Co-operatives in a Global Economy

Co-operatives in a Global Economy: The Challenges of Co-operation Across Borders

Edited by

Darryl Reed and J. J. McMurtry

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PREFACE

The idea for this collection of essays grew out of the 2006 Annual Meeting of the Canadian Association for Studies in Co-operation (CASC) which was held at York University in Toronto. The theme for this meeting, which we had the privilege of organizing, was “Co-operating in a Global Economy: Challenges to be Faced, Lessons to be Learned.” This theme provided us with the opportunity to investigate a variety of new developments involving co-operatives, such as Fair Trade, the recovered factory movement, and recent developments involving co-operatives in the agricultural sector in Cuba, among others. The theme also generated an occasion for critical reflection on the impact of globalization on co-operatives and the problem co-operatives face in their efforts to internationalize.

The 2006 Meeting was a huge success. This was due to the efforts of a large number of people and organizations, too many to mention all by name. We must first acknowledge financing for the conference from the Canadian International Development Agency (CIDA), which enabled us to invite scholars and practitioners from abroad to attend, along with Margie Mendell (Concordia University) who graciously agreed to give the keynote address. A number of local co-operatives also provided us with funding for the event. We must also acknowledge support from York University and, in particular, the Division of Social Science. On the organizational side of things, we need to thank Jorge Sousa (University of Alberta), the Past President of CASC, and Michael Gertler (University of Saskatchewan), the presiding President at the time, for their help and support. We would also like to acknowledge Ian Hussey, the convenor of the Canadian Fair Trade Students’ Network, for all of his work that he put into organizing the Fair Trade sessions and helping to establish closer links between the Fair Trade and co-operative movements. In addition, Stephanie Belmer provided invaluable logistical support for the conference. We would also like to thank all of the CASC members for their active participation in the meetings and their comments on presentations that have ended up as chapters in this collection.

In moving from the conference to the development of this collection of essays, we have benefited greatly from our participation as collaborators in a large research grant on the social economy that was funded by the Social

Science and Humanities Research Council of Canada (SSHRC). This grant has provided us not only with the opportunity to take up some new research projects, but also to engage with a larger community of scholars interested in the social economy. We are very grateful to all our fellow collaborators in this project, especially the members of the executive, Jack Quarter (the principle investigator), Laurie Mook, Michael Hall, and Denyse Guy. These interactions have greatly enriched our understanding of the issues involved in the internationalization of co-operatives. Of course, we especially need to thank the contributors, both for their submissions and for their patience during the long process of compiling this collection. Stephan Dobson has provided invaluable editorial services which have greatly enhanced the presentation of the papers. Finally, Cambridge Scholars Publishing has been wonderfully encouraging of this project from the outset as well as graciously forgiving with regard to deadlines, and deserves praise for their role in bringing this book to print.

J.J. McMurtry
Darryl Reed

INTRODUCTION

The nature of the international economy has been dramatically altered over the past three decades due to technological advances, changes in the organization of firms, and the liberalization of international trade and finance regimes. The collective result of these various changes, an increasing transnationalization of production and finance, is commonly referred to as economic globalization. While large corporations were the first to transnationalize their production, businesses of all sizes and shapes are increasingly being pushed (by competitive pressures) and pulled (by new market opportunities) into this globalizing economy in which national borders have ever less relevance. Co-operatives are no exception to this trend.

In their efforts to internationalize in the emerging global economy, co-operatives face a variety of problems that are common to all firms (e.g., attaining knowledge about new markets, meeting new, higher international standards, adapting current and developing new products, raising capital, etc.). Individual co-operatives, like other businesses, must develop internationalization strategies that are best suited to the markets that they compete in and to their own competitive strengths. Co-operatives, however, must address a particular complication in their efforts to internationalize, one that other firms do not have to face.

This complication is the commitment of co-operatives to co-operative values and principles. These principles and values are more restrictive than the general requirements of business ethics to which some firms aspire. The co-operative principles—for example, member ownership, member control—impose significant restrictions on co-operatives (e.g., how they can raise capital, how they can organize production). These restrictions are generally seen as a major source of competitive disadvantages for co-operatives, especially when they are attempting to internationalize. To the degree that co-operatives do face competitive disadvantages by living up to co-operative principles, they may find themselves confronted with a dilemma—should they live up to co-operative principles and risk the possibility of not being able to compete (and not being able to fulfil their original social mandate to help a particular local community) or should they modify their practices to ensure economic survival (while exploiting workers in other parts of the world)?

Of course, some would argue that there may be situations in which a dilemma is not involved. There might be cases where members of co-operatives are merely exploiting workers in another part of the world, without facing any impending threat of failure. Insofar as co-operatives do experience their situation as a dilemma, a further series of questions arise. Are these true dilemmas or ones which may be resolved by changing the empirical circumstances involved? Can co-operatives, for example, develop new financial and organizational structures that could allow them to remain competitive with traditional firms? Can they develop new forms of trade relations and international commodity chains that will expand their markets? Can they leverage the competitive advantages that co-operatives may enjoy to offset any competitive disadvantages they suffer as a result of their co-operative form? There is obviously a temporal dimension to this situation, as it may take some time to develop such new structures. If this is so, are co-operatives justified in compromising their principles in the short to medium term?

These questions, which concern the prospects for co-operatives remaining faithful to their principles as well as competitive in the global economy, are the subject of this collection. In the opening chapter, Reed examines the issue of how to investigate and evaluate the internationalization of co-operatives in the global economy. The chapter begins with an introduction to the forces associated with globalization that are pushing and pulling co-operatives—along with other types of business—into the international economy, and it offers a categorization of different internationalization strategies. From there, the chapter goes on to raise the question of how the particular nature of co-operatives as self-managed and member-owned firms affects the way in which we analyse co-operative participation in the international economy. More specifically, Reed argues for the importance of explicitly distinguishing three different forms of analysis—positive, normative, and strategic—in the investigation of the internationalization strategies of co-operatives. The author then illustrates the importance of this methodological point by offering a brief examination (on the basis of these three different forms of analysis) of the internationalization efforts of three different types of co-operatives.

In chapter two, McMurtry critically examines the issues of globalization and co-operative values. He argues that if one examines globalization through the lens of *economic form* (as opposed to global reach of individual firms), then we come to the surprising realization that the co-operative has been globalized longer than the legal form of the limited liability corporate "person"—the agent of corporate globalization. Further, what distinguishes the co-operative economic form is a focus on values and principles, ideas that anticipate by over one hundred years the contemporary concerns of corporate social responsibility (CSR) and "ethical economics." Despite this prescient history and practice, however, McMurtry argues that the role of the co-operative both as globalized economic form and as ethically and socially responsible economic activity has been largely overlooked in the literature and, more importantly, by co-operatives themselves. This oversight has lead to a weakening of the global co-operative *movement* that facilitated the expansion of its global economic form—a process solidified by an acceptance of neo-classical economics as the yardstick of success for co-operatives by co-operative actors and theorists. McMurtry concludes from these observations that unless co-operatives can conceptualize their activities both as part of a larger, global, movement (as it still is in parts of the majority world such as Latin America and Asia) and as an economic activity requiring *its own* economic theory, they will continue to be vulnerable to the forces of corporate globalization rather than assuming a leadership role in articulating an alternative ethical economics.

In the third chapter, Carruthers, Crowell, and Novkovic also take up the question of co-operative principles and values, asking whether they are best seen as a hindrance or as an important source of guidance for co-operatives seeking to internationalize. The authors develop a typology of international co-operatives based upon the manner in which these co-operatives have internationalized. They then investigate how the form of internationalization affects the ability of co-operatives to conform to each of the seven co-operative principles, especially whether there are any contradictions between trying to live up to the co-operative principles at the local and global levels at the same time. They conclude that while co-operatives employing one of the forms of internationalization have experienced strong tensions in living up to co-operative principles simultaneously at the local and international levels, such co-operatives may be able to evolve over time in ways which will eliminate these contradictions in their practices.

In the fourth chapter, MacLeod and Reed investigate the internationalization strategy of the largest co-operative group in the world, the Mondragon Cooperative Corporation (MCC), located in the Basque region of Spain. The authors begin with a brief history of Mondragon, examining how it grew from a single co-operative in 1956 that produced stoves into a large informal confederation of hundreds of co-operatives by the 1980s and working in a variety of different sectors (e.g., distribution, light and heavy industry, services, etc.). Following this introduction, the authors examine how different pressures of globalization—in conjunction with the opening up of the Spanish economy following the end of the Franco dictatorship and Spain's inclusion in the European Union in 1986—led to the formalization of the relationships of the Mondragon co-operatives in its present form as the MCC. This founding of the MCC not only laid the basis for the restructuring of the co-operative system with an eye to increasing competitiveness through quality management techniques; it also provided a platform for launching the internationalization strategy of Mondragon. The last part of the paper explores the internationalization strategy of the MCC through the experience of one of its most successful cases, the Irizar bus company. The strategies for internationalization are examined along with the tensions that arose with their implementation (involving trade-offs between feasibility and commitment to co-operative principles) and the ways in which these tensions have been (and are still being) addressed.

In their chapter, Crowell and Reed look at one of the most celebrated developments involving co-operative internationalization, the Fair Trade movement. They open the article by examining the compatibility between Fair Trade values and standards and co-operative principles and values. They argue that the very strong overlap in values means that Fair Trade is potentially an important vehicle for co-operative internationalization. Next, however, they offer an analysis of how the structure of Fair Trade has changed in recent years as corporations have become involved. The authors argue that this has resulted in very distinct practices within Fair Trade distinguishable as a spectrum of four different Fair Trade value chains. At one end of the spectrum is a social economy value chain that consists only of co-operatives and social economy actors and which does live up to co-operative and Fair Trade values. At the other end, however, is a corporate value chain in which there are no social economy actors at all and which seems to have no relationship to Fair Trade values. The authors then raise two questions. The first of these is how the Fair Trade movement might reclaim Fair Trade as a "social economy" trading network. Next, they examine the question of whether Fair Trade can serve as mode for a "co-operative trading network."

Vieta and Ruggeri examine another approach to co-operative development, the takeover of idle factors and their conversion into worker co-operatives by workers. This is a movement that has precursors in other parts of Latin America but which has a particular prominence in contemporary Argentina, and the movement has now spread to other parts of that continent. Because of its historic importance, the authors focus on the case of Argentina. Drawing upon qualitative and quantitative analysis of over seventy factory conversions, they characterize the process of takeover and conversions as being in origin primarily a defensive struggle on the part of workers. Of particular salience in this regard are the facts that workers are initially motivated by fear (of structural unemployment) and anger (directed at the factory owners and the government) and convert factories into co-operatives not on the basis of some pre-existing commitment to co-operativism, but rather as the result of their experience of taking-over and running the firms as self-managed enterprises. The authors then offer some comparison of the Argentinean experience and the rest of Latin American, as well as an analysis of efforts of the different movements to form a network and co-operate internationally.

In chapter seven, Mendell mines the rich experience of the social economy in the Canadian province of Quebec to present some lessons and challenges for internationalizing co-operation. She begins the chapter with an overview of the contemporary social economy in that province, an overview that focuses on the evolution of the social economy in Quebec as a process. The author argues that the Quebec experience demonstrates the importance and the variability of institutional contexts in which the social economy emerges, documenting how social economy actors are engaged in institutional innovation at several levels, including the international level. She emphasizes the particularly important role that the Chantier de l'économie sociale—a network of social economy networks—has played in facilitating the development of key enabling instruments in such areas as finance, training, business services, and research.

In the concluding chapter, Mukherjee Reed and Reed take up the issue of co-operative development. They do so not at the level of inter-cooperation among individual co-operatives and co-operative bodies, but rather in the larger context of the structures of globalization. The concern here is to examine how different approaches to globalization (and different forms of historic structures) constrain or facilitate processes of co-operative development. Defining models of globalization in terms of three basic historical structures (production relations, forms of state, and international orders), the authors distinguish the dominant neo-liberal variant of globalization from two other possible models that could emerge, a reform and an alternative model. For each model the authors first describe its basic structures of the model and then provide an account of the role of co-operatives in the model. The chapter concludes with some reflections on the challenges that the alternative model of globalization, the one most in tune with co-operative values, poses for the co-operative movement.

The articles in this collection present analyses of the challenges that face co-operatives in the global economy, especially as they attempt to internationalize. As researchers, our purposes in bringing together this collection of articles have been to reveal the complex nature of the tasks that confront co-operatives, to give some small indication of the diversity of the internationalization experiences, and to point to areas for further research. As engaged academics, our goal has been to develop materials for like-minded academics, studies that will also be accessible to practitioners as well as to students at different levels. We hope that we have been able to achieve these goals to some moderate extent.

CHAPTER ONE

ANALYSING THE INTERNATIONALIZATION OF CO-OPERATIVES

DARRYL REED

Introduction

As a result of processes of economic globalization, co-operatives, like other businesses, are coming under increased competitive pressures and facing new market opportunities. As a result, co-operatives are increasingly being pushed and pulled into the international economy. For many co-operatives, this may be an unfamiliar and often uncomfortable situation. It is unfamiliar because most co-operatives, typically characterized by their strong ties to local communities, have been in the past reluctant to internationalize. It can be an uncomfortable situation because co-operatives can face particular challenges in competing in international markets. Unlike traditional businesses, co-operatives are constrained by co-operative principles and values which impose restrictions on their organizational structures and business practices. In the international economy, conforming to such principles and values can restrict the modes of internationalization that co-operatives can employ and can potentially place them at a significant disadvantage vis-à-vis traditional investor-oriented firms (IOFs). This tension is all the more severe when co-operatives find themselves pushed into the international realm by the need to become more competitive. It is this situation that this chapter investigates—the nature of the tension that co-operatives face when operating in international markets between living up to co-operative values and principle, on the one hand, and being competitive, on the other.

This chapter is organized in the following manner. The first section provides a short introduction to the problematic of internationalizing in a global economy. It starts by offering a conception of economic globalization as involving a complex process of interconnected structural change in the production relations, states, and the international economy. It then goes on to examine the areas of business activity in which firms need to develop competitive strategies and the different modes of internationalization through which they might deploy these competitive strategies. The second section lays out a conceptual framework for analysing the tensions that co-operatives face in attempting to international in a global economy. It distinguishes three basic forms of analysis—positive, normative, and strategic—that must be brought to bear on understanding the problem. The third section investigates the internationalization strategies of three successful co-operatives, examining the modes of internationalization that they have used, evaluating whether their practices conform to co-operative principles, and drawing lessons from their experiences.

Internationalization in the Global Economy

Economic globalization is changing the international economy in ways that are forcing a wider range of firms to engage in international activities. To understand why and how this is occurring, it is necessary to examine what economic globalization is, the types of competitive strategies it is inducing firms to employ, and the different modes of internationalization through which firms can employ such competitive strategies.

Economic Globalization and Structural Change

The notion of globalization is both diverse—a in that it may it may refer to many different social realms—and like all terms used to describe social phenomena, inherently open to contestation (Bisley 2007). Here we are particularly interested in economic globalization. Some would argue that economic globalization is not a new phenomenon, but one that has been occurring for centuries (Hopkins and Wallerstein 1986). It is generally agreed, though, that over the past few decades a new form of economic globalization has emerged. The key characteristic of this new, neo-liberal form of economic globalization is commonly depicted as the "transnationalization" of production and finance. While such processes of transnationalization are primarily associated with the activities of business firms, they are rooted in and have been facilitated by a series of interrelated dynamics across several key structures: production relations; states; and the international economy. As these structures have facilitated the emergence of transnational production and global commodity chains, they themselves have substantially altered in form (Cox 1987).

First, with respect to production relations, the basic thrust of the changes can be conceptualized as a shift from a Fordist model to a post-Fordist model of accumulation (Lipietz 1987). Cox (1994) explains this shift in accumulation strategy in terms of a distinction between core and peripheral aspects of the production process. Increasingly, large firms are retaining only core aspects of the production process on a permanent basis (research and development, finance, accounting, etc.), while contracting out other, more peripheral, aspects of the production process (production of component parts, maintenance, etc.). While initially occurring within national boundaries, the "outsourcing" of peripheral aspects of production has rapidly spread across borders and led to a transnationalization of production. This latter feature of the new global economy has been accompanied by a parallel transnationalization of finance. Firms can raise funds across borders with relative ease as international financial markets become increasingly integrated. These changes in production and finance have been facilitated by technological changes (in communications, transport, etc.) associated with the post-industrial revolution and have been initiated through innovations in organizational and financial theory. These factors alone, however, cannot provide a full account of globalization.

A second key area that helps to account for globalization involves the analysis of how states have changed in recent years. More specifically, countries around the globe have been "liberalizing" their economies and cutting back on social spending ever since the early 1980s and the Thatcher and Reagan "revolutions." These changes in the state, which were essential in facilitating the changes in production relations noted above, are conceptualized by Jessop (1993) as a shift from a Keynesian welfare state to a Schumpeterian workfare state. Jessop (1994) argues that the former model underwrote the social reproduction of Fordism through: 1) state management of aggregate demand; 2) competition policy, infrastructure development, and transportation and housing policies; 3) the promotion of full employment and big business; and 4) the management of social problems and the promotion of mass consumption through welfare rights and social expenditures. The key traits of the Schumpeterian workfare state, by contrast, include economic policy that is focussed on the promotion of innovation-driven structural competitiveness and social policy that is designed to enhance business flexibility and competitiveness in a global economy (rather than promote redistribution within the nation-state) (Jessop 1993). It is important to note that this shift in the form of state (and the associated programmes of economic liberalization and government spending cuts) did not just happen as the logical result of a commonly agreed upon objective analysis of the plight of the economy.

Rather, it occurred as part of a conscious, well-financed, and highly organized political strategy initiated by business leaders (and sympathetic politicians) in the largest developed countries of the world (Cox 1994).

Shifts in production relations and the changes in states that facilitated them are intimately tied up with a third area of change, the international economy. Two aspects of the international economy are of particular importance, viz., multilateral economic agreements and international financial institutions. Over the last two decades, as individual countries have liberalized their economies, a range of multilateral trade agreements (e.g., NAFTA, the Uruguay round of GATT leading to the WTO, etc.) have been signed. These agreements not only allow for increased flows of capital and goods across borders, but also put in place provisions that severely limit the ability of subsequent governments to (re)impose restrictions. These agreements, of course, have been essential in promoting the increasing transnationalization of post-Fordist production. They have also served as vehicles to encourage reluctant states in the developed world to introduce programs of economic liberalization.[1] While these liberalizing agreements have also served to further incorporate developing economies into the global economy, in many instances the groundwork for their integration was laid by international financial institutions. Starting in the 1970s and throughout the 1980s and 1990s, the IMF and the World Bank imposed "structural adjustment" programmes on developing countries as a condition for any further loans. As many of these countries (e.g., Mexico, Brazil, India, etc.) were suffering from severe fiscal crises at the time, they had no real option other than to agree to conditions that forced them to dramatically cut government spending and open up their economies to foreign goods and investment (Stallings 1992).

Transnational Corporations and Global Commodity Chains

A dominant feature of the neo-liberal variant of economic globalization has been the transformation of multinational corporations (MNCs) into transnational corporations (TNCs) and the corresponding emergence of global commodity chains. What distinguished TNCs from their earlier predecessors was the fact that they no longer engaged just in simple forms of internationalization (e.g., exporting, producing in branch plants for foreign markets) involving one or two sites. Rather, they have been employing a diverse range of internationalization modes (licensing agreements, strategic alliances, joint ventures, etc.) which they have employed to develop global commodity chains. In these chains, the various steps—from design of the products through the sourcing of raw materials, the making and assembling of component parts to the marketing and final sale of the products—can occur over a wide range of countries (determined on the basis of considerations of cost, risk, etc.) (Gereffi 1999).

While the first global commodity chains where most closely associated with producer-driven heavy industry (e.g., automobiles) and largely organized in a hierarchical manner, they soon became diverse in their structure and in the sectors in which they were involved. In the textile sector, for example, global commodity chains emerged that were controlled by buyers (rather than producers) and organized more on the basis of networks (rather than hierarchically) (Gereffi 1994). Similarly, in agricultural sectors large food-processing companies have established diverse commodity chains that rely more heavily on the use of networks (Dolan and Humphrey 2004).

More generally, as global commodity chains have grown in number and spread across different sectors, they have become more diverse in nature and lead actors have sought to control (govern) them in a variety of different ways. Gereffi et al. (2005), for example, have recently distinguished five different types of value chain governance. Drawing upon a traditional distinction from the transaction cost literature (Williamson 1975), the authors first posit markets and hierarchy as occupying two polar positions as forms of governance. They then go on to identify three network-based approaches to governance—modular, relational, and captive—which they situate between the extremes of market and hierarchy.[2] Gereffi et al. (2005) posit that the choice of different governance options will be related to three key factors: 1) the complexity of information and knowledge transfer required for transactions; 2) the degree to which information can be codified; and 3) the capabilities of actual and potential suppliers with respect to the transactions required.

While these chains vary significantly in how they are governed, they all tend to share several key characteristics in addition to their international dimension. First, there is a lead actor that is able to exercise some form of power which enables them to dominate (or govern) the chain. Second, control over the chain as a whole provides a key competitive advantage that allows the lead actor to appropriate more of the value added from the chain. Third, organizational learning is a key factor in determining the ability of actors to improve or consolidate their position within the chain (Gereffi 1999).

Competitive Strategies and Pressures to Internationalize

The liberalization of international markets and programmes of deregulation in national markets have in principle opened up opportunities in international markets for business of all sizes. These opportunities can, in a sense, pull firms into the international economy which were previously not so engaged. For many firms, however, the impetus to compete in international markets is felt more as a push, one which comes in the form of increased competitive pressures ultimately deriving from TNCs and their ability to dominate global commodity chains. TNCs create pressure not only on their direct competitors, but also along the entire length of the commodity chains in which they operate. The ability of TNCs to create pressure on their competitors, of course, does not mean that they themselves are operating in fully competitive markets. To the contrary, their control of key resources, especially knowledge, enables them to establish oligopolistic positions (O'Connor and Thompson 2001; Delapierre and Mytelka 1998). It is from this position that they assert pressures on rivals, suppliers, and distributors. There are three basic areas in which TNCs create pressures for these other firms; in responding to these pressures, these other firms may adopt tactics similar to those of the TNCS, which may in turn lead them to consider (further) internationalization options.

Cost Competition—In the development of a post-Fordist model of accumulation, large TNCs have deployed a variety of ways to control cost including: 1) employing new management techniques designed to improve productivity, quality control, etc.; 2) introducing new, more flexible, labour saving technology; 3) outsourcing non-core parts of the production and assembly processes; 4) negotiating wage and benefit cuts with an existing workforce (with the implicit threat of outsourcing if concessions are not made); 5) consolidating production within an existing firm (by closing down branch plants); and 6) consolidating production through mergers and acquisitions. In undertaking these tactics, TNCs exert increased pressure both on their competitors and on other actors in the chain to control costs (Gereffi 1999; Cox 1994).

Just as large U.S.-based MNCs had to respond to the initial transnationalization moves of Japanese firms, so too do large and medium sized competitors of TNCs typically find that they have to imitate their strategies in order to be able to compete. In the North, such competitors are increasingly forced to seek concessions from their workforce or to relocate to lower-costs sites (Gereffi 1999). Local communities may try to devise strategies (involving local governments, community organizations, etc.) to stop the relocation of industry (Imbroscio et al. 2003), but in labour-intensive industries they are increasingly fighting an uphill battle, even when the firms in question have strong roots in the community and are motivated to remain (Irizar 2006).

For their part, suppliers of TNCs face similar problems. In the North, large first tier suppliers in some industries (e.g., major automotive parts suppliers) imitate the strategies of TNCs (e.g., negotiating wage concessions, shifting production offshore, etc.) (Gereffi 1999). In the South, first tier suppliers (e.g., in textiles) will also imitate the actions of TNCs by further sub-contracting out work. A major problem in this context, however, is that the further down the chain such work goes, the more difficult it becomes to ensure appropriate labour and environmental standards. Generally, lower-level suppliers in commodity chains are only able to compete for a role in the chain on the basis of cost. In the absence of adequately regulated markets and a surplus of labour, conditions that characterize much of the production that occurs in countries of the South, this almost inevitably leads to exploitative working conditions and environmentally unsustainable practices.

Product Development—One of the key features of post-Fordist model was that it introduced a more "flexible" production model based upon an increased reliance on the generation and application of knowledge. In manufacturing new technologies, production techniques, and management systems made small batch production more feasible, allowed more readily for the incorporation of new technology, and enabled firms to respond more quickly to consumers demand. What this meant in terms of product development was that firms could more easily augment existing products (to accommodate new technological advances and consumer fashion trends), extend existing product lines, and even generate new ones. While these changes in product development first occurred in manufacturing (a notable example being the automobile industry), other sectors soon adopted and adapted the techniques of flexible manufacturing to product development, employing advances in different fields of knowledge (information technology, bio-technology, etc.). Typically, in leading firms R&D activities are complemented by the development of knowledge management systems which allows for effective organizational learning, including the rapid application of new knowledge and technologies to product development (Tsoukas 1996). In mobilizing and applying knowledge to product development, TNCs may rely upon their own internal resources (e.g., research and development divisions). They also have other options, however. These include mergers and acquisitions, joint ventures with other firms, research partnerships (with government, universities, and other firms) as well as knowledge agreements (e.g., licensing) (Donoso et al. 2004; MacLeod et al. 1997).

In competing against TNCs, co-operatives and other firms are typically at a disadvantage because they do not have the same levels of resources and are competing against large oligopolies (Delapierre and Mytelka 1998). Still, they find themselves in a situation in which they also increasingly need to rely upon knowledge generation, application, and management for product development. While many may be in a position to establish or expand their own R&D units to better compete, others have to pursue other options such as licensing technology or engaging in joint ventures. Another key factor is the development of management systems that better encourage organizational learning. None of these tactics *per se* require firms to internationalize, but indirectly this may be a consequence. To the degree that developing intensely knowledge-based approaches to product development are costly, co-operatives and other firms may need to grow their markets in order keep down average costs levels. This may induce them to internationalize (through exporting or shifting production offshore), especially if the domestic market is small to begin with (Donoso et al. 2004).

Marketing—A third important area of competition is marketing. For some time the focal point of marketing for large TNCs has tended to be building global brands (Quelch 1999; Leavitt, 1983). Brands can be important for firms for several reasons. First, branding and the generation of customer loyalty functions to distort markets and enable firms to accrue the benefits of oligopolistic or monopolistic positions (viz., reaping higher prices without out any discernable improvement in product quality). Second, in an age of ever shorter product cycles, branding can be a safer long term strategy than just relying on constant improvements to product lines and the generation of new product lines. Again, the resources that TNCs have provide them with a significant advantage when it comes to marketing, and branding in particular. First, they can afford the large advertising budgets which enable them to develop the brand. Second, when they have established brands, it is relatively easy to extend these brands globally. Third, they can develop placement (distribution) strategies that favour their product over their competitors, e.g., agreements with retailers that prohibit them from carrying brands of their competitors, strategic alliances with retailers for promoting their brands, etc. They can also exercise direct control over distribution, e.g., by having their own dedicated brand outlets (concept stores), their own retail chains, and other forms of distribution (factory outlet, mail order, etc.) (Beverland 2007; Gehlhar et al. 2005). Finally, TNCs often have the ability to simply buy up competing brands (and continue to run them beside their own brand or slowly phase them out).[3] Purchasing competing brands has become the most common approach as a way to expand markets in recent years (Bolling and Gehlhar 2005). This approach is particularly advantageous when entering a new market because it not only eliminates a competitor but can provide a valuable established distribution network as well.[4]

Co-operatives and other competitors of TNCs need to develop marketing strategies to compete. Several options are available with respect to the issue of branding. One is a decision to not brand, but rather to compete on the basis of cost. A prime example of this is the development of "no brand" generic product lines, which enable firms to eliminate the costs associated with branding and promotion. Another option for such firms is to imitate the TNCs and develop brands themselves, as larger retailers (e.g., grocery, apparel) have being doing with their "own brands." Still another option is to develop niche markets, especially among ethical consumers who are willing to pay higher prices for products produced in a socially responsible fashion and/or are targeted to support particular groups or causes. The development of such products is often connected with larger social movements (e.g., the organic and local food movements, the "no sweat" movement, the fair trade movement, etc.) and typically involves labelling and certification programmes designed to assure consumers of the ethical values of the product (Conroy 2007).[5]

Again, these strategies may not directly lead firms to internationalize in all instances, but other considerations might take them in that direction. Firms competing on the basis of cost, for example, may need to internationalize production in order to keep costs down. For their part, firms that do decide to pursue a traditional branding strategy must reckon with significant costs in promotion and advertising. To afford these costs, they will want to spread them out over a larger potential market. This will likely lead them to consider internationalization (again, this is especially true of firms in countries with small markets). With respect to socially responsible brands, other considerations regarding internationalization may come into play. To the degree that firms seeking to develop such brands are mission-oriented, they may want to internationalize in an effort to promote the underlying goal of the brand that they are promoting (viz., more sustainable production, better protection of labour rights, etc.) (Conroy 2007; Gehlhar et al. 2005).

Modes of Internationalization

In deciding to internationalize based upon their basic competitive strategies, firms may be confronted with a variety of different possibilities such as exporting, licensing, foreign direct investment (through joint ventures or wholly-owned subsidiaries), etc. The obvious question that arises is the basis on which they should select from these various modes. Before the rise of globalization, a common perception was that internationalization typically occurred in a process of steps which represented a logical order of development. Meissner and Gerber (1980), for example, argued that firms would first start with exporting, the least complicated form of internationalization which required no capital or management transfers to foreign countries. After success in exporting, companies would begin to license their products abroad. From this step, they might move on to establish franchises abroad and then even engage in joint ventures. Finally, firms would move on to establishing overseas branches and wholly-owned subsidiaries.

While the notion of a step process towards internationalization might have some intuitive appeal, it tends to overlook a basic feature regarding to the variety of these modes. This is the fact that they entail different forms of economic co-ordination. Some are based upon market transactions, others involve partnerships, and others rely upon hierarchy (see Figure 1-1). The significance of this diversity, as commodity chain analysis indicates, is that some of these modes of internationalization will be more suited for dominant actors in some industries than others Gereffi et al. 2005). What this means for internationalization is that while leading firms may follow a pattern when starting to internationalize (e.g., beginning with exporting), in the mid to long term no general pattern will exist. Rather, the choice of firms will be determined less by stages of maturity than by the specific characteristics of their industry (e.g., capital intensity, complexity of information and knowledge transfer required, capacity of suppliers, etc.).

The choice of internationalization strategies is still more complicated, however. Leading actors in chains may co-ordinate activities of different sections of the chain in different ways according to the different strategic considerations, e.g., marketing, cost reduction, product development, etc. (see Figure 1-2). Moreover, not all actors in the chain that internationalize are lead actors. Their decisions on how to internationalize will be subject to a range of factors, including size, sector, location in the chain, and public policy factors (e.g., investment incentives, etc.). In the case of co-operatives, the choice is further complicated by the restrictions that co-operative principles and legislation place upon these actors (Federation of Danish Co-operatives 2004; Buccola et al. 2001).

Market	Partnerships	Hierarchy
• Exporting/Importing • Knowledge Agreements (licensing)	• Joint Ventures • Strategic Alliances	• Wholly-owned Subsidiaries • Transnational Co-operatives

Fig. 1-1: Three Categories of Modes of Internationalization

Co-ordination Approach / Area of Competition	Market	Partnership	Hierarchy
Cost	• import of materials and components	• joint ventures to produce abroad	• wholly-owned subsidiaries to produce abroad
Product Develop-ment	• licensing agreements for technology	• strategic R&D alliances • research partnerships	• wholly-owned R&D units
Marketing	• marketing agreements • distribution through exporting	• joint venture/ strategic alliances for branding and distribution	• wholly-owned distribution channels

Fig. 1-2: Modes of Internationalization and Competitive Strategies

Analysing Co-operative Internationalization

While co-operatives have been engaged in the international economy for many years, to the extent that processes of globalization have dramatically changed the international economy and the competitive pressures that firms face, it is inevitable that they will be participating in the international economy more frequently and in new ways. A key challenge for co-operatives in the international economy will be remaining competitive while living up to co-operative values and principles. Understanding what is involved in achieving such a balance is a complicated task that involves three distinct but interconnected forms of analysis. Positive (social science) analysis of co-operative internationalization provides an understanding how the international economy and the firms operating within it work. Normative analysis is essential for evaluating what conformity to co-operative principles in the international economy entails. Strategic analysis enables co-operatives to develop and pursue strategies that will provide them with the best opportunities to be competitive with for-profit firms while living up to co-operative principles (Reed 2002).

A) Positive Analysis

The basic positive (social science) analysis regarding co-operative internationalization, as in all social science analysis, involves two basic moments of investigation. The first of these is empirical analysis, which results in the generation of data. The second is theoretical reflection which seeks to develop causal relations between social phenomena. These two moments, of course, are intimately related as empirical work provides the basis for theoretical reflection, while theory informs the processes and agendas of empirical work.

On the empirical side of the equation, there are two broad questions that need to be investigated with respect to co-operative internationalization. The first of these is how are co-operatives internationalizing? In line with the discussion above, this question entails understanding what types of competitive strategies and modes of internationalization co-operatives are employing. Also of interest is how patterns of co-operative internationalization vary across size, sector, organizational type, and in comparison with IOFs. The second key question is how co-operatives are performing. Of interest here are not only traditional business indicators of success (growth rates, profit margins, market share, etc.), but also criteria more typically of concern to co-operatives (jobs generated/retained, participation levels, etc.). Again, comparative analysis is also important, both with regard to how performance varies across different aspects of co-operatives (viz. size, sector, function, etc.) as well as between co-operatives and IOFs.

The second moment of positive analysis is the theoretical task of developing causal accounts of the relations between different factors. The key issue here, of course, is the understanding of why different types of co-operatives choose the forms of internationalization that they do. Key factors that are likely to come to play in such an investigation are the nature and intensity of competitive pressures, competitive (dis)advantages, constraints and inducements imposed by regulatory frameworks, and commitments to co-operative values, principles, and visions (and the understanding of the implication of these). Also of interest is the comparative analysis of why co-operatives vary (or not) in their decision-making processes vis-à-vis IOFs.

B) Normative Analysis

Like positive analysis, normative analysis involves two basic moments. The logically first is the justificatory moment in which norms are elaborated and justified. The second is application in which criteria are applied to evaluate specific cases. These moments are interconnected in practice in that the analysis of specific cases may raise issues that lead to the reformulation of norms, while norms provide the criteria by which to analyse specific cases.

All evaluation of economic activity is normative in the sense that it involves the application of controversial (i.e., contestable) criteria to evaluate economic performance. One characteristic of the normative analysis of co-operative activity is that the actors involved not only generally acknowledge the criteria to be utilized, but have often been directly involved in the justification of these criteria. The criteria in question are the co-operative principles of the International Co-operative Alliance (ICA). Rooted in the practice of co-operatives, especially the Rochdale movement, co-operative values and principles have evolved. Even before the founding of the ICA in 1895, the Rochdale principles were a heated topic of discussion. With the founding of the ICA, the discussions inevitably continued, but under its aegis changes in the understanding of co-operative values and principles have been justified through a discursive process. Periodically over the years, actors in the co-operative movement have engaged in a process of discussion as to whether the principles deriving from commonly held co-operative values need to be reformulated in the light of changing circumstances (Fairburn 1994).

On this basis, there have been three major reformulations of the co-operative principles, in 1937, in 1966, and most recently in 1995. The ICA's 1995 Statement on Co-operative Identity lists seven co-operative principles: 1) voluntary and open membership; 2) democratic member control; 3) member economic participation; 4) autonomy and independence; 5) education, training and information; 6) co-operation among co-operatives; and 7) concern for community. These principles are seen as deriving from a set of co-operative values (self-help, self-responsibility, democracy, equality, equity, and solidarity) and a more general set of ethical values (honesty, openness, social responsibility, and caring for others) (ICA 1995).

The second moment of normative analysis is application. There are several aspects to this moment. The first of these is the development of indicators. The co-operative principles that the ICA has established are general norms. What constitutes conformity to these norms is not immediately evident. The principles of autonomy and independence and member economic participation, for example, imply that co-operatives should be financed primarily on the basis of member contributions and returns to capital should be minimal. What this implies in terms of allowing outside investors (e.g., whether they should be permitted at all) or setting limits on the returns to capital (e.g., less than bank rates) is not at all clear. A second task of application is to measure performance against indicators. Once indicators are established, this is a quite straightforward task of empirical analysis. A third task of application is to assess responsibility of co-operatives for their failure or success in living up to (the indicators of) the co-operative principles. The basic question here is whether co-operative members are committed to co-operative principles (or not) and to what degree this (lack of) commitment is responsible for the (lack of) success of the co-operative in meeting indicators. This is, of course, not an easy assessment to make. It is possible, however, to examine what measures co-operatives have taken to try and improve performance. It is also possible to investigate the existence of various circumstances which could hamper the ability of co-operatives to conform to co-operative principles (even with members are committed to them). These might include structural conditions that make it impossible for co-operatives to remain economically viable while living up to co-operative principles (e.g., competition involving exploitative labour conditions), competing demands among principles (e.g., member benefit and concern for community), and different life cycle phases of co-operatives (or particular shocks) which make conformity to principles temporarily incompatible with economic viability. Of particular interest for our concerns is the degree to which efforts to internationalize in a globalizing economy contributes to these circumstances. A fourth task of application is reflection on the indicators and their appropriateness. New conditions may arise that may change the appropriateness of indicators. Also, constant inability of co-operatives to live up to indicators might indicate that they need to be reassessed (as they may be overtaxing the moral resources of co-operatives).

The application of norms to co-operative practice inevitably leads back to the justificatory moment and the question of whether the co-operative principles as they have been elaborated are appropriate. This sort of reflection is particularly salient during times of significant social change, such as the structural changes in the economy that have occurred with globalization. The emergence of a globalizing economy and increased international activity by co-operatives has led to discussion of whether new co-operative principles need to be recognized. Three such potential principles are most compelling (Birchall 2005).

The first of these is a principle of environmental sustainability. Such a principle would acknowledge the responsibilities that co-operatives have to future generations and the natural world. One of the most devastating impacts of the neo-liberal model of economic globalization has been its contribution to environmental degradation around the globe (Gedicks 1993). A principle of sustainability could recognize the responsibility of co-operatives to work individually and collectively to promote more environmentally sound ecologically practices. While some consider such a principle already implicit in the principle of concern for community, a strong case can be made that a separate principle needs to be recognized, given that the effects of various environmental problems (pollution, loss of species and ecosystems, etc.) clearly have impacts that extend beyond local communities, both in space and time. Indeed, they have a global impact which will affect yet unborn generations well into the future (Birchall 2005).

A second potential new principle that has been mooted involves participation rights for employees, both in decision-making and in the economic returns. One of the most significant trends among co-operative with the rise globalization has been an increased dependency on employees. This is in part due to provide greater flexibility in adjusting production to market demand, by allowing for part-time and temporary workers. In addition, however, co-operatives are also hiring more full-time employees. This trend might be most obvious in new generation co-operatives (NGCs). In their efforts to capture more value added by moving up the value chain, such co-operatives are establishing wholly owned subsidiaries to undertake higher levels of processing (Nilsson 1998). This trend will have an increasingly significant international dimension as co-operatives continue to internationalize through the use of fully owned subsidiaries abroad (Erasti et al. 2003).

A third principle that may need to be recognized in order for co-operatives to effectively embody co-operative values is a principle of compliance. Historically, it has long been the case that co-operatives have not acted in line with the spirit of co-operatives values. Particularly common, for example, has been a tendency for some producer marketing co-operatives to act like cartels (or guilds) and limit membership in order to raise prices (Fama and Jensen 1986). Similarly, many co-operatives and co-operative sectors have worked in isolation from others rather than seeking to co-operate. Financial co-operatives, for example, have come under criticism for not being more willing to finance worker co-operatives (MacLeod 2003). In addition to co-operatives not living up to established norms, globalization and the internationalization of co-operatives presents another problem for co-operatives. As co-operative practice becomes more diverse (e.g., with the rise of New Generation Cooperatives, fair trade co-operatives, social co-operatives, etc.), it becomes less clear what a co-operative is. The U.S. Department of Agriculture, for example, since 1987 has only recognized three principles of co-operation (member ownership, member benefit, and member control) (Reynolds 2000). In order to ensure that the co-operative movement is able to retain its identity and a clear notion of what a co-operative is, some have suggested that there needs to be a method for holding co-operatives accountable. One approach to implementing such a principle of compliance might take the form of a certification program in which national co-operative bodies can certify (or decertify) co-operatives as operating in accordance with co-operative principles (perhaps not unlike the way that the Fair Trade movement has developed regulations for certification and licensing that build upon its core values). This might require the development of some more specific indicators of what conformity to co-operative principles entails (Birchall 2005).[6]

C) Strategic Analysis

Strategic analysis is oriented towards how change can be effectively promoted. It follows logically from positive analysis of how and why change has occurred in the past and normative analysis which develops criteria for evaluating behaviour and guiding it in the future. There are several areas of practice in which co-operatives could potentially be engaged in formulating strategies. Here we consider two of the most immediate areas of interest to co-operatives, competitive strategies and strategies to promote co-operative development.[7]

The first area of strategic analysis involves individual co-operatives and their competitive strategies. The basic concern here is how co-operatives can compete in international markets while living up to co-operative principles. There are three primary questions that are of interest. The first is the importance and applicability of traditional business and management strategies for co-operatives. Can co-operatives simply adopt such approaches or do they need to be modified in significant ways? Second, there is the issue of how co-operatives might overcome competitive disadvantages that they are commonly understood to suffer from (e.g., undercapitalization, risk aversion, problems of attracting and retaining managerial talent, etc.) (O'Connor and Thompson 2001; Cook 1997). A particular question in this regard will be how well lessons learned in the domestic sphere (e.g., in raising capital) translate to the