● Educational benefits ● Being part of the co-op community ● Creating value for/ protecting future generations ● Sense of achievement and pride
CBH	Increased member profitability through lower transaction costs and the ability to collectively respond and mitigate environmental risks. Social benefits of being a member of the co-op community, member sense of pride as owners of a successful co-op, a legacy that they can pass on to their successors.
MGC	The ability to grow member business without being limited by the milk intake that private processors determine on an annual basis. In that sense the co-op offers unlimited support for member profitability growth. Pride associated with co-op brands being successful locally and internationally. Success at maintaining an alliance that can protect farmers' business interests and deliver community and educational benefits.
UFCC	UFCC increased member profitability in the early years which led to its early success. The ability to add to the members' bottom line or deliver better value was not maintained, leading to the demise of UFCC.

COCEBI	Cooperatives bring an active solution to creating other organic cooperatives in the regions. These actions help to develop an essential organisation for the development of organic cereals industries. Creating Cocebi has helped promote its members' organic cereals by organizing markets at the time when conventional operators did not consider organic farming as economically viable.
UA	A diffusion toward the Burgundy region: There is worldwide recognition of Champagne's sparkling wine sparkling wine expertise and Burgundy wine makers refer to the technological expertise of the people from the Champagne region. It is important to remember that Crémant de Bourgogne comes from Champagne makers who relocated their knowledge and know how.

RESULTS AND IMPLICATIONS

The findings from these cases suggest that the original conceptual framework outlined by Street and Cameron (2007) can be applied to co-operative enterprises. Of importance is the common antecedents of the small farmer producers who formed these five co-ops. As agricultural producers they were united by a need for common user infrastructure such as grain storage and handling, milk processing and coordinate marketing and distribution systems. A lack of government or private sector provision of these resources led the pioneering founders of these co-ops to self-organise. The co-op business model offered a strong and democratic framework around which to organise their network and the corporate structure of the co-op enterprises enable them to better coordinate their activities and negotiate within national and international markets. In all cases the changing political, economic, social and natural environment were forcing change in the market and posing both threats and opportunities to these small producers. Through the collective organisation of the co-ops they were able to better meet these challenges.

Antecedents

In the “theory of community-based enterprise” (Peredo and Chrisman 2006), or the concomitant “social cooperation theory” (Birchall and Simmons 2004), the creation of social enterprises is driven by three factors. First, there must be resources or skills within the community upon which to build the business. Second, there must be a process of mobilisation around the various goals and objectives of the community members. Third, there must be the motivation and ability to act collaboratively to create the venture. In these five case studies all three conditions were found within the producer communities who founded the co-ops. Despite some diversity in their ranks they possessed the motivation, resources and mobilisation capacity to establish their co-op businesses.

Processes

As the five co-ops moved through their life-cycles the pressure to maintain their cohesion and develop sustainable and resilient business models proved challenging. Key to the success of these co-ops was the ability of the members who formed the boards of directors to think beyond their own short term horizons and individual business portfolios, and look to the longer term. In the case of CBH and MGC the need to restructure the business model and seek “drought proofing” solutions led to offshore joint ventures and the development of export markets and branded products. For COCEBI and UA a similar strategic direction was followed with the creation of organic food supply chains and quality assurance and branding systems. Even UFCC sought to follow a “drought proofing” strategy with value added services.

What is evident from the cases is that while the recognition of the need for such long term strategies is sound, their successful implementation was contingent on the relationships management within the network. All co-ops experienced points of tension with members as they pursued their strategies. For CBH, MGC, COCEBI and UA the approaches were slightly different, but in sum they revolved around a concentration on making the co-op deliver benefits to members, and for the board members to work with the executive management team to help sell-in change strategies to the wider membership. The problems faced by UFCC in implementing its strategy had more to do with a lack of consensus at the board level than any problems with their overall strategic aims.

Outcomes

In terms of outcomes the five cases suggest that membership of a co-op can result in small business operators such as farmers and wine makers gaining access to resources that will enhance their organisational development. Through their access to infrastructure, secure markets, better farm gate pricing, lower input costs and better knowledge and information, these producers were able to secure a competitive advantage. The pattern of performance and success varied from case to case, yet overall these small producers were better off as members of the co-op.

Implications

The cases outlined in this study provide support for the conceptual framework of Street and Cameron (2007), but they also demonstrate that small firms can benefit from co-operative enterprise business models in a manner that may not be possible via conventional supply chain networks. Co-ops apply not only to farmer producers, but can be used in a wide range of other industries (Birchall 2011). However, for their success the key points of focus must be on the antecedents at time of establishment, and the processes after establishment. Here the evidence supports the theories proposed by Birchall and Simmons (2004) and Peredo and Chrisman (2006). Communities will self-organise collectively if they possess the resources, motivation and capacity for mobilisation. Of prime importance are trust between members, mutual incentives and reciprocity within the network (Birchall and Simmons 2004; McCain 2008; Nowak and Sigmund (2000).

However, the challenge of maintaining the unanimity of purpose amongst co-op members remains a threat to the co-op as a coalition. These can be seen as comprising the ‘generic’ problems of co-operative enterprise (Nilsson 2001) that need to be overcome if the entity is to be operated effectively and sustainably. These relate to free riding by network members where common ownership of assets and services are present. Also there are problems associated with members of co-ops having short term planning horizons, diverse perceptions of risk in portfolio management, the lack of control over the network as it expands, and the influence cost problem of dealing with a large and diverse membership. As Cook (1995) has suggested, there is a life-cycle theory of co-ops that sees these ‘generic’ problems - if unresolved - leading to the eventual collapse of the network and subsequently the co-op.

A key finding from this study is the role of member identity with the co-op and the ability of the co-operative to secure member loyalty through recognising that social capital is as important as economic capital and self-interest. Successful co-operatives have managed to secure these dual outcomes while less successful organisations have failed due their inability to unite the membership into a common purpose (Birchall 2011; Fulton, 1999). Without trust, and the members seeing value in their membership, it will be difficult to sustain cohesion (Ole Borgen 2001). The co-op must focus on delivering value to members via its purpose (Fulton and Giannakas 2001). There must also be trust between members and the co-op leadership (e.g. board and management) (McClintock-Stoel and Sternquist 2004). It is

therefore important for co-op boards and executive teams to encourage a strong sense of community identity within the co-op based on trust and a sense of common purpose (Morrow et al 2004).

The study also has implications for non-co-operative businesses and the development of strategic alliances within small firms. It suggests that a strategic alliance network of small firms can deliver benefits and enhance competitiveness. However, it also highlights the need for such networks to be founded on principles of openness and democracy, with systems of governance that tolerate diversity while simultaneously uniting all participants into a common strategic purpose. The long-term sustainability of these networks will depend on how well they are managed and the level of trust and collaborative spirit that can be engendered amongst participants. Many strategic networks fail due to the focal firm (typically a large IOF) seeking to secure excessive control over all key resources, and/or attempting to dominate the way the network is managed. Other times the problem is due to excessive specialisation by network members, lack of ownership and control over key network assets, unbalanced relationships between members, and excessive protection of core competencies by members (Miles and Snow 1992). For many small firms the benefits of collaborating within a strategic alliance network are outweighed by the fear that to do so will risk the loss of their independence or theft of valuable intellectual property (Dean, Homes and Smith 1997).

While a co-operative business structure may not suit all small firms seeking to forge strategic alliances, the principles of democratic governance, tolerance of diversity and the fostering of social capital via the building of trust and mutual reciprocity within the network are useful touchstones. This study has some limitations. The experience of producer co-ops may not apply to all kinds of small firms across all industries. Further, much of the data collected was at a macro-level of the board and strategic leadership. Future research should examine the individual member level and explore via quantitative analysis the linkages and performance outcomes of these firms.

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