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Entrepreneurial Decision-making in Cooperative Organizations – Theoretical Implications of a Case Study Research*

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Summary. Cooperative organizations face the problem that decisions concerning innovation activities are not made in a single enterprise but have to be made at the members' and the cooperative's level as well. Therefore the question arises how these processes of decision-making are made. In our case study we investigated a cooperative for bakers. In doing so we constructed an idealized model of processes of innovation in cooperatives. This model is illustrated by three practical examples of innovation in the past. Finally, we conclude our analysis with a concept of communication of knowledge in cooperative organizations.

Key words: Process of innovation, cooperative organization, communication of knowledge, case study research

1 Introduction

In the context of innovation activities, the process of developing new products and their implementation in the internal structure of the organization requires communication of knowledge and decision-making

* This paper is a shortened version of a more detailed German working paper (Brunner and Voigt (2007)) which is available at <http://mpra.ub.uni-muenchen.de/2892>.

on different levels of the cooperative network. Both processes on the one hand take place at the formal bodies of the cooperative enterprise (board of directors and supervisory board) but on the other hand also at the level of members and member enterprises respectively. The functions of entrepreneurship are therefore no longer limited to a single firm but are divided into different parts within the cooperative network. Therefore the divided entrepreneurship is leading to another source of frictions and to additional conflict potential within the process of innovation.

In our paper we address the question how the required knowledge of the market can be perceived and incorporated in the complex structure of cooperative organizations. Furthermore we intend to point out the consequences for the underlying decision process by using the method of case study research to analyse various processes of innovation within a cooperative for bakers. This paper builds on the evolutionary economic literature (for an overview see Nelson (1995), Nelson and Winter (2002)). From this extensive range of evolutionary economic literature we particularly refer to those papers which focus on undetermined results of competition processes. An uncertain economic environment rises the importance of entrepreneurship, because the entrepreneur wants to gain advantages over his competitors through his individual entrepreneurial activity. Therefore competition can be characterized by first and following mover activities (Fehl et al (2007), Fehl (2005)). The recent research on entrepreneurship and cooperatives we which build upon (Fehl et al (2007), Brunner (2006)) emphasizes the importance of systematic communication between the cooperative and its members to avoid frictions in the process of decision making.

This paper is organized as follows: In the next section (2) we introduce our case study methodology as well as the visited cooperative. In section 3 we propose a modified process of innovation. The results of our case study are presented in section 4. Finally, the last section (5) contains some conclusions and theoretical implications.

2 Methodology and Data

The main objective of this study is to provide a modified understanding of the conditions of creation of knowledge and the meaning of communication of knowledge in cooperative entrepreneurship. The methodical approach of the paper is related to the idea of theorizing by means of case study research (Eisenhardt (1989), Yin (2003)), which allows explorative insights into a new field of research. For these purposes

we visited a cooperative for bakers (so called “Bäckerei- und Konditorengenossenschaft” or in short BÄKO) and three member bakeries. The BÄKO is located in the south of Germany and has about 550 member bakeries. The annual revenues are around 70 million Euro. The main products are preliminary products like flour, machinery, financial and consulting services. In addition to these four interviewees we consulted another baker who is member of a different cooperative. We interviewed the BÄKO’s managing director and the member bakeries. The interviews lasted between 1.5 and 4 hours and took place in September 2006. The market for bakeries in Germany can be characterized by a low level of technical innovation and strong competition due to large food retail companies which offer bakery products as well and discount bakeries.

In our case study we tried to find out how the communication and decision-making works within the cooperative. For the present analysis we had a closer look at the formal and informal institutions: The BÄKO is a member of a regional BÄKO center (“BÄKO Zentrale”) which is responsible for the branding, serves as a central warehouse and organizes communication processes between the individual BÄKO’s working committees on specific topics. Beside the formal institutions like the managing board, supervisory board and general assembly the BÄKO’s sales force plays an important role because during their nearly weekly visits they help to communicate the cooperative’s strategy. An informal institution which has to be mentioned is a room within the BÄKO’s premises which is used by the local guild. In addition to their regular meetings both bakers and staff members of the BÄKO meet informally afterwards.

The member bakeries can be divided into two groups: On the one hand there are *active members* who experiment with new products, keep an eye on the market developments and often serve as pilot bakers. On the other hand there is a group of *passive members* who often have to be advised of market trends and new products. These two groups represent the classification which can be found within the evolutionary economics, where there are groups of initiative and imitating entrepreneurs and initiative and conservative actors respectively (Heuß, 1965, p. 9).

3 The Idealized Innovation Process

Mainstream-oriented models of processes of innovation divide into three phases: generation, acceptance and realisation of ideas, Thom (1980). In

this tradition processes of innovation are often seen as linear-sequential processes. It has to be pointed out that normal innovation processes do not follow a strict linear pattern. Quite often feedback processes take place like in the classical chain-linked model of Kline and Rosenberg (1986).

We use these thoughts as a starting point for our analytical framework which tries to incorporate the fact that not only one enterprise is involved in the process of innovation but a number of member enterprises beside the cooperative as well. Therefore the members serve on the one hand as source of the innovation (due to their feedback and impulses). On the other hand they can be seen as the recipients of the innovation because they have to implement the innovation in their local market. Due to the fact that within cooperative networks innovations do not represent a one-shot-game, the members are able to feed back their experiences in cooperative institutions. Thereby a circular process concerning the discovery of the new knowledge arises at best.

Following the above mentioned argumentation we introduce a modified concept of the standard process of innovation with six idealized phases:

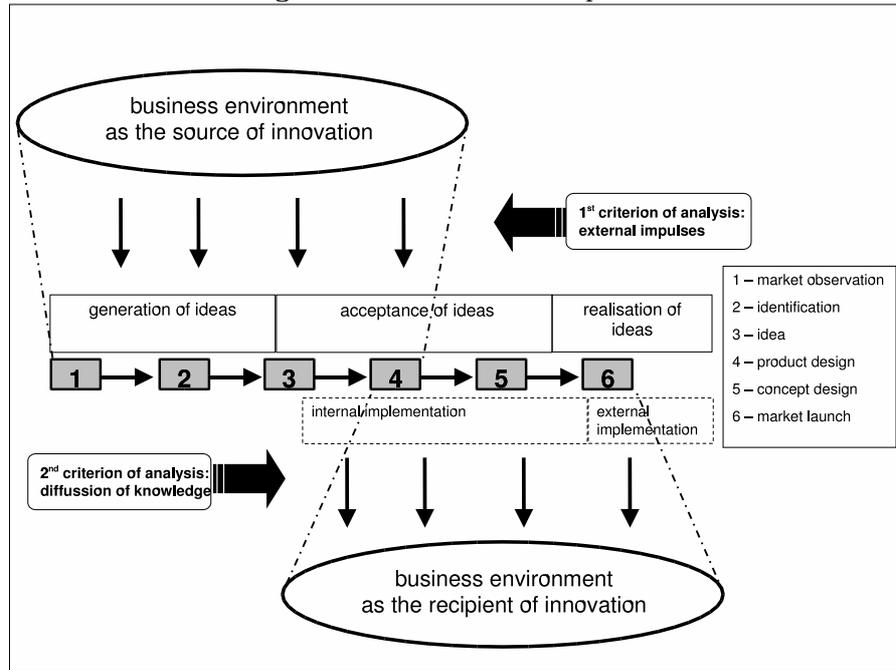
1. *Market Observation.* During this phase an extensive market research is performed either by the cooperative and member enterprises themselves or through studies from specialized research companies as well. Furthermore internal controlling instruments can be used to detect trends.
2. *Identification.* The second phase is characterized by an extensive observation of the enterprise's environment. Thus leads to the discovery of new knowledge concerning the market. The already above mentioned internal controlling instruments may be used for this as well. During this phase most of the ideas are generated primarily within the cooperative.
3. *Idea.* During the third phase the decision process begins. It is initiated by the cooperative and the members respectively. Therefore the innovation idea diffuses to some extent between cooperative and members.
4. *Product Design.* The product design is often created together by the cooperative and pilot members. Within this phase the impulses of knowledge originated in the enterprise's environment and the transfer of knowledge into this environment overlap each other the most.
5. *Concept Design.* When the creation of the product design is completed, the cooperative usually develops the concept design, which

consists of marketing instruments, prices, finance concept etc., by itself.

6. *Market Launch*. Within the last phase the innovation process is completed by the market launch, which means that the innovation is realised by the member bakeries on their local market.

A schematic representation can be found in figure 1.

Fig. 1. Idealized innovation process



The phases 1 to 3 correspond to the generation of ideas, phases 4 and 6 to the acceptance of ideas and phase 6 to the realisation of ideas. The above presented process does not separate the development and design phase (only at enterprise level) from the diffusion process (only at market level). Instead the process gears to an interdependent relation between business environment and cooperative.

4 Results of the Case Study

In the following, we are going to connect the concept of innovation process with some results of our case study research. Thus, we intend

the illustration of concept of phases by means of three practical examples which also indicate three different types of innovation. In this regard, the area of snack bakery products shows typical characteristics of a product innovation. The new acquisition of gastronomy cafe automats, however, is merely associated to the conditions of process innovation, since its main product “cafe to go” is of higher quality than the traditional filter coffee. Yet, a new product has been emerged. Both renewals are already in the phase of realisation. Finally, we understand that the change to organic bakery products has the character of a more comprehensive systemic innovation. All phases of the concept will be treated in detail when presenting the snack area. Coffee and organic pastries, however, will only be contrasted in terms of their similarities and differences to the snack area.

4.1 Product Innovation: Snack

Market Observation

In the perspective of the cooperative, the area of frozen bakery food is considered an important complement, especially for small and medium-sized members, since it gives opportunity to round off their range of products. The cooperative gathers information about the market by own market observation on the one hand and by involving the working committees of the BÄKO center on the other hand. This has been achieved by an extensive analysis of consumption studies concerning general consumer trends rather than certain snack products. Thus, the subjects of observation are the consumers’ trends, but also the customers of the members. Also in this early stage of innovation process, the members were regarded as the recipients of innovation when advising them of these trends.

Identification

Based on the general consumer trends, the members examine their local market regarding variations and alterations in the snack area. A successful compilation of different snack products strongly depends on the structure of the customer base. Thus, each member is supposed to find out his individual intermixture of snack products in their range of products. In respect to the identification of market potentials we found a differentiation between active members (pilot baker) and those benefiting from an innovative idea as a pure addressee of innovation (passive member). The first category is clearly involved in the early

stages of product development, whereas the latter only receives the subject of renewal and then tests its application at a later date (i. e. when the snack product is incorporated in the range of products of the cooperative).

Idea

From this mixture of different impressions of the further phases (by means of direct observation, inquiry, information of the BÄKO center, gathering and analysis of information) the members gain knowledge, under consideration of their technical restrictions, of the applicability for their own purposes.

Design

The fourth phase can be divided into two parts: product design and concept design. The latter does not play an important role in the snack case because of its character of product innovation. In this context, no particular financing or marketing conception is required. The arrangement of products for bakeries is a very individual matter and takes place through two different ways; on the hand those pastries that are produced by the bakery on its own and on the other hand frozen products ordered from the cooperative that can be slightly refined by the members.

Market Launch

In the snack example the last stage is not very complicated. Normally, those new products are produced in small quantities and offered as renewals to the customers. If successful, the new snack products get included into the sales programme of the cooperative for the time being.

Feedback Processes

The cooperative gets informed about success und failure in the snack area of their members by sales force as a formal organizational institution but also by informal institutions. When identifying a particular successful snack product for example, the members have the opportunity either to adopt the cooperatives' new article to their individual programme or to gain knowledge of the underlying production processes. Furthermore, those experiences will be the subject of a feedback process at the level of the BÄKO center if the individual expert knowledge is discussed in the different working committees. The continuing development of the snack area strongly depends on the ongoing observation and variation of the members in order to meet the customers' needs.

4.2 Process Innovation: Coffee

The second practical example and case study result includes coffee for consumption at the bakery shop as well as “cafe to go”. The process of change is characterized by a new acquisition of gastronomy cafe automats instead of conventionally brewed coffee. This means a considerable investment volume for small and medium sized bakeries and shows typical conditions of a process innovation. In the first phase, the cooperative observed the general trends of convenience and ready-to-go food and especially “cafe to go”. Simultaneously, on the level of the members we found an active observation of the competitive environment, for example coffee roasters nearby. Thus, a mutual enrichment of knowledge takes place. The stage of internal implementation, however, was heavily promoted by the cooperative. For this purpose, sales force has made great efforts in order to diffuse the idea among the member base. Additionally, members of the board used the informal institutional frame of the organization in order to persuade the members. The design was basically limited on the concept dimension rather than on the product dimension. In detail, the concept design consists of the appropriate selection of coffee automats, financing, consulting, marketing and courses of instruction. Nowadays, the phase of market launch of this process innovation is merely completed and can be regarded as standard equipment of a modern bakery.

4.3 System Innovation: Organic

In contrast to both aforementioned examples, the third case is not concerned with an innovative restructuring process regarding singular product developments (product innovation) or crucial processing procedures (process innovation) but rather with a renewal process of a more general character. The integration of pastries with organically certified ingredients into the range of products or its complete conversion influences the adjoining inter-organizational interfaces of the value chain to a much greater extent (our understanding of the notion of system innovation). This is due to the fact that organic products must comply with specific requirements concerning the underlying processing procedures. The early phases of the innovation process were primarily characterized by a general market observation and by identifying a general and long-run trend. In contrast to the snack example, we found no importance of impulses coming from the members’ base. Instead of that, the higher levels of the cooperative network system were keen to answer the question of how to make the bakery handcraft part of the boom in organic

food. Members are just involved in the development process as far as they are part of the official decision body of the cooperative (executive board, and especially members of the supervisory board). In this example a couple of conflicts occurred between the member bakeries and the cooperative, because several members fear that the quality of their own products compared to the one of organic food may be regarded as inferior by the customers.

5 Conclusion and Theoretical Implications

To sum up, the main results of our case study are the following: The above presented examples show that the developed idealized process of innovation already exists in practice. It has been evident that the communication processes are crucial for the success of the processes of innovation. The complexity and scope of innovations could lead to frictions or conflicts as observed in the organic example which as well showed the complexity of system innovations. Therefore cooperatives should look for regulations to solve those conflicts.

The case study helped us to get a deeper understanding of the processes of innovation in cooperative organizations. We think that further theoretical research should incorporate the following points: Communication of knowledge could occur through *three channels*: 1. The cooperative can achieve the necessary knowledge about the member's market by *direct market observation*, 2. by *monitoring the cooperative connection* (i. e. by monitoring which products have been ordered by the member bakeries), 3. by *direct communication* with the members. Given those three channels one could question what determines the usage of the three channels and what could be good criteria for an efficient use. Subsequently, arising conflicts should be settled by an appropriate organization of decision-making. In our practical examples we could observe a wide range of different usage of the channels e. g. more direct market observation in the organic example, intensive direct communication in the coffee example. Based on these examples the hypotheses arises that the usage of the channels depends on the dynamic of the involved markets that is to say the dynamic of the involved markets can be identified as one driving force of the usage of the three channels.

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