System Dynamics and Innovation in Food Networks
2009

Proceedings of the 3rd International European Forum on System Dynamics and Innovation in Food Networks, organized by the International Center for Food Chain and Network Research, University of Bonn, Germany
February 16-20, 2009, Innsbruck-Igls, Austria
officially endorsed by

EAAE (European Association of Agricultural Economists)
IAMA (International Food and Agribusiness Management Association)
AIEA2 (Assoc. Intern. di Economia Alimentare e Agro-Industriale)
INFITA (Intern. Network for IT in Agric., Food and the Environment)

edited by

M. Fritz, U. Rickert, G. Schiefer
Innovation in Food Networks and Organizational Diversity: A Case Study from the UK Retail Cooperative Sector

Valeria Sodano1 and Martin Hingley2

1 University of Naples Federico II, Department of Agricultural Economics, via Università 96 80055 Portici, Napoli, Italy. vsodano@unina.it
2 Department of Business Management and Marketing, Harper Adams University College, Newport, Shropshire, TF10 8NB, United Kingdom. mhingley@harper-adams.ac.uk

Keywords: cooperatives, local and global competitiveness, retailing, regional sourcing, socially responsible food networks, UK

Introduction

The still ongoing processes of consolidation and globalization affect the organizational diversity of the food system in very complex and somehow contradictory ways. The few transnational companies (TNCs) in whose hands the most part of food processing and distribution activities is concentrated, continuously look for organizational innovations to enhance their profits. Inter-firms collaborative arrangements, global sourcing and sector diversification are some of the most widely followed strategies that require (and/or lead to) new organizational forms. The paper identifies some important patterns of organizational structures and innovation in the food (and specifically food retailing) system, in order to evaluate the role and the competitiveness of cooperatives with respect to other organizational forms.

Literature on co-operatives based on the new institutional economic approach has developed since the beginning of the nineties and has reinforced the general wisdom (agreed by the previous neo-classical literature) that co-operatives, whilst being competitive with investor oriented firms (IOFs) as regard to a particular organizational asset such as trust; are meanwhile extremely weak due to the classical free-riding, portfolio and horizon problems. As a consequence co-operatives in order to survive have to reform their internal institutional framework in a way as to be more similar to their IOF counterparts. In contrast with this view the paper endeavors to demonstrate that in order to retain competitiveness, co-operatives must preserve and reinforce their traditional organizational structure, in particular not abdicating the two golden cooperative rules of democracy and mutuality. This is made clear by showing that when the comparison between IOFs and co-operatives is carried out, not only with respect to efficiency but also with respect to power; co-operatives prove to outperform the first ones as regards many issues, such as: exploiting competitive advantages in niche (for example, local) markets characterized by discerning and ethically conscious consumers. Further, co-operative advantages may lie in reducing transaction costs and enhancing equity in contractual relationships along the supply chain, reducing negative externalities associated with food production and distribution; supplying people with some basic public goods as food safety and security, environment protection and so on.

The presented case study refers to a UK retailing co-operative which is one of the most successful in the country and examines how the co-operative matches the challenge of retaining mutual and democratic status and competing with larger and national/international IOF businesses and a predominant centralizing business model. The case considers the innovative network supply
structure of the co-operative concerning the producer-collaborative supply of locally sourced food products and explores differentiation through application of core and historic Corporate Social Responsibility (CSR) values. The method is an exploratory single case, involving analysis of semi-structured interview at the retail co-operative level and with a principal partner within a local food producer group. The whole history of strategy and growth process of this co-operative shows how a straight commitment to the traditional values of the co-operative movement and a high responsibility towards the communities where business are run, did not hamper, but instead fostered its success. The results from the study show that notwithstanding the many difficulties that co-operatives face in competing with IOF retailers on a global scale, they may have the opportunity to survive and thrive as an alternative organizational form, when a genuine CSR is experienced by co-operatives members, customers, suppliers and the community as a whole.

In the first part of the paper we consider the philosophical context of competitive strategies of both IOFs and co-operatives and the reasons for decline of retail co-operatives when facing global and regional competition from IOFs. We then present a brief historic account of the development of retail co-operatives (focusing on their UK origins) and reasons surrounding the rise, fall and opportunities for re-emergence of retail co-operation in the UK. The rationale for a single case approach is outlined, followed by the presentation of the background and details of the case of the Lincolnshire Co-operative Society, in the UK. A discussion follows, using *in vivo* text from key stakeholder respondents in order to draw out the issues outlined concerning opportunities for co-operative retailing niche market development and competitive re-positioning; in the light of a re-evaluation of historic retail co-operative core values in the context of its modern day rediscovery, as Corporate Social Responsibility (CSR).

**Organizational variety in the food system**

Processes of consolidation, globalization and innovation that have occurred in the food sector during the last 20 years have had contradictory effects on the organizational features of the system. Currently one observes great variability in firm sizes among and within the sectors, whereby the presence of many small firms may coexist with the presence of quite a few very large firms. There is also a great variability in ownership and governance structures, and many types of arrangement of transaction along the supply chain with different relationships with suppliers and customers. Firms that operate in the same sector of activity are often characterized by various levels of vertical integration and different outsourcing relations. Notwithstanding this observed variability of organizational forms there seems to be a common force shaping the system in just the same way across countries and sectors: the power of TNCs and the ever growing concentration of strategic control and profits in the hands of a few. Excessive concentration (EtcGroup, 2008) within input markets (such as seeds and agrochemicals) and output markets (trading, processing, manufacturing and retailing) can work against the interest of small producers, in developed and in developing countries. The restructuring of national and regional markets due to liberalization makes domestic markets no longer a refuge for smaller farmers and processors; pushing them out of the market. This may have disastrous effects in low income countries where agriculture on small scale has traditionally acted as a means of poverty alleviation, through community-based systems, instead of market-based, of food production and distribution.

1. The concern that the concentration of economic power by the industries along the chain between primary producers and consumers might negatively affect the profitability and livelihood of primary producers and workers, as well consumers in low income countries, was clearly raised for the first time at level of international bodies in the report of the FAO panel of Eminent Experts on Ethics in Food and Agriculture in 2000.
The most dramatic change in the structure and organization of the world food system has occurred during the last 15 years with the accomplishment of the “retail revolution” initiated in the 1980s, when retailing shifted from a position of price-taking to that of ‘gatekeeper’ of the modern agrifood system. Looking at the total revenues of the top 10 companies in the three more concentrated sectors of the food chain: seeds and agrochemicals, food processors and food retailers (in Table 1.), it is worth noticing that in five years, from 2002 to 2007, the growth of the revenues of the top ten food retailer and input sectors have outpaced that of the food processors.

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Seeds/agrochemicals</th>
<th>Food processors</th>
<th>Food retailers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>29</td>
<td>259</td>
<td>501</td>
</tr>
<tr>
<td>2007</td>
<td>49</td>
<td>339</td>
<td>720</td>
</tr>
<tr>
<td>Rate of growth (2007/2002)</td>
<td>0.68</td>
<td>0.30</td>
<td>0.43</td>
</tr>
</tbody>
</table>

Today the world food system is characterized by the polarization between a globalized agribusiness and localized small-scale farming systems, each entailing different organizational forms and performances. Globalized agribusiness exhibits a highly concentrated structure, in which most power and leverage resides at the retail end and in which benefits are passed to customers and shareholders rather than producers. The organization of global agribusiness has progressively experienced a process of ‘deverticalization’ of the supply chains, stemming from the more vertically integrated national food systems of the 1980s, with the emergence of highly concentrated TNCs linked to a network of firms operating as affiliates and suppliers. As this process developed, different forms of governance, intermediate between markets and hierarchies have been experienced by leading firms within the global food supply chains. Gereffi et al. (2005), within the GVC literature1, classify these forms of governance into three ideal-types: modular, relational and captive2. They identify three key determinants of value chain governance patterns: codifiability of information, complexity of transaction and capability of suppliers. These three determinants are added to the classical determinants of vertical integration suggested by transaction cost economics: frequency, asset specificity and opportunism, as adjunctive factors affecting transaction costs (and determining what the authors call “mundane” transaction costs). Consistently with the traditional Williamsonian view, the three determinants explain the shift from more hierarchy oriented forms (such as the captive type) to more market oriented forms of

1. The Global Value Chain approach developed over the course of the late nineties and the 2000s is the third camp of commodity chain research (Bair, 2005) emerged after the previous commodity chain perspective, originally sketched by Hopkins and Wallerstein in 1977 within the world-system approach for the analysis of economic development, and the Global Commodity Chain approach initiated by Gereffi (Gereffi et al., 1994) at the beginning of the nineties.

2. In modular value chains suppliers making products to a customer’s specification act as independent firms because they are able to provide full package components. In relational value chains complex interactions between buyers and sellers create mutual dependence and the need for long term procurement contracts. In captive value chains small suppliers are transactionally dependent on much large buyers who exercise a high degree of monitoring and control through various means (Gereffi et al., 2005).
governance (such as the modular type) in terms of cost minimizing strategies. Private standards widely used by powerful retailers to discipline the participation of producers to the modern high value food supply chains, for example, enhance the codifiability of information and reduce the complexity of transaction; turning captive/relational chains in modular/market chains. Notwithstanding the processes of deverticalization and the widening of the market, global agribusiness has become progressively less competitive (Fox and Vorley, 2004; EtcGroup, 2008). There is skewed market power because of the high market share of leading brands and supermarkets and there is strong buying power exercised by processors and retailers towards their suppliers. In the case of modular/market chain governance forms, buying power depends on the monopsonistic position of downwards actors. Instead, in case of relational forms of governance, buying power depends on the bargaining power of the acquiring sector toward the supplier, locked into a relational contract within a bilateral monopoly market setting. Moreover if one considers the diverse forms of collaboration amongst the leading firms (i.e. hybrid type mode of organization such as alliances, joint-ventures, networks, long-term partnerships and so on) at processing as well at retailing stage, an even stronger market/buying power can be assumed as consequence of the collusive effects of collaboration.

In the case of diverse localized small-scale farming systems, these are fundamentally of two types: those surviving in high income countries and meeting the upper demand segments for high quality regional/typical products and those characterizing rural areas of low income countries, meeting the lower demand segments of poor people; often through self-consumption production modes. Both these systems exhibit a great variety of governance forms, with different types of property structures (ranging from private firms to family farming and co-operatives) and a wide array of inter-firm collaborative networks generally designed to exploit scale and scope economies (through the joint management of some activities), to exercise some form of countervailing power towards powerful customers or suppliers; and in general to exploit network externalities of some kind. With regard to all the organizational arrangements currently present worldwide in the food system, in globalized agribusiness as well in localized small-scale farming systems, two important questions need to be answered:

- How do different organizational forms perform with respect some important private and public goals? And;
- To what extent is globalization consistent with such an organizational diversity or may require, by contrast a process of convergence?

Not pretending to give exhaustive and encompassing answers to these questions, it is meanwhile possible to give some meaningful insights into how to approach them. Performance of the diverse organizational forms can be assessed very differently depending on which criteria of evaluation are chosen. Within the narrow assumption of the neoclassical paradigm, globalized agribusiness, with its modular/market forms of governance may be deemed to perform largely better than the localized small-scale farming systems, due to the exploitation of scale and scope economies and a higher propensity towards high technology innovations; such as those in the field of information telecommunication and bio-nano-technology. Instead when relaxing the hypothesis of perfect contract enforceability, perfect information and absence of public goods and externalities and when taking into account the redistributive effects (using a concept of equity wider than the one encompassed by the Pareto-efficiency criteria), localized small-scale farming systems prove to perform far better than global agribusiness. As stressed by the literature on agriculture sustainability and local development, local food systems can both produce positive externalities (on economic as well as on social grounds, as captured by the concept of multifunctionality within the EU cohesion policy) and mitigate negative externalities; and help
to alleviate poverty in low income countries. In contrast, global agribusiness sustains a food model which is highly fuel dependent and environmentally devastating (the literature on food miles is one within the literature on sustainability that has egregiously assessed the high social costs of modern agribusiness). Neither one can rely upon Corporate Social Responsibility (CSR) at a time in which market deregulation, required by the neoliberal agenda, is associated with firms’ strategies for seeking short-term profit and shareholders’ value maximization; mainly as a consequence of the ‘finanziarization’ of the economy. Looking at the equity issue benefits of localized small-scale systems, these are associated with the more competitive market structure and with the fact that trust is generally used to correct contract incompleteness in buyer-seller relationships. Total chain value tends to be equally shared by farmers, processors, retailers and consumers. Within globalized agribusiness the big companies at manufacturer and especially at retail level appropriate the most part of the food chain value, by exercising monopolistic, monopsonistic and bargaining power as well constitutional power; this latter defined as the power to enforce contracts (when enforcement mechanisms external to the relationship are not available) and as the power to influence state market regulatory policies. The same modular mode of governance that Gereffi et al. (2005) indicate as more equitable can be instead viewed as a means by which leading actors make their supplier networks more disperse, economically weak and exploitable. In a sense through this form of governance, the big buyers/retailers within globalized agribusiness have attained what according to Cox et al. (2002) is the ideal situation for a buyer, i.e. “to be a monopsonist and able to source from suppliers located in highly contested markets in which there are low switching costs and low barriers to market entry”.

Given that globalization has been the main driver of the process of concentration in the food system and of the rise of the tremendous power of leading TNCs, there is the risk that as globalization advances, localized small scale food system will disappear with a general loss of organizational diversity. In contrast to some literature (Guillen, 2003) that considers globalization also as an opportunity for preserving social and economic territorial diversity (due to the fact that local cultural peculiarities may become a key element for attaining competitive advantages based on differentiation) the current dynamics in the world food system show a process of convergence towards the organizational modes of the global agribusiness; with local systems being put out of the global competitive game. All over the world supermarket dominance of agrifood is already a matter of fact. In China, where first supermarkets entered at the beginning of 1990s, today the modern food chain comprises around one-quarter of the country’s food retail sales. In Latin America the penetration of transnational retail firms proceeded rapidly during the 1990s, with a marked impact on the structure and organization of the food sector (Reardon and Berdegué, 2002). In India the accelerated penetration of TNC during the 1990s and the negative consequence on the equilibria of local food systems has made the government prohibit Foreign Direct Investment in retailing, restricting modern food outlets to the urban centers. Where supermarkets spread, local food systems are put in danger, small farmers who cannot meet the standards requested by the new buyers go into bankruptcy, food diversity declines, and rural communities get poorer. In the food sector, as everywhere, globalization produces inequalities, social and environmental damages and a dramatic concentration of power. Globalization can be seen by some to be a not a “natural” product of the evolution of societies and economies; where instead it is a product of the neoliberal project, not aimed to promote economic growth and welfare, but to reinforce the power of the world economic élites (Harvey, 2005).
The role of co-operatives in the food system

Since the beginning of co-operative movement, initiated with the enunciation of the Rochdale Principles of Co-operation in 1844, co-operatives have flourished in agriculture and in the food sector all over the world. Nevertheless, stemming from the 1980s, they experienced crisis and decline. This decline has been often taken as a proof of the rightness of the theory of the co-operative firm given by mainstream economics. According to the latter, co-operatives are transitory and defective (because of the traditional defects associated with the vaguely defined property rights, i.e. the portfolio, the horizon and the free-rider problems generally reported by the literature on co-operatives) forms of enterprise and are deemed to be substituted by the more efficient proprietary enterprises; as institutional innovations solve market failures and market forces select the best proprietary form, that is the investor oriented firms (IOFs) (Ward, 1958). The more recent neoinstitutional theory of the firm shares these same conclusions (Hansmann, 1996), as does the literature specific to the food sector (Cook, 1995; Cook and Iliopoulos, 2000; Cook and Sykuta, 2001; Cook and Plunkett, 2006; Hendrikse and Veerman 2001a; 2001b; Hendrikse, 2004). Stemming from this view the remedies suggested (and implemented) by scholars and policy makers to cope with the crisis of co-operatives in the food sector have led to a redesign of co-operative boundaries through a realignment of ownership structure (Cook and Chaddad, 2004). In order to develop new mechanisms to acquire equity capital and follow the general trend of concentration and ‘finanziarization’ of the food sector, some co-operatives have become more open to outside investors with genuine profit-seeking goals. Outside investor capital has been introduced either directly, allowing pure-investor membership, or indirectly, by means of trust companies, strategic alliances and subsidiaries. These changes have resulted in requested changes to co-operative organisational rules and structures, such as release from the main traditional co-operative attribute, mutuality. Mutual status restricts the distribution of the firm’s net earnings or assets to members and requires all the firm’s revenues to be devoted to providing services.

In summary the standard interpretation sees co-operatives as a transitory and imperfect type of enterprise aimed at defending some class of weak patrons (here the term patron refers, following the neoinstitutional idea of firm as a nexus of contracts, to all persons with whom the firm has a contractual relationship) towards exploitative terms of contract set by capitalistic firms by virtue of their economic and bargaining power. Workers, customers, suppliers, when facing very unequal terms of exchange can constitute a co-operative (a labor, marketing or processing co-operative) in order to produce their own goods or services (in a non-exploitative way) previously accessed through a contractual relationship. Nevertheless when looking at the ensemble of constitutive traits of co-operative enterprises, considering both their formal institutional architecture and their real conduct, it is clear that the defensive goal is not the rationale that gave birth to the Co-operative Movement. For instance, limited return on equity (that is the co-operative peculiar trait investigated by standard economics) is only one of the Rochdale Principles of Co-operation established in 1844 (and updated by the International Co-operative Alliance in 1995). These principles include, besides limited return on equity: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training, and information; co-operation among co-operatives; concern for community. From these principles it is clear that people engaged in a co-operative enterprise not only want to defend themselves from the exploitation of capitalistic firms, but they want to build an alternative way of organizing production and transactions, trying to offer good exchange conditions to the patrons of the firm and renouncing any form of abuse of power and exploitation. By removing incentives for the firm’s managers to earn profits, the incentive to exploit the firm’s patrons is reduced. By promoting co-operative rather than competitive behaviors together with a genuine interest for social objectives, co-operatives actually correct market failures and
contract incompleteness, using trust instead of power. The very nature of co-operative enterprises resides in reciprocal attitudes of economic actors, grounded in social norms and ethical values. “Co-operatives as distinct forms of business rely upon members to work together towards collective goals; trust lies at the heart of co-operation and provides the basis for communication that is essential for members to seek mutual benefit; ethics provides the foundation for trust that must be present for co-operation to occur” (USDA, 1997). In some sense the function of co-operatives can be viewed as that of resisting the monopolistic degeneration of the capitalistic mode of production and of providing society of those public goods that either the market or the state fail to supply. If one looks at the negative effects of the modern globalized capitalism, that goes a good deal further than that already denounced by Baran and Sweezy (1966) and Braverman (1974) from a Marxian perspective\(^1\), in terms of exploitation of workers and nature and in term of rising income and social inequalities, it is clear that co-operatives could indeed be able to mitigate these effects.

In the food system co-operatives could help to preserve organizational diversity, to contrast with the squeezing effect of global food commodity chains, to reduce negative social and environmental externalities produced by socially irresponsible behaviour of investor oriented firms (IOFs). In small-scale farming systems co-operatives can sustain interfirm collaboration for the exploitation of scale and scope economies as well as network externalities. Above all, as summarised in Table 2. requests for social responsibility in the food system are more likely to be complied with by co-operatives than by capitalistic firms (Sodano, 2007; Sodano and Hingley, 2008).

Nevertheless, to accomplish these tasks, it is important that co-operatives renounce the instinct to chase capitalistic firms in their competitive and exploitative modes, and instead maintain their particular traits: democracy, solidarity, mutuality, collaborative behaviors, preference for equity. It is also important that better competition policies would be implemented at global level, in order to contrast the excessive concentration of power within the food sector. If this will not be the case the unscrupulous power/profit seeking behaviours of large capitalistic firms will jeopardize the organizational diversity of the system, pushing out those organizational forms, like co-operatives, that do not conform to the new neoliberal world order.

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1. These words of Braverman (1974) egregiously fit the effect of neoliberism and globalization in term of work and livelihood precariousness: that portion of the relative surplus population which Marx called “stagnant, irregularly employed and living in conditions of life that have fallen below the average normal level of the working class, and furnishing a broad basis for special branches of capitalist exploitation, has grown to encompass huge proportion of the populations of the inner-city, rural areas and suburban regions.” (Braverman, 1974, p. 398).
Retail co-operation in the UK

The Co-operative Movement, or Co-op, is an association of a consumer owned co-operative united under and regulated by the Co-operative Union/Co-operatives UK and originates from the aforementioned ‘Rochdale Pioneers’ of co-operation; and this 19th century mutual and organisational philosophy and structure rapidly developed in the UK and subsequently internationally (Williams, 2005). The founding principles still present today were formed at this time, including member profit share known as the ‘dividend’ (Co-op, 2009a). The movement internationalised and politicised, supporting labour movement politics and had its own direct local and parliamentary government representatives in conjunction with the Labour Party. The movement had its own education and training institute, including a national college. In the modern day the Co-operative Group (representing the majority of UK co-operative societies) operates a wide variety of businesses such as retailing, banking, insurance, travel agency and funeral undertaking. In 2006 the movement had 1.5 million economically active members, making it the UK’s largest co-operative. For £1 anyone can be part of The Co-operative, and each member has an equal right to a say in how the business is run and how to achieve its social goals. In this same year £19m of profits were returned to individual members (Co-op, 2009a). The Co-operative Group has core values, ethics and principles which they can trace for over 150 years and believes that it has a responsibility to manage and develop its diverse businesses in a sustainable way, and ethical trading is one of these core principles. In the early 1990s the Co-operative bank became the first to launch a ‘customer led ethical policy’ and the movement was an early backer of the Fair Trade movement and product identity and is still the leading retailer selling Fair Trade products in the UK (Co-op, 2009a). The success of this multi-enterprise movement and business made the Co-op the leading multiple trader business in the UK, right up until the 1960s. In 1950 in the UK, 90% of all self-service grocery and food stores were operated by co-operatives (Co-op, 2009a). Indeed in grocery retailing, in terms of market share, the Co-op were the principal and leading chain, overshadowing private sector and Plc (IOF) businesses until

Table 2. Attitudes Towards CSR: Differences Between Co-operatives and Investor-Owned Firms (IOFs)

*Source: Sodano and Hingley, 2008*

<table>
<thead>
<tr>
<th>Requests for CSR</th>
<th>Responses by Cooperatives</th>
<th>Responses by Public Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Contract Incompleteness</strong></td>
<td>Corrected by trust, (symmetric Nash bargaining solutions for the bargaining game associated with hold-up problems)</td>
<td>Residual claims exploited through power (inefficient and unequal solutions for the bargaining game associated with hold-up problems)</td>
</tr>
<tr>
<td><strong>Avoiding</strong></td>
<td>Ethical concerns for community and fairness preferences boost the internalization of social costs</td>
<td>Concerns for stock values and selfish behaviours prevent from the internalization of social costs</td>
</tr>
<tr>
<td><strong>Negative Externalities</strong></td>
<td>Equity and fairness preferences help to solve free-riding problems</td>
<td>Opportunism exacerbates free riding problems</td>
</tr>
<tr>
<td><strong>Providing Public Goods</strong></td>
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</tbody>
</table>
comparatively recent times. But then began a slow and progressive descent that coincided with the ‘golden age’ of competitive supermarket growth in the UK (notably in the 1980s and 1990s) where slicker more market oriented and innovative operators took a great deal of market share from the Co-op, reducing it to a shadow of its former self by the turn of the 21st century.

But what was the cause of this decline? Certainly aggressive competition from very professional retail operators like J. Sainsbury and Tesco had a major impact on the Co-op’s fortunes. The centralised and national buying policies of these IOFs and movement of the battleground of competition to the edge of town, to massive superstore outlets, took its toll on the Co-op; such that the Co-op by the 1990s had largely withdrawn from the edge of town superstore end of the grocery market, in the face of too stiff competition (Hallsworth and Bell, 2003). What had previously been the Co-ops strength: mutualism, localism and community serving and community based business, became unfashionable in the last quarter of the 20th century. Further the Co-op movement which had grown because of its proud local, decentralised tradition suffered in the age of competitors’ centralised efficiencies. Where once it was with great pride and sense of local ownership that each district or even town had its own co-operative society, now this was a cause of inefficiency and inconsistency of market offer to customers enticed by competitors who marketed national retail brands under a cohesive image, in smart new surroundings; tailoring their businesses to car-based shoppers. Competitive pricing was often keener from IOFs, their products more inventive and the offer more consistent. The profit driven private and public sector retail competitors had an offer which customers liked and the Co-op seemed out of touch. Most damning, the Co-operative Movement in the last quarter of the century was ridden by infighting between branches of organisational structure that made integration of the huge diversity of their businesses hard to achieve. The Co-op was an enormous monolith with interests from farming and food manufacturing to a tremendous diversity of retail interests; but connectivity between structures, organisation and businesses was difficult. At their height Co-ops had more than 1400 independent societies in the UK (Co-op, 2009a) that had grown piecemeal in towns and regions. In the modern age how would it be possible to compete with such motivated and competitive capitalistic businesses when the offer of the Co-op was so fragmented in terms of corporate identity and business format?

The Co-op movement has undergone a long term and progressive process of re-structure and re-organisation. Typically the stronger town and local co-operative societies merged with weaker ones to form county or regional co-ops. However, very early on the co-operative societies realised that if they were going to benefit from co-ordinated buying power, they needed to buy together, rather than having, for example, 1000 societies all going to the suppliers’ individually; and so in 1863 the Co-operative Wholesale Society (CWS) (now the Co-operative Group) was formed (Co-op, 2009a). This started off purely as a buying group, but over a long period of time, societies have merged down to around 20. But, some of the societies that were unsuccessful, rather than merging with each other, merged with the wholesaler (CWS) itself; such that that the wholesaler is now also by far the biggest retailer. So, the balance of the whole movement has changed, whereby in food retailing, two-thirds of the shops are now run by The Co-operative Group. However, the other independent societies still have a stake in that wholesaler (CWS) and get their supplies also from them (Co-op, 2009a).
In terms of the national UK picture the Co-operative Group (formed as a result of mergers in 2000) now takes less than 5% of grocery retailing in UK. This could be seen as an astonishing decline for a movement that once held a one-third share of UK grocery sales in the 1960s. At its height British co-operatives operated 30,000 retail shops reaching their peak in terms of market penetration; having market shares for food of 20% and 12% of non-food; and with 13 million people reported to be in membership (Co-op, 2009b). This is a major decline; however, it does not take into account the wider remit of the grocery sector and phenomenal rise of IOF grocers in poaching the trade of retail specialists in everything from packaged and fresh food, to clothing and electrical goods and so much more. Add to this the new grocery markets that have been created and grown by the Co-op’s competitors (for example, in chill-fresh foods and ready meals). It is worth noting the almost complete reversal of fortunes of the Co-op in the last 40 years in comparison with, for example, Tesco who in this period of decline for the Co-op, grew from a regional discount grocery trader to UK market leader and significant international retail player. The current UK grocery market shares of the major operators makes interesting reading:

<table>
<thead>
<tr>
<th>Table 3. % of UK Grocery Market Share 2007 by Sales</th>
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</thead>
<tbody>
<tr>
<td>Source: TNS data in IGD (2007)</td>
</tr>
<tr>
<td>Tesco 31.3</td>
</tr>
<tr>
<td>Asda 16.9</td>
</tr>
<tr>
<td>J. Sainsbury 16.5</td>
</tr>
<tr>
<td>Morrison (incorporating Safeway) 11.1</td>
</tr>
<tr>
<td>Co-op 4.7</td>
</tr>
<tr>
<td>Somerfield 3.6</td>
</tr>
</tbody>
</table>

The data in Table 3. shows that over 84% of grocery sales in the UK in 2007 worth £133.3 billion was taken by only 6 organisations (IGD, 2007). Tesco in recent years have out-performed all of their competitors and significantly pulled away from even their nearest rivals. Although much of the growth has been organic, the grocery sector in the UK has also grown by merger and acquisition, the most significant example being the takeover of Safeway by Wm Morrison (IGD, 2006). It is against this background and context that after finally rationalising the number of regional societies and re-structuring of national organisation (with the latest big co-operative merger in 2007 between The Co-operative Group and United Co-ops) that the Co-op has entered the acquisition game itself. In 2008, the Co-op, the UK 5th largest grocery retailer bought out Somerfield, the 6th placed chain for £1.57 billion. According to the Co-op this will strengthen its position in the UK retail market (BBC, 2008) with a combined over 8% market share. This, they hope will put the Co-op in a position where they are a strong national and more cohesive player in grocery retailing, just behind the major superstore based operators and in a market niche (primarily in town centres) where the both the Co-op and Somerfield have their core business. However, for the acquisition deal to go through, the merger with still have to satisfy UK regulations on competition and regional market share and as with the Morrison/ Safeway merger, the Co-op may have to sell off stores in certain locations in order to satisfy the Office of Fair Trading (OFT) rules (Reuters, 2008). However, this will only concern issues of potential localised monopoly and in general the Co-op/ Somerfield deal will perhaps provide a counterpoint to the predominance of the ‘big four’ UK retail players.

As identified, one of the historic disadvantages of the Co-op has been in its decentralised
approach to buying and therefore also national brand identity. In response to this, in 1994 most societies grouped together to form the Co-operative Retail Trading Group (CRTG) a joint purchasing group (based in Manchester) which facilitated the advantage of more centralised group purchasing (Co-op, 2009b). Its strategy is determined by all of the societies together to benefit from economies of scale in buying and to also facilitate a common buying strategy. So to put the present position of the Co-op in perspective, not only is it the 5th largest retailer in retail market in UK it is also the biggest consumer co-operative organization in the world. What will now be interesting to see is whether the tide of decline of co-operation has been arrested and stabilised in UK retailing? Further, what is it that the Co-op, through its particular ethos and way of doing business based on mutualism, democracy, member loyalty and reward and long standing core attributes of CSR (Corporate Social Responsibility) can offer to a challenging world? This is an especially pertinent question following the sudden movements at the end of 2008 and beginning of 2009 which shook global financial markets, business confidence and undermined core beliefs in free market capitalism. Is there, therefore, a time for re-emergence of the mutualism, ethical trading and innovation in local market supply based member loyalty, long espoused by the Co-op Movement? The Co-op in the UK has already been at the forefront of the CSR agenda, concerning such issues as Fair Trade and environmentalism; also its banking arm pioneered ‘ethical investments’ and finance in the UK. Indeed much of their ethical agenda is now incorporated into the mainstream of competitor retailers’ CSR initiatives. These are areas already identified in Sodano and Hingley (2008) and in the case of the UK Midcounties Co-operative society and their development of ‘local sourcing’, identified in Hingley (2006). It is, therefore useful to look at another co-operative mutual retail society in more detail, in order to explore just what it is that can be observed and learned concerning the nature of co-operation and competition and such matters of organisation that can offer innovation in retailing, supplier networks and CSR.

**Methodological approach and the case study**

The approach to this study is a single case exploratory study of an organization (the Lincolnshire Co-operative Society) that can reveal context and information about the case in question, but be representative of and inform the development of other comparable organizations and contexts. The approach follows the single case method outlined in Eisenhardt (1989) and Stake (1995) and is consistent with view expressed in Yin (2003) concerning the importance of choice of ‘typical’ cases. The Lincolnshire Co-operative Society is certainly typical in co-operative philosophy, structure and organization, as are its business operations typical of the mix represented in the UK Co-op Group. However, the case was also chosen for its success in managing its human and physical assets and having a reputation for forward thinking co-operative solutions to the challenges of modern business, with concern for local sourcing and the ethical and environmental agenda; and therefore how this may make the co-operative model of retail business competitive in the world of global competition (Lincolnshire Co-op, 2007; 2009, Anon, 2008a). So, in this way the choice of a single case also conforms to the importance of investigating innovative and leading edge organizations, as is also identified in Yin (2003).

The core of the case is based on in-depth interviews with the CEO of the society (as the single most significant decision-maker and hub of member policy within the organization), access to published annual reports and statements, member and promotional literature, web, PR and news based information and through observation of stores and business premises; and also because the objective was to learn about retail innovation through food business networks, interview with a local producer group, supplying meat to the society. Face validity in the study was established through a process of feedback and review of study data with case respondents, and emic issues emerging from interview are presented in this paper through the inclusion of direct
quotations to illustrate the key arguments.

Lincolnshire is a predominantly rural county in the east midlands of the UK and bordering the east coast of England, it is a large and not densely populated county, with often comparatively large (for the UK) distances between towns. The original Lincoln Co-operative Society was founded in 1861 in Lincoln, the principal city of Lincolnshire, by a small group of working men who wanted to improve the life of working people. One of the prime motivations at the time and of The Co-op Movement as a whole was the provision of decent and unadulterated food. Co-operation flourished in Lincoln and over the years the Co-operative societies across Lincolnshire merged into one, whereby four societies merged in the period of the 1950s to the 1980s. The Lincolnshire Co-operative Society is a mutual society which serves members (160,000) almost entirely within the county of Lincolnshire (Lincolnshire Co-op, 2007). The society is stronger in Lincolnshire than the Co-op Group is as a whole in the UK. Where a national market share (as cited above) is around 5%, the Lincolnshire Co-operative Society has a county grocery share of around 20%. Further, in other businesses (for example, pharmacy and travel agency) the society is especially strong and they also have car dealerships and petrol stations. An interesting aside to note is that the society has 50% of the market for funeral services (and the Co-op Group is also nationally strong in this). The society is therefore truly an illustration of ‘cradle to grave’ ideals and this is testament to the Co-operative Movement’s mutual and socialist origins as well as its wide-ranging business interests. Another major strength (and also a perhaps significant historic context) means that Lincolnshire Co-op own a lot of real estate and consequently are active in property development.

In terms of organisation, anyone can become a member and anyone who has a legitimate reason for joining, can join the society. Those people then elect a board of Directors from their numbers, who then appoint a Chief Executive Officer, who then appoints the management team. It is that lay board that determines what the strategy will be, whilst taking advice from the CEO. So, the Co-operative and its management (as stated by the CEO of Lincolnshire Co-op, below) are entirely motivated by satisfying members’ interests:

...they [the board] and I, have always in our minds to make reference to our members. So we are always thinking: ‘what would our members want us to do’? (CEO)

The most fundamental difference from being a customer of an IOF retail chain is that customers are very likely also to be members. In a rural county such as Lincolnshire this equates to a phenomenally high penetration of member loyalty:

So many of our customers are members: 160,000 out of the Lincolnshire population, [it] is probably one in every other household. CEO

So the approach is different in that the Lincolnshire Co-op does not distinguish between a customer and member, as customers are very likely also to be members. Members receive benefits of loyalty, through the profit share dividend and so on; but they see business, customers, membership and community as inter-related and inter-dependent:

....we think of our community, our membership and our customer base as being almost the same. CEO

The principal rationale from the perspective of the Lincolnshire Co-op is that they are there to serve the people in the local area and it is this association with the county and local communities that provides a point of difference:

....it is not a purely financial relationship; it is about so many intertwined things. ...the benefits that we think we are giving our members are so much more about community, about supporting all the infrastructure within their community and building up the services locally. CEO
As a result, the raison d’être of the Lincolnshire Co-op is in provision of member and community services and growth through expansion, not of stores, not of national and international investment, but of more, different and better services to their membership. But this raises issues of the barriers to growth that may be put in place by having an associative structure. Does this mean that co-operatives are held back in any way concerning their ability to gain access to investment capital, compared with IOFs, who may issue new shares? The CEO of Lincolnshire Co-op agrees that co-operatives have fewer ways of raising capital and it could be something that could restrict growth. As identified earlier, it is possible for co-operatives to raise additional capital, but this is not done lightly within the UK Co-operative Movement and such decisions are always considered to be undertaken without damaging the essential co-operative structure and philosophy.

Certainly in the case of Lincolnshire Co-op, the investment approach is one of building up their capital over many years. This may therefore be at the heart of the relative stability of the co-operative model against a backdrop of a significant number of retailer chain failures in the UK at the end of 2008 and into 2009, as recession took hold. It is interesting to note that one of the major causes of business failure during this recession is in lack of access to capital through the normal lending channels, as inter-bank loans have all but dried up. It may seem, therefore, that the model of self-financing in the co-operative sector (traditionally seen as a slow and restrictive route to growth) may produce long-term results in terms of stability; as examples by the Lincolnshire Co-op and their policy of re-investment in existing operations, support for local communities and avoidance of over-reaching, fast growth strategies based upon borrowed finance (Lincolnshire Co-op, 2007). Further, the co-operative model of member voting and collective decision making (albeit through an elected member board) effectively ‘puts the brakes’ on potentially over-ambitious growth strategies and keeps the organisation grounded in the fundamentals of community centred business services.

Another main point of difference between co-operatives and IOF businesses (as outlined above) is the perceived weakness of having a localised and decentralised co-operative buying structure, whereas retail grocery businesses in the Plc sector have made tremendous commercial gains from centralisation of buying, marketing and of their supply chain facilities (Hingley, 2005). As identified also above, the development of the CTRG based at the Co-operative Group in Manchester does now allow the regional co-operative societies, like Lincolnshire Co-op to benefit from central buying and distribution; and it is easier for the group as a whole to maintain common national marketing identity and consistency of store offer. However, by learning from and matching the advantages of IOFs, there is a danger of a loss of that which provided a significant point of differentiation for the regional and local cooperative societies, and that is in their local appeal, the ability to market highly localised products; and thereby meet the needs of local communities. The Lincolnshire Co-operative takes a twin track approach, by accessing the CTRG for mainstream national and international products and to take part in national campaigns and being part of the national and regional distributive system that supplies all Co-operative group stores; but has a second string to its bow, in that they have a very strong local sourcing agenda. This made for a departure from the Co-operative Group norm and is a way in which the Lincolnshire Co-op have initiated network supply in order to encompass localised solutions to support local business communities, and to provide their members and customers with high quality local products and all of the associated benefits of good value and low environmental impact; and as a consequence have engendered local pride in business as part of the community. However, going against national policy of central purchasing was a difficult decision and one which initially proved difficult for Lincolnshire Co-op in their relations with the Co-operative Group, as identified below by the CEO and by the Chairman of Lincolnshire Quality, their partner regional meat supply group:
When I took this up [the issue of local meat supply]…. the Manchester buying group [CRTG] was a bit unsure about it…. But they are now pretty supportive and have good initiatives elsewhere. CEO

Our relationship with the Lincolnshire Co-op is very much a symbiotic one. They are the only [retail co-operative] group in the country with their own butchery department and have been able to boost sales in their stores with our locally produced meat, whereas all the other Co-ops centrally sourced meat from Manchester. Chairman of Lincolnshire Quality

This strategy of developing ranges of locally sourced product was derived from the desire of Lincolnshire Co-operative to offer their customers products that come from their own communities and has further grounding in the rural and agricultural nature and origins of the region. When you are in a very agricultural part of the county … there are a lot of people in farming and they say: ‘you are the Lincolnshire Co-op, you should have Lincolnshire products- we are growing them [producing local food] and want to see them [local food products] in your stores’. CEO

A combination of factors led to Lincolnshire Co-op moving towards local sourcing rather than national or international sourcing of certain food products, these are notably in direct sourcing of local fresh foods. The motivation was to support the rural economy of the county against a background of rural decline and to offer customers high quality products at good value. The first product area chosen was in meat:

Eleven years ago we were sourcing our meat from wherever we could get it from, …focusing on trying to compete with the big supermarkets on price. Our then butchery manager said: ‘I think we are getting it wrong. … we have [locally produced] beef cattle, sheep, pigs. Those farmers have premium product and if we could work with them, rather than just trying to buy our meat from the cheapest source, rather than competing just on price, with unknown provenance we could have a real quality product’. …. This was the time of BSE and farmers really struggling to sell their meat products, so the farmers’ were willing to try it…. CEO

As a result Lincolnshire Co-op were instrumental in assisting with the establishment of a local meat supply group, called Lincolnshire Quality Beef, Lamb and Pork and sit on the steering board of this organisation alongside representatives from the farmers. The livestock and meat chain is a truly local, ethical trading organisation and an origin traceable sourcing venture. The products are brand identified through an on-pack and in-store Lincolnshire Farm Assured and Quality Lincolnshire rosette logo which is the symbol of the scheme. Further the scheme can be seen as having a very low environmental impact in terms of minimal ‘food miles’. In fact, Lincolnshire Co-op identify, through point of sale and promotional literature that the meat can have travelled as little as 60 miles from farm to abattoir to store. All of this is used by the organisation to underpin their commitment to both local economy and community (Anon, 2008a) in which: ...it is an entirely closed loop, it all stays in Lincolnshire. It is really Lincolnshire [identity] it [the livestock] goes to our abattoir in Skegness and [then the products go] to our depot in Lincoln and is distributed [to stores]. So it has very short food miles and high quality assurance. CEO

Lincolnshire Co-op were instrumental in supporting the farmers’ group and from the beginning were the major customer (Anon, 2008b) and without their support the meat from Lincolnshire Quality Beef, Pork and Lamb would not have gained such a volume of consistent sales, as the Chairman of Lincolnshire Quality testifies:
Marketing, initially was grant aided, so we were able to hold big launches for the producers and later, consumers, with the production of quality leaflets and advertising. After the grants ran out in 2002, times were very hard and without the support of our main customer, the Lincolnshire Co-op, we couldn't have survived. Chairman of Lincolnshire Quality

Lincolnshire Co-op regards local sourcing as a long-term venture based on their partnership with farmers and put the sustainable success of the venture down to this approach. Interestingly, Lincolnshire Quality notes the high level of failure amongst other regional meat supply ventures and believes that this failure was due to short-termism in commitment from national (IOF) retailer customers:

... we are not thinking about trying to force extra margin for ourselves at the expense of the farmers’. It is truly a co-operative venture where we are working together, to keep the farmers’ in sustainable business, to get high quality products into the shops and to be fair to all the people in the chain. CEO

Lincolnshire Quality scheme has been recently recognised (in 2008) through a national Rural Action award won through the Business in the Community (BiTC) scheme (Anon, 2008a; Anon 2008b). The award was made to Lincolnshire Co-op and the farmers, abattoir and the butchers that make up the Lincolnshire Quality Scheme. This is a prestigious national award that saw the venture celebrated and Lincolnshire Quality beating competition from national and international IOFs to win the accolade for this supply chain innovation that encapsulates success in support for local communities and local economy, through provision of high quality products.

The success of alternative local product marketing, based on community centred ethical trading with local suppliers, can been seen as an outcome of the co-operative approach to local sourcing and marketing, which would not necessarily have worked within the centralised structures of IOFs; and even within Lincolnshire Co-op itself it was not easy to match the expectations for national policy with a local buying solution. It would be difficult, however, to envisage how national and international IOFs could support such regionalised initiatives and match the long-term view and commitment that a co-operative organisation, grounded in the local community can achieve. Local sourcing and the establishment of local supply networks can also be seen as an aspect of ethical, and Corporate Social Responsibility (CSR) policy. Many organisations (including IOFs) lay claim to CSR, but some may see this as merely a part of modern business strategy and an adoption of ‘new clothes’. Is the co-operative approach different? The Co-operative Movement argument is that all the components that have come to be known in modern ‘business speak’ as CSR, are in fact ingrained in the philosophy of the Movement and therefore have been fundamental to all that they have done for over 150 years; this view is echoed by Lincolnshire Co-op:

...When I think about CSR, I think it is what we do, and what we have always done. CSR has come alive in the last few years. But when we look at it from a co-operative perspective, it seems to me what we were set up to do and what we have always done. It is our way of running our
business, not something that we have suddenly come across and decided to add on to our business. CEO

For Lincolnshire Co-op CSR is simply at the core of what co-operation and their business is all about:

We are a business run solely for the benefit of our customers, because of the way we are structured. Therefore, everything we do has to be socially responsible, because we are literally responsible to the community and the social fabric of our society. ...We are not here to make some money for some shareholders and think that CSR is something we ought to do on top... or what the market is driving us to do. CEO

This fundamental commitment to their community leads the Lincolnshire Co-op to engage with society in many ways and this again is seen as long-term and engaged, rather than being part of some marketing campaign:

...I would not want anyone to think it is about ‘running projects’. It is really about a whole business philosophy. It is always in the context of what is good for our community, because we are owned by the community. CEO

These engagements, for example, take the form of diverse and typically very long term commitments, such as the ownership (again along co-operative lines) of the local professional football club, Lincoln City FC, which highly unusually is community owned; with the Lincolnshire Co-op as the major stakeholder. Lincolnshire Co-op support many environmental initiatives, including the establishment of a co-operatively organised community wind energy programme. There is commitment to education programmes in county schools via paid educational supporters. Lincolnshire Co-operative invest through grants to many community initiatives and not just on a ‘one off’ project basis, but in infrastructure (Lincolnshire Co-op, 2007; 2009) in conjunction with the local government authority to provide, for example library services or a local Doctors’ or Dentist surgery. These are not simply economic propositions, but support to what are often isolated rural communities. But at the heart of this is the thread of a CSR agenda that goes back to the historic context and commitment of the Co-op Movement and that of the Lincolnshire Co-op. But does having a long history of commitment to social and ethical matters make the co-operative approach to CSR more genuine and sustainable than that of competing IOFs?

Lincolnshire Co-op does believe that there is a difference and that it is derived from the nature of member ownership:

The fundamental difference is, ....members own this business, it is their business and they get a say in how it is run. In an organisation that is structured as a Plc, their customers will never have that input, they will never have that say, it will never be run purely for their benefit; it will always be run for the shareholders’ benefit. CEO

Member ownership of a co-op, like Lincolnshire Co-op, on a straightforward financial basis means that members receive a dividend payment for loyalty in shopping with co-op businesses and it could be argued that IOFs also return dividend to shareholders; but the key difference is that the 160,000 members have equal ownership of the Lincolnshire Co-op rather than the disproportionate ownership of block shareholding in Plc organisations; and significantly Lincolnshire Co-op members are also the customers. But for Lincolnshire Co-op it is in the engagement of CSR within the local community that it serves, which marks out the real differences in the co-operative approach. This takes the form of having members groups in each major town, members committees, member based events and more. In this way co-operative policy is developed and shaped by the community it serves. Further, members are able to contact the CEO direct to offer information, views and advice, and do so:

The members phone me up... I do get calls from members saying: ‘Oh did you know [for example] that there is this site becoming vacant, or there is this going on....?’ CEO
As a result the overriding and determining view of the Lincolnshire Co-op is that it is member driven and community centred and that is a truer application of CSR:

...this is their shop and when they shop here and money is made in that shop, that money then goes back into their communities; so they are helping their community by shopping in their shops. CEO

The cooperative structure allows Lincolnshire Co-op to consult and engage directly with members and reach decisions that are locally taken. Here lies a difference, again in application of CSR policy that would be difficult for national and international IOFs to make. This is exemplified in the Lincolnshire Co-op environmental policies. Members were consulted concerning the removal of plastic carrier bags from stores and replacement with reusable bags. Because the members decided that this was their wish, the policy was implemented. This could not be done in a business of another type of organisational structure, and comparable environmental policies in other business are piecemeal and voluntary.

Another central plank of CSR is through engagement of staff and through issues such as ethical and fair treatment of employees. Once again, is the co-operative approach different from investor owned counterparts? Certainly, staff are rewarded with a generous profit share (15% of profits are returned to employees) in addition to member dividend benefits. Profit share may not be unique to the co-operative sector but the view from Lincolnshire Co-op is that they are certainly different concerning staff relations, because, once again, they view employees as being part of the community which they serve:

If we went around upsetting our staff, it would be their families and their communities that we would be upsetting. So treating them well is not only the right thing to do, but if we didn’t it would go totally against what we are trying to achieve in our communities, because they are part of that community. CEO

In this way Lincolnshire Co-op staff are encouraged to be engaged in the two-way process of customer interaction and the double benefit is that the customer is very likely to be a member in addition to having staff who are members, and this helps to build the sense of united community service:

...we can talk to our members through our staff, and all the time are getting feedback.... in both directions, giving and receiving. So hopefully we are getting it right, and ‘by getting it right’ I mean doing what our members and customers want us to be doing. CEO

Of course all market oriented organisations will claim customer responsiveness, but community ownership via customer and staff membership is a point of difference. The Lincolnshire Co-op view is that IOFs, by contrast, could simply stop CSR engagement tomorrow if they were to implement an alternative marketing policy or strategy, or adapt to changing business conditions; but that for a member centred co-operative which governs through member based decision-making and meetings, this is just not an option. Lincolnshire Co-op believes that it must take the long-term view and that this can only be based on mutual trust between all stakeholders (members, customers, community, staff and suppliers). This means that Lincolnshire Co-op do not make decisions on a purely commercial basis, but from a long-term grounded CSR basis that has a historic pedigree, rather than being determined by current corporate fashion. The model of co-operation plays a part in allowing that, because the co-operative business is freed from some of the pressures of the market that IOFs have to bear:

We often make decisions that on purely commercial grounds other people [IOFs] would not take. ...We take decisions every day that are more about corporate and social responsibility than about business. As long as we have got a good and efficient business within those parameters, we can do that, because we haven’t got an ‘alternative voice’ of shareholders, ...or media
saying: ‘what has happened to your share price?’ and so on. It gives us the freedom to actually do the right thing for the long term rather than respond [to outside pressures]. CEO

Lincolnshire Co-op can be seen as a financially stable (Lincolnshire Co-op, 2007), long-term oriented and local community and network based social success model for business; and in these uncertain times for global business have what is ultimately a simple philosophy from which others could learn:

*We are not here for markets, we are here because we are owned by the people, and the people are here. We don’t exist other than [for] the people, we don’t exist separately from the members,…. The co-operative is the local people.* CEO

Conclusions

Literature on co-operatives based on new institutional economics, developed since the beginning of the nineties, has reinforced the general wisdom (agreed by the previous neo-classical literature on co-operatives) that co-operatives, whilst being competitive with investor oriented firms (IOFs) as regard to a particular organizational asset such as trust; are meanwhile extremely weak due to the classical free-riding, portfolio and horizon problems. As a consequence co-operatives in order to survive have to reform their internal institutional framework to be more similar to their IOF counterparts. This has, in part, been the case in the UK Co-operative Movement, through its long process of amalgamation and restructure; to orientate the business more along the lines of centralised IOFs. However, in contrast with this view the paper demonstrates that in order to retain competitiveness, co-operatives must preserve and reinforce their traditional organizational structure, in particular not abdicating the two golden cooperative rules of democracy and mutuality. Lincolnshire Co-op is a case example of a regional co-op that has kept to the core philosophy of its long history in these aspects and has shown that it is possible to balance the demands of efficiencies in the competitive retail market place, whilst holding on to founding principles; and to still operate a financially and socially successfully set of businesses. In fact the very de-centralised nature of the structure of Lincolnshire Co-op in comparison with the IOF approach shows that a co-operative can outperform other business organisational formats with regard to many issues, such as: exploiting competitive advantages in niche (for example, local) markets characterized by discerning and ethically conscious consumers. Because of the associative status of the Lincolnshire Co-op they can make localised decisions that would simply not be available or possible in IOF organisations. Further, co-operative advantages may lie in reducing transaction costs and enhancing equity in contractual relationships along the supply chain, reducing negative externalities associated with food production and distribution; supplying people with some basic public goods as food safety and security, environment protection and so on. This is certainly the case concerning the innovative relationship that Lincolnshire Co-op has with the exampled meat supply group and Lincolnshire Co-op have followed up this initiative with the same approach in other food sectors, for example in bakery products. IOFs may have similar arrangements with farm and food producer groups, but few have the embedded, trust based relationship that deliver long-term rewards for all stakeholders (farmers, processor, the retail Co-op, members, customers and community) in a localised cohesive network. Ultimately, the lesson to learn from this innovative co-operative is in the genuine approach to CSR that has collective decision making and real business-community engagement at its heart, which demonstrates a point of departure from modern interpretations of corporate CSR; through the perhaps almost indistinguishable and seamless persona of customers who are members and members who are part of the fabric of community. In terms of organisational learning, Lincolnshire Co-op is not unique; there are other regional co-operative societies in the UK and international variants that have a similar history, structure and business
approach. However, the principal point of interest that makes the case worthy of study and potential future application, is in the retention of core values of mutualism and democracy and the fact that it is from the pursuit of these values that the retail co-operative can be innovative and creative in the way that it does business; in a way that IOFs would find difficult, specifically concerning issues of long-termism, network stakeholder trust and local orientation.

References


