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## Local and Sustainable Food Supply: The Role of European Retail Consumer Co-operatives

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### ABSTRACT

This paper investigates the rationale for local and sustainable food systems and retailer co-operatives as their entry points within local conditions. Emphasis is on localised food networks and connection between socially as well as environmentally sustainable production, distribution and consumption. Investigated is the premise that co-operative organisational structures, for reasons of their long-term socially responsible origins are at the forefront of development of local and sustainable food systems and are thereby in a position to offer a specific contribution to market development. Two key research questions are proposed: Firstly, is there a pre-determination of co-operatives to issues of sustainable and local food sourcing given the historical and practical context of their ethical/socially responsible and stakeholder-based business model? Secondly, do co-ops express support for re-localising food systems and what contribution do they make concerning sustainable food and their relationships with local food suppliers? The method of investigation is through a two country retailer co-operative sector analysis and comparison (Finland and Italy). The enquiry is qualitative and exploratory in nature in the form of an embedded, multiple case design. The paper makes practical and theoretical contribution to knowledge concerning interpretation of 'localness' in food, the role of co-operatives and the co-operative ethos in sustainable food systems and the development of the local food economy. Results of the study show a positive relationship between co-operative ethos and (social) sustainability in local food, but the de-centralised nature of retailer co-operation also provides a barrier to replication of good practice.

*Keywords: Local and sustainable food, retailer co-operatives, Europe, social responsibility*

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### 1 Introduction

This paper investigates the rationale for local and sustainable food systems (environmentally sustainable and local stakeholder oriented) and consumer co-operatives as their entry points within local conditions. Emphasis is on localised food networks and connection between environmentally as well as socially sustainable production, distribution and consumption (Duffy *et al*, 2005; Jones *et al*, 2004; Weatherell *et al*, 2003). This emphasis recalls the orientation towards more sustainable production and consumption embedded in local reciprocity (Morgan & Sonnino, 2008) through community members' multiple roles and liabilities in business (Feenstra, 1997; Renting *et al.*, 2003; Seyfang, 2006). The concept of local and sustainable food system is understood here as a social force for open food supply chain coordination by local businesses (Mikkola, 2008) rather than locally defensive disconnection in terms of new suppliers (Hinrichs, 2003).

Investigated is the premise that co-operative organisational structures, for reasons of their long-term socially responsible origins are at the forefront of development of local and sustainable food systems and are thereby in a position to offer a specific contribution to sustainable market development. To this end

retail co-operation is highlighted because of its ideals: member mutualism and community/stakeholder centred business (Hingley, 2010; Novkovic, 2008); with the focus on retail consumer co-operative businesses in Europe. Two key research questions are proposed: Firstly, is there a pre-determination of co-operatives to issues of sustainable and local food sourcing given the historical and practical context of their ethical/socially responsible and stakeholder-based business model? Secondly, do co-ops express support for re-localising food systems and what contribution do they make concerning sustainable food and their relationships with local food suppliers?

The paper is structured in the following way. The concept and context of sustainability in food production, marketing and distributive systems is explored; and an understanding of the importance of the definition of local food outlined. The historical and contextual development and business orientation of retail consumer co-operatives is investigated, specifically concerning their impact on ethical and socially oriented business, which has reached more recent attention as a business model and philosophy under the guise of Corporate Social Responsibility- CSR. Research objectives are to explore the nature and context of comparative (European) co-operative businesses, concerning their inclination to support sustainable food systems through implementation of a local food economy, thereby:

- To understand whether co-operative organisational structure can contribute specifically and uniquely to sustainable local food marketing
- To determine whether mutualism and member roles as multi-party stakeholders induce the implementation of local/sustainable food economies

The method of investigation is through analysis of secondary published data in addition to a two country co-operative sector analysis and comparison. The countries chosen are Finland (for reasons of strong market penetration of retail co-operatives) and Italy (for reasons of medium-strong co-operative orientation and sophistication in regional, local and speciality food marketing). Personal depth interviews with management at multi-tier levels (from central and controlling and regional management to store level) are made with leading retail co-operative chains in these countries and findings presented from derived exploratory qualitative analysis. Finally we make recommendations for future research concerning the direction of local and sustainable food supply and role of co-operation in its development.

## **2 Exchange relations**

Economic exchange in the market becomes organised through market, hierarchy, partnership and social relations, allowing trade to develop by mechanisms of price, authority and trust (Adler, 2001). While market economy clearly is the foundational economic frame within Europe (Founding Treaties of European Union, 1957), the sheer market or hierarchy (or power) relations active in exchange relations may exhibit additional strands such as partnership (Powell, 1990) and extend to acquire social tones between parties of exchange, either across or within organizational structures as embedded in social reality of economic life (Granovetter, 1985). The framing of market economy as formal economy may thus include twists of economy as instituted process, as originally held by Polanyi (2001 [1957]). "The substantive meaning of economics derives from man's dependence for his living upon nature and his fellows. It refers to the interchange with his natural and social environment, in so far as this results in supplying him with the means of material want satisfaction" (Polanyi, 2001, 31 [1957]). In general, exchange relations may consist of not only of one strand but various ones, combining features of market and hierarchy (Bradach & Eccles, 1989) and additionally partnership and social ties, building a relational mix of four strands in varying combinations (Mikkola, 2008).

## **3 Networking through exchange relations**

While market relations seem to offer hardest bargains relieved from future concerns in the fight for economic success between individual businesses (Swedberg, 1994), partnership and social relations between parties of exchange appear to offer more flexibility, future security and shared successes as well as losses (Powell, 1990). Competitive advantage is a real benefit to be extracted from supply chain relations, enabling businesses to join competition between supply chains (Porter, 1985) and more particularly, between strategic networks (Jarillo, 1988). Furthermore, a network mode of economic exchange relations, called socially overlaid network, whereby parties exhibit strong locally built partnership and social relations, has been identified to support economic viability of supply chains (Mikkola, 2008). Adler (2001) speculates with the possibility that future exchange relations within economic life may be based on increasingly socially organised exchange relations, including a strong strand of partnership with a critical component of reflective trust.

#### 4 Development of power positions within food supply chains

The modern food system has introduced food supply chain reconstruction. Increasing concentration within the levels (or nodes) of supply chains has been realized in general by enlargement, specialization and technological sophistication of businesses trading with one another within the supply chain (Atkins & Bowler, 2001). This pattern means more mechanized and specialized but fewer farms feeding into technologically more sophisticated and fewer processors selling their commodities to fewer expanding (international) retail chains (Atkins & Bowler, 2001). The power position has gradually shifted from producers to processors to retailers, from producer oriented supply to consumer oriented demand (Atkins & Bowler, 2001; Jongen & Meulenberg, 1998). The change implies the weakened position of primary producers vis-à-vis the one of processors and retailers, and in similar vein, the weakened position of processors vis-à-vis retailers (Atkins & Bowler, 2001). The developments on the farm level pressure towards large industrial farms drawn into globally networked food complexes or small-scale pluri-active family farms operating on local and regional markets, whereby 'farms of the middle' struggle to secure their livelihoods or to move towards either mode of farming (Atkins & Bowler, 2001; Bowler et al., 1996; Stevenson, 2005). The processors try to push on with their brands, offering visibility and seeking connection with consumers on the market, but become contested by retailers which sell their 'own brand' (or private label) products and mask the processor's identity (Atkins & Bowler, 2001). The suppliers are 'cornered' by retailers' direct and electronic buying; and this kind of trade can take place without any negotiations at all (Vihma, 2005). Finally, the retailers compete heavily on the market which is often very concentrated and dominated by a few retail chains only; in 1997, in the UK there were five top retailers holding a market share of 61% (Atkins & Bowler, 2001) and in Finland two, with a respective share of 72 % (Atkins & Bowler, 2001), which grew to 76% in 2005 (Mikkonen, 2005). Finland has a particularly high penetration of retail co-operation. Of a population of some 5.3 million inhabitants, the S-group alone has 1.8 million households registered as members (equivalent to approximately three and a half million people associated with the S-group in some way). The Italian retail market has a different structure because of a delay in the development towards the growth of large scale retailing compared to other European countries. In Italy the share of total household consumption expenditure for packaged food in large retail was 71.3% in 2009, but the share of fresh produce drops to 34.1% (Coop, 2010: 186). Retail co-operation play a relevant role, since two retail co-ops (COOP and CONAD) are among the leading retail companies. However, the retail market is far less concentrated than in Finland. Under heavy mutual competition, the retail chains also deploy global buyer alliances to control the product range in order to balance maximum consumer choice against limiting the product range to the one of highest sales potential (Atkins & Bowler, 2001; Hollingsworth, 2004). Within this competition, local food, representing smallish food businesses with limited geographic marketing range, has gained new significance through consumer interest in local economy and ecology of food production (Jones et al., 2004, Weatherell et al., 2004). Sustainability issues are raising concerns among various food businesses such as catering, processing, retailing and farming, whereby efforts are made to introduce connections between local demand and supply in the US as well as in Europe (Block et al., 2008; Friedmann, 2007; Morgan & Sonnino, 2008).

#### 5 Sustainable food system

Sustainable development as an overarching concept (WCED, 1987) implies a sustainable food system entailing more equal economic exchange, socio-cultural developments and environmental considerations integrated with economic progress (Morgan & Sonnino, 2008). As its grounding concept, sustainable development; the idea of sustainable food system is normatively oriented albeit methodically loose: there is hardly a prescription for various multi-stakeholder and multi-level measures appropriate for progress towards increased sustainability in terms of food system. Rather, sustainable food system results in on-going negotiations between system actors about (often incremental) measures available by each party within food supply chains (Morgan & Sonnino, 2008). The negotiations may acquire economic emphasis, dealing with 'weak' economic sustainability, or stress the complex of ecology, economy and socio-cultural aspects, aiming at 'strong' sustainability (Jacobs, 1999). However, economic sustainability may be seen as a precondition for subsequent investments and activities towards ecological or social sustainability; particularly the strengthening of farmers' position within supply chains calls primarily for developments of the economic sphere of farm businesses (Mikkola, 2008).

#### 6 Local and organic food

Citizen-consumers' (a notion developed by Spaargaren, 1997) perspectives on local and organic food as interpreted and advocated academically, often emphasize their quality as epitomes of sustainable food

systems. Local food, although more or less opaque as a concept, thus represents environmental concerns, local livelihoods and economies embedded in place (Seyfang, 2006; Weatherell et al., 2003) as well as citizens' local involvement and good social relations (Feenstra, 1997). Within a globalized food system, re-localization efforts "celebrate" "the local" vis-à-vis "the global" (Morgan & Sonnino, 2008, p 1-19), whereby local is seen as "radical and subversive" in contrast to global as "hegemonic and oppressive" (Born & Purcell, 2006, p 200, in Morgan & Sonnino, 2008, p 1-19). The re-localization movement has advocated "proximate system" of "locally grown food, regional trading associations, locally owned processing, local currency, and local control over politics and regulation" (Kloppenburg et al., 2000). Learning to re-localize has been identified as a challenge among food system actors (Morgan & Murdoch, 2000; Seppänen, 2004; Seppänen et al., 2006). The original concept of "foodshed" by Kloppenburg et al. (1996) as well as "terroir" of Barham (2002) refer to bio-regionalist connotations of satisfaction for 'belongingness' and cultural identity of communities, conveying the identification with and livelihoods due to regional natural environment and its resources (McGinnis, 1999; Ranaboldo & Schejtman, 2009). Furthermore, food transports with their negative implications of energy consumption, pollution and additional cost, are suggested to be cut by more re-localized food systems (Morgan & Sonnino, 2008, p 1-19; Poikolainen, 2004). In short, as a concept, local food advocates decentralization, understood as a pillar of sustainable development; food in sustainable societies is local rather than global (Morgan & Sonnino, 2008).

From the beginning, organic farming represented basically an alternative paradigm of agriculture by its principles and practices such as decentralised, community-based and holistic production methods (Atkins & Bowler, 2001; Beus & Dunlap, 1990; Mononen, 2008; Seppänen, 2004; Seppänen et al., 2006). Organic farming seemed to cause less environmental impacts in terms of nutrient run-offs than the conventional one, and as more labour intensive business, it retained agricultural employment while providing organic farms in general economic returns comparable with those of conventional farms, including state assisted conversion period with certification schemes (Atkins & Bowler, 2001). Obviously, organic food has been considered as an alternative to industrialised food (Magnusson et al., 2003; Morgan & Sonnino, 2008, p. 1-19) and interpreted by consumers as authentic, healthy and environmentally friendly, without pesticides and fertilizers (Hill & Lynchehaun, 2002; Magnusson et al., 2003; Seyfang, 2006). The market potential of organic food has been suggested to be remarkable, even huge, when supply chains mature and supply and demand match up to one another (Wier & Calverley, 2002).

There are also critical perspectives to local and organic food, which are claimed to dilute the 'original ideals', as the conventional sector 'subsumes the alternative' (Morgan & Sonnino, 2008, p. 1-19). Through the large scale farming industry, conventionalization has, at least locally and regionally, entered into organic industry (Guthman, 2004). Organic consumption has created an up-market image, which, however, may not serve to satisfy European consumption at large due to the price premium of organic food (Goodman, 2004). Additionally, it has not been in all cases feasible for consumers to understand the relations between organic quality, quantity and price (Barnes et al., 2009; Klöckner & Ohms, 2009). Organic farming has so far remained a rather limited form of food production and consumption in Europe (Atkins and Bowler, 2001), where its area of the total agricultural land tends to vary from 1 - 2 % in the low end to 15 - 16 % in the high end among European countries (Rohner-Thielen, 2010). In similar vein, it has been claimed that the Geographical Indication labelling schemes initially supporting local food have turned to 'marketing tools' of international supply chains (Watts et al., 2005, p. 30, in Morgan & Sonnino, 2008, p. 1-19). Furthermore, the local food movement has been evaluated negatively as an ethnocentric "defensive localization", representing patriotism and "elitist and reactionary" modes of thinking and acting (Hinrichs, 2003). It has also been claimed that economic gains of local production due to local consumption may exacerbate local social injustice (Born & Purcell, 2006, p. 202, in Morgan & Sonnino, 2008, p. 11) by excluding both some local producers and consumers (Hinrichs, 2000). Furthermore, parochialism, lack of diversity and action for change has been identified in decentralized societies, counteracting inherently national and international intervention of environmental problems such as climate change (Carter, 2007, p. 58-60, in Morgan & Sonnino, 2008, p. 1-19). As local and organic food cannot be suggested to represent 'pure' sustainability, they may still be seen as developmental options towards sustainable food systems as embodiments of more equal negotiations between supply chain actors, accessible source of food security and operative platform for increased food safety within the market place and its competitive developments.

## **7 Sustainable food system as political aim**

Sustainable food has become the core of national food strategies in two European countries, the UK and Finland (Defra, 2010; HM Government, 2010; Huomisen ruoka – Esitys kansalliseksi ruokastrategiaksi, 2010). These strategies stress the competitive character of regional food businesses, along with

environmental and health-related aspects of food secured by trade between competent food chain actors, such as farmers, processors, wholesalers, retailers, caterers and consumers/customers. It is noteworthy that the strategies look for increased quality of food, advanced competences of the system actors and the ability of the businesses to compete on the global market. However, Defra (2010) suggests that in order to develop sustainable food systems, particularly in terms of environmental aspects, partnerships are called for in order to research and reorganize supply chains. Furthermore, sustainable development (implying sustainable food systems) has been declared as the long-term political aim of the European Union by the Treaty of Amsterdam (CEC, 1997) and recommendations for public procurement exemplify sustainable food trade (ICLEI - Local Governments for Sustainability & Ecoinstitut Barcelona, 2008a,b). In general, governance of trade between businesses within food supply chains reflect both market and partnership relations as strategic networks (Jarrillo, 1988) and possibly even socially overlaid networks could be represented within the coordinative mix aiming at sustainable food. In general, Morgan and Sonnino (2008) contend that in sustainable societies ("Green State") the food is to a significant extent local (and regional).

## **8 Consumer co-operatives as governance mode of sustainable food system**

The co-operative approach is recognised as having long standing ethos of social responsibility which has become a governing principle by which many retail co-operatives operate, for example, as with the UK Co-operative who were very early pioneers of social responsibility (Birchall, 1997; Williams, 2005). Co-operatives are democratic organizations, owned and controlled by their members, they are defined by their mutual approach and are governed by controlling values, which include: democratic member control, member economic participation, co-operation among co-operatives and concern for community (Novkovic, 2008; ICA, 1995). Study of co-operatives, therefore, may offer an alternative understanding of and framework for corporate-social and network/stakeholder practice. The development of the UK Co-operative Group as a case on socially responsible and sustainable local food sourcing is chronicled in Hingley (2010). This paper puts forward to case of ethical retailing offered by the UK Co-operative and specifically analyses the case of one of the regional groups. The study demonstrates that it is possible for a co-operative to be creative in local community-based networks and to also preserve and reinforce their traditional organizational values, which can add a distinct (albeit niche) contribution in managing locally sourced food.

The Italian cooperative movement was born during the second half of the nineteenth century. Nowadays it spans over many industries and it is particularly prominent in the agriculture/food industry and the related services, involving both small enterprises and large corporations, and creating extensive networks of different shape and size (Menzani & Zamagni, 2010). Its presence is widespread in the Italian territory, but the coverage is quite uneven, with a more intense role played by this type of organizations in the North-East area of the country. In recent years, the strategy of many Italian cooperatives have been reshaped in order to cope with the emerging economic trends, with the aim to strengthen (among other things) price leadership and contribution to territorial economic development as key pillars of their mission (Lotti, Mensing & Valenti, 2005).

The largest Finnish co-op, the S-group has a history since the 19<sup>th</sup> century as one of the leading consumer co-operation businesses, which has competed with and merged with other smaller and diverse consumer co-operatives. The business concept at large crystallizes in production of services and benefits for customers, who own the co-operative. The S-group claims to have the strategy of being price leader and it has recently expanded strongly with a turnover of 11.8 billion euro in 2008. The co-operative paid 320 million euro bonuses back to 1.85 million customers in 2009. Today, it consists of 22 regional co-operatives, of which the largest is the one operating in the Helsinki region, with a market share of 23% of the whole group's food business. It operates 27 different business concepts from food business to restaurants, interior decoration and cars as well as hotels, and covers the country with multi-service petrol stations with additional services such as restaurants and supermarkets. Recently the group entered into the banking and power sectors. The S-group, in its own documentation, emphasises sustainability and makes efforts to market organic food, use renewable energy and looks for novel business concepts. (S-ryhmän vastuullisuuskatsaus, 2009)

## **9 Methodology**

Qualitative methods (primarily through depth interviews with key and respondents) were chosen because of the necessity to collect and interpret detailed attitudes of interviewees, which would not have been possible with a statistical survey method. Qualitative methods allowed us to generate rich information

(Eisenhardt, 1989; Yin, 1994). As such, the method set out to catch the authentic speech of supply chain actors in topics which are often sensitive; the approach is based on interaction enabling understanding between interviewer and interviewees (Fontana & Frey, 1998). The qualitative analysis aims at condensing interviewees' speech regarding research questions in categories which summarize the variation in views (Kvale, 1996). The interviews dealt with the interviewee's work within the organizational setting and the nature of co-operative business, particularly in terms of local and sustainable foods as well as their suppliers. Furthermore, the local food policies regarding suppliers, customers, marketing and local communities as well as future policy plans were discussed. Analysis followed procedure of axial and selective coding (Strauss and Corbin, 1998). In open coding, we read and examined discrete parts of the interview transcripts to identify similarities and differences between the firms with respect to cross-firm analysis (Yin, 1994). Axial coding was then applied to reassemble data into categories and subcategories. We then applied selective coding by integrating and refining the theoretical issues emerging from our data.

The results, albeit drawing on limited number of interviews, may have capacity for generalizations in several ways. First, they may seem to represent typical case (Schofield, 2000) which is very likely in highly advanced and strategic business concepts of retail chains. Furthermore, the findings may be seen to represent a trend or a more ideal situation (Schofield, 2000). By drawing on comparable interviews we developed insights across the firms and achieved a basis for greater transferability of the findings to other contexts (Beverland and Lindgreen, 2010; Eisenhardt, 1989). The generalization of the results may be done by practitioners as natural generalization (Kvale, 1996; Stake, 2000). The two country enquiry is conducted through depth interview to a common research schedule in addition to non-participatory observation (of retailer premises and product selection).

Research questions concern business philosophy, principles, development and policies/practices. Relationships with local food suppliers, managers, customers, retail members and other stakeholders are investigated. Each interview lasted at least an hour and was recorded and transcribed verbatim. Analysis is based on interview with (a.) A senior executive at each of two different leading national retail consumer co-operatives in central management (Italy and Finland: identified as *National Executive Italy* and *National Executive Finland*); (b.) A senior executive at each of the same two retail co-operatives in regional management (Italy and Finland: identified as *Regional Executive Italy* and *Regional Executive Finland*); (c.) Co-operative supermarket managers with the same two co-operative retailers (Italy and Finland: identified as *Store Manager Italy* and *Store Manager Finland*). These can be described as 'typical cases' in terms of management at principal levels of retail co-operation in typically large chains. Additionally, a further interview took place in the same Finnish retail co-operative chain, with what can be described as a store manager of an 'ideal' or aspirational and proactive store with regard to local food supplier engagement and local food product retailing; exemplifying what could be ideally achieved. This manager is identified as *Ideal Store Manager Finland*. Therefore, in all there are seven depth interviews.

## 10 Analysis and discussion of retail co-operative interviews in Finland and Italy

### 10.1 Understanding 'localness'

The two case co-operative chains analyzed in Italy and Finland have many similar properties. As co-operative retailers social, environmental and ethical policies and benefits of mutuality are espoused in both cases. Aside from the adherence of both to international co-operative principles, they are alike in competitive market positioning in their respective countries and in organisational structure. Both have controlling central co-ordination and a sub-structure consisting of affiliation of regional societies. There are also in both cases diverse brand identities and marketing image associated with tiers of stores based on size (hypermarket, supermarket, neighbourhood and convenience stores and so forth). Interestingly both chains more closely emphasise in their range and product marketing national 'Finnish' and 'Italian' foodstuffs; and particularly in the case of the Italian co-operative, specialities from the Italian regions, rather than 'local' products per se. In Finland, the concentration of the food processing industry has led to fewer large companies, the products of which simply embody 'Finnishness' and this market position is seen as 'domestic' food as opposed to 'imported food' and penetrates all regional co-operatives. Therefore, both co-operatives suggest that 'local' and 'national' food identity can be seen as one and the same in some contexts (especially an export one) whereby local food is 'Finnish' or 'Italian' food. This does not mean that 'local' products (in a micro-vicinity guise) are not encouraged or promoted, but that they tend not to have the marketing emphasis of 'regional' and 'national' for reasons of scale and consistency across the retail offer. Further, vicinity 'local' products tend to be fresh (and thereby) typically unbranded foodstuffs (specifically meat, bakery products, dairy and fruits and vegetables) and consist of volumes often only appropriate to a few or indeed a sole store in the locality. The suppliers of these 'local'

products may be small in scale and inconsistent or seasonal in output. This begs the question of what the co-operative retailers' (and the interpretation of what their customers) perceive to be 'local' foods and how might this differ from 'regional' or even 'national' products? The Finnish regional co-operative is actively looking for local products with enough volume and secure deliveries to serve the customers on the southern coast; the customers come from elsewhere in Finland and wish to buy their own local food.

The extent of local food sales is reflected by the number of bread suppliers: two of these are large Finnish (inter)national bakeries, and nearly 250 smallish bakeries in more rural Finland. The Italian co-operative has a specific policy for the promotion of Italian regional food products:

*...the local food policy/practices (of the Italian co-op) are based on the promotion of such products under the brand (named co-op house brand for regional products) which enhances a large part of typical Italian food products, such as for instance Parmigiano-Reggiano or Pasta of Gragnano across all the point of sales of (the named Italian co-op). National Executive Italy*

This is interpreted in their house branding policy with relation to these specific types of Italian regional specialism products, but does not cover local 'niche' products. Some value is seen in stocking 'local' foods (in completing the general food offer), however, less attention is paid by the co-op to 'local' rather than 'regional', for the reason that:

*...a negative aspect of local food business is due to small size and fragmented structures of local food suppliers which cannot meet the requirements in order to be included under the umbrella brand (named co-op house brand for regional products). National Executive Italy*

The Finnish co-operative has a similar, but less formalised branding practice and marketing policy. Both retail chains are proactive in promoting products associated with national identity. So, where does this leave local products? Both chains highlight difficulties in promoting relatively localised products. In Finland, the fresh produce needs deliveries within the day of the sales; this means (too) expensive logistics for lots that can be too small. Furthermore, there is the question of continuity of the product line. The co-operatives are held reliable buyers by suppliers and they offer the smallish business a 'big chance'. However, the price of this is the demand to guarantee the deliveries to develop into 'regular selection', if approved by customers. *National Executive Italy*, for example, does not believe that the policies of many food operators oriented towards the consumption of local food (on the basis of reduced 'food miles') would be sustainable. Such that by this argument:

*Sicilian consumers should eat only orange or consumers who live in Trentino Alto Adige should eat only apples. National Executive Italy*

Perhaps this is slightly facetious, however, certain parts of Italy and Finland are famed for very specific and highly seasonal fresh food products, be it apples or tomatoes in Italy or arctic berries and reindeer in the Finnish north and the retailers' may see it as more advantageous to put their efforts into more consistently marketable regional and national products (i.e. packaged longer life products such as olive oil, cheese, wine and hard breads).

Understanding of just what 'local' food exactly is has sparked a good deal of debate, as seen in the above review of literature, where local can be determined by: a geographic or distance measure or a county/administrative region. It could be defined as a symbol of sustainability and low environmental impact, a catalyst for social and community cohesion, a defence against national and global control; it may be synonymous with freshness and higher perceived quality, or purchase may simply be an emotional expression of linking perceived qualities and 'belonging' to a vicinity:

*..consumers identify local products as food produced in a particular small geographic area where they live. Regional Executive Italy*

For some 'local' and 'regional' and even 'national' are blurred into one in certain circumstances and with certain produce. *Store Manager Italy*, for example, believes that 'consumers identify local products as food produced in Italy and not with reference to any particular geographic area'. This is echoed by *National Executive Finland*, for whom 'local product is produced in Finland. That is local product'. Parmigiano-Reggiano is a case in point where this cheese could be seen to be local (it is actually produced in a fairly tight geographic area of Northern Italy on a protected production basis; it is also representative of a region (Emilia Romagna) and a symbol of Italy. Because of the obvious connection in the mind of Italian consumers of the wealth of their food products, the Italian co-op identify that they 'have no particular aims to develop local food market since the policy of (the national level Italian co-op) and regional co-operative is to develop the business of Italian food rather than food produced in smaller areas'.

Suffice to say, what this study does suggest is that there are no single motives for purchase of local food

other than a predominant need for higher perceived quality and freshness (but not at a premium price):

*...it is still very difficult to determine what is local food. And I think everyone has his own determination for that. National Executive Finland*

However, 'local' seems to be determined mostly by products from the immediate vicinity (often within comparatively few kilometres) and usually concerns perishable fresh products; with the exception of a small amount of seasonal specialities (for example, charcoal for summer outdoor cooking and jams/honey). This is consistent with the findings in Hingley (2010) with respect to local foods sourced by the UK Co-operative in a country where local is predominantly defined by short distances and county affiliation. The Finland co-op define local by greater distances, given the larger size of the country, smaller and more spread out population and greater potential distances between production and consumption. Furthermore, due to the concentrated processing, some products by one large dairy co-operative, for instance, are sold across the country. However, local products start to emerge as 'own label' products, allowing more trading partners for smallish local dairies.

### **10.2 Local food and the sustainability agenda**

In the Italian case, regional and national identity takes precedence over local, for the reasons described; this is mirrored in the Finnish case, but not so overtly. Is there, therefore any potential in the development of clear retailer co-operative policy concerning local products, given the problems of definition, the fragmented and inconsistent nature of supply and demand, difficulties associated with brand identity with what are most generally fresh perishable products? There is clearly some value in promoting products as part of a sustainability agenda and for reasons of investment in social capital. Co-operatives, with their enshrined social and ethical values are well-placed to develop this aspect of local foods. This was shown in the case of the UK regional co-operative society studied in Hingley (2010), for which local foods encapsulated a host of stakeholder and resultant benefits (for local food producers, environmentally sustainable local retailer business, local consumers, co-operative staff and members and local communities). However, because in neither the Italian nor the Finnish case, promotion of local food was not actual policy for the co-operative businesses (as opposed to regional produce), it was hard to see a consistency of approach. In both chains, local buying was allowed (at store level), but this had to fit in with regional co-operative and national buying policy (and for whom centralised buying and distribution derives economies of scale and movement). The Italian co-operative was more critical of the problems of local food supply for reasons of lack of consistency of volumes of supply and 'critical mass' and consequently favoured promotion of regional Italian produce.

### **10.3 An 'Ideal' local food retailing scenario**

The 'Ideal' store in Finland is a 'non-typical' example, included in this study to identify what can be achieved against the norm, but within co-operative chain framework. This is a regular sized supermarket of the featured Finnish co-operative chain, but one where regional management allowed store management greater than usual determination over local food buying policy. The Italian Co-op also suggested similar levels of self determination of empowered staff 'which is not common in other retail co-operative organisations':

*The main advantage of working for (named Italian co-op) is the strong autonomy and the possibility for personnel and members of the cooperative to suggest innovations and propose challenges... Regional Executive Italy*

The Italian co-op store managers were free to buy local food products, and have the autonomy to negotiate prices and conditions, it is just that the Italian co-op does not see local as priority equal to regional and national products:

*With regard to the nature and development of the relationships with local stakeholders, it is important to mention that only 10% of food products sold in the point of sale are purchased directly by local shops from local suppliers. Shops are free to negotiate prices, quality, quantity of local food products, etc. The relationships between local suppliers – shops are mainly motivated by small volume of supplies of local food products which does not justify, for economic reasons a purchasing at national or regional level. Store Manager Italy*

However, the 'Ideal' supermarket in the Finnish case stands out as a beacon case. It is successful in sourcing and stocking local fresh foods (meat, bakery, fruit and vegetables etc) simply due to the freer hand of the regional co-operative and the proactive nature of local store management:

*...we have an autonomous management, a kind of autonomous final marketing, the decision making all in all, investments, the directing of operation. And all this can be within this economic district (the co-operatives regional structure)... . Regional Executive Finland*

The autonomy allowed at a regional and store level in Finland can be seen as positive and certainly allows for market differentiation in terms of target marketing by income, social type or inclination towards such product ranges as 'local food'. This can be admired but provides difficulties from the perspective of the national co-operative in terms of common image and policy strategy; and autonomy is tempered 'by the limitations of being in a chain concept' (*Store Manager Finland*). Within this environment *Regional Executive Finland* had an agenda to establish local supply and actively courted suppliers, and further, did this in conjunction with retail competitors as a local community-wide initiative for local sourcing:

*I invited the farmers to a get together, invited the neighbouring entrepreneurs, the (retailing) competitors... everyone. Together we planned the things, the brands, the systems. Regional Executive Finland*

However, *Regional Executive Finland* quickly found that the burden of establishing and running a local supply initiative fell upon their own organisation, with other retail outlet competitors 'free riding' the initiative. This is consistent with the general pattern of such initiatives, these tend to live and die by the efforts of a lead and sponsoring body, and one that is usually the most significant player in the chain. Again, this view mirrors the UK case in Hingley (2010), where local initiative was reliant on the funding, business organisation and shelf space of a lead co-operative retailer. *Regional Executive Finland* provided the same kind of support, including what amounted to quite a considerable sum of money funded by the regional co-operative.

*Regional Executive Finland* actively encouraged local supply and marketing skills amongst local suppliers by bringing them together with the consumer 'to learn about the behavior of customers':

*...they (local suppliers) are involved in the process and there's as much contact with the customer as possible.... So as close to the consumer as possible, and there is real feedback from there, straight to the producer... Regional Executive Finland*

In this way the regional co-operative in Finland acted in an educational and business development role in order to develop local suppliers' business and marketing skills. Additionally, success in such proactive local projects requires enthusiastic and empowered store management. *Ideal Store Manager Finland* was able to fulfil this role. The Finnish regional co-operative retailer management allowed local store flexibility to determine purchase of local foods, as long as these suppliers provided some continuity of supply (not just one-off sales). Again, these were largely fresh perishable foods. There was local negotiation and surprisingly little conflict with suppliers. Local suppliers were encouraged to bring in products to the store and if acceptable, a supply agreement was made. Crucially these products were delivered on a sale or return basis such that:

*...their (the local suppliers) goods are on a sales account. Which means that we don't have any risk. So we don't get deficits, instead we pay him according to how much of their goods have been sold. And they've liked it themselves. So they can freely supply us with as much as they want, but they are also liable for the excess. Then it isn't our risk, but his risk. Ideal Store Manager Finland*

This is a novel approach for food chain store retailing, but one which interestingly, the retailer believed was actually good for the supplier too; in that it encouraged more directly market oriented behaviour, as SME type suppliers engaged directly with end consumers and enjoyed direct feedback. In this specific case in Finland, resulting direct consumer knowledge concerning tastes and demand patterns meant that suppliers' would rarely be left with unsold items to collect. Pricing was determined by the national and regional co-operative policy on margins, but exact pricing was via local management negotiation. As such *Ideal Store Manager Finland* was considerably empowered and derived increased job satisfaction, where, remarkably, she described her job as 'astonishingly free' in terms of self determination (for example, in terms of meeting with suppliers and tasting the products before making a local buying decision, and setting pricing and supply condition arrangements). In addition, the department managers for each product group in the store were involved in identifying product range gaps and provision overlaps and consequently supported the selection of locally supplied products; and as a result were consequently also empowered:

*We have areas of responsibility split for those girls (the in-store product group managers), they are leaders of profit units, all of them. Regional Executive Finland*

Pricing was comparable with mainstream central stock for the retailer, but crucially local produce such as meat and bakery items were perceived to have clear advantages in quality and freshness, where directly

supplied products:

*...don't have to circle through any central store (group centralised supply chain) as they come straight to us. Ideal Store Manager Finland*

The only policy of the co-op retailer was that the local product offered these perceived advantages at no additional price to the mainstream alternative. Delivery was made by the supplier to store and quite often the supplier would perform merchandising and shelf stocking tasks, along the lines of vendor managed inventory (VMI) on a micro level:

*...we have had the producers themselves do the sales work..., as far as it's possible.... There are ones, who bring goods to our backroom and we then forward them. But then there are suppliers and producers, who place the products on shelves, .. up to the customer service situation, and who also price the product themselves. Regional Executive Finland*

Unsold items were collected by the supplier; however, this was a rare event as usually produce sells out quickly, often due to its sheer freshness.

#### **10.4 Local food retailing as social and environmental sustainability?**

This initiative was a clear success for the Finnish co-operative retailer in consistently courting and sourcing good fresh local foodstuffs and consequently satisfying consumers; and suppliers were provided with a ready market. *Ideal Store Manager Finland* was 'hands on' and could facilitate 'joined up' marketing in action (by bringing supplier and consumer together) running promotional and tasting days and initiating instant feedback from customer research. *Regional Executive Finland* believed that he fulfilled the wider community objectives of supporting his area and the specific needs of communities and people as a member of a co-operative that is central to the success of that locality:

*We have to look at the bigger picture. And our standard of operation in municipalities, in different municipalities that we are living here with in everyday life.... In people's sorrows, problems, joys, grief,.... Regional Executive Finland*

*Store Manager Finland* sums up the co-operative philosophy and point of difference as a situation where:

*...everyone benefits, and the customer-owners own the co-operative store, and we in turn aim at producing services and benefits for them as well as possible. And the more the customer-owners trust us the more we can offer them services and benefits. So I think as a business approach... Everyone benefits in some way.*

An issue perhaps more pertinent in Finland than other countries (including Italy) is the small population size and the belief that using co-operative services can preserve local business and local jobs, as perhaps the fear of their local businesses being swamped by a multi-national concern and the consequent local impact would have more visible implications in Finland. Therefore, trust and loyalty to the community and region were seen as paramount to the Finnish regional co-op and at store level, where it would be seen as unethical to cultivate and develop a supply relationship, only then to invite competitive suppliers to tender for the same business:

*(If) We have negotiated things, and he (the supplier) has controlled his own operation according to that, so, then if we start taking from someone else, that's kind of backstabbing them, if we've agreed on things with him. Ideal Store Manager Finland*

The importance of the role of the co-operative in sustainability of communities was an issue raised at all levels in the Finnish co-operative case (going back some 20 years as the co-op's response to societal structural changes), with particular respect to Finnish rural depopulation (via migration, especially of younger people to the cities); against a background of small national population spread thinly across a large country. The co-operative felt that it had a duty to maintenance of these communities and that local food had a part to play in this. Further, the co-operative model in Finland had the same view concerning the support of key local services such as pharmacies and postal services. This policy is replicated in the Italian co-op where:

*...the collaboration of regional co-operatives and member entrepreneurs (co-operative store member owners) have adopted policies and practices in order to sustain local communities. National Executive Italy*

This echoes again the social cohesion and stakeholder network satisfaction argument presented in the Hingley (2010) case example, where the co-op was involved directly, financially and where members acted as 'community ambassadors'. What can be summarised from the Finnish 'Ideal' example is that a local food marketing network can be established, and that co-operative's store retailers have the ethical trading 'drive' to steer it. It does require extraordinary efforts from personnel in key positions of regional

and store management, but there is no reason why such an initiative could not be 'benchmarked' and applied in a more widespread fashion.

Other 'good practice' (notably from the Finnish co-operative) was in the engagement of members in ongoing feedback concerning the co-operative, its policies and operations. Not surprisingly the co-op benefits from the very high level of internet access and use in Finland and this provides a forum for ad hoc and continuous panel marketing research, via interaction with 'active customers'; whom the co-op can listen to, engage with and consult with on a regular basis. This is a clear advantage of member owned businesses, where members are far more likely to volunteer, respond to and engage with the business organisation than in investor owned firms.

Local foods are accepted by the national and regional co-operative organisations (in an ad hoc fashion) in both Finland and Italy with varying degrees of tolerance, from the norm where local store management buys some supplementary fresh produce locally, to the 'Ideal' where *Ideal Store Manager Finland* was encouraged by the regional co-operative to fully engage with local suppliers, as long as prices were comparable to centrally bought product, perceived qualities were higher and profit margins met the co-operative's formula threshold. So in the Finnish case, for example, to stock a product just because it was 'local' was not deemed sufficient; it had to meet the criteria of offering good value plus supplementary qualities:

*...the point that it is a local product, that isn't a purpose in itself... if the goods aren't balanced in their quality and price. Ideal Store Manager Finland*

*So the customers do buy an awful lot of just these local products. They like the fact that it's from the vicinity. And it is usually fresher. But if the price level becomes so much higher or if the quality isn't that much better....then it isn't profitable. Ideal Store Manager Finland*

*...there should be as one very crucial factor... that it's as equal as possible in price competition with others...and then these values that it has (local food): employing the municipality, being domestic... then that's the additional value, with which the customer chooses the product. Regional Executive Finland*

By contrast, the view at all levels in both countries concerning organic food was that this group of products did not always offer sufficient value nor have clear identifiable and marketable qualities. There was a general feeling that organic food had peaked in interest and demand. The Finnish co-op stocked organic food, according to *Regional Executive Finland* for its environmentally favourable 'image value', but he was not convinced of its business viability:

*...with organic food we're sighing (unhappy) that it's like position is getting worse and weaker. ... it no longer makes a difference to us merchants, when the image value has blurred, and it has no business value. Regional Executive Finland*

In general organic food was seen by the co-operatives as niche and expensive and not offering good value. Neither co-operative were especially motivated by environmental impact arguments (with respect to production methods for food). Both organisations felt that consumers were more motivated to buy local foods: for reasons of taste, value, freshness and for reasons of local identity; and that the co-operative may benefit from engaging more directly with local food suppliers:

*I think a local product is just as good as an organic product. ...And in some ways maybe even better than an organic one, if you'll think, that the organic one (for example) comes from the other side of Finland and the local one comes from here. Ideal Store Manager Finland*

*... fortunately with local food we've gotten closer to business. Regional Executive Finland*

The wider social benefits (from the perspective of the Finnish co-operative) of local foods are in community engagement and building. So, in this sense the sustainability argument for organic food does not seem to have much resonance in either case, but there is some mileage in arguing for social and community benefits associated with local food, although these are again ad hoc as there is no planned strategy concerning local foods in either case.

## **10.5 Expansion and limitations of the co-operative retailing approach**

In the Finnish and the Italian case the co-operatives have an expansionist view. This has been achieved by both in terms of joint venture with other international co-operative retailers in, for example, other European and Nordic countries and the emerging markets of the Baltic states and Russia, this thereby fulfils the ICA (2005) mission of 'co-operation amongst co-operatives'; and this extends to the retailers' also encouraging co-operative based supply, with, for example, the Italian co-operative encouraging small local food producers toward:

*...supplier aggregation through producer organizations or cooperatives or consortium in order to meet requirements to be included under the (named co-op house brand for regional products) for Italian regional product identity. National Executive Italy*

Here is further emphasised the difference in approaches between the Italian and Finnish chains, where quite clearly the Italian chain is steering supply towards a critical mass large enough to identify and supply food products on a regional basis, whereas as the Finnish chain is not quite so geared up for this (and perhaps does not have the amount of strongly identifiable food products as are available in Italy).

In both countries co-operative supply is however, comparatively prevalent, with, for example, a very strong dairy co-operative tradition in Finland and a strong amount of collaboration in Italy across many food sectors.

Interestingly, the successful internationalisation approach of both co-op chains is counter to the view held by some that international expansion is difficult to achieve for co-operatives. Davies and Burt (2007) for example, identify that consumer co-operatives find difficulties in this aspect (in comparison with investor owned firms) for the reason of being held back by their ethos and weddedness to the domestic context; with the guiding principles of co-operation not lending themselves to the rapid pace and capital hungry nature of international expansion. In both the Italian and the Finnish co-operative cases expansion does happen, through joint venture with other co-operatives and they appear not to be held back. One point though worth remarking on with regard to the nature of co-operative growth, is in the creation of new markets by the Finnish co-operative. Expansion has seen the opening of new stores in Russia and the Baltic states, offering range, choice and value lacking from the domestic retail provision in those countries. However, the Finnish co-operative has yet to provide membership and member benefits to customers in these new territories. As such, the Finnish co-operative exemplifies co-operatives ability to expand, but do they spread the message and benefits of mutuality if customers in new countries are not members with full member privileges? Alternatively, it could be that the Finnish co-operative has not got the same character in these countries as it has in Finland, due to historical reasons surrounding negative connotations associated with former communist rule and its brand of 'co-operatives'.

There is a further point to be made about problems being derived from the organisational structure of retail co-operatives. Both the Italian and the Finnish co-op report tensions derived from the complex nature of central and regional bureaucracies inherent in the co-operative model of business organisation, which is summed up by the following quotation:

*...although personnel at the point of sales have an in-depth knowledge of consumers in terms of consumers expectations, wishes and needs due to the daily contact, it is hard to promptly meet these expectations due to the complex and hierarchical structure of the (structure of the Italian co-op at all levels), which cause slowdown in the decision making. Store Manager Italy*

Decision making and clear communication of intent, as well as justification of decisions are difficult in a co-operative structure, where many members and members appointed as managers have a say in the direction of the organisation:

*...the main disadvantage (of the mutual co-operative approach is to) find agreement among all members which may request a lot of time determining delays into meet consumer expectations. Store Manager Italy*

*...it is not so easy a place to be CEO of (named Finnish co-op) because of the need to balance the demands of the managing regional executives. National Executive Finland*

A 'reversed structure' (bottom up) engaged and vociferous membership has its advantages (as reported in terms of stakeholder cohesion and market feedback), however, co-operative senior executives do have to continually face questioning from all quarters and this can stall progression on decision making.

## 11 Conclusions

Local food does not have a clear definition; it can be interpreted by different bodies and people in different ways as having an importance on a scale from: the local vicinity to products of regional and national identity (as flagship foods that represent region and country). However, there is general agreement from the participants in this study of a market for local foods on a micro-market level. These are mostly fresh, perishable foods. The market exists for those that seek perceived qualities of taste and freshness, but not at a premium price. This is however, seen to present a marketing problem. The case co-operatives in Finland and Italy, from an organisational perspective were happy to encourage de-centralised and ad hoc development of local vicinity food markets, but from a cohesive business perspective were more interested in food regionalism and food as national identity. Fresh local vicinity

foods do not really fit into this for reasons of volumes, consistency difficulties of establishing brand identity and 'critical mass', but were seen to offer customers a 'value added' they appreciated; and presented a business approach with a human face. So, from the experience of these two very typical European co-operative retailers, local vicinity food marketing was tolerated, even encouraged, but organisation remained localised to particular regional and store structures and did not constitute cross-regional co-operative or national policy; as seen to be the case with the promotion of regional products (notably in Italy). However, this does not mean that local vicinity food is not important to retail co-op chains, it clearly is, but its co-ordination from the perspective of these cases remains ad hoc rather than a matter of policy.

The second important issue that surrounds local food is its role in sustainability: from a production/supply and environmental perspective and from a sustainable communities perspective. Concerning the issue of environmental sustainability, the case co-operatives have regular corporate commitments and promises concerning these issues that are typical in the retailing industry, but neither sees this to be a primary consumer motive in their respective countries for buying local food. Likewise, organic food is not seen as much more than a niche or 'image' concern. The role of local food in sustainable communities is more important. Co-operative ethos concerning responsible and ethical behaviour is to the fore in both co-operative chains and this corroborates prior studies linking the distinct inclination and contribution of co-operative retail businesses in building and maintaining community networks/social responsibility and so forth; via support for local food networks: see Hingley, (2010) for a comparable case in the UK. What this study contributes and corroborates with the UK study, is the application of co-operative principles in (perhaps unique) direct support for businesses and communities, via support for establishment of local food networks. Once again it is relatively ad hoc, but the de-centralised nature of regional retail co-operative management allows for a diversity of decision making on a localised basis, but with the core ethical polices of co-operation at heart.

Co-operatives are ideally placed (given their history, organisational structure and enshrined business intent towards social responsibility and sustainability) to shape the role of local food into a force for positive community (and wider) social improvement. They are not unique in this intent, but their mutual status and members' role in combining business and social/ community networks is unique; and as seen with this study and the UK study, co-ops are inclined to direct support (financially and in a business/community support sense). In order to make the best of this favourable position, co-operatives need to be able resolve communication and decision making difficulties inherent in member controlled businesses in order to regularise and standardise good and positive business practices, such as with sustainable local food.

To conclude, and to reflect the view of Mikkola (2008), whereby 'co-operatives exhibit strong locally built partnership and social relations in support of economic viability of supply chains', retail co-operatives can from this study be seen to contribute specifically and in some ways (because of the fundamental nature of their makeup) uniquely to the development of (socially) sustainable local (vicinity) food. The mutual and member-based status of retail co-operatives can induce the implementation of local/sustainable food economies and co-operatives are identifiably multi-stakeholder oriented (with evidence of inclination to direct financial, moral and business support). However, unless this is regularised as policy and applied across the national and regional structure of the co-op, it is likely to remain piecemeal in application. Co-operative organisations' advantages in socially sustainable business are a clear marketing advantage and co-ops benefit from a tremendous amount of member goodwill as 'citizen consumers' (that other business organisational structures do not necessarily have); such that with the right business decision making, co-operative businesses can differentiate themselves as truly stakeholder centred organisations.

## **12 Managerial implications**

An important issue to come from this study is the relative disconnection felt by managers at retail level dealing with specialist and local suppliers and with customers and how this fits in with the organisational structure and vision of both regional and national strategic management. There is certainly workable good practice to be learned from the relatively decentralised organisation of retail co-operatives who seem to allow localised decision making, but does this very de-centralised nature hinder wider replication of innovative good practice? This is illustrated in analysis of the additional 'Ideal' store in Finland outlines what can be achieved within decentralised management in terms of supporting and stimulating a sustainable local food economy, but as ever, retail co-operation has two sides to contend with. Decentralised management allows flexibility of decision making and member-employee empowerment which can encourage new ideas and processes to flourish (such as with the development of sustainable local food). However, co-operatives remain complex and multi-levelled and the negative side of member

control and mutuality is that decision making is slow and committee-oriented. As a result, unless there were a clear policy concerning local food supply and engagement with suppliers and the consequent 'joined up marketing' that could be rolled out across the national/ regional co-operative structure, it will remain localised and ad hoc. There may be pockets of best practice, but to be successful, chain-wide benchmarking of the likes of the 'Ideal' store in Finland would have to take place before policy could follow. In reality this is more likely to happen with respect to regional rather than local foods and result in consequent regional product marketing.

### 13 Transferability of findings and recommendations for future research

Findings appear to be in line with studies in other countries (for example, the UK) and we are happy that the two chosen countries are typical of established western and European organisations and contexts. Theoretical and practical replication, therefore, could be reliably made in other such countries and contexts, with comparable interviews taking place at local, regional and national levels of retailer co-operative organisations. However, it is recommended that replication take place perhaps in less developed and emerging countries with domestic organisations or featuring internationalising European retail co-operatives in order to judge the impact of socio-cultural impact on transferability of co-operative/ social sustainability principles and issues of de-centralised management.

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