

Regional Co-operation: A Strategic Network Perspective on a Customer-owned Organisation

Terhi Uski¹, Iiro Jussila, Juha-Matti Saksä

In recent years, the concept of network has been of interest to many scholars in the fields of management and sociology. The research on networks has focused on the benefits of networking and the relationships between network actors. Co-operative organisations have received only little academic attention in network research, despite of the fact that they seem to be closely related to the concept of network. In this article, we build on literature on co-operation and networking to analyze the strategic importance of formal and informal networks on a co-operative organisation. The empirical part of the article is based on thirteen qualitative in-depth interviews of the case co-operative managers and other focal actors of the network of a regional S Group co-operative (Finland). According to our analysis both dimensions of the network are of significant strategic importance to the co-operative.

Introduction

Network research has attracted extensive attention in the field of management. There have been two major approaches to the issues related to networks and alliances:

- 1) **research from an economic-rationalistic perspective**, which emphasises the strategic aspects of networking and
- 2) **research from a social perspective**, which highlights the social relationships between actors.

From the economic-rationalistic perspective (eg, Barney, 1991; Wernerfelt 1984), the resource-based view of organisation (eg, Penrose, 1959) has been one of the dominant contributors to the research on strategic aspects of networking (cf Oliver & Ebers, 1998). It suggests that firm's competitive advantage is derived from the resources and capabilities of the organisation (eg, Grant, 2005; Barney, 1991) and, thus, networking is economically profitable for firms because it enables them to concentrate on their core capabilities (eg, Jarillo, 1988).

While the economic-rationalistic perspective has concentrated on organisation level analysis on networks, the role of individual actors in networks has received increasing attention in recent years (Kilduff et al 2006). More specifically, the social network theory (eg, Perry-Smith & Shalley, 2003; Brass et al, 1998) declares that relationships between actors should be the core aspects of the network research. Although a distinction between the two approaches (schools) is often made, it is not evidently clear. Whereas research on social

networks has included descriptions of institutions and identities resulting from networks, it has also produced accounts of how network connections can explain differences in the resources available to individuals, groups and organisations.

Co-operatives have not attracted much of network scholars' interest even if co-operatives are often characterised as network organisations. Co-operatives are formed as networks because it enables small actors in the market to gain negotiating power and to develop businesses that are beneficial both for themselves as users as well as for the operation area (cf Skurnik, 2005; Normark, 1996). Co-operative networks have typically been considered to be territorially embedded and thrive where close relations between network actors are possible (eg, Hansmann, 1999). However, recent studies on co-operatives (eg, Davies, 2006) emphasise also the importance of network embeddedness, for example, when expanding their operations to international markets (cf Hess, 2004).

This article contributes to the co-operative management research from the network perspective (cf Normark, 1996). While also other perspectives on organisation (eg, Taylor & Asheim, 2001) would provide us with useful tools for uncovering the mysteries of co-operative businesses, we feel they are outside the limits of this study. We employ literature on co-operation (eg, Davies, 2006; Normark, 1996) and networking (eg, Perry-Smith & Shalley, 2003; Jarillo, 1988) to analyse the network of a Finnish customer-owned regional co-operative. As both economic and social aspects of relations are relevant in co-operative businesses (cf Skurnik, 2005; MacPherson, 1995), we employ both economic and social perspectives to develop

an interpretative framework for analysing the strategic importance of networking in a co-operative context. The empirical part of the article consists of analysis of qualitative data (eg, Denzin & Lincoln, 2000), which includes thirteen in-depth interviews with co-operative managers and other focal actors of the network, as well as, archival materials and non-academic literature.

Network Research and Co-operation

The concept of network has achieved a major role when exploring complex organisational phenomena, such as strategic alliances, power, influence, and inter-firm collaboration (eg, Borch & Arthur, 1995). A straightforward conceptualisation of a network states that “a network organisation exists to link different types of external stakeholders together” (Haberberg & Rieple, 2001:281). Importantly, networks link groups of companies together for a common purpose. Consequently, a new form of competition has spread across markets: group versus group (eg, Gomes-Cassares, 1994).

Examining networks from a strategic perspective has been one of the main tracks of network research (Borch & Arthur, 1995). The term “strategic” derives from the notion that networks are conceptualised “as a mode of organisation that can be used by managers to set their firms in a stronger competitive position” (Jarillo, 1988: 32). Strategic management theories on networks emphasise the importance of resources when aiming to create sustainable competitive advantage via capabilities (cf Barney, 1991; Wernerfelt, 1984). As Borch and Arthur (1995: 420) define, strategic networks are “investments in co-operative relations among firms in order to exchange or share information or resources”.

A sociological view on networks (Podolny & Page, 1998: 59) emphasises informal aspects of networks stating that a network is any collection of actors

that pursue repeated, enduring exchange relations with one another and, at the same time, lack a legitimate organisational authority to arbitrate and resolve disputes that may arise during the exchange.

This means, for example, that while it seems useful to provide a list of formal organisational arrangements that can be characterised as

network organisations, any such list would obscure important variance within organisation types. On the other hand, even though network forms of organisation can not be identified according to some limited set of labels for formal organisational arrangements, a number of scholars have argued that network organisations can be characterised by a distinct ethic or value-orientation on the part of exchange partners (Podolny & Page, 1998).

What is important, taken the ends this article is aimed at, is that scholars have long recognised that organisations are embedded in multiple networks (eg, Powell & Smith-Doerr, 1994). Consequently, both formal and informal networks should play an important role when examining networks (cf Bell, 2005). It is strategically important, for example, that informal social networks provide links to resources (cf Gulati, 1998). As Borch and Arthur (1995) state, both economic and socio-cultural dimensions of networks should be acknowledged when attempting to reach in-depth understanding of cultural contexts, and of socio-economic relations of actors within strategic networks.

Resource-based perspective on networking

Strategic management theories on networks emphasise the importance of internal resources (eg, Wernerfelt, 1984) and external resources (eg, Langlois, 1992) when aiming to create a sustainable competitive advantage via capabilities. Barney (2001; 1991) also suggests that the resources have to be valuable, rare, imperfectly imitable, and non-substitutable. In order to develop competitive advantages via resources and capabilities, an organisation has to identify the strategically valuable resources and distinguish them from standard resources (cf Grant, 2005).

The competitive advantage of a firm is a combination of several valuable resources which can be called as “resource bundles” (Smith et al, 1996: 42) and capabilities (cf Helfat & Peteraf, 2003). Resource-based view on networks (eg, Gnyawali & Madhavan, 2001) suggests that firms co-operate to attain access to valuable resources which they would not have access to by operating individually. Organisations may establish more or less formal networks with interdependent organisations to create linkages to the “external” environment. This way they may gain access to essential resources or secure them (cf

Pfeffer & Salancik, 1978; Hillman et al, 2000).

The pursuit of competitive advantage through tangible and intangible resources, and capabilities leads to specialisation (cf Grant, 2005). That is, the organisation will cut down those resources that are not essential in terms of creating and utilising capabilities of the organisation and concentrate on its unique task in the network. This, on the other hand, means that firms need to develop their network-enabled capabilities (cf Zaheer & Bell, 2005). In sum, establishing networks and strategic alliances can be seen advantageous for organisations (ie, sources of competitive advantage), since partners can complement their own resource and capability base.

Social perspective on networking

According to the social perspective on networks, relations of social actors form the basis for analysing networks (eg, Brass et al, 1998; Holmlund & Törnroos, 1997). In addition, research on social networks has included description of institutions and identities resulting from networks as well as accounts of how network connections can explain differences in the resources available to individuals, groups and organisations (cf Gulati, 1998).

Social network can be defined as “collectivity of individuals among whom exchanges take place that are supported only by shared norms of trustworthy behaviour” (Liebeskind et al, 1996: 430). In other words, firms are “embedded in socially constructed networks of reciprocity and interdependence” (Taylor & Asheim, 2001: 316). Through social networks firms can get access to valuable information, which may have a positive impact on the efficiency of their economic actions (eg, Rangan, 2000). However, it must be acknowledged that in order to collect the benefits of social networking, firms must be able to identify and evaluate potential network partners.

The social network theory maintains that networks should be analysed in those social and institutional contexts where the economic actions take place (eg, Dacin et al, 1999; Gulati, 1998; Jones et al, 1997). This has been emphasised, for example, in the structural embeddedness perspective on networks (eg, Gnyawali & Madhavan, 2001; Jones et al, 1997). Simsek et al, (2003) define structural embeddedness as:

the relative proportion of internal and external

ties, ie, the number of existing relationships to the total number of possible relationships among all network members (if each network member were tied to every other member) and the number of relationships that network members have to non-network members, respectively.

Embeddedness is the contextualisation of economic activity in on-going patterns of social relations (Granovetter, 1985). As Holmlund and Törnroos (1997: 305) state, a relationship is based on the perception that there exist ties that connect actors together. Strong and weak ties (eg, Granovetter, 1973) or links such as friends of friends (eg, Boissevain, 1974) and group obligations (eg, Bourdieu, 1986) may provide privileged information, access to opportunities and enable individuals to obtain resources (Jack, 2005). In addition, network relationships may help organisations gain legitimacy from their stakeholders. This is crucial if they wish to survive (eg, Tolbert & Zucker, 1983; Meyer & Rowan, 1977).

Co-operatives as strategic networks

From the network research perspective, co-operatives offer a profound context for studying strategic importance of formal and informal as well as economic and socio-cultural dimensions of networks. As Skurnik (2002) maintains, it was already in the late nineteenth century that co-operation was determinedly built on a network idea. Thus, it has not been unusual to write of co-operatives as network organisations (cf Troberg, 2000; Nilsson, 1994; Ollila, 1989).

In the formal dimension, a co-operative network consists of relationships between members and the co-operative (first degree). That is, co-operatives are network alliances of small actors (eg, customers) in the market. They are organisations able to develop their operations in a way that serves the interests of the owners. The formal network (ie, in terms of membership) typically includes also the employees of the organisation (cf Skurnik, 2005; Normark, 1996). While groups of co-operatives are often formed to link local and regional co-operatives together for a common purpose (cf Skurnik, 2005), the formal network of a co-operative includes also the relationship between the co-operative and the central organisation (second degree).

It should be acknowledged that while a single

co-operative organisation (ie, a formal network) has legitimate organisational authority, co-operative networks include also non-owner actors (eg, through co-operative actors' social relations). For example, it is also typical to view co-operatives as a link between various regional or local stakeholders serving the interests of the community (eg, Tuominen et al, 2006). Taking into account the informal dimension, a co-operative network seems to be consistent also with the sociology-based definitions of networks (cf Podolny & Page, 1998). That is, a co-operative is an organisation strongly embedded in its regional context (cf Davies, 2006).

Co-operatives come close to the definitions of strategic networks (cf Borch & Arthur, 1995; Gomes-Cassares, 1994). That is, they form networks through which they can exchange or share information and resources (eg, Skurnik, 2005; cf Langlois, 1992; Wernerfelt, 1984) when trying to build sustainable competitive advantage (ie, benefits to their customer-owners). First, a co-operative has its internal formal network, which links buyers (ie, the customer-owners) to the seller (ie, the co-operative). This formal network is an important conveyer of information needed to develop genuinely customer-oriented businesses. In addition, a co-operative is part of a larger formal network enabling the use of resources which it would not have access to if working alone (cf Skurnik, 2002; Normark, 1996). On the other hand, a co-operative has typically close relations to its environment which may help to secure strategically important resources (Jussila et al, 2005; cf Hillman et al, 2000; Pfeffer & Salancik, 1978).

The network theory emphasises the importance of developing close linkages between buyer and seller. The linkages promote stability between buyer and seller as transaction costs are reduced and trust between actors is strengthened (Ollila, 1989, for transaction costs see also Williamson, 1975; Coase, 1937). One might expect this to help overcoming some of the co-operative weaknesses related to obtaining capital. Normark (1996) has even argued that co-operatives may have an advantage over investor-owned enterprises as, for example, the economic and social linkages between the organisation and its customers are stronger in customer-owned co-operative than in investor-owned enterprises. The customers are also owners of the co-operative, meaning that they have a right to information and wider variety of

means to participate and influence the co-operative than the customers of investor-owned companies (eg, Hansmann, 1999; Hirschman, 1979). As Normark (1996) states, co-operatives may be regarded as networks with extra communication capacity helping to develop efficient and effective business enterprises (cf Stein, 1993).

As was put forward above, in order to develop competitive advantages via resources and capabilities, an organisation has to identify its strategically valuable resources and distinguish them from standard resources (cf Grant, 2005). Some of co-operatives' strategic properties are their co-operative values (eg, honesty, equity, openness and self-help). They support the development of new relationships in the co-operative network, and trust (eg, Casadesus-Masanell & Khanna, 2003; Borgen, 2001), which has been considered as a crucial factor when constructing and maintaining network relations (eg, Johnson et al, 1996; Mayer et al, 1995).

Co-operative values support the development of the co-operative into a progressive and proactive business enterprise (eg, Normark, 1996). As Davies (2006) states, customer-owned co-operatives provide a point of distinction and differentiation from other organisational forms. That is, the active promotion of co-operative values provides co-operatives with a clear profile, which helps to differentiate themselves from their competitors. Thus, co-operative values are strategically significant intangible resources for co-operative organisations.

As mentioned, organisations have to gain legitimacy from their stakeholders to survive (eg, Tolbert & Zucker, 1983; Meyer & Rowan, 1977). Co-operatives may gain legitimacy by the local and regional stakeholders more easily than their competitors. That is, co-operatives may be looked at more favourably because co-operatives have a genuine interest in developing the territory in which they are embedded in (cf Hansmann, 1999). However, a communal approach to business is not only about co-operative values and principles (eg, MacPherson, 1995), but also about being rational. That is, the survival and success of a co-operative is strongly linked to the survival and success of area in which the co-operative's economic and social activities are embedded. This is among the reasons why co-operatives work together with other stakeholders of the area to create a well-functioning institutional

environment (eg, Tuominen et al, 2006; cf Blomqvist, 1985).

In sum, taking the network perspective, co-operatives may have at least three advantages over investor-owned companies. First, co-operatives have an advantage over investor-owned enterprises as the economic and social linkages between the organisation and its customers are stronger than in co-operatives than in investor-owned enterprises. Second, co-operatives have inimitable properties in terms of social relations. Third, because of their value-base, co-operatives may gain legitimacy by the local and regional stakeholders more easily than their competitors.

Content, Data and Method

During the last decade or two customer-owned co-operatives have received a major role in Finnish society and economy. However, the success of customer-owned co-operatives has varied contextually. For example, Finnish E-co-operatives and S Group co-operatives faced serious problems in 1980s, as conflicts between social objectives and the need for efficiency became apparent. For the same reasons, the whole "co-operative movement" lacked legitimacy in Finland (eg, Skurnik, 2005). Both E-co-operatives and S Group co-operatives strived for efficiency by carrying out major structural changes. E-co-operatives were formed as a consolidated "COOP Finland" while S Group divided its organisation structure into a network of 34 independent regional co-operatives and the central organisation SOK. (Neilimo, 2005; Schediwy, 1989).

E-co-operatives were bankrupted, but S Group co-operatives managed to achieve major success. According to Neilimo (2005), it was greatly due to the network structure that the S Group succeeded. Today, there are 22 regional and 16 local co-operatives that are, in turn, owned by their members - altogether over 1.6 million customer-owners (the population of Finland is around 5.2 million). Another reason for success was that S Group went back to its co-operative roots: The purpose of the co-operative is to provide services and benefits for customer-owners. S Group, which is the market leader, with close to 40% share of the Finnish retail sector. Year 2006, the retail sales of S Group were around 9777 million euros. Businesses of the co-operative include food and

groceries, specialty goods, hotels and restaurants, hardware and agriculture, automobiles and service stations. (www.s-kanava.fi; accessed 5 March, 2007; Neilimo, 2005)

The qualitative data employed in this study consists mainly of archival materials and eleven in-depth interviews conducted in year 2006 in the case co-operative and its network actors. First, we interviewed the CEO and the chairman of the governing board in the case co-operative. By analysing the archival materials and the interview data, we formed a preliminary description of the co-operative network. When gathering additional data, we utilised the so called snow-balling method (eg, Morril, 1995), by asking interviewees name the most important actors within the network. That is, the interviewees were selected based on the accounts of previous interviewees. Our interviewees' included mayor of the largest city of the area the co-operative operates, manager of the provincial federation, CEO of the regional electric company (partner of the case organisation), the current and former Chairmen of the board of regional Chamber of Commerce, the head editor of the regional newspaper, one of the top managers of SOK and two CEOs of the purchasing companies of SOK. We also analysed data collected by one of the co-authors in the case co-operative in year 2004.

All the data was studied systematically to gain understanding of the research context. The data was organised by themes and analysed in detail by the corresponding author. To increase the reliability of our study, also one of the co-authors analysed the organised data.

Analysis of the Co-operative Network

Description of the network of the case co-operative

Consistently with the previous research (cf Skurnik, 2002; Troberg, 2000; Normark, 1996; Nilsson, 1994; Ollila, 1989), our case co-operative was considered to be (a part of) a multidimensional network. According to the accounts of our interviewees, the network of the case co-operative consists of formal and informal network (see Figure 1). The formal network consists of S Group (eg, SOK and its subsidiaries) and customer-owners (ie, the members of the regional co-operative). The informal network consists of regional institutions and various other stakeholders (eg,

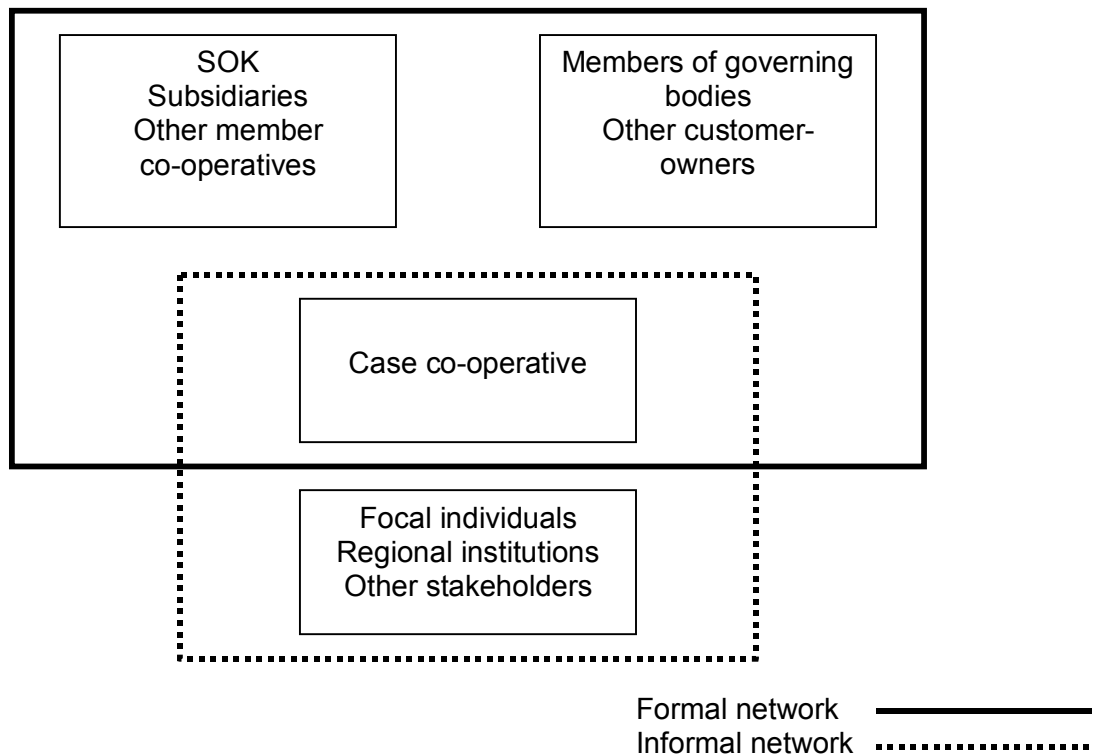


Figure 1 Formal and informal dimensions of the network of the case co-operative.

municipalities, associations, the University of the province, the regional Chamber of Commerce, regional council, and media), as well as, focal individuals (eg, heads of stakeholder organisations etc).

In the accounts put forward by our interviewees, both formal and informal dimensions of network were considered of strategic importance (cf Bell, 2005).

The strategic importance of the formal network

Our interviewees described S Group as a “strategic network” (cf Jarillo, 1988). That is, the member co-operatives of S Group share a mission, which differentiates S Group from other groups and is the basis of co-operation between the network actors. As one of our interviewees put it:

All of our operation philosophy (in network) is based on economic links ...of course the regional co-operatives carry also local missions in their own regions ... but all of the regional co-operatives are part of S Group ... we all have the same idea ... which is that we are here to serve our customer-owners ... this is the basis for our co-operation in this network.

Serving the customer-owners refers to mission

and business idea, which is to provide benefits and services for the customer-owners. While shared goals and values (cf Podolny & Page, 1998) form the basis for co-operation between network actors, the actors of the formal (ie, strategic) network are economically linked together via the central organisation (cf Skurnik, 2002) and its purchasing companies that carry out major share of procurements for the regional co-operatives. As presented above, economic links are an important part of the network structure. In addition, the case organisation is linked together with the formal network actors, for example, by shared management models and IT systems.

One of key aspects of networking is the distribution of work among actors. Consistently with Grant (2005), every actor in S Group’s network has its own unique function or special task in serving the mission. While the central organisation focuses on support services, the member co-operatives, including our case co-operative, have three basic tasks. First is to provide and organise services for the customer-owners in the co-operative’s own regions. Second is to increase the wellbeing of the customer-owners in the region. Third is to develop the economic and social wellbeing of the region (cf MacPherson, 1995). According to our interviewees, the intention of the case co-operative is to transfer all those functions to

the central organisation (and its subsidiaries) that do not provide comparative advantage when carried out by the co-operative itself.

According to our interviewees, being part of the strategic network has been one of the major reasons for the success of the case co-operative. It has helped the regional co-operative to compete against actors of other groups in the market (cf Gomes-Cassares, 1994). By investing in the co-operative relations in which information and resources are exchanged and shared (cf Borch & Arthur, 1995), organisations may achieve many operational and strategic benefits. As one of our interviewees pointed out:

By networking firms can together carry out larger and more demanding projects or they can concentrate on their own core business and outsource other functions...take subcontractors, contract suppliers or other network organisations...

Increase of negotiating (market) power, advanced technologies, common technological solutions, closer relations in value-chain, flexibility, inter-organisational benchmarking, expansion of market area, as well as, selection development, were given as examples of strategic benefits that networking has provided to our case co-operative (cf Davies, 2006; Skurnik, 2005; Normark, 1996; Ollila, 1989). In addition, one of the most highlighted benefits was related to information sharing within the formal network (cf Normark, 1996). That is, by sharing strategically and operationally important information regional co-operatives can significantly develop their operations. As one of the interviewees put it:

It opens new options ... in that we can then do common operation models, information transferring between different organisations so that the entity becomes better and more efficient ... for example this co-operation with [the case co-operative] has been so successful because they have concentrated ... the goal is that when we increase the efficiency, the customers can buy cheaper products ...

The information gathering, analysing, sharing, and utilising is systematic and managed. That is, different units collect and share information by using different kinds of systems that are

utilised in business operations of the network. In this way, the members of the formal network get valuable feedback concerning their operations. As one of the interviewees put it:

As a service, we share and even produce very much information ... concerning our group ... and also the success factors of business and the information concerning our operational environment ... and we hope that this serves the members of our network in that they can improve their operation ... so this is quite knowledge-intensive co-operation ...

In addition to the above listed benefits, the network structure of S Group has, for example, enabled the utilisation of locality and regionality in the businesses of the case co-operative (cf Tuominen et al, 2006). According to an interviewee:

In terms of strategic benefits to the business ... when we talk about the business that operates close to the customer, the network structure has brought this so called regional government which means that through networking we are able to manage geographically different regions ...

This is important, because, as it was pointed out, "the customers are a bit different in different regions". On the other hand, being local, regional and "independent" was considered as important aspects of co-operation. Thus, it was also made clear in the accounts of several interviewees that when it is profitable (ie, supports long-term survival) or serves the co-operative mission otherwise, all the activities should be (and are) carried out locally or regionally.

Consistently with the ideas put forward in previous research (eg, Tuominen et al, 2006; Hansmann, 1999; Hirschman, 1979), based on regionality and locality, the case co-operative seems to have a "co-operative advantage" over its competitors. Given the form of ownership, the case co-operative has close relations to its customers (cf Ollila, 1989). While competitors have reorganised by centralising their operations and removed their strategic and operational decision-making from the region, close understanding of the business environment and customer needs has become a strategic asset for our case co-operative. By remaining regional, the case co-operative has been able to maintain and develop customer-orientated business operations according to its mission (ie,

comprehensive fulfilment of customer-owners' needs).

On the other hand, according to some accounts in our data, the high structural embeddedness (cf Dacin et al, 1999) may bring some slowness to the operations and management of co-operatives. However, it was also pointed out that it is that the embeddedness brings more benefits than it brings costs.

The strategic importance of the informal network

According to the accounts put forward in our data also the informal network is of major strategic importance to the co-operative. Being regional means that the case co-operative has close relations to local and regional authorities and institutions. Co-operative principles (eg, MacPherson, 1995) and genuinely convergent interests with the region promote social relations that may be inimitable to the investor-owned competitors (cf Normark, 1996). As one of the actors of the informal network put it:

Regionality and locality ... those are the core values to us ... in co-operation with 'the co-operative people'...there we have noticed that we have the same core value which is that both of us want the success of the people and the enterprises in this province.

As the informal network consists of actors who have some kind of exchange relation between them and who share the same values and goals (eg, Jones et al, 1997; Liebeskind et al, 1996), locality and regionality seem to be essential concepts when examining the formation of the informal network of the co-operative (cf Tuominen et al, 2006). As implied in the representation above, close relations and common interests help co-operatives gain legitimacy from the local and regional stakeholders (cf Tolbert & Zucker, 1983; Meyer & Rowan, 1977).

The case co-operative collaborates with those organisations that have interest in improving economic and social wellbeing of the region and people within it (cf Skurnik, 2005; Normark, 1996). Consistently with co-operative values (MacPherson, 1995), the case co-operative participates in many provincial development projects (eg, culture, sport, and education) as "regional responsibility" is one of the key values of the co-operative (cf Neilimo, 2005).

According to our data, the case co-operative has an advantage over its nationally or internationally operating competitors, partly because active communication with the regional institutions, such as municipalities and the regional council provide co-operative managers with first hand information concerning, for example, forthcoming economically significant projects within the region (cf Tuominen et al, 2006). The mayor discussed the city's interest in interacting with the case co-operative as follows:

Co-operation is the keyword and of course networking ... maybe there is also need to achieve common objectives and goals in the network ... so the other important key word is that we know each others objectives and are able to figure out where it is crucial to co-operate together.

Co-operatives may be regarded, in part, as informal networks with extra communication capacity helping to develop efficient customer-oriented businesses (cf Normark, 1996; Stein, 1993). In the accounts of our interviewees it was stated that active communication within the informal network helps to develop businesses that fulfil the customer-owners needs, provide benefits to them and, at the same time, guarantee long term survival of the co-operative (cf Normark, 1996; Stein, 1993; Blomqvist, 1985).

Having common interests with the regional stakeholders (ie, the informal network) is crucial for the case organisation. As co-operatives also serve the interests of a wider society, they are, according to our data, looked at favourably by the regional institutions (cf Hansmann, 1999). That is, co-operatives gain legitimacy by the local and regional stakeholders more easily than their competitors. According to the accounts in our data, mutual understanding of common interests between regional network actors promotes trust between the case co-operative and the stakeholders. This is important, because trust has been considered as a crucial factor when constructing and maintaining network relations (eg, Blomqvist, 2002; Johnson et al, 1996; Mayer et al, 1995).

Discussion

In this paper we have described a customer-owned co-operative and its relations as formal

and informal networks, emphasising the strategic importance of those networks for the co-operative. That is, we have employed both economic and social perspectives on networks to develop a framework for analysing the strategic importance of networking in a co-operative context.

The formal network consists of S Group (eg, SOK and its subsidiaries) and customer-owners (ie, the members of the regional co-operative). By analysing our in-depth data, we also found that the informal network of the case co-operative consists of regional institutions and various other stakeholders (eg, municipalities, associations, the University of the province, the regional Chamber of Commerce, regional council, and media), as well as, focal individuals (eg, heads of stakeholder organisations etc) (see Figure 2).

While the actors of the formal network are linked together with economic ties, shared management models and IT systems, the shared mission, business idea, values, and goals form the basis of their co-operation (cf Podolny & Page, 1998). Locally and regionally shared objectives (eg, the development and well-being of the region) are also the basis of co-operation between the co-operative and the actors of its informal network (cf Tuominen et al, 2006).

Our conclusion is that both formal and informal dimensions of the network are of strategic importance (cf Bell, 2005). As presented in the figure above (Figure 2), both

formal and informal networks can be considered to operate as implementers of common interests of network actors, as well as, channels of resource and information sharing.

The formal network helps the co-operative to compete against other groups in the field. The strategic benefits of the formal network include increase of negotiating (market) power, common technological solutions, advanced technologies, closer relations in value-chain, flexibility, inter-organisational benchmarking, expansion of market area, as well as, selection and operations development (cf Davies, 2006; Skurnik, 2005; Normark, 1996; Ollila, 1989). The formal network has also helped the co-operative to remain regional and collect the related benefits, as competitors have centralised and removed their strategic and operational decision-making from the region providing the co-operative with an advantage in understanding of the business environment and customer needs (cf Hansmann, 1999).

The informal network is of major strategic importance to the co-operative as well. Co-operative principles and genuinely convergent interests with the region promote social relations (eg, with institutions and other stakeholders) that may be inimitable to the investor-owned competitors (cf Normark, 1996). That is, locality and regionality are essential concepts trying to understand the formation and strategic importance of the informal network (cf Tuominen et al, 2006). What the informal network enables, for example, is the increase

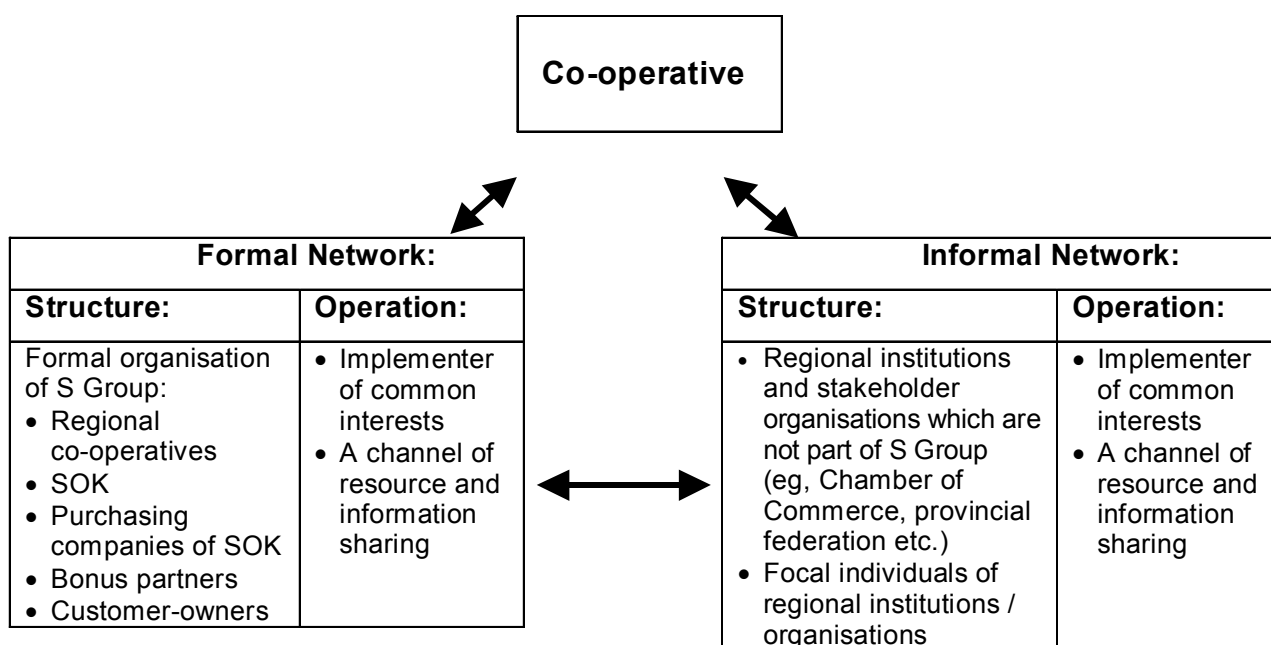


Figure 2 The structure and operations of the co-operative network.

of communication capacity, which helps the co-operative to develop efficient customer-oriented businesses and, thus, guarantee long-term survival (cf Normark, 1996; Stein, 1993). One of the crucial benefits of the informal network is the legitimacy provided to the co-operative by the stakeholders.

The main contribution of this article is the two dimensional framework for analysing co-operative networks. Both dimensions have been discussed in prior network research. However, to our knowledge, they have not been employed to understand the strategic importance of formal and informal networks on co-operative organisations. Based on our research, the co-operative values and goals seem important elements tying various actors together in co-operation. This idea seems consistent with Jones et al's (1997) work that assumes values to guide network participants.

While this paper is a preliminary attempt to integrate the perspectives in research on

co-operative networks and our evidence is based on limited data, we would expect further investigations worthwhile. For future research it should be interesting to follow, for example, how demands on increasing efficiency will shape the dimensions of co-operative network. It would also be fruitful to study the co-operative networks from a power theory perspective to understand the potential dynamics and tensions among the network members. It should be also acknowledged that this particular study has been conducted at a time of exceptional success that has generated optimism and cohesion among network actors. In addition, it would be progressive to have results of studies on co-operative networks in various contexts. Most importantly, as very little of research has been conducted on the topic of this paper, we would like to call for research that employs various approaches and methodologies.

Terhi Uski is researcher and doctoral student of Management and Organisations at Lappeenranta University of Technology, Lappeenranta School of Business, Finland. Her research interests include co-operative entrepreneurship, networks, interorganisational co-operation and production of welfare services. Liro Jussila is Project Manager of the Co-operative Business Management Research Unit at Lappeenranta University of Technology, Finland. His research interests include co-operative organisations, their ownership, governance, and strategies as well as family businesses and organisational behaviour. Juha-Marri Saska is researcher of Management and Organisations at Lappeenranta University of Technology, Finland. His research interests lie in strategic management, innovation processes, management of co-operatives and neoinstitutional theory.

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