Following a Different Mission: Where and How do Consumer Co-operatives Compete?

Iiro Jussila[1], Pasi Tuominen, & Juha-Matti Saksa

Ownership makes a difference in managing a firm. It shapes the foundation of why the firm exists and, thus, affects the starting point for strategic management. While it is acknowledged that managing a consumer co-operative differs from management of mainstream organisations, there are few studies explicitly explaining how that difference relates to the distinctive features of ownership. It is toward that end this paper is directed. We begin with comments on the elements and aspects of co-operative ownership, which are followed by the definition of consumer co-operatives' two-fold mission. Next we use literature on strategy and consumer co-operation to examine how that mission may be followed in terms of corporate and business strategy. Our aim is to provide a useful framework for researchers, practitioners and/or students of consumer co-operatives. We conclude with suggestions for future research and managerial implications.

Introduction

Management of co-operative organisations has received increasing scholarly attention within the past two decades (eg, Ofeil, 2005; Katz, 1997; Davis and Worthington, 1993; Davis, 1997, 1995; Peterson and Anderson, 1996; Cornforth, 1995; Cook, 1994). Some researchers have explored management behaviour in co-operatives (eg, Katz, 1997; Cook, 1994), whereas others have focused on management structures (eg, Ofeil, 2005; Cornforth, 1995). There are those whose interests lie on the role of values in co-operative management (eg, Davis, 1997, 1995; Davis and Worthington, 1993), and those who have focused on strategies of co-operative organisations (eg, Sibbald, Ferguson and McKillop, 2002; Peterson and Anderson, 1996).

Despite the interest in issues of co-operative management in general, there is a scarcity of research on the strategies of consumer co-operatives in particular (for consumer co-operatives, see Gide, 1921). Peterson and Anderson (1996), for example, in their article on the theory and practice of co-operative strategies, focus on issues related to agribusiness. Also, Cook (1994) and Katz (1997) focus primarily on producer-oriented firms. Recent studies from Nordic countries (eg, Uski, Jussila and Saksa, 2007; Tuominen, Jussila and Saksa, 2006) and the UK (eg, Mills, 2008) reflect on consumer co-operatives to uncover some special features of their management and means for surviving in the global investor driven economy. While these works are useful in many ways, they only provide us with some elements of a theoretical framework for analysing strategic management of consumer co-operatives.

This paper contributes to the discussion on co-operative management by using mainstream strategy literature (eg, Grant, 2008; Porter, 1980) as a lens to analyse how certain strategies may be applied to follow the mission of consumer co-operatives. We make the traditional distinction between corporate strategy and business strategy (Bourgeois, 1980) to outline decisions concerning **where** and **how** consumer co-operatives compete. While it is evident that the mainstream strategy literature primarily serves (multibusiness) IOFs (ie, organisations on the quest for profit), it is also useful to consider their use in the context of consumer co-operation. We believe that this will help us define what it means to be a consumer co-operative in the 21st century (ie, to define a consumer co-operative's relationship to its environment in the pursuit of its objectives) and increase our understanding of the differences between strategic management of consumer co-operatives and IOFs (cf Mills, 2008).

The starting point for our work can be found in two notions:

1) Managing a user-oriented organisation differs from managing an investor-oriented firm (Peterson and Anderson, 1996; Cook, 1994).
2) The most fundamental differences are associated with firm ownership (Nilsson, 2001; Katz, 1997).

A major difference is that investor-owned firms (IOFs) typically exist to maximise value to the shareholders (Grant, 2008; Hansmann, 1996), whereas co-operatives exist to maximise value to the members (Fried, Lovell and Yaisawarng, 1999; Peterson and Anderson, 1996). Another major difference is that in IOFs the value of ownership is based on shareholder returns as well as on the appreciation of the stock, whereas in co-operatives the value is based on transactions with the co-operative. In other words, the mission of consumer co-operatives differs dramatically from that of IOFs, which is

reflected in the applied strategies (cf Peterson and Anderson, 1996).

As implied above, our discussion revolves around management of consumer co-operation (ie, owned by persons as consumers) instead of that of workers or (other) producers (for different types of co-operatives, see Hansmann, 1996). It should also be acknowledged that issues related to corporate governance are beyond the scope of this paper. We do not, for example, commit ourselves to the discussion about the roles of the executives and members of representative bodies, the relationships between these parties, or managerial motivations (cf Davis, 1997; Katz, 1997; Cook, 1994). While the identity of those engaged in decision-making is not the focus of this paper, we think of the hired managers when referring to the co-operative management. Further, we do not concentrate on strategy processes (Mintzberg, 1985). The primary purpose of this paper is to point out some theoretical connections between ownership, mission, and strategy in consumer co-operatives, as if those connections were straightforward. We start by briefing the reader about the link between ownership and the mission of consumer co-operatives. Next we discuss how that mission may be followed in terms of corporate and (industry-wide) business strategies. We conclude with suggestions for future research along with a discussion on managerial implications.

Ownership and mission of consumer co-operatives

Since the development of modern society, ownership has been one of the most fundamental elements of it. As an institution, ownership has been (and is) constantly shaped by the changing needs and values of people and organisations in each context. Over centuries, it has also been a topic of intense debate. The proponents of alternative positions have found the justified basis of ownership in individualism or collectivism, in genetics or social structures and/or in the satisfaction of material or psychological needs (Rudmin, 1999; Dittmar, 1992). In those Western contexts where ownership has been defined in terms of economic rationality and individualism, key elements of ownership have included

1) The investment of personal resources (eg, money and/or labour) to the object owned.
2) The right to control the object; to make decisions concerning it.
3) The personal use and the related individual utility of that object (cf Dittmar, 1992).

Definitions concerning co-operative ownership differ from the mainstream Western discussion in that they have been shaped by both individualism and collectivism (Nilsson, 2001; Münkner, 1981). As Somerville (2007) felicitously remarks, co-operatives are often a mixture of individual and collective ownership. What this means is that both individual and collective aspects are included in all the three elements of co-operative ownership:

1) The investment of resources in the co-operative.
2) Control over the co-operative.
3) The use and utility of the co-operative.

In the following section, we will concentrate on the first element of ownership, individual and collective investment of resources. Since governance is beyond the scope of this paper, we will not discuss the second element further. Instead, we use literature on co-operatives to define the foundational objectives of consumer co-operatives. Finally, the third element of ownership will be discussed in the corporate and business strategy sections.

Individual and collective investment (ownership) of resources

Member contributions (ie, the individually owned shares) serve as the initiator of economic co-operation (Nilsson, 2001). However, their role becomes more-or-less limited once the co-operative begins to make profits and does not return it to the members or credit (ie, allocate) it to the capital accounts of individual members (Hansmann, 1996). While the member contributions are personal investments, the unallocated resources may be viewed as the membership's collective investment to the co-operative. As Nilsson (2001) points out,

> members have no individual ownership right to the co-operative firm; they simply own the monetary value of their shares in co-operative society, which are generally redeemable at par value (p334).

That is, only the individually owned share will be returned to the member if they decide to withdraw from the co-operative. In IOFs the reserves of the firm are owned by its

shareholders (ie, the stock value is equivalent with the value of the firm divided with the number of stocks), whereas in consumer co-operatives a great share of the accumulated capital is collectively owned by the membership (Somerville, 2007; Jokisch, 1994). Accordingly, the co-operative itself is often characterised as its members' common enterprise (Normark, 1996).

Given the aims of this paper, it is worth highlighting that the collective investment in co-operation is an investment from people, who typically inhabit a more-or-less clearly defined geographical area (eg, a village, town, region, or nation). Thus, the embeddedness of resources in the community (ie, membership) that collectively owns the organisation means that they are local and practically immobile (Tuominen et al, 2006), whereas the resources of an IOF are principally globally mobile. This has significant consequences on the management of consumer co-operatives, as will be addressed in the following sections.

Mission: the starting point for strategy

When it comes to private ownership of enterprise, the owners have the right to define the foundational objectives for the organisation they own and to receive benefits of its operation (eg, Hansmann, 1996). In other words, the owners define the underlying idea of why the company exists and, thus, the starting point for strategy (Grant, 2002). The overall statement that combines the values and objectives of an organisation is typically referred to as the organisation's **mission** (eg, Grant, 2008). While a deeper analysis of mission statements *per se* is beyond the scope of this paper, it is noteworthy that those declared on company posters and websites may or may not reflect the actual starting point for the strategy of that company.

If one wishes to aggravate (and in this paper we do), one may argue that IOFs only exist "to maximise the net present value of the firm's earnings" (Hansmann, 1996, 62). This objective may be accompanied by some other objectives, but it is argued that they are typically nominal and suppressed by the primary objective (cf Grant, 2008). As introduced, co-operatives are different in that they exist to maximise member satisfaction derived from the use of their services (Peterson and Anderson, 1996). While some scholarly accounts seem to emphasise individualistic short-term satisfaction (eg, Nilsson, 2001; Laurinkari, 1994), it is maintained that there is also a collectivistic element to the mission. That is, consumer co-operatives are said be on a mission to promote the wellbeing of their communities (eg, Fulton and Hammond-Ketilson, 1992). A good example of such two-fold mission is provided by Uski et al (2007) in a previous issue of this journal. The declared mission of S Group Co-operatives in Finland is

1) "To provide and organise services for the customer-owners" and increase their wellbeing. (p23)
2) "To develop the economic and social wellbeing of the region." (p23)

In the following sections we will explain why the two-folded mission may be considered real as opposed to unreal (which is the position taken by many). When considering what it takes to follow consumer co-operatives' primary mission, the collectivistic aspect of the mission may be understood not only as idealistic, but as a rational extension (cf Fulton and Hammond-Ketilson, 1992). Next we turn our attention to this issue in more detail.

Strategies of consumer co-operatives

According to Bourgeois (1980), the concept of strategy has its main value, for both profit-seeking and non-profit organisations, "in determining how an organisation defines its relationship to its environment in the pursuit of its objectives" (p27). Among many definitions, strategy has two primary purposes:

1) Domain definition
2) Domain navigation

which also specify the stepwise hierarchy of strategies (cf Porter, 1980; Ansoff, 1965).

In his popularised writings on contemporary strategy analyses, Grant (2008) argues that both of these steps are important if one wishes to successfully follow the mission:

1) Top management must locate the company in an industry (or industries) that offers a favourable operational environment (ie, an industry that offers the potential for maximising shareholder value).
2) Field management must position the company advantageously in relation to its competitors within the selected industry (ie, position the company in a way that maximises returns to the shareholders).

The first step, typically labelled as *corporate* or *portfolio* strategy (see Bourgeois, 1980; cf Katz, 1997) includes decisions over the scope of the firm's activities. Roughly stated, it answers the question *what industries we should be in* (Grant, 2008). The second step, often discussed under the headings of *business* or *competitive strategy,* includes the creation of competitive advantage in the chosen industry (see Bourgeois, 1980; Porter, 1980). Simply expressed, it answers the question *how we should compete* to survive and prosper (Grant, 2008). We start by addressing the question of business portfolio.

Corporate strategy

According to Grant (2002), corporate executives have to define the right portfolio of businesses for the firm by making decisions concerning

a) Diversification or exit from particular products or markets.
b) The geographical spread of activities.
c) The range of vertically linked activities.

Next we will discuss each of these in relation to the mission of consumer co-operative.

Scope of products and services

IOFs may operate in virtually any segment of the environment where there is an opportunity to make more money (ie, to satisfy the shareholders' profit expectations). Principally they will operate in businesses where they can pursue, for example, monopoly power over their customers (eg, Peterson and Anderson, 1996). Consumer co-operatives are different in that their primary task is

1) To operate in businesses where there is need to counteract different monopolies and cartels and/or
2) To produce products and services that have relevance to its members (Normark, 1996).

While the best portfolio managers in IOFs generally do limit their range of businesses in some way (in part to limit the specific expertise needed by the top management), the nature of ownership sets typically much less constrains on the scope of products and services than it does in co-operatives. In other words, the executives of IOFs have the option of making dramatic turns in corporate strategies (eg, Nokia's move from rubber boot business to mobile phones), whereas co-operatives are basically bound to compete in those businesses where there is a market failure to be fixed: where they are able to produce benefits to their members (cf Cook, 1994).

From the top management perspective, one might characterise a co-operative's fields of business (or at least value systems as will be shown later) as to great extent given. Unlike the top managers of an IOF, executives of consumer co-operatives cannot decide to withdraw from a business and to allocate resources to another simply because that field of business is declining (ie, when there is less profit to be made; cf Johnson and Scholes, 2002). In fact, it is likely that there will be even more need for the co-operatives' product and/or service provision, when rent-seeking actors withdraw to more favourable environments. A co-operative, for which profit is not an end it self (ie, as consumer–owners are not investors; cf Borgen, 2004), may remain in the business as long as it can cover the costs of its operation (Fulton and Hammond-Ketilson, 1992).

What is important to acknowledge is that the question of the range of products and services internalised is related to transaction costs associated to organising across markets and the administrative costs associated with organising within the firm (cf Coase, 1937). Thus, consumer co-operatives may not always rely on self-provision when it is in the members' interests to add some services to their portfolio. The work of Uski et al (2007), for example, shows that consumer co-operatives may complement their portfolio with the services of partner firms. Partnerships (with co-operatives and/or other firms) come to question, when the members have needs that cannot be served efficiently enough by the co-operative itself. Further, acquisitions are not out of the question either, if they are required to make the breadth of the co-operative in relation to markets consistent with the breadth of its members' needs.

Geographical scope

As outlined above, another element of corporate strategy includes deciding the geographical areas in which the company competes (Grant, 2008). Herein lies another key difference between the strategic management of IOFs and consumer co-operatives. In the globalising

economy, IOFs (that are becoming increasingly multinational) may relocate their activities to more attractive environments practically anywhere in the world (Grant, 2002; Porter, 1991). Consumer co-operatives cannot do this since they are, as pointed out earlier, usually tied (legally and socially) to a particular geographical area. As characterised by Jussila et al (2007), consumer co-operatives may be considered as "captives of their regions" (p38). That is, their mission is to serve particular members and communities. On the other hand, when considering the type of businesses consumer co-operatives quite naturally operate in, there seems to be little need to move away from a particular operational area. As long as there are people, it is unlikely that the need for many of the basic services, such as those related to retailing, banking and/or insurance would disappear any time in the near future. It is the same as with the scope of products and services: there will be even more need for the co-operatives' presence if other service providers withdraw from an area (Fulton and Hammond-Ketilson, 1992).

Vertical scope

According to Grant (2002, 407), "deciding which parts of the value chain to engage in presents companies with one of their most difficult strategic decisions." What makes it difficult for the top management of an IOF is that the company may choose to operate in virtually any part of the value chain, if it has the capabilities to maximise shareholder value by doing that. In consumer co-operatives, things are different. They are strategic alliances of service users — joined together to achieve certain gains they would not achieve if acting solo (Uski et al, 2007; Normark, 1996) — which means that their primary task is to operate as a link between the consumers and particular value chains. What also narrows down choices for the top executives of consumer co-operatives is that the value chains end with the member and, thus, there is only one direction to integrate, namely, backwards.

According to the prevailing wisdom (see Grant, 2002), the "forced" specialisation may not be a bad thing since the advantages of specialising in a narrow range of vertical activities will often outweigh the potential benefits of vertical integration. It is unlikely that, for example, ownership of manufacturing organisations would provide benefits for a retail co-operative. This is because manufacturing and retailing are quite different types of businesses. As Grant (2002) explains, "manufacturing requires product development and operational capabilities; retailing requires rapid response capabilities, astute buying, and constant attentiveness to managing the customer interface" (p397). Nevertheless, research on consumer co-operation does provide examples of backwards integration growing from horizontal multiparty alliances (see Uski et al, 2007). However, those examples do not include manufacturing, but purchasing and logistics. Further, the purpose of such integration is to increase the competitiveness of the co-operatives involved. That is, those decisions relate to answering the question **how** we should compete, rather than answering the question **where** we should compete. We will pay more attention to this issue in the following sections as we examine co-operative management in terms of business strategy.

Business strategy

As indicated above, business strategy focuses on how a company competes for survival and success in the selected markets (Grant, 2002). The competition is ultimately a battle for competitive advantage in which firms rival one another to attract customers and manoeuvre for positional advantage (Grant, 2008) and, thus, competitive strategy is mainly about being different: "deliberately choosing a different set of activities to deliver a unique mix of value" (Porter, 1996, 64). Competitive advantage of a rent-seeking company is based on value created to its customers (ie, the price that customers are willing to pay for a product or service), which is greater than the costs of its production (Porter, 1985). Consequently, an important part of an IOF's business strategy is to try to affect the customers' willingness to pay (the more they are willing to pay, the more there will be profit for the investor-owners). As suggested above, this includes attempts to promote market inefficiently (ie, attempts to create monopoly power), which is an opposite aim to that of consumer co-operation (Hansmann, 1996; Fulton and Hammond-Ketilson, 1992).

Overall, the basic point of departure for strategy-making in consumer co-operatives differs dramatically from that of IOFs in that customers (and their imperfect information) do not serve as tools for the company to make

money for investor-owners (Mills, 2008)[2]. Instead, a co-operative is a tool for the consumers to maximise value for themselves (eg, Fried et al, 1999; Michelsen, 1994). The implications of this difference will be discussed in detail in the following sections, as we address the use and utility element of ownership showing where the collective resources of co-operators are committed to. This includes, in part, turning our attention also inside the organisation to picture what can be done to make use of the differences between consumer co-operatives and IOFs to create competitive advantage for the former: to create concrete value to the members with a price close to the cost of its production (value that is the price the consumers would be willing to pay **less** the value they do pay).

We will next discuss value creation in terms of generic business strategies:

1) Overall cost leadership and
2) Differentiation (Porter, 1980).

These industry-wide strategies may be employed by companies to gain a position that will secure the firm's survival and success in a given industry. Each of these may be applied in the management of a consumer co-operative, but to serve a mission quite different from that of IOFs.

Overall cost leadership

The first of the generic strategies (Porter, 1980) refers to the low cost relative to competitors as the theme running through the entire strategy (though quality, service, and other areas cannot be ignored). Given that it is the household's bottom line that is in the primary interest to the owners of a consumer co-operative (cf Peterson and Anderson, 1996; Cook, 1994) and, thus, the purpose of the co-operative is to offer goods and services to the members with better prices than their competitors (cf Normark, 1996), the pursuit of overall cost leadership strategy within a given industry seems a kind of necessity in the management of consumer co-operatives. This is particularly important in environments where the market is otherwise becoming efficient (ie, it is becoming truly competitive). What we believe will help executing such a strategy is that there are several special features to consumer co-operative businesses that promote it.

The overall cost leadership strategy is based on the idea that via persistent learning a company can outperform others in the market (Porter, 1980). What speaks for co-operative advantage is that co-operatives may concentrate on the long-term development of an efficient organisation as it comes to the provision of particular goods and services, whereas IOFs have to adapt to the pressures of quartile economy (eg, those created by predator-investors). The patience associated with consumer co-operation is likely to help co-operative organisations in this task operating trough the knowledge and abilities of committed employees (cf Wheeler and Silanpää, 1997). Further, unlike in other types of enterprises, there is no conflict of interests between a consumer co-operative and its customers, which means that there is motivation on the part of both the customers and their co-operative to develop businesses that satisfy the customer needs most efficiently (Mills, 2008; Peterson and Anderson, 1996).

According to Porter (1980), achieving a low overall cost position often requires a high relative market share or other advantages. We go on to believe that the nature of consumer co-operation will help co-operative managers execute this strategy. As Mills (2008) put it,

> there is an economic incentive for members to bring their trade to their co-operative, to maximise its business, to improve its efficiency and to increase their share of the surplus (reduce the price of the goods) (pp18–19).

We believe that members who realise the kind of business they are in may engage in, for example, word-of-mouth behaviour to increase the volume of the business and, thus, lead to better cost efficiency.

There are also other features to co-operation that seem to promote execution of the low cost strategy. One of them relates to the typically low interest paid to member shares and to the inexpensive collective capital. As Mills (2008) points out, a consumer co-operative "does not have to maximise profits in order to pay the highest possible return to investor-owners" and, therefore, it should be a more economical way to trade (p19)[3]. In the Building Societies' Association, for example, the estimated cost saving provided by the absence of external shareholders is approximately 35% (Mills, 2008, 23). Although issues related to governance are

beyond the primary scope of this paper, is worth acknowledging that the agency costs of user-ownership (ie, that involves an intimate patronage relationship) may be significantly lower than those of investor-ownership (Peterson and Anderson, 1996). What is also worth acknowledging is that the overriding duty of profit maximising that drives IOFs, unlike consumer co-operatives, may result in taking too big risks. When those risks are realised, they will dramatically increase the costs in the company that took them.

What is peculiar to the traditional idea of co-operation is that an ideal co-operative should not make profits at all, since it would mean getting rich on the expense of those actors whose interests the co-operatives are supposed to serve (Jokisch, 1994). Recognising the highly successful co-operative business models today (eg, Mills, 2008; Uski et al, 2007), there is probably no reason to highlight that this view has been outdated[4]. It is understood that maintaining a low cost position requires heavy investments, in which a good financial position becomes crucial (cf Porter, 1980). Keeping in mind that "there is no capital market interested in providing capital because of the illiquidity and non-appreciably of co-operative stock" (Cook, 1994, 51), profits are necessary in order to accumulate reserve capital needed to achieve permanent potential for promoting the members' interests; to maintain permanent competitiveness. Thus, although it is not an end in itself, consumer co-operatives *do* aim at book profit, show it, and have good reasons to retain it (eg, Hansmann, 1996; Jokisch, 1994; Lipfert, 1994; Fulton and Hammond-Ketilson, 1992). One of the good reasons is that collective capital serves as an alleviation and absorber of external shocks (Borgen, 2004; cf Pfeffer and Salancik, 1978), which co-operatives may face like any other business operating in an environment of unpredictability (Mills, 2008). Consider, for example, the current global financial crisis. It seems that co-operative banks and credit unions (with their collective reserves) create stability in otherwise turbulent markets (Fonteyne, 2007). Under such conditions, the collective capital is likely to improve a co-operative's negotiation position towards the providers of loan capital (Borgen, 2004) and, thus, contribute positively to the low cost strategy.

In considerations of cost efficiency and adequacy of collective reserves, business strategy feeds back to the corporate level. To be more precise, withstanding success in competition may require, for example, diversifying into related lines of business (Katz, 1997) as well as horizontal/vertical integration and/or establishment of strategic alliances among co-operatives (Uski et al, 2007). Evidence shows that many consumer co-operatives (including credit unions) have travelled down that route. In the banking industry, for example, we have seen a fair share of mergers aimed at gaining economics of scale advantages to remain competitive (eg, Ralston, Wright, and Garden, 2001). According to Fried et al (1999), synergy related benefits are to be created especially in mergers of similar size organisations that are in some way a little different. A traditional way of multiparty collaboration between consumer co-operatives is the establishment of second order co-operatives. Sometimes that collaboration has also served vertical integration (cf Uski et al, 2007). A Harvard Business School case (Casadesus-Masanell, Khanna, Skurnik, and Mitchell, 2008) shows that central development of product assortments, for example, allows retail co-operatives to consolidate volumes and negotiate better prices on the supply side of their value chains. Further, collaboration diminishes several risks at the local level (Uski et al, 2007), which we believe will build up much needed courage in execution of strategies. As characterised in a non-academic article by Lotti, Mensing and Valenti (2006), the cooperative solution also helps to gain a firm position in terms of collective learning (ie, via exchange of information and benchmarking within chains) and within group competition.

Differentiation

The second of the generic strategies (Porter, 1980) is about providing the customers with something unique that adds value to them. In IOFs this strategy is about increasing company profits by affecting the customers' willingness to pay, while in consumer co-operatives it is about finding qualitative ways to maximise member satisfaction. The work of Porter (1980) leads us to believe that co-operatives' long tradition in their industries helps them execute such a strategy.

Consumer co-operatives often differentiate themselves from their competitors by providing the customers with more convenient store location and a functional portfolio (Bager, 1994),

better quality combined with reasonable prices (Mills, 2008; Normark, 1996), and/or immediate (just-in-time) answers to their changing needs (Saxena and Craig, 1990). They have also been known to build member loyalty with monetary rewards paid to them during the accounting period. For example, monthly bonuses may be paid to the members in relation to their purchases (Mills, 2008; Münkner, 1981). Perhaps the most unique feature in consumer co-operation (ie, something that cannot be copied by other forms of business), is refunding the member after the accounting period. While IOFs distribute their profits to the shareholders in relation to the amount of stock held by each owner (on the dividend ex-date), consumer co-operatives usually distribute their earnings to the patrons in proportion to the amount that each of them purchases (Hansmann, 1999, 1996)[5]. Overall, it seems that the association of the roles of customer and owner will help differentiation, as it promotes the development of strong linkages between the customer and the co-operative (Normark, 1996). What the closer linkages may mean in practice is that, for example, the member will be "more willing to provide higher quality, more frequent, and greater amounts of information than would a customer … of an IOF" (Cook, 1994, 53). It is our belief that this information may be used to serve the members in a way that provides them with unique value.

In crowded marketplaces, companies strive for a truly unique selling proposition which can separate them from their rivals in the minds of customers. We believe that the close linkages between the members and their co-operatives serve to do just that. In other words, it is likely that (via closer interaction) the customer as a user will develop psychological ties with his or her co-operative (ie, with the organisation he or she is an owner of), which is less likely to happen in a relationship between a customer and an IOF. The close association may result in experience of psychological rewards of membership (cf Tuominen et al, 2006). Further, the developments within the past decade or so have made corporate social responsibility (CSR) a powerful building block for customer loyalty. Just a few decades ago, many issues related to CSR (eg, care for the environment, attention to employee interests, and cooperation with public actors) were seen as unjustified abuse of executive power (Friedman, 1962), but today those issues are a serious matter even in those societies where shareholder capitalism has usually been endorsed (Grant, 2008). Thus, we believe that also the previously belittled soft values and social goals of the co-operative movement (for those values and goals, see Mills, 2008; Nilsson, 1996) may now serve as a source of competitive advantage through positive differentiation. That is, the social and economic contributions of co-operatives toward their communities (ie, the distribution of a share of co-operatives' added value for sustainable development of the community) that may seem as unintentional, unplanned outcomes or by-products emerging from the process of organising and operating a co-operative (Zeuli, Freshwater, Markley and Barkley, 2004, 21), can alternatively be seen as rational (Jussila et al, 2007; Jokisch, 1994; Lipfert, 1994). In fact, according to Fulton and Hammond-Ketilson (1992), the role of a steward combined with economic criteria has been proved as a successful differentiating business strategy for co-operatives. Even if the investor-owned rivals do use substantial amounts of money on CSR projects (not to be invalidated by the environment), they typically lack credibility as they simultaneously try to pass all the risks to customers, staff, suppliers and the communities affected by their trade (cf Mills, 2008). In other words, it is hard for them to reach the level of social rewards that consumer co-operatives may provide their members with.

Finally, it is worth acknowledging that size is a tricky question as it comes to executing differentiation strategy in the above described way. Being local provides a co-operative with knowledge of the local ways of thinking, being, and acting as well as understanding about the values of the local community (cf Tuominen et al, 2006; Hansmann, 1999). This knowledge and understanding helps the co-operative differentiate itself from non-local competitors. Being too small, however, a co-operative will not be able to play its role as the steward of regional competitiveness (eg, attracting and retaining additional economic activity in a local area; cf Fulton and Hammond-Ketilson, 1992) because that requires resources. In other words, the elements of differentiation strategy that relate to individual utility require being small, while the elements that relate to collective utility necessitate quite the opposite. Similar conflicts are to be found between differentiation and overall cost leadership strategy (cf Porter, 1980). Overall, a balance between strategic choices that best lead to realisation of the mission of

consumer co-operatives ought to be found in each context. That balance, however, is an issue of governance and management behaviour, which we leave for future considerations. Next we will summarise our review, which we hope will be of assistance to both researchers and practitioners in considerations over the strategic management of consumer co-operatives.

Summary

In this paper, we have analysed the strategies of consumer co-operatives from the ownership perspective. We began concentrating on the first element of co-operative ownership, the individual and collective investment of resources. After that we discussed what is expected in return from the investment, introducing both the individual and collective-based elements of consumer co-operatives' mission (ie, maximising of member satisfaction in the short term as well as that of the whole community in the long term) with brief comments on how that mission differs from the IOFs' quest for profit. After the starting point for strategy was defined, we moved to explore how the third element of co-operative ownership (ie, the individual and collective utility) may be served in terms of strategy. Following a brief introduction to corporate and business strategies, we constructed a framework for the strategic management of consumer co-operatives.

From the corporate strategy perspective, we presented several issues worth highlighting. First, as consumer co-operatives' primary task is to counteract particular monopolies and cartels and/or provide products and services that have relevance to their members, their fields of business (or at least value systems) are to great extent given. Second, as consumer co-operatives are usually embedded in a particular geographical area, they cannot relocate their activities to more attractive environments in the way that IOFs do. Third, as the strategic alliances of service users, consumer co-operatives are specialised in operating as links between the consumers and particular value chains. Overall, the question where we compete requires a lot less attention from co-operative executives than those of IOFs.

How we compete seems to be a more critical question to co-operative management. In this paper, we addressed this question in terms of (generic) industry-wide business strategies. We argued that the pursuit of *overall cost leadership* strategy within a given industry is a kind of necessity for consumer co-operatives in order to follow their mission, highlighting its importance in markets that are becoming more efficient. Based on previous literature, we pointed out several special features to consumer co-operation that may help co-operative organisations apply the low cost strategy, such as 1) long-term permanence in the businesses they operate, 2) members' contributions to the development of a more efficient organisation, 3) members' willingness to transact themselves with the service provider they own and to bring in new customers/members to increase volumes of the business, 4) lower costs of capital, and 4) lower agency costs. We also highlighted the crucial role of collective reserves and acknowledging the option of different sorts of collaborations as well as mergers to secure permanent potential to occupy a low cost position.

Turning our attention to *differentiation*, we noted that consumer co-operatives often separate themselves from their competitors by providing their customers (ie, members) with 1) more convenient store location, 2) a more functional portfolio, 3) better quality combined with reasonable prices, 4) immediate (just-in-time) answers to their changing needs, and 5) monetary rewards paid to them during and after the accounting period. We also pointed out that in the increasingly competitive markets, a co-operative may gain competitive advantage by being able to increase member satisfaction with psychological and social rewards (eg, those related to CSR) that cannot be easily provided by other service producers. In connection to the differentiation strategy, we also acknowledged the tricky question of size, but left finer-grained analyses for future works on the topic.

Conclusions

An often ignored fact is that *who* owns an organisation and *why* makes a significant difference as it comes to strategic management of that organisation. The purpose of this paper was to contribute to research on co-operative management by addressing the connections of ownership with consumer co-operatives' mission and some elements of strategy.

Our work maintains that the key to understanding the distinctiveness of consumer co-operatives strategic management from that of IOFs lies in the concept of value maximisation. The meaning of the term *value* is somewhat different and significantly broader in

consumer co-operatives than in investor-owned corporations. It may be seen to include patrons' economic rewards as well as rewards of social and psychological nature. All of these rewards contribute to member satisfaction and, as proposed in this paper, to the competitive advantage of consumer co-operatives.

While the notion about these differences may seem obvious to those familiar with co-operation, current mainstream strategic management literature does not take into account the difference even in economic rational terms. Yet, that literature may be imposed to students of co-operation without the acknowledgement of significant differences. That literature may also be used to educate new co-operative managers as well as those occupying (other) important institutional roles. Thus, it is very often writers such as Grant and/or perspectives such as the Porterian that these key actors are somewhat familiar with. This is part of the reason why we considered it important to point out certain boundary conditions and differences as it comes to application of that scholarship in consumer co-operatives.

About the question whether or not the mainstream strategic management theories are applicable to co-operatives at all, our answer is two-fold. In our view, these theories are applicable to consumer co-operatives, but only as long as the purpose of operation and the two-fold mission of these organisations are kept in mind. Thus, the differences between co-operatives and IOFs should be noticed. However, recognition of those differences must not pull the rug from under these theories.

What comes to application of this particular paper as a basis for strategic management in consumer co-operatives, we must offer a word of caution. Our work is at best reflective of an early stage of theory development. Many of the studies employed in this paper to address, for example, the sources of competitive advantage in consumer co-operatives are descriptive in nature and lack empirical evidence. In addition, our work is simplified on purpose and the usefulness of each strategy must be assessed carefully, paying attention, for example, to the competitive environment and institutional context the potential applier operates in.

Overall, it is evident that a lot of research is needed to gain a deeper understanding of all the strategic options of consumer co-operatives, their use in various industries, geographical locations and institutional contexts. For example, case studies focusing on a successful use of each strategy in a particular situation would be valuable. We would like to see, for example, finer-grained analyses on the fit between the consumer co-operative and the environment. In this paper we have briefly touched management of resource dependencies as well as issues related to social legitimacy. A deeper analysis of these issues would benefit the creation of new knowledge in the area of co-operative management. Further, empirical comparisons between consumer co-operatives and IOFs would provide important new knowledge concerning co-operative advantage. However, a comparison should also be made between the different types of co-operatives (ie, consumer-oriented and producer-oriented) to uncover more of their distinctiveness.

Finally, it is our hope that co-operative management develops into its own identifiable discipline. Under such conditions, there will be less dependency on literature that is primarily designed for other than co-operative contexts. Nevertheless, we believe that interaction with the mainstream will continue to be useful. We wish that our work raises discussion and encourages new students of co-operative management to further elaborate the topic.

Iiro Jussila is a Professor of Management and Organisations at LUT, School of Business at Lappeenranta University of Technology, Finland. He holds a Doctorate of Science in Economics and Business Administration. His research is focused on co-operation, psychological ownership, and territoriality. In addition to previous publications in the Journal of Co-operative Studies, his work has appeared in Electronic Journal of Family Business Studies, International Journal of Co-operative Management, and Social Responsibility Journal. Pasi Tuominen, MSc (Econ & Bus Adm) is a Project Manager and Doctoral Student also at LUT, School of Business. His research interests include management and organisation of consumer co-operation in general and the role of regionality, locality, and territoriality in particular. Besides this journal, his work has appeared in International Journal of Co-operative Management and Social Responsibility Journal. Juha-Matti Saksa is a Development Director at Lappeenranta University of Technology. He holds a Doctorate

of Science in Economics and Business Administration. His primary research interests lie in the fields of institutional theory and strategic management. In addition to previous publications in this journal, his research has been published in International Journal of Co-operative Management, International Journal of Innovation and Technology Management, International Journal of Learning and Change, International Journal of Energy Sector Management, and Journal of Knowledge Management.

References

Ansoff, I (1965) *Corporate Strategy: An Analytic Approach to Business Policy for Growth and Expansion.* McGraw-Hill, USA.

Bager, T (1994) Isomorphic Processes and the Transformation of Cooperatives. *Annals of Public and Cooperative Economics,* 65(1): 35–57.

Bourgeois, L J (1980) Strategy and Environment: A Conceptual Integration. *Academy of Management Review*, 5(1): 25-39.

Borgen, S O (2004) Rethinking Incentive Problems in Cooperative Organizations. *Journal of Socio-Economics*, 33: 383-393

Casadesus-Masanell, R, Khanna, T, Skurnik, S and Mitchell, J (2008) Finland's S Group: Competing with a Cooperative Approach to Retail. *Harward Business School*, N9-709-409.

Coase, R H (1937) The Nature of the Firm. *Economica*, New Series, 4(16): 386-405.

Cook, M L (1994) The Role of Management Behavior in Agricultural Cooperatives. *Journal of Agricultural Cooperation*, 9: 42-58.

Cornforth, C J (1995) Patterns of co-operative management: beyond the degeneration thesis. *Economic and Industrial Democracy*, 16: 487-523.

Davis, P (1995) Co-operative Identity and Co-operative Management. *Journal of Co-operative Studies*, 84: 22-28

Davis, P (1997) Management Development for Co-operatives - A Review. *Journal of Co-operative Studies*, 29(3): 53-68.

Davis P and Worthington, S (1993) Cooperative Values: Change and Continuity in Capital Accumulation The Case of the British Cooperative Bank. *Journal of Business Ethics*, 12(11,) 849-859.

Dittmar, H (1992) *The Social Psychology of Material Possessions: To Have is to Be*. New York; St. Martin's Press.

Fonteyne, W (2007) *Cooperative Banks in Europe — Policy Issues*, IMF Working Paper, 07/159.

Fried, H O, Lovell, C A K and Yaisawarng, S (1999) The impact of mergers on credit union service provision. Journal of Banking & Finance, 23(2): 367-386.

Friedman. M (1962) *Capitalism and freedom.* University of Chicago Press, Chicago.

Fulton, M and Hammond-Ketilson, L (1992) The Role of Co-operatives in Communities: Examples from Saskatchewan. *Journal of Agricultural Cooperation* 7: 15-42.

Gide, C (1921) *Consumers' Co-operative Societies*. Co-operative Union Limited: Manchester.

Grant, R (2002) *Contemporary Strategy Analysis*. Fourth Edition, Blackwell Publishing, Cornwall.

Grant, R (2008) *Contemporary Strategy Analysis*. Fifth Edition, Blackwell Publishing, Cornwall.

Hansmann, H (1996) The Ownership of Enterprise. Belknap Press of Harvard University Press: Cambridge, MA.

Hansmann, H (1999) Cooperative Firms in Theory and Practice. *The Finnish Journal of Business Economics,* 4: 387–403.

Johnson, G and Scholes, K (2002) *Exploring corporate strategy*. 6th Edition. Prentice Hall; Harlow.

Jokisch, J (1994) Assesment of Success and the Distribution of Benefits and Surplus in Co-operatives. In E Dülfer and J Laurinkari (Eds) *International Handbook of Cooperative Organizations*, pp23-28. Göttingen: Vandenhoeck & Ruprecht.

Jussila, I, Kotonen, U and Tuominen, P (2007) Customer-owned Firms and the Concept of Regional Responsibility: Qualitative Evidence from Finnish Co-operatives. *Social Responsibility Journal* 3(3): 35-43.

Katz, J (1997) Managerial Behavior and Strategy Choices in Agribusiness Cooperatives. *Agribusiness*, 13(5): 483-495.

Laurinkari, J (1994) Motivation for Cooperation. In E Dülfer and J Laurinkari (Eds) *International Handbook of Cooperative Organizations*, pp620-622. Göttingen: Vandenhoeck & Ruprecht.

Lipfert, H (1994) Business Policies, Co-operative. In E Dülfer and J Laurinkari (Eds.) *International Handbook of Cooperative Organizations*, pp69-74. Göttingen: Vandenhoeck & Ruprecht.

Lotti, R, Mensing, P and Valenti, D (2006) A Cooperative Solution. A Resilience Report 7-17-06 in *Strategy + Business*. http://www.strategy-business.com/resiliencereport/resilience-2006. Accessed Oct 12th 2008.

Michelsen, J (1994) The Rationales of Cooperative Organizations. Some Suggestions from Scandinavia. *Annals of Public and Cooperative Economics,* 65(1): 13-34.

Mills, C (2008) Do Large Membership-Based Businesses have a Future in the Twenty First Century? Some reflections on UK retail co-operative societies. *Journal of Co-operative Studies*, 41(2): 17-29.

Mintzberg, H (1985) Of Strategies: Deliberate and Emergent. *Strategic Management Journal*, 6(3), 257-272.

Münkner, H-H (1981) *Co-operative Principles and Co-operative Law*. 4th reprint, Institute for Cooperation in Developing Countries, Marburg/Lahn.

Nilsson, J (1996) The Nature of Cooperative Values and Principles. Transaction cost theoretical explanations. *Annals of Public and Cooperative Economics,* 67(4): 633-653.

Nilsson, J (2001) Organizational Principles for Co-operative Firms. *Scandinavian Journal of Management,* 17(3): 329-356.
Normark, P (1996) A Role for Cooperatives in the Market Economy. *Annals of Public and Cooperative Economics,* 67(3): 429-439.
Ofeil, K S (2005) Participative Schemes and Management Structures of Ghanaian Co-operatives. *Journal of Co-operative Studies*, 38(3): 14-26.
Peterson, H C and Anderson, B L (1996) Cooperative Strategy: Theory and Practice. *Agribusiness,* 12(4): 371-383.
Pfeffer, J and Salancik, G (1978) *The External Control of Organizations: A Resource-Dependance Perspective*. New York: Harper & Row.
Porter, M E (1980) *Competitive Strategy. Techniques for Analyzing Industries and Competitors*, New York: The Free Press.
Porter, M E (1985) *Competitive Advantage: Creating and Sustaining Superior Performance*, New York, The Free Press.
Porter, M E (1991) Toward a Dynamic Theory of Strategy. *Strategic Management Journal*, 12:95-117.
Porter, M E (1996) What Is Strategy? *Harvard Business Review*, 74(6): 61-78.
Ralston, D, Wright, A and Garden, K (2001) Can mergers ensure the survival of credit unions in the third millennium? *Journal of Banking & Finance*, 25(12): 2277-2304.
Rudmin, F W (1999) Property. In C B Gray (ed), *The Philosophy of Law: An Encyclopedia*, Garland, New York.
Saxena, S and Craig, J (1990) Consumer co-operatives in a changing world: A research review. *Annals of Public and Cooperative Economics*, 61: 489–517.
Sibbald, A, Ferguson, C and McKillop, D (2002) An Examination of Key Factors of Influence in the Development Process of Credit Union Industries. *Annals of Public and Cooperative Economics*, 73(3): 399-428.
Somerville, P (2007) Co-operative Identity. *Journal of Co-operative Studies*, 40(1): 5-17.
Suhler, D R and Cook, M L (1993) Origins of a Current Conflict? An Examination of Stock-Nonstock Cooperative Law. *Journal of Agricultural Cooperation*, 8: 54-62.
Tuominen, P, Jussila, I and Saksa, J-M (2006) Locality and Regionality in Management of Finnish Customer Owned Co-operatives. *International Journal of Co-operative Management*, 3(1): 9-19.
Uski, T, Jussila, I and Saksa, J-M (2007) Regional retail co-operation: a strategic network perspective on a customer-owned organization. *Journal of Co-operative Studies*, 40(1), 18-29.
Váradi, L (1994) Commonwealth, Co-operative. In E Dülfer and J Laurinkari (Eds) *International Handbook of Cooperative Organizations*, pp120-123. Göttingen: Vandenhoeck & Ruprecht.
Wheeler, D and Silanpää, M (1997) *The Stakeholder Corporation*. London: Pitman.
Zeuli, K, Freshwater, D, Markley, D and Barkley, D (2004) Cooperatives in Rural Community Development: A New Framework for Analysis. *Journal of the Community Development Society* 35(2): 17-35.

Notes

1 Corresponding author.
2 Note that this is an aggravated expression that does not appreciate the stakeholder view and the emerging interest to business ethics and corporate social responsibility (CSR). However, it well describes the dramatised difference between the two forms of business.
3 Co-operatives are free to decide whether to pay a rate of interest on share capital or not, and it is usual that a consumer co-operative uses this option. What is unusual, however, is the use of this option to distribute earnings in a capitalistic way. That is, the rate of interest is typically limited to highlight the nature of ownership (see Suhler and Cook, 1993; Münkner, 1981).
4 In fact, co-operatives are required (ie, by the law) “to build up reserve funds from profits as insurance against bad times” (Váradi, 1994, 122).
5 As a form of patronage refund, a co-operative may allocate retained surplus to the capital accounts of individual members, which means rise in the monetary value of their shares (Hansmann, 1996). While this may benefit the individual member (add value to the membership), it is often done to diminish the effect of inflation, not to increase the real value of the share. The fair and individually motivating principle is the central heritage of the Rochdale co-operative pioneers (cf Gide, 1921).