Lappeenranta University of Technology

Pasi Tuominen

THE PURPOSE OF CONSUMER CO-OPERATION: IMPLICATIONS FOR THE MANAGEMENT AND GOVERNANCE OF CO-OPERATIVES

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ABSTRACT

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Extant research on consumer co-operation has acknowledged that the corporate purpose of consumer co-operatives deviates significantly from the purpose of investor-owned firms (IOFs – the dominant form in market economies and in theory development in the field of business economics) and also suggested that the management of consumer co-operatives differs from the management of IOFs. Despite this, there is a scarcity of research focusing on the management of consumer co-operatives in general and the ways this different purpose manifests in their management in particular. In other words, research on consumer co-operatives has only started to discover the importance of identifying the premises of these organizations and generating management and organization theories that take them into account.

The overall objective of this study is to map out some of the implications that the purpose of consumer co-operation has for the management and governance of consumer co-operatives. To put it more precisely, by combining interview data gathered from Finnish consumer co-operatives (S Group, OP Bank Group and POP Bank) and extant literature, this study aims to generate or elaborate on definitions and outlines of the features that co-operative purpose poses for the strategic management, governance and managerial competence needed for consumer co-operatives.

The study consists of two parts. The first part introduces the research topic, methods and publications, as well as discusses the overall outcomes. The second part consists of four publications that address the research questions from different viewpoints. The analyses of this study indicate that due to the purpose of consumer co-operation, the roles of locality and regionality become emphasized in their management. While locality and regionality are potential sources of competitive advantage for consumer co-operatives, geographic boundness sets significant boundary conditions for the strategic management of these organizations. Further, the purpose of consumer co-operation may pose several challenges to governance and set specific competence demands for the managers of these organizations. Associating the observations from various streams of research on management and governance with the purpose of consumer co-operation and examining these issues further, the thesis contributes to elaboration of theory in the field. While the thesis is by no means comprehensive (but instead reflects a co-operative research project in its early stages), it does shed light on some key ideas of management and governance and offers leads to theory and, thereby, will prove useful to elaborators, disseminators and appliers of knowledge on co-operation.

Keywords: consumer co-operative, corporate purpose, locality, regionality, strategic management, corporate governance, managerial competence

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Lappeenranta, November 2012

Pasi Tuominen

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PART II: PUBLICATIONS

1. Tuominen, P., Jussila, I. and Saksa, J-M. (2006) **Locality and regionality in management of Finnish customer owned co-operatives**. *International Journal of Co-operative Management*, 3(1), 9–19.

2. Jussila, I., Tuominen, P. and Saksa, J-M. (2008) **Following a different mission: where and how do consumer co-operatives compete?** *Journal of Co-operative Studies*, 41(3), 28–39.

3. Tuominen, P., Jussila, I. and Kojonen, S. (2009) **Overcoming challenges to governance of consumer co-operation: Analysing reports of key representatives.** *International Journal of Co-operative Management*, 4(2), 22–35.

4. Tuominen, P., Jussila, I. and Rantanen, N. (2010) **Managerial competence in consumer co-operatives: Inducing theory from empirical observations.** *International Journal of Co-operative Management*, 5(1), 9–22.

The contribution of Pasi Tuominen to the publications:

1. Prepared the research plan. Conducted ten interviews on the core themes of the paper. Conducted the data analysis. Wrote the paper together with the co-authors. Discussing and concluding the findings was a joint effort.

2. Wrote the first draft of the strategy section of the paper. Had a central role in developing the paper based on the journal reviewers' comments.

3. Wrote and rewrote the first versions of the paper. Conducted the data analysis and set up the theoretical framework. Finalizing the paper was a joint effort with the second author.

4. Wrote and rewrote the first versions of the paper. Conducted the data analysis and set up the theoretical framework. Finalizing the paper was a joint effort with the second author.

PART I: OVERVIEW OF THE DISSERTATION

1. INTRODUCTION

This doctoral dissertation on Management and Organizations[1] participates in the discussion of the management and governance of consumer co-operatives (e.g. Cook, 1994; Davis, 1995, 1996, 1997, 2001; Spear, 2004; Mills, 2008). While it is important to note that research on co-operatives in German exists, and many works have been recently published in Finnish too (Koivuporras, 2008; Jussila, 2007; Saksa, 2007), in order to maximize the international impact and value of this dissertation, a decision was made to focus on and contribute to internationally (more) accessible research (i.e. research published in academic journals in English).

What is the background of the thesis? The concept of corporate purpose has become an important topic of academic discussion (e.g. Springett, 2005, 2004; Wilson, 2004; Ellsworth, 2002; Duska, 1997). It is "the most fundamental decision about a company" (Springett, 2005, p. 358) that answers the question why the company "is in business in the first place" (Springett, 2004, p. 300). In other words, it "sits at the confluence of strategy and values" expressing "the company's fundamental value – the raison d'être or overriding reason for existing" (Ellsworth, 2002, p. 4). Therefore, corporate purpose is reflected in mission statements and value declarations (Wilson, 2004) and provides "the end to which strategy is directed" (Ellsworth, 2002, p. 4). Most importantly, corporate purpose enables us to determine when an organization is acting appropriately – it determines the way a firm should operate and, therefore, the responsibilities of that organization. This is why considerations of corporate purpose are important (Duska, 1997).

Previous research has acknowledged that the corporate purpose of consumer co-operatives (e.g. Mills, 2008, 2001; Nilsson, 2001; Davis, 2001; Peterson and Anderson, 1996; Michelsen, 1994) deviates significantly from the purpose of investor-owned firms (IOFs – the

1 The discipline of Management and Organizations consists of several fields (i.e. aggregated areas of study that roughly correspond to the divisions that exist in the Academy of Management (AOM), see for example, Zahra and Newey, 2009). If categorized according the AOM Divisions (AOM, 2012; aom.org accessed 11.6.2012), this dissertation falls within the limits of Business Policy and Strategy that considers the roles and problems of general managers, the topics of interest include strategy formulation and implementation, competitive strategy, and selection and behavior of general managers, to name but a few.

dominant form in market economies [Novkovic, 2008]). Despite this, there is a scarcity of research focusing on the management of consumer co-operatives in general and the ways this different purpose manifests in (i.e. the implications it has on) their management and governance in particular. However, when one takes a closer look at the great economic and social importance of co-operatives (Normark, 1996; Hansmann, 1996), the need for research on consumer co-operatives and their management seems evident. That is, according the International Co-operative Alliance (2012), there are at least one billion members in co-operative organizations worldwide – organizations that together provide over 100 million jobs. The largest 300 co-operatives alone are responsible for an aggregate turnover of over one trillion USD annually. Therefore, a narrow investor perspective is not sufficient. Societies are in need of intellectual framings that are built from the premises of co-operation. As the year 2012 has been proclaimed by the United Nations as the International Year of Co-operatives (YIC), and as the European Foundation for Management Development (EFMD) has set co-operatives as an example of sustainable development, the time is right for giving additional attention to co-operatives in business and management research.

What is the starting point of the thesis? In general, theory development on the field of business economics is primarily focused on one model of business enterprise; the IOF[2]. Thus, business schools usually "base their teaching on the assumption that the purpose of the firm is to maximize shareholder wealth" (Fontrodona and Sison, 2006, p. 39). Further, co-operatives have to a great extent disappeared from economics textbooks (Kalmi, 2007). Thus, as we note in Tuominen, Jussila and Rantanen (2010), typical business school research and education are not sufficient for developing some of the critical elements of managerial competence in consumer co-operatives. Among the academics and practitioners of co-operation, this worry is shared by many. In fact, Davis (2001) even maintains that the very competitive survival of

[2] If aggregated, extant knowledge in the field of business economics "expects" that firms are investor-owned. This is why the IOF is the form to which consumer co-operatives are contrasted in this study as well. The question of which business model to study might not be an entirely ideological question but it is often also pragmatic. That is, in general, business economics focuses on enterprises, on which there is a lot of public information available (e.g. in the form of various reports, such as interim reports).

consumer co-operatives is dependent on "having a committed management who understands co-operative purpose and values and can use them both to gain and utilize the co-operative difference as a competitive advantage" (p. 31).

How general is the knowledge that is sought? Mills (2001) maintains that a "co-operative is an association of persons whose trading relationship with their (co-operative) society is at the heart of and part of the purpose or reason for the existence of the (co-operative) society" (p. 178; brackets added by the author). The tasks co-operatives carry out vary from procurement of essential commodities, consumer and production goods for members to processing and marketing, granting credits, the general use of machines and facilities etc. A common feature of these organizations is that they are, in general, established to serve members' economic interests (Laurinkari, 1994). This does not mean that, on the other hand, social or psychological interests (the humanistic aspects) do not play a critical role in the economic and overall success of these organizations (e.g. Jussila, 2007). Importantly, given the variety of interests that serve as the premises of co-operation, co-operative organizations are not a homogeneous group of enterprises. Typically, they are divided into organizations owned by consumers (consumer co-operatives) and producers (producer co-operatives). However, typologies could go further. In fact, a belief beyond this dissertation is that every type of co-operative needs its own, specialized knowledge (especially as governance is to great extent about incentives). That particular knowledge can then serve the creation of more general knowledge by raising the level of abstraction. Without the particular it is difficult to reach the general (i.e. one has to come to understand particular examples in order to remove the unique details and retain the common ones). Whereas elements of the frames created in this study can be to some extent applicable to other co-operative organizations, the purpose of this dissertation is to generate new knowledge, particularly on consumer co-operation.

What is the focus of the thesis? This dissertation focuses on the management and governance of consumer co-operatives[3] (retailers and banks in particular). Due to the lack of research in this area, impact is sought with the investigation of several closely related themes emerging from data and previous literature, instead of focusing deeply on one theme on consumer co-operative management. The benefits of this approach are twofold: first, with this approach, it

[3] By definition, consumer co-operatives are enterprises owned and controlled by their customers (Spear, 2000).

is possible to further theory on co-operative management on a wider scope than is possible with concentration on a single theme. Second, as will be shown, the management of consumer co-operatives differs significantly from the management of mainstream organizations (i.e. those assuming an investor perspective) and a wider investigation enables the creation of a mini-handbook for co-operative managers, based on which they may evaluate the management of their own co-operatives. This is important; after all, “managers with zebras should stop trying even harder to apply the most advanced techniques of horse training to their zebras” (McGahan, 2007, p. 749).

In the following, the reader will be introduced to the dissertation in greater detail, including the background of the research, the research gaps and objectives, the key constructs and scope, and an outline of the thesis.

1.1 Research background

During recent decades, consumer co-operatives have begun to receive increasing scholarly attention. For example, there has been research related to the purpose and rationales of consumer co-operatives. Mills (2001) has examined what it means to be a co-operative; the differences between the purposes of co-operatives and limited companies (mainly those assuming an investor perspective). Michelsen (1994) has offered an illustrative theoretical examination of the rationale behind co-operatives’ dual organizational form: the idea that a co-operative is both a business enterprise acting on the market and an association of civil members (Draheim, 1955). Further, Nilsson (2001) has analyzed the assumptions underlying the criticism of co-operatives by economists, explaining the conditions under which co-operatives are efficient or inefficient (also suggesting measures for how the inefficient ones could be turned into efficient ones). In the context of agricultural co-ops, Peterson and Anderson (1996) have taken the first steps toward linking co-operative strategic choices to their performance, focusing on understanding the range of strategy options available and used by co-operatives.

Also, the competitive advantages of consumer co-operatives have received some attention. Saxena and Graig (1990) have mapped a number of problems that the co-operative movement has faced and also suggested some potential success factors for consumer co-operatives (e.g. closeness to consumers, responsiveness to their needs, member involvement and feedback from them). Spear (2000) has strengthened our theoretical understanding of the characteristics of consumer co-operatives that can give them an economic and social advantage. For example, he maintains that while the users within the trading territory of a co-operative are linked by a network of trust relations, this provides communication channels for overcoming asymmetric information and opportunistic behaviour. Further, such networks will also improve members' capability of monitoring the enterprise, communicating and making collective decisions, as well as aligning the interests of enterprise staff with those of users, thereby helping to overcome agency problems (Spear, 2000). Analyzing the role of co-operatives in market economy, Normark (1996) has also made a contribution to this discussion, suggesting that when compared to IOFs, the co-operative has advantages as it has strong linkages between users and the focal enterprise (users are also owners) and to social relations (the co-operative may strengthen the smaller and weaker actors, not only in their respective markets, but also as active citizens in society). Birchall (2000) has analyzed an attempted takeover of a consumer co-operative; suggesting that additional to good management and a strong local identity, members can give consumer co-operatives a potential business advantage over their competitors. Finally, Mills (2008) has stated that "the most powerful way to challenge investor-owned businesses is by reference to their very nature, the way they operate and trade, the impact of what they do, the reason for their existence" (p. 25–26). That is, he believes that the modern co-operative business needs to be something different; to trade in a particular way and for a different purpose.

An important stream of research on consumer co-operatives is also that concentrating on the relationship between co-operatives and communities, and the impact these have on one another. Fulton and Hammond Ketilson (1992) have examined the role of consumer co-operatives in the economic and social development of their communities, suggesting that co-operatives often play a critical role in ensuring the continued social and economic existence of many rural communities. In that regard, these authors highlight the importance of local control, which provides a co-operative's members and management with a sense of power and gives the co-operative the possibility to better react to local conditions. Co-operatives' potential as tools for community development has also been analyzed by Zeuli and Radel (2005) and Zeuli, Freshwater, Markley and Barkley (2004). Further, Zeuli and Deller (2007) have also suggested some ways to measure the local economic impact of consumer co-operatives on their communities.

Also, the governance of consumer co-operatives has received attention. Spear (2004) has examined the processes by which members' interests are mediated through democratic process and the board, and also explored some of the factors influencing the power of managers. He identifies several challenges to co-operative governance (e.g. goal setting and measurement of performance may be more difficult than in IOFs, low member participation, accentuation of managerial power, etc.). Cornforth (2004), for one, has reviewed some of the main theoretical perspectives on corporate governance in order to discuss how they can be extended to shed some light on the governance of co-operatives and mutuals. Davis (2001) has also examined the governance of co-operatives, suggesting that co-operative executives should also be board members and reflecting on the possibilities of developing co-operative management as a solution to potential problems in governance.

Finally, some papers also exist that focus directly on the management of consumer co-operatives. In the context of agriculture, Cook (1994) has argued that managing such user-oriented organizations is different, if not more difficult, than managing an IOF. Davis, for one, has reflected on the purpose of consumer co-operatives and argued that managers seeking to achieve that purpose need to avoid the values derived from the culture of MBA and mainstream management training programmes (Davis, 1995). He has also wondered how to translate the co-operative's difference into a management and organizational culture that both reflects the difference and also successfully promotes it in modern, competitive conditions (Davis, 1996) and contributed to discussion of the management development of co-operatives (Davis, 1997). Finally, he has explored the option of developing professional management into the guardians of co-operative purpose and values – not to replace democratic governance structures but to support and supplement them (Davis, 2001).

The purpose of this brief overview of several streams of research on consumer co-operatives and their management and governance was to illustrate that research in the area is still in the early stages of development (i.e. theory is nascent [Edmondson and McManus, 2007]). Even though there are some papers focused on the management of consumer co-operatives, they mainly propose some tentative answers to novel questions of how and why, which is typical of management research at this stage; topics for which little or no previous theory exists

(Edmondson and McManus, 2007). In other words, research on consumer co-operatives has only started to discover the importance of generating theories focused especially on the management of consumer co-operatives. Second, this introduction also shows that observations concerning consumer co-operatives and their purpose have been made, but prior research has not focused on the ways this purpose manifests in the management and governance of consumer co-operatives. Presenting the research gaps this dissertation is supposed to fill, the next chapter will tackle these issues in more detail.

1.2 Research gaps and objectives

Various streams of research on consumer co-operatives have made important remarks related to the purpose of co-operation that might also have implications on their management. First, it has been maintained that the purpose of a consumer co-operative is to serve the community in which it trades; more particularly its members by carrying on its chosen trade (Mills, 2001). Also, co-operatives' economic and social contributions to their communities have been emphasized and, as put forward above, researchers have even posited this organizational form as a vehicle for community development (Fulton and Hammond Ketilson, 1992; Zeuli, Freshwater, Markley and Barkley, 2004; Zeuli and Radel, 2005; Zeuli and Deller, 2007). When it comes to the competitive advantages of consumer co-operatives, a strong local identity (Birchall, 2000) and the dual role of members as users and owners (Normark, 1996) have been mentioned. All this suggests that extant literature on consumer co-operatives identifies their close relations with their operational areas (deriving from their purpose) and even suggests that this might give them a competitive advantage over investor-owned enterprise. Following leads from the field and the above literature, the author (and the fellow researchers) engaged in discussions with co-operative managers and came to realize (through the inductively deepening understanding of co-operatives) that research has not thoroughly addressed these questions. On the one hand, a gap in knowledge was identified considering the potential benefits co-operatives get from their close relations with their operation areas (more precisely: How do these relations help management and governance?). On the other hand, it was realized that more attention should be given to the potential boundary conditions the strong linkages between users and owners (immobile consumer-ownership) set on the strategic management of consumer co-operatives.

Second, it has been put forward that the management of consumer co-operatives differs from the management of IOFs (Cook, 1994). That is, research on both the management and governance of consumer co-operatives has suggested that due the different purposes of co-operatives, they may have a more complex and numerous set of goals in contrast to the ultimate objective of profit maximization found in IOFs (Spear, 2004; Cook, 1994). Instead of maximizing profits, the purpose of consumer co-operatives is to conduct concrete activities in such a way as to maximize satisfaction of its members' needs (Michelsen, 1994). Since the members' primary role is not as investors in the traditional sense, most members will not have a direct interest in profitability and, as consumers, they want lower prices and better products instead (Spear, 2004). Additionally, since the non-transferable ownership shares are usually established on the principle of one person, one vote (in contrast to one vote per share), ownership of consumer co-operatives is often widely dispersed and members' interest in participating in governance is often low (Spear, 2004). It follows that the vast majority of members have no influence on the board and, consequently, none on management.

Spear (2004) also maintains that, due to the lack of institutional investors, difficulties in forming coalitions and the dispersed influence of members, co-operative managers will often not be under pressure to perform according to member interests, and poor managers may exploit this situation. What makes this even more challenging is that due to the purpose of consumer co-operation, the conventional business criterion is not enough when analyzing the performance of co-operative managers (Davis, 1995). Spear (2004) even maintains that there might be a discord "between the conventional measures of performance (profit or growth) which a manager might be trained to optimize, and those linked to member stakeholders" (p. 46). Thus, extant research on the governance of consumer co-operatives has noted that in these organizations, governance (the process and mechanisms through which it is secured that the co-operative serves its purpose) may become tricky; managerial power may be accentuated and managers may not run their businesses in line with their corporate purpose. Following these leads and voices from the field, and more thoroughly comparing the extant scientific knowledge with discussions taking place in Finnish consumer co-operatives, I (we) identified a need for more detailed investigation of the challenges the purpose of consumer co-operation poses to governance and especially the means to overcome these challenges.

Third, partly due to the challenges identified, the governance of consumer co-operatives and the competences that co-operative managers should possess have been interlinked in recent research. According to Davis (2001), a central part of the purpose of co-operative governance is to uphold co-operative identity (purpose), including the efficient delivery of products and services needed by members. It follows that co-operative managers should understand this purpose and that co-operative management (culture) should be differentiated from general management (culture) in order to protect the co-operative purpose (Davis, 1997). It has also been put forward that co-operative managers should possess the qualities for leading and building the whole community of members and employees into a social and value-based business that fulfills the co-operative purpose (Davis, 1996). However, even though extant literature has started to recognize particular competence demands for management, it does not offer advice for co-operatives on recruitment and development of managers (i.e. what competencies they should look for and attempt to develop). Given the importance of specific managerial competences in the survival and success of consumer co-operatives (Davis, 2001), this is a major shortcoming. Further, since the questions of governance and managerial competence are strongly interlinked, defining the elements of managerial competence could also help in neutralizing some of the problems sometimes related to co-operative governance. This is discussed in more detail in the Conclusions section.

In sum, what is common to the above remarks, serving to specify the gaps in knowledge that this dissertation sets out to fill, is that they are associated with the purpose of consumer co-operation. Thus, the overall objective of this study is to *describe and understand the implications of the purpose of consumer co-operation for the management and governance of consumer co-operatives (to be able to map these implications, think about them and use concepts that deal adequately with them).* This objective is served by combining interview data (gathered from Finnish consumer co-operatives; S Group, OP Bank Group and POP Bank) with previous literature and approaching it from the co-operative purpose perspective. Meeting the objective, on the other hand, serves the purpose of generating or elaborating on original and useful ideas, definitions, outlines and associations on strategic management, governance and managerial competence in consumer co-operatives.

Based on the research gaps identified and the objectives set, the research questions of this study are formulated in the following with a brief reminder of the arguments the questions build on. As it relates to the main objective, it is maintained that the purpose of consumer co-operation has implications on the management and governance of consumer co-operatives. Thereby, the main research question[4] is:

> The main research question: *What implications does the purpose of consumer co-operation have on the management and governance of co-operatives?*

The main question can be specified with a set of sub-questions that relate to different kinds of implications. First, it is maintained that the purpose of a consumer co-operative is to serve its owners, who inhabit a geographically-bound area, and that this feature provides them with competitive advantage. Thereby, a sub-question is:

> Sub-question 1: *How does it benefit consumer co-operatives that their purpose is defined by geographic-boundness?*

Second, it is argued that management of consumer co-operatives differs from management of IOFs, and the difference relates to the purpose defined by the consumer-owner duality. Thereby, a sub-question is:

> Sub-question 2: *What implications does it have on the strategic management of co-operatives that their purpose is defined by consumer-owner duality?*

Third, it is put forward that the governance of consumer co-operatives is even more challenging than that of IOFs, and some of these challenges relate to the purpose, defined by the consumer-owner duality. Thereby, a sub-question is:

> Sub-question 3: *What challenges does it pose to the governance of consumer co-operatives that their purpose is defined by consumer-owner duality and how to overcome these challenges?*

---

[4] The research questions were specified and streamlined towards the final stages of this research process, which is typical of qualitative research

Finally, it is put forward that managers of consumer co-operatives need specific competences, and these competences are associated with the purpose defined by the consumer-owner duality.

> Sub-question 4*: What are the key elements of managerial competence required to execute the purpose of consumer co-operation?*

There are four publications serving the objectives of this thesis; all of them are published in international academic journals focused on co-operative studies. As the reader may notice, the publications are separate but strongly interlinked. Thus, each of them has their own target discussions and supportive theories and therefore they do not form a strictly coherent entity. However, they do serve the objectives of the thesis and, by answering the questions posed in the publications, it is possible to develop an overall picture of the features the purpose of consumer co-operatives presents to their management and governance.

Noteworthy, even though it is not explicitly stated in all of the publications, is the fact that the dissertation assumes an owner-centric perspective – that of corporate purpose – as it is inherent in the theoretical model a company represents: the model (in this case, the consumer co-operative) that (1) is chosen by the owners (according to their interests) prior to establishment of the corporation and (2) remains the basis of corporate purpose, except in the rare cases in which the owners decide to convert the company form or extensively refine its rules, or a change in legislation concerning the particular form forces it to redefine its purpose. In that regard, consumer co-operatives are seen as abstract and fictional entities – fictional in the sense that it is ideals and principles through which they are defined and their operation is made sense of. Therefore, this study seeks to capture (on the analytical level) the "ideal" way of operation and management for consumer co-operatives and does not cover issues like the extent to which these ideals are actually followed (in the practices of particular populations of consumer co-operatives).

While taking the co-operative purpose perspective and being amongst the first attempts to capture particular ideas and associations, the dissertation gives limited attention to other factors that may affect management and governance, such as the size, age or financial condition of the enterprise (even though these factors might help paint a more comprehensive picture). Consequently, stakeholder relations are not the main focus of this study either, even though they are touched on at some points. Limited interest is given to the characteristics of stakeholder relations that can possibly help consumer co-operatives survive and succeed in the promotion of their owner-centric mission in the long run.

In the following, the concepts essential to the dissertation are defined. Also the scope of the work is further discussed.

1.3 Key constructs and scope of the dissertation

The *purpose of consumer co-operation* serves as a foundation for this doctoral dissertation. As defined in Jussila et al. (2008), consumer co-operatives exist to provide the owners with (a) services and goods that are needed, but not otherwise provided, and/or (b) services and goods at fair prices when they are (in the absence of the co-operative) provided with unfair prices (cf. Fulton and Hammond Ketilson, 1992). In that regard, they are businesses "not oriented towards earnings in terms of money only, but on members' 'earnings' in terms of concrete services" (Michelsen, 1994, p. 23). Therefore, in this model the owner's primary role is a user, not an investor (or speculator), and the model does not aim primarily at profits and the increase (or change) in share value, but on lower prices and better products (cf. Spear, 2004; Borgen, 2004).

Consumer co-operatives are businesses that are established by consumers to execute the purpose of consumer co-operation and, as owners benefit through consumption of services (which typically requires close association), thereby these are typically geographically-bound organizations (e.g. Mills, 2001) – even to the extent that they have been depicted as "captives of their regions" (Jussila, Kotonen and Tuominen, 2007, p. 38). In other words, the physical and social structures of these organizations reflect to a great extent the geographical organization of the membership with some framings provided by economic considerations (the co-operative principle of economy) and technology (the means of production).

Strategy is also a concept utilized in the dissertation at hand. Consistent with Bourgeois (1980), strategy is seen as helping to determine how an organization (in this work, the consumer co-operative) defines its relationship with its environment in the execution of its purpose and pursuit of its objectives.

Consistent with Davis (2001), in this study *governance* refers broadly to the mechanisms of keeping business (management) activity congruent with the members' interests and objectives (i.e. the consumer co-operative purpose). Relatedly, in this study *management* is defined as affecting the organization in a way that assists in achieving the objectives of that particular organization.

Finally, *managerial competence* is a key concept of the study. Previous research has not been able to generate a commonly accepted definition of competence; instead, there are a wide range of definitions (Shippmann et al., 2000). In general, the competency approach to management "is based on identifying, defining and measuring individual differences in terms of specific work-related constructs, especially the abilities that are critical to successful job performance" (Vakola et al., 2007, p. 260). In this study, managerial competence refers to dimensions against which people's readiness or potential to move into top managerial positions in consumer co-operatives can be assessed and which can also be used in appraising and developing co-operative management.

1.4 Outline of the study

This dissertation consists of two parts. Part I comprises 4 chapters. The first chapter, above, has illustrated the motivation for this research, introduced previous research on consumer co-operatives and their management as well as pointed out the research gaps this dissertation is supposed to fill. It has also set out the objectives, defined the core concepts and presented the outline of the study. Chapter 2 introduces the research methods and theoretical lenses used in this study. Chapter 3 introduces the publications, describing the objectives and main findings of each one in chronological order. It also presents answers to the research questions. Finally, Chapter 4 presents the theoretical contributions of the study as well as gives suggestions for further research. Part II of the dissertation consists of four research papers addressing the four sub-questions. Figure 1 depicts the outline of the study.

The outline of the study was formed during the research process. First, the observations suggesting that locality and regionality are central features of co-operative management were followed. The findings from Publication 1 then highlighted that co-operative managers have to pay attention to the development of the region in the long run, as the success of co-operatives and their regions is interconnected (i.e. due to the geographical dimension of the purpose of consumer co-operatives). The next publication then followed this observation, paying more attention to the boundary conditions the above-mentioned purpose and interconnectedness between the co-operatives and their regions pose for the strategic management of these organizations. After theorizing on the connections between consumer-ownership, co-operative purpose and strategy, the logical next step was to focus on how the realization of co-operatives' purpose is secured. Thus, Publication 3 focused on the challenges to governance of consumer co-operatives and the means to overcome them. The findings suggested that while there are many challenges to governance in consumer co-operatives, extreme care should be taken that appropriate persons are chosen for the key positions in order to secure the realization of the co-operatives' purpose. Together with the findings from publications 1 and 2 (suggesting that co-operative purpose poses several implications for the management of these organizations), this observation then led to the investigation of the key elements of managerial competence in consumer co-operatives in Publication 4.

PART I: INTRODUCTION	**Main research question***:* *What implications does the purpose of consumer co-operation have on the management and governance of co-operatives?*
PART II: PUBLICATIONS	
Publication 1: Locality and regionality in management of Finnish customer owned co-operatives	**Sub-question 1**: *How does it benefit consumer co-operatives that their purpose is defined by geographic-boundness?*
Publication 2: Following a different mission: where and how do consumer co-operatives compete?	**Sub-question 2**: *What implications does it have on the strategic management of co-operatives that their purpose is defined by consumer-owner duality?*
Publication 3: Overcoming challenges to governance of consumer co-operation: Analysing reports of key representatives	**Sub-question 3**: *What challenges does it pose to the governance of consumer co-operatives that their purpose is defined by consumer-owner duality and how to overcome these challenges?*
Publication 4: Managerial competence in consumer cooperatives: Inducing theory from empirical observations	**Sub-question 4:** *What are the key elements of managerial competence required to execute the purpose of consumer co-operation?*

Figure 1. Outline of the study

2. METHODS AND RESEARCH DESIGN

Each of the four publications provides increased understanding of the implications of the purpose of consumer co-operation on the management of consumer co-operatives. Table 1 summarizes the research design of the study in terms of the roles, methods and analysis as well as the data used in the publications.

Table 1. Research design

Publication	***Role***	***Method and analysis***	***Data***
1. Locality and regionality in management of Finnish customer owned co-operatives	To provide an increased understanding of the benefits provided to consumer co-operatives by their purpose being defined by geographic-boundness	Qualitative case study Thematic interviews Thematic analysis	24 interviews with CEOs (of S Group, OP Bank Group, POP Bank), elected officials and other experts on co-operatives, archival material
2. Following a different mission: where and how do consumer co-operatives compete?	To provide an increased understanding of the implications that the purpose being defined by consumer-owner duality has on the strategic management of co-operatives	Literature review and conceptual development	Existing theoretical and empirical literature on consumer co-operation and strategy
3. Overcoming challenges to governance of consumer co-operation: Analysing reports of key representatives	To provide an increased understanding of the challenges that the purpose being defined by consumer-owner duality poses for the governance of consumer co-operatives	Qualitative case study Thematic interviews Thematic analysis	22 interviews with S Group regional co-operative supervisory board chairpersons
4. Managerial competence in consumer cooperatives: Inducing theory from empirical observations	To provide an increased understanding of the managerial competences required to execute the purpose of consumer co-operation	Qualitative case study Thematic interviews Thematic analysis	Eight interviews with S Group top managers

2.1 Methods, theoretical purpose and research strategy

This dissertation starts from the notion that the research methods for a study should be chosen based on the questions driving the study, prior work, the intended research design and the contributions the researcher wishes to make (Edmondson and McManus, 2007). In other words, the idea that researchers "should apply the methods that best fit their theoretical question and analytical situation" (Lee, Mitchell and Sablynski, 1999, p. 164) is followed. For topics like that of the dissertation, for which little or no previous theory exists (i.e. nascent theory), more open-ended research questions are needed than those used to further knowledge in more mature areas of the literature (Edmondson and McManus, 2007). This is because the researcher does not know what issues may emerge from data and therefore avoid hypothesizing specific relationships between variables. As little is known about the management and governance of consumer co-operatives, rich, detailed and evocative (qualitative) data was needed to shed light on the phenomenon. This is why qualitative research was conducted. The data used in publications 1, 3, and 4 consists of interviews as well as of archival materials. To further justify the selection of the methods, I refer to Lee et al. (1999) who maintain that because qualitative research is well-suited for the purposes of description, interpretation and explanation, it can successfully address questions such as "What is occurring?" and "How is it occurring?". However, it cannot effectively answer the question "How much is occurring?". The objectives of this study relate to the first to questions rather than the last. For example, before measures for (each of) the elements of managerial competence in consumer co-operatives can be created, we first need to know what these elements are. A more detailed description of the data gathering processes and the data itself can be found from each of the publications.

Qualitative studies are conducted for different theoretical purposes: to generate, elaborate or test theories (Lee et al., 1999). Theory generation is the qualitative creation of new theory resulting in testable propositions.[5] Theory elaboration occurs when the study design derives

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[5] However, whether or not propositions are a necessary precondition for a study to fall within this category of theoretical purpose depends on the perspective taken. That is, Kilduff (2006) suggests that when considering whether or not to add a specific proposition into a study, one rule of thumb is to "omit it unless it adds value to your theory development effort" (p. 254). He also maintains that "propositions are important aspect of formal approaches to theory involving mathematical and logical derivation" (p. 254), but there are also other approaches to theory development in philosophies of science quite distinct from logical positivism.

from pre-existing conceptual ideas, or a preliminary model, and theory testing occurs when formal theory or formal hypotheses determine the study design. Finally, qualitative research also exists that falls within the fourth category of theoretical purpose, critical theory, which is an attempt to induce radical change through a political agenda (Lee et al., 1999). That is, critical theory "seeks to expose the status quo as systems imposed by the powerful on the powerless" (Lee et al., 1999, p. 168). The articles pulled together into this dissertation strive towards generating or elaborating ideas and associations rather than testing theory. To some extent, the approach taken in this study can also be considered as critical in the sense that the justification and rationale for the dominance of public limited companies in business economics is questioned. To put it more precisely, the need for theories that also acknowledge other governance forms (variety) is highlighted. However, in order to avoid merely critiquing existing theories and their deficiencies[6], Kilduff's (2006) advice of taking the next step and formulating an alternative is followed.

The research strategy used in this study is qualitative case study. Yin (1994) defines case studies as rich empirical descriptions of particular instances of a phenomenon, typically based on a variety of data sources. Case studies have been categorized in many ways. Following Stake (2000), this study can be categorized as instrumental as it examines a particular case(s) in order to provide insights on the implications the purpose of consumer co-operation have on management and governance of the co-operative organization. The case(s) are of secondary interest and facilitate understanding of something else, like the implications on governance and purpose.

As the purpose is to generate or elaborate theory and not to test it, theoretical sampling (also called information-oriented selection [Flyvberg, 2006]) of cases is appropriate (Eisenhardt and Graebner, 2007). This is because the objective is to "achieve the greatest possible amount of information on a given problem or phenomenon" (Flyvberg, 2006) and the typical or average case might not be richest in information. Thus, in this thesis the cases for each publication were selected with theoretical sampling. For example, when processing Publication 4 it was assumed that S Group would be a fruitful organization in which to

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[6] e.g. in Publication 4, we note that it is difficult for co-operative managers to learn through theories since research and theories of managerial competence have not paid much attention on the competence demands of co-operative managers

examine managerial competence in consumer co-operatives as it has a systematic management training and development program. Further, the interviewees within S Group were selected based on which executives and managers were named as the best experts of co-operative management and/or those with the best track records in terms of successful execution of the consumer co-operative purpose.

2.2 Research process

Kilduff (2006) maintains that "the route to good theory leads not through gaps in the literature but through an engagement with problems in the world that you find personally interesting" (p. 252). The research process leading to the completion of this thesis began in 2006, with the investigation of locality and regionality in the management and organization of consumer co-operatives. As mentioned earlier, the study was originally inspired by discussions with managers of consumer co-operatives who strongly emphasized locality and the related geographically limited operating area as a central feature of co-operative management. Since there were no studies concentrating directly on these issues, the logical next step was to engage in actions striving towards an increased understanding on these features of co-operative management. Thus, along with *scientific utility*[7], the study also strived towards *practical utility*[8] from the beginning of the research process.

Working within the nascent theory arena requires both an intense learning orientation and the adaptability to follow the data inductively to find out what is important (Edmondson and McManus, 2007). When it comes to the results of this type of work "the essential nature of the contribution of this type of work is providing a suggestive theory of the phenomenon that forms a basis for further inquiry" (Edmondson and McManus, 2007, p. 1163). This description fits the research process of this dissertation, as each of the publications utilizes and specifies knowledge derived from their predecessors. That is, the understanding of the

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7 Corley and Gioia (2011) maintain that the scientific utility of a theoretical contribution "is perceived as an advance that improves conceptual rigor or the specificity of an idea and/or enhances its potential to be operationalized and tested" (pp.17–18).

8 The practical utility of a theoretical contribution "is seen as arising when a theory can be directly applied to the problems practicing managers and other organizational practitioners face" (Corley and Gioia, 2011, p. 18).

purpose-based limitations to the geographic reach of consumer co-operatives, stemming from Publication 1, is utilized in Publication 2; which then, among other things, deepens our understanding of the implications of this geographic-boundness on the strategic management of consumer co-operatives. Further, to give another example of this thesis as a learning process, the findings from publications 1, 2, and 3 formed a central part of the theoretical framework that assisted the analysis of data for Publication 4, which defined the key elements of managerial competence in consumer co-operatives.

Finally, it should be noted that utility is not a sufficient condition for a theoretical contribution. That is, a theoretical contribution must contain originality, which Corley and Gioia (2011) divide into *incremental* and *revelatory* insight, the former referring to significantly advancing our understanding on a given topic and the latter suggesting that "a contribution arises when theory reveals what we otherwise had not seen, known, or conceived" (p. 17). This is consistent with Huff (1999; cited in Corley and Gioia, 2011) who makes a distinction between contributing to a current conversation and starting a new one. Similarly, Conlon (2002) maintains that a contribution can be made by "offering a critical redirection of existing views or by offering an entirely new point of view on phenomena" (p.489). The extent to which the contributions of this dissertation fall within each of the categories presented above will be evaluated in the Conclusions section.

2.3 Evaluation of the quality and rigor of the study

The methods of collecting and analyzing qualitative data are not standardized (Bluhm et al., 2011) and neither are the criteria by which the quality and rigor of qualitative research are evaluated. First, there are those who support the view that reliability and validity are terms pertaining to the quantitative paradigm and are not pertinent to qualitative inquiry (Altheide and Johnson, 1998; Leininger, 1994). Second, some researchers have also suggested adopting new criteria. For example Lincoln and Guba (1985) proposed that the criteria in a qualitative paradigm to ensure its "trustworthiness" are credibility, transferability, dependability and confirmability. Third, there are also those who have continued to use the terminology of reliability and validity in qualitative inquiry, arguing that the broad and abstract concepts of reliability and validity can be applied to all research, as the goal of all research is to find plausible and credible outcome explanations (e.g. Hammersley, 1992). Finally, there are proponents of the view that “strategies for ensuring rigor must be built into the qualitative research process per se” (Morse et al., 2002, p. 17), rather than evaluate reliability and validity after the study has been conducted. That is, in qualitative research, verification[9] refers to “mechanisms used during the process of research to incrementally contribute to ensuring reliability and validity and, thus, the rigor of the study” (Morse et al., 2002, p. 17). It should also be noted that while being iterative (i.e. a researcher moves back and forth between design and implementation to ensure congruence among question formulation, literature, recruitment, strategies to collect data and analysis) rather than linear, the analysis in qualitative research is self-correcting (Morse et al., 2002). In sum, even though there are no single, universal standard criteria for the evaluation of qualitative research, suggestions of how to ensure the quality and rigor of qualitative research have been given in methodological literature. The following sections address these issues as it comes to the publications of this dissertation.

According to Yin (2003), the validity and reliability of case study research can be increased in many ways. Construct validity (establishing the correct operational measures for the concepts being studied) can be enhanced by using multiple sources of evidence in a manner encouraging convergent lines of inquiry and by establishing a chain of evidence. In the publications of this study, construct validity is ensured by having multiple sources of data, such as archival materials alongside the primary interview data. Lee et al. (1999) maintain that “although archival records may not be a study’s main source of data, they can effectively confirm, supplement, or elaborate upon one’s more primary information” (p. 178). Further, in order to establish a chain of evidence and to allow the evaluation of consistency between the theoretical concepts and the empirical evidence (interview data), quotes from the interview data are presented in publications 1, 3, and 4 (mainly power quotes[10] [Pratt, 2009]). These quotes also enable representation of the authentic voice of the study participants, which is at the heart of qualitative research (Lee et al., 1999).

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[9] According to Morse et al. (2002), verification is “the process of checking, confirming, making sure, and being certain” (p. 17).

[10] According to Pratt (2009) “power quotes are the most compelling bits of data you have, the ones that effectively illustrate your points. These should be in the body of your paper.” (p. 860). He also suggests that some additional data should be placed into tables (as ‘proof quotes’ to prove that you have evidence of what you are saying).

Yin (2003) also suggests that when analyzing external validity (whether a study's findings are generalizable beyond the immediate case study), findings need not be statistically generalizable. Instead, they should be generalizable to theory (analytical generalization, meaning that "an analyst should try to generalize findings to theory, analogous to the way a scientist generalizes from experimental results to theory" [p. 38]). As some of the earlier discussion indicates, this approach is followed in this study. For instance, even though the findings on key elements of managerial competence in consumer co-operatives of Publication 4 are based on experiences from S Group, rather than reflecting the single experiences of S Group, the topics (i.e. the key elements of managerial competence) discussed cover broader theoretical issues of co-operative management, such as the role of co-operative value basis, customer interface management, multibusiness management and community development. Thus, the findings from the context of S Group are intertwined with broader theoretical issues and the guideline given by Eisenhardt and Graebner (2007) is followed. They suggest that the story presented in a research report should be "intertwined with the theory to demonstrate the close connection between empirical evidence and emergent theory" (p. 29).

Finally, Yin (2003) also refers to reliability, the objective being to minimize the errors and biases in a study and demonstrating that the operations of a study can be repeated with the same results. Thus, it is important to document the procedures followed in a study. Also Lee et al. (1999) have proposed that qualitative researchers should adopt a high standard of methodological description that is detailed enough to allow hypothetical or actual replication of the study. Similarly, Gephart (2004) has highlighted the importance of transparent methods in qualitative research. In the publications of this study, the process of data gathering is reported and the ways it has been utilized is also explained. Additionally, in order to eliminate the biases often related to interview data, the guidelines of Eisenhardt and Graebner (2007) are followed. For example, in Publication 1 interviewees are selected from different hierarchical levels, functional areas and geographies and also actors from outside the case organizations are interviewed. Further, acknowledging that the judgment of theoretical saturation (i.e. "qualitative data collection stops when the researcher judges that no or little additional learning would occur from more data" [Lee et al., 1999, p. 180]) is quite difficult, in Publication 3 all of the 22 supervisory board chairpersons of the regional co-operatives of S Group were interviewed. Finally, analysis of the data in the publications is not based on subjectivity; objectivity is pursued by using the existing definitions and theories from the assisting literature as rules or support for interpretation.

2.4 Key theoretical lenses assisting data analyses

Additional to defining the theoretical purpose of the study, in qualitative research it is important to introduce the theoretical lenses that assist in data analyses. In other words, what concepts and sets of concepts (theories) are found to help fill the knowledge gaps identified in the academic discussions to which the study is contributing? In this dissertation, every publication has its own target discussion, knowledge gaps and assisting concepts and theories.

In Publication 1, a step is taken towards uncovering what benefits there are for consumer co-operatives and their management in being closely associated with a particular, clearly defined geographic area. Thereby, the study utilizes concepts such as regionality, locality and territoriality. *Regionality* refers mainly to the physical structure (geographic reach) and the connections of consumer co-operatives to their (general) operational environment. Regions can be seen as containers, which contain a combination of physical, social, political and economic features (Dicken and Malmberg, 2001). Region and its social actors (e.g. individuals and communities) form a social wholeness, whose attributes are strongly dependent on people and communities that are close to each other. This closeness enables an intense interaction between the co-operative and its environment and also the construct of *locality* becomes important.

In this study locality refers to the continuing interaction between economic and social institutions in a certain, physically and geographically defined area (Byrne, 2001). Accordingly, locality can also be understood as an interaction network composed of cultural and local physical closeness, in which local (collective) identity becomes important. Thus, a locality or a region is part of the social identity of regional actors (cf. Dittmar, 1992; Kultalahti, 1990; Rapoport, 1981; Beaglehole, 1932). In that regard, also literature on *territoriality* (e.g. Brown, Lawrence and Robinson, 2005), which on the other hand links to concepts such as identity (e.g. Castells, 2000) and psychological ownership (e.g. Pierce, Kostova and Dirks, 2001), and is utilized when referring to the psychological attachments that develop through the intense interaction between people and a region (and, in this case, the co-operative). When analyzing this interaction, the literature on boundary spanning that highlights the need for organizational decision makers to acquire information about environmental contingencies in order that appropriate decisions (i.e. those relevant to environmental conditions and contingencies) can be made (Leifer and Delbecq, 1978) is also utilized.

Publication 2 is conceptual; we use mainstream strategy literature as a lens to analyze how certain strategies may (or may not) be applied to follow the mission and execute the purpose of consumer co-operation. We make the traditional distinction between *corporate strategy* and *business strategy* (Bourgeois, 1980) to outline decisions concerning where and how consumer co-operatives compete. Grant (2008) argues that both of these steps are important when executing the mission (and purpose) of an organization. The first step concentrates on the decisions over the scope of a firm's activities and question what industries we should be in (Grant, 2008). Thus, when analyzing the scope of products and services of a consumer co-operative as well as the geographical spread and vertical scope of its activities, we utilize mainstream literature on corporate strategy (Grant, 2002; Porter, 1985). The second step, often discussed under the headings of business or competitive strategy, includes the creation of competitive advantage in the chosen industry (see Bourgeois, 1980; Porter, 1980). Simply expressed, it answers the question of how we should compete to survive and prosper (Grant, 2008). In this paper, we utilize Porter's (1980) generic business strategies (cost leadership and differentiation) when analyzing the business strategies of consumer co-operatives. Finally, acknowledging that this mainstream strategy literature primarily serves (multibusiness) IOFs (i.e. organizations in quest of profit), we have critically considered its suitability to a co-operative context when utilizing these lenses. In that regard, we have also discovered new research gaps on a more general level. These research gaps are discussed in more detail when presenting the implications of this dissertation for future research.

The starting point of our framework in Publication 3 is that members of a consumer co-operative have two ways of influencing (market and non-market) its operation: *exit* and *voice* (Hirschman, 1970). The former refers to customers no longer buying the firm's products or members leaving the organization and the latter to the firm's customers or the organization's members expressing their dissatisfaction "directly to management or to some other authority to which management is subordinate or through general protest addressed to anyone who cares to listen" (Hirschman, 1970, p. 4).

Although there is no market for co-operative stock (which would provide top management with signals of member satisfaction), markets do control consumer co-operatives through its owners' behaviour as customers. In fact, Jussila et al. (2007) suggest that the role of members as buyers of products and services in consumer markets parallels that of investors in stock markets. Against this background, the concept of customer exit (Hirschman, 1970) (which refers to switching to a competitor's services as a result of dissatisfaction in the service producer) one is accustomed to using becomes relevant when analyzing challenges to market control. Further, literature on member commitment (e.g. Fulton, 1999) is also used, since a strong affective-based commitment to 'the co-operative movement' (or to a particular co-operative) may result in reluctance to use the services of other organizations (i.e. to exit), even if they offered (economically) better terms of trade.

As noted above, members of a consumer co-operative have influence on the operation of their co-operative not only through their buying behaviour but also through voice, which refers to interventions aimed at improving operations while continuing to buy the product/service (Hirschman, 1970). The attempts to influence matters may be direct or indirect, of which the latter seems to be highlighted in extant co-operative governance research (see, e.g., Chaves et al., 2008; Spear, 2004). In indirect influence, members use their voice via administrative structures of the co-operative. Direct influence refers to when customers – in this case the 'customer-owners' – use their voice by giving immediate feedback on operations to management and/or other personnel; by making telephone calls and/or by writing letters to managers etc. (e.g. Hirschman, 1970).

Finally, in Publication 4 we utilize literature on managerial competence. Within the past few decades, the competency approach to management has received increasing scholarly attention (e.g. Vakola, Soderquist and Prastacos, 2007; Hayes, Rose-Quirie and Allinson, 2000; Antonacopoulou and FitzGerald, 1996; Holmes and Joyce, 1993; Mansfield, 1993; Stewart and Hamlin, 1992; Barrett and Depinet, 1991; McClelland, 1973). As a concept, competence is complex. This is well illustrated by the fact that there is not one single commonly accepted definition for it. Instead, there is a wide range of definitions for competence (Shippmann et al., 2000). In this study, we mainly utilize the work of Boyatzis (1982), who refers to managerial competence as a characteristic of a person that might be a motive, trait, skill, aspect of self-image or social role, or a body of knowledge (see also Hayes et al., 2000). As competence is seen to include the dimensions of knowledge, skill and attitude, the work aligns with the categories through which intended learning outcomes (ILOs) are typically outlined in accredited business school programs.

Alongside the literature of managerial competence, we also comprehensively utilize extant literature on consumer co-operatives. When it comes to our analysis of the facets of knowledge critical to co-operative managers, literature on co-operation and values is utilized. That is, typically, co-operatives have been seen as organizations that “carry with them some clearly ethical (in the normative sense) statements in terms of their underlying values and operational principles” (Davis and Worthington, 1993, p. 849). This creates a need for “a strongly defined co-operative purpose or mission leading to the determination of a set of values which can form the basis for a unified organizational culture that is shared by management and membership” (Davis, 1997, p. 94). Additional to the above-mentioned literature, Publication 2 of this dissertation (Jussila et al., 2008) plays an assisting role in analysis of the interview data when it comes to information on and understanding of customer interface management. That is, consumer co-operatives “are specialized in operating as links between the consumers and particular value-chains” (Jussila et al., 2008, p. 36) and are supposed serve their members better than those organizations whose (managers’) primary focus is on the stock market. It is the customer-owners, not the shareholders, whose value is the basis of strategic management (Jussila et al., 2008). Further, when analyzing the competence demands stemming from consumer co-operatives’ purpose of serving certain geographically bounded communities, the findings from Publication 1 (Tuominen et al, 2006) also play a supportive role.

When analyzing the attitudes of co-operative managers, we also employ literature on co-operative values and the person-organization fit. It has been maintained that values form the culture or ‘personality’ of a co-operative (Natale and Sora, 2003). Therefore, it is important that the manager sees co-operative values as his/her own. While there are many perspectives to the person-organization fit (i.e. “the compatibility between individuals and organizations” [Kristof, 1996, p. 3]), according to Kristof (1996), studies on supplementary fit “have been concerned with measuring the similarity between fundamental characteristics of people and organizations” (p. 5) – the most frequent use of this perspective being “the congruence between individual and organizational values.” (p. 5). That is, the congruence between the values of an individual and those of an organization are at the heart of the person-culture fit (O’Reilly, Chatman, and Caldwell, 1991). Finally, while the accounts of the qualitative data highlight that a network-like organization cannot be managed by giving orders and that, rather, a vision is needed; literature depicting consumer co-operatives as network organizations (Uski et al, 2007; Normark, 1996) as well as literature on both participatory (e.g. Oshagbemi, 2008) and visionary (e.g. Westley and Mintzberg, 1989) leadership is used.

3. THE PUBLICATIONS

This chapter introduces the publications composing Part II of the study. The structure of this chapter is as follows: First, the publications, their overall objectives and main findings are briefly introduced. Second, at the end of the chapter, the findings of the publications are more thoroughly discussed when answers to the research questions set for the dissertation are presented.

The overall objective of this study, and consequently also of the publications, is to understand the implications the purpose of consumer co-operation has on the management and governance of the co-operative organization. The publications address different themes emerging from this purpose and are presented in chronological order: Publication 1 starts by examining the implications and potential benefits that a consumer co-operative's geographic-boundness has on their management, suggesting that locality and regionality may provide competitive advantage to these organizations. Publication 2 then continues with this theme but focuses more on discussing the boundary conditions geographic-boundness sets on the strategic management of consumer co-operatives. However, in line with Publication 1, to some extent it also touches on issues of competitive advantage. Publication 3 concentrates on overcoming the challenges to governance in consumer co-operatives; suggesting that even though there are several of them, and some stem from the purpose of consumer co-operation (e.g. goal setting and measurement of managerial performance may be difficult), there are means to overcome them. Finally, Publication 4 utilizes the findings from publications 1, 2 and 3, and defines the elements of managerial competence needed in the successful execution of the co-operative purpose.

3.1 Locality and regionality in management of Finnish customer owned co-operatives

3.1.1 Overall objective

Publication 1 (Tuominen, Jussila and Saksa, 2006) examines locality and regionality in the business and management of consumer co-operatives. The sub-question that this paper aims to answer is *How does it benefit consumer co-operatives that their purpose is defined by geographic-boundness?* Even though co-operatives typically represent local and regional forms of economic organization and their close relations to their operation areas have been noted by previous research (local identity and the network of trust relations formed by users within the trading territory of a co-operative have even been mentioned as a potential source of competitive advantage), research has not engaged in attempts to understand geographic-boundness and its associated features (locality and regionality) as potential success factors for consumer co-operatives. Consequently, the main objective of Publication 1 is to understand the benefits provided to consumer co-operatives by the fact that their purpose is defined by geographic-boundness.

3.1.2 Main findings

The findings of this publication are that successful co-operatives consciously utilize locality and regionality in their businesses. The processes of locally focused boundary spanning provide co-operatives with absorptive capacity[11] concerning reliable local knowledge and, thus, with possibilities to react to changing customer needs more quickly than competitors without such capacity. Additionally, not only can the co-operative's leaders be tentative towards the interests of local and regional institutions, they are often also in the position to be able to participate in maintaining and altering those institutions.

[11] Cohen and Levinthal (1990) define absorptive capacity as the "ability of a firm to recognize the value of new, external information, assimilate it, and apply it to commercial ends" (p. 128)

3.2 Following a different mission: where and how do consumer co-operatives compete?

3.2.1 Overall objective

Publication 2 (Jussila, Tuominen and Saksa, 2008) uses literature on strategy and consumer co-operation to theoretically examine how the purpose of consumer co-operation may be followed in terms of corporate and business strategies. It addresses the sub-question *What implications does it have on the strategic management of co-operatives that their purpose is defined by consumer-owner duality?* The starting point for this publication was found in previous research. That is, even though it has been noted that the mission of consumer co-operatives differs dramatically from that of IOFs – and, consequently, managing a user-oriented firm differs from managing an investor-oriented firm in general – there is scarcity of research on the strategies of consumer co-operatives in particular. Thus, the main objective of this publication is to outline where and how consumer co-operatives compete. Additionally, the usage of mainstream strategy literature in a co-operative context also provides an increased understanding of the differences between the strategic management of consumer co-operatives and that of IOFs.

3.2.2 Main ideas

The theorizing on the connections between consumer-ownership, co-operative purpose and strategy suggest that the co-operative mission is two-fold (i.e. maximizing member satisfaction in the short term as well as that of the whole community in the long term). Further, the paper highlights that the question of where we compete requires a lot less attention from co-operative executives than from those of IOFs, and managers of co-operatives may focus their attention mainly on the question How do we compete?

3.3 Overcoming challenges to governance in consumer co-operatives: analysing reports of key representatives

3.3.1 Overall objective

Publication 3 (Tuominen, Jussila and Kojonen, 2009) addresses the sub-question *What challenges does it pose to the governance of consumer co-operatives that their purpose is defined by consumer-owner duality and how to overcome these challenges?* Extant literature identifies several challenges to the governance of consumer co-operatives, such as conflicts in goal setting, members' low participation and the questionable representativeness of the elected officials as well as accentuation of managerial power. However, it mainly focuses on indirect influence via administration. By uncovering challenges to market control and the mechanisms dependent on voice, as well as identifying the means to overcome those challenges, this study illustrates the ways members may keep their co-operative's business congruent with the purpose it is supposed to serve. It also provides additional insight into the combination of customer and owner roles in the governance of consumer co-operatives.

3.3.2 Main findings

The publication identifies several challenges related to both influence via buying behaviour and through voice, but it also indicates that many of these challenges may be overcome. The findings of this publication indicate that the combination of customer and owner roles provides consumer co-operatives with opportunities to develop market and voice dependent mechanisms that allow close and intense governance. However, in order to fully utilize such opportunities, a deep understanding of the co-operative purpose is needed, as well as awareness of ownership rights among personnel, management and membership.

3.4 Managerial competence in consumer co-operatives: inducing theory from empirical observations

3.4.1 Overall objective

Publication 4 (Tuominen, Jussila and Rantanen, 2010) addresses the sub-question *What are the key elements of managerial competence required to execute the purpose of consumer co-operation?* Research on managerial competence has produced several definitions of the concept, as well as pointed out that managerial work is not based on some universal set of competencies, but little attention has been given to differences in how managerial competence is perceived across organizational forms. Even though research on co-operative management has to some extent taken the organizational context into account and it has been maintained that managing a consumer co-operative differs from management of an IOF, empirical research has not followed these claims. The purpose of this publication is to identify competence dimensions against which people's readiness or potential to move into top management positions in consumer co-operatives can be assessed. These dimensions can also be utilized in appraising and developing co-operative management. This may then also assist in solving some of the problems related to governance as it will ensure that co-operative managers have a thorough understanding of the co-operative purpose.

3.4.2 Main findings

The publication suggests that managerial competence in consumer co-operatives is perceived as a mix of particular knowledge, attitudes and skills. The results also indicate that this mix is to great extent acquired through practice, since learning through theory is difficult as co-operative management is rarely included in the learning outcomes of educational institutions. It is also seen that each of the elements and the mix as a whole contributes to the manager's success in influencing the consumer co-operative towards the execution of its purpose. It was also noted that if a co-operative manager lacks competence in the key elements defined in this study, she/he is unlikely to succeed in his/her job.

3.5 Answers to the research questions

This chapter presents more detailed answers to the research questions of this study. First, answers will be provided to the four sub-research questions. After that, in the end of this chapter, the main research question of the study *What implications does the purpose of consumer co-operation have on the management and governance of co-operatives?* will be answered.

The first sub-question was *How does it benefit consumer co-operatives that their purpose is defined by geographic-boundness?* The findings from Publication 1 confirm that due the geographically-bound organization of consumer co-operatives, locality and regionality are significant elements of co-operative management and suggest that they can also contribute to the success of these organizations. That is, these organizations quite logically have close relations with their operation areas, enabling co-operative managers' access to essential knowledge and increasing their understanding of the business environment. This may help co-operatives to fit their (business) strategies to the environment and gain advantages in competition against firms that are managed from outside the regions. As an example, being local or regional enables co-operative managers to engage in direct long-term interaction with significant parties participating in the construction of the business environment. When participating in regional development, co-operative CEOs may also look after the interests of the owners of their organizations. In addition, it is easier to prepare for transformations in the business environment when regional institutional changes do not come as surprises. Additionally, when looked at from the customers' perspective, local or regional identity and faster decision-making (when compared to that of an organization managed from farther off) are potential success factors. Last but not least, one important observation was also that in the strategic management of a consumer co-operative, "the quartile" is a quarter of a century.

The second sub-question was *What implications does it have on the strategic management of co-operatives that their purpose is defined by consumer-owner duality?* First, the ideas from the study indicate that as consumer co-operatives' primary task is to counteract particular monopolies and cartels and/or provide products and services that have relevance to their members, their fields of business (or at least value systems) are to great extent given. Second, due the geographical dimension of co-operative purpose, consumer co-operatives are usually embedded in a particular geographical area inhabited by the user-owners and they cannot relocate their activities to more attractive environments in the way that IOFs do. Third, as strategic alliances of service users, consumer co-operatives are specialized in operating as links between the consumers and particular value chains. Overall, the question of where they compete requires a lot less attention from co-operative executives than from those of IOFs and the question of how they compete seems to be a more critical question to co-operative top-managers. In that regard, the ideas indicate that in order to execute their purpose, consumer co-operatives should strive towards achieving a low-cost structure relative to competitors, highlighting its importance in markets that are becoming more efficient.

In line with Publication 1, Publication 2 also identified some potential sources of competitive advantage for consumer co-operatives. That is, there are several features that may assist these organizations in applying low-cost strategy (e.g. long-term permanence of the businesses they operate, members' contributions to the development of a more efficient organization and their willingness to transact with the service provider they themselves own, and to bring in new customers/members to increase volumes of the business etc.). Further, in increasingly competitive markets a co-operative may differentiate itself from competitors and gain competitive advantage by being able to increase member satisfaction with psychological and social rewards (e.g. via close interaction it is possible that the customer-as-user will develop psychological ties with the organization he or she is an owner of) that cannot be easily provided by other service producers.

The study also established that size is a tricky question in consumer co-operatives. That is, being local provides a co-operative with knowledge of the local ways of thinking, being and acting as well as understanding the values of the local community – this knowledge and understanding helps the co-operative differentiate itself from non-local competitors. Being too small, however, a co-operative will not be able to play its role as the steward of regional competitiveness (e.g. attracting and retaining additional economic activity in a local area) because that requires resources. In other words, the elements of differentiation strategy require being small, while the elements that relate to low-cost strategy require quite the opposite. To conclude, the theorizing suggests that a balance between strategic choices that best lead to realization of the mission of consumer co-operatives ought to be found in each context. To some extent, these issues are discussed in Publication 3 and Publication 4 (e.g.

when analyzing the difficulties in goal setting and the requirements this poses to both governance and management).

Publication 3 addresses the sub-question *What challenges does it pose to the governance of consumer co-operatives that their purpose is defined by consumer-owner duality and how to overcome these challenges?*, suggesting that even though there are many challenges to the governance of consumer co-operatives found in extant literature, there also exist several ways to overcome them. These means are summarized in Table 2 of Publication 3, on page 32. A quite common challenge related to market control is that 'voting with your feet' may not be viable when the co-operative is the only provider of certain goods and services in a particular area. In these situations, market control may be enhanced by employing advanced customer data systems and by conducting studies to uncover and predict members' needs and then adjusting operations accordingly. In these ways members may steer their businesses via the market even if there are no substitute service providers or if they are reluctant to use them due to affective commitment to their co-operative.

In the area of influencing through voice, members' possibilities to have influence may be increased with the usage of a representative body – such as a supervisory board or administrative board structure. It multiplies the amount of people participating in decision-making and provides members with the possibility to vote in co-operative elections. Additionally, active encouragement of members to vote, the provision of information about the co-operative's business and the members' rights, the declaration of political independence and an increase in monetary compensation for participation are possible ways of overcoming this problem. The representativeness of the elected officials may be enhanced with the division of the operational area into election districts, the evaluation of representativeness with demographic criteria and the avoidance of the political listing of candidates. The findings also indicate that indecisive goal setting – resulting from members' conflicting interests – may be fought with the guidance of elected officials, steering goals towards acting on the basis of the interests of the whole membership instead of that of some particular group of members. Further, the problems of poor control over management may be decreased with usage of performance measurement criteria, acknowledging the features of co-operatives and making it visible to members (i.e. in order to enable evaluation of performance). Also, sufficient monetary compensation to attract the best candidates to boards, the education of representatives as well as the careful recruiting and socialization of top management is necessary. The question of criteria against which the competence of co-operative managers may be evaluated is discussed in more detail in Publication 4.

The fourth sub-question was *What are the key elements of managerial competence required to execute the purpose of consumer co-operation?* The findings from Publication 4 indicate that the first prerequisites for a competent co-operative manager are the possession of information and an understanding of co-operative value-based management. Second, and something related to the first, is the information on and understanding of customer interface management. The third element, and one relating to both the co-operative purpose and the structural features, is information on and understanding of multibusiness management. Finally, the fourth and final element, and one relating to both the co-operative purpose and structural features, is information on and understanding of community development.

Additional to specific knowledge, the findings also reveal that specific attitudes are also needed in order for a manager be reckoned competent to lead a consumer co-operative. To put it more precisely, identification with co-operative values, as well as the readiness to speak out on matters important to the co-operative, the membership and the community, are crucial elements of managerial competence in consumer co-operatives.

Finally, a number of different managerial skills also crucial to co-operative managers were identified. In this publication *skill* refers to the capacity to successfully achieve pre-determined results. While the body of knowledge included within the managerial competence mix is crucial concerning the pre-determination of the desired results as well as ways of action to achieve them, skill is also crucial in order to actually achieve these results effectively. Among the important skills identified were skills related to co-operative value-based management, customer interface management, community development, collective and participative decision-making skills, and visionary leadership. It is noteworthy that each of these seems to be connected – one way or the other – to the above discussed body of knowledge and attitudes, thus showing consistency throughout the findings. The elements of managerial competence in consumer co-operatives are summarized in Table 1 of Publication 3, page 20.

Given that answers to the sub-questions were found, it is possible to answer the main research question of this study *What implications does the purpose of consumer co-operation have on* *the management and governance of co-operatives?* First, given that the purpose of consumer co-operation is to serve the community in which it trades and more particularly, its members, by carrying on its chosen trade *the role of locality and regionality becomes emphasized in management and there are also some boundary conditions to the strategic management of consumer co-operatives.* Nevertheless, an important finding from this study is that, when examined from the corporate purpose perspective (i.e. from the perspective of a purpose that is inherent in the theoretical model a company represents), co-operative purpose delineates the operation of consumer co-operatives much more than the purpose of IOFs restricts their operation. That is, consumer co-operatives are bound to operate in businesses and market where there is a market failure to be fixed: where they are able to produce benefits to their members living and working in a certain geographical area. This is a major difference when compared to the numerous options available for IOFs in executing their purpose. On the one hand, this can be a source of competitive advantage for consumer co-operatives and co-operative managers should seek to utilize the competitive advantages stemming from co-operatives permanent presence in certain operational areas. On the other hand, when the boundary conditions to strategic management and the interdependence between the success of a regional co-operative and that of the operational environment are taken into account, it seems that in order to execute the co-operative purpose, managers should also pay attention to the development of the region in the long run.

Second, *there are challenges to the governance of consumer co-operatives stemming from the co-operative purpose*. Consistent with this purpose, in many cases the value of consumer co-operation to the member consists of access to goods and services otherwise not provided. Thus, it follows that in those circumstances where members are unable to exit, and so the threat of foot voting does not provide the management any incentive to improve the services of the co-operative, other means to keep the co-operative's operations congruent with the co-operative purpose are needed. Further, as the purpose of consumer co-operatives is to conduct concrete activities in such a way as to maximize the satisfaction of members' needs, there may be debates and conflicts over the quality and range of services provided. That is, members may have different needs and appreciations (i.e. those living in sparsely-populated areas may mainly appreciate security of supply, whereas lower prices may be much more important for members of the same co-operative living in cities) and maximizing them is not straightforward. What makes this even more complicated is that due the purpose of consumer co-operatives, the conventional indicators of success (e.g. profit) may not be applicable when analyzing the success of these organizations and the performance of their managers. In that regard, execution of co-operative purpose seems more complicated from the governance perspective than execution of purpose in IOFs whose shareholders are mainly interested in the profits the firm is able to generate. The tensions between short- and long-term objectives seem not so much dependent on the theoretical model a company represents; in consumer co-operatives, members expect instant benefits from their co-operative, but it is also necessary for the enterprise to make profits in order to realize permanent potential for promoting the interests of members. In the same way, some of the owners of an IOF may prefer actions striving towards maximizing the value of the company in the long term, while others may mainly support actions that maximize earnings per share in the shortest possible period.

Third and finally, all the above-mentioned suggests that the purpose of consumer co-operation *sets special competence demands for the managers of these organizations*. First of all, managers must possess the knowledge of what a co-operative is, what the purpose of it is, what are its ways of action, its motivations and goals. Of course, a top manager of any organization must understand the purpose of the organization she/he is running. However, given that the mission of consumer co-operation differs dramatically from that of companies traditionally in the heart of management literature and business school education (i.e. IOFs), the managers' realization of that difference and understanding of the features inherent in the co-operative model are emphasized. Managers of consumer co-operatives also need to be aware of their members' needs and values, since serving those needs (in all the market segments required) according to those values is the primary purpose of the whole operation. Additionally, in consumer co-operatives it is the values and needs of members (not the shareholders expecting mainly profits) that are the basis of strategic management. Thus, in this context, operating a multitude of businesses in different industries and different parts of the value-chain is seen as an appropriate way of delivering value and consequently, information and understanding of multibusiness management is also a requirement for co-operative managers. Co-operatives' purpose of serving particular members and communities and the inability to relocate operations to more attractive environments also highlights the importance of information on and understanding of community development. It is also necessary that co-operative managers have the right attitudes, as well as skills, in order to successfully lead their organizations.

4. DISCUSSION AND CONCLUSIONS

This chapter presents the theoretical and practical contributions of the study. It also discusses the limitations of the study as well as questions that were not thoroughly addressed, thereby giving some guidelines and suggestions for future research.

4.1 Theoretical contributions

First, the findings of this study are consistent with extant literature on consumer co-operatives (Fulton and Hammond Ketilson, 1992; Zeuli, Freshwater, Markley and Barkley, 2004; Zeuli and Radel, 2005; Zeuli and Deller, 2007) highlighting the close relations between the co-operatives' and their communities. However, while this extant literature mainly examines these relations from a community perspective (i.e. what the implications of co-operatives to their communities are), this study reverses the viewpoint (i.e. it examines the implications the close relations between co-operatives and their communities have on co-operative management), suggesting that locality and regionality become emphasized in the management of these organizations. Further, it indicates the elements of locality and regionality (i.e. closeness, collectivity and permanence as well as the interaction between co-operative managers and regional institutions/local and regional influence) that can be potential success factors for consumer co-operatives, thereby contributing to literature on the competitive advantages of consumer co-operatives (e.g. Spear, 2000; Birchall, 2000; Normark, 1996; Saxena and Craig, 1990). However, it should also be noted that even though the main purpose of this study was to generate theory on co-operative management, filling this research gap can be seen as offering new insights to mainstream literature as well. That is, by depicting the ways local and regional consumer co-operatives may utilize these advantages a contribution is made to literature on the localization of business strategies (e.g. Rigby & Vishwanath, 2006; Schell & Reese, 2003; Mair, 1997).

Second, this study suggests that mainstream strategic management doctrine can be integrated into co-operative management theory, as long as the purpose of consumer co-operation is taken as a starting point and its role as a definer of certain boundary conditions for strategic management is acknowledged. Thus, the work at hand advances our theoretical understanding of the differences between the strategic management of the consumer co-operative model and the IOF model, providing incremental insight (Corley and Gioia, 2011) to extant research on consumer co-operatives (e.g. Cook, 1994). While the notion about these differences may be incremental to those familiar with consumer co-operation, it is likely to offer a more revelatory insight (Corley and Gioia, 2011) to mainstream strategic management literature (e.g. Grant, 2008; Porter, 1985) that generally does not acknowledge the diversity in inherent purposes across different governance forms. That is, it mainly builds its theories from an investor perspective, with the starting point that the primary purpose of business is to maximize profit (Duska, 1997) and that firms may relocate their activities to more attractive environments practically anywhere in the world (Porter, 1991); whereas other forms of economic organization are left aside. Further, while the notion of the two-folded mission of consumer co-operatives[12] indicates that it is possible to integrate agency and stakeholder perspectives in practice in a successful business whose success is not realized at the expense of regional stakeholders, it seems that maybe academic literature in general should also pay less attention to the juxtaposition between the interests of different stakeholder groups as a starting point for theory development and put more effort on examining the abilities of different parties working together to achieve something they could not individually accomplish, the benefits being collective and one party's loss defeating all (Baum, 1989).

Third, while extant literature on the governance of consumer co-operatives (e.g. Chaves et al., 2008; Spear, 2004) has mainly focused on indirect influence via administration, this study contributes to literature on co-operative governance by pointing out that, additional to indirect influence, members' influence (via buying behaviour and direct use of voice) should also be considered as a central feature of the governance of consumer co-operatives. This seems quite reasonable given that the members' trading relationship with their society is both at the heart of and part of the purpose or reason for the existence of the co-operative society (Mills, 2001). Further, the combination of customer and owner roles provides consumer co-operatives with opportunities to develop market and voice dependent mechanisms that allow close and intense governance and realization of the co-operative purpose, even in those situations where the co-operative is the only service provider. However, in order to fully utilize such opportunities, a

[12] I.e. the primary objective of a consumer co-operative is to maximize member benefits in the short term, but, due to geographic-boundness, long-term survival of the organization needs to be secured with responsible operation towards the (regional) stakeholders

deep understanding of co-operative purpose and an awareness of ownership rights is required, both among the personnel and management as well as the membership. In other words, efficient and effective governance is anything but axiomatic. The study also complements previous research on co-operative governance and management (Spear, 2004; Davis, 1997), suggesting that extreme care should be taken to ensure that the appropriate persons are chosen for key managerial positions.

Fourth, extant literature on co-operative management (e.g. Davis, 1997, 1996, 1995; Cook, 1994) has not offered advice for co-operatives on the recruitment and development of managers (i.e. what the competencies they should look for and attempt to develop are). This study fills this gap by offering insights into the competence demands that co-operative purpose poses for co-operative management. It defines managerial competence in the context of consumer co-operatives. That is; *managerial competence in consumer co-operatives is a mix of specific knowledge, attitudes and skills that is primarily a result of learning from personal experiences and contributes to the successful execution of the co-operative mission.* It can be stated that this study extends and further clarifies the ideas of Davis (1996) on translating the co-operative difference into a management and organizational culture that both reflects the difference and also successfully promotes it – the definition of managerial competence serving as a starting point for the empirical examination of the managerial competencies in consumer co-operatives. Further, it is worth pointing out that we have received positive feedback from abroad about the paper being useful in the teaching of co-operative management at a university (business school) level. Additionally, while the key elements of managerial competence defined in this study also serve as a starting point for developing measures for each of the elements, this study also has scientific utility (Corley and Gioia, 2011). Finally, by depicting the specific competence demands that co-operative purpose sets on managers of these organizations, the study also contributes to mainstream literature on managerial competence (e.g. Vakola et al., 2007) that has not paid much attention to how managerial competence is perceived across organizational forms.

In sum, given that research on co-operative management is still in the early stages of development, this study has provided an important contribution to theory development in this field. Integrating the observations from various streams of extant literature under the concept of co-operative purpose and examining these issues further, it provides clarity and coherence to research on co-operative management. Further, alongside originality and scientific utility, this dissertation also has practical utility, which the next chapter will evaluate.

4.2 Practical contributions

Corley and Gioia (2011) maintain that a study has practical utility if “it can be directly applied to the problems practicing managers and other organizational practitioners face” (p. 18). Given that consumer co-operatives can be considered zebras in the world of management where most of the academic research strives to develop techniques for horse training (i.e. the IOFs) (cf. McGahan, 2007); the new knowledge considering the management and governance of consumer co-operatives emerging from this study has value to practitioners of consumer co-operation as well as to society at large. As a whole, this dissertation provides practitioners with understanding of the many implications the purpose of consumer co-operation has on the management and governance of co-operatives. While previous research on the features of consumer co-operation is rather fragmented, this kind of understanding has not been available and the notions of the features of consumer co-operation have not been thoroughly examined, nor linked to the purpose of consumer co-operation. The fact that this dissertation examines the topic from the purpose perspective further highlights the value of this work to practitioners because it enables the capture of features inherent in the co-operative business model. That is, by excluding other factors that may affect management, it is possible to achieve understanding, particularly in consideration of the features inherent in the co-operative business model that can be applied to a different context – instead of an understanding of the different contextual factors (perhaps inherent to particular contexts) that may affect the management and governance of consumer co-operatives as well as other forms of business organizations. However, the author sees that in future studies the other factors affecting management should also be given attention, in order to paint a more comprehensive picture.

Thus, familiarizing themselves with the ideas put forward in this dissertation on the implications that co-operative purpose poses to management and governance enables managers and elected officials of consumer co-operatives to focus on these issues and serves as a foundation for an understanding of what actions can be executed, which ones to focus on and of what needs to be to developed. That is, even though the issues highlighted in this study may to some extent seem simple, they serve as a good starting point for learning. Given that Finnish consumer co-operatives that served as the context for this study are recognized as exceptionally successful on an international scale, the value and applicability of this work might prove even more useful to managers and elected officials in other countries.

When it comes to examples of where the knowledge emerging from the publications included in this dissertation may be applied, the dimensions of managerial competence may be utilized in recruitment, assessment and development of managers in consumer co-operatives (e.g. from a 'one business' mindset to a 'multibusiness' mindset). It is these dimensions of managerial competence against which people's readiness or potential to move into a top management position can be assessed, against which a manager's performance in such a position can be evaluated and against which co-operative management can be developed. This should help consumer co-operatives in designing pay and rewards in a way that harnesses and promotes the competence required to add value to their members, the co-operative, and the community as a whole.

Further, if a co-operative's manager possess the appropriate knowledge, attitudes and skills, it is likely that the problems of co-operative governance will decrease, at least when it comes to conflicts in goal setting (i.e. a manager who understands the objectives of members will seek to perform accordingly) and accentuation of managerial power (i.e. a manager who assumes the values and principles of consumer co-operation as his/her own might be less likely to misuse his/her power). The study also furthers the successful realization of co-operative purpose by linking the previous accounts on the competitive advantages of consumer co-operatives (e.g. locality and regionality [Tuominen et al., 2006]) to elements of competence that are needed in order to fully utilize the potential of these advantages. Further, during the research process it was also found that, on average, the member of a consumer co-operative is not very interested in the organization that she/he is an owner of and consequently might not even know what the purpose of the organization is and how should it operate. Thus, by outlining some of the features inherent in the co-operative model and illustrating how consumer co-operation should "ideally" be executed, this study also benefits co-operative members as well as teachers of co-operation.

While the findings of this study highlight that the purpose of a consumer co-operative is to serve its members in a certain geographically limited community, the work does not only provide additional theoretical insight but is also useful for societies struggling to identify diverse and sustainable ways of organizing the provision of goods and services. One may ask about sustainability from a consumer (community) point of view: Which model of business enterprise is likely to commit to the long-term provision of services in a particular consumer market? Consequently, even though the stakeholder perspective was not at the main focus of this dissertation, co-operative practitioners may also utilize the issues touched on in this work when explaining to various stakeholder groups (e.g. actors in the media, policy makers) what kind of enterprises consumer co-operatives are, what purpose they serve and how they are managed and governed.

To conclude, it is worth noticing that the ideas stemming from Publication 4 have already been put into practice when recruiting a new CEO for a regional consumer co-operative (i.e. when designing the job advertisement for that particular position). Further, Publication 1 has been utilized when developing (local) responsibility reports in co-operative banks and publications 1, 2, and 3 were put to work in the strategy processes of co-operative banks. Finally, all of the publications have been utilized in the education of co-operative practitioners, organized by an institute specialized in governance and management training.

4.3 Limitations

As is the case with all studies, this work also has some limitations to be addressed. For example, even though this study describes that due to geographic-boundness, locality and regionality are important in co-operative management and concretizes how they can give competitive advantage for consumer co-operatives, it does not acknowledge to what extent the co-operatives actually utilize these potential sources of competitive advantage. Further, it neither takes a stand on the salience of local knowledge or regional orientation to management and the extent the competitive advantages stemming from these issues are available to other forms of business organizations, such as firms owned by families. Additionally, in some parts of the publications the ‘special features’ of consumer co-operation are discussed, but on these occasions the features are mainly somewhat distinctive when compared to the dominant model of IOFs. In order to capture the actual specialty of the features, the comparison should be made among all forms of business organizations that operate in the markets.

Further, the dissertation does not deal with the extent to which co-operative managers actually possess the managerial competences defined in this study. Thus, it seeks to achieve the "ideal" way of operation and management for consumer co-operatives and does not cover the issues of to what extent these ideals are followed in praxis. It does not statistically examine whether there are correlations between the outlined competence dimensions and the success of the co-operative a manager possessing those competencies leads. Thus, in line with Edmondson and McManus (2007) who suggest that the essential nature of the contribution of work in a nascent arena is providing a suggestive theory of the phenomenon that forms a basis for further inquiry, a word of caution must be offered when it comes to the application of this particular study as the basis for strategic management in consumer co-operatives. That is, this work is at best reflective of an early stage of theory development and, thereby, managers and members of governing bodies must apply the knowledge with this consideration in mind. Overall, it is evident that a lot of research is needed to gain a deeper understanding of the features that co-operative purpose poses to co-operatives' management. As an example, it should be acknowledged that Publication 4 is the first attempt to uncover the elements of managerial competence in consumer co-operatives. Thus, it is likely that future research will identify additional elements that the data of the publication was not explicit or specific about. Therefore, a more detailed examination and definition of each of the elements of managerial competence is needed and, to promote research and application of that research in practice, measures for each of the dimensions should be developed. More suggestions for future research can be found in the following.

4.4 Suggestions for future research

First, future research should be conducted and comparisons made in relation to what kind of organizations the competitors of consumer co-operatives actually are, instead of assuming that they are IOFs when they might not be. Second, in Publication 1 (Tuominen et al., 2006), a step is taken towards uncovering what being *local* actually means in the context of consumer co-operatives. However, this study does not conclude with a comprehensive and rigorous definition of locality in co-operative business, nor does it provide detailed understanding of the dynamics of local vs. non-local (i.e. regional, national or global) with an outline of different environmental sectors penetrating the global-local nexus. Further, the work does not focus on the question of whether the local may act on its own terms or whether it is subordinate to global actors and their strategies (defining local for their own benefit). Thus, to elaborate the construct of locality in business it would be important to ask: (1) How can locality be defined? (2) To what extent are particular elements and systems of co-operative banks seen as local? (3) What constraints are there in co-operative banks to the self-understanding of being local? and (4) How do these different elements and systems of co-operative banks (as local/non-local) contribute to their ability or inability to be their members' first choice (a pronounced competitive target of co-operative banks)? While this would make an original and useful contribution to research on co-operatives (e.g. Tuominen et al., 2006), and co-operative banks in particular, it would also serve to generate more general business knowledge – particularly around the discussion of *glocalization*. A rigorous definition of locality in business would also be a step towards measurement of locality. In addition, it would help to understand the dynamics of locality vs. non-locality and to evaluate the extent to which any firm is local/non-local. Finally, it could shed light on the possibilities of local business in a globalizing world, thus questioning the hegemony of multinational firms.

Third, in Publication 2 it is emphasized that all organizations are neither global nor entirely free to locate their operations anywhere in the world, which is the assumption on which mainstream strategy research bases a great amount of its work. Thus, the need for strategy research on both a higher level of abstraction seems evident, as well as one acknowledging the boundary conditions that certain aspect of different models of organizing economic activity may bring to strategic management. As an example, consumer co-operatives are dependent on their geographical context and develop long-lasting connections to a given location. As diversifying to another context is out of question for regional retail co-operatives (Jussila et al., 2008), a notable share of co-operative management is about balancing the downsides of serving a geographically limited market and needing other means to cope with their environment. Thus, the means and strategies of these organizations to survive and succeed with such constraints in place deserve more attention. In other words, the question that needs to be answered is: How do consumers' retail co-operatives manage being 'captives of their regions'?

Fourth, given that there is significant difference between the corporate purposes of consumer co-operatives and limited liability companies, and the accounts of recent research suggesting the accentuation of managerial power in consumer co-operatives, it would be interesting to examine whether there are differences in agency costs and surplus distribution between co-operatives and limited liability companies. That is, in Publication 3, it is maintained that formulating clear and consistent objectives for the co-operative and its managers is not an easy task in a democratic organization and it also seems that the main concern for elected officials is to secure the prosperity, growth and continuance of the co-operative business instead of looking after members' short-term benefits. An analysis of whether there are differences between the financial performance and efficiency of co-operatives and limited companies could provide some important insights into whether the co-operative actually operates as it should be operating. After all, it is considered that a co-operative does not fulfill its primary purpose unless it provides concrete benefits to its members (Saxena & Craig 1990); for example in terms of lower prices, a more convenient store location or patronage refunds. Further, acknowledging the corporate purpose of consumer co-operatives and the difficulties this may pose to goal setting and measurement performance, the logical next step would be to conduct a study in order to define economic objectives for consumer co-operatives that are consistent with their corporate purpose.

Finally, Publication 4 suggests that a typical business school education is not a significant factor in developing some of the critical elements of managerial competence in consumer co-operatives. To investigate this issue further, it would be interesting to conduct a study on the antecedents of managerial competence. Based on this study one could expect that, in stepwise regression, variable 'education' would show no significance after 'tenure in co-operatives' (which can be considered to count as personal experience). As a related issue, it seems that a major task for co-operative researchers is to develop the discipline in a way that will eventually make management education an important source of managerial competence in consumer co-operatives. A good starting point for this work is a more detailed examination and definition of each of the elements of managerial competence listed in Publication 4. It would also be interesting and valuable to investigate managerial competence in producer co-operatives, to make comparisons across different types of co-operatives and co-operatives with different structures.

To conclude, based on the findings and contributions of this study considering the different purpose of consumer co-operation and the special features it poses for co-operations' management, it can be stated that the fact that debate and interest in business economics revolves primarily around one model of business enterprise (the IOF) is a major shortcoming. Thus, it will not offer future research and practice the kind of intellectual framings needed – for example, theories that are applicable in connection to particular models or abstractions that go beyond one model. To fill the gap, we need to take account the variety of enterprise models being used in different markets. Where there is successful practice that does not fit existing theory, it is the theory rather than the practice that must be deconstructed and elaborated.

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PART II: THE PUBLICATIONS

Publication 1

Tuominen, P., Jussila, I. and Saksa, J-M. (2006)

Locality and regionality in management of Finnish customer owned co-operatives

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Locality and Regionality in Management of Finnish Customer Owned Co-operatives

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Abstract

Globalization has raised the question of the role of locality in today's business. Mainstream discussions have dealt with national or regional differentiation of strategies of multinational firms. However, a deep understanding of the core phenomenon – local business – remains unattained. Moreover, co-operatives, the traditionally local and regional form of economic organization has received little attention. Despite recent success, co-operatives have often been declared to vanish from the fields of business. In this paper, we define locality and regionality to examine them in the business and management of co-operatives. Our paper, including the analysis of in-depth data collected from Finnish consumer owned co-operatives, provides the reader with an interpretative framework for understanding local and regional aspects of co-operative organization and business.

Key words

Co-operatives, Business, Locality, Regionality

Introduction

Over the past decade, the concept of globalization has frequently occurred in the discussion of business economics and corporate strategies (e.g., Mair, 1997, Storper & Scott, 1995). It has become popular especially as it represents the ongoing extensive economic and social transformation (e.g., Fiss & Hirsch, 2005; Aykac, 2001; Guillén, 2001). Attitudes towards globalization are generally two-fold: 1) it is praised when exports thrive, innovations flourish, and when new business opportunities emerge, and 2) it is blamed for perishing business opportunities, when factories are closed and jobs are lost, and even for instigating social disorder (cf. Tienari & Vaara, 2005; Sørensen, 2002). Interestingly also, while it has been argued that globalization diminishes those factors, through which various nations, regions and places are identified from one another as separate cultural entities, accounts on globalization and strategy (e.g., Grant, 2005; Schell & Reese, 2003; Porter, 1998, Mair, 1997, Storper & Scott 1995; Porter, 1990) have emphasized the need for localization. Despite (and perhaps because of) the global standardization of operations, companies need to fit their strategies to national, regional and local socially constructed needs and values (cf. Rigby & Vishwanath, 2006).

Some economic-institutional and social elements of locality, such as local industrial infrastructure, local social structures and changes in consumer demand have been discussed in literature on localization (e.g., Mair, 1997). According to Byrne (2001), the central idea of locality is the ongoing interaction between economic and social institutions in certain, physically and geographically defined area. The related concept of regionality can be defined as a strategy that actively uses geographical space in classifying social phenomena, expressing limits of society, as well as, controlling and affecting resources, matters, information, symbols and individuals with restricting and setting some levels of control in the form of regional borders (Anderson & O'Dowd, 1999).

Co-operatives offer an interesting context for studying locality of business. Co-operatives represent a typical local and regional form of economic organization; from both ownership and business perspective (e.g., Nilsson, 2001; Skurnik & Vihriälä, 1999; Hansmann, 1999; Tainio, 1999). Yet, very little research has been conducted to understand locality and other special features and potential success factors of co-operative organizations (e.g., Kalmi, 2002). In this paper, we build on literature on business and co-operation (e.g., Skurnik, 2005; Freeman, Wicks, & Parmar, 2004), locality and regionality (e.g., Byrne, 2001; Crang, 1999; Agnew, 1987; Lumijärvi, 1983), and in-depth data to introduce an interpretative framework for understanding locality in co-operatives.

Our data consists of 24 interviews of CEOs and elected officials of Finnish customer owned co-operatives, as well as, archive materials and annual reports of those companies. Based on our data, it seems that successful co-operatives are consciously utilizing locality and regionality in their businesses. Our data emphasizes the processes of locally focused boundary spanning, which, according to the accounts in our data, provides co-operatives with absorptive capacity concerning reliable local knowledge and, thus, possibilities to react to the changing customer needs more quickly than competitors. In addition, not only can the co-operative leaders be tentative to interests, such as the interests of local and regional institutions, but they often are also in the position to be able to participate in maintaining and altering those institutions.

Boundary spanning, locality and regionality

Boundary spanning

Organizations can be seen as open systems that interact with and adjust to their external environment (e.g., Grant, 2005; Scott, 2003; Au & Fukuda, 2002). Environment offers possibilities for organizations in the form of resources and markets (e.g., Hodge, Anthony, & Gales, 2003). However, due to its unstable and unpredictable characteristics, it also poses potential threats to the organization's future prosperity and survival (e.g., Schwab, Ungson, & Brown, 1985; Drucker, 1958). Therefore, organization faces many issues related to the environment and the organization itself that influence the compatibility between the environment and the strategy the organization has selected (Zajac, Kraatz, & Bresser, 2000).

Organizations often tend to map their own structures into the complexity of the environment they face (e.g., Fennell & Alexander, 1987). This can be useful, because organizational structure also affects to whom the information about environment goes and how it can be treated (Leifer & Delbecq, 1978). The objective of boundary spanning is to link and coordinate an organization with key constituents in its "external" environment (Bartel, 2001). This is important, because organizational decision makers need information about environmental contingencies in order to make appropriate decisions considering the environmental conditions and contingencies (e.g., Leifer & Delbecq, 1978; for absorptive capacity, see Cohen & Levinthal, 1990). This way organization can succeed in their actions and be flexible enough to adapt to the challenges the environment poses (cf. Hodge, Anthony, & Gales, 2003; Ramaprasad & Prakash, 2003).

Executives' interaction with environment is extremely important, because their ties with stakeholders (e.g., customers, suppliers, unions and community agencies) serve as conduits for information that shapes managerial views of the environment and therefore support the strategic decision-making process (e.g., Geletkanycz & Hambrick 1997, Haunschild, 1994). It has been noted, that there is a positive relationship between the intensity of executives' interaction with environment and the performance of the organization. It seems that the broader the boundary spanning is the higher is the firm's financial performance (Dollinger 1984; cf. Gelatkanycz & Hambrick, 1997).

According to Weick (1969, quoted in Leifer & Delbecq, 1978) it is possible that organizations may affect the environment to which they adapt to instead of adapting to a ready-made environment. In other words, organizations are able to "manipulate" their external environment and the institutions operating in it and, thus, create conditions suitable for them (cf. Hodge, Anthony, & Gales, 2003, Scott, 2003; Goodstein, 1994; Oliver, 1991). For example the board of directors may play a major role in acquiring knowledge from the business environment and affect the institutional environment for the benefit of the organization (cf. Daily, Dalton, & Cannella, 2003). Co-operatives (i.e., CEOs and board members) active role in maintaining and altering the business environment can be considered to be closely related to co-operative principles, according to which co-operatives must act for the sustainable development of their communities according to their member's interests.

Locality

The challenge in utilizing locality in business is the complex nature of the concept (cf. Cox, 1998; Pickvance, 1998). The central concept in locality research is place. According to Agnew (1987), place consists of three different dimensions, which are 1) location, 2) locale, and 3) the meaning of place. *Location* refers to the physical elements of place. It is a point in the universe, which has special relations to other points in the universe. *Locale*, then, includes a wider entity of social dimensions (both built and social) (cf. Berger & Luckmann, 1966; Durkheim, 1894 [1938]). *The meaning of place* refers to the subjective feelings attached to a specific place (cf. Brown, Lawrence, & Robinson, 2005). The meaning of place refers to the feelings it evokes to "insiders" (people, who live in certain place) and "outsiders" (people, who visit the place). Place also contains cultural and social meaning (Cresswell, 1999; Cox, 1998).

When institutions in certain place are studied, one should also notice the connections between them. In fact, locality can be defined as a context, in which the connections between institutions can be studied (Stacey (1969), quoted in Day & Murdoch, 1993). On the other hand, the central idea of locality is the continuing interaction between economic and social institutions in certain, physically and geographically defined area (Byrne, 2001). Accordingly, locality can also be understood as an interaction network composed of cultural and local physical closeness. Locality differentiates from global level on base of cultural and historical continuity and physical closeness, which is often based on concrete possibility of interaction (e.g., Soine-Rajanummi & Saastamoinen, 2002).

A central element in locality, and how it is experienced, is local identity. According to Castells (2000), identity is the description identified by individuals or groups of those attributes which they perceive most important. By referring to those attributes he/she or they can answer to questions who am I or who are we? Identities occur in multiple levels (i.e. individual, group or national), but the common element that all forms of identity have contain content and boundaries (Rapoport, 1981). Local identity, and the construction of it, is closely connected to local community (Byrne, 2001). The concept of community is related to certain kinds of social networks. It also refers to those implications, that people attach to a place whose components they are (Williamson, 1982). Cohen (1985) continues that the (social) reality of the community depends on how powerfully its culture is experienced by its members. Individuals build up the community symbolically by making it storage for meanings and part of their identity.

Regionality

The basis of regionality is the regional structure, which is formed by individuals and their actions in different forms, as well as, land, ground and nature as a whole (e.g., Kultalahti, 1990). Regional structure creates the operational environment of individuals, including certain physical and social elements. According to Dicken & Malmberg (2001), regions can be seen as "containers", which contain a combination of physical, social, political and economical features. Sack (1986), on the other hand, considers regionality as a strategy that notices the role of space and strives to affect resources and/or people by controlling a region. The strategy uses region in classifying and defining matters and acts by controlling entry to specific regions and out of them.

Anderson and O'Dowd (1999) maintain that regionality encompasses the active use of geographical space in classifying social phenomena, expressing limits of society, as well as, controlling and affecting resources, matters, information, symbols and individuals by restricting and setting some levels of control in the form of regional borders. Region and its social actors – individuals and communities – form a social wholeness, whose attributes are strongly dependent on people and communities that are close to each other. The symbolic meanings refer to the notion that, as a multidimensional wholeness, region is part of the social identity of people and communities acting there (cf. Dittmar, 1992; Kultalahti, 1990; Rapoport, 1981; Beaglehole, 1932). Besides that region builds up the social identity of people and communities, the physical and social environment create an operational environment, which affects the formation of opinions, attitudes, prejudices and ways of acting (Kultalahti, 1990).

In examining humans and the environment, the concept of "perceived environment" is used. It is considered as a mediator in relationship between individual and his/her "actual environment". The "perceived environment" contains the physical environment, which is felt as a relevant part of local environment by an individual, and to which the individual projects his/hers symbolic meanings (e.g., Repo, 1990; Kultalahti, 1990). Individuals also experience feelings of territoriality, which can be explained by the fact that both people and communities have a need to experience close interconnection with certain region (cf. Weil, 1952; Beaglehole, 1932).

The psychological attachment to the "perceived environment" develops through intensive interaction between people and the region (cf. Brown, Lawrence, & Robinson, 2005; Pierce, Kostova, & Dirks, 2001). People can feel ownership towards certain physical, social, and/or cultural entity by controlling it, becoming familiar with it, and investing their personal resources to it (e.g., Jussila & Puumalainen, 2005). Research on territoriality in organizations (e.g., Brown et al., 2005) has highlighted several attitude and behavioural consequences that are caused by the feelings of ownership for a certain region or place. One of these consequences is organization/community members' desire to defend their own region, hold on to the autonomy of the region, and emphasize the collective identity of people living in region.

Finally we come to the question of how to outline the borders "perceived environment" (and region). According to Dicken & Malmbeg (2001), the borders of a region can be either clearly defined or blurred. The same applies to organizations acting within a region; their borders and the definitions of them can be defined in various terms. Where the operating area of one firm ends, the operating area of another firm begins. According to Baradacco (1991), a firm can be seen as a dense network in the middle of network relations. As we move away from the core of the network the strength of the relation is decreased and finally we come to the point, where the firm has neither power nor influence: there is the border of the firm. The idea is basically the same for individuals. A certain environment satisfies the individuals need for efficacy and effectiveness, identity, and place. The region, that does not satisfy these needs is, in the individuals perspective, outside his/her "own region" (cf. Brown et al., 2005). In the following sections we reflect on our research for the role of locality and regionality in order to provide a sustainable context for co-operatives in the global market.

Context, data and methods

Co-operatives have often been labelled as "relics of the past", which will vanish as globalization proceeds and competition gets harder. To the apparent surprise of many experts on business organization, however, some of the latest results of research on co-operatives and globalization show that intense competition, along with the related uncertainties for nations, regions, and employees, seems to increase the relative performance of co-operatives (cf. Skurnik, 2005; Casadesus-Masanell & Khanna, 2003). Finnish customer owned co-operatives, for example, have been able to preserve their efficiency in the globalizing economy and gain a larger market share during the last decade.

In this paper, we focus on S Group on the retail sector, OP Group that operates in banking and insurance, and POP Group that operates in banking. S Group consists of 22 regional co-operatives and central organization SOK (owned and governed by regional co-operatives) and the subsidiaries of it. S Group is the market leader in daily consumer goods, and its business include food and groceries, dry goods, hotels and restaurants, hardware, agriculture, automobiles, service stations and welfare services (Neilimo, 2005; www.s-kanava.net: accessed 13.4.2006). The regional co-operatives are owned by the customers (about 1. 5 million) of their regions. Regional co-operatives provide services and benefits to the customer-owners in their regions and support the economic and social well-being of the region. OP Group, the biggest financial group in Finland, consists of 236 local and regional co-operative banks, central co-operative (OPK) and central bank (OKO Inc.). OPK is owned and governed by local and regional banks, which are owned and governed by their local and regional members (approximately 1.1million). Co-operative banks provide banking and financial services to private customers, firms and communities. (www.op.fi: accessed 24.4.2006). POP Group, which was separated from OP Group in 1997, consists of 42 local, independent, and self sufficient co-operative banks owned by their members (app. 80, 000). POP Group has a central association (POPL) that helps to arrange collective activities and communication among the banks. These banks also provide banking services to private customers, firms and communities (www.paikallisosuuspankit.fi: accessed 13.4.2006).

The data of this qualitative study (e.g., Denzin & Lincoln, 1994) was collected by the authors during the years 2004 and 2005. First, in spring 2004, we interviewed three co-operative researchers on the themes of co-operation; its definitions, core concepts, as well as, history, present state, and future. We also collected and analyzed extensive amount of literature, including books on co-operation, unpublished non-scientific studies, personnel magazines (years 1974-2004), and annual reports. Then, during summer 2004, we interviewed eleven experts of co-operative organization (managers and members of board) in central units and local co-operatives. We used the so called "snowball" sampling procedure (cf. Duerr, 2004, Greenwood, Suddaby & Hinings, 2002), in which the persons to be interviewed was based on recommendations of previous interviewees. In summer 2005, we collected more data by interviewing one co-operative historian and nine CEOs in S Group, OP Group, and POP Group. In those interviews the core themes of this paper were emphasized. During the interviewing process the interviewees recommended and /or handed us more archive materials to be analyzed in our study. In sum, data consists of 24 interviews with CEOs, elected officials, and other experts of co-operative organization, as well as, extensive amount of literature and other archive material on the co-operatives in the study.

The data was first studied systematically in order to understand the context of our study and achieve preliminary understanding of locality and regionality in the co-operative business. After this the data was organized under different themes and analyzed in detail in order to reach the objectives of the study. To increase reliability, all three writers analyzed the data both together and separately.

Analysis of locality and regionality in co-operative business

Organization of co-operative business

In the data analyzed in this study, co-operation is often described as *"capitalism with a human emphasis"*. According to our interviewees, co-operatives operate under normal conformities to "economic laws and market forces". On the other hand, a co-operative is considered to differ from those forms of businesses that are based on individualistic definitions of ownership. The aim of its operation and the indicators of its success are different compared to, for example, public limited companies. For example the mission of S Group co-operatives is, according to our interviewees, to develop the economic and social welfare of their regions, to enhance the economic and social wellbeing of their customer-owners, and to provide or organize (lacking, but needed) services to customer-owners in their regions.

In sum, the advantages of ownership can be either direct, as the advantages of using the services are, or indirect, as belonging to the regional community that benefits of the economic activities and support by the co-op is. According to our data, locality and regionality are essential factors in the activities of Finnish customer owned co-operatives. A sample of a discussion from the year 1899 between two pioneers of Finnish co-operation shows that this is not a new phenomenon (see Skurnik, 1994):

"…co-operative organization…first, links individuals to each other locally…then local co-operatives must in order to succeed, create central units for co-operatives of the whole country, which in turn, as strong economic institutions influence the local co-operatives"

Although the meaning of locality and regionality in co-operation has changed over the past century and new technologies have emerged the form of organization presented above has remained strong in the Finnish co-operative groups. According to our data, there has been a historical way of thinking in the S Group that its organizational structure should follow the organization of the provinces in which they operate. In OP Group, in which an intimate knowledge of customers has been valued, the ideal area of operation for a co-operative bank has been defined as the area *"that can be seen from the church tower"*.

According to our research data, social transformations, such as regional concentration, have complicated the possibilities of co-operative business in regions, where population is reduced due to migration and solvent demand decreases. According to interviewees this has been a great challenge especially in the last couple of decades. Some however state that co-operative banks turned this development into an advantage during the urbanization process in the 1960s and 1970s. According to CEOs of co-operative banks, continuing migration sets some challenges for co-operative businesses and their organization in the future as well. Examples of possible ways to rise to the challenge are the ongoing mergers of local co-operative banks to bigger regional co-operative units. In S Group, according to our data, co-operatives have been able to respond to the local needs by increasing efficiency through the development of nation-wide chain organizations, owned by the regional co-operatives.

The co-operative managers interviewed in this study see the IT revolution as a challenge for local and regional co-operatives. More specifically, the managers of co-operative banks state that when customer relationships are managed via Internet and there are high operational costs, then the meaning of locality is definitely changing. In the past, one of the core elements of locality was daily interaction between bank or shop employees and their customers. Managers looking back interpret that this interaction was essential for the emergence feelings of community and the construction of local identity. Nowadays there is a fear, that e-business will dissipate both individual and collective identity.

However, the transformation of locality and regionality does not mean that their role in co-operative business will be disappearing. Consistent with academic literature (e.g., Schell & Reese, 2003) many of the interviewees saw also opposing forces in that the development. Despite the social transformation and the internationalization of their business environment, co-operatives have been able to maintain local or regional touch in their operations. E-business has still not been able to gain such an important role in any line of the examined co-operatives. There is always a need for local interaction between customers and employers. This is relatively important, because according to interviewees the competitors of co-operatives have, often consciously, reduced the level of locality of their operations.

Locality and regionality as contributors of acquiring information and understanding of the business environment

In literature on the case organizations (e.g., Neilimo, 2005; Herranen, 2004; Kuusterä, 2002; Lahti, 1996), one of the most central missions of co-operatives was the identification of local needs and responding to them. In order to succeed in this, a deep understanding of the business environment is needed. The CEOs interviewed maintained that locality and regionality are central success factors of co-operative organizations. This was explained by the fact that without a deep understanding of the business environment co-operative retailers can not integrate their strategies to fit to the environment (cf. Hodge, Anthony, & Gales, 2003).

According to our interviewees, one key advantages of being local or regional is the possibility to utilize customer knowledge. When customers and owners of the firm are known, their wishes can be better catered for and also business can be developed accordingly. This idea is well illustrated by the following representation produced by a CEO of local co-operative retailer:

"… the strength of it (locality) is that the wishes of the customers can be more personally catered for than in bigger units. We can understand the customers better…we know our customers, I claim, better than in bigger units do…"

The interviewees of co-operative banks noted that in business there is always risk present (cf. Drucker, 1958). In our data it was generally put forward that co-operatives are a form of decreasing risks experienced by its members. According to some archive material, the personal knowledge of loan applicants' circumstances was a risk decreasing factor in local banking at the beginning of the 20th century. The interviewed CEOs maintain that good local knowledge remains helpful in decision-making. What results from being local is that the customers are well known – often including the history of their whole family. According to one of the interviewed experts, a crucial locality-related advantage is that in local co-operatives there are fewer problems related to asymmetric information than in non-local alternatives:

"... The strength that rises from the fact that every actor of the environment is known is still valid at some level; and of course it decreases the problem of asymmetric information…"

According to our interviewees, the network structure of the case studies, i.e. the clear division of work between the central unit and the regional or local co-operatives allows their knowledge and understanding of the external business environment to be better than their competitors. In regional co-operative retailers, for example, this division of work which aims to implement their mission has also been differentiated within the regional network. As one of the interviewees stated:

"…I am almost all the time rubbing elbows with what is happening in the region, as I said, we have our own network at the regional level, when these towns are the working area of the local manager then we are strongly connected to these municipalities …"

In many of the interviews we conducted, the role of top and middle management in acquiring and updating this knowledge was emphasised. Yet, also the role of others (i.e., board members and owner representatives) participating in the decision making of the co-operative was considered important in providing relevant information. In addition, the following accounts seem to be consistent with the academic works (e.g., Gelatkanycz & Hambrick 1997) stating that the external ties of any organization serve as conduits for information from the environment and therefore also support strategic decision making:

"The strength is, …, that the decisions are made locally, where we have advanced knowledge of the local environment. We believe that in this way it is possible to make better decisions compared to the alternative of making these decisions somewhere else."

"…and then the decision-makers of the co-operative are familiar with the development strategies thus when local government introduces proposals and when planners of the city do something these actions do not come as a surprise to the manager of the co-operative"

In several co-operative retailers and banks, the active, widely experienced board members made a significant contribution to the strategy work of the firms, and the network of the owners representatives can also be seen as an important resource (cf. Daily et al., 2003). Managers' and other senior staffs' knowledge of the business environment ensures that the co-operatives strategies and operations are appropriate (cf. Leifer & Delbecq, 1978).

Locality related closeness, collectivity and permanence as success factors

According to our interviews, one of the advantages of locality and regionality in management of co-operatives results from geographical proximity. According to Soine-Rajanummi & Saastamoinen (2002), locality differentiates from the global level on the base of cultural and historical continuity and physical closeness, which is often based on a concrete possibility of interaction. According to our data, the possibility of interaction can be considered as a physical closeness-related strength. In co-operative banks, for example, there is a possibility of personal contact between customer and the manager who makes loan-decisions. According to Leifer and Delbecq (1978) the organizational structure partly affects to whom the information about environment goes and how it can be managed.

In the management of the examined co-operatives the personal contact between the customer and the decision-maker can be seen as an advantage offered by locality, even nowadays and despite the efficient information transferring technology. For example, a CEO of a regional co-operative bank stated that:

"…as a practical example, we can think about a local customer (firm), who needs a kind of decision that can be made in this room but with our competitor it has to be made for instance in another country…if the entrepreneur wants, he can come to this room and give some background information concerning for his project. Our competitors, on the other hand, has to send the papers or electronic data to some other city or country…"

The advantage of physical proximity seems to become concrete in the management of co-operatives, because local decision-making is faster compared to non-local. A CEO of local co-operative bank of the POP group considers the advantages as follows:

"I guess that if we think from a customer point of view, the most important thing is that the answers to whatever questions are given immediately. Locality and local decision making means that customers do not need to leave the room without an answer…in my opinion this is the most concrete and practical side and a significant competitive advantage, we have lots of customers who have come to us from other banks because they did not get answers to their questions even

though they waited for weeks… but if you come to us you will have the answer when you leave"

According to our data, there is another locality and regionality related strength for co-operatives as well. This has to do with the notion that regions construct the social identity of people and communities operating within them (cf. Kultalahti, 1990). The regional identity has influence upon the community members' attitudes towards the world outside the region. In addition, people can have a feeling of belonging to their region. An organization strongly identified with the region will also attract similar loyalties which may have positive implications on individual employees and members attitudes and behaviors (cf. Brown et al., 2005; Pierce et al., 2001). Some of the top level managers of S Group put it as follows:

"… When the use of services is related to performance and the business idea of a co-operative retailer (to produce services and benefits), it becomes concrete by this kind of regional operating model…the differentiation of the company … when it is made regionally, produces a stronger bond with its stakeholders… "

"...essential is also that the members of the regional co-operative retailer feel that it is their own firm, because it is regions own company and participates to the development of the region… "

According to some co-operative managers interviewed, managers of co-operatives can strengthen the local or regional identity of the co-operative by acting as part of the community (cf. Castells, 2000). This may create circumstances, in which the customers feel that they are psychologically and socially more close to the local or regional co-operative than to its competitors, whose decision-making is, as well as its identity "located" somewhere else. The managers interviewed see that this can further the possibilities of success in business, because the customers are more committed to the co-operative bank or retailer than to their competitors.

There is also a time-related dimension of locality. According to the literature on territoriality (e.g., Brown et al., 2005), it takes time and continuous interaction for someone to become familiar to a certain place or region. Permanence and locality were linked to each other also in the minds of our interviewees. One local co-operative bank CEO in POP Group explained the phenomenon and its relative importance for the co-operatives as follows:

"We have permanent people here (employees and managers) and so we know the backgrounds of firms, communities and households and therefore we are able to make decisions faster and more easily than in national firms, in which 'the roulette wheel spins' and managers are changed. I have been here for 11 years and during that period the managers of our competitors have been changed many times and therefore they never get to know the locality and the local business environment. "

In our data, there were also other long term development related issues raised related to locality. Our interviewees compared, for example, the operations of co-operatives to those of limited liability companies with their hectic atmosphere based on short term quartile results. The interviewees described the strategic management of regional and local co-operatives with the word *patience*. A CEO of a regional co-operative retailer explained the connection between regionality and patience for management as follows:

"Regional co-operatives cannot be managed in the same way as capital based firms. We have in our management to pay attention to the development of the region in the long run. The success of the co-operative retailer and, by the same token, also the success of the owners totally depends on the wealth of the whole region. Therefore, in the strategy making of a co-operative, a quartile is a quarter of a century."

The above statement is consistent with the agreed role of the regional co-operative retailer in the S Group network. In the data we analyzed, there are frequent references to co-operatives having a social responsibility. Many of our interviewees also put forward the concept of so called "regional responsibility".

Local and regional influence as a success factor

In our data, it was frequently stated that locality and regionality help co-operatives to adapt to the environment and to respond to the needs of their customers. However, other significant advantages where also found, when co-operatives were compared to their national and international competitors. According to the co-operative CEOs interviewed, locality and regionality provide extensive possibilities for co-operative executives and board members to influence the business environment, instead of simply adapting to it (cf. Weick, 1969; in Leifer & Delbecq 1978). For example in the S Group, the implementation of the mission of regional co-operatives calls for the CEO to take an active role in furthering the collective interests of all the stakeholders in the region. As one S Group co-operative CEO put it:

"…through the work with different local and regional interest groups, and this is very much a part of his own job description, the CEO takes part in different local and regional organizations. In this wider context, the

management of the co-operative play an active and strong roles in various regional forums…"

"As a leading regional organization the co-operative sees It as a priority to affect, act and support the fair development of different parts of the region, localities, municipalities and cities and increase the appeal of the region… this development affects directly the success of the co-operative and here we have the co-operatives main motive… If we are going to succeed in the region therefore, we have to act and have a bearing in this region, develop it and not just talk about it…"

As presented above, the role of co-operative managers provides possibilities for them to contribute to the success of their regions, and through this to the success of their own organization as well. This can be regarded as consistent with co-operative principles. Part of co-operatives' mission is to work for the sustainable development of their communities and to do this in accordance to their members' interests. Thus, the above described behaviour is important from an ethical and an economic point of view. Typical of most of the interviewees explanation of their regional responsibilities and role is the comment below by the CEO of local co-operative bank:

"We do a lot of socially responsible work, which is part of the co-operative principles, and everything that we do does not always aim to economic success, but it is about customer businesses being handled with special care…and we invest in different things. We can put money to a skateboarding field or to common marketing of sites with the municipality and some cultural activities…, the main thing is not that we will earn money but in the long run I believe that it will also be useful for us economically."

There were some inconsistencies in some statements on regional influencing. A younger CEO stated that regional influencing should not be included in the job description of a co-operative CEO. He considered regional influencing something that should belong to other decision makers in the region. The CEOs who have taken the active role considered this "new leadership culture" promoted by "new generation managers" as a considerable future challenge for co-operatives. As is stated in this paper, regional influencing has been regarded not only as an important responsibility, but as an important success factor as well, which the new generation of managers is willing to give away. On the other hand, in some interviews conducted in the central units of S Group and OP Group these "less authoritarian ambitions" of the younger CEOs were looked at positively. The "new style" was considered to fit well to the network form of the group, which calls for collective leadership.

Conclusions

In this paper we have analyzed co-operative business and management employing the concepts of locality (e.g., Byrne, 2001; Cresswell 1999; Cox, 1998; Pickvance, 1998; Agnew, 1987) and regionality (e.g., Dicken & Malmberg 2001; Anderson & O'Dowd 1999; Kultalahti, 1990; Sack, 1986). Our research indicates that locality and regionality are significant elements of co-operative management, which contribute to their success. The organizational structure that provides co-operatives with physical proximity to the business environment enables a direct interaction between co-operative decision-makers and various local and regional stakeholders.

Thus, the organizational structure that emphasizes regionality and locality permits co-operative decision-makers to have access to essential knowledge, as well as, a deep understanding of the business environment. These consist of the knowledge of customers' and other stakeholders, including local and/or regional institutions, as well as, understanding of those stakeholder interests and the special characteristics of the region that one should focus on. This helps co-operatives to fit their (business) strategies to the environment and gain advantages over competing firms that are managed from outside the regions (cf. Grant, 2005; Mair, 1997).

Locality and regionality also enable the so called "fast schedule operations", as decisions can be made locally and without the inflexibility of multilayered organizations. Being local or regional also enables co-operative managers to engage in direct long term interaction with significant parties participating in the construction of the entrepreneurial environment. When they participate in regional development, which can be considered to be consistent with co-operative principles, co-operative CEOs are also looking after the interests of the owners of their organizations. Being active in the region helps the development of business and business models. In addition, it is easier to be prepared for changes in the business environment driven by regional institutional based priorities.

There are also several references in our data that are consistent with the idea that co-operatives may be considered as maintainers and constructors of local and regional identity. We also found that, both social and psychological aspects of ownership were associated with co-operative ownership (cf. Brown et al., 2005;

Pierce et al., 2001). Co-operatives were considered to be important to regional people as they feel they are their own organizations.

Implications for future research

During our research process a couple of important topics for future research emerged. First, it seems that locality and regionality have been analyzed from at least three points of views. The psychological approach (e.g., Brown et al., 2005) emphasizes territoriality and peoples need for their own place. A so called social-constructivist approach (cf. Castells, 2000) is related to the social construction of locality and local identity, which is a creation of an ongoing interaction between local social actors; including firms and institutions. The economic-institutional approach (cf. Dicken & Malmberg, 2001) emphasizes the institutional structure of the region and regional economy. Our idea for future research is to outline these dimensions. We believe that this would help us as well as practitioners of co-operative institutions to understand locality and regionality. A second related topic is the localization of business strategies, which seems to be an interesting and current topic of research (cf. Grant, 2005; Mair, 1997).

Previous research has paid little attention to is the idea of co-operatives as networks. Yet, as implied above, networking seem to provide co-operatives with significant efficiency that in part sustains their current local and regional structure. Another key topic of future research seems to be co-operative managers' role in helping their organizations adapt to institutional changes and, on the other hand, participating in maintaining and altering local and regional institutions.

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Following a different mission: where and how do consumer co-operatives compete?

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

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

Introduction

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

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

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

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

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

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

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

Ownership and mission of consumer co-operatives

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

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

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

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

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

Individual and collective investment (ownership) of resources

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

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

That is, only the individually owned share will be returned to the member if they decide to withdraw from the co-operative. In IOFs the reserves of the firm are owned by its shareholders (ie, the stock value is equivalent with the value of the firm divided with the number of stocks), whereas in consumer co-operatives a great share of the accumulated capital is collectively owned by the membership (Somerville, 2007; Jokisch, 1994). Accordingly, the co-operative itself is often characterised as its members' common enterprise (Normark, 1996).

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

Mission: the starting point for strategy

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

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

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

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

Strategies of consumer co-operatives

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

1) Domain definition
2) Domain navigation

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

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

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

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

Corporate strategy

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

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

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

Scope of products and services

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

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

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

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

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

Geographical scope

As outlined above, another element of corporate strategy includes deciding the geographical areas in which the company competes (Grant, 2008). Herein lies another key difference between the strategic management of IOFs and consumer co-operatives. In the globalising economy, IOFs (that are becoming increasingly multinational) may relocate their activities to more attractive environments practically anywhere in the world (Grant, 2002; Porter, 1991). Consumer co-operatives cannot do this since they are, as pointed out earlier, usually tied (legally and socially) to a particular geographical area. As characterised by Jussila et al (2007), consumer co-operatives may be considered as "captives of their regions" (p38). That is, their mission is to serve particular members and communities. On the other hand, when considering the type of businesses consumer co-operatives quite naturally operate in, there seems to be little need to move away from a particular operational area. As long as there are people, it is unlikely that the need for many of the basic services, such as those related to retailing, banking and/or insurance would disappear any time in the near future. It is the same as with the scope of products and services: there will be even more need for the co-operatives' presence if other service providers withdraw from an area (Fulton and Hammond-Ketilson, 1992).

Vertical scope

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

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

Business strategy

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

Overall, the basic point of departure for strategy-making in consumer co-operatives differs dramatically from that of IOFs in that customers (and their imperfect information) do not serve as tools for the company to make money for investor-owners (Mills, 2008)[2]. Instead, a co-operative is a tool for the consumers to maximise value for themselves (eg, Fried et al, 1999; Michelsen, 1994). The implications of this difference will be discussed in detail in the following sections, as we address the use and utility element of ownership showing where the collective resources of co-operators are committed to. This includes, in part, turning our attention also inside the organisation to picture what can be done to make use of the differences between consumer co-operatives and IOFs to create competitive advantage for the former: to create concrete value to the members with a price close to the cost of its production (value that is the price the consumers would be willing to pay **less** the value they do pay).

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

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

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

Overall cost leadership

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

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

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

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

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

There are also other features to co-operation that seem to promote execution of the low cost strategy. One of them relates to the typically low interest paid to member shares and to the inexpensive collective capital. As Mills (2008) points out, a consumer co-operative "does not have to maximise profits in order to pay the highest possible return to investor-owners" and, therefore, it should be a more economical way to trade (p19)[3]. In the Building Societies' Association, for example, the estimated cost saving provided by the absence of external shareholders is approximately 35% (Mills, 2008, 23). Although issues related to governance are beyond the primary scope of this paper, is worth acknowledging that the agency costs of user-ownership (ie, that involves an intimate patronage relationship) may be significantly lower than those of investor-ownership (Peterson and Anderson, 1996). What is also worth acknowledging is that the overriding duty of profit maximising that drives IOFs, unlike consumer co-operatives, may result in taking too big risks. When those risks are realised, they will dramatically increase the costs in the company that took them.

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

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

Differentiation

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

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

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

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

Summary

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

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

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

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

Conclusions

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

Our work maintains that the key to understanding the distinctiveness of consumer co-operatives strategic management from that of IOFs lies in the concept of value maximisation. The meaning of the term *value* is somewhat different and significantly broader in consumer co-operatives than in investor-owned corporations. It may be seen to include patrons' economic rewards as well as rewards of social and psychological nature. All of these rewards contribute to member satisfaction and, as proposed in this paper, to the competitive advantage of consumer co-operatives.

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

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

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

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

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

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Notes

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

Publication 3

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Overcoming challenges to governance of consumer co-operation: Analysing reports of key representatives

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Overcoming Challenges to Governance in Consumer Co-operatives: analysing reports of key representatives

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Abstract

Governance is tricky in every organizational form, but especially challenging it is claimed in consumer co-operatives. The features that make distinct the consumer co-operative from other organizations are not only the basis for specific models of governance, but specific challenges as well. Those challenges have been the focus of several studies in co-operative management. Yet, empirical research on governance of consumer co-operatives remains rather limited and especially rare are studies that give voice to members' key representatives. In this paper, we analyse in-depth interviews with chairpersons of supervisory boards in order to uncover challenges to market control and the mechanisms dependent on voice as well as to identify means to overcome those challenges. We conclude with a set of contributions and suggestions for future research.

Key Words

Consumer Co-operatives, Governance Managerialism, Members

Introduction

Within the passing decade, governance of consumer co-operatives has received increasing scholarly attention (e.g., Chaves, Soler, & Sajardo, 2008; Jussila, Saksa, & Tienari, 2007; Spear, 2004; Cornforth, 2004; Davis, P., 2001; Davis, K., 2001). Several perspectives have been utilised to uncover its special features (see Jussila et al., 2007; Cornforth, 2004). Further, the process in which members' interests are mediated to board and managers (Chaves et al., 2008; Spear, 2004) as well as the role of democratic governance in survival of the organization form (Davis, K., 2001) have been explored. Interestingly, studies have also acknowledged the option of moving from the traditional view of members monitoring management towards a position where managers are seen as leaders of the membership (Davis, P., 2001).

Extant literature identifies several challenges to governance of consumer co-operatives. For example, issues at least partly arising from the democratic 'one-member-one vote' principle, such as conflicts in goal setting, members' low participation (see Vierheller, 1994, for *member apathy*), questionable representativeness of elected officials and accentuation of managerial power have been referred to in recent literature (Chaves et al., 2008; Spear, 2004). We contribute to the discussion by analysing supervisory board chairpersons' accounts of governance in Finnish S Group co-operatives. S Group, owned by 1.8 million members of its co-operatives, is currently the market leader of daily consumer goods in Finland with 42.4 % share of the market (Nielsen 2009; www.s-kanava.fi; accessed 24.3.2009).

Our work advances research on governance of consumer co-operatives in several ways. First, it examines members' influence via market and voice dependent mechanisms in a single study, providing additional insight into the combination of customer and owner – roles in consumer co-operatives. Second, our work is based on analysis of qualitative data, adding to the sparse empirical evidence on the topic. More precisely, we investigate the challenges to co-operative governance and means to overcome them from a key actor perspective. Finally, what might be of interest to the readers is that our empirical context is a group of consumer co-operatives that may be considered as successful in following its mission to provide concrete benefits to its members (i.e., it raises the expectance of uncovering efficient ways to discipline the management).

The article is structured as follows. We begin by introducing the reader with the basics of corporate governance, which in this paper refers broadly to the mechanisms of keeping business activity congruent with the members' objectives. Then we turn our attention to the related challenges, as they are depicted in extant literature. After reporting our methods, we proceed with the analyses in themes. Finally, we conclude with a discussion of our findings relative to extant literature and identification of gaps of knowledge worth addressing in future research on co-operative management.

The members' ways of influence in consumer co-operatives

Just like customers of any company, members of a consumer co-operative have two ways (market and non-market) of influencing its operation: exit and voice

(Hirschman, 1970). However, what is peculiar to consumer co-operation is that a great proportion of customers have exchanged a co-operative contribution for ownership rights. In other words, as 'customer-owners' the members may pursue keeping their co-operatives' business congruent with their objectives through market control as well as voice dependent mechanisms that go considerably beyond those available for customers of non-user-owned firms.

Market control

Poor liquidity of ownership has been viewed as a challenge to co-operative governance. In brief, it has been considered that "there is no market for corporate control in co-operatives that can serve as a source of discipline for co-operative managers" (Hansmann, 1999: 397-398), since the membership interests in co-operatives are not generally tradable. However, this notion seems misleading given that capital ownership is not essential in co-operatives. Although there is no market for co-operative stock (which would provide top management with signals of member satisfaction), markets do control consumer co-operatives through owners' behaviours as customers. In fact, Jussila et al. (2007) go on to suggest that the role of members as buyers of products and services in consumer markets parallels that of investors in stock markets.

While the above comparison of roles may not be entirely viable, the view is supported by the fact that the purpose of co-operation is to benefit the members as service users as opposed to rewarding them as investors (Borgen, 2004). Against this background, the influence through *buying behavior* (i.e., acts of people involved in buying and using products) seems to be a crucial element of governance in consumer co-operatives. Here the concept of exit becomes relevant. Customer exit alá Hirschman (1970) refers to switching to use a competitor's services as a result of dissatisfaction in the service producer one is accustomed to use. It does not, however, necessarily refer to quitting the use of all services of the particular service producer (which would be the ultimate case), but the ones that fail to meet the customer's needs.

Voice dependent mechanisms

Ownership of an enterprise contains not just the right to benefit from the organizations' operations, but also right to get information of, govern and control those operations (Hansmann, 1996). As implied above, members of a consumer co-operative have influence on the operation of their co-operative not only through buying behaviour but also through voice, which refers to interventions aimed at improving the operations while keeping on buying (Hirschman, 1970). The influence attempts may be direct or indirect of which the latter seems to be highlighted in extant co-operative governance research (see e.g., Chaves et al., 2008; Spear, 2004).

In indirect influence, members use their voice via administrative structures of the co-operative. Especially when the size of the organization is small, the members may run their co-operative with means of democratic participation (i.e., with the principle of one-member-one-vote) in general meetings (Chaves et al., 2008; Vierheller, 1994). In larger organizations member democracy may be pursued through the use of a representative body, which will act on behalf of the whole membership: 1) decide about common matters, 2) assign agents (managers) to run the daily affairs of the organization, and 3) monitor and control the agents' operations (Jensen & Meckling, 1976). Further, members may also delegate the use of voice to administrative institutions such as the supervisory board and the administrative board (Hansmann, 1996). The use of the above given institutions is rational due the fact that typically there are lots of people involved in operations of a consumer co-operative (i.e., governance will be more efficient in terms of time and money; Hansmann, 1996).

Direct influence refers to that customers – in this case the 'customer-owners' – may use their voice also by giving immediate feedback of operations to management and/or other personnel, by making telephone calls and/or by writing letters to managers etc (e.g., Hirschman, 1970). It seems that in the context of co-operatives, such use of voice is crucial for continuous improvement of operations. As Saxena and Craig (1990) argue: "member involvement and continuing feed-back from them…is essential to the success of a consumer co-operative" (p. 493).

In sum, co-operative governance is best described with influence via buying behaviour and use of voice. Considering the combined roles of customer and owner, one might expect efficient and intense control by the members over their co-operative (cf. Hansmann, 1999). However, neither of the forms of influence is unproblematic. Next we will address some of the challenges identified in extant literature.

The challenges to market control

Expressing dissatisfaction with (customer) exit requires that the actor dispensing with the usage of services of an organization has some other possibility to get the services needed. In other words, exit requires effectively functioning markets – if the markets do not work, neither does market control (Hirschman, 1970).

In our view, members' possibilities to influence via buying behaviour are to that extent often questionable. For example, the initial starting point of co-operation (i.e., to counteract market failures; Nilsson, 2001) indicates that where co-operatives thrive markets do not necessarily work very well. As the value of consumer co-operation to the member in many cases consists of access to goods and services otherwise not provided (Fulton & Hammond-Ketilson, 1992), members are unable to exit. Thus, it may be considered that in such markets the threat of feet voting does not provide the management any incentive to improve the services of the co-operative.

Another challenge related to market control is members' commitment to co-operation. According to Fulton (1999), member commitment is important to co-operatives, as it indicates how well the co-operative is able to differentiate from its competitors. The greater the ability to differentiate, the easier it is for the co-operative to retain its market share. However, herein lies a challenge to governance: strong affective-based commitment to 'the co-operative movement' (or a particular co-operative) may result in reluctance to use the services of other organizations (i.e., to exit), even if they involved (economic-wise) better terms of trade (Fulton, 1999).

What is noteworthy, however, between market control and voice dependent mechanisms, one is considered to become emphasised over the other depending on their effectiveness. The work of Hirschman (1970), for one, suggests that when there are no alternatives present (i.e., the threat of exit is unreal), the customers are likely to use their voice to maintain or initiate improvement of operations. Further, similar line of thinking is found in Cook's (1994) work which leads us to believe that committed members are likely to experience a personal responsibility to use their voice in all ways in order to improve the operations of their co-operative. In other words, it seems reasonable to believe that the behavioural manifestations of the sense of responsibility may override the negative effects that commitment may have on market control. Next we will focus on the challenges to influencing through voice.

The challenges to voice dependent mechanisms

Extant literature (e.g., Chaves et al., 2008; Spear, 2004; Cornforth, 2004) identifies numerous challenges to voice dependent mechanisms of co-operative governance. One of these is the complexity related to the number of participants. Chaves et al., (2008) report that "the mean participation observed in Spanish credit co-operatives barely surpassed 6%, when the attendance of AGMs of capitalist companies quoted on the Spanish stock markets accounts for 73% of their capital" (p. 33). On the co-operatives' part these figures are severe given that in a democratic entity members' participation is crucial to ensure good co-operative governance. Thus, an important question asks: Why is the attendance so poor?

Spear (2004) observes that when the size of a co-operative becomes larger, the proportion of members participating in governance tends to decrease. Vierheller (1994) explains this tendency as follows: "an increase in the size of a group is usually accompanied by a decrease in the cohesiveness of the group, since social and socio-emotional ties are stronger in smaller groups than in larger groups" (p. 649). In other words, as the strength of the social and socio-emotional ties reduces, members' awareness of their ownership weakens (Vierheller, 1994), which results in lower participation. Further, a more individualistic (and economic-rational) explanation is that when compared to the amount of work needed, the utility from such participation is relatively low (e.g., Walsh & Seward, 1990). For example, members may think that it is not rational for them to participate since in most cases their voice will not make a difference. When this kind of disbelief is in place, one may conclude that majority of members do not have an influence on the board and therefore neither on the management (Spear, 2004). What may be even more serious to co-operatives, dissatisfied members are more likely to exit, if they are not convinced about the effectiveness of their use of voice (Hirschman, 1970).

As our earlier discussion implies, consumer co-operatives have pursued overcoming some of the above mentioned challenges by adoption of additional bodies. However, their use is not unproblematic either (e.g., Spear, 2004; Cornforth, 2004). First, there is the question of representativeness of elected officials, which is traditionally evaluated against social structure of the membership (Chaves et al., 2008) or demographic factors (Spear, 2004). However, even if representativeness is adequate according to these factors (which is often not the case since members that do elect the board are typically people from the same social or cultural group; cf. Spear, 2004) it is justifiable to ask: if only fraction of membership participates to election of officials, how can they represent or even know the interest of the whole membership?

The second point worth outlining relates to goal setting. That is, the elected official should be able to formulate clear and consistent objectives for the co-operative. This may not be an easy task in a democratic organization. Spear (2004) maintains that among members "there may be debates and conflicts over the quality and range of services provided" (p. 46). In addition, while members expect instant benefits from their co-operative, Jokisch (1994) stresses co-operatives' "necessity of making profits in order to realise a permanent potential for promoting the interests of members" (p. 25). Thus, in that regard there is a tension between short and long-term objectives, which relates to the ancient dilemma of individual and collective ownership.

Third, an important aspect and challenge to governance is the criterion according to which the performance of the co-operative is evaluated. That is, the conventional indicators of success (e.g., profit) may not be applicable in consumer co-operatives, since most members are not interested about profits made by their co-operative, but about the benefits they themselves get as users (Borgen, 2004; Spear, 2004). Therefore, measures of performance should be grounded on the specific objectives of this particular organizational form. Spear (2004) maintains that this should also be taken account when designing management incentive structures. Market share has often been considered as an appropriate indicator of co-operative management's success. Yet, there are challenges to using this indicator as well. Jokisch (1994) maintains that "success in the market is very well possible without success in promoting members' interests" (p. 25). According to Fulton (1999), high market share may simply reflect members' high identification-based commitment (i.e., their affective-based willingness to continue usage of their co-operative's services), not how well the co-operative performs in economic-rational terms. That is, a co-operative may appear to be successful, but practically be more of an economic disadvantage to members. Although it is acknowledged that the value of ownership for consumers does go beyond the economic-rational aspects predominant in the Western discourses of ownership (e.g., Jussila, Tuominen, & Saksa, 2008), it is considered that a co-operative does not fulfil its primary purpose unless it provides its members with concrete benefits (Saxena & Craig, 1990), for example in terms of lower price, more convenient store location, and patronage refunds.

Fourth, the challenges arising from poor competence of elected officials are often highlighted (e.g., Cornforth, 2004; Spear, 2004). As ownership in co-operatives is fragmented and governance is democratic, the power does not concentrate on a single interest group and the risk of take-over is not present (Spear, 2004). Therefore, the most important controller of top management is the administration. Due to the lack of stock market information, it may be argued (see Cornforth, 2004; Nilsson, 1999) that the administration of co-operatives operates in settings more demanding than those of investor-owned firms (IOFs). In addition, as indicated above, the scarce information there is might be unusable because it is produced according to standards that do not recognise the distinctive nature of consumer-ownership. Therefore, while we agree with Davis, P. (2001) in that managers of co-operatives should have "a real understanding and commitment to co-operative purpose and values" instead of leaving co-operatives "in the hands of managers who see themselves as retailers, marketers, financiers, bankers" (p. 32), we also believe that in order to secure that members have their co-operatives managed according to their needs and will, elected officials should possess adequate economic and other competencies to deal with matters of the co-operative. Otherwise a door is open for managerial power to become overwhelming, as noted in some studies (e.g., Chaves et al., 2008; Spear, 2004). To close that door, current and potential board members must be provided with adequate training (Cornforth, 2004).

Finally, there is the notion of direct influence in terms of feedback (Saxena & Craig, 1990; cf. Hirschman, 1970). Cook (1994), for one, believes that members of a co-operative are probably more willing to provide information and feedback to management than are customers of, for example, an IOF. This is because there is a motivation for the members to make their co-operative more efficient in satisfying their needs (Jussila et al., 2008). Overall, the sparse notions on this issue do not seem to indicate that direct influence is viewed as much of a challenge to consumer co-operatives.

In sum, extant literature identifies several challenges to governance of consumer co-operatives. They are summarised in Table 1. After describing the context, methods and data of our study, we will use the framework presented here to analyse empirical accounts about related themes.

Context, methods and data

S Group is comprised of 22 regional co-operative enterprises and central unit SOK with its subsidiaries. In addition there are 10 local co-operatives included in the group, but their contribution to its total turnover is marginal. The purpose of S Group is to provide the members with services and benefits, operating in

Table 1. The challenges to governance as depicted in extant literature

Influence via buying behaviour

- Insufficient possibilities for expressing dissatisfaction with exit – resulting from imperfect functioning of the markets
- Members' reluctance to influence via exit – resulting from their affective commitment

Influence through voice

Indirect influence:

- Member passiveness – resulting from members' unawareness of ownership rights or efficacy disbeliefs
- Poor representativeness of elected officials – resulting partly from passiveness
- Indecisive goal setting – resulting from members' conflicting interests
- Poor control over the management – resulting from lack of appropriate performance indicators and/or incompetence of elected officials

Direct influence:

- No challenges identified

supermarket trade, service station store and fuel trade, department store and specialty store trade, hotel and restaurant business, vehicle and automotive accessories trade, agricultural trade as well as in-store banking.

At the end of 2008 S Group had 1.8 million members, being the market leader of daily consumer goods in Finland with exceptionally high 42,4 % market share (Nielsen 2009; www.s-kanava.fi; accessed 24.03.2009). Financially S Group is in solid condition. In 2008, the S Group's retail sales were 11.8 billion and this totalled an increase of 12.1% from the previous year. S Group's total profit before extraordinary items was 250 million euros; whereas the profit for the year before was 318 million. Members were paid 306.5 million in bonuses and the S Group's bonus sales increased by 13% year on year, totalling 7.7 billion. The proportion of bonus sales in the S Group's Finnish sales was 66%. At the moment, 73% of all Finnish households are members of S Group co-operatives. (www.s-kanava.fi; accessed 24.03.2009).

The co-operatives' governance systems include three bodies: 1) general meeting or the representative body, 2) the supervisory board, and 3) the board of directors. The data of this qualitative study (e.g., Denzin & Lincoln, 1994) consist of 22 in-depth interviews with supervisory board chairpersons of the regional co-operatives and of written materials published by S Group. The size of the co-operatives represented by the interviewees varies from less than ten thousand to more than half million members. The interviewees were chosen because they are the top representatives of owners (CEOs act as chairpersons of the board of directors in S Group).

The data collection was conducted by one of the authors during the year 2007. All interviews were taped and transcript; altogether the interviews produced 550 size A4 pages of transcript text (with font 12 and line spacing of 1). The data was studied systematically to gain understanding of the research context and to form a preliminary understanding of the subject of research. After that the data was organised under different themes and analysed in detail by two of the authors.

Overcoming challenges to governance in S Group

Next we illustrate how the supervisory board chairpersons speak of challenges to governance that they have witnessed as key representatives of their co-operatives. We use the above reviewed co-operative literature to thematically analyse their reports. Further, we concentrate particularly on how they consider those challenges may be managed and overcome.

Insufficient possibilities for 'feet voting'

According to our data, exit is a viable mean to influence a co-operative's operation. That is, if the members do not find the services provided by the co-operative satisfactory, they go to some other service provider (cf. Hirschman, 1970). As one of our interviewees described:

> *"If a member notices that we have, for example, promised too much or some service does not meet the standards, a member may 'vote' with his/her feet and buy a substitute product or service from a competitor."*

However, 'feet voting' is in many cases hindered by the questionable functionality of Finnish retailing markets (i.e., the main field of business for S Group co-operatives). The two largest business groups, S Group and Kesko (consisting of independent retailers organised around Kesko Corporation) dominate the markets with combined market share of approximately 76% (Nielsen, 2009). In many local markets customers may only choose between these two suppliers. In some localities exit is practically impossible since S Group co-operatives provide access to a wide range of goods and services otherwise not provided (cf. Fulton & Hammond-Ketilson, 1992). As a chairperson reported:

> *"In small municipalities there may not be any other stores besides S-market, all other stores have been closed in the whole locality."*

However, our interviewees have also observed other kind of developments. First, the German-based chain Lidl penetrated many Finnish daily goods markets adding an option to the members. Second, people have become more and more mobile – in our view due to change in both technology and culture – which has pushed further the boundaries of substitution area. As one of our interviewees put it:

> *"In these days distance is less a problem than it used to be and people may easily travel to neighboring municipalities to buy their bread.."*

Nevertheless, our interviewees emphasised that the structure of the market is not ideal and that a healthy competition benefits consumers (i.e., pushing the co-operatives to do better). No one expressed, however, that S Group co-operatives would be active in inducing competition. In contrast, the attitude of co-operative actors towards constant improvement is likely to intimidate potential entrants. That attitude is well illustrated by an account of an interviewee:

> *"We must be so efficient and good that our customers get the best and cheapest services from their [co-operative] stores." (brackets added)*

The above described entrepreneurial spirit makes us question whether the lack of functioning market automatically poses a severe problem after all. It is made clear in our data, however, that challenges of market functioning are considered real and, in part as a response to it, S Group co-operatives have employed advanced customer data systems to acquire real-time information of buying behaviour of its' rich numbered membership. They collect customer data collectively (i.e., keeping track of all transactions between S Group business places and the customers) and analyses buying behaviour of members in order to uncover and predict their needs (i.e., what products or services they use, where and when they buy them) and to adjust operations accordingly. As reported by the interviewees:

> *"Customer information is gathered collectively from the purchases of members... the co-operative is not interested about what some individual member buys… members are divided into groups in order to follow the transactions"*

> *"Positive development of sales indicates us the customer satisfaction exactly, even hourly… it's concretisised there [in the feedback from the system]... if the sales go down then there is certainly something wrong, customers are not happy... it is monitored all the time." (brackets added)*

The use of such systems reflects on influence via buying behaviour in that even though there sometimes are no other options for members to get their services, the co-operative is intensely (even automatically) steered by their buying decisions (cf. Jussila et al., 2007). Also studies are being constantly conducted to get a hint of the members' future needs, which might not be reflected in their buying behaviour given the existing product and service assortments.

Member commitment

Extant literature (e.g., Fulton, 1999) claims that member commitment to the co-operative may interfere with market control. This is because psychologically attached members are unlikely to exit the relationship they have established with the co-operative, even if it was economically dissatisfactory. This idea is strongly supported by our data. There are loyal "S-people", as an interviewee reported:

> *"Well, even if sausages would cost a bit more in S-market, certain people would not go to buy them from K-market. They find it important to be customers of their own store".*

As a counter argument to the challenge that member commitment may cause to governance in terms of exit, it is maintained in our data that committed members are typically more willing to use their voice to improve the operations than are those whose socio-emotional ties are weaker (cf. Cook, 1994). We will return to this later.

Member passiveness

As owners, members of S Group can influence the operation of their organization by using their voice in the general meeting of their co-operative or by participating in election of representative body by voting. Obviously, a member may also choose to stand as a candidate for election him/herself. Because of the great size of the regional co-operatives, it is common in S Group to have a representative body – supervisory board – administrative board – structure. It is considered that as compared to general meetings, the use of a representative body increases members' influence as it multiplies the amount of people participating in decision-making and provides members with a possibility to vote in co-operative elections. Importantly, it is maintained in our data that members often view their elected representatives as an important channel for exercising indirect control over the management. As an interviewee described:

> *"As people know that I am an elected official of this co-operative, both the familiar and unfamiliar persons come to me to tell about small or big concerns and I then pass the information forward. And usually, it is clear the messages are listened to, if there are clearly observed defects."*

Our findings are not entirely consistent with those of Spear (2004) when it comes to members' passiveness and very different from those of Chaves et al. (2008) from Spanish credit co-operatives. In fact, the turnout percentages in representative body elections are relatively high in an increasing number of S Group co-operatives: in some cases majority of membership (i.e., over 50%) has used their right to vote. According to our data, the increasing participation is, at least in part, a result of active measures against member passiveness taken by many co-operatives with the help of SOK's 'co-operation department,' as the interviewees label it. Members are encouraged to vote in elections and it is made clear to the membership that also younger people may participate (voting age is 15 years).

On the other hand, a concern to our interviewees is that the overall majority of members in S Group still seem to lack interest to closely monitor their co-operative and to participate in any other way than in the role of a service-user. This is seen, for example, in that the number of members aspiring to representative bodies is usually relatively low considering the total count of members. The interviewees considered it as a promising result that in one of S Group co-operatives, 254 of it's more than 54000 members stood as candidates running for 48 seats in the 2008 representative body election. Yet, even in that particular case only about half a percent of the membership was willing to become a representative. The interviewees found three reasons for the lack of willingness to participate.

First, consistent with the work of Vierheller (1994), it was reasoned that low participation is a result of members' poor awareness of their ownership and the associated rights. As one of our interviewees put it:

> *"I think that, I have been discussing with people a lot during the years and they do not perceive they own this business... very few people who consider themselves as owners.. they say that they have the bonus card, but ownership is blurred."*

Second, as a related issue, there is fear that many members simply view the co-operative elections as another element of communal democracy. What may create such association is that in many co-operatives the election lists are politically organised and, thus, members also vote on a political basis, which is not seen as the most relevant criteria considering that the elections concern governance of a business organization.

According to our data, S Group has tried to overcome the above two challenges by active provision of information on the co-operative business. That is, members receive a monthly customer magazine along with a letter from CEO in which current issues of the co-operative (e.g., investment projects) are discussed. Additionally, local newspapers often play a significant role as an information channel. For example, one of our interviewees noted that the co-operative has good relationships with the editorial staff, which makes it easy to inform members and local community about important issues. However, it is also emphasised that more must be done to communicate the principle of political independence of co-operatives to the public and to increase member awareness of their rights.

Finally, consistent with the considerations of Walsh and Seward (1990), it was noted that even if the members are aware of their rights and no confusion is in place, they may not consider there to be enough personal reward for participation. This is not only a problem as it comes to, for example, the number of candidates for representative bodies; it also concerns elected officials' attendance to administrative meetings. As a response, S Group has drawn attention to compensations for participation in administration. As a chairperson reported:

> *"We try to motivate elected officials with up-to-date compensation for attendance to administrative meetings. The objective is that the compensation is high enough to show them that their contribution is appreciated."*

The exact compensations for attendance to representative body, supervisory body and administrative body meetings are not, however, articulated in our data. It is simply expressed that the compensations should encourage the representatives to occupy their important positions as mediators of the voice of membership to the administration and management of S Group co-operatives.

Representativeness of elected officials

It is put forward in our data that members elected to positions of trust should represent the whole membership and their interests as accurately as possible. Consistent with Spear (2004), it is considered that members' low participation in governance makes representativeness questionable.

S Group co-operatives have tried to overcome this challenge by dividing co-operatives' operation areas into districts from which members to representative bodies are elected per capita living and working in those particular areas. Also supervisory boards, which occupy primary monitoring and controlling roles, are supposed to be composed so that they represent districts. Other demographic criteria are considered as well, such as profession and sex so that the supervisory board would represent the membership to as great extent as possible. However, the political basis of listing candidates interferes with this kind of election; in some co-operatives to greater extent than in others. Further, our data indicates that in S Group co-operatives most of the people serving co-operative administration are people who are widely active in societal matters and committed to co-operation as a sustainable model of doing business. People, who are mostly interested in their personal short-term benefits, are not usually represented in co-operative administration. Another concern raised was that, for reasons unexplored, women and younger members are left in the minority in supervisory boards.

As for means for overcoming the above discussed challenges, our interviewees highlight making administrative work more attractive to all members. The sufficient compensations referred to earlier are considered to help in this effort as well.

Goal setting

According to Spear (2004), the representativeness of elected officials has implications on goal setting. Our data indicates that those running for confidential posts in S Group are typically individuals whose main concern is to secure the prosperity, growth and continuance of the co-operative business instead of looking after the short-term benefits of the members. While this is important (cf. Jokisch, 1994), according to our data it does not represent the preferences of the majority of members in S Group co-operatives. As the following quotes illustrate:

> *"You can say that owners have no other interest toward the co-operative than to acquire good products at a competitive price."*

> *"We have a wide membership…of which most are not at all interested about the organization. They are only interested about cheap prices, bonuses, hypermarkets or supermarkets."*

There are concerns that the elected officials are (or become) identified with the appreciated top executives and place themselves on the opposite side of the table with those whose voice they are supposed to mediate to the management. As a result, growth through investments may become overemphasised, while the refunds expected by the membership fall short. Demands have been made for a better balance. As a member cried in a newspaper recently:

> *"When is our co-operative going to start returning some of its profit to its members?"*

It was maintained by some of the chairpersons that there have been attempts to overcome the challenge of member representatives to goal setting. For example, it has been emphasised that the elected officials should not limit their focus on the interests of the group that selected them, but on those of the whole membership. As one of the interviewees reported:

> *"During the recent years I have had to guide the representative body and remind the officials that the mission of it is to…evenhandedly look after the interest of all members so that after being elected, an elected official may not say that some group has chosen me to this position"*

However, despite the good efforts, it is not an easy task to create the balance in goal setting as long as the more individualistic majority, as depicted in our data, remains absent from the administration (i.e., does not have sufficient representation).

Measurement of performance

An important question relating to the above discussion is also how to measure performance (i.e., how to define indicators of success) and how to design appropriate reward systems for management? Our data indicates that the challenges of performance measurement are not strange to those occupying confidential posts. As stated by one of our interviewees:

> *"CEO reward system contains elements of customer satisfaction, but there is a difference in that the CEO system contains almost ten pages of different numbers and analyses so it is very accurate and detailed, but for the other personnel it is currently more obscure"*

As the above quotation indicates, S Group has come to use a wide range of measures that help to asses CEO performance. The merit payments are based on both short and long-term objectives and criteria such as profit, process efficiency, customer satisfaction and employee satisfaction. Further, management success in S Group is also measured with market share (cf. Fulton, 1999) and the share of members' purchases of all purchases (i.e., including those of non-members), which are considered to capture some of the key elements of the co-operatives' mission.

Overall, our data indicates that there have been attempts in S Group to overcome the challenges of performance measurement, but they have not yet been entirely successful. What is of a concern is that the criterion of management reward system is not openly and accurately communicated to members. It is questionable whether this is part of good governance and whether this helps the members feel like owners. Further, it is not likely that members will use their voice when it is obscure to them (based on the information given) whether or not the management has been successful in promoting their interests.

The competence of elected officials

What seems to be a broad concern to our interviewees, as also referred to above, it is not the insight into the governance of a *business enterprise* (let alone a consumer co-operative) that helps a member to become elected, but a prior visible role (e.g., that of a politician) in the locality. What may follow is that those elected are not qualified enough considering the demands of these tasks (cf. Cornforth, 2004; Spear, 2004). According to our interviewees, there has been lots of attempt to overcome this challenge by providing education to those elected. However, except in some rare cases, the education usually refers to a brief seminar in which the trustees are given some basic knowledge about corporate governance and co-operation (cf. Cornforth, 2004). Further, with the sufficient compensations referred to above, co-operatives try to induce the most capable persons from every district to step up as representatives and, thus, overcome the challenge of competence in administrative institutions.

As it comes to competence of administrative board, where the strategies of S Group co-operatives are defined, members to the board are chosen solely on the basis of their know-how in the area of business administration know-how. It is maintained in our data that ideal members of the board are 'of the same calibre' with CEO as it comes to this criteria. However, this is not always realised and the CEO, occupying also the chair of the administrative board (a regulative position in S Group), is seen as having the dominant role (cf. Chaves et al., 2008; Spear, 2004). As an interviewee put it:

"Who uses power in the co-operative… the CEO is number one and as the CEO is also chairman of the administrative board, the power related to that position becomes emphasised"

In addition to the power invested in CEOs by regulation, our data speaks for high informal power through their superior competence. It is maintained that CEOs may even interfere with the selection of representatives, promoting their own favourites. In other words, it is considered that CEOs can, if it is in their interest, silence the voice of membership.

While the interviewees see that the accentuation of CEOs power is not necessarily a good thing or something that will be considered as 'good governance,' the majority of them do not want to pursue changing the practice as it has so far been succesfull. As one our interviewees put it:

"Well, first I must say that the CEO-centred system, business management centred system has produced good results for the last 15 years. So if it works, why should I bother to change it because of some noble principles of governance? The principles are not, if there is a collision between reasonable operation and the noble principles, then we rather choose reasonable operation"

Although the pronounced power of business management has not lead to harmful deviances in S Group, it is considered that extreme care should be taken in that appropriate persons are chosen to the key positions. Consistent with the ideas of Davis P. (2001), it is maintained that co-operatives can avoid the deviances by ensuring that recruited top managers have internalised the co-operative purpose, values and principles. Our data indicates that the majority of the co-operatives' CEOs are recruited from managers who have worked in S Group for a long period of time after completing their trainee program (the first program started in 1950). It is reported that these CEOs push their organizations and the group towards efficient provision of services and concrete benefits to the 'customer-owners.' It is also put forward that those who do come outside of the group (and co-operation) gradually become 'co-operators' as they realise that the idea of co-operation really works. As stated by one of our interviewees:

"As a surprise to many; today our CEO is extremely committed to the foundational ideas

and sees rewarding customers as the starting point of this operation, he thinks that it is what we should be doing. And it is clearly manifested in all his work that he does not just manage any company, but a co-operative with co-operative premises."

Finally, what is probably most peculiar is that in S Group it is the CEO that is typically considered responsible for promoting a viable governance system (i.e., making sure that the voice of membership is heard through administration and acted upon). Further, consistent with this idea, it is reported by our interviewees that many of the co-operative CEOs have been demanding accountability in 'co-operativistic' terms (i.e., to be judged based on the congruence of their action with the principles and values of modern co-operation).

Challenges to direct influence

It is maintained in our data that members of S Group co-operatives have a number of ways to use their voice more directly than through the administration. In other words, they may give feedback of the co-operatives' output to the personnel or management (cf. Saxena & Craig, 1990; Hirschman, 1970). Our data does not support to Cook's (1994) belief that members of co-operatives would be exceptionally active in giving feedback. Instead, it is reported by our interviewees that S Group co-operatives have acknowledged a need to encourage members to direct use of voice. As described above in the discussion of using voice via administration, a great share of members are unaware of their ownership. Thus, the motivation for direct use of voice referred to in Jussila et al. (2008) is unlikely to be aroused.

It is put forward in our data that S Group co-operatives have pursued overcoming the challenges to direct influence by encouraging the members to use their voice and also by making it also easier to give feedback. As a result, there are several ways for members to give customer feedback. They may use the conventional channels, such as oral notions during association and/or literary remarks via feedback boxes, where one may choose to stay anonymous. The members may also use the Internet, which is becoming more and more important channel of feedback (i.e., technological development and associated cultural change seem to be lending a helping hand here as well). Yet, according to our data, the huge potential of new technologies has not been recognised and utilised to the extent it should be. As stated by one of our interviewees:

"I have noticed that my son seeks information of co-operatives' services from Internet… the system should be developed so that while you are on the site you could give feedback.."

It is maintained in our data that by utilising the potential invested in certain technologies, S Group co-operatives could achieve sufficient improvements in representativeness of those active in their direct use of voice. What is also implied in the above quotation, especially younger members have been passive in the past and their voice might be better mediated to relevant co-operative actors if the Internet was appropriately used to promote it.

S Group co-operatives have also organised committees for feedback. In a typical customer committee meeting, the manager of a business unit and participants selected among regular customers come together to reflect upon the operation of the unit (e.g., a store). According to our interviewees, ideal customer committees are compact and represent the users of one particular business place (i.e., representativeness is seen as essential here also). Further, a much criticised model of committees is one that includes members from different places of businesses. As put forward by one of our interviewees:

"When there is one person from every Sale [a chain of stores] from the whole operation area…I have heard that the committee functions so that person from certain Sale says that we have this and that and another person from another Sale says that do you have this, we don't have it, so it is too fragmented and from too different areas…it loses its significance and the wishes of the members do not come true" (brackets added)

The feedback provided by the multi-unit committees is seen as less likely to have impact on operations and, thus, it is also likely to be considered less meaningful by the members.

While the above ways of influence may be used by customers in any form of business (cf. Hirschman, 1970), it is maintained in our data that due to the combining roles of customer and owner, the personnel of co-operatives regards (and is expected to regard) member-feedback with particular care and respect.

Summary

Chairpersons of S Group co-operatives' supervisory bodies speak of a variety of challenges to governance both in terms of market control and voice dependent mechanisms. They also identify several more-or-less efficient means to overcoming those challenges. Table 2 summarises the challenges and the means for overcoming the challenges as they are discussed in our data.

Table 2. The challenges to governance and means to overcome them

Influence via buying behaviour

- Insufficient possibilities for expressing dissatisfaction with exit – resulting from imperfect functioning of the markets
- Members' reluctance to influence via exit – resulting from their affective commitment
  - → The usage of advanced customer data systems to acquire real time information of members' buying behaviour
  - → Conduction of studies to predict the members' future needs

Influence through voice

Indirect influence:

- Member passiveness – resulting from members' unawareness of ownership rights and/or efficacy disbeliefs
  - → Usage of representative body – supervisory board – administrative board – governance structure
  - → Active encouragement of members to vote, provision of information about co-operative business and the members' rights, declaration of political independence, and increase of monetary compensations for participation
- Poor representativeness of elected officials - resulting partly from passiveness
  - → Division of operation area into election districts, evaluation of representativeness with demographic criterion, avoidance of political listing of candidates
- Indecisive goal setting - resulting from members' conflicting interests
  - → Guidance of elected officials towards acting on the basis of interests of the whole membership instead of some particular group of members
- Poor control over the management – resulting from lack of appropriate performance indicators and/or incompetence of elected officials
  - → Usage of performance measurement criterion acknowledging the special features of co-operatives and making it visible to members (i.e., in order to enable evaluation of performance)
  - → Sufficient monetary compensation to attract the best candidates, education of representatives, careful recruition and socialization of top management

Direct influence:

- The amount and representativeness of members providing direct feedback
  - → Making it easy to give feedback and encouraging members to use their voice directly.

As it comes to market control, the imperfect functioning of Finnish retail markets is considered to erode the potential of exit in some areas of operation. 'Feet voting' may not be viable when the co-operative is the only provider of certain goods and services in particular area. While technology and culture-based broadening of substitution area as well as newcomer(s) are seen as positive developments considering control via market, S Group has pursued enhancing market control by employing advanced customer data systems and by conducting studies to uncover and predict members' needs and to adjust operations accordingly. By giving the wheel to members, the co-operatives help them steer their businesses via market even if the members are reluctant to use substitute service providers due to affective commitment to their co-operative.

In the area of influencing through voice, S Group has tried to overcome the challenge of member passiveness with usage of a representative body –supervisory board – administrative board –structure. It increases members' influence possibilities as it multiplies the amount of people participating in decision-making and provides members with a possibility to vote in co-operative elections. The use of such structure along with active encouragement of members to vote has led to relatively high turnout percentages in many co-operatives. Yet, the overall majority of members in S Group still participate in no other way than in the role of a service-user. This was explained by members' poor awareness of their ownership and associated rights, association with communal democracy instead of business, and too little personal rewards expected from taking the participatory course of action. These challenges are fought with active provision of information about co-operative business and the members' rights, declarations of political independence, and increase of monetary compensations for participation.

The last of the above means is also considered to promote representativeness of elected officials, which is another challenge to governance. Another means to overcome the challenge of representativeness is the division of co-operatives' operation areas into election districts from which members are elected to representative bodies and supervisory boards in relation to members who live and work in that particular area. Also profession and sex are considered as relevant criteria. Despite of the efforts to promote representativeness, it is considered that there remains some distortion in administration towards looking after the co-operatives' (the collectives') long term interests as opposed to members' short-term interests, domination of elder as opposed to the younger generations and men as opposed to women. In addition, it is maintained that political listing interferes with representativeness.

The distortions in representativeness are manifested in goal setting, another challenge to governance. It is maintained that sometimes the prosperity, growth and continuance of the co-operative business are overemphasised. This is not only an issue of representativeness, but the fact that the administrators become identified with the top management and, thus, are more willing to accept investments in growth as opposed to substantial refunds to the members. Attempts to overcome this challenge involve guidance of representatives towards acting on the basis of interests of the whole membership instead of some particular group of members.

The challenges of performance measurement are not strange to those occupying confidential posts either. The merit payments are based on both short- and long-term objectives and criteria such as profit, process efficiency, customer satisfaction and employee satisfaction. Also market share and members' share of all purchases are used in order to capture some of the key elements of the co-operatives' mission. Yet, the measures used to evaluate the co-operatives' performance are not openly and accurately communicated to members, which is not consistent with the principles of good governance nor helpful in terms of promoting the members' sense of ownership. In other words, even if the measures were sufficient, their use is unlikely to promote members' use of voice since the members can not keep track themselves (i.e., it is the privilege of top representatives only).

Competence of the members, occupying important monitoring, controlling, and decision-making roles, is also a challenge in S Group co-operatives. As it comes to the representative body and the supervisory board this is seen, in part, as a result of the irrelevant criteria members use when deciding whom to vote. The increased monetary compensations are considered to help overcome this challenge as well as the other challenges depicted above since they are believed to attract candidates with better qualifications. In addition, the elected representatives are given education on corporate governance and co-operative business. The latter is most relevant as it comes to occupying a position in the administrative body. If the competence falls short, it sets the stage for unresisted dominance of the CEO – especially since the CEO is (by regulation) also the chair of the board. However, it is maintained that the CEOs are 'co-operators' and, thus, they will not use their power to silence the voice of the membership or to deviate from interests of the membership. This is because S Group co-operatives pay particular attention to the recruition of top executives. The trust in CEOs has been strong enough to let them take on the responsibility of looking after the viability of governance systems.

Eventually we come to direct influence. It is maintained in our data that the members may give feedback of the co-operatives' output to the personnel or management during association or via feedback boxes, customer committees and/or the Internet. The membership is not considered to be exceptionally active in their direct use of voice, which is seen a result of their poor awareness and sense of ownership. S Group co-operatives have pursued overcoming the challenges to direct influence by encouraging the members to use their voice and also by making it also easier to give feedback. Their hope is that Internet will eventually help straighten especially the distortion there is towards the elder members in the representativeness of those active in direct use of voice. Finally, even if the members are not more active in their direct use of voice than are customers of other organization, it is put forward in our data that, due to the combined roles of customer and owner, the co-operative listen to the voice and acts upon it more carefully than other organizations do.

Conclusions

While extant literature on governance of consumer co-operatives (e.g., Chaves et al., 2008; Spear, 2004) focuses mainly on indirect influence via administration, our findings enforce the idea that members' influence via buying behaviour and direct use of voice should be considered as central features to governance of consumer co-operatives (cf. Saxena & Craig, 1990). The combination of customer and owner –roles provides consumer co-operatives with opportunities to develop market and voice dependent mechanisms that allow close and intense governance. However, utilization of such opportunities requires deep understanding of what consumer co-operation is all about and awareness of ownership rights both among the personnel and management as well as the membership. In other words, efficient and effective governance is anything but axiomatic. As our study indicates, there are several challenges to governance of a consumer co-operative. However, although our study does not provide comprehensive solutions, it does indicate that many of the challenges can also be overcome, even if it may require expensive investments.

We hope that our study encourages researchers to tackle on challenges to co-operatives' governance both in Finland and other countries alike. Based on what is highlighted above, the channels and means of feedback could offer an interesting topic of investigation. For example, a questionnaire to co-operatives' customer relations managers could give us valuable information on the ways members are directly influencing the businesses of their co-operatives. It is also evident that the challenges of representativeness of those using or mediating the members' voice remain to be areas to which more academic efforts must be directed.

Considering that the owners are consumers, we wonder if consumer marketing scholars could come up with relevant new criteria (e.g., some used in segmentation) according to which representativeness could be better evaluated and achieved than with the criteria that are contemporarily in use. In addition, accounting scholars could take on the responsibility of studying performance measurement in consumer co-operatives in order to come up with practical and theoretically appropriate measures to evaluate performance of consumer co-operatives. Based on our research the measures might serve their purpose if they were balanced between accumulation of collective capital and member refunds.

Finally, it is worth noting that our findings speak for governance policies that promote democracy but do not rely on categorization of candidates based on their convictions and reference groups in communal politics. Another issue that also emphasises the identity of co-operatives as business organizations is the compensations paid to members for taking on administrative duties. Our research suggests that viable governance requires compensations that are more-or-less comparable (up-to-date) with those paid in other firms. These are issues that need serious consideration among those in charge of designing governance policies and providing education on the topic.

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Managerial competence in consumer co-operatives: Inducing theory from empirical observations

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Managerial Competence in Consumer Co-operatives: Inducing theory from empirical observations

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Abstract

Research on managerial competence has produced several definitions of the concept. It has also pointed out that managerial work is not based on some common, universal set of competencies. However, little attention has been paid to differences in how managerial competence is perceived across organization forms. This is rather surprising given that different organizational contexts have been considered to require different elements of competence from managers. In this paper we analyze managerial competence in consumer co-operatives, giving particular attention to the requirements that distinctive features of co-operatives pose on top level managers. We start by describing the context of our research along with the data and methods used to elaborate theory. Drawn from an analysis of practitioner reports, our conclusions include a definition of managerial competence in consumer co-operatives and speciation of its elements as well as a set of managerial implications and suggestions for future research.

Key Words

Co-operative Management, Managerial Competence

Introduction

Competency approach to management has received increasing scholarly attention within the past few decades (e.g., Vakola, Soderquist and Prastacos, 2007; Hayes, Rose-Quirie and Allinson, 2000; Antonacopoulou & FitzGerald, 1996; Holmes and Joyce, 1993; Mansfield, 1993; Stewart and Hamlin, 1992; Barrett and Depinet, 1991; McClelland, 1973). The approach "is based on identifying, defining and measuring individual differences in terms of specific work-related constructs, especially the abilities that are critical to successful job performance" (Vakola et al., 2007: 260). The importance of managerial competence research rests in the fact that competencies, according to Woodruffe (1991; 1990, in Hayes et al., 2000), provide the dimensions against which people's readiness or potential to move into jobs should be assessed and that they can also be utilized in appraising and developing them.

As a concept, competence is complex. This is well illustrated by the fact that there is not one single commonly accepted definition for it. Instead, there is a wide range of definitions for competence (Shippmann et al., 2000). The same applies to the management settings in which requirements for successful performance vary across contexts. There are differences, for example, in the nature of that work by both function and level of responsibility (e.g., Hayes et al., 2000). Antonacopoulou and FitzGerald (1996) argue that even more pertinent is the organizational context in which these management skills are practised, as it defines what is perceived as competence and also influences individual's judgments and actions.

Co-operative management research has, to some extent, taken organizational context into account. That is, Cook (1994), in his theoretical examination of agricultural co-operatives, outlined how organizational differences between investor and user-oriented firms influence management behavior. Also Peterson and Anderson (1996) note that managing a co-operative organization differs from managing an investor-oriented firm. Some even go as far as arguing that the co-operative way of doing business not only makes management different, but also more demanding. Mills (2008), for one, maintains that when compared to IOFs (whose shareholders mainly want maximum return on their capital invested) managers of co-operatives have to take into account a wider set of priorities additionally to ensuring the company's financial success. Since the members' primary role is not as investors or speculators, most of them are not directly interested in profitability, but on lower prices and better products (Spear, 2004, Borgen, 2004). Thus, "there may be a discord here between conventional measures of performance (profit or growth) which a manager might be trained to optimize, and those linked to member stakeholders" (Spear, 2004, p. 46). Therefore, considering that management is seen as different and performance measures are seen as different, also the requirements for managerial competence are likely to different. However, to our knowledge, empirical research has not followed these claims and observations to identification and definition of managerial competence in co-operatives.

Key research questions and methodology

In this paper, the main questions we aim at answering are: *1) How is managerial competence defined in consumer co-operatives?, and 2) What are key elements of managerial competence in consumer co-operatives?* The answers to these questions are used to contribute to research and practice of co-operative management.

We consider our study as novel and relevant in many ways. First, even though there are studies emphasising contextuality of managerial competence (e.g., Antonacopoulou & FitzGerald, 1996), to our knowledge previous research has not investigated managerial competence in consumer co-operatives. Studies on co-operative management have theoretically addressed management behaviour in co-operatives compared to those of investor-owned firms (I.O.F.) (Cook, 1994), the connection between co-operative identity and management (Davis, 1995), management culture and the role of managers as leaders of co-operative membership (Davis, 1996) as well as management de-velopment for co-operatives (Davis, 1997), but none of these studies has focused on competence in particular.

Our study is focused exclusively on managerial competence in consumer co-operatives. Second, even though it has been argued by Davis (2001; 1996) that in today's marketplace co-operatives cannot afford to appoint non-co-operative managers as "their very competitive survival depends on having a committed management who understands co-operative purpose and values and can use them both to gain and utilise the co-operative difference as a competitive advantage" (2001, p. 30-31) and "lay leadership [ie, the administrative board, brackets added] alone can only exceptionally provide the necessary skills to lead a modern co-operative society" (1996, p. 109), extant literature offers only little advice for co-operatives to recruitment and development of managers (ie, what competencies should they look for and attempt to develop).

Our paper points out competence dimensions against which people's readiness or potential to move into top management positions in consumer co-operatives can be assessed – dimensions that can also be utilized in appraising and developing co-operative management. Third, there is very little of empirical research on the topic in general and to our knowledge there is not one single published study that attempts to define managerial competence in consumer co-operatives. In this paper, we use the opportunity to do that. We use a case study approach (Eisenhardt and Graebner, 2007) to induce the concept of managerial competence in consumer co-operatives and to elaborate theory around it. That is, the starting point for our study is empirical observations from a successful co-operative group (S Group in Finland) that has a long tradition of systematic management training and development.

Through sequential reading and thinking of the research materials and literature appropriate to its analysis, we moved towards the definition of (distinctive) managerial competence in consumer co-operatives. Finally, we believe that our work opens up new perspectives to managerial competence for both researchers and practitioners, not only those of co-operation. The paper is organized as follows. We start by introducing the reader to the context of our study and the methods of re-search. Next, we present the outcomes of our iterative and progressive analysis process (ie, that in which we broke the data into smaller pieces and reconstructed it in a comprehensible fashion, cf. Jorgensen, 1989), including a set of propositions concerning key elements of managerial competence in consumer co-operatives. Finally, we conclude with a discussion on the contribution of our work to research and practice of co-operative management.

Context, data and methods

Our qualitative analysis (e.g., Denzin & Lincoln, 1994) is based on eight in-depth interviews with S Group top management conducted in fall 2007[2]. As implied above, we selected S Group as our research context knowing that this Finnish co-operative retail group had established a somewhat systematic management training and development program as early as several decades ago. We assumed that as a result of this history managerial competence might have been formally defined in S Group and, thus, serve the aims of this study. During the research process our assumption was proven false: the data suggests that there exist no standard criteria for managerial competence in S Group. However, it is argued in the same data that several requirements for managerial competence rest in the traditions of the group, its typical way of management, and task related demands. Thus, S Group is a viable context of study and the accounts of its top managers make a valid case.

What also speaks to the viability of our case is that S Group represents a typical example of job-based organizing in which jobs are the building blocks of organization. According to Lawler (1994), the implicit assumption in such organizations is that "the best way to optimize organizational performance is to fill jobs with appropriately skilled individuals and motivate them to perform effectively through pay and other rewards" (p. 4). However, filling management positions with individuals with appropriate competencies requires that those competencies are identified. Thus, our research can also feed back to practice (S Group) by shedding light on the appropriate competencies.

In total nine different themes were discussed with each interviewee, the most important ones being 1) the definitions of managerial competence and 2) managerial competence highlighted in the management of S Group co-operatives. Much of the discussion on these themes also revolved around the differences in management of consumer co-operatives and that of IOFs. All of the interviews were recorded and carefully transcript. Later, the interview data was supplemented with some archival materials and documented observations made by us researchers prior to and during conduction of this particular study. The data was studied systematically to gain understanding of the research context and to form preliminary understanding of managerial competence in this case (ie, in the accounts of top managers of consumer co-operatives). Thematic analysis (e.g., Boyatzis, 1998) was employed, in which the qualitative research materials were divided into main themes and analyzed in detail. Case study approach (e.g., Eisenhardt & Graebner, 2007) was selected in order to represent rich, empirical descriptions of particular instances of this phenomenon. Hence, we see our case serving a distinct experiment that stands on its own as an analytic unit and serves extensions to the development of a theoretical framework for managerial competence in consumer co-operatives.

Managerial Competence In Consumer Co-operatives

When defining managerial competence, our interviewees produced meanings that could manifest in almost any type of organization. A typical definition in our data was that a competent manager is a person, who *"knows how matters can be implemented productively and with the best possible efficiency"*. This is consistent with definitions emphasizing performance dimensions of competence (e.g., Vakola et al., 2007; Athey and Orth 1999; Holmes and Joyce, 1993). Considering that our focus is on the key (distinctive) managerial competencies in consumer co-operation, such 'universal' competencies are outside the primary focus of this paper. However, to contradict the view of co-operatives as organizations that *do not* pursue efficiency and productivity – a view researchers and practitioners of co-operation often come across in their endeavors – it serves to acknowledge that competencies influencing the organization towards productivity and efficiency are in fact viewed critical in co-operatives. The real difference as compared to IOFs, for example, is that definitions and measures for productivity and efficiency are not necessarily turnover-based.

Another typical definition of managerial competence in general in our data is a mix of elements that are a result of experience. The importance of experience is based on that persons characterized as 'experienced' have gathered perspective to matters (through study and work) and made enough mistakes (learned) in order to avoid them in conducting demanding managerial tasks. As one of our interviewees put it:

> *"Well in my opinion competence is that the person in question has acquired abilities with studying, working and learning from experience. Together these elements produce a mix, which can be called as competence."*

In other words, experience is descriptive of the process of acquiring the competence required in co-operative management. What is worth acknowledging is that the role of learning through practice (work and mistakes) is seen as more important for co-operative top managers than for those of other organization. This is simply because possibilities for studying co-operative management theory in, for example, business schools are mostly nonexistent. In other words, managerial competence in consumer co-operative is seen as primarily a result of personal experiences.

As pointed out earlier, academics have not come up with a formal definition of managerial competence in consumer co-operatives. The work of Boyatzis (1982), however, helps at breaking the concept of managerial competence into manageable pieces. He refers to managerial competence as a characteristic of a person that might be a motive, trait, skill, aspect of self-image or social role, or a body of knowledge (see also Hayes et al., 2000). In line with this work, our interviewees defined managerial competence as a combination of specific knowledge, particular attitudes, and a set of skills. In our data, no particular traits or motives were explicitly put forward as managerial competence or the competence requirements for managers of consumer co-operatives.

In the following we will take a closer look at each of the elements of competence emphasized in management of consumer co-operatives. We will start with knowledge (ie, information and understanding of a subject), since in technical terms it determines what courses of managerial action are seen as available alternatives and in intellectual terms it determines what actions have the potential to be executed effectively. Attitudes (ie, evaluative judgments concerning objects, people or events) are discussed next, since they contribute to managers' preferences concerning actions they decide to engage in. We end our analysis with skills (ie, the capacity to successfully deliver pre-determined outcomes), since they contribute to the quality of managerial action (ineffective-effective) that actually takes place. What is noteworthy, some of the competencies discussed relate to the co-operative purpose, while others relate primarily to the structures commonly initiated to realize that purpose. Even if the latter are conditional and do not represent required managerial competencies in all co-operatives, we consider them common enough to be considered in this paper.

Knowledge

Our interviewees specified four different but somewhat intertwined facets of knowledge that they consider as key managerial competencies in consumer co-operatives. The first and most important one was the information and understanding of co-operative value-based management. The second, and something related to the first, was the information and understanding of customer interface management. Third element, and one relating to both the co-operative purpose and the structural features, was information and understanding of multi-business management. The fourth and final element, and one relating to both the co-operative purpose and structural features, was information and understanding of community development.

Information and understanding of co-operative value-based management.

Traditionally, co-operatives have been seen as organizations that "carry with them some clearly ethical (in the normative sense) statements in terms of their underlying values and operational principles" (Davis and Worthington, 1993, p. 849). According to our data, the same applies today. Thus, it is essential that co-operative management is well informed about the co-operative purpose and understands it. As stated in our data: "[manager has to possess] *knowledge of what a co-operative is as a community, what is the basic purpose of a co-operative, what are its ways of action, motivations and goals*". Of course, in order to be effective, a top manager of any organization must understand the purpose of the organization she is running. However, given that the mission of consumer co-operation differs dramatically from that of companies traditionally in the heart of management literature and business school education (ie, IOFs), the managers' realization of that difference and understanding of the special features of co-operation are emphasized.

As Davis (1995) maintains, the purpose of a co-operative is not to make money for shareholders, but "to unite and involve its members in an economic and social community to provide countervailing market power and access to economic and social resources that as individuals the membership would not be able to accumulate for themselves" (p. 24). Profitability, for example, is in co-operatives "a means to an end rather than an end in itself" (Cornforth, 2004, p.15). If the top management believes that the co-operative is like any other business (in quest for maximum profit), the co-operative is unlikely to realize its mission. Thus, both information and understanding of the co-operative purpose are required.

However, information and understanding of the co-operative purpose is not enough. Managers of co-operative societies must also understand how the value-basis makes a difference in management (e.g., what restrictions co-operative values pose on the alternative courses of strategic action). Thus, there is call for information and understanding of co-operative value-based management. As our interviewees made clear:

> *"…what is connected to co-operation is value-based management. In a way a co-operative is a community of values, it is concurrently members' community and business organization and therefore this value base is included in the business... You cannot do everything that would be good commercially, if that particular operation is out of the limits set by the values."*
>
> *"in my opinion this is something that is strongly connected to co-operatives, the meaning of values as a constraint to business strategies. I consider it as strength without question, but one needs to understand that you cannot go to area where you are not allowed to go"*

In contrast to the common view of 'value-based management' (ie, management strategy and financial control system designed to reduce agency conflicts and to increase shareholder value; Ryan and Trahan, 2007), 'co-operative value-based management' "emphasizes the need for a strongly defined co-operative purpose or mission leading to the determination of a set of values which can form the basis for a unified organizational culture that is shared by management and membership" (Davis, 1997, p. 94).

Noteworthy, it is pointed out in our data that a problem here is the lack of co-operative management literature and education. It is not for sure that a co-operative manager has sufficient information about the co-operative purpose, not to mention a thorough understanding of co-operative value-based management. In particular this is a case with managers recruited from outside the co-operative movement. In such cases co-operative management has little potential to secure members' true identification with the co-operative. Members may simply be there for the cheap prize and for using the co-operative for self-enhancement. As pointed out in our data: *"nowadays many people become members, since they want to be associated with success.. so they can say they are part of that success.."*. Overall, it was put forward in our data that top management's understanding of the co-operative purpose along with its understanding of co-operative value-based management is an important precondition for full and successful realization of the co-operative mission:

A structural arrangement in S Group that seems consistent with the suggestions of Davis (1997; 2001) is that the CEO of a regional co-operative society is also the chairmen of the administrative board (cf. Tuominen, Jussila, & Kojonen, 2009). That is, Davis (1997) sees that "democratic boards will only rarely produce the flexibility, knowledge and skill to exercise the necessary leadership. This is top professional management's role" (p. 58). Davis (2001) continues that "the movement must make its top professional managers fully responsible … for the whole co-operative project" (p. 37). He also maintains that "a dynamic and entrepreneurial co-operative movement needs managers whose special responsibility and role in the achievement of the co-operative purpose is acknowledged and who have been empowered to lead" (p. 37). Also in S Group it is believed that senior management as part of a united board will be able to ensure co-operative growth and development. Considering the aims of this paper, it is noteworthy that this arrangement highlights the need for the CEO's good information and understanding of co-operative value-based management. In this context, if the top management of a consumer co-operative lacks this information and understanding, the co-operative will most likely fail.

Thus, it is proposed:

Proposition 1: *Information and understanding of co-operative value-based management is a key element of managerial competence in consumer co-operatives.*

Information and understanding of customer interface management

What is prevalent in our data is the idea that in customer-owned co-operatives knowledge of customers is indispensable. As put forward by one of the interviewees: *"..well, when we are talking about consumer co-operation, customer knowledge is essential."* Yet, it is also pointed out that customer knowledge per se does not make a difference: *"management of 'long' value-chains is the key to our strategy. The second main point is about connecting customer knowledge to the value chain as the controller"*. In other words, given that consumer co-operatives "are specialized in operating as links between the consumers and particular value-chains" (Jussila et al., 2008, p. 36) and are supposed serve their members better than those organizations whose (managers') primary focus is on the stock market, co-operative management has to possess information and understanding about managing customer interface.

To magnify the difference between consumer co-operatives and other organizations, one could say that while other companies only need to know the customer needs and values to the extent they can be utilized to make profit (e.g., in particular segments of the market), consumer co-operatives need to be aware of their customers' needs and values (their technological and social expectations and demands) thoroughly since serving those needs (in all market segments required) according to those values is the primary purpose of the whole operation. In other words, even though one can say that information and understanding of customer interface management is important for managers of all organization, it is especially important for managers of co-operatives.

Noteworthy, consistent with the work of Jussila et al. (2008), our data indicates that in the minds of customers the intimate relationship between the co-operative and its customers can help separate co-operatives from their rivals. In other words, information and understanding of customer interface management is not only essential to execute the mission but also valuable in terms of competitive strategy. If the management of a consumer co-operative does not possess adequate knowledge about customers interface management, the co-operative is likely to fail.

Thus, it is proposed:

Proposition 2: *Information and understanding of customer interface management is a key element of managerial competence in consumer co-operatives.*

Information and understanding of multi-business management

The conglomerate movement reached its height several decades ago and as a global management fad we have witnessed its demise. However, consumer co-operatives seem to be a special case. It is the customer-owners, not the shareholders, whose value is the basis of strategic management (Jussila et al., 2008). In this context, operating a multitude of businesses in different industries (e.g., in retailing, banking, hotels and restaurants, automotive) and in different parts of value-chains is seen as an appropriate way of delivering value (Jussila et al., 2008). In our data, this variety is illustrated as follows: *"…our third main strategy is diversity.. Lidl, for example, is 'narrow,' while S Group has scope from grocery to funeral businesses – maternity hospitals we do not have yet".*

According to our data, the broad scope sets a number of requirements for co-operative managers. First, within their own co-operative, the top managers of consumer co-operatives have to be successful in planning and executing strategies for multiple lines of business together. Second, on the group-level, top managers must be able to participate in setting the strategic guidelines for the entire chains that pierce the borders of co-operatives (sometimes including those business not present in the portfolio of the co-operative one represents). Third, in S Group, top management's priorities on the group-level may also include setting the strategic guidelines for different (vertical) parts of the value-chains (e.g., purchase companies) that are included in the group's operations. As put forward in our data:

> *"the CEO's strategy-related competence and ability to think strategically have been emphasized, since every CEO in addition to managing their own co-operatives that demand strategic development and guidance, they also participate to decision-making concerning the whole group. So in my view this strategy-related competence has been emphasized and we need more and more of it in order to conduct good decisions on the group level"*

To address the difference between the top managers of consumer co-operatives and those of many other organizations, it is considered in this particular context that a CEO of a consumer co-operative (with turnover of around €200-300 million) has to possess much of the same knowledge of strategic management that is required from the CEO of a multibillion conglomerate (S Group's turnover today is around €12 billion). In this context, if the co-operative top manager lacks information and understanding of multi-business management, s/he cannot contribute to the overall strategic management of the group.

Thus, it is proposed:

Proposition 3: *Information and understanding of multibusiness management are key elements of managerial competence in consumer co-operatives.*

Information and understanding of community development

Davis and Worthington (1993) see that one important demonstration of organization's values is its relation with the local community. As co-operatives' mission is to serve particular members and communities and co-operatives cannot relocate their activities to more attractive environments (e.g., Jussila et al., 2008; Fulton and Hammond-Ketilson, 1992), participation in community development becomes crucial (cf. Jussila, Kotonen, & Tuominen, 2007). As put forward in our data:

> *"Typically they [co-operatives] are engines of the region and concurrently engines of the economic life, this is something that regionality brings along. So you are an advocate of interests of your own region additionally to the co-operative, this kind of societal role is inevitably included."*

Our interviewees emphasized that with their decisions CEOs of regional co-operatives may, for example, fight depopulation in their region and this will also increase co-operatives wherewithal to succeed in the long run (Tuominen, Jussila, & Saksa, 2006). Evidently, this rarely is a real concern for the manager of a non-co-operative organization that can select its markets (based on expected profitability). According to our data, this special feature of co-operation and the critical role of top management set specific competence requirements for co-operative top managers. In other words, it is required that top managers of consumer co-operatives have sufficient information concerning different practices available to improve various aspects of local communities and understanding of how that information could be used in their own community context. It was emphasized that this area of knowledge is complex and has various levels. Local community and region-level systems and practices are linked to a network of national (and more often also international) systems and practices and, thus, the information and understanding of community development has to go beyond the community-level. As made clear in our research materials:

"..information and understanding of province-level issues is not enough, one must also know the national-level framework.. that is those matters and influence channels that enable regional development. The most central being, for example, infrastructure related to traffic.. decentralization as well as structures of administration.."

Overall, it was argued that if the management lacks community development information and/or understanding, the co-operative is unlikely to be able to fully carry its role as an advocate of interests of the community.

Thus, it is proposed:

Proposition 4: *Information and understanding of community development are key elements of managerial competence in consumer co-operatives.*

Attitudes

As mentioned above, our interviewees also placed specific attitudes within the set, combination or mix that composes managerial competence in consumer co-operatives. To be more precise, they referred to identification with co-operative values as well as the readiness to speak out on matters important to the co-operative, membership and the community as crucial elements of managerial competence in consumer co-operatives.

Identification with co-operative values

According to our interviewees, managerial competence in consumer co-operatives contains managers' own 'co-operative sympathies.' This refers to not only information and understanding of the values and principles of co-operation, but the acceptance of them as one's own. This requirement could be thought of as a question of person – organization fit (in this case manager – co-operative fit). Kristof (1996) maintains that most researchers define person – organization fit "as the compatibility between individuals and organizations" (p. 3). While there are many perspectives to person-organization fit, according to Kristof (1996), studies on supplementary fit "have been concerned with measuring the similarity between fundamental characteristics of people and organizations" (p. 5), the most frequently utilized operationalization of this perspective being "the congruence between individual and organizational values." (p. 5). That is, the congruence between the values of an individual and those of an organization are at the heart of the person-culture fit (O'Reilly, Chatman, and Caldwell, 1991). Based on our interviewees' accounts, top level managers of S Group seem to have a reasonable fit with the organization culture, where co-operative values are visible and clearly affect hands-on management:

"In here it is quite powerfully present that we are committed to S Group because of some other thing than money… it is definitely not option programs why we are here. And I have personally felt that it is somehow very wholesome in that sense… that we try to make the best possible services to our customer-owners and the usage of surplus is as it is [to the good of the customer-owners and the community]…I think that this is really good place to work in that sense that I feel that the operation principles and the operation of the group are legitimate…in my opinion it is kind of good, ethical and value-based basis for our operation that we really try to make things good when viewed from customer-owners' perspective, our purpose is not to maximize profits."

The viewpoint presented above is consistent with the work of Birchall and Simmons (2004), which states that shared goals and values are matters connecting and motivating people to participate in co-operation. Additionally, Davis (2001) maintains that in order to have "the right people in co-operative management we need a methodology based on personal specifications to complement the job specifications of co-operative managers that incorporates value and attitudinal elements that reflect positively in terms of the individual's likely psychological contract with the co-operative cause (p. 37-38). Thus, while it has been maintained that values form the culture or 'personality' of a co-operative (Natale and Sora, 2003), it is important that the manager sees co-operative values as his/her own in order to efficiently act according to them. In other words, "there needs to be synergy between the individual co-operative manager's identity and the co-operative identity" (Davis, 2001, p. 38). This is important because organizational outcomes, including strategies and effectiveness, are sometimes seen as "reflections of the values and cognitive bases of powerful actors in the organization" (Hambrick and Mason, 1984, p. 193). The fit is also important considering co-operative managers' powerful position as leaders of the membership (Davis, 2001). If top management is not identified with co-operative values and no fit between the manager and those values exists, the co-operative is likely to fail.

Thus, it is proposed:

Proposition 5: *Identification with co-operative values is a key element of managerial competence in consumer co-operatives.*

Readiness to speak out

Our careful analysis of the research materials revealed another important attitude seen as a key element of managerial competence in consumer co-operatives. It was argued that management of a consumer co-operative requires *"courage to speak out on matters even outside of your own organization"*. It was specified that top managers of co-operatives are expected to prefer perseverance, tenacity, and fearlessness. In this paper we refer to this positive attitude as the readiness to speak out. The attitude can be characterized as the readiness to set oneself vulnerable to the criticism of respected members of the community and society in general, and perhaps step in shoes that non-co-operative leaders would refuse to try on.

Our data suggests that there are at least two roles for the top managers of consumer co-operatives that create the demand for such attitude. The first role relates to action 'within' the co-operative. In other words, as the leader of the membership (cf. Davis, 2001), a CEO of a consumer co-operative may sometimes be required to remind the administration about the realities of the present, or as stated in our data: *"wake the administration up"*. The second role relates to action 'outside' the co-operative. In other words, as an advocate of the region's interests and those of the co-operative within the broader inter-organizational network (e.g., the co-operative group, the network of other community actors), a CEO has to put oneself on the line. As put forward in our research materials: *"..to be selected in the top management positions, one must free from prejudice and have courage to take the bull by the horns"*. If the behaviour of a co-operative CEO manifests such attitude, s/he is seen as more likely to succeed in promoting the co-operative's and regions interests. If, on the other hand, s/he lack readiness to speak out, the co-operative is likely to fail.

Thus, it is proposed:

Proposition 6: *Readiness to speak out is a key element of managerial competence in consumer co-operatives.*

Skills

In our data, a number of different managerial skills crucial to co-operative managers were identified. Among these were skills related to co-operative value-based management, customer interface management, community development, collective and participative decision-making skills, and visionary leadership. Noteworthy, each of these seems to be connected – one way or the other – to the above discussed body of knowledge and attitudes, thus showing consistency through our findings. As defined above, in this paper skill refers to the capacity to successfully carry out pre-determined results. While the body of knowledge included within the managerial competence mix is crucial concerning the pre-determination of desired results as well as ways of action to achieve them, skill is crucial in order to actually carry out these results effectively.

Co-operative value-based management skills

According to our data, it is not sufficient that a top manager of a consumer co-operative identifies with co-operative values and has information and understanding of co-operative value-based management. S/he also has to have the capacity to help the organization realize those values. In other words, a co-operative manager must have the ability to 1) define and communicate the co-operative purpose in a way appropriate to the management context, 2) select (business) strategies appropriate considering co-operative values, and 3) influence the organization towards realization of that purpose and those strategies. A problem here is that, as mentioned elsewhere in this paper, there is not much of literature and education available for those aiming at taking positions in co-operative management. Just as with other skills needed in co-operative management, it is considered that the capacity to bring about outcomes consistent with co-operative values can be developed primarily, if not only, by practice:

> *"The person [CEO] must have strong, long experience of this type of organizations – or from this group. That guarantees the best possible success. Persons coming from outside have more difficulties in picking up the threads of co-operative management.."*

The strong emphasis on a value tradition can be seen as a special feature to co-operative management. As noted above, such emphasis is not only a limitation. It can also be an important strength. In other words, it is seen that top management's ability to analyze and understand values and ethics may be advantageous for example when differentiating co-operatives from their competitors. This idea is consistent with the work of Pestoff (1999), which maintains that "the active promotion of the social values provides co-operatives with a clear profile, helps to distinguish them from their competitors and gives them a competitive advantage" (p. 208). Noteworthy, this speaks against the common separation of business and social side of co-operative management and suggests that co-operative value-based management may help in management of a co-operative as a whole (cf. Davis, 1997). However, it requires specific capacity. If top management lacks this capacity (ie, co-operative value-based management skills), the co-operative is unlikely to succeed in fully realizing its mission.

Thus, it is proposed:

Proposition 7: *Co-operative value-based management skills are a key element of managerial competence in consumer co-operatives.*

Customer interface management skills

Above it was noted that co-operative management must have good information and understanding of customer interface management. Consistently, it was argued in our research materials that top management should also have the capacity to influence the dynamic exchange of information that occurs between the customers and the co-operative in a way that contributes to realization of the co-operative purpose. It is also argued that there are features to co-operation that are favorable to development of such skills. As one of our interviewees stated:

> *"If ever someone should master the customer interface, it is us … it is a possibility for us, because we can concentrate on it, we do not have dividend and coupon cutters breathing on our neck and therefore we can at our leisure concentrate on customer interface and do it well. That is our possibility, if we have the ability to do it right. But it is easier said than done."*

In other words, and consistent with the work of Jussila et al. (2008), what helps co-operative managers is that in the absence of pressures of quartile economy (on the quest for customer-value), they have the possibility to concentrate on the long-term development of an efficient customer-focused organization. For example, in comparison to IOFs, the time other top managers spend discussing with investors and dealing with investor-relations can be used by co-operative top managers to concentrate on the customer interface. If, despite this possibility, the co-operative management lacks customer interface management skills, the co-operative is likely to fail.

Thus, it is proposed:

Proposition 8: *Customer interface management skills are a key element of managerial competence in consumer co-operatives.*

Community development skills

As the above discussion indicates, community development is seen as an integral part of co-operative management. Thus, it is not sufficient that a co-operative manager possesses information of the different practices available for community development and understanding of how that information could be used in their own community context. The manager must also have the capacity to influence both the co-operative and the whole network of actors in the operation area towards execution of appropriate practices. As put forward in our data: *"the organization of community development, in order to promote the whole community as well as our own firm, require strong skills in this area"*. Such skills are important also from competitive strategy perspective, since responsible actions of co-operatives in their operation areas may serve to differentiate co-operatives from their competitors (cf. Jussila et al., 2008). Yet, they are not easy to acquire. While much of the knowledge required can be acquired, if active, via different medias and seminars, the skills required to really make a difference can only be learned through practice. As argued in our research materials:

> *"no education or literature will develop the required skill. One must throw oneself into 'real life' and invest oneself in [different development activities]… the more broadly you immerse yourself and the more you act, the easier it is to make decisions, to be an effective leader, and to exercise influence over issues in the group, region, and country."*

Thus, a co-operative CEO or someone aiming at that position should engage oneself in a multitude of societal activities in order to develop one's capacity. If co-operative management lacks the skill of community development, in the long run the co-operative and the community it inhabits are likely to wither.

Thus, it is proposed:

Proposition 9: *Community development skills are a key element of managerial competence in consumer co-operatives.*

Collective and participative decision-making skills

In extant literature (e.g., Uski et al., 2007; Normark, 1996), co-operatives are depicted as network organizations. The same characterization is employed also in the research materials collected for this particular study. As the former CEO of SOK commented:

> *"Network-like co-operative group like S Group cannot be managed by giving orders. Management is based on shared view of the goals, values, and ways of action as well as strong commitment, which all emerge via discussion. The management model is challenging, but productive if successful"*

The most important notion concerning the aims of this paper was that reaching decisions in such organization is very much a collective process. The same applies also in community development, where hierarchies are often less clear. This is consistent with the work of Hardy, Lawrence and Grant (2005), who maintain that "effective collaboration among organizations is a difficult task; not only must co-operation and innovation be achieved, but the interests of those organizations represented in the collaboration must also be met" (p. 59) and that the challenge is even greater as "co-operation among participants cannot be secured through market or hierarchical forms of control" (p. 59). Peculiarly, a co-operative manager may find him or herself in a situation in which s/he has to be able to 'manage' people who are actually above them in hierarchy. This may take place, for example, in CEO – administrative board relations or in that of SOK top management and co-operative CEOs. Hence, so called 'persuasion management,' which is referred to in the above quotation, is considered as an important part of managerial competence. It can be described as the capacity to make the followers/peers themselves realize the value of required action. In that regard, co-operative management requires elements of participatory leadership style, in which "the manager shares a consensual decision-making process with … others to achieve their objectives" and "the resulting decision is a joint one" (Oshagbemi, 2008, p. 1906). To some extent, this is a special feature to co-operative management. As put forward in our data:

> *"., the ability to manage common matters becomes vital: agree on in-fights and to create a common path to which all can commit their selves to. In listed companies you do not have this kind of extra requirements, the money speaks and that is the end of discussion, but [in co-operatives] you have to get the people with you. So the ability – social skills – to negotiate on matters and ability to work out with compromising, compromising on difficult matters, if there exist various conflicts of interest, then compromising a kind of policy that can be followed."*

Overall, our data suggests that collective and participative decision-making skills are critical to co-operative management. If top management of a consumer co-operative lacks them, the co-operative is unlikely to succeed in executing its mission.

Thus, it is proposed:

Proposition 10: *Collective and participative decision-making skills are a key element of managerial competence in consumer co-operatives.*

Visionary leadership

According to our research materials, visionary leadership plays a key role in the management of a consumer co-operative. According to our data, one could argue that the lack of visionary leadership was one of the most important problems leading S Group to financial crisis in the 1970s and 1960s. In 1980s visionary leadership gave possibilities to create structures and business concepts that have later on been the cornerstones of S Group's success. As one of our interviewees stated:

> *"..making a vision is something that must be done first. We have needed vision for this group structure, we have needed vision to customer-ownership, we have needed vision to what our chains should be like … and so on."*

From 1990s, visions were based on in-depth analyses of operation environment, competitors, customers and the organization itself. In other words, visions of S Group have been well-grounded views of the industry and not some vague illusions. As stated in our data:

> *"Well it depends a bit on the level of business management, but a central aspect that I and also many others in our organization have learned is.. how important it is that you can create a vision. It is absolutely essential, and if you cannot do it, a vision in which you evaluate your own possibilities, competitors and demand et cetera… a vision is not that you paint clouds on the sky, but it is accurate work".*

However, a manager's ability to create a vision is not enough. As Davis (2001) points out, a co-operative leader should be "capable of seeing farther and in seeing be capable of communicating and motivating to turn the vision into reality" (p. 38). Successful communication of the vision to employees is particularly important, since "if the employees who are closest to customers and who operate processes that create value are unaware of the strategy, they surely cannot help the organization implement it effectively" (Kaplan and Norton, 2005, p. 72). The leader should through words and actions make the followers to 'see' the vision, to see a new way to think and act and then join the leader in realizing the vision (Westley and Mintzberg, 1989). According to our research materials, and consistent with the work of Hamel and Prahalad (1996), it is with successful communication of the vision that S Group management has been able to create a sense of strategic direction for the organization, a distinct identity, ambition, and common objectives for the group. As one of our interviewees stated:

> *"Vision has exceptionally high importance to S Group. This kind of network of organization cannot operate reasonably and parallel, if it does not have clear objective and values. Operative guidelines, business ideas and concept are left lifeless, if vision is not clear in mind. Vision is an important management tool for S Group, keeping it on the right track"*

As concrete evidence of managers' capacity to realize visions in S Group, it is maintained in our data that visions have had significant importance in identifying the possibilities to serve members made possible by new technology and in developing strategic competitive advantages (cf. Hamel and Prahalad, 1996). Consistent with the work of Davis (2001), visionary leadership has meant "new markets, new enterprises, new products or services or new operating standards or methodologies" (p. 38).

Finally, as a result of the co-operatives' community development role and the managers' role as leaders of the membership, the demand for visionary leadership skills extends 'outside' the co-operative and the co-operative group. As put forward in our data:

> *"...not so much as an advocate of the co-operative's interests, but as someone who is a good steward of the whole region.. this often became an important role of mine.. after all, there were not many others in the region equipped with this vision spiced with a nation-level framework…the vision of a co-operative CEO is appreciated by community servants.."*

Crossing different elements of competence, it was argued in our data that a co-operative CEO has to get informed about community development, understand the practices of it, create a realistic vision for it appropriate to one's community context, be ready to communicate it to relevant parties and have the capacity to help other actors realize it.

Thus, it is proposed:

> Proposition 11: *Visionary leadership skills are a key element of managerial competence in consumer co-operatives.*

Summary

As introduced, we entered the research process with the questions of how managerial competence is defined in consumer co-operatives and what its key elements are. The above analysis provides us with the following answers. Managerial competence in consumer co-operatives is perceived as a mix of knowledge, attitudes, and skills. The somewhat intertwined elements of that mix are listed in Table 1 overleaf.

It is seen that managerial competence in consumer co-operatives is to great extent acquired trough practice. Learning through theories (ie, experiences of others) is difficult, since co-operative management is rarely included in the learning outcomes of educational institutions. Further, it is seen that each of the elements and the mix as a whole contributes to the manager's success in influencing the consumer co-operative towards the execution of its mission (ie, the maximization of customer-value as well as that of the community). Around each proposal on the key elements, it was noted that if the manager of a consumer co-operative lacks that element, she is unlikely to succeed in his/her job.

Conclusions

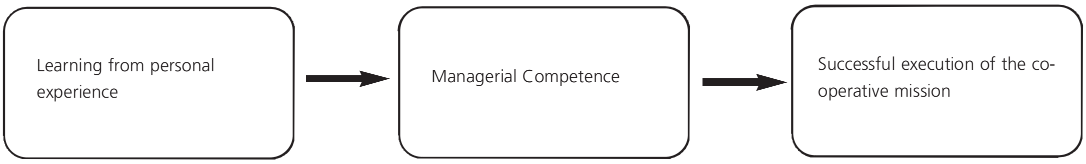
When introducing the novelty of our research, we pointed out that previous research has not investigated how managerial competence is perceived (or defined) in co-operatives. Thus, our research extends knowledge in this area. Based on our study, the following theoretical conclusion can be made: *managerial competence in consumer co-operatives is a mix of specific knowledge, attitudes and skills that is primarily a result of learning from personal experiences and contributes to successful execution of the co-operative mission*. This conclusion is described in Table 1 overleaf.

To further specify the contribution of our study, we note that the answers to our research question concerning the key elements of managerial competence in consumer co-operatives (see Table 1 overleaf) provide supporting evidence for the thoughts of Davis and Worthington (1993), Pestoff (1999), and Davis (2001) in that knowledge of the co-operative values and purpose, identification with those values, and skills to utilize those values as a basis of management are important for successful management of a consumer co-operative. Consistent with the work of Tuominen et al. (2006) and Jussila et al. (2007), managers' knowledge of community development and skills in that area are emphasized. Providing additional insight, also the skills of visionary leadership and the readiness to speak out were emphasized. Further, in line with the theoretical work of Jussila et al. (2008), our research speaks to the importance of information, understanding and skills in customer-interface management and multibusiness management. Finally, our research also maintains the perhaps not so uncommon understanding that

Table 1. Elements of managerial competence in consumer co-operatives.

Type of competence	Specific elements
Knowledge	Information and understanding of co-operative value based management. Information and understanding of customer interface management. Information and understanding of multi-business management. Information and understanding of community development.
Attitude	Identification with co-operative values. Readiness to speak out.
Skill	Co-operative value-based management skills. Customer interface management skills. Community development skills. Collective and participative decision-making skills. Visionary leadership skills.

Figure 1. Managerial competence, origins and outcomes.



collective and participative decision-making skills are crucial to managers of consumer co-operatives.

Managerial implications

Our research suggests that managers of consumer co-operation will benefit of accumulating their knowledge and understanding of co-operative value-based management, customer interface management, multi-business management, and community development. Since business schools typically are not a good source of managerial competence required in consumer co-operatives, for younger managers it should be beneficial to discuss with senior managers and ask for mentoring. Co-operatives should also be active in arranging exchange between top managers stepping aside and those stepping in. Co-operative research seminars would also be worth attending. Some of the information and understanding of, for example, multi-business management and community development can be acquired through the literature and seminars (ie, the experiences of others). However, as far as related skills are concerned, there probably exists no viable short-cut. The capacity required is develop through work and practice. Thus, our work advices a co-operative manager to throw one-self into positions of trust within the region and the co-operative group.

As it comes to recruitment, assessment and development of managers in consumer co-operatives, it is the dimensions of managerial competence listed above against which people's readiness or potential to move into a top management positions can be assessed, against which a manager's performance in such position can be evaluated, and against which co-operative management can be developed. This should help S Group (and others who at the moment lack standard criteria to be used in assessing appropriate competence) in designing pay and rewards in a way that harnesses and promotes the competence required to add value to the members, the co-operative, and the community as a whole.

While much of the knowledge and skill required can be developed in a variety of ways, it may not be the same with attitudes. Therefore, the attitudes of candidates for managerial positions should be carefully investigated to see whether the candidate is in fact identified with the co-operative values and whether she is ready to speak out no matter what the context is. A conclusion that can also be made is that it may be safe to recruit co-operative top managers from within the movement in order to secure that they have adequate co-operative competence. However, also a word of caution must be given. That is, too many people of 'the right type' (ie, clones) in any organization may hinder the renewal of the organization.

Future research

Our research suggests that typical business school education is not a significant factor in developing some of the critical elements of managerial competence in consumer co-operatives. To investigate this issue further, it should be interesting to conduct a study on the antecedents of managerial competence. This particular study leads us to expect that, in stepwise regression, variable 'education' would show no significance after 'tenure in co-operatives' (which can be considered to count for personal experience). As a related issue, it seems that a major task for co-operative researchers is to develop the discipline in a way that will eventually make management education an important source of managerial competence in consumer co-operatives. A good starting point for this work is a more detailed examination and definition of each of the elements of managerial competence listed above. To promote research and application of that research in practice, also measures for each of the dimensions should be developed. This is necessary in order to test the proposals of the study.

It should be acknowledged that this paper is the first attempt to uncover the elements of managerial competence in consumer co-operatives. Thus, it is likely that future research will identify additional elements that our data was not explicit or specific about. For example, it seems that acting as an engine of community development requires that managers adopt a particular social role or self-image, which according to Boyatzis (1982) are elements of managerial competence. Thus, a question that future research should address is: How can this social role be defined and does acceptance of that role require a particular image of the self?

Finally, it should be interesting and valuable to investigate managerial competence also in producer co-operatives, to make comparisons across different types of co-operatives, and co-operatives with different structures. Overall, we hope that a lot of research on the topic will follow.

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