Co-operatives between stable ideals and a fast changing context

The co-operative way of organizing economic activity has a history as long as business has existed itself. European guilds and trade associations of the Hanseatic League in the Middle Ages, for example, were organized in a co-operative way (Battilani and Schröter 2012: 4; Catherine Casson in this volume). Still, most of us when thinking of co-operatives relate to the “modern” form developed in the nineteenth century as a response to the downsides of industrialism. Saving banks, consumer-, producer-, and, later, workers’ co-operatives were created to stimulate self-help for the less favored classes (Davis and Payne 1958; Wadhwani 2011; Robertson 2012; Bátiz-Lazo and Billings 2012; McLaughlin 2014; Fernández 2014; Hilson et al. 2017; Toms 2012; Henriksen et al. 2012; Perotin 2012).

An initiative in 1844 by the “Rochdale Pioneers” proved particularly influential for the co-operative way of organizing. The Pioneers were around thirty weavers and other artisans who opened a consumer co-operative in the town of Rochdale, England. The co-operative was a grocery shop selling basic foodstuffs like sugar, butter, and oatmeal at affordable prices to the local workers (Wilson et al. 2013: 34–42). What proved more important in a larger perspective, though, was the ability of the Pioneers to narrate about their initiative in a way that inspired others to follow suit. The Rochdale co-operators became highly influential for the evolution of the co-operative business form by setting the standard for how to organize and regulate co-operative societies. They soon came to be seen as the founding fathers of an entire co-operative movement. As it is stated today on the website of the International Co-operative Alliance (ICA):

The principles that underpinned co-operatives’ way of doing business are still accepted today as the foundations upon which all co-operatives operate. These principles have been revised and updated, but remain essentially the same as those practiced by the Pioneers in 1844.

(International Co-operative Alliance n.d.a)

According to ICA, these principles included that: “a co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and
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aspirations through a jointly owned and democratically-controlled enterprise” (International Co-operative Alliance n.d.b).

The Pioneers in Rochdale inspired others across the world to embark on similar ventures. When ICA argues that a whole co-operative world today rests on “essentially the same” principles as the ones the weavers developed in the 1840s, they nevertheless stretch the term to its essential limits. The Rochdale Pioneers did not use the term “Principles,” rather they talked about “Objects,” and some of the principles set as defining by ICA, such as the “democratic” cornerstone, the “one man one vote,” and the free and open membership, were not part of the original “Objects” (Rochdale Society 1844).

The historian Eric Hobsbawm (1983: 1–14) introduced the concept of “invented tradition” to grasp how the introduction or reshaping of traditions of supposedly long heritage were used to build nations and communities. Invented traditions could help craft identity and thereby stimulate unity. By narrating the actions of the Rochdale Pioneers of the 1840s as the timeless shared cradle of a co-operative world, ICA as an interest organization works to knit an otherwise diverse and fragmented co-operative movement together. As Zerubavel (2003: 8) stated, “exaggerating one’s antiquity” is a common tool in that regard.

For historians, it is not surprising that even traditions change over time. The co-operative world has had to respond to a dramatically changing context since 1844. For identity purposes ICA has an interest in downplaying the changes made to the founding principles, but we will argue that ICA at the same time created a tension for the business activities of a co-operative sector and its need to respond to a globalizing world. The principles set the boundaries for what is regarded as legitimate behavior. Given that they are constructed as eternal, they put limits on the strategic maneuverability of co-operative firms which increasingly find themselves in need of adapting to new contexts. A line of ambiguities and tensions seems to exist in a global era: innovation vs. historical principles, social movement vs. profitable enterprise, and national vs. global. In this chapter we explore the strategic response of co-operative management toward globalization and the resulting outcome. The empirical foundation is two selected Danish co-operatives: the consumer co-operative Coop and the dairy producer co-operative Arla. Both tried to meet the challenges from the recent wave of globalization through mergers in the Nordic region.

To explore the role of co-operatives as “makers of global business,” we start by reviewing the existing literature on co-operatives. We then develop the tensions which large-scale co-operatives need to address in the context of global pressures. Next we discuss how the identified tensions impacted the co-operative sector in Denmark and how it has come to be seen as an important pillar of Danish society. Our two cases allow us to empirically analyze how co-operatives respond to these challenges in detail. We conclude by stressing what we believe can be learned from these cases on a larger scale and by identifying promising research topics for the future.

**Literature review**

When ICA talks about the co-operative as a means to meet “common economic, social, and cultural needs and aspirations” (International Co-operative Alliance n.d.b), it becomes clear that co-operatives are shaped by both a business-logic and a movement-logic. The success criterion of the first is the ability to generate growth and profits, while the second measures success on a broader scale. The successful co-operative is not only able to secure growth of sales and profits for itself, but will have to also demonstrate how it has benefited the common good. This can be done, for instance, by having provided honest products at a fair price for consumers, good
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conditions for suppliers, decent labor conditions for the workforce, or by more indirectly having been able to promote democratic principles and social justice.

As a business form, co-operatives can be defined as jointly owned enterprises engaging in the production or distribution of goods or the supply of services, and operated by their members for their mutual benefit (Dictionary.com n.d.). A consumer co-operative is thus owned by its members on the principle of “one member one vote” and with its dividends distributed according to how much turnover each member secures for the organization. In a producer co-operative, such as the dairy company Arla, the dairy farmers jointly own the production facilities and share the profits proportionally to the amount of milk delivered.

Robert Owen famously created New Harmony in the 1820s as a utopian town in the US state of Indiana based on co-operative principles, and in the mid-1800s John Stuart Mill came to see the co-operative form as holding great business potential because it could create a partnership between capital and labor (Wilson 1967). Nevertheless, the dominating view among economists came to be that the success of co-operatives would fade as societies modernized. Neo-classical economists paid little attention to co-operatives, which they considered less efficient than capitalist firms due to their democratically controlled governing bodies. Capitalist firms had the advantage of concentrating on a single goal – profit seeking – while co-operatives inherently had split personalities, constantly balancing profit seeking with some sort of benevolence (Whyman 2012). In modern-day societies of the developed world co-operatives might have a role in limited periods of economic contraction, but in periods of macro-economic growth they, in the eyes of influential economists, would not be able to compete (Medina-Albaladejo 2015). As a result they have also moved to the margins of economic thought.

In the field of business history, co-operative business has also lived on the margins of scholarly interest. When co-operative enterprises were in fact discussed in the leading journals of the field like the Business History Review, Business History, and Enterprise & Society, it nearly always concerned co-operative initiatives of the pre-World War II period (Bamfield 1998; Purvis 2006; Sorensen and Pedersen 2007). In Scandinavia, however, enterprises organized as co-operatives could not be so easily overlooked, and Mordhorst (2007, 2014) and Hansen (2001, 2007) made valuable contributions showing how co-operative dairies and Danish saving banks after World War II had their strategic choices limited by being culturally interwoven in greater narratives stipulating what it meant to be and act Danish. Martin Jes Iversen and Steen Andersen (2008) in the ambitious textbook Creating Nordic Capitalism even labeled the entire Danish business system “co-operative liberalism.” Still, co-operatives at first were far from becoming a mainstream research topic in business history. The otherwise comprehensive Oxford Handbook of Business History, published in 2009, gave a “state-of-the-art survey of research in business history” (Jones and Zeitlin 2009) but did not devote a chapter or even a full section to co-operative business.

Researchers neglecting the co-operative form of business could partly find justification in the fact that many co-operatives throughout the world had been in decline since the 1960s. Consumer co-operatives had been on the forefront of modernizing retailing in many places in Europe from the interwar years and up until the early 1960s, but since then many of them lost the initiative to privately owned retail chains (Alexander 2008; Sandgren 2009; Gurney 2012; Jensen 2016; Brazda and Scediwy 2011).

Since the end of World War II, conditions within the retail sector have dramatically changed. Before World War II, consumer co-operatives in most countries competed only with small independent grocers. After the war – despite great differences between countries – the main competitors increasingly became chain store businesses, some of which were controlled by multinationals. This development happened as former legislative impediments were removed
and new technologies became available, and at the same time significant economic growth changed consumer behavior. The co-operative societies were by nature local in their orientation and therefore devoted to the neighborhood shop, even though economic and demographic developments in many cases rendered them obsolete and called for supermarkets located in new suburbs (Ekberg 2012a, 2012b).

Despite the observations presented by Brazda and Scediwy (2011) and a competitive situation in the global north that since the late 1980s has only increased, the consumer co-operative sector has, to the surprise of many observers, been able to survive and even thrive in some countries. This fact has helped spur a new research interest. The year 2012 was appointed the International Year of Co-operatives by the United Nations, and that same year Business History published two special issues devoted to not-for-profit financial institutions and to co-operatives and Cambridge University Press produced an edited volume on co-operative business since the 1950s (Bátiz-Lazo and Billings 2012; Webster and Walton 2012; Battilani and Schröter 2012). Hilson et al. (2017) put out a comprehensive edited volume on consumer co-operatives since 1850 in an effort to include not only the histories of consumer co-operatives in the global north, but as inspired by global history to also include parts of the world that had previously tended to get marginalized in the historiography. These publications blended in with a stream of important monographs analyzing consumer cooperation in individual countries (Lange 2006; Wilson et al. 2013; Knupfer 2013; Jensen 2016).

The new wave of studies had a shared core as they discussed the role of co-operatives in previous times and also foregrounded their continued present-day importance in some countries and sectors, thereby stressing that co-operatives had competitive advantages overlooked by mainstream economists. In a history of Italian co-operative enterprises, Battilani and Zamagni (2012) discussed the managerial transformation that took place within the co-operative movement after World War II seeing it as one of the preconditions for the co-operative sector in Italy to have flourished. Also, in Denmark, the recruitment of well-educated managers had been key to the movement’s ability to counter the challenges of a new era. However, Jensen (2016) discussed that newly hired managers educated at business schools contributed to the internal tensions within the co-operative firms. Electorates feared that the co-operative firms were in the process of losing their distinctiveness (Hilson et al. 2017; Jensen 2016).

The new interest in co-operatives was connected to the global financial crisis of the mid-2000s, which had reminded us of the weaknesses of the market economy and the insufficiency of public regulation. The stories that surfaced, as the financial crisis unfolded, illustrated that individual profit seeking did not necessarily benefit the majority. The new interest in co-operatives thus resembles the one that occurred during the 1930s recession. Then, in a highly influential book, the American journalist Marquis Childs (1936) presented Sweden as a model society which prompted President Roosevelt to initiate a 1936 inquiry about the “Nordic Middle Way” and the role of co-operatives (Hilson 2013).

Since the financial crisis, and stimulated by the international year of co-operatives in 2012, business historians have argued for the need to increase the focus on co-operatives. A large share of the resulting literature has been permeated by a clear political agenda, presenting the co-operative model as a solution for societal challenges. As Waterhouse (2014) rightfully points out this double ambition to analyze and agitate is somewhat problematic. Still, important new insights have been provided as the study on co-operative business has moved closer to the core of the field. As a sign indicating that the new interest in co-operatives is genuine, a whole chapter of The Routledge Companion to Business History (Webster 2017) is devoted to them.

The growing research interest devoted to co-operative business since 2012 has until now predominantly benefited our knowledge of consumer co-operatives. A void is left concerning
the producer version of the species and especially their development during the second wave of globalization since the 1980s. Filling that void should be an important direction for future research: a growing attention toward producer co-operatives might tell us something highly relevant regarding co-operatives as partakers in the global economy. Wilson et al. (2013: 126–133) showed how the wholesale organization of the English consumer co-operative movement (CWS) became an early MNE in the 1880s and 1890s by setting up purchase offices abroad and by investing in plantations and foreign manufacturing facilities. In a later publication they called for further research into the international expansion of CWS before World War II with a specific focus on why it did not in the end prove more successful (Webster et al. 2017).

Friberg (2017), with a focus on the interwar period, illustrates how the ICA worked to promote international co-operative trade as well as arguing for the need to establish an institutional framework to handle it. Such an institution was Nordisk Andelsforbund (NAF) set up by the consumer co-operative wholesalers in the Nordic countries in 1918. Throughout the 1920s the NAF started to develop multinational activities with a purchase office in London followed with offices in Valencia, Santos, San Francisco, Buenos Aires, Bologna, and Hamburg. The aim was to bypass the middlemen and secure goods for the Nordic co-ops that were not produced locally, such as coffee, dried fruits, and spices (Hummelin 1997).

The above examples illustrate that some members of the co-operative movement from an early stage were “makers of global business.” We also know from existing research that producer co-operatives were important in helping farmers access global markets (Fernández 2014; Higgins and Mordhorst 2008, 2015). Which role producer co-operatives have played for local producers to access foreign markets during the recent wave of globalization and the organizational forms taken on to achieve such goals are open questions and we need further investigation to address them. The literature is full of evidence showing how co-operatives historically have been interwined with different national political agendas and cultures, but it largely fails to answer which links emerged or were revived in the recent wave of globalization. Too little interest has been devoted to the internal tensions of the co-operative sector in a globalized economy: Did the allegedly “timeless” co-operative principles contribute to or hinder the continued success of co-operatives since the 1980s? And under which circumstances have the “eternal” principles in reality been modified in order to secure the continued success of a co-operative business?

**Movement or business: tensions and ambiguities**

We will argue that the modern-day co-operative sector is inherently threatened by the internal tensions, which we schematically lay out in Table 14.1. Not all individual co-operatives will face all the challenges all the time. Especially small-scale co-ops, part of a new wave of the “sharing economy,” may for some time be able to escape some of these tensions. For co-operatives with a longer history, which have expanded beyond a local community and with ambitions for continued growth, the tensions nevertheless have to be taken into account.

<table>
<thead>
<tr>
<th>Table 14.1 Tensions within the co-operative sector</th>
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<td>Stable, long lived, path dependency ↔ Innovation</td>
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<td>Social movement ↔ Economic entity</td>
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<tr>
<td>Local, national ↔ Global</td>
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<td>Small scale ↔ Big business</td>
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Source: developed by the authors.
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There might be other tensions but we focus on these because they are rooted in the long history of the co-operatives, and are tensions that under the present influence of globalization have grown and become issues for the co-operatives’ internationalization strategies. The figure could thus be read the following way: the values on the left-hand side (stable, movement, local, and small scale) were historically legitimized by the narratives created by the co-operative sector itself, while the values on the right-hand side (innovation, economic entity, global, and big business) have become influential in the general business world today in which large-scale co-operatives engage.

Co-operatives have shown remarkable survival skills. However, one could argue that co-ops often had difficulties being innovative. Many of the larger co-ops of today have their origin in the nineteenth century, and there seems to be a strong tendency for stability and even path dependency. As the insights from the above reviewed literature on co-operatives suggest, co-ops today play a much larger role in mature, labor-intensive, and low-tech industries than in emerging industries based on new inventions and highly skilled labor. Information technology and robotics coupled with ongoing globalization nevertheless also call for innovation in dairies and in retailing, which we will argue makes it necessary for the co-ops to speed up the process of change.

Another inherent ambiguity is between co-operatives as economic enterprises on the one hand, and as part of a social and democratic movement on the other. Co-operatives came into being when a group of people agreed to economically cooperate by sharing investments, responsibilities, and profits. In isolation, this does not necessarily indicate an initiative with a social agenda or responsibility or a pronounced democratic profile. The democratic discourse that draws on historical rhetorical resources and narratives has however become a central part of the idea of the “co-operative movement.” In this discourse, co-operatives are seen as social organizations in line with other movements (i.e., for social rights or the labor movement). The idea of co-ops as part of a social movement is built on the narrative that co-operatives constitute an alternative “third sector” in the economy, neither public nor private, neither capitalistic nor socialist. The need for such a sector is based on the argument that privately owned companies in their quest for profit often turn into “villains” acting against the interest of society as a whole by creating cartels, putting the environment at risk (cf. Bergquist; Stokes and Miller both in this volume), or by suppressing their workforce. The co-operatives on the other hand, according to the narrative, work for the collective good and for the less privileged classes. The duality between the economic activities of the co-operative and the social ambitions is often reflected in the way co-operatives are organized: a business side is run by professional managers, while an association side is meant to secure the relationship with the members and to administer “movement like” activities such as educational programs. The structural tension between being a business that has to be competitive on the market and at the same time being an association with moral responsibilities is not an easy one to balance.

Similarly, a tension seems today to exist between local commitment and big business. The Pioneers created a small-scale shop where all members were meant to play an active part (Wilson et al. 2013). Since then the co-operative idea has been clearly linked to the role of the local community. Co-operatives are to play an active part in people’s everyday life, and the members are to take part in the co-operative through its democratic bodies. As opposed to that, multinational big business was traditionally framed as evil in the co-operative narratives: the need for co-operatives arose in the first place when neither the state nor big business could secure the interest of the middle and lower classes (Hilson 2017; Patmore 2017). But today many long-lived co-operatives have grown big themselves.

Taken together the tensions mentioned above create a challenge for co-operatives in a globalized economy. The processes of globalization create a push toward economies of scale
reaching across borders, which historically have been challenging for co-operatives to embrace (Webster et al. 2017). This we will illustrate through the analysis of two Danish cases: FDB/Coop as a consumer co-operative, and Arla as a producer co-operative dairy company. Both of them are market leaders: Coop holds more than 35 percent of the Danish retail market for food-stuff and Arla controls more than 90 percent of Danish milk processing. Despite their success on the national market, both have faced the pressure of globalization but have reacted to it differently: Arla originated as a merger between the leading Danish and Swedish dairies in 2000, and has since then developed into a multinational dairy business. Coop tried to internationalize through a merger with the Swedish and Norwegian counterparts in 2002 to form Coop Norden. This merger, however, fell apart in 2007.

The co-operative movement in Denmark in a historical perspective

In Denmark the co-operative idea was first tried out in the 1850s based on English and German models (Mordhorst 2008, 2014). The first co-operatives were consumer based but experienced very limited success until 1866, when a co-operative in Thisted, in the northern part of Jutland, was opened and became the first sustainable co-operative in Denmark (Thestrup 1986). In Thisted, the vision was to create a grocery store as well as to educate the workers of the town to become enlightened consumers and good citizens. Hereafter the idea spread relatively fast to other villages and towns. It was, however, not the spread of consumer co-operatives alone that came to characterize the development in Denmark, rather it was the spread of the co-operative idea to other sectors. Co-operative business became a central element in Denmark’s transformation from a nation in deep crisis in the middle of the nineteenth century to a modern and relative prosperous nation by the turn of the twentieth century. Still, exactly which role the co-operative sector played has recently triggered intense debate among historians (Lampe and Sharp 2015; Boje 2016).

In Denmark, co-operatives came to play a role not only as businesses but also in regard to the shaping of a grand narrative about the entire modernization of the country. The Danish Encyclopaedia thus describes the cooperative movement as follows:

An understanding of co-operation [in Denmark] cannot be based on its particular legal, financial or organizational characteristics alone, but must also include the historical and cultural community, which has its roots in the structure of the rural community in the late 19th century. In the minds of the public, the Co-operative Movement is viewed as a unique economic/democratic Danish tradition, which is important to the rise of modern Denmark.

(Lund 2004: 38)

The co-operative sector was able to gain such a position in the Danish self-conception due to its rise in a period of crisis in Denmark. In 1864 – two years before the Thisted co-operative opened – Denmark was defeated in a war against Prussia and was forced to withdraw from the duchy of Schleswig-Holstein. As a result, Denmark was reduced to being a small state and heavily dependent on agricultural exports. When the grain prices dropped in the 1870s it threatened the entire Danish economy, but a way forward was found by rearranging the agricultural production to animal products – especially bacon and butter – valued in the new international economy. The co-operative organizational form came to play a decisive role in this transformation of Danish farming (Henriksen and Kærgård 2014).

The establishment of the first co-dairy plant in Hjedding in 1882 is usually mentioned as the beginning of an entire co-operative sector that reached beyond retailing (Bjørn 1998: 71). Ten
years later, 1,100 co–dairy plants had been established (Bjørn 1988: 372). From here on the co-operative model spread rapidly to a wide range of other industries related to farming such as slaughterhouses, corn, feed businesses, manure, egg transport, and insurance. It is estimated that during World War I more than 4,000 co-operative businesses existed in Denmark (Drejer 1929: 45). Around 1900, co-operative umbrella organizations were formed and they became highly politically influential (Bukstil 1974).

The Co-operative Magazine, published by the Co-operative Commission from 1899, originally coined the term “co-operative movement.” The concept was fleshed out in a range of books with the words “co-operative movement” in the title that were published after 1910 (Degerbøl 1931; Hertel 1917; Kruchow 1946; Nielsen 1910; Ravnholt 1943). In the bulk of this literature, co-operatives are seen as part of a moral and social movement with higher aims than just making money for its shareholders. Severin Jørgensen, one of the founders of FDB and one of the founding fathers of the Danish co-operative movement in 1903 wrote:

The movement has a far higher, far more important goal than increasing the population’s economic well being. The most important and most meaningful goal is to lift the population to a higher moral level, to make the members of the co-operative movement more competent and more independent, but most importantly, to make them better people.

(quoted in: Drejer 1929: 33)

Jørgensen was part of a genre portraying the co-operative movement in a purely positive light. This stream of literature placed farming and the co-operative movement as the heroes of Denmark’s more recent history by making the co-operative movement a social, cultural, and national movement representing the best aspects of the Danish national character. The co-operative movement in Denmark was thus established on a nationalistic ideological foundation. The paradox is, however, that the co-operative bacon and butter production not only lifted Denmark out of the economic and ideological crises after the defeat in 1864; it also integrated Denmark into the globalized and work-divided economy.

Globalization and competition changed the structure of the co-operatives in Denmark. While they spread with an impressive speed in the late nineteenth century, the structural development since the 1960s has been reversed. The co-operatives have merged into still larger units. In 1993, the Danish Dairy Company (Mejeriselskabet Danmark, MD) reached a market share of more than 90 percent seen in relation to the amount of milk being processed in Denmark. The co-operative slaughter house Danish Crown reached a similar share of the meat and bacon market in 2002 after a take-over of the last privately owned slaughter house (Strandskov 2011). FDB (renamed Coop in 2002) reached a marked share of more than 35 percent of the grocery retail market in the 1990s and had by then taken over two-thirds of the former independent co-operatives.

The structural development was a response to the evolution of a new global economy changing the Danish business system (Mordhorst 2008). The problem however was that this same concentration threatened the co-operative identity of being different. The co-operative sector narrated and branded itself as a movement focused on small-scale activities easy to influence by individuals and connected to democratic ideals and national identity. The fight against monopolies and cartels controlled by big business had been a cornerstone in these narratives.
From the Danish Dairy Company to Arla

After the acquisition of the second largest dairy in Denmark in 1999 and controlling more than 90 percent of the domestic market for milk, the management of MD realized that they had more or less reached the limit for growth in Denmark. Since around 1990 they had believed that international expansion would be necessary if the company were to survive on a still more globalized market for dairy products (Bigum and Kjelstrup 2007: 494). Thus, in 1990 MD had made their first acquisition outside Denmark by buying Associated Fresh Foods, the fifth largest dairy company in Britain. Another breakthrough came when MD – then the largest dairy in Scandinavia – joined in a strategic co-operation with the second largest dairy in Scandinavia, the Swedish co-operative dairy Arla in 1995. The strategic alliance led to a full-fledged merger in 2000 under the Arla brand. With this merger, a milestone was reached. The former Danish co-operative movement had become a leading multinational business and was ready to take up the challenges of a still more globalized market for foodstuffs. The “home market” was now Sweden, Britain, and Denmark making up nearly three-quarters of Arla’s turnover. The ambition was to become the leading dairy on the European continent (Bigum and Kjelstrup 2007: 506).

A range of factors had made Arla’s management consider international expansion attractive and even necessary. Most prominently, Danish membership of the European Union had made Brussels more important than Copenhagen in central areas of legislation, planning, subsidies, and trade. Second, the process of internationalization and globalization had contributed to instituting a much less regulated and more liberal business system in Denmark. A third motivation was the realization that agriculture and dairy production had gradually lost its importance for the Danish economy; dairy production had become just one among other export industries. And last, a general belief in the need for economies of scale and continued growth for all business had come to permeate the Danish business system.

Arla grew to become a large company, but the changes came not without failures and problems. In the decade from 2003 to 2013, Arla suffered from a more or less permanently bad reputation in Denmark. The reputation crises were closely connected to the idea of the co-operative movement as a special Danish and local way of doing business. Even though Arla was still structured as a co-operative, it had become everything the co-operative narrative traditionally had distanced itself from – an industrial multinational with monopolistic attitudes resembling the business practices of its capitalistic opponents.

The series of crises began in December 2003 when the small Hirtshals Dairy, located in northern Jutland, accused Arla Foods of exploiting its size to keep the Hirtshals Dairy’s products off the shelves of the major supermarket chains. This started a media storm against Arla. The Danish Competition Authority took up the case and charges were filed against Arla based on Hirtshals’ claims. On February 10, 2006, Arla was found guilty of engaging in unfair business practices on the national market and was penalized with the largest fine of its kind in Denmark. Hirtshals’ accusation in December 2003 caused a snowball effect and, in the months that followed, Arla faced fresh accusations in the media on a weekly basis. In the media, Arla was presented as a near-monopoly that exploited the dairy farmers, bullied the smaller dairies, and made the consumers pay too much for their products. Danish consumers started to boycott Arla’s products. Arla answered with apologies and promised to change. As Åke Modig, the CEO of Arla said in an interview in 2004:

Arla is a fantastic company, and we have good prospects to win next year’s battle for survival against the large dairy plants of Europe. But we also need to win the battle in Denmark. We have to teach the Danish population to love Arla.

(Arlas nye profil, Jyllands-Posten, January 18, 2004)
However, Arla was not successful in that regard. The consumer boycott prevailed and Arla’s market share in Denmark decreased by more than 10 percent. The problems at home came to influence Arla’s possibilities abroad. In December 2004, Arla declared that it would initiate “the largest business fusion in Danish history, which would create the largest dairy enterprise in the world” by amalgamating with the Dutch dairy plant Campina. However, the idea never became reality and the project was abandoned by the spring of 2005 (e.g., see “Spildt melk,” *Jyllands-Posten*, April 22, 2005). One reason was national conflicts between the managements of Arla and Campina but another was that Arla’s tarnished image at home had led to doubts within Campina’s management (Bigum and Kjelstrup 2007: 541).

Also on the international stage, Arla had to deal with reputation problems. In 2006, through a series of misfortunes, Arla became a central part of what came to be known as the “Danish Cartoon Crisis.” The conflict had started with the publication of twelve cartoons of the prophet Muhammad in the Danish newspaper *Jyllands-Posten* in September of 2005. This action was regarded as blasphemy and was denounced by Muslims in both Denmark and abroad. In January, religious and political leaders in Saudi Arabia called for a boycott of all Danish products. As Arla was by far the most important Danish business in the Middle East, the boycott became synonymous with boycotting Arla.

Though the crises of Hirtshals, Campina, and the Muhammad cartoons have different backgrounds, they were all placed in the tension between national and global concerns. The crises resulted in problems on the national market and had a negative effect on Arla’s global strategy. The structural development and takeovers that lead to the Hirtshals’ crisis was at least partly initiated by the pressure of international competition, the merger with Campina failed due to the national heritage of Arla, and the cartoon crisis had consequences for Arla both in the Middle Eastern market and in the Danish home market.

While Arla suffered from bad-will in Denmark, in Sweden it continued to be perceived as a high-quality brand. That was possible because Danes, despite the formal merger, still predominantly considered Arla to be Danish, whereas Swedes considered Arla to be Swedish. Both Danes and Swedes could at the time find support in empirical evidence: the Arla name came from the Swedish dairy which had been merged into the new Arla giving Swedes reason to consider Arla as Swedish, whereas Danes related to the fact that the company headquarters were located in Denmark. The logo and graphical design contained elements that could be traced back to the two national dairies, and Arla’s communication on national webpages in the years after the merger told stories with national angles. If you opened the section entitled “History” at the Danish webpage (Arla.dk), you would get a narrative that told the story of Arla as a company with Danish origin. When you opened the same section at the Swedish webpage (Arla.se) you would get a narrative that claimed that Arla, throughout history, had been a Swedish company. While Arla as a business on international markets acted as a multinational, in Denmark and Sweden they still legitimized themselves as national co-operatives, addressing the different national cultures and historical narratives.

Starting in 2008 Arla began to change strategy and merge the two cultures. First, it replaced the individual history sites at the webpages with one common narrative told in a short video with the plot “it started in Scandinavia and now we are a global company” (Arla Danmark 2010). By focusing on a shared Scandinavian heritage, Arla tried to tell its history in a way that could bridge national cultures. Furthermore, the company downplayed the heritage all together by painstakingly reducing the amount of information about the time before the merger in 2000. Today there is nothing but a short statement saying that Arla has its origins in Denmark and Sweden but that the “cooperative idea also flourished in other countries and through recent mergers cooperative owners in the UK, the Netherlands, Germany, Belgium and Luxembourg
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have joined Arla Foods. And we will continue to grow stronger” (Arla n.d.). This new type of storytelling reflects that Arla during the last years has developed into a truly global company and has decoupled itself from national identities. Between 2008 and 2016 Arla experienced rapid growth and nearly doubled the amount of milk processed (Arla Danmark 2008).

From FDB to Coop Norden to Coop Denmark

Competitive positioning was also at the core of the second case of a co-operative going global presented in this chapter. In 1997, the management of the co-operative FDB sought advice from the consulting firm McKinsey and Company as they saw a desperate need to improve their competitive position. In the late 1990s FDB acted as a wholesale organization serving the entire consumer co-operative sector in Denmark, but also acted as a retailer through direct ownership of the Fakta discount chain stores, the Irma supermarkets, and the majority of the Brugsen and Kvickly stores located in the larger cities. In addition, individual co-operatives existed with a stronghold in smaller communities. Since 1970 the focus of the FDB management had been on the national competitive situation and the problems in dealing with the main competitor, Dansk Supermarked. In the late 1990s the FDB management nevertheless feared that multinational competitors like Royal Ahold, Tesco, or Carrefour would soon enter Denmark and make the competitive environment even fiercer.

The McKinsey consultants concluded that FDB lagged seriously behind its rivals in terms of efficiency and in the ability to engage in swift decision-making. Thus, the consultants only confirmed the beliefs held by FDB’s professional management that the co-operative model had turned into an impediment for long-term survival: democratic governing bodies interfered in matters they had no professional understanding for, labor movement representatives hindered change, and individual co-operative societies served their own special interests rather than contributing to the competitive position of the entire consumer co-operative sector (Jensen 2016: 331–338).

To counter the challenge of globalization and solve the inherent organizational problems of FDB at the same time, the FDB management presented for its board of directors a merger with either Royal Ahold or Tesco as an attractive solution. The FDB board of directors should work to secure the competitive position of FDB, but at the same time they should represent the co-operative membership and the co-operative ideals. Therefore they were very skeptical toward a merger with a privately owned foreign multinational. They agreed with the management that drastic solutions were needed to keep the consumer co-operation competitive in the long run, but wanted to maintain co-operative distinctiveness. In that situation they favored a merger with the Norwegian and Swedish consumer co-operatives. It would create the economies of scale they believed globalization called for, set the stage for an organizational new-orientation, and at the same time make it possible to maintain a co-operative core (Jensen 2016: 339–356).

After long discussions, Coop Norden came into being in 2002 as a full-fledged merger of the business entities of the consumer co-operatives in Scandinavia. A new enterprise – according to turnover ranking tenth among Scandinavian firms – had been created, controlling 3,000 shops and employing 64,000 people. Coop Norden was organized as a joint stock company with FDB owning 38 percent, NKL in Norway 20 percent, and KF in Sweden 42 percent of the shares (Jensen 2016: 357). Coop Norden would handle the business activities, while co-operative member activities would still take place on a purely national basis. The movement would own a business but no longer run it. Coop Norden should be able to operate at a safe distance from co-operative members, who now solely could use their democratic right to appoint members to the Coop Norden general assembly which in turn elected the members of the Coop Norden...
board of directors (Ericson 2006). Still, it soon became apparent that Coop Norden as a business would not have an uncomplicated life.

Seen from the perspective of the FDB management, Coop Norden should solve the problems related to insufficient financial results and a threatening debt through the advantages of economy of scale, while at the same time securing a more stringent governance structure making it possible to respond to competitive pressure with more agility.

In addition to the Danes though, the Norwegians and Swedes also brought their own agendas into Coop Norden (Weiss 2009: 118). In Norway, NKL had remained a wholesale organization and was not running shops on its own. For them, Coop Norden should ideally work only to secure common purchases in order to reduce costs (Lange 2006: 572). Seen from a Swedish perspective, Coop Norden should similarly improve the competitive strength of the consumer co-operative movement, but it was also of pivotal importance that co-operative distinctiveness was kept alive in the process. In Sweden, co-operative heritage proved to have a slightly different meaning from its meaning in Denmark. The Danish consumer co-operative movement had from the outset navigated a tension between a rural co-operative tradition with producers’ co-operatives like dairies and slaughterhouses and links to the liberal party on one side, and workers’ co-operative movements with a stronghold in the larger cities and links to the social democratic party on the other. At least in the assessment of the Danish born Coop Norden chairman, Ebbe Lundgaard, that proved not to be the case for consumer cooperation in Sweden, which he came to see as too closely associated with the social democratic party (Weiss 2009: 123).

For the FDB management the primary vision for Coop Norden was to improve competitiveness and Coop Norden’s first year did not prove convincing in that regard. Therefore Ebbe Lundgaard was glad in 2003 to present the Swede Svante Nilsson as the new Coop Norden CEO. It was assumed that Nilsson would speed up the integration process to position Coop Norden “clear-cut and strong in the market-place” (Gamelby, 2002). Svante Nilsson came with experience from ICA, which for long had been the main competitor for the Swedish consumer co-operative sector. Nilsson knew retailing, yet the Swedish members of the Coop Norden board came to believe that he sacrificed co-operative principles in the process of making Coop Norden a profitable business. Hence Svante Nilsson, to the frustration of chairman Lundgaard, was fired in 2005 by a majority vote of the board. As stated at the time by Börje Fors from KF, “what is right for a capitalist isn’t always right for a co-operator” (Berlinske Tidende 2005).

Both the conflict concerning Nilsson and the different views on the political implications of the co-operative heritage illustrated that divergent understandings of the role of a “third sector” in the economy existed between the partners. In both Denmark and Sweden co-operative business had become entwined in broader national cultural understandings, which problematize the notion made by the ICA about the shared core of the co-operative sector. The ideological non-alignment made it difficult to create international co-operative business (Ekberg and Jensen 2018).

At the same time as discussions were taking place in the Coop Norden governing bodies concerning ideology, it became clear that globalization was not reshaping the Nordic market for grocery retailing the way co-operative managers had envisaged. Consumer taste remained highly differentiated across borders making it much more difficult to reap the scale advantages that Coop Norden’s vision rested on. Privately owned retail chains to a large extent came to the same conclusion and still today national players dominate food retailing in the region (Ekberg and Jensen 2018).

A flawed understanding for the impact of globalization on retailing combined with ideological disagreements in 2005 made it clear that Ebbe Lundgaard’s and the FDB management’s vision for a strongly integrated Coop Norden had to be buried. Lundgaard stepped down to a position as vice-chairman, while Nilsson’s successor reinstated individual management in each
Scandinavian country. In 2006 it became clear internally that Coop Norden did not have a future, and in 2007 Coop Norden was formally dissolved. The consumer co-operatives in Scandinavia went back to being solely national in their orientation (Jensen 2016: 357–373).

To explain the survival of an isolated consumer co-operative in Australia, Balnave and Patmore (2015) stress the ability of the co-operative to engage with the local community. Local engagement was not seen as a strength, however, for the consumer co-operative leaders in Denmark. They believed globalization called for economies of scale and clear-cut strategies laid out by well-informed managers with retail competences rather than strong feelings for a co-operative heritage. After the failure of Coop Norden the value of local ties has at least to some extent been rediscovered in the Danish consumer co-operation, which has been able to maintain its position as market leader despite the Coop Norden failure and the vanished ambition for becoming a maker of global business.

Conclusions

The co-operative business form is an interesting case of nineteenth-century globalization, and how globalization historically has emerged with unintended consequences. The cooperative societies were in their origin responses to local problems, but from its roots in Rochdale the movement swiftly spread geographically and beyond retail into other sectors. The co-operative movement also created global institutions such as the ICA and NAF, while the wholesale organization of the British consumer co-operative movement established its own network of offices throughout the world to secure supplies. And still in 2013 it was estimated that worldwide more than one billion individuals were members of a co-operative (Worldwatch Institute 2012).

Despite the failure of Coop Norden, both Arla and Coop today stand as strong examples of the continued importance of co-operatives in a global era. The two examples nevertheless also illustrate how co-operatives became embedded in national cultural contexts thereby problematizing the prominent view held by the ICA that the co-operative sector rests on common ground. The entwinement between national cultures and co-operative ideology became an impediment when co-operative leaders wished to become makers of global business. Further research is needed on whether this local embeddedness played a more crucial role in the Nordic setting than elsewhere because the co-operative sector here was seen as crucial for modernizing entire nations.

Both Arla and Coop rest on a long and influential heritage. The heritage proved not to be a total advantage around the turn of the new millennium. Both co-operatives tried to respond to a new competitive situation with mergers, fast growths, and economies of scale. Mergers were for both also seen as a shortcut to decouple the movement and democratic part from the business side, and to ultimately give more autonomy to the business side. More freedom to pursue strict business logic was seen as pivotal in an era of globalization. As such it can be argued that they became makers of global business more out of a defensive and adaptive strategy than an innovative one. When international partners were needed they were found among the co-operative’s long established “friends.” Yet in the merger process the new companies had a tendency to isomorph and become difficult to distinguish from their privately owned counterparts.

Arla and Coop do however differ in how they handled the ambiguity between national and global. Arla’s strategy was in the long run successful, while Coop Norden’s proved to be a strategic mistake. The starting point was in many aspects similar. The nationality and national roots of the co-operatives was a challenge in both mergers, even though the mergers took place between partners within Scandinavia that had a long established tradition for collaboration. Three elements might explain the different outcome. (1) They acted in different sectors with
different commitments to global markets: more than 80 percent of Arla’s products are exported to markets outside Denmark and Sweden. The purpose of the merger was to expand the market share on the international markets. Coop is much more embedded in the national market with many local suppliers, and its turnover is secured through indigenous shops. The main argument behind the creation of Coop Norden was thus to protect domestic markets. (2) Arla’s merger was in a business sense developed step-by-step, starting in 1995. In contrast, Coop Norden was created at a time when the Danish and Swedish consumer co-operatives were in crisis and needed fast results. (3) The Arla merger was downplayed in terms of cultural consequences making it possible for both Swedes and Danes in a period of transition to consider the firm respectively both Swedish and Danish. On the structural side though, the Arla merger was done wholeheartedly from the outset with both the business and the association side merged into one organization. At Coop it was the opposite: only the business side was integrated, while national bodies continued to exist on the association side. As challenges were encountered, that made it difficult to agree on a clear-cut strategy. National interest continued to dominate between the owners.

Both Arla and Coop became makers of global business, but only Arla proved able to sustain its business as a multinational entity. We have in this chapter highlighted some of the possible reasons for that. A few of these are related to the co-operative ownership structure, but just as important is the historically created legitimacy. This requires a management that not only possesses a huge historical and contextual knowledge, but also has the skills to handle and use this past for present purposes.

Note

1 This chapter draws on previous research done by Mads Mordhorst and Kristoffer Jensen, most importantly: Mordhorst 2014; Jensen 2016; and Ekberg and Jensen 2018.

References

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