


Please cite the Published Version

Kuznetsov, Andrei and Kuznetsova, Olga  (2020) The Power of Social Enterprises: Cooperatives as Partners of Multinational Firms in the Post Pandemic Recovery. In: Covid-19 and International Business: Change of Era. Routledge Frontiers in the Development of International Business, Management and Marketing . Routledge, London. ISBN 0367623242

Publisher: Routledge

Version: Submitted Version

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Globalisation in the Post-pandemic World: The Participatory Economy and Multinationals

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The last few years have been marked by growing scepticism in the wide strata of the population across the world towards the process of internationalisation and its consequences reinforced by concerns caused by the depletion of natural resources and human-induced climate change. The UK leaving the European Union following a national referendum, President Trump pushing forward a populist protectionist agenda in the USA – these are just two conspicuous manifestations of the prevalence of this mood in different parts of the world. COVID-19 has been the latest development that in the minds of many has emphasised the dark side of internationalisation leading to greater uncontrollable consequences of interdependence between territories and nations and exposing people within nation-states to forces that appear as alien, overpowering and therefore sinister and threatening.

These changes create a challenge to multinational corporations (MNCs) that are seen by many as the main protagonists and beneficiaries of the globalisation. The economic crisis caused by the coronavirus pandemic is likely to change the business environment in countries around the world in a way that is difficult to predict with any certainty. There is a strong opinion among analysts that the COVID-19 pandemic will rewrite the growth scenarios for all national economies, rendering the recovery of regions and well-being of economies and individuals dependent on solutions requiring co-operation and grassroot-level sources of resilience and initiative (OECD, 2020a, 2020b). Taking this argument as a starting point, in this essay we consider a category of economic agents whose role and influence in the economy and society may increase, making them an important component of the business environment, and yet until now they have remained mostly ignored by the mainstream international business (IB)

literature even though their impact can be powerful (UN, 2013; Stiglitz, 2009; WCM, 2018). They are organisations that originate in the co-operative sector or prioritise social solidarity and community-focused commitments, e.g., workers' co-operatives, mutual benefit societies and social enterprises. In many countries, the unprecedented societal disruptions from COVID-19 have highlighted the prominence of these organisations, as they have been able to provide a particularly prompt response to the economic and social calamities of the pandemic (International Labour Organisation, 2020). On many occasions, as pointed by Vieta and Duguid (2020), they responded sooner and more concretely than the national or local leaders, as well as large businesses. In Canada, for example, grocery co-operatives innovated employee safety and salary top-up while workers' co-operatives quickly shifted to producing medical products, and credit unions offered far-reaching grants to community groups, loan deferrals and even zero-interest credit cards (Vieta and Duguid, 2020). These organisations proved to be especially efficient in terms of the mobilisation and creation of community assets to boost the resilience of local economies. The COVID-19 crisis has destroyed many of the 'givens' of our social and economic structures and societal fabric, leaving a knowledge gap as to how they can be replaced. The argument of this chapter is that MNCs may turn the current challenge into an opportunity by recognising the role and potential of these organisations, constituting the so-called social and solidarity economy, within the changing business environment.

Following an influential paper by Johanson and Vahlne (2009), there is growing recognition in the IB literature that the business environment should be viewed as a web of relationships, a network, rather than as a neoclassical market with many independent suppliers and customers. This perspective emphasises the key role of the surrounding business environment, the importance of identifying and joining existing networks and creating new ones. This may be a serious challenge considering that networks of relationship that constitute the modern business environment are complex, exist at different levels (national, regional, local) and have various

patterns. What follows from this analysis is the prominence of both general and market-specific knowledge as a means to identify relevant networks. A recent development in research on the business environment within the IB field is the appearance of papers that attempt to achieve a more nuanced understanding by unpacking the local, subnational context (Monaghan et al, 2014). This perspective is going to gain in importance, in our opinion, because of the evidence of local communities in different parts of the world seeking to increase their role and take back control to ensure that they have a fair share of the benefits of local growth.

One prominent example of this trend may be found in the United Kingdom in the form of the so-called Preston model named after a city in England. It is a regional development programme led by the Preston city council, anchor institutions (the term refers to large, typically non-profit organisations like hospitals and universities, are unlikely to move once established) and other partners. At its heart is a procurement policy that requires local authorities and the anchor institutions to prioritise local supplies, in particular small and medium firms, to prevent the wealth created being syphoned out of the locality by profit-seeking external commercial actors. This is achieved, for example, by splitting large orders into smaller lots that these firms can handle. Thus, the local university, one of the anchor institutions, required non-local contractors to sub-contract to local firms to develop its £200m campus masterplan. In so doing, the university applied its spending power to advance community wealth building within Preston and the wider Lancashire area. Overall, spending by the institutions that signed to the project increased from £38 million in 2012–13 to £112 million in 2016-17 in the city of Preston and from £289 million to £489 million in the wider district of Lancashire (Sheffield, 2019).

The Preston model has attracted much attention and scrutiny in the country and abroad (there was even an article in The New-York Times) as an example of a city taking back control but the trend it represents is not limited to the UK. In fact, the Preston council has reproduced the ideas and principles first developed and implemented in Cleveland, Ohio, by the organisation

The Democracy Collaborative. This strategy has two characteristics of note relevant to the operation of MNCs. First, redirecting local spending on area businesses in order to keep more money in the community rather than sending it away to big corporations and international retailers with no vested local interest. Second, the focus on creating collaborative, inclusive, sustainable, and democratically controlled local economies. This results in the strengthening of the importance and influence of certain categories of local players such as co-operatives and their networks as well as other organisations based on principles of participatory economy. The Preston model, for example, envisages the creation of a network of worker-owned co-operatives in the catering, tech, and digital sectors to fill the supply side gap where the anchor institutions are unable to spend locally for lack of local providers.

Although almost two hundred years in existence, co-operatives have mostly managed to avoid the attention of IB scholars. Our search of two leading IB journals, the Journal of International Business Studies and the Journal of World Business, has failed to identify any publications dealing with co-operatives in the last twenty years. This contrasts with the substantial presence of co-operative enterprises in the world economy. According to the latest available data, at least 12 per cent of people on earth is a co-operator of any of the three million co-operatives in existence. Co-operatives provide jobs or work opportunities to 10 per cent of the employed population, and the three hundred largest co-operatives or mutuals generate \$ 2,034.98 billion in turnover (International Co-operative Alliance, no data). Co-operatives are prominent in agriculture, food processing, banking and financial services, insurance, retail, utilities, health and social care, information technologies and crafts, and are widely present on both developed and developing countries. The rate of growth of the co-operative sector is ascending and their share in the global economy is reaching 15% (ISC, 2016). In the EU, for example, co-operatives have a 60% share in the processing and marketing of agricultural commodities. Overall, there are nearly 180,000 co-operative enterprises in Europe with more than 4.5 million employees

and more than €1,000 billion in annual turnover (Cooperatives Europe, 2016). In the United States, the co-operative sector, which represents over \$500 billion in revenues and employs about two million people (Deller et al, 2009). The co-operative enterprises are feeders into many global supply chains. In spite of such prominence, the co-operative business model has been ‘off the research radar’ for some years. This created gaps in a systematic scholarly analysis of this form of entrepreneurship, its dynamics and the place that it occupies in international business relations. Encouragingly, there are modern thinkers and public intellectuals, including Nobel Prize laureates, who argue in favour of market plurality and endorse the co-operative model as a viable and promising alternative to market orthodoxy¹.

According to the Statement of Co-operative Identity (SCI) endorsed by the International Co-operative Alliance, an apex body of the co-operative movement, a co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise. There are different types of co-operatives of which consumers’ co-operatives and worker co-operatives are the most widespread. Consumers' co-operatives operate as a form of mutual aid and often take the form of retail outlets owned and operated by their consumers. Worker co-operatives are essentially businesses in which the employees contribute both capital and labour. Co-operatives are not a charity and cannot survive for long without a profit. For this reason, they should not be viewed as a ‘not-for-profit’ entity. Importantly, though, the co-operative is an association of persons and not of capital. Consequently, the co-operative differs from the conventional investor-owned business through its focus on delivering economic and social benefits to members according to the values of solidarity and social justice (Mazzarol, 2012), which makes them more than a commercial enterprise. Their organisation and governance are defined by adherence to the internationally agreed principles of participatory democracy embodied in the SCI - voluntary and open membership; democratic member

control; member economic participation; autonomy and independence; education, training, and information; cooperation among co-operatives; and concern for the community. Their purpose is to meet the needs of the members and the community rather than to maximise the wealth of shareholders. This is reflected in how co-operatives are managed: all members have equal voting rights regardless of the amount of capital they put into the enterprise. Together with mutual societies and many other association-based economic entities co-operatives operate business activities with the specific objective of promoting the wider wellbeing of society (Ridley-Duff and Bull, 2015; UN, 2013).

Driven by values and not just profit, co-operatives display characteristics that make them distinctive and secure a strong position at the local and regional levels. The central tenet of co-operative ethos is stakeholding. Co-operative members benefit from their participation in the organisation and how they use its assets rather than from income on invested capital. This changes the balance of values that influences decision-making and shifts focus towards aspects that normally are not prioritised by public corporations. To begin with, there is a strong sense of local identity and belonging. To join a co-operative all members must contribute some seed capital, but there are no absentee owners, as in most cases co-operative members are also the employees of the co-operative. Because co-operatives are not owned by shareholders, the economic and social benefits of their activity stay in the communities where they are established. Profits generated are either reinvested in the enterprise or returned to the members. In some countries, e.g., Italy, the legislation does not allow co-operatives to operate in multiple areas and thereby force them to remain locally focused, bringing co-operatives close to the community which they serve and of which they are a part. This is most evident in the case of social co-operatives in Italy, ‘general interest co-operatives’ in France and social solidarity cooperatives in Portugal where the primary purpose is to benefit the community through the

delivery of essential services in interaction with the local authorities, including social, educational and work integration services (Borzaga et al, 2017).

Co-operatives tend to be small. This makes them face difficulties familiar to many other small and medium enterprises (SME), for example, acquiring financing from banks, who tend to see SME as high risk and prefer larger businesses with a long track record of profitability (Canales and Nanda, 2012). The fact that they are not strictly profit-oriented makes it difficult for co-operatives to financial markets. In addition, they often face prejudice and misunderstanding on the part of mainstream businesses, which narrows their opportunities to have dealings outside the co-operative sector. Co-operatives, however, have an advantage over other types of SME: the shared values that create a strong foundation for solidarity within the wider co-operative movement. This naturally directs co-operatives to establish regional and national networks often formalised as federations and associations so that they can remain small and locally based but have the economies of scale and specialist services to make them competitive. In Italy, the apex organisation Legacoop and numerous associations offer a range of services including accountancy consulting, training and marketing. On the other side of the globe, Cooperative Business New Zealand provides its members assistance with education and training, advocacy and lobbying, cooperation among co-operatives and starting up a co-operative. In Latin America, co-operatives are a leading force in fair trade producer networks (Moore, 2004).

The power of the participative economy and co-operative networking is illustrated by the example of the Mondragon Cooperative Corporation in the Basque Country in Spain. It currently consists of 102 federated co-operatives employing over 73,000 people. The vast majority of these worker-owners are in the industrial and distribution segments of the economy, competing successfully in global markets. In addition, the Mondragon co-operative system owns its own bank, university, a social welfare agency, several business incubators and a supermarket chain. This makes Mondragon the largest employer in the region and one of the

largest companies in the country, breaking the mould of traditional assertions that portray co-operatives as small, marginal and inefficient. In 2017, it had annual revenues of over €12 billion - equivalent to those of Kellogg's or Visa. It is active in mechanical engineering, automotive, finance, retail and infrastructure construction. Despite its size, the network is managed on the same principle – one member one vote – as any organisation subscribing to the International Co-operative Alliance's Statement on the Cooperative Identity. This helps all employees to maintain a bond with the organisation and the co-operative economy as whole, making it strong and resilient. This principle of inter-cooperation when co-operatives help and support each other through networking plays an essential role in the co-operative sector and is one of strengths. When in the wake of the 2008 financial crisis, Fagor Electrodomésticos, the largest of the industrial co-operatives in the Basque Country, had to be liquidated, most of its 1,800 worker-owners were relocated to other cooperatives within the Mondragon federation. This is just one example of the major contribution of the social and solidarity economy in preserving employment and the well-being of local communities and thus preserving conditions for own existence and growth. This explains to an extent their vitality: Canadian research shows that after 5 years, 62% of co-operatives are still in business compared with only 35% of traditional businesses (MEDIE, 2008).

There are also changes in the structure of the market to be considered that increase the economic role of the organisations composing the social and solidarity economy. These changes are associated with an increase in demand for health, social and cultural services against the background of a decline of the welfare state in many countries. Such services are often labour-intensive while at the same time it is difficult to reduce the cost of labour through technological innovation and automation. As a result, conventional firms often find the provision of these services commercially unattractive. Co-operatives and other social solidarity organisations operate on different principles. For them, this is an opportunity for growth. Over

the past few years, these organisations have been extremely dynamic, growing faster than the rest of the economy in many countries and demonstrating a good capacity for innovation, as evidenced by their ability to find new solutions to social problems (Borzaga et al, 2017).

There is another feature of modern co-operatives of particular relevance to the current economic slump caused by the COVID-19 pandemic: the well-documented anti-cyclical pattern of the economic behaviour of co-operatives, as evidenced by their resilience in times of economic crisis (Birchall and Ketilson, 2009; Stiglitz, 2009). The analysing the impact of the financial crisis of 2007–08 reveal that worker and social cooperatives in Europe overall showed more resilience than conventional enterprises of similar size, active in the same sectors and present in the same communities and regions (Roelants et al, 2012). This is because, *entre alia*, these organisations will strive to maintain employment and quality of service for their members and customers, even by reducing their profits as social economy organizations tend to give precedence to people and labour over capital in the distribution of incomes (Borzaga et al. 2014). Another reason is the reduced dependence of these organizations on the financial markets and the socialized nature of its capital, which has allowed them to suffer a lower pressure in the financial crisis. In fact, research shows that during and after crises the number of co-operatives increases (Perotin, 2006; Roelants et al, 2012).

In many countries co-operatives, therefore, are staples of the local economy, they generate productive and social fabric in their areas and communities (Bretos and Marcuello, 2017). The innate focus on societal good, community well-being and social capital building embedded in the co-operative business format grants the co-operative economy legitimacy, which big corporations only aspire to achieve spending millions on CSR and self-promotion. Co-operatives are no universal remedy and have their issues and contradictions. However, what matters in the context of IB research is this: as a business model, co-operatives are everything that MNCs and their usual business counter-agents are not. Co-operatives are locally anchored,

egalitarian and democratic, adhere to the distribution of wealth based on solidarity, strongly networked, collaborative. MNCs are footloose, bureaucratic and hierarchic, they prioritise creating wealth for shareholders.

MNCs can exploit these differences when looking for a response to the challenges of post-COVID-19 business environment which is likely to demand a more local and regional modus operandi in terms of supply chains and business models reflecting the need of a new balance between efficiency and resilience². One key element of resilience is increasing diversity (Nieuwenhuis and Lammgård, 2013; Walker and Salt, 2012). By forging relations with locally rooted and community-oriented organisations such as co-operatives, they can improve their image and better integrate into the economy, in particular at the local level, and expand and diversify the cohort of business partners and, accordingly, the spectrum of business opportunities. This will mitigate the risk of alienation caused by the anti-global and pro-local sentiment in host countries, and open new routes to establishing contacts with important existing grassroots networks, which might be a path for MNC to overcome the ‘liability of foreignness’ by becoming ‘more local’.

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¹ Among them are N.Chomsky, A.Sen, J.Stiglitz, E.Olsen. For details, see Stiglitz, J.D. (2009). Moving beyond market fundamentalism to a more balanced economy. *Annals of Public and Cooperative Economics*, 80(3): 345-360.

² Toyota, often presented as an example of efficiency due to its lean manufacturing system, was forced to rethink its procurement strategy after the 2011 earthquake and tsunami in Tohoku. A supply chain audit revealed that Toyota's supply chain actually had several potential vulnerabilities due to the prioritisation of efficiency. It turned out, for example, many single suppliers of key components were located in high-risk earthquake zones. At the same time, there were no backup provisions because of the desire to eliminate all duplication and redundancy in the production process. Source: Matsuo, H. (2015). Implications of the Tohoku earthquake for Toyota's coordination mechanism: Supply chain disruption of automotive semiconductors. *International Journal of Production Economics*, 161, pp. 217-227.

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