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## Article

# Managing Internationalisation Tensions in Producer Cooperatives

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## AIB Insights

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Cooperatives, an important part of Oceania's economies, are attracting renewed interest as an organisational form for addressing societal challenges. Yet that mission often depends on growth and internationalisation strategies, which introduce multiple tensions that can lead to an erosion of cooperative principles. How cooperatives can successfully manage such tensions arising from internationalisation has been understudied by IB scholars. Our study of Zespri shows that the transfer of cooperative principles is possible when internationalisation is viewed as an incremental process of learning and active managerial agency aimed at reconciling competing logics.

## INTRODUCTION

Recent global crises have sparked debates about “alternative ways of organizing capitalism in a more humane way” (Cruz, Alves, & Delbridge, 2017: 322). Accordingly, cooperatives, a form of organizing that adheres to the principle of shared ownership in which members have control over the use and benefits of the means of production, have recently attracted renewed scholarly attention for their significant role in the global economy (Ajates, 2020) and as a viable organizational form for addressing several socio-economic, environmental, and developmental challenges (Muñoz, Kimmitt, & Dimov, 2020; Slade Shantz, Kistruck, Pacheco, & Webb, 2020) – areas where MNCs have been criticised (Stringer & Michailova, 2018). Furthermore, producer cooperatives, prevalent in the agricultural sector, provide a viable mechanism for SMEs to enter foreign markets (Ajates, 2020), helping to overcome liabilities of distance and smallness. This is particularly relevant in small, open economies, such as New Zealand, where the small home market pushes SMEs to internationalise (Benito, Larimo, Narula, & Pedersen, 2002).

However, internationalisation introduces multiple, new tensions. To compete in foreign markets, management and governance functions traditionally performed by cooperative members often require professional staff who might not share cooperative values (Bijman, Hendrikse, & van Oijen, 2013), while the establishment of foreign subsidiaries can lead cooperatives to degenerate into “coopitalist” hybrids consisting of a cooperative core at home and capitalist subsidiaries overseas (Bretos & Errasti, 2017). Thus, internationalising cooperatives must contend with multiple institutional logics; while strategic and structural changes are

required to make them internationally competitive, consistency with the principles of the cooperative model is also needed or they risk “degenerating into a business-as-usual” (Pansera & Rizzi, 2020: 21).

Research suggests that the degeneration might be a transitory stage; cooperatives may be able to regenerate by transferring cooperative principles to overseas operations (Bretos, Errasti, & Marcuello, 2020). Yet our understanding of how these tensions can be managed remains limited, as seminal theoretical frameworks describing internationalisation focus on traditional, investor-owned MNEs (e.g., Buckley & Casson, 1976; Johanson & Vahlne, 1977). Despite their prominence and potential to address important societal issues, cooperatives remain under-researched in the field of IB. We thus ask: *How can producer cooperatives manage the strategic tensions that arise during internationalisation?*

Based on a case study of Zespri,<sup>1</sup> we show that, over time, Zespri incrementally transferred cooperative principles to their foreign subsidiaries, dynamically adjusting these activities according to local cultural and physical conditions, in a process of degeneration and regeneration. These insights may help other internationalising cooperatives to achieve scale without degenerating.

## PRODUCER COOPERATIVES IN OCEANIA

Cooperatives are not new<sup>2</sup> and are “present to a much greater extent in market economies than has been suggested in the literature” (Novkovic, 2008: 2169). In Oceania, Australia's cooperatives generated nearly AU\$100bn in 2019 – a 6% increase in a slowing economy – while the top 30 New Zealand cooperatives account for 17.5% of GDP.

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<sup>1</sup> We undertook 81 interviews with 72 participants during 2014–2019, in three phases. We used observational data, collected at strategic and operational events during this period, and documentary data about the kiwifruit sector and Zespri.

<sup>2</sup> For overviews, see Altman (2010) and Katz & Boland (2002).

Australian and New Zealand cooperatives directly employ 81,000 and 48,500, respectively,<sup>3</sup> and are recognised as important for the economies' resilience and providing market access to SMEs.<sup>4</sup> Yet, despite their sizable contribution, the New Zealand Productivity Commission (2020) argued that cooperative ownership and structures inhibit growth by constraining investment and leading to commodity-focused strategies. They note the exception of Zespri – “a cooperative that is large and fast-growing” and “acts as an anchor firm” (p. 47). As Zespri has recently embarked on a ‘regeneration’ strategy, we seek to understand how they balance the tensions between internationalisation and cooperative principles.

## THE ZESPRI CASE

Established in 1992, Zespri was organised as a single marketing and distribution entity responsible for the export of New Zealand-grown kiwifruit. While the export strategy initially focused on avoiding the commodity trap and led to the adoption of a global premium brand strategy, this later required significant internationalisation of operations. Implementation of the strategy introduced multiple tensions and managerial responses, summarised in [Table 1](#).

### FROM DOMESTIC FOCUS TO EXPORT: DUAL LOGICS

Zespri undertook market research and commissioned scientific research to develop specific fruit parameters (e.g., size, texture, taste), aimed at delivering desired product features for each market. To align production with the brand promise, and ensure members' willingness and ability to engage with the strategy, Zespri relied on enabling horizontal and vertical knowledge sharing across the cooperative, and upgrading members' technical and managerial competency, as members often found the marketing messages incompatible with their logic that centred on growing for volume.

Payment schemes were aligned with market signals while, following cooperative principles, strategic decisions, performance data, and payment rates were made increasingly transparent (Smith, Callagher, Crewe-Brown, & Siedlok, 2018), becoming a hallmark of goal alignment and the cooperative's increased productivity. Concurrently, Zespri introduced proprietary kiwifruit cultivars, which required members to modify growing techniques and pay licence fees to Zespri and allowed non-producer members to buy shares.

These initiatives simultaneously led to partial degeneration and a greater alignment of goals and enhanced performance of most members. To respond to the demands resulting from competitive pressures and cooperative values, Zespri developed a compromise that conformed to these diver-

gent requirements. However, establishing a global brand required a year-long supply, which necessitated offshore production.

### OFFSHORE OPERATIONS: DUAL ORGANISATIONAL FORM

Instituting offshore production was based on establishing partnerships with local producers or their intermediaries. The foreign producers were not members of the cooperative, creating a dual structure where the cooperative principles upheld in New Zealand were decoupled from the offshore operational structures. This affected the ability to share technical and market knowledge transparently, thus jeopardising fruit quality marketed by Zespri and overall productivity in two ways. First, New Zealand growers were wary of sharing technical knowledge with offshore growers, whom they initially perceived as potential competitors. Second, as offshore growers supplied via local packhouses, commercial information related to prices, performance, and rebates with offshore growers were often blocked or filtered by the local partners acting as gatekeepers.

In response, Zespri introduced new communication activities, including visits between New Zealand and offshore producers, and increased the presence of Zespri's technical staff in offshore regions. Although these initiatives increased technical knowledge sharing, strategic information sharing remained limited.

The dual structure created a second tension related to fruit availability and overlapping growing seasons. To achieve price premiums, Zespri prioritises fruit that meets the market demands, which can mean selling offshore fruit ahead of New Zealand-grown product. While profitable for the cooperative, this disadvantages New Zealand growers. Managing the interests of members, non-member producers, and customers became increasingly challenging for Zespri.

### EXPORT OF COOPERATIVE BUSINESS MODEL: CHALLENGING ‘LIABILITY OF COOPERATIVENESS’

With demand outstripping supply, Zespri recognises its dependence on increasing offshore productivity and the need to align the interests of offshore growers with Zespri's goals. The challenge is that regions have different institutional arrangements and powerful local intermediaries who restrict direct control over fruit quality and payment systems. Thus, Zespri increasingly refers to offshore producers as part of the ‘Zespri family’, and management openly expresses the desire to extend the ‘Zespri model’<sup>5</sup> to offshore partners. Recently, there have been attempts to provide offshore growers with performance information that New Zealand producers regularly receive.

Furthermore, in New Zealand, Zespri launched a sell-

3 <https://bccm.coop/wp/wp-content/uploads/2020/12/BCCM-NME-Report-2020.pdf>; [https://nz.coop/Attachment?Action=Download&Attachment\\_id=47](https://nz.coop/Attachment?Action=Download&Attachment_id=47)

4 <https://bccm.coop/wp/wp-content/uploads/2020/09/BCCM-Co-operative-Farming-Blueprint.pdf>

5 <https://www.freshplaza.com/article/9059752/zespri-system-the-operating-model-that-supports-kiwi-production/>

**Table 1: Internationalisation of Zespri: (italics indicate potential / future / not yet realised goals, benefits, or risks)**

	<i>Export</i>	<i>Offshore operations – production</i>	<i>Transfer of the cooperative business model</i>
<b>Drivers</b>	Competitive pressures and commodity traps	Counter seasonality through 365-day supply	Address tensions and goal/ performance misalignments stemming from dual structures
<b>Strategic response</b>	Market research and R&D investment  Develop new performance payment system  Allow non-producer member shareholders	Contractual partnership with offshore intermediaries/entities	<i>Align 'Zespri system' of cooperative principles to global premium brand</i>  <i>Potentially absorb offshore producers as shareholders</i>
<b>Key challenges and tensions</b>	Possible drift away from cooperative principles  Aligning interests to ensure fruit quality  Alienation of some members and social capital erosion  Need for professionalisation of management and board  Actively managing dual logics	Unclear status and role of non-member producers in decision-making  Sharing of strategic and technical knowledge with non-members  Aligning operations and values across varied institutional regional settings  Need to balance a wider range of interests  Managing dual logics <i>and</i> structures	Ensuring long term commitment of offshore producers  Maintaining required performance across members and non-members  Balancing seasonal overlap and priorities of market, members, and non-members
<b>Managerial responses to tensions and paradoxes</b>	<b>Compromising:</b> balancing competing demands by developing a compromise that partially conforms to the divergent institutional requirements  <b>Activities:</b>  Allow non-producer member shareholders  Invest in knowledge sharing to a) pacify resistance by members by gaining their buy-in and understanding of the brand in the global context and b) increase technological competence of members to meet required quality and quantity of fruit  Introduce a new payment system to align members' profits with the cooperative's goals  Introduce professional Board members  <i>Upskill existing Board Members</i>	<b>Compartmentalising and decoupling:</b> managing the competing demands by decoupling the cooperative principles from the operational structures in foreign markets by creating some levels of separation  <b>Activities:</b>  Adopt capitalist principles in foreign markets while retaining and strengthening cooperative principles at home  Establish foreign subsidiaries to manage foreign non-member producers  Withhold some knowledge from offshore producers  Balance quality and quantity production rates of members and non-members with year-long market demand to ensure best returns for individual producers and Zespri	<b>Combining:</b> attempting to reconcile the competing demands of successful internationalisation and the cooperative's values by building an integrative identity that regenerates its values  <b>Activities:</b>  Counter tensions between members and non-members by prioritising the brand  Use 'Zespri family' metaphor and Zespri System in face of increasing member heterogeneity  Strengthen the link between performance payments and the goals of the cooperative
		<b>Selective coupling:</b> introducing selected cooperative activities to foreign operations after developing an understanding of the local conditions	

	<i>Export</i>	<i>Offshore operations – production</i>	<i>Transfer of the cooperative business model</i>
		<b>Activities:</b> Technical knowledge-sharing exchanges to build trust and enable some (overt) sharing of strategic knowledge with offshore producers  Inclusion of a detailed overview of the performance of each region in Strategy Roadshows	
<b>Benefits</b>	Increased managerial and technological member competency and sector upgrading  Engaging pro-active members in developing new, technological know-how to meet the desired fruit features	Local sentiment in some offshore markets for locally grown fruit further pushing demand  Access to new techniques and practical knowledge from offshore producers  Shortening the time of R&D trials	Faster multi-directional learning across growing regions aligned with the vision of the global premium brand  <i>Greater loyalty and security of supply form offshore producers</i>  <i>The shared goal becomes more important than individual goals</i>
<b>Cooperative structure</b>	<b>Degeneration</b>	<b>Degeneration and Regeneration</b>	<b>Regeneration</b>

back scheme requiring shareholders who do not sell fruit through Zespri to relinquish their shares, in a bid to strengthen alignment between the producers and cooperative goals. Taken together, these initiatives are part of Zespri’s ongoing attempt at regenerating cooperative values by attempting to combine the activities needed for successful foreign operations with the cooperative principles.

**CONCLUSION**

Cooperatives offer a prosocial option to innovation and growth (Muñoz et al., 2020). Such growth often requires internationalisation, which, paradoxically, may lead to degeneration and the weakening of cooperatives’ traditional values. Yet our understanding of how producer cooperatives manage tensions related to internationalisation is limited and has not received much attention from IB scholars.

The Zespri example shows that cooperatives can, over time, successfully manage the tensions arising from internationalisation *and* transfer cooperative values. This process is, however, incremental and responding to stakeholders and market pressures creates cycles of degeneration and regeneration of cooperative principles. We find that the cycles are underpinned by an active managerial agency that attempts to manage these tensions by compromising between, decoupling, and combining logics. In that sense, degeneration can be understood as an agentic managerial process to balance competing demands, rather than an inevitable outcome for internationalising cooperatives (c.f. Bretos et al., 2020).

While this bears some similarity to the internationalisation of traditional MNEs (e.g., Vahlne & Johanson, 2017), the uniqueness of cooperatives’ internationalisation process stems from the fact that they must contend with competing institutional logics (e.g., market and cooperative), which provide different prescriptions of what appro-

priate goals and legitimate strategies for achieving them (Thornton & Ocasio, 2008). Resolving these tensions involves learning and experimenting through a process of selecting, retaining, and discarding certain capitalist and cooperative structures and activities at different stages of the internationalisation process.

While we attempted to shed light on cooperatives’ internationalisation to provide tentative answers to how they manage the tensions in their internationalisation journey with policymakers and practitioners in mind, we also strive to draw the IB community’s attention to these understudied firms. This resonates with Strange’s (2018) call for IB researchers to develop a better understanding of how firms with alternative governance and ownership structures exhibit different behaviour in their international operations.

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