Co-operative Principles and International Expansion - the example of NTUC FairPrice

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This paper considers some of the issues surrounding the internationalisation of the retail arms of consumer co-operatives. Using the example of the Singaporean co-operative NTUC FairPrice, it argues that the internationalisation of retail co-operatives may have been held back or even discouraged by their underlying co-operative principles and management ideals.

Introduction

Almost inevitably, well-established retailers with a strong domestic retail offer and customer franchise will, at some point, seek store-based expansion outside their national borders. The assumption is generally made that what works at home can transfer, and will succeed, abroad but the international trials and tribulations of a number of leading retailers suggest that this is not always the case (see the examples in Dawson, Larke and Mukoyama, 2006). Certain retailers may have become so embedded in their domestic context that they find it very difficult to transfer their operations to other markets. What works at home does not necessarily work in another market.

If this is a problem for investor-owned retailers, then it appears to be even more difficult for the retail operations of consumer co-operatives. With their long trading histories and strong ethical stance, it might be assumed that consumer co-operatives would have no difficulty in undertaking retail internationalisation. In some cases, such as Migros in Switzerland or KF in Sweden, they have assumed strong positions in their domestic markets and their approach and philosophy towards trading provides a point of differentiation, a commonly perceived prerequisite for retail internationalisation. Yet, the reality is that their activities are constrained both by factors within each co-operative and also by the structure and ethos of the co-operative movement itself.

This paper uses the example of the NTUC FairPrice Co-operative to examine the effect of co-operative ideals on the growth and activities of an organisation. It has made several attempts to operate internationally and might be seen as an example of the benefits of co-operation. However, in late 2004 Mr Chandra Das, Chairman of the Singaporean consumer co-operative retail chain NTUC FairPrice, made a rather surprising statement, arguing that it was perfectly acceptable for the co-operative to operate commercially abroad. He said, “My co-op requirements are only in Singapore. I operate as a business overseas” (quoted in Wee, 2004). To what degree has this attitude come from the nature of the NTUC FairPrice business itself or is it merely a recognition of the problems that arise when consumer co-operatives try to expand internationally?

A short history of NTUC FairPrice

The origins of NTUC FairPrice can be traced back to the early 1970s and to a collaboration between the labour movement in Singapore and the government to try to combat inflation. Three separate retail initiatives were begun at this time. In 1973 the National Trades Union Congress (NTUC) of Singapore launched a supermarket co-operative called NTUC Welcome. In a show of government support, its first supermarket in Toa Payoh was opened by the then Prime Minister, Mr Lee Kuan Yew. At around the same time, two other labour unions, the Singapore Industrial Labour Organisation (SILO) and the Pioneer Industries Employees Union (PIEU), also set up supermarkets.

The common theme in much of the coverage of these efforts was the desire to ‘curb profiteering’ or to keep prices down. However, the early growth in the supermarket sector was very slow and it also became clear that having three retail co-operatives in such a small economy was leading to a duplication of efforts and making it difficult for each of the co-operatives to achieve economies of scale. By the early 1980s SILO and PIEU had already merged to form the Singapore Employees Co-operative Ltd (SEC), bringing their stores together. A further merger was then engineered between the SEC’s stores and the NTUC Welcome chain to create NTUC FairPrice.

On 1 May 1983, NTUC FairPrice Co-operative Ltd was registered under the Singaporean Co-operative Societies Act, with the avowed primary aim of stabilising the cost of living (Poh, 2000). The initial share capital of FairPrice was

Figure 1: Objectives and Principles of NTUC Co-operatives

The NTUC website (http://www.ntucworld.org.sg) gives the following objectives and principles for all of the NTUC Co-operatives:

Objectives of NTUC Co-operatives

- To help stabilise prices of basic commodities and services.
- To strengthen and protect the purchasing power of workers.
- To allow union leaders to gain management experience, and to understand the problems faced by management, thus helping to promote better labour-management relations.

Founding Principles of NTUC Co-operatives

- The co-operative must be fully competitive with private enterprise, and cannot expect privileged treatment by Government.
- The labour movement should engage in co-operative enterprises in those fields which it has a natural built-in advantage.
- There must be a high standard of integrity.
- There must be effective management.

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contributed mainly by trade unions. Only members of trade unions in Singapore were allowed to join FairPrice and to receive dividends and rebates on their purchases of products. NTUC FairPrice (hereafter FairPrice) was established under the guiding principles of all NTUC co-operatives (Figure 1).

Due to the co-operative's origins and its mission, FairPrice has enjoyed strong support from the Government of Singapore throughout its history. In 1991 the Chairman, Mr Gopinath Pillai, suggested that the co-operative would explore the possibility of a public listing. However, when he stepped down from the post eighteen months later the government's Trade and Industry Minister made it very clear that FairPrice would remain a co-operative. Instead, the government would explore ways of allowing the public to buy more shares in order to allow FairPrice to grow (*Business Times* (Singapore) hereafter *BT*, 17 December 1993: 2). The incoming Chairman, Mr Chandra Das, also stressed that FairPrice would remain a co-operative in order to perform its social role in Singapore (*BT*, 4 November 1995: 1).

By the early 1990s it was the largest supermarket chain in Singapore, with outlets in many of the major Housing Development Board (HDB) estates, which housed around ninety per cent of Singapore's population (Richmond and Mehta, 1994: 1). Up to that time consumer mobility was still very low, partly because of low levels of car ownership and also because the Mass Rapid Transport system was still relatively limited in scope. As a result, most shoppers preferred to shop near home, mainly on foot. Due to the limited availability of retail space in the centrally planned HDB estates, many of the original FairPrice stores were small and served very local catchment areas. Competition came from the supermarkets operated by the Japanese department stores, including Yaohan, from local chains such as Cold Storage (at the time used largely by expatriates), Prime, Oriental Emporium and EconMinimart, and from hundreds of small provision shops.

Since the early 1990s the growing size of the market, the increasing affluence of local consumers and their greater mobility has brought significant changes to Singapore grocery retailing. Following its re-acquisition by Dairy Farm (the retail arm of the Hong Kong-based Jardine Matheson conglomerate), Cold Storage began to expand significantly until, by 2004, it had more stores than FairPrice and was threatening to overtake its overall market share (*M+M Planet Retail press release*, 20 August 2004). The withdrawal from the market of some retailers, Yaohan and Oriental Emporium, was balanced by the entry of international operators Carrefour, Ahold and Delhaize. Not only did these new competitors bring more competition, but they also changed its basis, introducing different store formats, greater use of store brands, pricing policies and so on.

FairPrice responded in a variety of ways. It entered into an agreement with Davids Holdings of Australia in order to improve its logistics operations (dissolved in 1998 when FairPrice took back full control); it modernised its existing stores and opened larger new stores; and it improved its store brand offer. It also added new formats, replacing its smaller NTUC Franchise format with a convenience store chain, Cheers, in competition with Dairy Farm's 7-Eleven, and a smaller format supermarket chain, FairPrice Xpress. It has also experimented with its own hypermarket format, the US-themed Liberty Market format, as well as helping to develop several retail malls. Some of this activity has been undertaken using private capital in strategic alliances with property developers and banks (Poh, 2000). By the end of 2005 it was running 76 FairPrice supermarkets and 52 Cheers convenience stores, and it had also announced plans to expand onto 77 petrol station forecourts in a deal with ExxonMobil (*Straits Times*, 17 September 2005).

By continually reinventing itself, FairPrice has managed to retain its position as Singapore's leading food retailer. It has over 400,000 members (more than one in ten of the resident population of Singapore) and an estimated 57 per cent of the grocery market in 2004 (Wee, 2004). In 2004 a Nielsen survey found that nearly two-thirds of Singaporeans shopped at a FairPrice store, although they were more likely to do a small shop than those who used the Carrefour or Giant hypermarkets (*Straits Times*, 4 June 2004). Between 1994 and 2005 the co-operative took its group turnover from S$462 million (US$290 million) to around S$1.33 billion (US$775 million) (Figure 2).

However, Figure 2 also shows the influence of FairPrice's co-operative ideals on the surpluses achieved by the organisation. For example, in the financial year ending in July 2004, the NTUC overall returned more than S$58 million to workers through its nine co-operatives in the form of rebates. It also disbursed more than S$8.8 million to needy workers and their families through study grants and food vouchers (*Straits Times*, 28 July 2004).

FairPrice contributed to this effort in a variety of ways. First, it provided dividends and rebates on purchases for members that amounted to S$45 million. Second, it announced that it would continue to absorb the full increases in the Goods and Sales Tax (GST) on a basket of 400 essential items through to the end of 2005. (GST rose from 3% to 4% in 2003 and to 5% in 2004.) This amounted to S$7 million of support in the financial year 2003-2004. Third, it also aimed to offer the lowest price for nine-tenths of the essential items in that basket, with some prices said to be up to 15% lower than those of competitors. Finally, FairPrice gave out S$1 million worth of FairPrice vouchers to needy families through the Citizens Consultative Committees and Community Developments Councils in Singapore (NTUC FairPrice website). Another S$1 million in vouchers was distributed to help needy union members (*Channel News Asia*, 18 August 2004).

This activity stresses FairPrice's aim of balancing two separate social goals. On the one hand, it seeks to make a 'reasonable surplus' in order to be able to provide a return to its

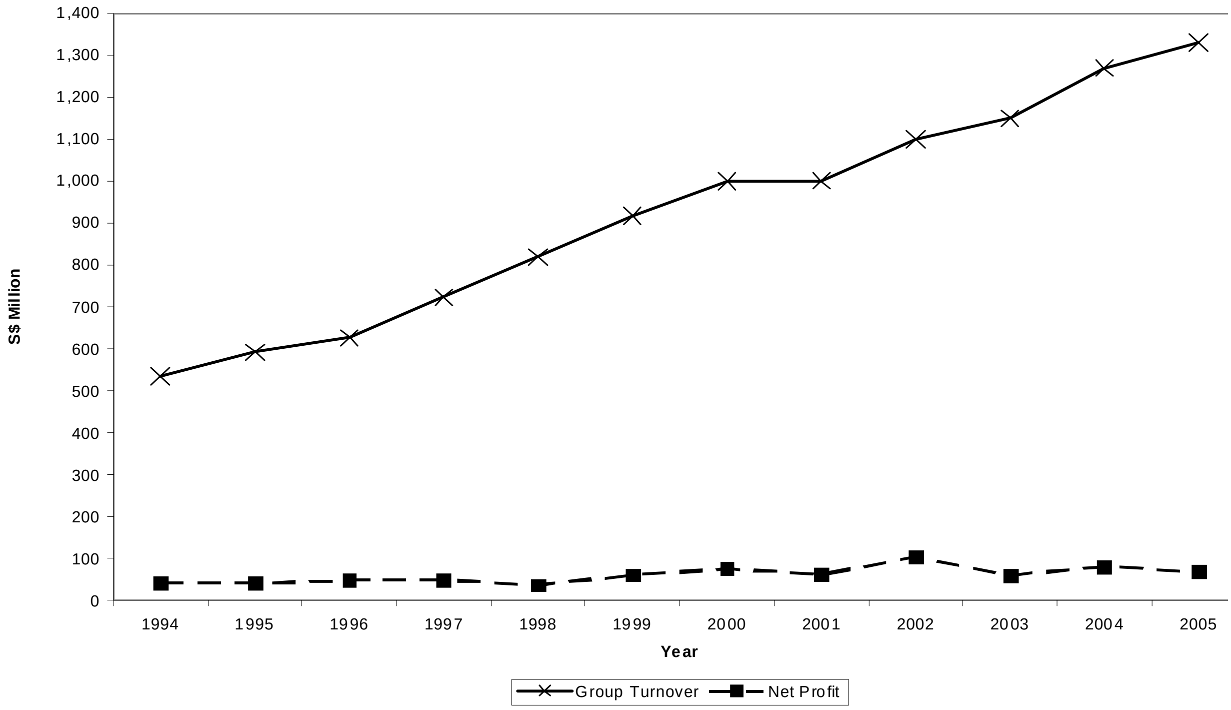

Figure 2: NTUC FairPrice: Group Turnover and Net Profit, 1994-2005 (y/e March)

members. "I must make a reasonable return," says Chandra Das. "The difference between me and another retailer is that the money we make stays in Singapore and goes back to shareholders" (quoted in Wee, 2004).

But, on the other hand, it also has its social obligations which, Chandra Das argued, "… should become an integral component of your business goal. In our case, it has also become a unique strength" (*Food Chain Asia*, April 2002: 1). Its aim of stabilising the prices of basic commodities and protecting the purchasing power of workers is also felt to help keep other retailers in check as the co-operative's prices are widely seen as benchmarks. Chandra Das cited the outbreak of bird flu in 2004 as an example. Although supplies of chickens ran low, the price of chicken did not rise to 'exorbitant levels' as he said that FairPrice had set a benchmark for the price of chicken. Referring to other retailers in a rather disparaging manner, he said: "Assuming we're not there, they'll go wild" (quoted in Wee, 2004).

Despite this publicly spirited behaviour, FairPrice has come in for a degree of criticism over the years, particularly from its competitors. Its position as market leader in a small economy may have led it to become rather too complacent about its image and market position. Perhaps more importantly, however, it has been seen as having too close a relationship with the Singapore government and various public bodies, such as the HDB. "NTUC FairPrice uses its widespread co-operative memberships and government support to compete against potential regional and foreign competitors; snatching best location sites, using its strong Guanxi [personal contacts and obligations] to isolate other competitors" (Duhamel, 2002).

In addition to denials of favouritism from within the co-operative, even the Singaporean government has argued that it no longer offers FairPrice preferential treatment. In 2004, Trade and Industry Minister Lim Hng Kiang said that "The mission of NTUC has changed slightly in recent years, and so NTUC FairPrice now competes on a level playing field as other supermarkets … today, it is run more as a company where it has to tender for shop space just like everybody else." He was responding to criticisms that FairPrice might not have to pay tax – but pointed instead to the levy of S$16.7 million that FairPrice had paid in 2003-04 to the Singapore Labour Foundation, Statutory Reserve Fund and Central Co-op Fund, that was then distributed to their members (*BT*, 25 October 2004).

Many of these issues came to a head in late 2005 when Mr Chandra Das stepped down as Chairman. Using the opportunity of the change in management, the former Chairman of FairPrice, Mr Gopinath Pillai, suggested that there should be a study to consider whether or not to list a portion of the supermarket operations on the stock exchange.

> The listing of the supermarket operations unlocks the tremendous value that has been built up over the years, and it directly benefits the workers and the unions who are members of the co-operative. It allows the supermarket to operate commercially when it goes abroad, where its future growth lies and its activities will be scrutinised by the stock exchange and the investor community – which should give NTUC and the co-operative that substantially owns it added comfort. Singapore would then have another billion-dollar company controlled and substantially owned by the labour movement. (Letter to *BT*, 8 September 2005)

A second clear call for demutualisation from Mr Pillai, this letter led to a considerable level of public debate within Singapore about the future role of FairPrice. As had happened twelve years earlier, the incoming Chairman Mr Ng Ser Miang reiterated the continuation of FairPrice's social role in regulating prices in Singapore and of redistributing the returns made to the local community. Much less was made of the reference to the potential for greater scrutiny of FairPrice's international activities and the lack of a return on many of those activities.

The internationalisation activities of NTUC FairPrice

Within Asia, consumer co-operatives remain significant players in a number of countries, in particular Japan, Vietnam and Singapore. Whilst large in size, the Japanese co-operatives remain fragmented, forbidden as they are from merging or even from competing outside their own regions within Japan (Nomura, 1993). In Vietnam, the Saigon Co-op (Saigon Union of Trading Co-operatives) is concentrating on building up its retail network in the country against the slow but inevitable influx of foreign retailers. Of these, only FairPrice, has tried to internationalise its retail operations; indeed, Davies and Burt (2006) suggest that it has been one of the most prolific consumer co-operatives in this regard worldwide.

FairPrice has always recognised that the Singaporean market is too small in retail terms, even though it has grown from under three million people to over four million in just fifteen years. The lack of economies of scale has made it more difficult to create strong store brands or establish logistics expertise compared to the larger international retailers such as Carrefour or Dairy Farm. So, it started to look outside Singapore within just a few years of its formal incorporation in 1983.

As reported by Richmond and Mehta (1994), FairPrice planned originally to participate in foreign markets in two ways. The first was to provide management consulting services to other supermarkets in Asia, through FairPrice Management Services. One such venture was the provision of technical assistance to the Republic of the Maldives' State Trading Organization in opening that country's first supermarket in 1992. However, these activities have dried up in recent years as the co-operative has preferred to set up its own operations.

The second was by taking equity stakes in retailing operations abroad, primarily through a newly created arm, FairPrice International (FPI). The competition and the operational requirements varied by market but (at least initially) FairPrice intended to use a similar positioning abroad to that of its Singapore operation. Its plan was to target middle-income consumers, using a low price, high volume strategy. However, it also anticipated that it would take some time for its overseas operations to become profitable and for significant buying power to be achieved.

The varied history of NTUC FairPrice's activities outside Singapore is provided in Figure 3. In the early 1990s FairPrice provided advice and aid to a number of other co-operatives in developing countries, such as the Maldives, Pakistan and Indonesia. Only in Indonesia did these lead to plans for a retail chain operated by a consumer co-operative – and even that was prevented to a large degree by the then Indonesian controls on foreign investment in the retail sector.

Later efforts have revolved around working with private companies but they too have foundered for a variety of reasons (often not reported in the press), including the most recent decision to pull out of China. In the latter case, FairPrice has been very clear in laying the blame at the door of its joint venture partners. FairPrice Assistant General Manager (Investments), Mr Victor Lim, was quoted as saying:

> We went in as financial investors to get a feel for China, and secondly to establish our purchasing office in China, which we have done. We were not involved in the day-to-day operations of Nextmall which were done by a local management team. It overextended itself, developing too many hypermarkets in a short span of time. In addition, Nextmall also ventured into two mall developments … FairPrice even offered a rescue package to assume the majority stake in Nextmall and to take over the day-to-day running in order to reverse the losses, but we could not agree on the terms stipulated by the other shareholders. (quoted in *The Business Times* (Singapore), 24 December 2005).

It should be noted that whereas NTUC FairPrice has been very good at publicising market entry, it is generally very poor at reporting publicly on the outcomes of its international strategy. Unfortunately, this is reflected in the quality of the information in Figure 3 (and see the note to Figure 3). The next question has to be how to use the information that is available to examine the international activities of FairPrice and the outcomes of those activities.

Approaches to internationalisation

The increased visibility of retail internationalisation over the past three decades has stimulated a significant volume of academic research. A number of common themes have emerged, as authors have explored the volume and direction of investment (Hollander, 1970; Burt, 1991; Muniz-Martinez, 1998), the motivations for internationalisation (Alexander, 1990; Williams, 1991; Quinn, 1999), and the role and choice of market entry mechanisms (Gielens and Dekimpe 2001). Other studies have developed frameworks categorising international retailers on the basis of behavioural criteria – most notably business culture and market responsiveness (Salmon and Tordjman, 1989; Simpson and Thorpe, 1995; Helferich et al 1997; Alexander and Myers, 2000). In addition, there is a growing interest in failure and divestment as an intrinsic element in the retail internationalisation process (Burt et al, 2003; Jackson et al 2004).

This research confirms, to varying degrees, that the retail internationalisation process is

Figure 3: International Activities of NTUC FairPrice, 1990-2006

Year	Destination	Project	Outcome
1991-1992	Maldives	FairPrice provided consultancy advice to The Maldives State Trading Organisation (set up by the government and labour organisations.	Successfully completed in 1992 with the opening of the People's Choice Supermarket, the first supermarket in the Maldives. FairPrice was not involved in the operation of this store.
1991	Pakistan	FairPrice provided consultancy services to government and labour organisations in Pakistan, primarily through the Utility Stores Corporation - a Pakistani public-sector co-operative - under a programme that involved the International Labour Organisation.	In 1995 FairPrice was said to be in negotiations over a retail joint venture but nothing seems to have come of the matter.
1992	Indonesia	Deal to provide consultancy services to Inkopkar (Indonesian Workers' Cooperative Alliance)	It is presumed that this was completed successfully.
1992-2002	China	A variety of projects was announced including taking over the operation of stores in Chengdu (1992), the granting of a licence to run supermarkets in Dalian (1994) and other joint venture negotiations (2000).	There is no published evidence that any of these operations were pursued to completion or that they generated any surplus for FairPrice.
1993-1994	Cambodia, the Philippines, Russia, Sri Lanka and Vietnam	FairPrice was said to have received requests to provide know-how for the establishment of joint retail operations in each of these countries.	There is no published evidence that any of these initiatives were taken beyond the initial contact stages.
1993-1997	Malaysia	Entered into a joint venture with Hong Leong Industries Bhd of Malaysia (HLI) to operate a supermarket retailing chain under the name, HLI FairPrice Supermarkets	Opened seven supermarkets but withdrew after reported disagreements with HLI and because of increased competition from other large retailers for sites.
1994-1998	Myanmar (Burma)	Joint venture with the Union of Myanmar's Economic Holdings Limited	Opened just one supermarket that was closed after the government imposed import controls in 1997.
1994-	Indonesia	After some false starts, FairPrice set up a joint venture called PT Sekarsentosa Lestarijaya with Inkopkar and PT Alamiah Sari (a wholly-owned subsidiary of Indonesia's Sekar Group). The stores operate as Nina FairPrice.	FairPrice has a management assistance contract with Nina FairPrice but has been offered the chance to take up to a 20% stake. Operating difficulties and the Asian Economic Crisis have limited the development of the chain. It had just six supermarkets in 2005.
2000-2004	India	Various projects announced, including a joint venture with Apollo Hospital Group to run small stores and pharmacies in petrol stations owned by the Indian Oil Corporation.	Nothing seems to have come of these negotiations, perhaps because changes in the Indian political climate meant that the possibility of the retail market being opened further to foreign firms receded
2003-2006	China	FairPrice took a 33.7% stake in Nextmall Cayman Islands alongside Singapore's DBS Private Equity, Taiwan's Apex Group, the Chinese firms New Hope Group and Silver Tie, as well as the Nextmall management. The joint venture aimed to establish Nextmall hypermarkets in China's more 'peripheral' and 'less saturated' cities.	Nextmall's initial plans were disrupted by the SARS epidemic. At the end of 2005 it had eight hypermarkets and Nextmall shopping complexes, including those in Shanghai, Jiangsu and Zhejiang. In late 2005 Nextmall announced that it was selling all of its Chinese assets in order to cover nearly S$80 million in debts and S$40 million in losses. FairPrice had to write off the US$12 million it paid for its stake in the venture.
2004	India, Indonesia, Vietnam	The possibility of entering these markets was raised again by Mr Das in mid-2004.	There is no published evidence of any action having been taken to date.

(Sources: NTUC FairPrice press releases; other press reports, including articles in *Straits Times* and *Business Times* (Singapore); *Asian Supermarket*; *Asian Retailer*; *Retail Asia.*)

Note: NTUC FairPrice have made a number of conflicting statements to the press over the years concerning their international activities. As can be seen in the table, not all of these issues have been resolved. NTUC FairPrice have not commented on a previous version of this table as provided to them, nor have they been able to grant an interview to allow these points to be discussed.

complex. Simplistic frameworks assuming progression and evolution are inadequate for explaining a process commonly punctuated by readjustment and realignment to a wide range of external and internal interactions and pressures (Dawson 2003; Coe 2004; Wrigley et al, 2005). A clear understanding of what is the essence of the internationalised retail offer and the distinctive national and international management skills that the company possesses would seem to be essential. How these allow or constrain the internationalising retailer in the creation of a distinctive and superior operation to what already exists in the target marketplace remains an underlying pre-requisite for both operationalising and understanding successful retail internationalisation.

The overwhelming focus of retail internationalisation research has been the investor-owned retailer or corporate chain. Indeed, the 'failure' of consumer co-operatives to exploit opportunities in the international marketplace (see the examples given in Davies and Burt (2006)) contrasts with the experiences of many of their investor-owned contemporaries. Is this a function of timing or circumstances? of inappropriate or misguided investments? or is it an inherent feature of the philosophical approach underpinning retail consumer co-operatives?

On the one hand, there are no real controls over co-operatives to prevent their expansion on an international or even global scale (Craig, 1976) and co-operatives are just as likely to want to act to correct market imperfections in other countries as they are in their own. On the other hand, adherence to the co-operative principles (and a consequent desire not to interfere with the activities of other co-operatives) does tend to act to constrain their activities outside their own local area (Mills, 2002). Indeed, Böök (1992) argued that a multinational co-operative organisation can only come about as a result of the democratic agreement of all the co-operative organisations in the various countries involved.

Producer co-operatives have long embraced the notion of expansion into international markets. Talking of agricultural co-operatives, Grosskopf suggests that: "Internationalisation is a necessity for co-operatives …" (quoted in Egerstrom et al, 1996: 132). This is particularly true amongst the 'New Generation Co-operatives' (mainly involved in production and agriculture), many of which have closed membership, and which seek to add value to their products through an offensive marketing strategy (Egerstrom – quoted in Egerstrom et al, 1996: 46). Their aim is to achieve the best price (generally from non-members) in order to return a greater surplus to their members and their local communities and they are often willing to bring in outside equity to achieve these aims eg the Mondragón Cooperative Corporation in Spain (Errasti et al, 2003).

On the other hand, it is still relatively unusual for consumer co-operatives to expand outside their core areas, particularly when that means crossing a national boundary. This has little to do with any form of 'home' resistance to the notion, after all many of those involved in the co-operative movement will have a proselytising approach to expansion. Instead, it will generally mean 'stepping on the toes' of existing national or regional co-operatives, which are assumed to have members in the host country already. If there are no co-operatives, then the principle of 'co-operation amongst co-operatives' means that it is more normal for an existing co-operative from another country to provide assistance in terms of setting up a local co-operative and in terms of advice on what and how to trade. This is because setting up in another country implies either imposing an outside view of what local members might want, or not recruiting local members and thus potentially 'exploiting' consumers in the foreign market to the benefit of those in the home market. Hollander (1970: 75-83) lists a number of examples of the provision of advice and support, including Austrian and Swiss help to the Greek consumer co-operatives; Swedish help to India and Portugal (and more recently to the Saigon Co-op in Vietnam); and aid from Histadrut, the Israeli labour co-operative, to Kenya.

So, it is possible that the guiding principles and the underlying philosophical approach of co-operatives may hinder the international spread of retail operations. The tension between market opportunities and the equity/community focus of co-operatives would seem to mitigate against internationalisation on any substantial scale. This was a point recognised by Kurimoto (1999) who suggested that co-operatives should not expand geographically but should collaborate in the fields of joint buying, technology transfer, exchange of know-how, joint ventures, etc.

Where consumer co-operatives have chosen to expand internationally nevertheless, they may still face some in-built problems. Within any market, the very nature of consumer co-operatives is believed to provide a point of distinction and differentiation from other market based organisational forms:

> … the social dimension of co-operatives helps to set them apart, to make them different from their competitors and to make them what they are today. The active promotion of social values provides co-operatives with a clear profile, helps to distinguish them from their competitors and gives them a competitive advantage. (Pestoff, 1999: 208)

But this perceived strength is also a common thread in the discussions that have taken place when commentators try to explain the failure of a co-operative; see, for example, Grott (1987), Rauber (1992), Normark (1996), Middleton (1998) and Kurimoto (1999). Partly because of their scale (or lack of it), and partly because of their ethical stance towards communities (both local and foreign), consumer co-operatives can find it difficult to achieve the economies of operation of many of their rivals. They are less willing to exercise any power that they have within the distribution channel to their sole advantage, potentially leaving them less able to compete on price. Yet, if they allow social commitment to decline, more and more patrons will relate to the co-operative on primarily economic terms – the weakest of all competitive positions for a co-operative (Grott, 1987; Pestoff, 1999).

However, Singerman (1987) argued that the problem for many co-operatives is less about forgetting social goals and more about the changing environmental circumstances. Whether or not co-operatives have a strong membership base, they can only grow when they have a good capital base, good internal structures with checks and balances on management activities, and an outwardly-focused market approach. Whilst many commentators suggest that co-operatives suffer from inadequate capital, Middleton (1998: 3) argues that this need not apply to large societies because they are just as able to borrow against their asset base and to draw on retained surpluses as any investor-owned chain. Much of the 'blame' therefore would seem to lie with choices made by directors and managers, firstly in terms of when and where to move internationally, and secondly, how committed they are to making those moves work and become self-sustaining.

This point can be seen in Van der Krogt's comparison of primary co-operatives and investor-owned firms in the dairy industry. He found that co-operatives preferred to engage in mergers, licensing and explorative collaborations, whereas the firms focused mainly on takeover strategies through acquisitions and strategic equity shareholdings. In his view, co-operatives' democratic decision-making based on members' current patronage results in cautious growth strategies; and, co-operatives' equity capital constraints lead to the preference of business expansion through consolidations and collaborations with low capital demands (Van der Krogt, 2002: 25-26). Unfortunately, it appears that in retailing, and particularly food retailing, a similarly cautious approach has prevented co-operatives that have looked to internationalise from using their early mover advantage to build up a sufficiently large market presence. When other, more aggressive retailers have entered the market and have begun to expand quickly, the co-operatives have found themselves with no other competitive advantage (and possibly no membership base) and they have faded away very quickly.

NTUC FairPrice and the dimensions of embeddedness.

We propose to analyse the history of FairPrice and the issues that it faces currently by following Wrigley et al (2005) and using the framework put forward by Hess (2004) in order to tease out the different factors acting on FairPrice. Hess approaches this issue through the concept of 'embeddedness,' aiming to describe the degree to which an organisation is influenced by its originating or 'home' region and the degree to which it needs to embed itself in the destination or 'host' region. He argues for three major dimensions of what comprises embeddedness and who is embedded in what, as follows.

> **Societal embeddedness**: this dimension stresses the importance for economic action of the cultural, institutional and historical origins of the economic actor in question. Wrigley et al (2005) suggest that this means that when a retailer invests internationally it takes with it some of the social and cultural attributes that is has acquired during its evolution in its home market. These might

include attitudes towards labour-management relations (such as Wal-Mart's initial efforts to exclude labour unions from its stores in China) or the organisation of supplier networks.

Network embeddedness: this dimension describes the network of actors in which an organisation is involved, the structure of that network and its durability. Actors would normally include customers and suppliers but they may also include broader institutional networks such as government or trade unions. Increasingly international retailers are dealing with the same suppliers (both of products and of services (such as real estate or market research)) in several markets; indeed these wider networks may have eased their entry into some markets. It is, therefore, more about the connections between the actors, regardless of their locations, rather than restricted to one location (Hess, 2004, 180).

Territorial embeddedness: this considers the degree to which economic actors are 'anchored' in particular territories or places. Most, if not all, international retailers are embedded in their home territory in the sense that they will have been shaped by that market (and, in turn, may have helped to shape it). There can be a wide variation however in the degree to which they embed their operations in international markets. At one end, a retailer may use the same brand message in a range of host countries and import most of its products from abroad, meaning that it has a standardised operation that is only lightly embedded in a host market eg Louis Vuitton or IKEA. At the other end, a retailer may adopt a more decentralised approach, changing elements of its brand positioning and using local products and local suppliers to such a degree that it may even be seen many consumers as a local company eg Bata in India or Tesco in Japan. These three dimensions of embeddedness are related to one another (overlap) and will change over time.

In their study of retail internationalisation by consumer co-operatives, Davies and Burt (2006) suggested that it might be necessary to consider a further dimension of embeddedness, namely the institutional factors that flow from the co-operative form of organisation. For the purposes of this study, we will view this institutional element as part societal embeddedness and part network embeddedness.

Thus, if we look at the history of FairPrice we can use these three dimensions of embeddedness to suggest some possible reasons for its lack of international success, even when there appears to have been enthusiasm for such moves within the co-operative.

Societal Embeddedness

FairPrice plays a major role in the lives of many Singaporeans, as evidenced not just by the number of members but the continued growth in membership in recent years. Since its inception, a key part of FairPrice's mission in Singapore has been its social role in controlling the availability and prices of selected products. Through the 1980s and early 1990s this role helped to determine its choice of store locations in residential areas or close to transport links and its marketing messages stressing corporate responsibility. The link to members (over and above customers as a group) is a concept that is stressed by FairPrice store managers when they discuss their role in the organisation. FairPrice also continues to feature as one of Singapore's most trusted brands (*Straits Times*, 31 October 2004) and has been awarded Superbrand status in international surveys (http://www.superbrands.com).

As a result, it can be argued that societal embeddedness for FairPrice comprises both its local cultural history and also the social, institutional and cultural attributes that flow from its co-operative roots. To what degree has FairPrice taken those attributes with it when it has internationalised and what effect have they had on its international activities?

First, in looking back at the language used by the FairPrice Board and managers throughout the last fifteen years when describing their international aspirations, a key point of difference (as promoted to governments in the region) compared to other retailers has been its social mission. It has stated a desire to act in other countries as a countervailing force against any profiteering, helping to keep prices down or at least stable. For example, when Singapore's then Minister for Trade and Industry, Yeo Cheow Tong, visited Shanghai in 1994 he said that he would encourage NTUC FairPrice to set up operations there “as a way to keep inflation low in the city” (quoted in *BT*, 13 September 1994, 18). Similarly, much was made of the FairPrice operation in Malaysia winning a Fair Price Shop award from the Malaysian Ministry of Domestic Trade and Consumer Affairs in its first year of operation (*Straits Times* 10 June 1994: 47).

But, management have also found that without their co-operative difference, life is not necessarily any easier. Without the brand recognition and brand loyalty (based on membership) that it has in Singapore, and possibly also lacking its close relationship with government (see below), FairPrice does not appear to have been able to compete effectively. Without local members in other countries it cannot fulfil its economic role through rebates and other membership benefits and has had to rely on being able to act more efficiently than other retailers in order to keep its costs and prices down. Whilst this might have been a possibility at the start of the 1990s, when it faced mainly local competition throughout South-East Asia, it would now appear to have failed singularly in this role. This has been partly because of its continuing small size (in total and in each country). It would also appear that FairPrice’s management has been very conservative in its approach to building up sustainable operations in other countries compared to its retail rivals. When it did commit capital in China in 2003 it failed to keep control of the retail operations, the area where it might have been considered to have the most expertise among its joint venture partners.

There is nothing necessarily wrong with this position however. One could follow the argument set out by Nilsson (quoted in Egerstrom et al, 1996: 109) and Pestoff (1999) and suggest that the need for a consumer co-operative retailer may disappear as each host country’s market becomes more efficient. Thus, FairPrice has withdrawn from Malaysia as the local and international retailers have transformed that retail market. Myanmar is a different issue because it was forced out by government restrictions. And in China and Indonesia, and possibly in India, it tried operating in relatively peripheral regional economies where the market had yet to function properly. This position though is in stark contrast to FairPrice’s self-confessed goal of becoming ‘Asia’s Top Retailer’ with a global presence and offering an innovative and alternative way of retailing (Seah, 2003). In Singapore it is a strong competitor with a recognised brand and high levels of customer loyalty; internationally it has been an also-ran which believes in its own co-operative difference but fails to deliver anything new to customers.

Network embeddedness

As was noted above, we can take Hess’s view of network embeddedness to mean the range of actors with which FairPrice interacts and by which it is influenced, including its members, suppliers and government. But we can also suggest that FairPrice is part of a regional network of co-operatives that will also influence its actions. This will apply particularly to its ‘parent’ body, the National Trades Union Congress in Singapore but over the years FairPrice has received many requests from co-operatives and governments in other countries to provide advice and other forms of aid (as shown in Figure 3).

In a number of cases, most notably China and Myanmar, the initial expression of interest from FairPrice came about on the back of activities being undertaken by other parts of the NTUC or as a result of government initiatives. For example, in 1994 Singapore’s Minister for Trade and Industry was instrumental in setting up meetings for FairPrice management with the municipal governments in Shanghai and Chongqing (*BT*, 13 September 1994: 18). In effect, FairPrice has been seen as one part of the government’s export of Singapore’s form of state-led capitalism to other parts of Asia. This has been made possible by the co-operative ethos and by FairPrice’s close links with the government (the last two chairmen have served as Members of Parliament for the People’s Action Party).

In the 1990s, in addition to government missions and links to other countries, FairPrice had to contend with regulatory frameworks in many South-East Asian countries that prevented or limited the form of foreign direct investment that would be allowed in the retail sector (Davies, 1993). For example, in Indonesia FairPrice initially announced in 1994 that it was to develop a supermarket chain in Indonesia through a joint venture company with Inkopkar (Indonesian Workers’ Cooperative Alliance) and PT Alamiah Sari, a wholly-owned subsidiary of Indonesia’s Sekar Group. Mr Subiakto Tjakrawerdaya, Indonesia’s Minister of Co- operatives and Small Enterprises, witnessed the signing of the agreement (*Straits Times,* 27 March 1994: 25).

However, the venture ran into a major hurdle when Indonesia's State Minister for Investment Sanjoto Sastrowardojo said he would reject any application by PT Kopkar FairPrice because it violated a presidential decree that prohibited foreigners from investing equity capital in the country's retail sector. FairPrice was forced to take a non-equity form in the venture (*Retail Asia*, May/ June 1994), which has stagnated for a decade, even as market leaders Hero and Matahari have expanded their store networks.

One way of complying with local regulations was to respond to requests from local private companies for joint ventures, particularly where those ventures were likely to receive government approval. Apart from in Indonesia, FairPrice's plans have been based almost wholly on injecting capital and management expertise into consumer businesses with no real co-operative element – as in Malaysia, India and China. It has also considered forming alliances with other international organisations in the global supermarket industry. In 1999 Mr Das said that, "While we may not go for a merger, we welcome the possibility of forming strategic alliances with some global players for the regional markets and some business partners in the food chain industry" (*BT*, 28 December 1999). Some small stakes have been taken in Singaporean companies, namely Provisions Suppliers Corporation and suppliers (FHTK Holdings and Singapore Food Industries), but no major strategic alliances have materialised in the years since.

The key question however has to have be why internationalisation and such ventures were necessary in the first place. Much of the impetus seems to have come from network embeddedness and the changes taking place in the retail business on a global scale. Even Mr Lim Boon Heng, NTUC Secretary-General, has spoken of the benefits of successful co-operatives being allowed to set up in other countries. He said, "We should also be bold enough to explore cross-border alliances. If private companies could form strategic alliances for purchasing, for co-branding, for cross-selling, there is no reason why co-operatives should not do so" (quoted in Chang, 2000).

Thus, FairPrice management have felt the need to expand outside Singapore in order to gain scale economies and to be able to deal with suppliers and other actors from a position of strength. Yet, as noted above, there has been little effort to take the social mission into other markets. Instead, as acknowledged by Mr Das in September 2004, their sole purpose appears to have been to provide funds that can be taken back to Singapore for the benefit of the FairPrice members. There is, therefore, no direct economic benefit from the co-operative for the consumers in each host country other than that which could be provided by any efficient retailer.

Despite talking interminably about expanding internationally FairPrice has not really capitalised on these opportunities. Whilst it was offered early-mover advantages in several markets, FairPrice seems to have been unable to grasp the opportunities it had to expand into these under-developed markets in the early 1990s. In particular, China stands out in this regard. Instead, FairPrice seems to have waited until the markets had opened up to all before looking to invest and they had lost any possible 'first-mover' advantage.

Whilst FairPrice was not one of the companies that he studied, Yeung's description of the experiences of Singaporean Government-linked Companies (GLCs) in China would appear to cover its experiences.

GLCs in Singapore are therefore used to the procedures and practices of home-country business operations where the 'rules of the game' are fairly well-defined, transparent and straightforward. As Singapore is both a city and a nation-state, GLCs are very much embedded in a political economy in which the national agenda intersects with urban and local interests – a phenomenon unique to city-states … These GLCs also enjoy enormous financial support from and cosy relationships with their parent companies (ie Temasek Holdings) and local banking institutions. When they internationalise and invest in China, these GLCs tend to transfer their existing business mindsets and practices to the host countries and to disregard the unique configurations of host country business systems. The lack of appreciation of these host country institutional systems and power structures has created tremendous problems for GLCs from Singapore. (Yeung, 2004: 53)

Much of this is also true of FairPrice which has never managed to obtain the same level of influence in host countries as it has in Singapore. For example, it withdrew from Myanmar after failing to convince the government of the negative effect of their import controls on its business. In that respect, it may also relate to issues of territorial embeddedness.

Territorial embeddedness

FairPrice's roots mean that is has shown a very high level of territorial embeddedness. As noted by Richmond and Mehta (1994) they have looked to take the same supermarket format and the same market position into each of their new markets. As recently as 2003, Mr Das was commenting that in its NextMall venture in China, "We want to bring to a Singapore complex a Singapore element. That will be one way we can position and differentiate ourselves from other malls in Shanghai" (*Retail Asia*, 18th December 2003).

Unfortunately it has not always been possible to use their existing suppliers and they have been dependent in places for the networks of their joint venture partners. In some ways this may mean that they have been unable to learn from their experiences or to embed themselves in new markets; as they were not even involved in the day-to-day operation of Nextmall in China.

Despite its advantages for FairPrice, Singapore is a small market and expansion would have gained the co-operative both new customers and economies of scale in a variety of operational areas. However, just what has all of this meant for the members back in Singapore? They have received some benefits from the purchasing activities set up in other countries alongside the retail ventures. But they have also seen the FairPrice management apparently fail in most of those retail efforts and there have to be doubts that they have brought any extra funds back to Singapore. Given that the group's retained earnings are partly used to finance its overseas ventures, channelling money towards overseas investments for which success has not been guaranteed may well have affected its ability to pay dividends, give out rebates to members and keep prices low at home (Wee, 2004).

And it is not clear quite how much control the members have had over the direction that the co-operative has taken – particularly compared to the influence that NTUC and the government apparently had in the 1990s. As noted above, the call for partial demutualisation in 2005 did provoke a debate in the letters pages of Singapore's newspapers about the role of FairPrice in its home country. Yet, another important announcement from FairPrice did not provoke a similar debate and it is interesting to reflect on how many other organisations could have written off US$12 million in debt for the Chinese operations and yet received so little public comment or criticism. Perhaps this further reflects the way in which FairPrice is embedded in its home market and that it will be forgiven many things so long as it continues to serve that market well and to meet its social obligations there.

Conclusion

This short case study of NTUC FairPrice helps to illuminate some of the issues that arise when consumer co-operatives attempt to operate internationally. It is clearly the case that FairPrice has been influenced by a number of factors that will have affected any retailer seeking to internationalise in the Asia Pacific region, including the changing nature of retail supply chains, government regulations controlling retail investment, and the Asian Economic Crisis in 1998. It will also have faced many of the problems experienced by other medium-sized retail organisations when trying to expand in terms of capital expenditures and sufficient management expertise.

However, FairPrice has also been shaped by its co-operative roots in Singapore and the social mission that it has been given by NTUC. It has found it very difficult to replicate the same consumer support for the organisation in other countries and there have not been the same structures surrounding its operations either, whether they be governmental links or established alliances with partners such as banks or property developers.

FairPrice's failure to establish viable international operations mirrors some of the other retail internationalisation failures highlighted in the literature, such as Marks & Spencer (Jackson et al, 2004). In this respect, it can be suggested that, like Marks & Spencer, the FairPrice managers have over-estimated the power of their brand and have failed to realise the need to work at embedding it in host countries.

Would membership have made a difference in the international markets? It is difficult to say. Membership was clearly going to be a problem where joint ventures were entered into with investor-owned companies. Without them, FairPrice would have had to be more closely involved in the host markets. It would have taken time and money to establish local schemes and to build up the trust of local consumers – and this might also have been seen as conflicting with the aims of any existing consumer co-operatives in the host market. But it is possible that it would have encouraged managers to establish a clearer brand image, might have provided FairPrice with a better idea of what its customers were looking for from the stores and given it more options for providing value to members other than just price. It might have given FairPrice the social commitment amongst customers talked about by authors such as Grott (1987). On the other hand, the lack of deep roots may not only have encouraged FairPrice to enter a market but also made it easier to withdraw when required. Apart from China, this potentially saved FairPrice from further expenditure on lost causes but, again, may have provided the co-operative with an easy way out rather than cope with the realisation that internationalisation is hard work.

There is work already being undertaken both within academic and co-operative circles to attempt to come to terms with some of the issues surrounding internationalisation. Much of this work focuses on the governance issues that arise within either multinational or international co-operatives (Errasti et al, 2003) but it still tends to focus on the various forms of producer co-operatives. There is a need for further work to establish the scale of international activities among consumer co-operatives, to look at how they have organised themselves in undertaking those activities, and, in the light of the NTUC FairPrice experience, how successful they have been.

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