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Collaborative innovation in co-operatives in traditional industries: Summary of main findings.

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This is a summary of main findings from the exploratory study entitled "Collaborative innovation and the role of entrepreneurial co-operatives in traditional industries" and funded by the University of Auckland. This summary has been prepared solely for participants who contributed to the study and should not be cited or circulated without prior permission.

The study is part of an ongoing research program on innovation and growth of New Zealand co-operatives and mutuals. We welcome comments, inquiries, and additional participants to share their views on the subject.

We acknowledge that the findings might not resonate with the experiences and views of all participants and stakeholders.

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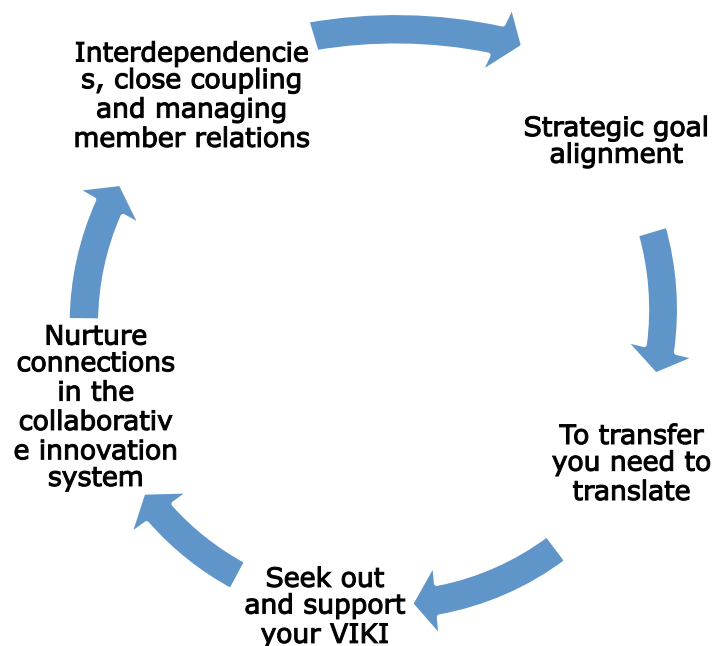
Executive summary

This is a summary of the main findings from the exploratory study entitled *Collaborative innovation and the role of entrepreneurial co-operatives in traditional industries* funded by the University of Auckland.

The purpose of this study was to explore *how cooperative structures support knowledge sharing and innovation among co-operative members and other organisations* and to understand *what knowledge-based processes support innovation*.

This report provides a summary for participants of the five main findings, which can be summarised as follows:

1. Interdependencies and close coupling between strategy and innovation require new approaches to managing member relations.
2. Focusing on strategic goal alignment can bring members on board with the market strategy.
3. Effective knowledge transfer often requires processes and mechanisms for translating of knowledge.
4. Seek out and support your VIKI: Very Important Knowledge Integrators.
5. Nurture connections in the collaborative innovation system – building new connections and strengthening existing ones with and between members.



Introduction

The purpose of this study was to explore *how cooperative structures support knowledge sharing and innovation among co-operative members and other organisations* and to understand *what knowledge-based processes support innovation*.

In the context of understanding the nature of innovation and growth in New Zealand's traditional industries, the motivation for the research was to shed light on *the characteristics of entrepreneurial producer co-operatives*, since these are important organisations in New Zealand's agriculture and horticulture sectors, and to assist current and future co-operatives understand *what knowledge-based processes can be used to support innovation*.

We completed four cases of entrepreneurial producer co-operatives. We completed 52 face-to-face interviews across the four co-operatives. The interviews captured the perspectives of current and previous board members, senior managers, employees and co-operative members, and non-member suppliers. Some participants offered multiple perspectives, such as member-shareholder and co-operative employee, or previous senior manager and current board member. 44 of the 52 interviews involved two or more members of the research team, which helped us to check the accuracy of our interpretations. In addition to the interviews, we used information about the co-operatives and the sectors which were in the public domain. Our analysis is based on findings from the common themes across the interview and public data that pertain to knowledge processes that support innovation, entrepreneurship and co-operative structures.

The following provides a summary for participants of the five main findings, which are summarised in the rest of the report:

1. Interdependencies and close coupling between strategy and innovation require new approaches to managing member relations.
2. Strategic goal alignment; bringing members on board with the market strategy.
3. Translate knowledge if you want to transfer ideas.
4. Seek out and support your VIKI – Very Important Knowledge Integrators.

Nurture connections in the collaborative innovation system – building new connections and strengthening existing ones with and between the members.

1. Interdependencies, close coupling and the consequent change in the approach to managing member relations

It should not come as a surprise that in all the cases of innovative and market oriented producer co-operatives, the recognition of the interdependencies between the co-operative and its members was rather high. The results confirm that, to succeed, the *interdependence* needs to be recognised by both sides. Across the cases this was exhibited in two particular ways:

- The co-operatives' management repeatedly *acknowledging* that the quality and success of the product is closely related to the quality of the ingredients supplied by the members.
- Members *acknowledging* that they are responsible for the quality and consequently success, of the final product. Feeling responsible for the final product rather than thinking only to the farm gate, and being part of the bigger picture was an important factor affecting collaboration, communication and performance.

There's a continuum in that kind of conditions of supply (and) there are some things which we say, this thing is a condition of supply, because it's required by the regulatory authority in New Zealand. But there are other things that we do as a co-op, which become more at the discretion of the co-op. And they then take a little bit more effort and time to communicate the reason why we want to do the things that we choose to do, rather than the things that we have to do. And most of that has really been trying to make sure that we've had good discussions with the board (and members) about the logic and the reason why.

This recognition of the interdependencies translated into some important changes in the way the relationship between the co-operative and members is managed.

- *Setting up dedicated member relationship management function*: this is an important role that involves two-way communication between the members and the co-operatives. These are often the VIKIs (see point 4). *Expertise and experience* in the area of operations of member-supplier is important as it speaks to the members.
- *Increased transparency and sharing of information*: both market and technical/operational information. Co-operatives' management - ensuring that members know what is going on and why, and that members are being transparent about how they are doing, what bothers them and about any new ideas and improvements.

- *Differentiated management of members*: recognising that members differ in terms of their size, performance or innovative capacity helped successful co-operatives to develop formal and informal structures to work with, and utilise, the different groups. This includes facilitation of mentoring among members (e.g. organising smaller scale events for knowledge sharing and ensuring members are not intimidated to share their experience because of the number of people in the room – or in front of the ‘top performers’), ensuring that communication is tailored and effectively delivered to all members (e.g. developing different communication channels and strategies for different groups of members) or utilising innovation capacity of some members (e.g. devolving some trials or experimentation to willing and able members).
- Keeping direct and unbarred lines of communication for members to be able to reach the top management team. The ability of any member to directly reach the CEO or any other of the top managers came up as important in a number of interviews with members and managers. It was associated with a greater trust, but also demonstrates the ‘co-operative ethos’ in a more practical way, further highlighting the close coupling and interdependencies. Members generally criticised the need to go through additional hurdles or ‘gatekeepers’ before being able to reach the management. Management of the most entrepreneurial oriented co-operatives also recognised the benefits of the ‘open line’.

I think it's a major part of my role, interacting with growers, because they are the motivator in achieving good performance. They are the driver, you're not working for a corporate, and you're working for your grower client base. So if you do well and achieve good results, they do well. And I think they understand that, and that's why they, as part of the co-operative have confidence in us or our ability to get them good results. I guess that's the basis, it's important to me that they have confidence in us.

Their (management team) numbers are upfront in the newsletters and things, so, in their book, so if they want to contact them direct, that's fine. Yes, no issue. They (members) can contact anyone they want to contact. And CEO made it quite clear at AGMs and district meetings that "if you want to talk to me, I'm available. So if I'm not available at the time you call, I will call you back if you leave me a message". And she will...

2. Strategic goal alignment: Bringing members on board with the market strategy

What we mean by strategic alignment is investing in members becoming more attuned to and supportive of the co-operative strategy and goals. This means recognising the interdependence between the market and the co-operative's and its members' business strategies. Consequently, this involves the co-operative and the members adjusting some of the operations and strategic goals of their own businesses. This often included significant changes in members' behavior in relation to operations (e.g. focus on certain product parameters, choosing solutions that supported the image of the final product etc.); changing their understanding about the final product, and becoming more tuned to the market signals.

Such alignment was achieved through a combination of:

- Consistent and continued communication and rationalisation of the strategic goals of the co-operative: For example, CEO strategic roadshows with ample opportunity for discussion with the CEO, and TMT and Board members.
- Clear and consistent explanations about the implications of co-operative's strategy on members' business operations, using a range of communication mediums. For example, key messages from presentations repeated in internal newsletters and emails, using straightforward language.
- Revising payment structures to shift focus on desired product attributes, such as quality, taste, and timing, needed to execute the co-operative's strategy.
- On the ground support (on-farm, on-orchard) to assist members towards making necessary changes to their business operations. For example, translating general scientific evidence into applicable knowledge of the local context.
- Educating members on how different markets operate and how that translates into changes required by the co-operative and in members' operations; one of the most effective techniques involved sending members to foreign markets to meet the customers or bringing market representatives to the members' premises.
- Exposing and engaging members in strategic decision making for the co-operative through various types of committees. For example, quality and sustainability assurance committees.

People being able to hear first-hand two or three times a year how Poland's going, how's the new market launch in Czech, how are the guys going in the Europe office. And you know, it's amazing, you physically watch how shareholders sit and respond to that, and they'll lean forward; they are fascinated with what's going on.

Kind of tightness of focus, probably allows that sense of understanding and coupling between what the consumer needs and the market needs and what the shareholder producer does is pretty tight.

Generally, what we've tried to do as an approach of just saying, 'let's not land this [idea] cold on the shareholders on Day one'. Where we can, and we're thinking these things through, let's start to talk about what the market might be expecting, what consumer expectations might be, what the public expectations and interests might be, and go through that. And then so this 'thing' is coming, so you can get some of the subtle things around animal management practices.

3. Translate if you want to transfer

Transferring knowledge, be it scientific findings and recommendations, market reports, or new environmental requirements, proves to be a hard task in most organisations. Co-operatives are no different and the specific supplier-member-owner relationship between members and the co-operative can add to the complexities.

We found that the most effective knowledge transfer was related to various 'translating' processes in place. In the simplest terms, translating can be described as ensuring that there is a shared understanding between the knowledge sender and the receiver, in this case the co-operative's operations and management and the members. As simple as it seems, this is often not the case as communication can be incomprehensible due to differences in vocabulary, technical jargon, different perspectives, and systems of values or goals.

We identified a number of translating processes that assist knowledge transfer between the co-operatives and the members. These processes included intentional structures, such as liaison staff roles, and committees with mixed membership of staff and members, as well as informal structures, including, the 'information grapevine' and individuals who acted as boundary spanners.

I guess that's where it's quite nice with [the co-op] if they can filter what we really need to know, sort of on a bit of a need-to-know basis and they hang on to the rest of that other information, and they can summarise it and send it out in terms of what's actually really pertinent for us at the time. (...) We would prefer that, wouldn't we?

We tend to ring A and B and just kind of go look, we've got conflicting information going on here with various publications and where are we at with that? So you know, you end up going back to them and relying on their expertise.

In the case of co-operatives, the processes often involved:

- *Filtering* and *tailoring* the type and amount of information that is 'pushed' down to particular groups of members.
- *Modifying* and *extending* information according to the groups of recipients. This often meant simplifying the technical (e.g. scientific, marketing or management) jargon, using relevant metaphors and examples or *providing additional information* for (some) groups of members.

- *Highlighting the coupling* by continuously providing a clear and meaningful explanation about why this matters and how this will impact on the members' and the co-operative's business in the future. It was most effective when technical staffs and top management's translations used consistent language.
- *Facilitating discussions* were recognised as important too. Members and co-operative staff both highlighted the difference between reading something and having a meaningful discussion about what it actually means and how it translates into their particular contexts. Participants were unanimous that small group and informal discussions are more effective as they can foster trust and allow for more open dialogue. These discussions, when facilitated well, proved to signal early any potential upcoming issues, giving staff time to address these.

I try not to disturb the message but the message from the top is technical: if I try to explain it to members so they can understand it. So I always try to highlight pros and cons, explain how to benefit from the ideas. For example – what is the best timing to do it.

It's sort of, it was kind of an idea that we had that we would be able to maybe go out into the field and do a quick two minute demo on something and load the video and people can watch it or we would do a field day and we have got lots and lots of good footage where we have a video camera. We've gone out to some very, very good field days where we've had guest speakers coming in and people are not always able to make it for various reasons.

4. Seek out and support your VIKI

Translating knowledge is important and there were a number of mechanisms, but people played a crucial role in the process. We refer to people performing these knowledge translation processes VIKIs: *Very Important Knowledge Integrators*. Beyond the case studies we tested the VIKI concept in a discussion with 18 co-operative staff and members during at a two-workshop. Their feedback confirmed the initial concept highlighting that there is almost always a VIKI.

One of the issues that we found in the case studies and at the workshop, however, was that this role was often not officially recognised or supported. Managers were not sure who or what was their VIKI.

In the previous point we listed some translating processes and mechanisms that aided transfer of knowledge. Despite sounding as relatively simple and straightforward, these are not necessarily easy to master. Staff that perform VIKI roles would benefit from additional support and training.

I had to start wearing a lot of hats, which I just don't fit really, because I can't put them all on at one time. So I got really busy, doing audits [formal role] and coming in here [the office] and then having to understand the business and everything that goes on in production side. Once the milk left the farms, pretty much that was the end for me. And now I have to say, 'oh, this is all these policies and stuff that we have to put in place', you know? What I found out was there [the processing plant], they never goes on the farms. I mean, but they were running the tankers and things like that, and had been with the co-operative for a long time. So there's really nobody that was in the business that actually really went onto the farms, besides tanker drivers...So you know there was no connection there, the policies were being made for these guys [the members], and no one was actually seeing what's happening on farm, you know... And so pretty much me coming in was the start of getting other people on board, other industries on board, to help out.

5. Nurture connections in the collaborative innovation system

Innovation continues to become much more distributed and many organisations - including co-operatives - increasingly rely on a range of strategic partners to innovate with. Collaborative innovation is predicted to increase since the innovations with the potential for radical and discontinuous change usually develop in other industries. Pursuing such opportunities requires new and existing connections to be nurtured.

But, innovations originating from the outside can be difficult to implement: unwillingness to consider ideas¹ or lack of ability to search out, assess, and assimilate idea from outside the organisation² can pose major barriers to collaborative innovation.

There is no difference in co-operatives and we found that devolving some of the innovation efforts to the level of members can be a very effective strategy for bringing outside ideas inside the co-operative. This is for the following reasons:

- Members know the best their business and some of them are also pretty innovative, particularly in regards to on-farm and on-orchard innovation. Co-operatives can utilise their members' innovation capabilities through encouraging innovation and facilitating support structures. For example, setting aside a part of the R&D budget for member-driven experimentation, connecting members with a relevant scientific base, disseminating the scientific and practical outcomes of member-driven experiments.
- Setting and communicating clear boundaries around how and where experimentation can support the co-operative's strategy. This is important as no one – members and management alike - wants to compromise the core value of the co-operative's products.
- Engaging in experimentation/R&D can increase members' ability to search out, assess, and assimilate ideas from the outside into their own businesses. They also reported being more engaged and confident to participate in discussions about the co-operative's R&D activities. Furthermore, faster adoption of innovations that are developed by members and have proven scientific support have benefits for members' individual businesses and the co-operative as a whole.

¹ Referred to as Not Invented Here syndrome.

² Referred to as Absorptive Capacity.

They initiate ideas themselves as a rule. We may get the odd one. We had a member build a new facility, about two years ago. But she was quite interested in robotics. So she phoned to see what we could find out about robotics... And I contacted my contacts in some companies who'd done some work with robotics and he sent me all the information and I sort of passed it on.

But three or four of these members just said, look, so excited by it all, they just, just keep it going themselves. So they are going to do a sort of mini replica of the study, and they said, 'oh we accept that there's some risks, but we're going to do some more'. And it's all exciting.

So they're saying 'can we borrow some of the equipment that you guys have got for the pilot trial? We're saying, 'well the co-ops pay for it, of course you can'. So they've just gone off and got more going on, they've pushed it, pushed the edges of the boundary more than we would have done.

