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THE INTERNATIONALIZATION STRATEGY OF AGRICULTURAL CO-OPERATIVES IN NEW ZEALAND

A thesis presented in partial fulfilment of the requirements
for the degree of
Master of AgriCommerce

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Abstract

The global market is transforming rapidly as globalization is influenced by advanced information, communication, and technological development. Companies in the food and agricultural sector, including agri-food cooperatives in New Zealand, have embraced these global trends. Many agricultural co-operatives in New Zealand (NZ) have been successful in growing their business globally by implementing different internationalization strategies.

This study analyses how co-operatives internationalize and the factors that influence them in the decision making of internationalization. The key objectives of the study were to outline the internationalization process of the agricultural co-operatives in NZ, to identify the internationalization strategies chosen by the agricultural co-operatives studied, and to analyze the factors that influence the internationalization decision.

The present research was conducted using a multiple-case study from two chosen agricultural co-operatives in New Zealand. The Tātua Co-operative and Alliance Group Co-operative were selected as the participants because of their successful history of internationalization in the dairy and red-meat industry. The participants were selected by using a purposive sampling method in order to ensure that insights from the important and relevant actors were included. A qualitative approach, using semi-structured interviews for primary data and annual reports for secondary data, was implemented to obtain the information. The cross-case analyses were performed to compare the results of both co-operatives.

The two co-operatives studied could be considered as born-global because they went into the global market soon after their establishment. Even though they are born-globals, they internationalized in a gradual way. The external factors of internationalization were analyzed using the Porter's Five Forces Analysis. Based on the competitive position, both co-operatives are still using the export-based strategy as their main strategy of internationalization, and each implement a focus strategy and differentiation of products to be successful in the global market.

The internal factors that have influenced the choice of each internationalization strategy were identified in this study. The most influencing factors for both co-operatives are network and experience. The other influencing factors are human resources. Both co-operatives agree that financial resources are more considered in foreign direct investment than exporting because they expose bigger risk. This study also reinforces that technology does not have the largest role in accelerating the internationalization process of the co-operatives. Lastly, the challenges vary for each strategy and are perceived differently by each co-operative.

Keywords: agriculture, co-operative, internationalization, strategy

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CHAPTER ONE: INTRODUCTION

1.1. Background

The rapid growth of the global economy, influenced by the advancement of information, communication, and technology (ICT), has triggered firms to grow their business in the international market (Harrison, Dalkiran, & Elsey, 2000). The international market offers a wide market opportunity for firms to expand their business due to the large market size and potential (Jane, 2012). Internationalization has become an effect of the globalization where the world becomes more borderless, communication links are faster and cheaper, inter-region interaction has increased, and transportation and logistics are easier to access (Hughes & O'Neill, 2008).

Developing the business in the international market has, not only been performed by the multinational enterprises, but also by family businesses, small-medium enterprises as well as co-operatives (Mauget, 2005). Co-operatives have proven that they also play a significant role in the world economy. The International Co-operative Alliance state that the largest 300 co-operatives are estimated to have contributed USD2.2 trillion, which is about 2.2 percent of the World Gross Domestic Product (GDP) (Altman, 2017).

Numerous studies have been conducted on the co-operatives' internationalization. A study by Mauget (2005) questioned whether the benefit of the co-operative in the internationalization is less than that of a firm. He also examined if there were any differences in internationalization strategy approaches between the co-operatives and global firms. However, Hansen (2009) has concluded in his study that the global competition for co-operatives in the future will be more intense. Thus, globalization will push the co-operatives to implement major structural and strategic changes for the internationalization process. A study in Brazil by Ritossa and Bulgacov (2009) has identified and described the possible impacts of internationalization and diversification strategies on the results of agricultural cooperatives in the state of Parana. Donoso (2003) has studied the challenges in the internationalization of the New Zealand agricultural cooperative. The focus was on the potential conflicts that might arise among the members of the co-operative during the internationalization process.

Co-operatives have unique characteristics that differentiate them from other forms of businesses. The difference is the co-operative is owned by the people who use it, controlled by the people who use it, and the benefits are generated on the basis of patronage (Garnevska, Callagher, Apparao, Shadbolt, & Siedlok, 2017). Co-operatives perform internationalization to obtain global efficiency, manage risk by portfolio diversification, acceleration of innovation and learning, follow the global trend and build global reputation (Thompson, Strickland, & Gamble, 2010). In addition, Hansen (2009) argue that, besides increasing global competition, the internationalization of the co-operative still has to answer the main objective which is to generate the highest profit to benefit the owners.

Many sectors are urged to adapt to the global competition, including the co-operatives in the agricultural sector (Hansen, 2009). Agricultural cooperatives, in many countries, play a significant role in economic growth and contribute to a higher standard of living for farmers (Fernández, 2014). The World Co-operative Monitor state that 27 percent of the top 300 co-operatives' total output has been generated by the agriculture and food industry co-operatives (Altman, 2017). This also includes the agricultural co-operatives in New Zealand where they play an important role in the economy. If a co-operative wants to explore the international market, it has to choose an internationalization strategy into foreign market carefully. This is a complex and important decision to be made with various factors to be considered that will lead to higher performance of the co-operative (Shen, Puig, & Paul, 2017).

The global market is transforming rapidly as globalization is influenced by advanced information, communication, and technological (ICT) development. Companies in the food and agricultural sector, including agri-food cooperatives in New Zealand, have embraced these global trends. Many agricultural co-operatives in New Zealand have been successful in growing their businesses globally by implementing different internationalization strategies in the form of exporting and a range of other approaches including direct foreign investment. However, limited studies have been conducted on the internationalization of agricultural co-operatives in New Zealand. The specific interest in this study is to understand better how co-operatives have embraced these global trends to successfully internationalize.

1.2.Problem Statement

A co-operative is a common business form in New Zealand. The co-operative sector comprises a large part of the NZ economy. The top 30 co-operatives and mutuals contributed 17.5% revenue to NZ GDP in 2015 (Garnevska et al., 2017). In 2012, the United Nations listed New Zealand as the most co-operative economy (Garnevska et al., 2017). A recent study found that revenue of more than NZD 28 billion per annum is gained from New Zealand's top 15 agricultural cooperatives, including co-operatives in dairy and red-meat as the largest sector. It also provides employment to about 42,000 people and has a membership of over 199,000 (Garnevska, Callagher, Apparao, & Shadbolt, 2018).

New Zealand has an unfavourable geographic location which might hinder international transactions because of the high cost of transportation and logistics (Scott-Kennel, 2013). However, despite the geographic limitation, New Zealand has become one of the largest players in the world's agricultural industry. New Zealand is a country that is highly dependent on international trade as the backbone of the economy (Scott-Kennel, 2013). Businesses are driven to develop in the international market because the local market in New Zealand is small and limited compared to the global market that offers many opportunities to grow. The businesses that focus on the global market soon after the inception are known as 'born-globals' (Knight & Cavusgil, 1996).

History has shown that exporting was the earlier internationalization strategy of agricultural co-operatives in New Zealand (Morris, 2017). However, exporting is not the only choice for them to internationalize their business. There are several determinants and risks that influence the co-operatives to choose their preferred entry modes (Erramili & Rao, 1990; Ahmed, Mohamad, Tan, & Johnson, 2002; Kraus, Ambos, Eggers & Cesinger, 2015; Shen et al., 2017)

The agricultural co-operatives in New Zealand have been successful in growing their business globally by implementing different internationalization in the form of exporting and a range of other strategies including direct foreign investment. However, not many studies have been conducted about internationalization of New Zealand co-operatives. This study analyses how co-operatives have embraced these global trends to

internationalize successfully and the factors that influence them in the decision making of internationalization.

1.3. Aim of Research

This research aims to describe the internationalization process of agricultural co-operatives in New Zealand and identify the influencing factors of the internationalization strategies.

1.4.Objectives

This study investigates the internationalization process of agricultural co-operatives from two chosen agricultural co-operatives in New Zealand. The key objectives of the study are:

- to outline the internationalization process of the agricultural co-operatives in NZ
- to identify the internationalization strategies chosen by the agricultural co-operatives studied
- to analyze the factors that influence the internationalization decision

1.5. Structure of the Thesis

This study includes seven chapters. Chapter one introduces the background of the study, problem statement, the aim, objectives and the structure of the thesis. Chapter two describes the relevant study background including that of agricultural co-operatives and agricultural industry in New Zealand. Chapter three reviews the literature including the definition of internationalization, internationalization theories, internationalization strategies, and internationalization in Agri-food Industry. Moreover, this chapter also covers the description of co-operative theories, agricultural co-operatives and the internationalization process of agricultural co-operatives. Chapter four describes the methodology including the research strategy, sampling, data collection, and the selected data analysis technique. Chapter five presents the results based on the case study of two co-operatives. Chapter six discusses the findings of studies where a cross-case analysis was performed to compare the results of these two co-operatives. Chapter seven concludes the findings, limitations, implications of this study, together with suggestions for further research.

CHAPTER TWO: STUDY BACKGROUND

2.1. History of Agricultural Co-operatives in New Zealand

New Zealand, a small country with a small population, is located remotely in the South Pacific region thus it is distant from larger markets (Scott-Kennel, 2013). Fortunately, it is gifted with natural advantages which makes the land suitable to develop an agricultural industry. Owing to the remoteness and small size of the market, New Zealand's economy is largely dependent on the export of agricultural production (Evans & Meade, 2006). The agricultural sector still plays an important role in the economy of New Zealand. In 2012, the contribution of agriculture was 5.0 percent (\$10.6 billion) of New Zealand's gross domestic product (GDP). Agriculture is also a significant source of employment in New Zealand and, in 2013, agriculture became the largest rural employer with 105,576 people (24.8 percent of people employed) (StatsNZ, 2015). A recent study found that New Zealand's top 15 agricultural cooperatives generate revenue of more than NZD 28 billion per annum. They also provide employment to about 42,000 people and have over 199,000 members (Garnevska et al., 2018).

International trade of agricultural products has been in practice for a long time in New Zealand. In 1880, the supply of meat in New Zealand exceeded the local demand. Therefore, the first attempt to send frozen meat from New Zealand using refrigerated shipping to transport meat to Europe came about in 1882 (Hall). In 1984, the New Zealand Government withdrew agricultural subsidies, transforming New Zealand into one of the most open economies in the world (Scott-Kennel, 2013). International trade liberalization opened the opportunity for New Zealand farmers to gain access to wider foreign markets. The global competition and lack of subsidies forced New Zealand producers to increase their efficiency and increase productivity to successfully compete in the global market (Evans & Meade, 2006). The removal of subsidies led to major change, adjustment and enhancement in productivity and quality in the agriculture industry (Evans, 2012). The producers of agricultural products in New Zealand have adapted to market changes by forming co-operatives to join forces and increase their competitiveness.. Therefore, it is the preferred type of organization in the agricultural sector (Rudzki & Davidson, 2002).

The earliest co-operative in New Zealand was established in 1844 in Riwaka, a small town in the North of the South Island (Morris, 2017). Later on, the foundation of co-

operatives in New Zealand was laid in 1871 when the first dairy co-operative was established. It was the Otago Peninsula Cheese Factory located in Springfield, near Dunedin. The founders consisted of eight suppliers that gained shares according to the amount of milk each could supply (Morris, 2017). The first farmers' trading co-operatives were established in 1881 in Timaru and Christchurch. The co-operative form of organization has been adopted by many dairy producers and, in 2002, Rudzki and Davidson (2002) state that 40% of 124 dairy factories in New Zealand had a co-operative form. In 2001, Fonterra was established by the merger of two major dairy co-operatives in New Zealand which were the New Zealand Dairy Group and Kiwi Dairies (Murray, 2016). The evolution of New Zealand co-operatives has been summarized by Garnevska et al. (2017) and is presented in Table 1.

The growth of co-operatives in New Zealand has been supported by several organizations, including the Co-operatives Business New Zealand. Previously, the organization was known by the New Zealand Agricultural Co-operatives Association which was developed in 1984 (Morris, 2017). Co-operatives in New Zealand are also supported by the Co-operatives Companies Act 1996, legislation that is flexible enough to enable New Zealand co-operatives to modify their form and objectives according to their needs (Evans & Meade, 2006). Co-operatives are acknowledged as being similar to investor-owned firms, but differ in the tax treatment of dividends and variations of company rules that allow the co-operative structure (Evans, 2012).

Table 1. Evolution of Co-Operatives and Mutuals in New Zealand

<i>Year</i>	<i>Event</i>
1846	First dairy exports from New Zealand
1869	Southland Building, Land and Investment Society (now SBS Bank) forms
1871	The first Dairy co-operative in NZ is registered in Otago
1908	The Industrial and Provident Societies Act is passed
1920-1940	Emergence of 600 dairy factories, of which 85% are co-operatives. Emergence of co-operatives in other sectors (e.g. Medical Assurance Society, Foodstuffs, Market Gardeners, Electricity Ashburton, CDC, Co-operative Bank)
1940-1980	Continued emergence of co-operatives and mutuals in various sectors (e.g. Alliance Group, Farmlands Co-operative Society, Ashburton Trading Society, New Zealand Plumbers & Merchants Society, Mitre 10, Ravensdown, Farmers Mutual Group)

1984	New Zealand Agricultural Co-operatives Association (now known as Co-operative Business New Zealand) is formed.
1996	
2012	

Source: (Garnevska et al., 2017)

According to Woodford (2008), the agricultural co-operatives in New Zealand could be classified into three business structures and two business functions. The business structures are traditional, capitalist and hybrid. The capitalist structures have the mechanism for capital gain on the shares held by members, while traditional co-operatives do not. Hybrid co-operatives have two types of shares, which are transactor shares and investor shares. Only the transactor shares are entitled to vote in the co-operative. To retain the co-operative, form, according to the Co-operatives Companies Act, 60% of the voting shares must be held by the transacting members. The business functions of co-operatives could be separated by input supply and product marketing. However, the distinction of the two is not so clear in New Zealand co-operatives since many developed co-operatives are operating these two functions at the same time. Fonterra, for example, as the largest milk producer and marketing co-operative, also has an input supply division (Woodford, 2008).

2.2. Global Competitiveness of New Zealand Agricultural Co-operatives

In New Zealand (NZ), The co-operative sector makes up a large part of the NZ economy. The top 30 co-operatives and mutuals contributed 17.5% revenue to NZ GDP in 2015, as shown in Table 2. The largest sector is Agri-food co-operatives that contribute around \$43 billion to the NZ economy. This is worth 65.2 percent of revenue, 67.6 percent of assets and 82.8 percent of employment (Garnevska et al., 2017).

Table 2 . Top 30 co-operatives by revenue 2015 in New Zealand

RANK	CO-OPERATIVE	REVENUE (IN MILLIONS)
1	Fonterra Co-operative Group	18,845.0
2	Foodstuffs - North Island	6,238.8
3	Foodstuffs - South Island	2,721.3
4	Silver Fern Farms	2,434.4
5	Farmlands Co-operative Society	2,210.0
6	Alliance Group	1,501.5
7	Zespri	1,458.6
8	Ballance Agri-Nutrients	892.7
9	Southern Cross Medical Care Society	817.8
10	Ravensdown Fertiliser Co-operative	711.4
11	Mitre 10 (New Zealand)	708.6
12	Westland Co-operative Dairy Co	639.3
13	Independent Timber Merchants Co-operative	398.0
14	Market Gardeners	328.9
15	CDC Pharmaceuticals	293.1
16	Tatua Co-operative Dairy Co	285.7
18	Capricorn Society	261.4
19	Livestock Improvement Corporation	228.4
10	FMG (FMG Insurance Limited)	209.3
20	Southland Building Society (SBS Bank)	183.3
21	NZPM Group	174.8
22	Dairy Goat Cooperative (NZ)	156.7
23	Eastpack	135.2
24	Pharmacy Wholesalers (Bay of Plenty)	132.9
25	Ashburton Trading Society	119.4
26	The Co-operative Bank	110.7
27	Union Medical Benefits Society	52.7
28	Electricity Ashburton	46.8
29	Medical Assurance Society	32.7
30	Co-op Money NZ	24.7
Total Revenue		42,354.10

Source: (Garnevska et al., 2017)

In 2012, the United Nations listed New Zealand as the most co-operative economy in the world (Garnevska et al., 2017). According to the Global Census on co-operatives organized by The United Nations Department of Economic and Social Affairs, New Zealand has been placed as number one in both its Co-operative Economy and Social Progress categories. The top four countries with cooperatives that contribute more than 10% of the national GDP are New Zealand (20%), Netherlands (18%), France (18%) and Finland (14%) (Dave Grace & Associates, 2014).

There are three ratios used to measure the social and economic impacts of co-operatives. These are:

- the membership penetration of co-operatives relative to the total population (i.e. membership /population)

- employment by co-operatives relative to total population (i.e. employment/population)
- annual gross revenue or turnover of all co-operatives in a country relative to the country's GDP (NZ.coop, 2014)

The International Co-operative Alliance released the top 300 global co-operatives' report in 2011 which included several sectors: insurance (41%), agriculture (30%), wholesale and retail trade (19%), banking and financial services (6%), industry and utilities (1%), health, education and social care (1%) and other services (1%). Fonterra, as the largest dairy co-operative in NZ, is ranked 33 with a US\$11.34 billion revenue. It ranked 9th among the co-operatives in the agricultural sector only (ICA, 2014). By 2015, Fonterra had increased its revenue to US\$ 13.05, but fell to the 40th position among other global co-operatives, and 10th among the agricultural co-operatives (ICA, 2015). Other New Zealand agricultural co-operatives listed in the top 300 global co-operatives are Foodstuffs North Island, Foodstuffs South Island, Zespri, Silver Fern Farms, and the Alliance Group (ICA, 2018).

In the global market, the EU is still the biggest player in the food and agricultural sector. The co-operatives in this sector comprises around 13.4% of the total volume of business and provides 13.5% of employment (Juliá-Igual, Meliá-Martí, & García-Martinez, 2012). Agricultural co-operatives in the EU have progressed into a new internationalization phase. They have begun to internationalize their membership by becoming transnational co-operatives. They expand their co-operatives by inviting farmers from foreign countries to become members (Bijman, Pyykkönen, & Ollila, 2014). Arla Foods is one of the most transnational agricultural cooperatives in the EU. Arla was established in the year 2000 by the merger of MD Foods from Denmark and Arla from Sweden. Now, it has members in Denmark, Sweden, Germany, Belgium, UK, Luxembourg and the Netherlands. Another large transnational cooperative is also from the EU and is in the dairy sector. The co-operative is the Friesland Campina which is based in the Netherlands having members in three countries: Netherlands, Germany, and Belgium (Bijman et al., 2014). Meanwhile, in NZ, the practice of transnational co-operatives has not yet been considered as their main strategy (Donoso, Rudzki, Shadbolt, & Bailey, 2003).

Murray (2016) believes that the small population and isolated location is one factor that differentiates the co-operatives in New Zealand from the other agricultural co-operatives around the world. This condition allows the members of the co-operative to have a more intensive engagement and participation among them. This grassroots' approach is a strong base that helps them to face the challenges of internationalization in the global market. Considering the small size of the local market, it could be said that New Zealand co-operatives are born-globals by nature because they must conduct international trade to grow their business (Gray & Heron, 2010). The global growth of co-operatives in New Zealand is also supported by the Government, especially when the Co-operative Companies Act passed into law in 1996. The co-operative legislation in New Zealand is flexible and neutral where the co-operatives are considered as the same business structure as the other investor-oriented firms, so they have the same opportunity to internationalize as the other forms of business (Woodford, 2008).

History has shown that exporting was the earlier entry-mode choice of agricultural co-operatives' internationalization in New Zealand (Morris, 2017). However, exporting is not the only choice for them. Fonterra, as the biggest co-operative in New Zealand, has internationalized its business into the global market. This includes an alliance with Nestlé in North, Central and South America, joint ventures with Arla Foods in Great Britain, a joint venture with Dairy Farmers of America, a joint venture in India, a joint venture in Mexico, a merger in Australia and other forms of internationalization (Evans & Meade, 2006; Donoso, 2003; Fonterra, 2018). Fonterra's products are distributed and traded to 140 countries globally, it operates 30 manufacturing sites in New Zealand and has 35 additional locations throughout the world (Fonterra, 2018). An earlier study by Donoso (2003) revealed that, although Fonterra is a truly multinational company with wholly-owned subsidiaries and joint venture companies spread over the world, exporting is still Fonterra's main foreign markets' service mode. This is an interesting fact that could be further studied, particularly whether it would be still relevant after more than ten years have passed, especially with the advancement of innovation and technology.

2.3. New Zealand Dairy Industry

New Zealand is the eighth largest milk producer worldwide, producing 3% of the milk in the world (NZIER, 2017). NZ dairy companies processed 20.7 billion litres of milk containing 1.85 billion kilograms of milksolids in 2016/2017. The production of

milksolids in 2016/2017 was 41% higher than in 2006/2007, but there was a decrease by 0.6% from the last season (DairyNZ & LIC, 2017).

New Zealand is the world's largest exporter of dairy products. About 95% of New Zealand's dairy products are exported overseas. New Zealand exported the dairy products mostly to the top five countries which are China, United States, United Arab Emirates, Australia, and Japan ([DCANZ], 2018). Dairy farming contributed 35% of New Zealand's total primary industry export value (NZIER, 2017). New Zealand exported 19.1 billion litres of milk and 1,658 million kilograms of milksolid worth \$13.4 billion in 2016/2017 (DairyNZ, 2017). The percentage of export for each dairy product category can be seen in Table 3.

Table 3 The Dairy Products Exports in New Zealand 2017

<i>Dairy Products</i>	<i>Percentage of Export</i>
<i>Milk Powder</i>	38%
<i>Butter and Cream</i>	17%
<i>Skim Milk, Buttermilk Powder, Infant Food</i>	13%
<i>Casein, Protein products, albumin</i>	13%
<i>Cheese</i>	10%
<i>Yoghurt, Ice Cream, etc</i>	9%

Source: (DairyNZ, 2017)

The total number of dairy herds in New Zealand is 11,748 with an average herd size of 414, while the total number of the milking cows is 4.8 million in 2017 (NZIER, 2017). Most of the dairy herds are located in the North Island, with the greatest concentration situated in the Waikato region (28.8%). The number of herds in the South Island is only around 27%, however, they contain 40% dairy cows mainly located in North Canterbury (13.8%), Southland (11.6%) and Taranaki (9.7%) (DairyNZ & LIC, 2017)

Table 4. Number of Dairy Herds in New Zealand 2017

	<i>North Island</i>	<i>South Island</i>
<i>Numbers of Herds</i>	73%	27%
<i>Dairy cows</i>	60%	40%

Milksolids production | 57% | 43%

Source: (NZIER, 2017)

The dairy sector also plays an important role in providing employment in New Zealand. The total employment provided by the dairy industry is 47,310, where 71.4% people are working on farms and 28.6% people are working in the Processing and Wholesaling (Table 5).

Table 5 New Zealand’s Employment in Dairy Sector 2017

<i>Dairy Employment</i>	<i>Number of Employee</i>
<i>On-Farm</i>	33,760
<i>Processing and Wholesaling</i>	13,550
<i>Total</i>	47,310

Source: (NZIER, 2017)

During the 1980s and 1990s, the milk production in New Zealand was growing at an annual rate of 3.6%. In 2001, the annual growth became 2.8% since there were regulatory changes in the industry. In the past three years, the milk production growth has slowed by 1-2% (Figure 1). The reason is mainly because of low milk prices and environmental issues.

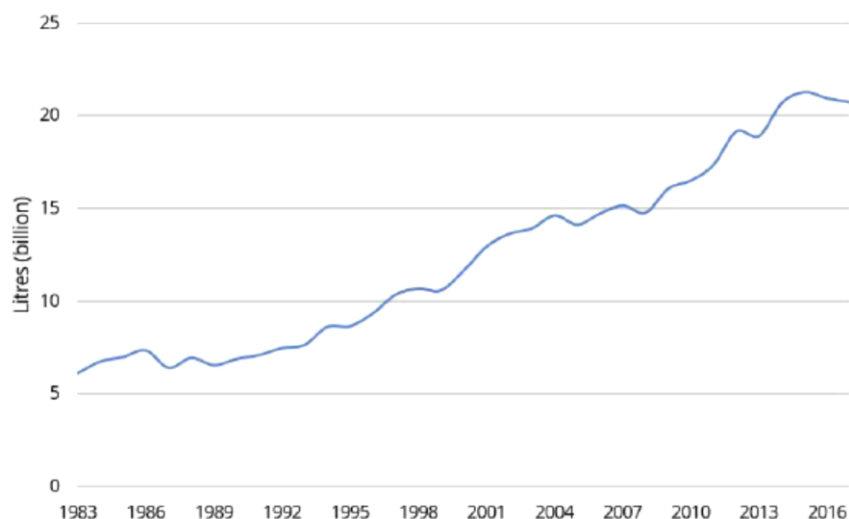


Figure 1. Milk Production Growth in New Zealand
source: [TDB] (2018)

Despite the slowing growth rate, from 2001 to 2017 the total milk volumes have grown by 52%, or around 470 million litres per year. For a highly perishable product that cannot be stored, that growth carries with it the consequence of having to invest in increased processing capacity for the forecast peak milk volumes. This level of growth means that it has been very difficult to do anything with the additional volume other than to channel it into commodity exports [TDB] (2018).

The biggest market share of the milk industry in New Zealand is dominated by Fonterra as the largest dairy co-operative in New Zealand. It collects over 300 million litres of milk per year. The remaining milk goes to the other dairy industries, including Tatua Co-operative with only a 1% share (Figure 2) [TDB] (2018).

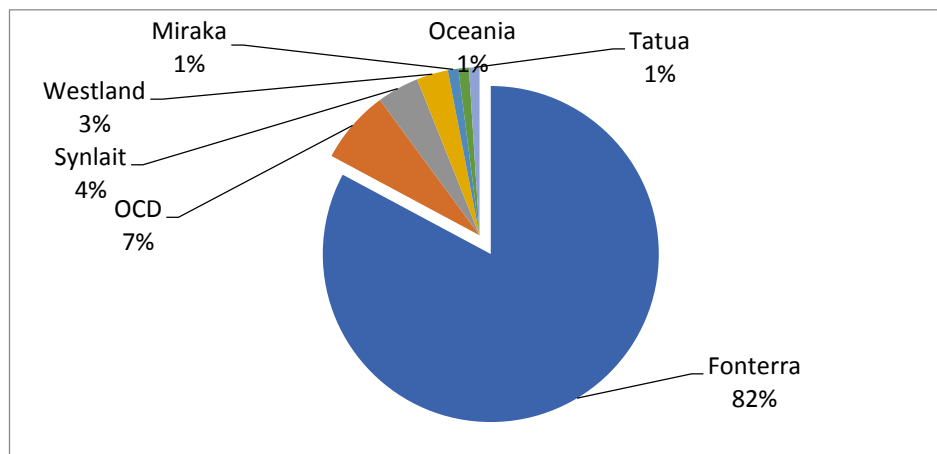


Figure 2. NZ Dairy Company's Volume-based market share
source: [TDB] (2018)

2.4. New Zealand Red Meat Industry

New Zealand has a strong position as a red meat exporter in the global market, especially for lamb and beef commodities. Around 70% of global lamb exports is supplied by New Zealand and Australia, where New Zealand represents more than a third of global trade (2017). Although New Zealand only produces around 1% of global beef production, it still occupies a strategic position in the top 15 of world beef producers (Table 6) and ranks as the 6th global beef exporter (R. Cook, 2017).

Table 6. World Beef Production: Ranking of Countries

World Beef Production: Ranking Of Countries			
World		61,583,000	
Rank	Country	2017	% Of World
1	United States	12,086,000	19.63%
2	Brazil	9,500,000	15.43%
3	European Union	7,875,000	12.79%
4	China	7,070,000	11.48%
5	India	4,250,000	6.90%
6	Argentina	2,760,000	4.48%
7	Australia	2,065,000	3.35%
8	Mexico	1,910,000	3.10%
9	Pakistan	1,780,000	2.89%
10	Turkey	1,700,000	2.76%
11	Russia	1,310,000	2.13%
12	Canada	1,160,000	1.88%
13	South Africa	885,000	1.44%
14	Colombia	825,000	1.34%
15	New Zealand	610,000	0.99%
16	Paraguay	610,000	0.99%
17	Uruguay	605,000	0.98%
18	Japan	460,000	0.75%
19	Kazakhstan	435,000	0.71%

Source: (USDA, 2017)

New Zealand exported more than one million tonnes of red-meat and co-products worth NZD 7 billion in 2017. This value is NZD 600 million less than the previous year as it was affected by a decline in beef price and exchange rate movements ([MIA], 2017). New Zealand's meat is the second largest export commodity after dairy products, and around 85% of the meat production is exported to 122 countries around the world ("Meat Industry Association," 2018).

The biggest export market by volume, for beef, is USA and China followed by other Asian countries such as Taiwan, Japan, Korea, Indonesia, Hong Kong, as well as Canada and French Polynesia (Figure 3). The major export market by volume for lamb is China, UK, USA, Germany, France, Japan, and Belgium (Figure 4).

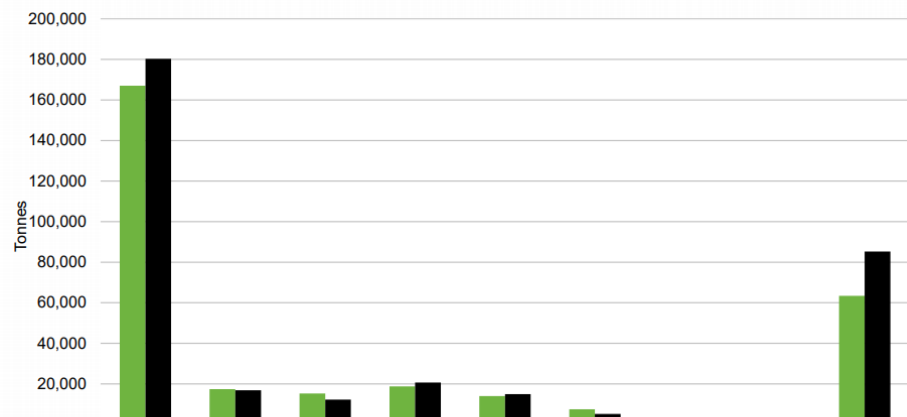


Figure 3 New Zealand Beef Exports' Destination by Volume
source: ("Beef Exports by country - New Zealand," 2018)

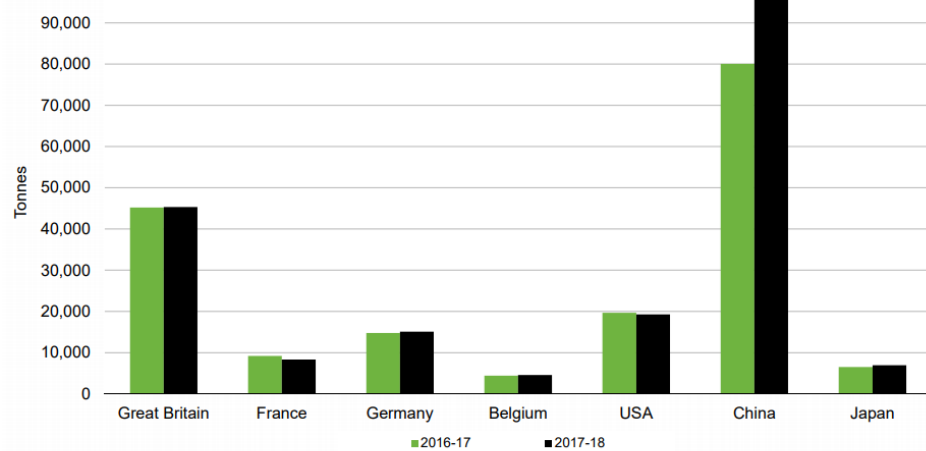


Figure 4. New Zealand lamb Exports' Destination by Volume
source:("Lamb Exports by Country - New Zealand," 2018)

The beef cattle number in 2017, with a total of 3.63 million head, increased 2.8% from 2016. On the other hand, the value of beef and veal exports in 2017-2018 was forecasted to decrease by 1.9% and decrease by 0.9% in volume. However, the total export receipts were forecasted to remain high at \$3.3 billion FOB, even though they decreased by 2.1% from the previous season (B+LNZ, 2017).

Table 7 New Zealand Beef and Veal Exports 2013-2018

Sep Year	Beef and Veal Meat			Co-Products \$m FOB	Total Beef \$m FOB	Beef Meat %*
	000 tonne	\$ / tonne	\$m FOB			
2013-14	390	5,827	2,274	530	2,804	81%
2014-15	432	7,395	3,193	594	3,787	84%
2015-16	423	6,996	2,962	562	3,524	84%
2016-17e	409	6,866	2,806	560	3,366	83%
2017-18f	405	6,738	2,729	565	3,294	83%
2017-18f % change	-0.9%	-1.9%	-2.8%	+0.9%	-2.1%	

* Beef and Veal Meat value as a percentage of the value of Total Beef exports, including Co-Products
e estimate, f forecast | Source: Beef + Lamb New Zealand Economic Service, Statistics New Zealand

source: (Beef+Lamb New Zealand, 2018)

The total sheep number in 2017 was 27.3 million, decreasing by 0.9% from the previous year. Lamb exports were expected to increase 0.5% in volume and 0.9% in value. Meanwhile, the total lamb meat exports were expected to increase 1.3% on the previous season at \$2.56 billion FOB (B+LNZ, 2017).

Table 8. New Zealand Lamb Exports 2013-2018

Sep Year	New Zealand Lamb Exports Lamb meat			Co-Products \$m FOB	Total Lamb \$m FOB	Lamb Meat %*
	000 tonnes	\$ / tonne	\$m FOB			
2013-14	307	8,163	2,504	275	2,779	90%
2014-15	302	8,470	2,559	256	2,815	91%
2015-16	303	7,907	2,397	187	2,583	93%
2016-17e	296	8,531	2,523	178	2,701	93%
2017-18f	297	8,604	2,556	191	2,747	93%
2017-18f % change	+0.5%	+0.9%	+1.3%	+7.0%	+1.7%	

* Lamb Meat value as a percentage of the value of Total Lamb exports, including Co-Products
e estimate, f forecast | Source: Beef + Lamb New Zealand Economic Service, Statistics New Zealand

source: (Beef+Lamb New Zealand, 2018)

There are top four red meat processors who account for 75% of the beef and lamb production in New Zealand. The top processors are the Alliance Group, Silver Fern Farms, ANZCO and AFFCO. Among them, the Alliance Group is the only 100% farmer-owned co-operative in New Zealand (Tatua, 2017). The Alliance Group is processing 30% of New Zealand's sheep meat, 30% of New Zealand's venison, and 10% of New Zealand beef (*Alliance Group Annual report 2017, 2017*).

CHAPTER THREE: LITERATURE REVIEW

3.1. Internationalization

3.1.1. Definition of Internationalization

Welch and Luostarinen (1988) argued that the term internationalization itself is not clearly defined. A broad description is outward movement in an individual firm's or larger grouping's international operations. A broader concept must be adopted since both inward and outward movements are closely linked in the dynamics of international trade. Welch and Luostarinen (1988) then define internationalization as the process of increasing involvement in international operations. Another definition given by Calof and Beamish (1995) says internationalization involves a firm's operational adjustment in strategy, structure, and resources to an international environment.

In terms of economic activities and trade, Theuvsen and Ebneith (2005, p. 5) define internationalization as "the process by which an economy, an industry or a company becomes increasingly integrated into international economic activities." Based on these definitions, the internationalization process includes cross-country transactions of products, services or resources.

3.1.2. Motive of Internationalization

The factors driving a firm's internationalization might be internal, where the company has an orientation towards overseas markets, or external from the competitive business environment and globalization (Jane, 2012). Grünig and Morschett (2017) identify seven drivers of internationalization:

1. the need to find new customers in order to create additional turnover and contribution margin
2. the need to reach economic scale
3. access to low-cost raw materials and labor
4. balancing risk
5. the desire to gain new competencies
6. access to internationally active customers or to follow customers which go international

7. strategic power to apply price pressure on locally-based competitors in specific countries or put pressure on suppliers, customers, and even governments

3.1.3. Internationalization Theories

The internationalization process of business has been explained by several theories that have evolved over time. Several recognized theories of internationalization are summarized in Table 9 and will be elaborated further in this section.

Table 9 Internationalization Theories

<i>Internationalization Theory</i>	<i>Introduced by</i>	<i>Concept</i>	<i>Critics</i>
<i>Absolute Advantage Theory (1776)</i>	Adam Smith	A country gains from production specialization in the process of international trade between two countries (Ingham (2004) as cited in (Rastorgueva, 2014)	It does not consider the situation when one of the trading countries has no absolute advantage in any commodity (Hunt, 2002)
<i>Comparative advantage theory (1817)</i>	David Ricardo	When a country produces goods for a lower opportunity cost than other countries. One country might not be the most efficient producer of a good, but the good has a lower opportunity cost for other countries to import (Hunt, 2002)	It only takes into account one factor of production which is the labor. It also does not explain the trade between almost identical countries where there are no relative advantages over another (Hunt, 2002)
<i>Product Life Cycle Theory (1960's)</i>	Raymond Vernon	Product enters a foreign market depending on the current position of the product life-cycle. A product initially begins to grow in the local market then gradually expands to the international	It contains no adequate conceptualisation of either the functioning of the enterprise or the interaction of the enterprise with its external environment (Taylor (1986)

		market (Raymond Vernon, 1966)	
<i>The Internationalization Process Theory (1970's)</i>	Jan Johanson and Wiedersheim-Paul	Development of firm in the foreign market is based on a sequential establishment chain . (Johanson and Wiedersheim-Paul (1975)	This model is too deterministic. it does not take into account the mutual commitment among countries. It just considered them as separate entities and the operational and theoretical model are not congruent (Rastorgueva, 2014)
<i>The Internalization theory (late 1970's)</i>	P. Buckley and Casson	Firms should internalize the resources and apply company's knowledge-based activities to produce and process efficiently (Buckley and Casson (1976)	It focuses on external imperfections of knowledge transfer and internal cost minimization but fails to assess the true costs of international operations (Rugman, 1980)
<i>New Trade Theory (1979)</i>	Paul Krugmann	Critical factors in determining international patterns of trade are economies of scale and network effects. This model also introduced that the firms who enter the market earlier gain economies of scale which will create entry barriers for other firms. (Krugman, 1979).	Might promote the exploitation of comparative advantage and domination in the market (Rastorgueva, 2014)
<i>The Network Theory (1980's)</i>	Johanson and Mattsson	International integration could be acquired using the strength of network involvement (Ojala, 2009).	It denies the role of the state and other institutions that should remain a key international player because networks can only operate effectively with the support of state and hierarchical institutions of

			governance. (Joseph, 2010)
<i>Michael Porter's theories (1985)</i>	Michael Porter	Porter explained that competition is driven by five competitive forces then identified four broad categories: factors of production; demand conditions in the home market; related and supporting industries; characteristics of firm behaviour and rivalry (Porter, 1993)	The model does not work well when it turns to forecasting outcomes and very few verifiable predictions are made which is not structured within a general equilibrium framework (Waverman, 1995).
<i>International New Venture (INV) model (1994)</i>	Benjamin M. Oviatt & Mc Dougall	A business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries (Oviatt & McDougall, 2005)	It has little to no productivity advantage and exhibit no long-term growth lead compared to firms with less or later internationalization. (Choquette, Rask, Sala, and Schröder (2017)

The internationalization concepts are developed based on several traditional theories of international trade. The underlying theory of international trade was introduced by Adam Smith. His theory is known as the absolute advantage theory. If a country could produce a product with less cost per unit, it has the absolute advantage of the product. Trade happens with another country who has an absolute advantage over a different product (Ingham, 2004 in Rastorgueva, 2014)

However, the absolute advantage theory did not consider the situation if one of the trading countries has no absolute advantage in any commodity. In response to that, David Ricardo developed the absolute advantage theory and introduced the comparative advantage theory. He stated that a country could gain from international trade if it has a comparative advantage. He defined the comparative advantage as when a country produced goods for

a lower opportunity cost than other countries. One country might not be the most efficient producer of a good, but the good has a lower opportunity cost for other countries to import (Hunt, 2002). The limitation of the comparative advantage theory is it only takes into account one factor of production which is the labor. It also does not explain the trade between almost identical countries where there is no relative advantage over another.

In response to the theory of comparative advantage, Raymond Vernon (1966) introduced the international product life-cycle theory in 1966. This theory explained that a product would enter a foreign market depending on the current position of the product life-cycle which differs between countries (Raymond Vernon, 1966). The product life-cycle theory suggests that a product initially begins to grow in the local market then gradually expands to the international market. As the demand for a product increases, product standardization usually takes place. If the growth rates declined when the product matured, export to foreign market would begin. As the sales in the foreign market grow, later on, the production will be established in the importing countries to respond to the demand. To avoid the decline in production later in the cycle, the product should be continuously upgraded with innovation for differentiation to survive the competition.

There are several factors that affect production in the foreign market which are economies of scale, tariffs, transportation costs, the income elasticity of demand for the product, and the income level and size of the foreign market. Vernon divided products into three categories based on the product-cycle, which are new product, maturing product and standardized product (Vernon, 1979). A critique on this model has been addressed by Taylor (1986). He stated that the product-cycle model contains no adequate conceptualization of either the functioning of the enterprise or the interaction of the enterprise with its external environment.

The internationalization theory, also known as the Uppsala Model, was originally formulated at Uppsala University in Sweden in the mid-1970s. This theory explained that development of firms in the foreign market is based on a sequential establishment chain. Johanson and Wiedersheim-Paul (1975) have identified four stages in the internationalization process theory:

- (1) No regular export activities, business develops in the local market
- (2) Export via independent agent

(3) Sales subsidiary

(4) Production/manufacturing in the foreign market

These stages show increased commitment to the market because the firms gain greater experience and knowledge (Johanson & Vahlne, 1977). Based on the Uppsala model, the firms initially begin by exporting to physically close countries that they know better and have similar business practices (Johanson & Wiedersheim-Paul, 1975). However, since the globalization era, there was a behavioral shift that firms began their export to psychologically close countries. Firms are likely to export towards markets with the bigger market opportunity for their product (Bell & Young, 1998).

Even though the Uppsala model has been widely used as the basic reference for internationalization theories, however, it is also the subject of several critiques. The model has been criticized as being too deterministic and it does not take into account the mutual commitment among countries. It just considered them as separate entities and the operational and theoretical model are not congruent (Rastorgueva, 2014). Responding to the critiques, a number of authors have contributed to the enhancement of this model (Forsgren, 2002; Jeryl, 2002; J. Johanson & Vahlne, 2009; Vahlne & Johanson, 2017). Recently Vahlne and Johanson (2017) developed it into a general model of the evolution of the multinational business enterprise. This model describes the evolution of a firm starting from the first steps abroad to being a global firm.

Buckley and Casson (1976) introduced the general theory of market internalization which further developed the idea of Multi-National Enterprises. The internalization theory sees that the firms should internalize the resources and apply company's knowledge-based activities to produce and process efficiently. The internalized bundle of resources can be allocated between product groups and between national markets (Buckley & Casson, 1998). The internalization theory by Buckley and Casson (1976) also consider the option of licensing to enter a foreign market. Licensing is located in the foreign market and contractually controlled while exporting is located domestically and administratively controlled.

Buckley and Cason (1976) focus on the imperfections in intermediate product markets and present the idea that the balance between the benefits of market internationalization

and its cost determines the boundaries of the firm and leads to the growth of firm by internalization. Johanson and Vahlne (1977) believe that the internationalization is the product of a series of incremental decisions. The market internalization across national boundaries will create multinational enterprises (MNE). The MNE is defined as an enterprise that owns and controls activities in different countries in which they are incorporated (Buckley & Casson, 1976).

The general internalization theory has been further criticised by Rugman (1980). He points out that the weaknesses of the conventional internalization theory are; it focuses on external imperfections of knowledge transfer and internal cost minimization but fails to assess the true costs of international operations. Rugman introduces the three options for companies to consider explicitly the relative costs of servicing foreign markets. First by exporting, then the firm may engage in foreign direct investment (setting of subsidiary), and third, the firm may license to a possible host country producer (Rugman, 1980).

New trade theory (NTT) was introduced by Paul Krugman in 1979. He suggests that a critical factor in determining international patterns of trade are economies of scale and network effects that can occur in key industries. Economies of scale happen when one unit cost reduction associated with a large scale of output. The NTT also introduced the idea that the firms that enter the market earlier gain economies of scale which will create entry barriers for other firms. The competition is likely to be dominated by the incumbent firms who entered the market early, which leads to a form of monopolistic competition (Krugman, 1979).

The idea of this theory is that it might be beneficial for countries that have the competitive advantage in producing some goods to protect the trade of their products, and this will increase the economic position of the firm. Those companies that can produce more of a specific product at lower cost than their rivals may exploit comparative advantage and dominate in the market (Rastorgueva, 2014).

While the Uppsala Model introduced the concept that internationalization is a gradual process, the network theory suggests that firms do not necessarily develop in a linear sequence (Ojala, 2009). The network theory, introduced in 1988 by Johanson and

Mattsson, proposes that the internationalization process is seen as a development of the network relationships of a firm. The network shows how the relationships among customers, suppliers, competitors and other players in the market stimulate the firm to go international. In the internationalization process, the international extension happens because of strong relationships in the network. The firms then penetrate to a foreign market by gaining trust and increased commitment while establishing the foreign network. After successfully penetrating the foreign market, international integration could be acquired using the strength of network involvement.

The success of a firm to internationalize depends on the relationship of both local and international markets (Coviello & Munro, 1995). Building a network is important as a source of knowledge and market information. It is also useful to build reputation and competence, as well as gain access to resources. Resources that are under control of other companies could be accessed by expanding the business by utilizing the power of networking (Rastorgueva, 2014). However, scholars have criticized the network model because it denies the role of the state and other institutions that should be recognized as key international players because networks can only operate effectively with the support of state and hierarchical institutions of governance (Joseph, 2010).

Another contribution to the internationalization theory is introduced by Michael Porter. His earlier theory identified that competition is driven by five competitive forces which are the threat of entry, the threat of substitutes, the power of buyers, the power of suppliers and competitive rivalry (Porter, 1979). He outlines the importance of strategy formulation to face the competition. In Diamond theory, Porter explained four broad categories: factors of production, demand conditions in the home market, related and supporting industries, characteristics of firm behaviour and rivalry. Economic success is defined as continuous productivity improvements through upgrading of skills and of goods sold. The generic activities are creating a value chain to sustain competitive advantage. According to him, competitive advantage could be achieved by cost-effective activities, better coordination and value. (Porter, 1990).

Porter considers configuration and coordination as the important factors in international competition. Configuration is the place where each of the activities in the value chain take place. According to Porter, there are four combinations of configuration and coordination,

which are export-based strategy, country-centered strategy, high-foreign investment, and purest global (Porter, 1993). So, the company should create a strategy in order to have a good performance. Porter claims that these tools are: cost leadership, differentiation, and focus (Porter, 1990). Critiques of Porter's model consider that the model does not work well when it turns to forecasting outcomes and very few verifiable predictions are made which are not structured within a general equilibrium framework (Waverman, 1995).

Oviatt and McDougall (1994) argue that existing internationalization theories do not explain the formation of International New Venture (INV) models. They introduced the model of INV that can be defined as "a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries" (Oviatt & McDougall, 1994, p. 49). The INV model mainly applies to the young small and medium enterprises (SMEs) which expand rapidly and start internationalization from start-up. This is supported by Knight and Cavusgil (1996) who stated that these are small firms that operate their business based on technology to achieve a global competitive advantage. The earlier theories suggest a gradual stage of internationalization, and different stages need a certain skill that builds the company's knowledge. Meanwhile, the INV skip these stages and enter the foreign market immediately. Therefore, it has a different approach to learning and knowledge accumulation (Zahra, 2005).

Oviatt and McDougall (1994) identify four INV types: Export Start-up, Geographically Focused Start-up, Multinational Trader, and Global Start-up. Each of the types need a different strategy and approach towards internationalization. In the INV model, firms use factors of founder-entrepreneurs' knowledge to internationalize rapidly (Oviatt & McDougall, 2005). Madsen and Servais (1997) also believe the factors that help the internationalization from inception are new market conditions, technological developments and the capabilities of managerial teams and/or entrepreneurs as well as the international network relationships. Masum and Fernandez (2008) added that these firms have innovative or unique products or services in a specific foreign market giving them a competitive advantage compared to the other company.

The INV model is also known as "born-global", these are firms which focus on the global market soon after their inception (Knight & Cavusgil, 1996). Born-globals are usually

associated with young, innovative, high-tech or knowledge-intensive firms (Scott-Kennel, 2013). Choquette et al. (2017) defined born-global as firms that have reached a share of foreign sales of at least 25% after having started export activities within three years of their birth. They found in their study that born-globals have little to no productivity advantage compared to firms with less or later internationalization.

In conclusion, the internationalization models could be classified as two types which are traditional and emergent (Scott-Kennel, 2013). The earlier internationalization theories were traditional models described as a slow process starting from the local market developing later into the international market. Scholars are developing the internationalization theories as the internationalization of firms evolved over time. In recent times, companies do not only internationalize in a gradual process. This could be identified as emergent internationalization models where some companies are born global from the start.

3.1.4. Internationalization Strategy

If a firm wants to explore the international market, it has to carefully choose the internationalization strategies from the various forms of entry modes. Foreign entry mode is a structural agreement that allows a firm to carry out its business activities in a foreign market with its resources and market strategy (Shen et al., 2017). A foreign market entry mode is "an institutional arrangement that makes possible the entry of a company's products, technology, human skills, management or other resources into a foreign country" (Root, 1987, p. 5). Calof and Beamish (1995) define entry mode as the institutional arrangements that allow firms to use their product(s) or services in a country. In this study, the entry modes approaches will be addressed as internationalization strategy which include indirect & direct export, subsidiary, joint venture, and license/franchise.

The internationalization strategy is a complex and important decision to be made with various factors to be considered. An appropriate internationalization strategy will lead not only to higher performance of the subsidiaries but also to the accomplishment of the parent firm's objective (Shen et al., 2017). Anderson and Gatignon (1986) have analyzed the transaction cost considered by firms for each choice of internationalization strategy to choose the most efficient strategy for long-term. Moreover, Erramilli and Rao (1990)

state that there are non-behavioral and behavioral determinants that affect the decision of internationalization strategy. The nonbehavioral determinants depend on the product characteristics, firm characteristics, as well as external environment. The behavioral factors include a business's knowledge and perception of the foreign market . Market knowledge can be defined as the knowledge relating to the market and the market-influencing factors (Johanson and Vahlne,1977).

Based on the earlier theory, firms start to enter a foreign market by exporting before developing the other forms of international involvement. However, this has changed because firms began to internationalize with an inward technology transfer such as licensing agreements with parties in export markets, franchising, acquisition, and joint venture. Thus, exporting is not always the preferred strategy. The choice of strategy will be influenced by external and internal factors (Bell & Young, 1998).

According to Rugman (1980), there are several stages of a typical penetration of a foreign market: licensing, exporting, establishment of local warehouses and direct local sales, local assembly and packaging, formation of a joint venture, and foreign direct investment (full scale local production and marketing by a wholly owned subsidiary). Meanwhile, Harrison et al. (2000) considered these internationalization strategies as several entry mode choices as described in Table 10.

Table 10 Internationalization Strategies

Business Activities	Entry Mode	Activity
International Trade	Direct Export/import	Export: Firms directly sells goods or services produced in the home country to a foreign country Import: Firms directly bringing in goods or services produced in another country for sale in thier own country
	Indirect Export/import	Export: Firms sells goods or services produced at home to a foreign country either through intermediaries or by selling it to another domestic manufacturer Import: domestic manufacturer using a foreign component as an input imported by another domestic firm
Foreign Direct Investment	Foreign greenfield investment	A form of FDI where a firm builds its operations from the ground up enabling control over its assests, property and subsidiaries in a foreign country

	Foreign acquisition	A form of investment which a company buys most, if not all, of another firm's ownership stakes in a foreign country to assume control of it
	Joint venture	A form of investment arranged by two or more firms in foreign country characterized by shared ownership, shared returns and risks, and shared governance
Other activities	Licensing	A form of market entry involving two firms in which the licensor agrees to sell to the licensee the right to use the licensor's intellectual property for a specified period of time in return for an agreed fee or royalty
	Franchising	A form of licensing arrangement whereby the owner of intellectual property agrees to allow the franchisee to use the franchiser's intellectual property such as trademark, brand name, marketing technique, or particular business system to undertake a business activity in a manner specified by the franchiser in a return for a fee
	Management contract	A type of licensing agreement between the firm and another firm whereby the contracting firm makes available its managerial expertise and a part of its management personnel in training local managers for the efficient operation of a project in return for an agreed fee
	Turnkey Project	A term used to describe an agreement under which a firm undertakes to design, build, equip, and train personnel to operate an entire production or service facility before turning it over to its owner

Source: Harrison et al. (2000)

In addition to that, the different strategies of internationalization have been compared and analyzed by Buckley and Casson (1998) who introduced an integrated analysis which is able to compare each strategy between exporting, licensing, joint venturing (JV) and wholly owned foreign direct investment (FDI). The choice between acquisition and greenfield investment is examined, and so too are options based on subcontracting and franchising. In this model, they have identified twelve entry strategies and their variants. Figure 5 shows the entry strategies based on the ownership of the business distinguished by rows, the location of production and distribution distinguished by columns, as well as the final demand. The strategies indicated by the numbers 1-12 in the figure are further explained in Table 11. This model can be useful in making the right internationalization strategy decisions for the company. Companies might have different choices of entry mode, but according to Bell and Young (1998), the suitable strategy for each business is that which maximizes the profit contribution.

Figure 5 Twelve Entry Strategies and Their Variants
 source: Buckley and Casson (1998)

Table 11 Twelve Internationalization Strategies and Their Variants

No	Type	Description	Variants
1	Normal FDI	Entrant owns foreign production and distribution facilities	1.1.Both facilities are greenfield 1.2.Both facilities are acquired 1.3.Production is greenfield and distribution is acquired 1.4.Distribution is greenfield and production is acquired
2	FDI in production	Entrant owns foreign production but uses independent distribution facilities	2.1. Production is greenfield 2.2. Production is acquired
3	Subcontracting	Entrant owns foreign distribution but uses independent production facilities	3.1. Distribution is greenfield 3.2. Distribution is acquired
4	FDI in Distribution	Entrant exports to own distribution facility	
5	Exporting/Franchising	Entrant exports to independent distribution facility	

6	Licensing	Entrant transfers technology to independent integrated firms	
7	Integrated JV	Entrant jointly owns an integrated set of production and distribution facilities	
8	JV in production	Entrant jointly owns foreign production but uses independent distribution facilities	
9	JV in distribution	Entrant jointly owns distribution facilities but subcontract production to independent facility	
10	JV exporting	Entrant exports to jointly owned distribution facility	
11	FDI/JV combination	Entrant owns foreign production but jointly owned foreign distribution	11.1. Production is greenfield 11.2. Production is acquired
12	JV/FDI combination	Entrant owns foreign distribution but jointly owned foreign production	12.1. Distribution is greenfield 12.2. Distribution is acquired

Source: Buckley and Casson (1998)

A more recent study explained that the final internationalization strategy decision is influenced by some uncertainty dimensions, economic dimensions, strategy dimensions, and resources & capabilities dimension as shown in Figure 6. The factors that determine the strategy dimension come from the investment level, while economic dimensions are related to the local market/industry level. The resources & capabilities dimensions are internal factors considered by firms to plan their entry-mode choice. Meanwhile the uncertainty dimensions are external factors and usually come from the host country level; they are associated with investment efficiency and flexibility concerns (Shen et al., 2017).

Figure 6 The Mapping of Foreign Market Entry Mode Determinants and Their Interrelationship

Source: (Shen et al., 2017)

3.1.1. The Risk and Challenges of Internationalization

Erramilli and Rao (1990) believe that financial and managerial resources and the degree of the resource commitment are the challenges that are specific to the market and will define a firm's level of involvement in a foreign market. They believe that internationalization strategies differ based on the involvement of the firm in the foreign market. They have defined a model called the Level of Involvement (LI) to measure the participation or involvement of the firm. Table 12 describes the various internationalization strategy placed on the level of involvement and commitment scale.

Table 12 The Level of Foreign Market Involvement Scale

<i>Foreign Market Involvement</i>	<i>Resources required for Commitment</i>	<i>Market Specificity of Commitment</i>	<i>Level of Involvement</i>
<i>Wholly Owned Subsidiary</i>	Very High	High	9 (Highest)
<i>Wholly Owned Subsidiary Acquired</i>	High	High	8
<i>Majority Joint Venture</i>	Moderate to High	High	7

<i>50-50 Joint Venture</i>	Moderate	High	6
<i>Minority Joint Venture</i>	Moderate	High	5
<i>Export Subsidiary</i>	Moderate	Moderate	4
<i>Direct to Consumer Exports</i>	Low to Moderate	Low	3
<i>Agent/Distributor Exports</i>	Low	Low	2
<i>Licensing/Franchising</i>	Very Low	Very Low	1

Source: Erramilli and Rao (1990)

Further, researches argue that strategies which require more intensive resources commitment are riskier because it involves greater financial exposure and requires more control mechanisms with greater complexity (Brouthers, 2002). Firms generally prefer an attractive but less risky market to gain high return. Therefore, risk perceptions also influence the decision of internationalization choice. Ahmed, Mohamad, Tan, and Johnson (2002) classified the internationalization choice of firms based on the international risk perception described in Table 13.

Table 13 Internationalization choice based on international risk perception

<i>International Risk Perception</i>	<i>Entry-Mode Choice</i>
<i>High</i>	Wholly Owned subsidiary
<i>Moderate</i>	Joint Venture
<i>Low</i>	Non-equity / export

Source: (Ahmed et al., 2002)

Furthermore, an empirical study conducted in Germany, Switzerland, and Austria by Kraus, Ambos, Eggers, and Cesinger (2015) discovered that some risk determinants to be considered in the choice of country for international decisions include economic distance (36.1%), cultural distance (28.5%), political distance (20.8%), and geographic distance (11.0%). Their study revealed that firms consider distance dimensions as primary drivers of risk assessment, while internationalization strategy is considered after they choose the target market based on the risk profile.

3.2. Internationalization in Agri-food Industry

3.2.1. Definition and Theories

Agribusiness during the 20th century has been associated with farm activities related to immediately relevant supply inputs, production, processing, and distribution of single input or processed commodities such as milk, grain, fruits or vegetables (Edward & Shultz, 2005). Edward & Shultz (2005) argue that in the 21st century, agribusiness has changed from farm to market centric. The agribusiness sector has become more dynamic and integrated between production, processing, distribution, and marketing communications driven by new demand, market changes, competition, and economic growth.

The food and agribusiness industry, as an important sector in the global market, cannot avoid the effects of economic globalization. If companies in the agri-food sector want to survive in a competitive market, they need to apply internationalization strategies like companies in other sectors (Daniela & Bohumil, 2015). The global agri-food industry is in a process of radical transformation which could be called ‘the agro-industrialization process’ (M. L. Cook & Chaddad, 2000). This could be defined as the growth of processing, distribution, and farm input provisions off-farm that changes along with technological and market structure developments which also involve institutional and organizational changes (T. Reardon & Barrett, 2000).

The agri-food industry transformation has developed in two stages. The first was pre-globalization from the 1950s until early 1980s, during which investment transformed agriculture from traditional small-scale agri-food industry to a larger scale industrialized sector. The second stage was globalization which started in the early 1980s until today. In this stage, trade liberalization, improvements in logistics, and foreign investment are happening (T. Reardon, Barrett, Berdegue, & Swinnen, 2009). Nevertheless, long before the development of the second stage, agri-food companies had been implementing internationalization practices that led to the development of big multinational companies dominating the agri-food sector such as Nestlé and Unilever.

As activities in the agribusiness sector developed, Edward and Shultz (2005) proposed a new definition of agribusiness as a dynamic and systemic endeavor that serves consumers globally and locally through innovation and management of multiple value chains that deliver valued good and services derived from the sustainable orchestration of food, fiber, and natural resources.

3.2.2. Internationalization Strategy of Agrifood Industry

Multinational agri-food companies around the world have different strategies of internationalization. Filippaios and Rama (2008) have studied the geographic strategies of the world's largest multinational food and beverage companies (F&B MNC) using data from around 7,000 affiliates of 81 F&B MNC, analyzed between 1996 and 2000. They found that only nine of the companies pursue a truly global strategy, 22 implement bi-regional strategies and 50 implement home-region strategies where the core businesses are regionally, or home-base, focused. The regional strategies are the first step that later will lead to wider internationalization based on case studies of F&B MNCs in Latin America and South East Asia (Filippaios & Rama, 2008).

The internationalization strategy choices of the agri-food companies are the same as industries in other sectors, which include exporting, licensing and franchising, strategic alliances and joint ventures and foreign direct investment. The foreign direct investments and joint ventures are considered as high risk because they requires higher investment compared to other strategies (Bijman et al., 2014).

Several major agri-food multinational companies around the world such as Nestlé, Unilever, Tate and Lyle, the Phillip Morris food group, and General Mills are expanding their businesses in the international market mainly through acquisitions and joint ventures (Schroder, Wallace, & Mavondo, 1993). The history of Nestlé began in 1866, with the foundation of the Anglo-Swiss Condensed Milk Company and the contemporaneous development of infant food in 1867 by Henri Nestlé. Competition developed between Nestlé and Anglo-Swiss, as both firms expanded sales and production abroad. However, in 1905 the companies decided to merge and became known as the Nestlé Group. In 1905, Nestlé & Anglo Swiss had more than 20 factories, and the Nestlé group began using overseas subsidiaries to establish a sales network that now spans Africa, Asia, Latin America and Australia. As World War One approached, the firm benefitted from the period of prosperity known as the *Belle Époque* or 'Beautiful Age', and became a global dairy company. In 1914, the company acquired processing facilities in the US and Australia, and by the end of the war it had 40 factories. Acquisitions enabled Nestlé to enter fast-growing new areas and develop a wide range of brands (Nestle, 2018). Through their preferred entry mode of acquisitions and joint ventures, Nestlé has acquired 413 manufacturing plants located in over 80 countries (Nestlé, 2017).

Meanwhile, Unilever was founded in 1929 by the merger of two major companies, Margarine Unie and Lever Sunlight. By 1930, a third major company merged with Unilever: the United Africa Company (UAC). In the early years, Unilever developed into a company with worldwide activities. It built or purchased factories in Japan (1909), Argentina (1928), Brazil (1929), Thailand and Indonesia (1932), and India (1933). Between 1945 and 1980, expansion of Unilever's activities took place mostly in Europe. Since 1980, Unilever has kept expanding worldwide in selected core-product activities by performing important acquisitions and establishing subsidiaries (Elshof, 2005). Unilever owns over 500 factories operating in 98 countries around the world (Unilever, 2018)

Since the 1980s, companies have been affected by the fast development of information and communication technologies (ICT). It offers more convenient and cost-saving approaches to communication that improve business relations in the global market (Çetin, Akpınar, & Ozsayın, 2004). ICT contributes to the acceleration of internationalization processes and influences the entry-mode choices of exporting agri-food companies (Serrano & Acero, 2015). The development of the internet, especially the emergence of e-commerce that can be used as a direct sales channel, could be modifying firms' entry mode choices and could be one of the ways for rapid internationalization to occur (Gabrielsson and Kirpalani, 2004).

3.2.3. The Motive of Internationalization

Bijman et al. (2014) stated in their study that the internationalization motives of the European agrifood industry can be divided into external and internal motives. The first external motive is the increased competition because of food market liberalization. The second is the rapid development of food retailers, forcing the agrifood industry to speed up their internationalization. Third is the quality assurance and product development demanded by consumers, which often leads to a more international scale of operation. Meanwhile, the internal motives are resource seeking, market seeking, efficiency seeking and strategic asset seeking.

The agri-food multinational companies (MNC) based in the developed countries are often motivated to internationalize because they are constrained by challenges in their home

market such as stagnant demographics, aging populations, declining income elasticities with growing income levels, and the shift of consumer taste and preferences (Filippaios & Rama, 2008). There is a need for companies to find new market opportunities in other countries to expand their business. The potential global market for agri-food industry is considered large since people around the world allocate 23% of their income to food (Selvanathan & Selvanathan, 2006).

Besides widening the market, many large multinational companies aim to reduce costs and to create greater flexibility on the global market through internationalization to developing countries (Daniela & Bohumil, 2015). However, many contend that multinational companies aiming for cost reduction mainly exploit the environment, natural resources, low wages, and cheap labor in the developing countries (Beghin et al., 2002, as cited in Vandeplass, Minten, and Swinnen, 2013). Another criticism of multinational expansion to developing countries is that it widens the social gap, bringing more benefit to the wealthy than the poor (Chen, Ge, & Lai, 2011). It has also been argued that the presence of multinational agri-food companies will harm local suppliers and farmers because of they are not competitive enough to meet the high grading and standards of the multinational agri-food companies (Reardon & Berdegue', 2002). Similarly Baran (2016) concluded that the presence of agri-food multinational companies would harm the local small companies in Poland.

On the contrary, other studies find that internationalization benefits local farmers and suppliers through vertical linkages with the multinational agri-food companies (Dries & Swinnen, 2004). Michael Porter and Mark Kramer introduced the concept of creating shared value in 2011, where companies operate their business while contributing to the social and economic conditions in the local communities. This concept has already been implemented by some of the largest multinational food companies in the world such as Nestlé, Unilever, and The Coca-Cola Company (Moore, 2014).

Despite the arguments of the effect of multinational agri-food internationalization in developing countries, several studies have proved that internationalization has brought benefits to agri-food multinational companies. The global agri-food companies in Poland have experienced significant improvements in productivity, efficiency and foreign trade of food and agricultural products (Baran, 2016). The internationalization activities of the

agri-food industry in Spain have also brought the benefit of export volume increase which keeps growing at a rapid rate, as analyzed by Serrano, García-Casarejos, Gil-Pareja, Llorca-Vivero, and Pinilla (2015) for the period 1970-2012. The food industry in Thailand has experienced the same result of internationalization since 1970. Opportunities in the global market are open through internationalization of the agri-food companies. Thailand experienced 26% export growth rate in 2008 which lead to Thailand becoming one of the world's largest 15 food exporters from 2000 to 2008 according to World Trade Organization (Thirawat, Robins, & Baume, 2012).

3.3.Co-operatives Theories

3.3.1. Definition and Principles of Co-operatives

ICA (n.d.) has defined a co-operative as “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.” Co-operatives are voluntarily formed by a group of people that have the same interest in both economic and social aspects, and each of the group members has equal rights in the business and share in the profits. In addition, the USDA (1987) in Bekkum (2001) defines co-operatives as user-owned and user-controlled that distribute benefit on the basis of use. It is based on three concepts; user-owner, user-control, and user-benefit. According to the USDA (2002), “ownership is expressed by equity investment in the enterprise and a claim on its assets. Control is the ability to exert authority over decision-making processes. Benefits available to cooperative members include both the right to receive services and to share in the earnings. Cooperatives must ensure that the benefits accrue to patrons on the basis of use”.

Co-operatives are based on principles that determine the distinctive perspective of a co-operative. The principles also served as a guideline to develop the organization. The ICA General Assembly held on 23rd September 1995 in Manchester, adopted the new Principles of Cooperation: 1) voluntary and open membership; 2) democratic member control; 3) member economic participation; 4) autonomy and independence; 5) education, training and information; 6) co-operation among co-operatives; and 7) concern for community (ICA, n.d.).

An earlier set of principles that is widely used is The Rochdale Principles, formed by The Rochdale Society of Equitable Pioneers. The principles are 1) open membership; 2) democratic control; 3) distribution of the surplus to the members in proportion to their transactions; 4) limited interest on capital; 5) political and religious neutrality; 6) cash trading to avoid credit risk; 7) promotion of education (Fairbrain, 1994). These principles create values for co-operatives in operating their business. Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. The ethical values implemented by the co-operative members are honesty, openness, social responsibility and caring for others (ICA, n.d.).

Co-operatives are established to meet a wide range of needs, both economic and social. Schrader (1989) in Bekkum (2001) explains that the formation of co-operatives is a response to correction of market failures, capturing profits from up or downstream levels in production and marketing, provision of missing services, assurance of supplies, risk reduction, and building up of market power. Moreover, Van Dijk (1997) in Bekkum (2001) stated that the motives of co-operatives are countervailing power, securing market access, the realization of efficiency through economy of scale, risk management, and preservation of farm income. Co-operatives are also formed to acquire financial strength by implementing efficiency in business practice to reduce cost and marketing products (Merret & Walzer, 2001). The asymmetric information about agricultural commodities and prices also become a motivation to establish farmer marketing co-operatives (Hansmann, 1996).

3.3.2. Differences of Co-operatives

The business practice of a co-operatives are similar to investor-owned companies, but there are several unique aspects that differentiate them (Barton, 1989). Co-operatives have a special characteristic where the members are also the owner of the co-operative. It has an aspect of patronage-based returns where those who own and formally control the organisation receive benefit from transactions and from their investment (Evans & Meade, 2006).

The differences between co-operatives and other types of firm could be distinguished by the ownership structure, governance and the management system, the source of capital, and the distribution of the benefits. The ownership rights of a co-operative belong to their

members (M. L. Cook & F. R. Chaddad, 2004). This is also in accordance with F. Chaddad and Iliopoulos (2013) who said that ownership rights are restricted to the members of co-operatives. Two concepts that determine ownership are the residual returns and residual rights of control. In a co-operative, the members have effective control over assets and in making decisions within the business. The members are also entitled to the residual return rights of the net income generated by the co-operative with the equal amount of distribution based on patronage (F. Chaddad & Iliopoulos, 2013).

The second difference is the governance and management system. Co-operatives in different regions implement various governance models and control rights. There are three generic governance models generally adopted by co-operatives which are integration (in the traditional model), separation (in the extended traditional model), and delegation (in the managerial and corporate models). The differences of these governance model are the degree of members control of decision making in the co-operative (F. Chaddad & Iliopoulos, 2013). In the traditional co-operative model, the governance model usually consists of the general assembly (GA), the board of directors (BoD) and, sometimes, supervisory committee (SC). Decision management functions are performed by the board of directors who are drawn from the co-operative's members itself, without the involvement of professional or outside agents (F. Chaddad & Iliopoulos, 2013).

In traditional co-operatives owners act as the managers and employees who have direct involvement in day-to-day business operations with different levels of control according to the type of co-operative. In traditional co-operatives, the one-member-one-vote rule is implemented (Barton, 1989). There will be no adjustment made upon the amount of patronage of each member (Hansmann, 1996). Meanwhile, in the new generation co-operatives, there can be a separation between formal and effective control if the members sub-contract the administration of the co-operative professional managers (Evans & Meade, 2006).

Another difference is the source of capital. Co-operatives generate internal capital from their members (Zheng, Wang, & O.Awokuse, 2012). The members of the co-operative each invest some amount of money, which the co-operative uses to operate the business. Co-operatives often require the members to make a long-term commitment to remain patrons. The members of the co-operative might choose to invest some of their personal

funds in the co-operative or retain some of its profit for internal investment and business development (Hansmann, 1996).

In traditional co-operatives, the main source of funding for the co-operatives comes from the members. However, this means that generating capital for a co-operative to grow is one of the constraints of a co-operative (F. Chaddad & Heckelei, 2003). This is because the structure of a co-operative limits access to external funds, as it relies on the internal capital generated by members. Co-operatives could gain more capital through vertical integration or organizational transformation. This is one of the reasons that motivates co-operatives to evolve their organizational form into a new generation co-operative that allows the co-operatives to acquire external equity capital and financial instruments (Nilsson & Ohlsson, 2007).

The distribution of benefit is the other difference. The co-operatives have the patronage-based returns aspect that distinguishes co-operatives from other forms of organization (Evans & Meade, 2006). The residual earnings in the co-operatives are distributed to the members in proportion to patronage (F. Chaddad & Iliopoulos, 2013). The firm's net earning is then distributed pro rata among its members (Hansmann, 1996). In the traditional co-operatives, the residual returns are non-transferable to non-patrons, non-appreciable and redeemable (F. Chaddad & Cook, 2002).

3.3.3. New Co-operative Models

Agricultural co-operatives used to be traditionally organized. The co-operatives were mainly collectively financed and governed. However, market pressure and competition have made traditional co-operatives struggle because of inefficiency. Scholars have critiqued the property right and agency problems such as free rider, limited portfolio, difficulty in decision making, and also horizon problems (Nilsson, 1999). To overcome the issues, these days the co-operatives have modified their organizational form and are going through a transformation to different entrepreneurial models (Nilsson, 1999). Agricultural co-operatives already acquire external equity capital and financial instruments that allow the members to invest voluntarily in the co-operative. The members were treated equally before, while nowadays different treatments of the members are more common and acceptable (Nilsson & Ohlsson, 2007).

Several factors influence the development of the co-operatives. Three main factors identified by Ingalsbe and Groves (1989) are: (1) economic conditions caused by war, depression, technology, government economic policy, etc. ; (2) farmer organizations including quality of their leadership, their motivation and enthusiasm to promote co-operatives, power to influence public policy, etc.; and (3) public policy as determined by government interest, legislative initiative, and judicial interpretation. Influenced by various factors, the co-operatives are beginning to evolve into different structures. M. L. Cook and F. Chaddad (2004) identify four co-operative models with the ownership rights limited to member patrons (traditional co-operatives, proportional investment co-operatives, member-investor co-operatives, and new-generation co-operatives) and three co-operative models with the ownership rights are not limited to member patrons (co-operatives with capital seeking companies, investor-share co-operatives, and investor-oriented firms).

In a Proportional Investment Co-operative (PIC), the co-operative could gain capital from member patrons where the patrons are expected to provide proportional investment in the co-operative based on their patronage (Evans & Meade, 2005). The residual returns of PIC are non-transferable to non-patrons, non-appreciable and redeemable (M. L. Cook & F. Chaddad, 2004). One of the reasons that traditional co-operatives change their organizational form into a proportional investment co-operative is because of the increase of the member patrons' heterogeneity. A proportional investment co-operative can maintain the alignment of the member patrons' interest, (M. L. Cook & F. Chaddad, 2004). The next co-operative model is a Member-Investor Co-operative, which offers a co-operative to grow by adding capital not only from member patrons but also from investors (M. L. Cook & F. Chaddad, 2004). The returns of this co-operative are distributed throughout its member patrons in proportion to patronage as well as shareholding. Member patrons and investors are receiving returns in the form of dividend payments in proportion based on patronage and investment or through appreciable share value (Evans & Meade, 2005).

Without additional funds, better prices, and other economic stimulus, the agricultural industry will lose its competitiveness in the market. Therefore, co-operatives have changed in recent decades. In recent years, traditional co-operatives are attempting transitions to a New Generation Co-operatives (NGC). The NGCs are a form of co-

operative that focuses on markets and specializes in certain products in order to improve operational efficiency as well as to improve the quality of the products. The establishment of NGC could also address the need for market information and coordination, the need to restructure the market and the need to boost rural income and employment. NGC is attractive to the producers because it provides the opportunity to increase their income by direct involvement in business ventures that relate to the production output and obtaining better markets for their product (Nilsson, 1997).

New co-operative organizational models differ in how ownership rights are assigned to the economic agents (members, patrons, and investors) tied contractually to the firm (F. R. Chaddad & Cook, 2004). The characteristics of an NGC is as follows 1) The entry fee for NGC members is substantial, 2) members share in the profits of the enterprise in accordance with the number of shares they purchased, 3) NGC have a typically closed membership. Only members who purchased a share in the venture can participate in NGC (Merret & Walzer, 2001). NGC have limited delivery rights and restricted membership, the members, often have to invest some initial amount of money to be the part of co-operatives. Investors who provide financial capital are entitled to co-operative membership. These investors, who might not be the producers, help finance the operation of the business through the purchase of shares. This addresses the undercapitalization problem of traditional co-operatives. Even so, the NGC retain the important co-operative principles as in the traditional co-operatives. They implement the rule of one member one vote, but are more similar to investor-owned firms than their traditional counterparts (Carlberg, Ward, & Holcom, 2006).

More recently, co-operatives have begun to transform into a new organizational model called the transnational co-operatives. These are co-operatives with members in two or more countries. To be a transnational co-operative is not an easy decision because there are several barriers to be considered such as differences in history, culture, language and the local members who are hesitant to accept foreign members. The transnational co-operative needs to maintain international members and governance which might lead to a higher cost (Bijman et al., 2014).

Despite the transformation of different co-operative models, all of the co-operatives are guided by the co-operative principles mentioned earlier. The main criteria that adhere to

the concept of co-operatives are the co-operative must provide the best possible benefit to the members. The external partners are also allowed to receive benefit but not decisive control, nor impede the members' benefit (Nilsson, 1999). The values of co-operatives set the spirit of operation and business that distinguishes co-operatives from corporations. The values of loyalty, participation, shared knowledge, and strong commitment of its members to achieving the purpose of the co-operative has become the competitive advantage of a co-operative. However, to be able to generate these competitive advantages, it requires an alignment of common interest from all members of the co-operative, who are both investors and consumers regarding the purpose of the co-operative (Birchall & Ketilson, 2009).

3.4.Agricultural Co-operatives

The co-operative business model has been widely adopted in the agricultural sector. Agricultural Co-operatives are one of several types of co-operative such as Consumer Co-operatives, Workers' Co-operatives, Credit Co-operatives, and Service Co-operatives (Prakash, 2003). The International Co-operative Alliance defines agricultural co-operatives as "all co-operatives that operate along the entire agricultural value chain, starting from the cultivation of agricultural products and livestock farming to the industrial processing of agricultural products and animals" (Bazzana et al., 2017).

Two types of Agricultural co-operative can be distinguished. The first one is supply co-operatives where the main activity is supplying input to farmers. The second one is marketing co-operatives that sell and distribute either fresh or processed agricultural products (Bijman et al., 2014). Agricultural Co-operatives bring several benefits according to Co-operatives UK (Self, 2017), which are:

- Control. Agricultural co-operatives give farmers control over crucial parts of the supply chain
- Cost savings. Through economies of scale farmers are able to cut costs by collaborating in vital business areas like purchasing, processing and marketing
- Tax efficiency. Members of agricultural co-operatives can achieve tax efficiency through 'mutual trading status'
- Best practice. Collaboration enables farmers to share knowledge and best practice - boosting productivity and spreading innovation

The benefit of agricultural co-operatives varies between regions. O. F. Bekkum and van Dijk (1997) and Hansen (2009) discovered that there is evidence that dairy co-operatives in the EU and US have gained increasing market share. Zheng et al. (2012) stated that the establishment of agricultural co-operatives in China improves farmers' economic welfare and market competitiveness. It can make small-scale agricultural producers more competitive in the global market. It has been proven that the co-operatives successfully foster the local agricultural economy. Kurimoto (2004) in his study found that the agricultural co-operatives in Japan have become more powerful as a result of the evolution supported by the institutional framework.

Agricultural co-operatives have played a major role in developing the economy (F. R. Chaddad & Cook, 2004), although co-operatives in every country have a different degree of importance (Hansen, 2009). Among the top 300 co-operatives around the world, agriculture and food is the second largest sector after the insurance sector among (Bazzana et al., 2017). The turnover of the 20 top agricultural co-operatives in the world is US \$ 273.02 billion in the year 2015 (Bazzana et al., 2017). Most of the co-operatives originated in developed countries as seen in table 14.

Table 14 The Largest Co-operatives in the Agriculture and Food Industries Sector

RANK 2015	RANK 2014	ORGANISATION	COUNTRY	TURNOVER 2015 (BILLION US \$)
1	2	Zen-noh	Japan	38.80
2	3	CHS Inc.	USA	34.58
3	1	NH Nonghyup*	Republic of Korea	33.94
4	4	Bay Wa	Germany	16.46
5	5	Dairy Farmers of America	USA	13.80
6	6	Fonterra Co-operative Group	New Zealand	13.02
7	8	Land O'Lakes, Inc.	USA	13.01
8	10	Hokuren	Japan	12.53
9	7	FrieslandCampina	Netherlands	12.42
10	9	Arla Foods Amba	Denmark	11.35
11	11	Danish Crown	Denmark	8.80
12	13	Growmark, Inc.	USA	8.73
13	12	DLG	Denmark	8.05
14	16	Agravis	Germany	7.65
15	15	Copersucar SA	Brazil	7.61
16	14	Südzucker	Germany	7.47
17	17	Kerry Group	Ireland	6.73
18	-	Fenaco	Switzerland	6.27
19	18	InVivo	France	6.23
20	-	Terrena	France	5.55

* The NH Nonghyup figure includes data from the banking and insurance subsidiaries of the group

Source: (Bazzana et al., 2017)

In the US there were 2,047 agricultural cooperatives in 2015. The net income after taxes reached \$7.030 billion (USDA, 2015). In the United Kingdom (UK), agricultural co-operatives are the second largest sector among the other co-operatives with a turnover of £5.8 billion in 2016. The 416 agricultural co-operatives give employment to 7,765 people in the UK (Self, 2017). In Japan, agricultural co-operatives report outputs of US \$90 billion with 91% of all Japanese farmers in membership (ICAO, 2018). In Europe, agriculture is the largest cooperative sector by annual turnover with more than 39% (347 € billion) of the total annual cooperative turnover in Europe. There are more than 50,000 cooperative enterprises in Europe which employed 675,566 people (Cocolina, 2015). Table 13 shows the top Agriculture Co-operatives in Europe in 2013.

Table 15. Top Agriculture Co-operatives in Europe by turnover (billion €) in 2013

Top agriculture cooperatives in Europe by turnover (billion €) 2013	
Bay Wa	15.9
FrieslandCampina	11.4
Arla Foods	9.8
DLG	7.9
Danish Crown	7.8
Agravis	7.5
InVivo	6.1
DMK	5.3
Metsa Group	4.9
Tereos	4.6
Terrena	4.6
Sodiaal	4.6
FloraHolland	4.3
VIVESCIA	4.2
Agrial	3.9

Source: (Cocolina, 2015)

Beside bringing financial advantages, agricultural co-operatives in developed country also make other contributions to society. A recent study in New Zealand found that the non-financial indicators are related to three sustainable development dimensions: people, profit and planet (Garnevska et al., 2018).

3.5. Internationalization of Agricultural Co-operatives

3.5.1. The Internationalization Strategy

Agricultural co-operatives have been implementing different strategies of internationalization. Errasti, Heras, Bakaikoa, and Elgoibar (2003) believe that the key criteria for adopting an internationalization strategy are it has to be coherent with the principles and values of the co-operatives at the same time as optimizing the opportunities. According to Guillouzo and Ruffio (2005), there are two elements of the internationalization of co-operatives: internationalization of the commercial activities and the internationalization of membership.

The internationalization of commercial activities has developed fast among the co-operatives, while the internationalization of membership is developing slowly. The internationalization of membership known as transnational co-operative usually happens by recruiting foreign farmers as the co-operative member. The foreign members usually come from the neighboring countries because it would be easier to adapt to culture and

market similarity (Bijman et al., 2014). Some differences in legislation on co-operatives among countries has become one of the reasons that transnational co-operatives have not been a popular strategy (Guillouzo & Ruffio, 2005).

Co-operatives in the agricultural sector can consider four basic competitive strategies to internationalize according to Cook (2000) as cited in Ritossa and Bulgacov (2009), which are imports, exports, direct foreign investment and commercial relationships. Theuvsen and Ebneth (2005) and Guillouzo and Ruffio (2005) also discuss that internationalization of agricultural co-operatives are mostly in the form of exporting, joint ventures and foreign direct investment. Moreover, Donoso (2003) introduced an internationalization model used by agricultural co-operatives which is called the Foreign Market Service Modes (FMSM) as seen in Figure 7. This model outlines six strategies of the common internationalization process of a co-operative: exports (direct and indirect), direct foreign investment (joint ventures and wholly owned subsidiary), sourcing overseas, knowledge agreements (licensing, research and development), strategic alliances and transnational cooperatives.

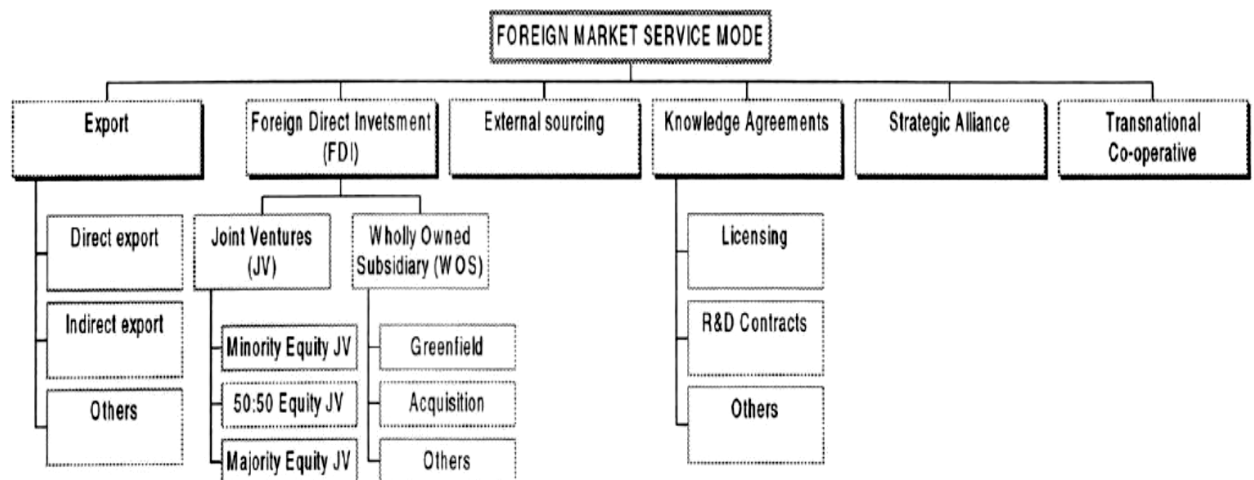


Figure 7 Foreign Market Service Modes (FMSM) used by international agricultural co-operatives
source: (Donoso, 2003)

Guillouzo and Ruffio (2005) identify several internationalization strategies employed by the European dairy co-operatives that begins with raw material procurement from foreign countries, export to foreign markets, franchise agreements, to developing the multinationalization approach. The first strategy aims to ensure raw material procurement from foreign countries to improve efficiency or sufficiency. Exporting to foreign markets

is a basic strategy for co-operatives to grow their market outside the domestic market. Franchise agreements aim to take advantage of the knowledge and assets of commercial activity brought to foreign countries. In the multinationalization approach, co-operatives control the industrial and commercial subsidiaries in over five continents around the world. They operate similarly to the multinational companies by processing high-added-value products. The development of business is based on research development and innovations.

While exporting is one of the oldest forms of internationalization, the most common approach of internationalization chosen by the co-operatives are strategic alliances and foreign direct investment. Evans and Meade (2006) Juliá-Igual et al. (2012) also found that co-operatives promoted internationalization via strategic acquisitions in other countries where they have their main target markets. A study by Guillouzo, Perrot, and Ruffio (2005) also found that strategic alliances are one of the internationalization forms that is suitable to develop agri-food co-operatives in the EU by adapting to market reality and competitions. Through surveys of major Danish cooperatives, Hansen (2009) shows that foreign direct investments are a common tool chosen as the internationalization strategy. A study by Theuvsen and Ebneith (2005) also showed that agricultural co-operatives in Germany increased their competitiveness by joining forces through mergers and acquisitions. Meanwhile, Errasti et al. (2003) state that foreign direct investment in the form of joint ventures, greenfield investment and acquisitions are the chosen form of agricultural co-operatives' internationalization strategy.

3.5.2. The Motive of Internationalization

The rapid market changes, trade liberalization and increasing competition in the agri-food industry requires agricultural co-operatives to be adaptive to the competition by implementing internationalization strategies (Evans & Meade, 2006). In general, the motives of co-operatives to internationalize are similar to the other forms of business. One of the main drivers of internationalization is to develop market access because of the stagnated domestic market (Ritossa & Bulgacov, 2009). According to Theuvsen and Ebneith (2005), internationalization happens because the co-operatives want to access new markets. Many of the co-operatives internationalize because of the need to widen the market to increase the volume of operation and improve market share (Juliá-Igual et al., 2012). Guillouzo and Ruffio (2005), also agree that the motive of internationalization is

to strengthen their market power, to secure market shares, and to find new market opportunity if the local market has reached a maturity stage. Moreover, Evans and Meade (2006) also said that the internationalization of the co-operatives is to adapt to changing consumer preferences.

Guillouzo and Ruffio (2005) argue that financial aspects drive internationalization. The cooperatives are trying to improve access to capital and to reduce the cost of labor, equipment, or raw materials. Donoso et al. (2003) also argue that the internationalization of co-operatives is often motivated by the need to reach economies of scale. Bijman et al. (2014) support this, suggesting that internationalization has been a means to achieve economies of scale that enables them to be able to negotiate with large retail customers. They also point out that the differences of motive between co-operatives and investor-owned firms is that co-operatives are more focused on seeking efficiency and risk aversion as their main motive. For example, the European sugar co-operatives that are gaining economies of scale by acquiring foreign sugar factories to integrate them into larger production units. Hansen (2009) argue that besides that, the internationalization of co-operative still has to answer the main objective which is to generate the highest profit to benefit the owners.

Guillouzo and Ruffio (2005) believe that internationalization is one way to diversify risk by distributing activities. This is similar to the view of Thompson et al. (2010) who suggest that internationalization is executed as a way to manage risk by portfolio diversification. In contrast, Ritossa and Bulgacov (2009) discovered that larger co-operatives in Brazil are less motivated to the reduction of risks. Obtaining better trade prices through diversification is more relevant to cooperatives with more frequent international transactions. Internationalization is also carried out by the co-operatives to obtain global efficiency, acceleration of innovation and learning, to follow global trends and build global reputation (Thompson et al., 2010).

3.5.3. The Advantage of Internationalization

Internationalization has brought some positive advantages for the agricultural co-operatives. According to Ritossa and Bulgacov (2009), internationalization has led to increased productivity and performance which has improved the competitiveness of co-operatives. The internationalization of co-operatives is favorable, and the members of co-

operative show less resistance if their interests are being met. Seipel and Heffernan (1997) as cited in Ritossa and Bulgacov (2009) identify a special element of co-operative organizational form which brings advantage to the internationalization process, which is that potential business partners see co-operatives as being ethical and trustworthy. Since co-operatives are considered more trustworthy, it could avoid the problem of asymmetric information where producers engage in opportunistic behavior that exploits the consumers. Co-operatives are also considered more effective in responding to market failures and social problems (Spear, 2000).

Bretos and Marcuello (2017) argue that a cooperative has an advantage over other types of firms in that it has the power to make social and economic change in the globalization. Since co-operatives are based on strong community relations, they have the advantage to raise social capital to improve economic performances (Spear, 2000). Hansen (2009) points out the economic advantages of international acquisition which include gaining better synergy, economic of scale, access to new customers and suppliers that drive growth for the co-operatives.

The financial advantages of internationalization are still debated among academics. However, according to Geringer, Beamish, and Costa (1989, as cited in Ritossa, 2009) the impact is not always positive because internationalization leads to a higher cost of managing geographic distances which may reduce profits at a certain level of internationalization. Juliá-Igual et al. (2012) also agree that empirical studies show that mergers and acquisition among co-operatives are not always followed by the expected result of improved financial and economic indicators.

3.5.4. The Risk and Challenges of Internationalization

In the internationalization process, a co-operative goes through several stages, each of them has its own challenges that must be addressed with a suitable strategy by the co-operative in order to survive the competition (Hansen, 2009). Schroder et al. (1993) have identified six internationalization barriers faced by the agricultural co-operatives:

- The producer control - where co-operatives should develop a marketing-oriented business that starts with customers instead of production orientation that start with the raw material supplied by their members because it will limit the effectiveness both in the local or international market.

- The location in the food chain - since co-operatives are at the beginning of the food chain, they are often disadvantaged by other businesses that are closer to the market signals of customers
- The dilemma of sourcing raw materials from the co-operative's members or from foreign sources
- The relationships with governments or whether there is any government support
- The strategic design and implementation
- The development of a long-term financing strategic initiatives

There are different barriers to internationalization according to the size and experience of the business. Large and experienced businesses are more concerned with managerial capabilities, organizational systems, and market access. While smaller and less-experienced business have the financial aspect as the most significant concern (Scott-Kennel, 2013). According to Hansen (2009), access to capital is one of the main internationalization challenges for the co-operative. Internationalization strategies such as foreign direct investment and acquisition are capital intensive while co-operatives have limited access to capital, unlike the investor-owned companies which can raise capital on the stock market. Evans and Meade (2006) also agree that the ability to raise capital is one of the constraints for the development of the cooperative.

However, O'Connor & Thompson (2001) as cited in Donoso et al. (2003) argue that financial limitations are not a specific internationalization barrier, but could be considered as a weakness of traditional co-operatives. This is supported by the view of F. Chaddad and Heckelei (2003) who also agree that generating capital is a general weakness of a co-operative. In contrast with these views, Rudzki and Davidson (2002) mentioned that a study by Ernst & Young found that the development of co-operatives is not constrained by the access to capital. Rather, constraints on development reflected the quality of management and strategic direction of the co-operatives.

Ritossa and Bulgacov (2009) studied the internationalization of co-operatives in Brazil and found that the internationalization is challenged more by external factors such as:

- currency exchange policy
- legal bureaucracy

- poor logistics
- Fiscal structures.

The internal factors concerning the adaptation of managerial quality and structure are less important challenges to the co-operatives. Hansen (2009) also identified several challenges in the internationalization of a cooperative which include financial aspects, management, decision making, and membership structure of the cooperative. The other challenge is that the members of the co-operative are often more keen to immediately gain from the surplus of internationalization rather than investing for the development of the co-operatives. It is difficult to convince the members to reinvest their surplus in the co-operatives because the incentive to invest the surplus is considered smaller and usually in a longer time horizon (Hansen, 2009).

3.6. Theoretical Framework

Based on the literature review, we could understand that the global market is transforming rapidly as a result of globalization influenced by advanced information, communication, and technological (ICT) development. Companies in the food & agricultural sector cannot avoid the global competition, including Agri-food cooperatives in New Zealand. Internationalization and exporting of agricultural products could be said as the backbone of New Zealand economy. The agricultural co-operatives contribute an important role to the economy and society of New Zealand. However, not many studies have been conducted about internationalization of New Zealand Co-operatives.

The recent internationalization theory shows the emergence of International New Ventures (INV) that are influenced by the development of ICT, which will be further referred as born-globals in this study. Most agricultural co-operatives in New Zealand are considered as born-globals because the challenge of a small domestic market made internationalization their main strategy of business growth. The emergence of born-globals brought some interest to study their preference for entry-modes in the internationalization process. Few studies have analyzed the determinants of entry-mode choice in the context of born-globals (Ripollés & Blesa, 2017). Based on the review of internationalization strategy by Zhao, Ma, and Yang (2017), they suggest future research to study the process of entry decision-making to provide more accurate evidence of internationalization influencing factors. In this study, the focus will be on the agricultural co-operatives internationalization strategy where

internationalization process is limited to outbound activities involving foreign trade of agricultural products or other forms of foreign investment.

Several studies on New Zealand co-operatives could be found in the (Nilsson & Ohlsson, 2007; Gray & Heron, 2010; Garnevska et al., 2017; Garnevska et al., 2018). However, not many of them analyze the internationalization strategies. Scott-Kennel (2013) has studied the drivers of internationalization model of New Zealand firms. Nevertheless, her study only involved New Zealand firms in general, rather than co-operatives specifically. A comprehensive study on New Zealand Agricultural co-operatives has been performed by Donoso (2003). He successfully identify the forms of internationalization strategies of the agricultural co-operative, however he has not identify the influencing factors of each strategy.

Based on that literature gap, this research reviewed the internationalization process of New Zealand agricultural co-operatives and the factors that influenced the internationalization strategy. The influencing factors were outlined based on the latest studies of entry modes determinants (Shen et al., 2017; Scott-Kennel, 2013). The external factors were analyzed using Porter's Five forces to understand the competitive position that influence the internationalization strategy. Additionally, the risk and challenges were also analyzed to understand how it influence the decision of internationalization strategy. This research will provide additional insights to the previously mentioned research gaps especially in the agricultural co-operative sector in New Zealand.

A theoretical framework is presented in Figure 8 to summarize the flow of the research.

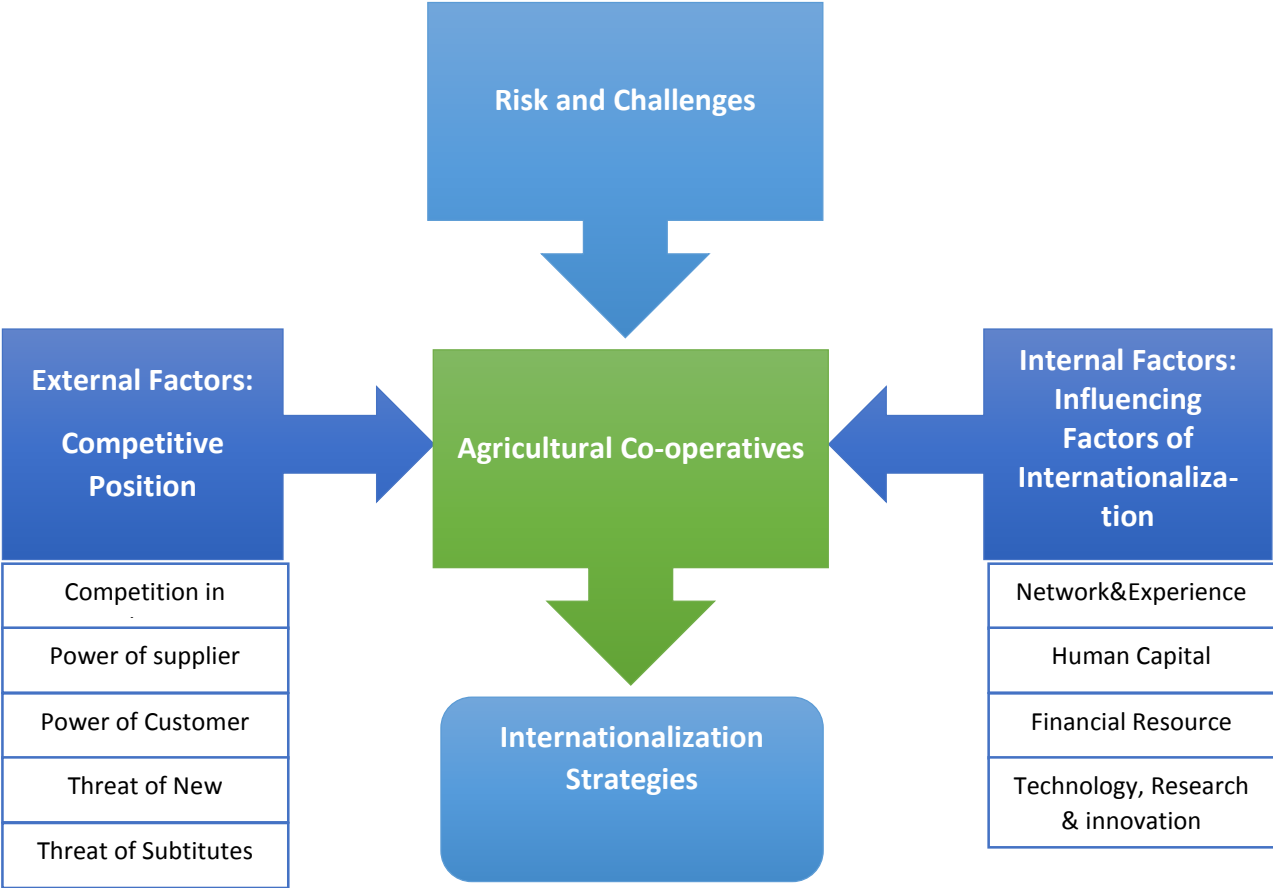


Figure 8 Theoretical Framework

4. 1. Research Strategy

Several conditions should be considered when determining which research strategy is going to be used in a study. According to Yin (2009), the three conditions are types of research questions, the extent of control over behavioral events, and the degree of focus on contemporary as opposed to historical events. The five research methods commonly used are experiment, survey, archival analysis, history, and case study. Table 16 displays the relevant situations for different research methods.

Table 16 Relevant Situations for Different Research Methods

<i>Method</i>	<i>Form of Research Question</i>	<i>Requires Control of Behavioral Events?</i>	<i>Focuses on Contemporary Events?</i>
<i>Experiment</i>	How, why?	Yes	Yes
<i>Survey</i>	Who, what, where, how many, how much?	No	Yes
<i>Archival Analysis</i>	Who, what, where, how many, how much?	No	Yes/no
<i>History</i>	How, why?	No	No
<i>Case Study</i>	How, why?	No	Yes

Source: (Yin, 2009, p. 8)

The type of research question in this study is explanatory, therefore the use of case study or history is preferred. The study covers contextual conditions on a contemporary event that are relevant to the phenomenon considered, thus a case study is relevant (Yin, 2009). The case study method provides detailed explanations and descriptions. Owing to the explanatory nature of the research questions, this study employs a qualitative research using a multiple-case study. According to Yin (2009), a multiple case study has the advantage of robustness and strengthens the external validity of findings compared to a single case-study.

4. 2. Sampling

4.2.1. Selection of case study

The case study yields information-rich cases which can answer the research questions (Bailey, 2018). Two agricultural co-operatives in New Zealand were selected for this study because agriculture is one of the biggest contributors to its economy. These

co-operatives were chosen from two of the largest agricultural sectors in New Zealand who performed successful internationalization strategies. The co-operatives are Tatua Co-operative representing the dairy industry, and the Alliance Group representing the meat industry. Each co-operative is a different size, has differing characteristics, and internationalization strategies.

4.2.2. Selection of participants

A purposive sampling technique was used to determine the participants involved in this study to collect the primary data. The purposive sampling was used in order to produce the most relevant information and data (Yin, 2011). Participants were selected based on their expertise and experience in the co-operative. Moreover, their knowledge and involvement in the internationalization process of the co-operative was also considered, therefore, the respondents chosen were senior leadership and management. A total of four respondents from ? participated in the semi-structured interview including the two chairmen, the CEO, and a senior manager. The reason for the number of samples is based on the consideration of time to complete the study and available relevant resources to be accessed (Ruane, 2005)

4. 3. Data collection technique

4.3.1. Primary Data

The data collection techniques used in a study depend on the nature of the source (Thomas & Hodges, 2010). Various types and sources of primary and secondary data are needed to ensure the accuracy and validity of information collected (Yin, 2009). Most social research tends to focus on people as the primary data source (Thomas & Hodges, 2010).

The interview is considered an insightful source of evidence that provides perceived causal inferences and explanations. The interview provide focus on the case study topics (Yin, 2009). Therefore, a semi-structured interview technique was conducted to collect the primary data in this research. It provides intensive discussion with more flexibility while maintaining the parameters of the topic of research (Gagnon, 2010). The interviewer used a list of structured questions prepared according to the topic, although the questions were not necessarily asked in a specified order (Bailey, 2018). The semi-structured interview also allows the interviewer to probe more deeply into

issues of interest with additional questions asked according to the flow of the interview.

The preferred method was a face-to-face interview and telephone interview which was tape-recorded for further analysis (Wilson & Sapsford, 2006). The face-to-face interview is able to provide body language, facial expression and other physical features which are useful to establish rapport. The face-to-face interview is a synchronous interview that allows both interviewer and the participants to be attentive for a certain amount of time so it will produce better quality answers (Bailey, 2018). Because of the time and distance limitation, a phone interview was also used in this research.

4.3.2. Secondary Data

Documentary information as the secondary data source is likely to be relevant to every case study topic. The documentation and archival records are employed in this study (Yin, 2009). The sources of this data are from the available data set that has been recorded in the form of company reports, records, academic journals or other documents (Philliber, Schwab, & Sloss, 1980).

4. 4. Data analysis technique

Data analysis is the process of analyzing the meaning of data from which the final results are written (Bailey, 2018). The analysis allows the researcher to see patterns, identify themes, discover relationship, develop explanations, or make interpretations (Hatch, 2002) as cited in (Bailey, 2018). The data in this study were analysed using qualitative data analysis.

The analysis process began with the transcription of the recorded interviews which involved coding of important information. Coding is the process of identifying raw data by assigning descriptive labels based on relevant characteristics to be useful for generating analytic insights (Bailey, 2018).

After coding, the next step was classifying the codes and grouping together into categories. Categories can include topics, events, processes, concepts, and descriptions of people and places. The next step was to determine the relationship of each separate category that addresses the research question. Some iterations might be needed to refine

the categories until the ideas and concepts can be analyzed to generate results (Bailey, 2018). To analyze the competitive industry of the co-operatives, the Porter's Five Forces Model was used.

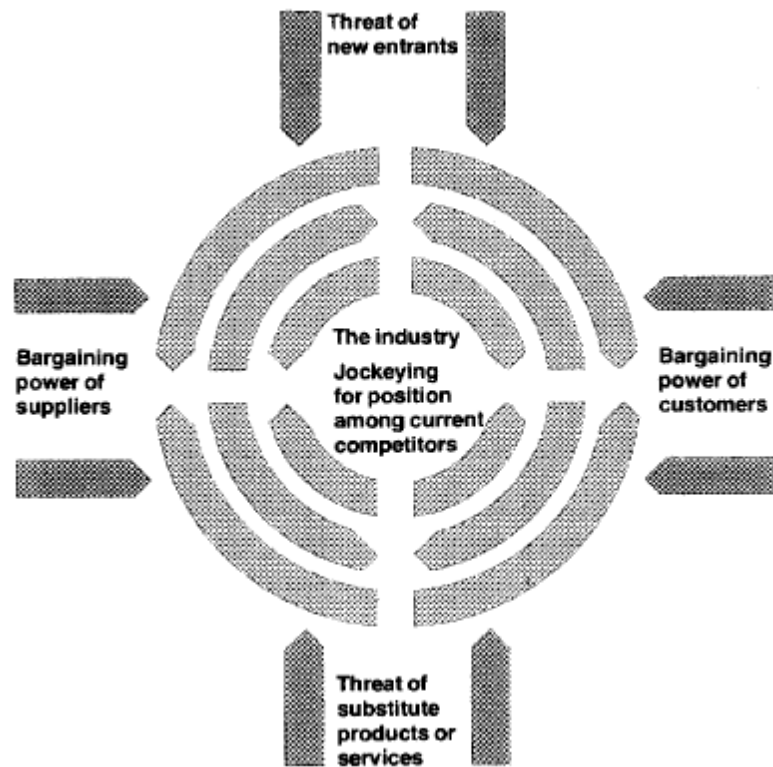


Figure 9 Porter's Five Forces Model, source: Porter (1979)

This model is a suitable tool to analyze the external factors of industries that shape the strategy of each co-operative studied (Porter, 1979). The external factors analyzed are the bargaining power of suppliers, bargaining power of customers, threat of new entrants, threat of substitute products and competition in the industry which are addressed as the competitive position in this study (Figure 9).

After the analysis of each case study, a cross-case analysis was implemented. Based on the comparison, similarities or differences in the internationalization stage, strategies and the influencing factors of internationalization for each co-operative were analysed. The findings were then linked back and compared to the earlier literature (Yin, 1994).

4. 5. Ethical Considerations

Ethical considerations were implemented to assess the study with respect to potential harm to the participants. In this regard, the Massey University Human Ethics Committee (MUHEC) conducted an ethical assessment and this study was judged to be low risk.

In relation to the potential ethical implications for the participants, there are major ethical principles to be considered by the researcher before conducting the study ("MUHEC," 2015). The major ethical principles are: 1) respect for people 2) minimisation of harm to participants, researchers, institutions and groups 3) informed and voluntary consent 4) respect for privacy and confidentiality 5) the avoidance of unnecessary deception 6) avoidance of conflict of interest 7) social and cultural sensitivity to the age, gender, culture, religion, social class of the participants, and 8) justice.

Given these ethical principles to be considered, some actions to minimise the ethical implications were conducted. Prior to the study,, the potential participants were informed about the aim and details of the research. This also provides an opportunity for the participants to consider whether or not to participate. The researcher ensures that the identity of the participants will not be revealed. In relation to this, the researcher also considers social and cultural sensitivity such as age, gender, culture and religion.

CHAPTER FIVE: RESULTS

5.1.Tatua Co-operative Case Study

5.1.1. Company overview

Tatua Co-operative Dairy Company is a leading global supplier of specialised dairy products. It is New Zealand’s oldest independent dairy company and was founded in 1914. Tatua has a closed membership owned by 110 shareholders. Tatua’s headquarters and manufacturing plants are located in Morrinsville, New Zealand. Today, The company employs more than 370 staff and exports more than 95% of its products to around 65 countries over the world. Besides that, it has also established subsidiaries in Japan, United States (US) and China.

Table 17 Tatua’s Overview

Cooperative & Sector	Established	International Operation	HQ Location	Strength	Revenue (2017) & Shareholders
Tatua (Specialized Dairy products)	1914	Export: > 60 countries Subsidiaries: Japan,USA, China	North Island	Leading Global Supplier of Specialised Dairy Products	\$327,992,294 114 shareholders

Source: (Tatua, 2017)

Tatua’s supply of milk solids in 2017 experienced a 3.9% reduction to 15 million kilograms because of the cold and wet spring that influenced the grass-fed milk supply. However, the quality of milk remained at a very high level. The growth in speciality business, alongside the increase of milkfat prices, has generated a 13% increase of total revenue to \$328 million from 2016 to 2017. This resulted in a 14% increase in earnings before payout, taxation and retentions to \$114 million in 2017. Tatua had a group asset of \$ 250 million in 2016/2017 and declared a *payout* to its shareholders of \$7.10 per kilogram of milk solids .

Tatua collected 166 million litres milk from its supplier in 2017. The raw milk is manufactured into a range of value-added dairy products as Tatua’s core business and focus of investment. It processed the collected milk into flavour ingredients, speciality nutritional and bio-nutrients, as well as food service and consumer products. The products are used by various manufacturers for products such as infant formula, functional dietary

supplements, texturiser, appetite control, sport and enteral nutrition, shelf life extender, meal replacements and functional food supplements.

The products of Tatua have been highly specialised and differentiated, perceived as unique, thus targeting a limited market segment who are willing to buy at a premium price. The utilisation of the speciality dryer, commissioned in May 2015, remains a key focus for the business. Besides the specialized value-added products, Tatua also produce bulk ingredients of caseinate, whey protein concentrate and anhydrous milkfat. This business unit also served the business well in the global market where anhydrous milkfat prices doubled throughout the course of the year. However, the more specialised products increasingly contributed to the overall business and the annual result, and remained as the key business.

5.1.2. History

The Tatua Co-operative was initiated by William Milliken, an Irish man who came to New Zealand in the mid-1880s. After spending time in grocery trading, he saw the potential value of dairy farm investment in the land of Tatua. He helped to develop other productive farms and began to form a community of dairy farmers. The rising challenge was getting the milk to the factories for processing. In 1913, the competition of dairy factories was very tightly surrounded by vibrant dairy companies. If Milliken and the others did not act soon, Tatua would shortly be swallowed up by existing dairy companies. In early June 1914, the group then decided to build their own cheese factory.

They committed to registering the new company with a capital of £5,000 in £1 shares. The group elected their first set of company directors: William Gyde, Robert Ramsey, Johan Henriksson, William Whinwray, William Woodley, George Runciman and William Milliken as the Chairman. They signed the Memorandum of Association for The Tatua Co-operative Dairy Company Limited on 16 June 1914. The Bank of Australasia granted a £1,900 overdraft facility to fund the establishment of the new factory. Three months later, the cheese factory began its operation . On 24 September, the first ten suppliers delivered their milk to the factory.

In 1914, the size of the herd, worldwide, declined and the prices for dairy produce reached unprecedented levels as the result of war in Europe. The war provided an opportunity for

New Zealand to receive high value from the worldwide shipment of the dairy products, and, because of that, Tatua tripled their factory size in only one year. Tatua made rapid progress during the year, achieving a strong balance sheet and payment for the shareholders.

Over time, Tatua continued to grow the business by adding casein, dried skim milk powder, aerosol cream, butter, lactoferrin, bionutrients, and other value-added dairy products to their products' portfolio. In 2001, a mega-merger of dairy industry occurred after the deregulation of New Zealand Dairy Board (NZDB) followed by the creation of Fonterra. However, Tatua decided to remain independent. The timeline of Tatua's business growth can be seen in Table 18.

Table 18. Tatua's Timeline

<i>Year</i>	<i>Milestone</i>
1914	Establishment of Tatua Co-operative Dairy Company Limited
1915-1920	<ul style="list-style-type: none"> - Factory extension triples factory size - All cheese output for export to UK - Tatua agree to join Zealandia Milkfoods Ltd. in 1919 but leave the scheme in 1920
1921-1935	<ul style="list-style-type: none"> - Tatua prize-winning cheeses bring top export prices - Biggest cheese output in NZ (939 tons) - Morrinsville Dairy Company begins taking Tatua cream - Great Depression: price of New Zealand cheese falls 30% in 1930 - single-desk purchase of agricultural products and guaranteed minimum price scheme
1939-45	World War II: Tatua is essential supplier as largest cheese factory in NZ
1946-1950	<ul style="list-style-type: none"> - Tatua concludes cheese production, commences casein manufacture - roller-dried skim milk powder production
1952-1965	<ul style="list-style-type: none"> - Tatua begins mixed production of casein and dried skim milk powder - Tatua produces first 26% whole milk powder - Tatua opens new edible casein plant - Installation of Coulter dryer and production of spray-dried powder.
1966-1981	<ul style="list-style-type: none"> - Producing sodium caseinate and spray-dried casein - Tatua dries its first whey protein - Dairy Whip aerosol launched in Australia, New Zealand and UK
1982-1990	<ul style="list-style-type: none"> - Tatua introduces its second brand, Farmer's Pride, into Australia and NZ - Tatua developed a range of caseinates for export customers - Launch of Tatua Foods Division - Operation of butter, whey protein, lactoferrin plants
1991-1996	<ul style="list-style-type: none"> - Niro Dryer commissioned - Tatua opens whey protein concentrate plant
2001	<ul style="list-style-type: none"> - Deregulation of the Dairy Board. Tatua remains independent - Tatua issues MSEs inspired by new generation co-operatives

2003	The company launched its flavour ingredients and bionutrients business
2004	Launch of Tatua Japan Subsidiary
2005	Tatua began the operations of its anhydrous milk fat plant
2011-2012	Opening of new foods plant, packing line and hydrolysis plant
2014	Launch of Tatua Shanghai and USA Subsidiary
2015	Establishment of the new specialised powders' dryer

5.1.3. Strategy Evolution of Governance

Throughout the period of its establishment, Tatua has experienced a change of chairman 12 times. Tatua was first established as a cheese processor back in the early years under the leadership of its first chairman, W.H. Milliken. The cheese was exported by New Zealand Government with a sole-purchase policy in the event of war.

In 1919, Zealandia Milkfoods Ltd was established as a fully owned subsidiary owned by New Zealand Co-operative Dairy Company. Zealandia, with its massive dried milk powder factory, was on the hunt for additional supply. They asked several co-operatives, including Tatua, to join them to have their own dried milk powder factory. Tatua, under the governance of William Darral, agreed to join Zealandia Milkfoods Ltd because the market and returns from dried milk powder was very attractive. However, it turned out that the construction of the new milk powder plant faced several obstacles. With no viable factory, Tatua were released from their decision to amalgamate. Tatua decided to leave the Zealandia scheme in the next year.

The Dairy-produce Export Control Act became law in 1923. The Act gave the new Dairy-Produce Control Board authority over the purchase, export, sale, and distribution of New Zealand Dairy produce. The regulation failed and the whole system was terminated in 1927. Tatua decided they could sell better by themselves and negotiate their own contracts. Tatua had a record season, producing 939 tons of cheese and enabled the company to pay a bonus to suppliers.

Tatua's current focus strategy on value-added products began in 1970s under the leadership of C.K.Sing. This strategy was considered by Tatua because, during the 1970s, The New Zealand Dairy Board (NZDB) introduced a cost model basis of payment based on an assumed daily processing capacity of a plant. Tatua could not compete with the

larger dairy producers if it were to be paid on the NZDB cost model. Therefore, Tatua developed a high-value low-volume strategy.

In 2000, Tatua decided to adopt the modern co-operative idea under the governance of Alan Frampton, to move a bit closer to the investor-owned co-operative by introducing Milksolids Supply Entitlement (MSE) in addition to nominal shares. In this way, Tatua was trying to put a market-related value on share capital and also create control of the growth of milk supply. Voting is based on one vote per kilogram of milksolids and shareholders cannot have more than 5% of the votes.

Under the regulation of NZDB, all of the dairy products exports from New Zealand were managed by them as the sole-exporter. The dairy co-operatives were responsible for the marketing and distribution in the domestic market, while all of the international transactions from shipping, quality control, market promotion and other services were under the NZDB. The NZDB was deregulated, followed by a mega-merge between the two largest dairy cooperatives, The New Zealand Dairy Group (NZDG) and Kiwi that merged in 2001 to form Fonterra. Tatua were asked several times to take part in the merger, but Alan Frampton as Tatua's Chairman at that time, decided that Tatua would not join because no-one was able to demonstrate that the shareholders would be better off in a merger situation. Tatua and Westland decided not to join the merger and remained an independent co-operative.

Since the NZDB was responsible for all exports of dairy products beforehand, the deregulation of NZDB was a critical landmark for the dairy cooperatives' internationalization strategy. In this phase, Tatua prepared a transformation of strategy since they gained direct access to the international market where they became responsible for all of the marketing and transportation of their products.

“We've been through quite a transformation during the period from being a dairy processing company who by legislation had to sell through a single seller NZDB and in 2001 where we prepared ourselves strategically for the event of the deregulation to become a fully integrated international company ourselves. It all occurred in 2001-2003 when we were still in transition where Fonterra was actually our agent for the majority of our products at the first 24 months (Chairman of Tatua, 2018)

After the transition, Tatua evolved and wanted to further grow their business by not only exporting through distributors.

“At first we started with agencies and distributors then we evolved. We traveled, we talked to other people, travelled regularly to establish relationships. Once established and business flows, then the business can justify. For many years we had agencies with NZDB and Fonterra, over the time we are taking more and more to a subsidiaries type of arrangement” (Chairman of Tatua, 2018)

Tatua decided to establish their own subsidiaries in Japan as one of their biggest markets.

“In 2003, at that time I’d been Chairman for around one month, we decided to establish Tatua Japan which was really our first effort of having our own subsidiaries. And the other arrangements from 2001-2003 were primarily agency arrangements; some of them remain with Fonterra but we replaced what we had done with both NZDB and Fonterra with agencies in countries we were choosing to market”

(Chairman of Tatua, 2018)

Under the leadership of their current chairman, Tatua continued to add subsidiaries in China and USA in 2014 as a strategy to grow their business in their key markets. Tatua had not yet considered a joint venture as an option to expand their business because they chose to remain independent and avoid conflicts that might arise in joint ventures as stated by their current CEO.

“It’s not something we plan on doing at the moment. JV can be one way to access the market but they can be challenging as well. We are pretty careful about doing the JV. We don’t have the need now. What starts out being common can sometimes evolve differently through the course of the JV. So, people may have the same intention and understandings and even very similar common values, see the opportunity the same, behave the same, but as the individuals change within the organization and as the underlying business evolves, sometimes it can grow apart and be no longer compatible, that is the risk of joint ventures.” (CEO of Tatua, 2018)

5.1.4. Current Company Strategy

Tatua aims to be the leading global supplier of specialised dairy products. A focus strategy has been implemented by Tatua by aiming at high-value and low-volume markets. The CEO stated that specialised and differentiated dairy products achieved a high sales price compared to the commodity price model. Tatua focuses on returning more to its supplier by improving the value-added products rather than pursuing milk-volume growth strategy.

Tatua has considered maximizing the potential of their existing plant and product mix for their volume and value growth, thus modest capital investment was implemented in 2018. However, they are looking forward to positive outlooks and opportunities. Tatua have continued to implement their strategic plan for 2013-2018 which includes four strategic themes (Tatua, 2017):

1. Grow Tatua's earnings premium over the New Zealand milk price

The establishment of the new specialised powders dryer will enable Tatua to improve the quantity and range of specialised dairy powder flavours, bionutrients, and hydrolysates that are high in value and are expected to further expand the business. The commissioned subsidiaries in Japan, China and USA are also major initiatives to improve the earnings' premium in Tatua's key markets.

2. Make the business more sustainable.

In recent years, Tatua put more focus on sustainability of the business. Besides achieving economic success, Tatua also developed more initiatives for positive social and environmental outcomes. Tatua acknowledge the importance of sustainability, not only for the shareholders and customers, but also for the wider community and future generations. Tatua has partnered with schools and universities to arrange site visits to educate younger people about dairy farming and the manufacturing environment. Tatua has also created an emerging leaders' programme to develop potential rural leaders. The recent environmental initiatives were an upgrade of waste water treatment infrastructure and development of a responsible farming programme for on-farm sustainability.

"our real challenge actually is just growing the business in the right places in the right way and making sure that the growth that we have is sustainable growth and not just fast growth in the moment" (CEO of Tatua, 2018)

3. "One Team" through a common purpose, vision and values.

Tatua has a value of hard work and exceeding the customer's expectations by adding value and delivering quality. Pride of the people and company has made a strong team that is going the extra mile. The team is responding with agility, speed, as well as respect.

4. Attract, develop and retain great people

People are an important asset to Tatua that differentiate it from other companies. Tatua pays special attention to providing a safe, productive and sustainable workplace for their employees.

5.1.5. Business structure

Tatua's business, itself, is broken into production of bulk ingredients and special added-value products (SAV). Tatua's business is divided into several business units:

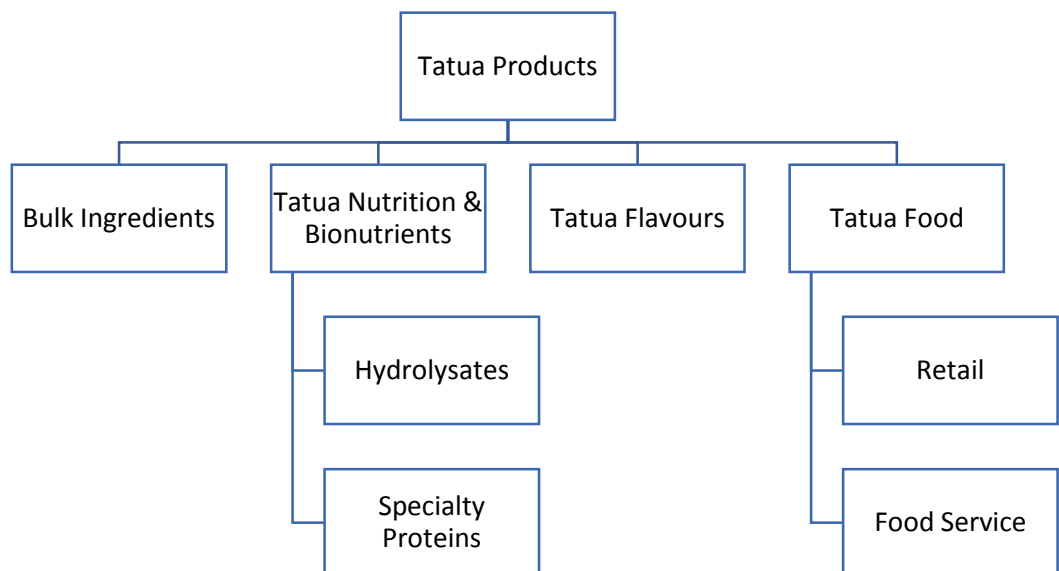


Figure 10. Tatua Products
source: Tatua (2017)

- Bulk ingredients: This business unit offers casein protein, whey protein concentrates (WPC), and anhydrous milk fats (AMF)
- Tatua nutrition and bionutrients. The products in this unit are protein-based, and produced into speciality nutritional ingredients comprising whey and casein hydrolysates; lactoferrin, lactoperoxidase, coisolate, and glycomacropeptide; phospholipid concentrate and beta serum powder for dietary and specialized nutritional applications. In addition, they offer bionutrients consisting of dairy and soy peptones for diagnostic media, cell culture media, fermentation media, probiotics, and vaccines

- Tatua flavours. This business unit focuses on the ingredients including butter, cream, cheese, and custom-designed flavours for the food and beverage industry
- Tatua food. These are cream-based consumer products comprising creams, chocolate dessert toppings, and cheese sauces. Tatua also provides foodservice products, including creams, sauce, dairy whipped creams, and liquid mixes.

Tatua generates more from business to business transactions, as consumer trade is only a small part of their activities.

“Most of our business is making ingredients for someone else; we don't have a very big consumer business. We are making things that someone else uses in their processes. We have a small consumer business that's a very small part of our business; we are mainly a specialist ingredients' business. The Business to consumer is more local in NZ and Australia. Sometimes we sort of think that Australia as being part of our domestic market, but they are also an export market of course” (CEO of Tatua, 2018)

Tatua is a closed membership co-operative with dairy farmers as their suppliers, as mentioned by their senior management.

“We are a wholly farmer'-owned co-operative that is not partially owned by farmers and public, thus we don't have external shareholders”.

(Senior Manager of Tatua, 2018)

Tatua believe that being an independent co-operative is the most suitable and secure form for their business as stated by their chairman:

“We have chosen to remain independent. From the shareholder perspective we are very comfortable with having farmer shareholders, very comfortable with our three international subsidiaries; we have a good relationship with other dairy companies and other distributors” (Chairman of Tatua, 2018)

Tatua implemented strict rules and requirements for new shareholders. The producer capital contributions are proportional to product delivery rights. Tatua's shareholding

structure is based on a nominal share that is redeemable at their nominal value, but not tradable.

Since 1999/2000, a “hybrid” share structure has been in place. In addition to nominal shares, there is the Milksolids Supply Entitlement (MSE), which gives the shareholder the right to supply a kilogram of milksolids. The idea of MSE was inspired by new generation co-operatives to capture the value Tatua adds to the milk (Nilsson & Ohlsson, 2007).

The MSE was issued to Foundation shareholders who were the suppliers in the 1999/2000 season. The MSE was free of charge since these shareholders had already invested in Tatua through shares and retained earnings. The number of MSEs distributed was based on the plant capacity that was still lower than milk intake allowing an increase in production. The unused MSEs can be transferred between the shareholders (Nilsson & Ohlsson, 2007).

In 2015, Tatua issued an additional 800,000 MSE to their shareholders and made a “one for one” bonus issue of shares to return some of the earlier retentions to shareholders. This initiative is made to give some growth option for Tatua’s supplier which is crucial to Tatua’s sustainability. Tatua has not yet issued any further MSEs in the following years.

“The MSE can be leased, sold, or given away among shareholders. The suppliers need to have one nominal share and one MSE for every kilogram of milksolids supplied to receive full payout.” (Senior Manager of Tatua, 2018)

This system guarantees the control over the milk volume supplied to the co-operative as opposed to a co-operative with a collective structure, where delivery is unrestricted and the co-operative has an intake obligation. The right to vote is proportional to the production rights; each kilogram of milksolids entitling the shareholder to one vote, with a limit of five percent of the votes being held by one supplier.

5.1.6. Capital structure and financial performances

Tatua maintains a strong balance sheet and financial performance in 2017. The financial indicators during 2013-2017 can be seen in Table 19. Tatua increased 13% of its revenue in 2017 to NZ\$327.9 million from NZ\$289.3 million in 2016. Tatua’s earnings, before payout, taxation, and retentions, also increased to \$7.80 from \$6.41 (EBITMP/kgMS). Its revenue per unit of milk is still the highest in the industry and it continues to generate the highest returns on its invested capital.

Tatua’s superior performance is reflected in it consistently paying its farmers more for their milk than any other NZ processor. In 2017, the cash payout increased 12.7% from \$6.30 /kgMS to \$7.10 /kgMS. Tatua’s return on invested capital decreased to 9% in 2017, which is down from 15% in 2016 and 27% in 2015, but still above the industry average.

Table 19. Tatua’s Financial Indicators 2013-2017

Financial Indicators	2017/2016	2016/2015	2015/2014	2014/2013
<i>Revenue</i>	NZ\$327.9 million	NZ\$289.3 million	NZ\$286 million	NZ\$266 million
<i>Earnings before payout, taxation, retentions</i>	\$7.80/kgMS	\$6.41 /kgMS	\$7.73 /kgMS	\$10.32 /kgMS
<i>Cash Payout</i>	\$7.10 /kgMS	\$6.30 /kgMS	\$7.10 /kgMS	\$9.00 /kgMS
<i>Retention (pre-tax)</i>	50 cents/kgMS	11 cents /kgMS	63 cents /kgMS	\$1.32 /kgMS
<i>Gearing ratio</i>	35%	35.7%	36.6%	25.2%

Source: Tatua Annual Report 2013-2017

As a co-operative, Tatua has a limited base of equity from its farmer-supplier shareholders and has used debt and retained earnings to fund capital expenditure. In 2015, the establishment of their third specialised powder dryer has increased the debt significantly, with a gearing ratio of 36.6%. This was well below the 47% ratio predicted in the business case for the new dryer. Since that time, the gearing ratio has remained steady at around 35% of total assets. Its debt to assets ratio is relatively low given its underlying profitability compared with the other co-operatives in the dairy industry such as Fonterra, Westland, Synlait and OCD.

“We fund everything we do with the equity of farmers and also debt. Being a relatively conservative co-operative, we keep a strong balance sheet” (CEO of Tatua, 2018)

Tatua's balance sheet has been strong because the business has always ploughed back money from retention. In 2017, Tatua achieved a strong increase of 50 cents/kgMS retention from 11 cents /kgMS in 2016. The retention is important for Tatua to ensure the financial strength necessary to invest in new plant, equipment and infrastructure to support the strategy of growing the Specialised Added Value business and making the business more sustainable. The shareholders also receive powerful incentives to invest in the co-operative by tradable and appreciable shares. As stated by their senior manager, capital investment has not been a big challenge for Tatua.

“Sometimes people think a co-operative can be a challenge because they can't raise capital to expand but that hasn't been a problem for us because we generated high enough returns that we can retain for our investment and still pay a premium price for the milk so farmers can further invest in their business” (Senior Manager of Tatua, 2018)

5.1.7. Governance structure

- **Board of Directors**

Tatua is governed by a Board of Directors who is professionally committed to manage the business and meet the best interests of the shareholders. The Board of Directors is responsible for governing the firm since Tatua does not have a separate body such as a Shareholder Council.

“We don't actually have a shareholders' council. We have a Board of Ddirectors of six elected and two appointed independent directors and we are responsible for the governing and delegating the management of the company. Our role includes the shareholders' engagement so we don't have a separate body to look after shareholders, we do that ourselves” (Chairman of Tatua, 2018)

- **Management Team**

The Board of Directors delegate the daily operation of the company to the CEO supported by a solid management team. This year, Tatua is still in leadership transition after the departure of the former Chief Executive Officer in December 2016. Tatua has appointed their ninth CEO. Tatua's current management team are as follows:

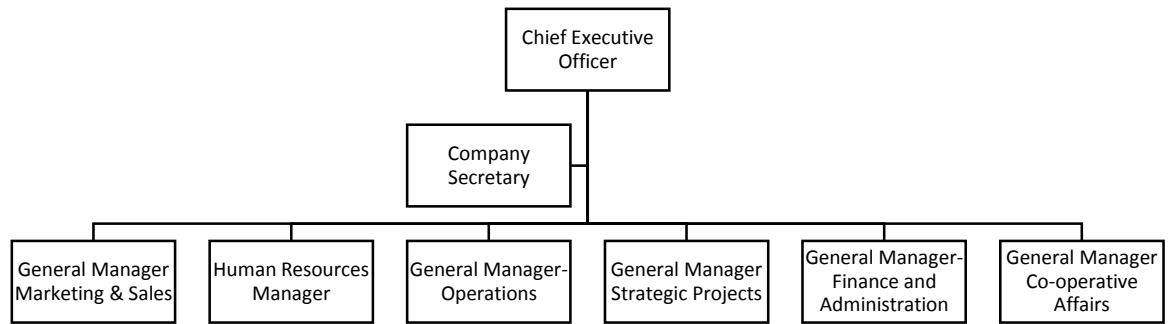


Figure 11. Tatua's Organizational Structure

Besides their head office and manufacturing plants in New Zealand, Tatua also has three subsidiaries as their sales and marketing representatives. Each of the subsidiaries is led by a president with support from its own team.

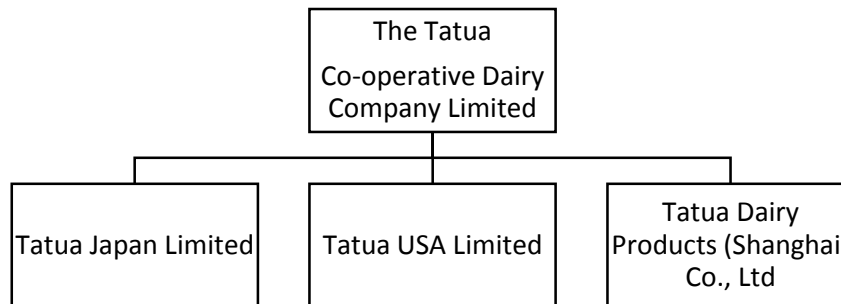


Figure 12 Tatua's Subsidiaries

5.1.8. Tatua's competitive position in Dairy Industry

5.1.8.1. Competition in the industry

The dairy industry is a broad and promising sector, thus the global competition is considered high. The top 20 global dairy companies are dominated by companies from Europe, USA, and China, as seen in Table 20. The competitions that need to be considered by Tatua are both domestic and international.

“Competition for us means two things; domestic competition of the milk supply and the global competitions to market our products. Our biggest competitors in the global market are mainly European, The United States as well as Chinese dairy companies” (Senior Management of Tatua, 2018)

Table 20. Global Dairy Top 20, 2018

2018	2017	Company	Country of headquarters	Dairy turnover, 2017*	
				USD billion	EUR billion
1	1	Nestlé	Switzerland	24.2	21.4
2	▲ 3	Lactalis	France	19.9	17.7
3	▼ 2	Danone	France	17.6	15.5
4	4	Dairy Farmers of America	US	14.7	13.0
5	▲ 6	Fonterra	New Zealand	13.7	12.1
6	▼ 5	FrieslandCampina	Netherlands	13.6	12.0
7	7	Arla Foods	Denmark/Sweden	11.7	10.3
8	▲ 9	Saputo	Canada	10.8	9.6
9	▼ 8	Yili	China	9.9	8.8
10	10	Mengniu	China	8.8	7.8
11	11	Dean Foods	US	7.5	6.7
12	12	Unilever	Netherlands	7.0 ⁺	6.2 ⁺
13	▲ 15	DMK	Germany	6.5	5.8
14	▼ 13	Kraft Heinz	US	6.2	5.5
15	▼ 14	Meiji	Japan	5.8	5.1
16	16	Sodiaal	France	5.8	5.1
17	▲ 18	Savencia	France	5.5	4.9
18	▲ 19	Müller	Germany	5.1 ⁺	4.5 ⁺
19	▲ 20	Agropur	Canada	5.1	4.5
20	▼ 17	Schreiber Foods	US	5.0 ⁺	4.4 ⁺

Source: (Rabobank, 2018)

Fonterra is the biggest dairy company in New Zealand, and is also ranked as number six in the top 17 companies. Meanwhile, Tatua, with its revenue of NZ\$289.3 million, is considered small compared to Fonterra with NZ\$17.2 billion revenue in 2016 (Fonterra, 2016; Tatua, 2016). Fonterra is the biggest local competitor for New Zealand, while other top local competitors are New Zealand Dairy Products Ltd, New Zealand Pure Dairy Limited, Synlait Milk Limited, and Westland Co-operative Dairy Co Ltd ([TDB], 2018). The CEO of Tatua stated that Tatua should have a better strategy to compete with Fonterra and the other large companies.

“Fonterra is the benchmark in NZ. It’s a benchmark for large scale commodity producers; of course they have some value-added business, but they set the price base for the milk. We should always do better than them and that’s because we got a much greater percentage of our business invested in the value added. We shouldn’t be the same, we should be ahead. We want Fonterra to do well, we absolutely do, but we need to be better than Fonterra because we are not commodity producers” (CEO of Tatua, 2018)

Tatua who sells bulk ingredients only in small volumes experienced competition from the bigger companies so they are selective in choosing the best returning markets.

“Everything is competitive now. If we only look at the bulk ingredients, those products typically get a global commodity type return. Caseinate has the ? price in the world market and we get the same price, but because we are relatively small, we don’t have to participate in low returning markets just to move big volumes. We have a small volume of bulk ingredients to place in the world market; we can choose the best returning markets.” (CEO of Tatua, 2018)

To face the competition, Tatua implemented a strategy by focusing more on the specialized value-added products. The specialized sector is competitive as well, but Tatua have positioned themselves as a niche market seller to receive a premium return.

“On the value-added side, all are very competitive, but we are small enough to be genuinely flexible and genuinely collaborative. We can get interested in an opportunity that somebody else won't be interested in because that is just too small for them and they want something bigger. Something smaller still works for us because sometime small means a premium as well. We set our business up so that we can play niches.” (CEO of Tatua, 2018)

The focus strategy on the niche area has been working very well for Tatua in the international market as explained by their Chairman.

“There’s always been competition, especially from European, NZ, and Australian companies. Yes, there's always been competition, but what we are trying to do is select and concentrate on the niche area that we think we can lead and be internationally competitive and we manage to do that in a number of areas.” (Chairman of Tatua, 2018)

Even though Tatua only accounts for a 1% market share in New Zealand, it does create the most revenue per kgMS among the other dairy companies, which is \$22.16/kgMS (Figure 13) [TDB] (2018). This can be achieved because Tatua is focusing on processing high value-added products.

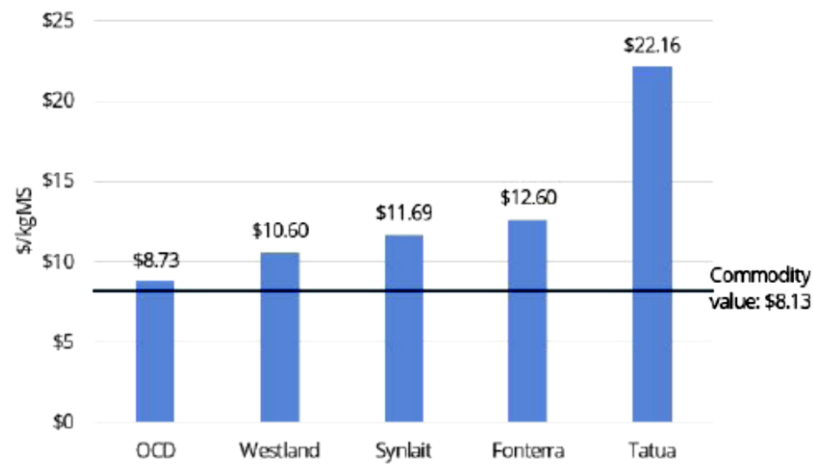


Figure 13. Revenue per kgMS, 2017
source: [TDB] (2018)

The adjusted Return on Asset (ROA) based on the regulated farmgate milk price (FGMP) in New Zealand could be one of the tools to assess the financial performances of the dairy companies in New Zealand. Tatua also shows a strong position with the highest ROA at 18% on average over the last three years (Figure 14) [TDB] (2018).

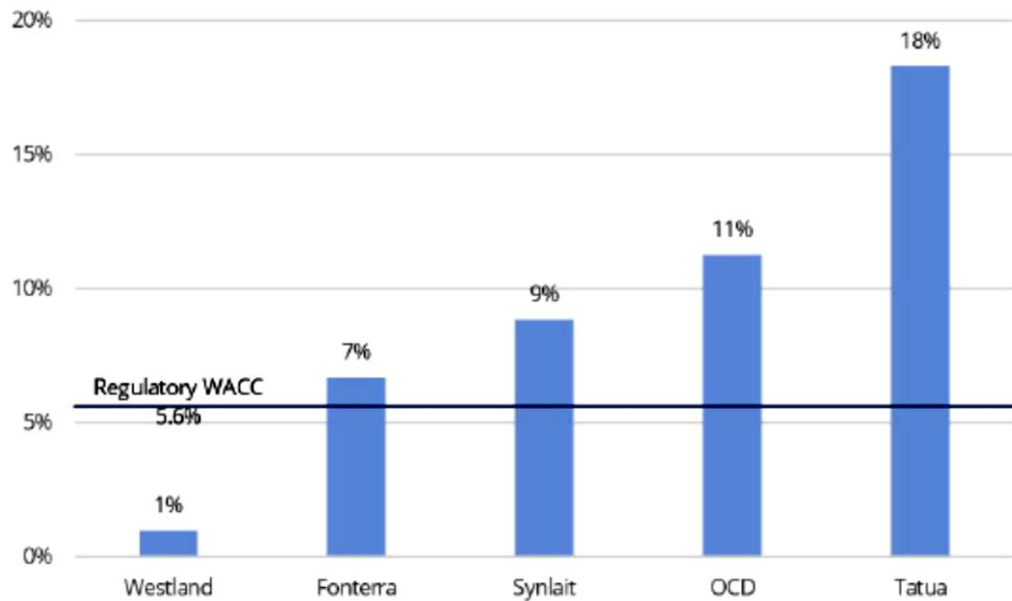


Figure 14. Three Year average Adjusted Return on Asset
source: [TDB] (2018)

The senior management of Tatua stated that they not only study the global competitors, but also local competitors in the markets they are in. He also emphasized the importance of having a team of competent people in their subsidiaries so that they understand the competition thoroughly.

“Yes absolutely, that is why we have people in the market. In China, for example, we understand who we are competing with, the customer, who the competition is, watch where they are going, import statistics and a lot of stuff. We can do that because we've got people in the market who understand what they are looking at. We can probably access plenty of good material in New Zealand, but if we don't have people in the market, somehow we will be missing the context of it.” (Senior Manager of Tatua, 2018)

In markets where Tatua do not have the subsidiaries, Tatua have assigned a special team who travel overseas to build connections with distributors and customers and understand the market competition they are in.

“We have a very experienced team who travel a lot. They have got connections and they know those markets very well; they know who they are competing with and so on. We do have distributors that would be in partnership, or team up for a very long time. They become our eyes and ears in the market and of course they want to grow their businesses, so we want them to succeed so we can grow with them” (CEO of Tatua, 2018)

According to the senior management, the key successes of Tatua to be able to compete in the global market, is having the value-added business with the ability to create collaboratively specialized products that are demand-led.

“What enables us to be successful in the market is having the capability to genuinely develop value-added in the protein side and the cream side. Having the capability of being collaborative and still be agile enough so that we can look at smaller opportunities that are very profitable or have the potential to become big and not having the pressure of having to process more milk, we only bring as much milk into this business as we require. Fonterra, for example, has the obligation to process all milk that comes to it under regulation.” (Senior Management of Tatua, 2018)

5.1.8.2. Power of suppliers

Tatua only process 1% of the total milk supply in New Zealand, therefore, Tatua finds milk supply very competitive. They need to manage a strong strategy to sustain the loyalty of their suppliers. Tatua supply all of the main ingredients from a local supplier within a 12 kilometre range from their processing plants. They keep their membership closed to limited suppliers. This is related to their business strategy that does not pursue high volume, but high value.

Tatua delivers high performance from their value-added strategy which enables them to give premium payouts for the milk supplied. Tatua also ensure the farmers retain enough investment to constantly grow their business.

“We keep our membership closed because we don’t pursue high volumes. We want to optimize the milk coming in and find the best way to process to get the highest

value. In this way we can give a high payout of milk and returns to the suppliers to keep them loyal in supplying their milk to Tatua” (Senior Manager of Tatua, 2018)

Tatua has a very open and honest approach with the suppliers. A strong two-way communication enables the suppliers to feel in control of Tatua’s future.

“We only have 110 supplier farms. We have a quite high level of connection with our shareholders because we are relatively small. We talk to them a lot; they can talk to us anytime. They rely on us, we rely on them. We do update them, we are very open and honest and transparent, and we don't hide anything. We have communication sessions with them a few times a year.” (CEO of Tatua, 2018)

Tatua has been successful in maintaining the loyalty of their shareholders by creating strong trust, pride, and respect. Tatua has a closed membership with high entry-barriers for potential members by strictly regulating the transaction by the possession of the Milksolids Supply Entitlements (MSE) as delivery rights. The combination of performance and loyalty is showing a great indicator of secure supply of future milk.

5.1.8.3. Power of Customers

Tatua runs their business based on opportunities in the global market and demands from the customers that suits their capability.

“You have to start with what it is that the customers want. Do we have what the customers are looking for. If we don't, can we work closely with some strategic customers to develop the products that they require. It needs to be demand-led rather than just pushing our products to the market” (CEO of Tatua, 2018)

Deep market knowledge is required to prepare their business plan in the international market and identify their potential customers.

“It is about understanding individual markets, categories within markets, segments within those categories, who are the players, who we want to work with. What sort of products do we want to sell into because you can't do everything for everybody. We need to decide what is it that we are going to be best at, where we have the best

chance for success, where we can make the most money.” (Senior Manager of Tatua, 2018)

In analysing an internationalization plan, Tatua makes sure that the products they are offering are meeting the interests of their customers.

“We did some work in the US a few years back looking for opportunities. We just assumed that the products we have available from here would be well received; for the US we did some studies and sampling, spoke to some potential customers and they said we are not interested in these products. So, you’ve got to understand your market” (CEO of Tatua, 2018)

Tatua is willing to develop their products based on the specified need of the customer if it provides a long-term profitable opportunity for them.

“With the specialized value-added products, it is much more about working very closely with potential customers to develop products that work for them. Tailoring products and offering to meet individual customer requirements and working closely with them”

(CEO of Tatua, 2018)

Tatua has a team of technical and commercial people who work together with the customers to develop the products they need.

“We have a team who are a good mix of people with deep technical knowledge and scientific understanding; very capable technically. We paired them up with people who are very good commercially. So, we ended up with the right outcome.” (Senior Manager of Tatua, 2018)

The CEO also addresses the benefit of having a knowledgeable team in their subsidiaries to have good communication in understanding the customers.

“It is important as well to have capabilities within the team, so we want to have a collaborative project or discussion with the customer that we've got to actually have

people in our business to understand what that really means and also who can communicate with the customers so that we can actually progress things. Communicate both in able to speak the language, but also to understand what's really being said. Technical people to technical people.” (CEO of Tatua, 2018)

The collaborative relationship with customers is really important for Tatua especially for the specialized value-added business to understand the specific needs of customers and be able to deliver the products with high value in accordance with Tatua’s strategy to not only pursue the big volume markets.

“Because the sort of business that we are in requires a very collaborative relationship and thorough understanding of the customer's business. So, we can team up with them and develop products with them. Partnership is huge for our business, especially in the value-added business. It’s not only having the connection in market, but also having people here in NZ who have those values and understand that we are not just a milk-pushed business. We have got to find our place in developing specialized products and help our customers with their requirements” (CEO of Tatua, 2018)

5.1.8.4. Threat of substitute products

The dairy products and derivatives are used by many manufacturers, especially in the food and beverage industry. In order to achieve a more economical production cost, many producers use substitutes for the dairy products such as vegetable oil, plant protein, and soy protein. The prices of dairy ingredient products are also highly volatile so producers prefer the substitute products with a more stable and cheaper price.

The substitute products might be a threat for the dairy industry and hinder the market growth of the dairy bulk ingredients. However, the specialized value-added products of Tatua have become an alternative product demanded by the producers.

“In some products the dairy fats are removed because it is expensive so vegetable fat might be included, but producers still want the products to taste and smell like dairy then they use our flavours” (CEO of Tatua, 2018)

The use of substitutes product of the dairy ingredients has actually become an opportunity for Tatua to earn high value from innovating specialised and customized value-added products.

“There are obviously dairy fat substitutes with oils and other dairy companies, either from NZ or internationally, that got substitute products, but what we tended to do at times, is evolve and continually develop and improve products that we compete in a high margins’ market, rather than large volume” (Chairman of Tatua, 2018)

5.1.8.5.Potential of new entrants into the industry

The dairy value-added products have a prospective trend of growth in the global industry. Consumers have increased awareness about healthy and nutritional dairy products. Therefore, many producers are developing products such as dairy proteins, Greek yoghurt, drinking yoghurt and flavoured milk to address the rise in consumer demand. This category has been established in US and is still growing in Europe ("The Next On Trend Dairy Innovations ", 2015). This growing trend has opened up new opportunities for manufacturers to produce healthy and nutritional value-added ingredients to make it available globally, however this specific area needs a lot of investment and expertise.

"There is plenty of competition in such a broad industry internationally but, in some areas, we have not seen so much interest in the area we've been involved in because it's a very difficult area" (Chairman of Tatua, 2018)

Tatua itself has differentiated its business by not pursuing high volume bulk ingredients market. Figure 15 shows that Tatua has put more investment in value-added facilities than other dairy companies to generate higher sales per KgMS. This investment is reflected by Tatua’s highest earning of sales per KgMS compared to other dairy companies in New Zealand ([TDB], 2018).

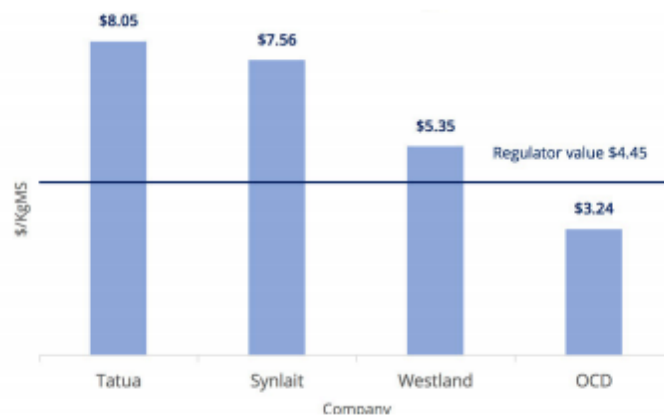


Figure 15. Fixed Asset/KgMS, 2016
source: ([TDB], 2018)

It takes investment in long-term trusted customer relationships, and investment in manufacturing assets that cost a lot more than is required, for a commodity processor. The investment made by Tatua is both in manufacturing assets of value-added products, as well as long-term customer relationships. An additional NZD 8 billion of capital across the sector is needed by the other dairy processors if they want to apply the same investment per unit of milk as Tatua (Table 21). The high cost to enter this specific sector indicates the entry barrier for new entrants in New Zealand ([TDB], 2018).

Table 21. Capital required for high-value dairy processing assets

Companies	KgMS (billions)	Existing investment in fixed assets per KgMS	Tatua's investment in fixed assets per KgMS	Difference in investment per KgMS	Capital needed (billions)
Fonterra	1.57	\$3.52	\$8.05	\$4.53	\$7.09
OCD	0.12	\$3.24	\$8.05	\$4.81	\$0.55
Westland	0.06	\$5.35	\$8.05	\$2.70	\$0.17
Synlait	0.06	\$7.56	\$8.05	\$0.49	\$0.03
Other	0.06	\$3.52	\$8.05	\$4.53	\$0.26
Total	1.86				\$8.10

Source: ([TDB], 2018)

5.1.9. Analysis of Tatua's competitive position

The competitive position analysis, using the five forces tool, helps understand how Tatua shaped the internationalization strategy based on external competitive factors in the dairy industry. Figure 16 summarizes the analysis of factors.

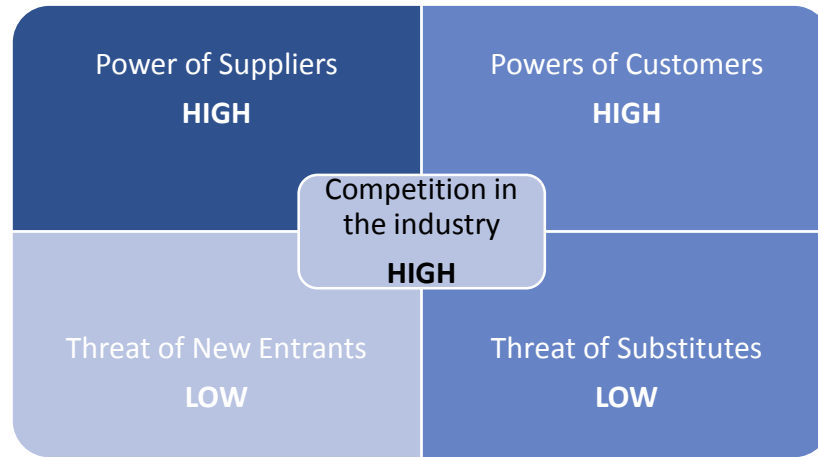


Figure 16. Tatua's Competitive Position Analysis

The competition of bulk ingredients in the dairy industry is high, however, Tatua has a very low percentage in trading bulk commodity products. To respond to the high competition in the bulk ingredients market, Tatua choose to focus more on value-added products and differentiate their products in the niche market. They are collaborating with global customers to deliver specific products based on their needs.

The power of the supplier is high because Tatua faced tight competition with other larger dairy processors in New Zealand. However, Tatua does not consider the option to source milk outside of New Zealand because they are implementing restricted membership and want to keep the quality of their product. As a co-operative, they are securing the supply from their own shareholders by maintaining trust, pride, and the sense of ownership to Tatua.

The power of costumers is also high because the customers are demanding more specific dairy products based on their needs. Therefore, it is important for Tatua to maintain a collaborative relationship to be competitive in the market and deliver specialized value-added products according to customer demand.

The threat of substitute products is quite low. Even though plant-based products are widely used as an alternative that is more economical than dairy products, the manufacturer still wants the products to smell and taste like dairy. Therefore, it actually becomes an opportunity for Tatua to produce innovative customized value-added products based on Tatua's expertise.

The threat of new entrants is also low because the cost to join this industry is very high. Besides high investment, the value-added dairy processing industry also needs specific knowledge and expertise. Therefore, it creates an entry barrier for new entrants in this sector.

Based on the external competitive factors in the dairy industry, Tatua has been consistent in implementing an appropriate focus strategy for their internationalization by aiming for high-value and low volume markets, and maximising the development of specialized added value products.

5.1.10. Internationalization Strategy

5.1.10.1. Export

Tatua could be considered as a born-global co-operative because the global market is their biggest source of income since the early years of the co-operative. The main reason for them to market their products outside New Zealand is the small size of the local market. Export is the preferred and main mode of internationalization for Tatua. *“NZ is such a small market so we need to access the international market; that is how we do our business. We rely on export business. This won't be a business if we can't export. Export is everything to us”* (CEO of Tatua, 2018).

As a specialised value-added producer, Tatua has a need to find niche markets that are willing to pay premium prices for their specialized products. Tatua export 95% of its products to more than 65 countries globally. Some of Tatua's biggest markets are China, Japan, USA, Korea, South East Asia, Latin America, and North America.

“We're more likely to concentrate on Southeast Asia, Japan, China, Indonesia, Korea, and so on that are sensible places for us to operate. We have a small business in Latin America and the North America market is a very strong market for protein.

Tatua USA, Tatua Japan, and Tatua Shanghai, are very much where we see the future growth of market” (Chairman of Tatua, 2018)

Before the deregulation of NZDB in 1998, Tatua exported their products through NZDB as the single exporter of dairy products in New Zealand. Besides that, Tatua also had its own international exposure during that time by obtaining a license to sell from NZDB.

“We did have some market experience because, despite the fact that NZDB was the sole seller of dairy products in NZ, we could apply for a license to sell some dairy products on our account but that was quite a difficult thing to get one of those licenses because it was NZDB itself that issued the licenses. It was quite a justification process to be able to get a license and primarily you have to be making something and want to sell something that may be worth selling. So quite a difficult process to go through, but we did have some success on licensing some lactoferron and some other specialist products such as dairy whip so we can get international experience” (Chairman of Tatua, 2018)

After the deregulation of NZDB and formation of Fonterra, Tatua was in a transition phase during 2001-2003 and continued to export their products through Fonterra’s distribution channel for a period of time while preparing to become a fully integrated international company. However, Tatua decided that they could not run their business on this exporting scheme forever. Some part of the capital that Tatua received after the dissolution of the NZDB, was used to develop an international exports’ network. Tatua believes that it is important to develop a strong international network and access for export. Therefore, they have assigned a resourceful commercial team who travel regularly to establish customer relationships in the export destination countries.

“We have a very knowledgeable and capable commercial team who travel the world. They talk to each other. They pass it to somebody else, communicate, and give insight to other Business Units. We are small enough so we can work collaboratively together” (CEO of Tatua, 2018)

In preparing their products for export, Tatua faced some challenges relating to the different legal requirements among countries as stated by their senior manager.

"Some of the challenges with documentation and logistics are around getting products from New Zealand to some other countries where the legislation is quite complex. So, there are a lot of compliances of exporting from NZ to some of these countries that have been very challenging. But we work with various authorities both in NZ and the destination countries, to bring our products there smoothly."
(Chairman of Tatua, 2018)

Tatua will analyse the market opportunity and prepare a comprehensive market knowledge about the export destination countries. Tatua has a special team to prepare the legal requirements needed to enter the destined market.

"To access the market, we have to understand the rules, regulations, and standards. We have a team in New Zealand who does that. They prepare the requirements that need to be fulfilled based on overseas market access requirements (OMAR) regulated by the Ministry for Primary Industry (MPI)" (Senior Manager of Tatua, 2018)

Tatua choose to partner up with distributors to export the value-added products because they have more knowledge of the local market, and they also have an established supply chain and connection with local customers.

"If we can go direct, we will, because it's less expensive. But we will also go with distributors because they have the connections, they have already established in market supply chain. So, we have these different partnerships around the world"
(CEO of Tatua, 2018)

The CEO of Tatua also stated that they are working hard at maintaining long-term relationships with their distributors in their export markets to mutually develop their businesses. This could be achieved by regularly visiting and in-person communication.

"We have a very experienced team who travel a lot. They have got connections and they know those markets very well; they know who they are competing with and so

on. For some other products we do have distributors that would be in partnership or team up for a very long time. They become our eyes and ears in the market. And, of course, they want to grow their businesses so we want them to succeed so we can grow with them”

(CEO of Tatua, 2018)

Tatua exports its products directly for the bulk ingredients. Direct export is less expensive than through agents. However, most of Tatua’s exports of the specialized value-added products are through well-established distributors. Even though a low cost-model through direct export is tempting, it leads to low cost low margins which are not the focus strategy of their business.

“For bulk ingredients we can export directly to Philippines, Malaysia or Indonesia, for example. These are the countries outside the subsidiaries because they don't cover those areas. For some product lines, we will have distributors in those markets because we will be able to connect with all of the final customers. So, we have a mixed model.” (CEO of Tatua, 2018)

Exporting has become the main internationalization approach for Tatua, but they have also faced some challenges in exporting. One of the biggest challenges in exporting is the traceability of Tatua’s products when entering the foreign market, as stated by their CEO:

“One of the challenges is when you don’t have your own people in the market you can lose traceability of your product because once you get through the distributor, they sell to others, an especially high fragmented type business model and market. If there's a problem with your product you won't be able to trace where the products are actually being used and lose visibility of that” (CEO of Tatua, 2018)

Another challenge is the business transactions impacted by the foreign exchange movement, but they already have a hedging programme to address this challenge.

“Foreign exchange movement has quite an impact on our returns. We are very exposed to the US dollar because we are an exporter. We have a hedging program that works very well.” (CEO of Tatua, 2018)

The senior manager of Tatua also adds that the perception of co-operatives, in some export markets, sometimes affect their credibility in doing business. However, with intensive communication they can build trust so the customers realize that Tatua is as reliable and professional as other multinational companies.

“One of the challenges we face is the perception of co-operatives in some countries. Some customers in different countries perceived a co-operative as a small organization and they doubt that co-operatives are like the other big global companies”

(Senior Manager of Tatua, 2018)

Tatua has been successful in exporting to most of their prospective markets and still looking for growth opportunities based on the resources they have.

“We are in most of the markets we want to be in; there's not like there are a whole lot of other markets out there that we've yet to discover or explore. It's more about discovering opportunities for the capability that we have” (CEO of Tatua, 2018)

This is in accordance with the statement of their senior manager about his role in the current position that Tatua is not focusing on finding new export markets but finding opportunities within the market to optimize their current capacity and resources.

“I am responsible for progressing strategic projects and opportunities that are aligned with Tatua's strategic direction. We become quite focussed on a few opportunities. We have opportunities by market, within market, and across different product groups as well. So, we make sure we have business plans for all of the four business units that cross geographies and identify key costumers we focus on”

(Senior Manager of Tatua, 2018)

Table 22 shows several types of exports implemented by Tatua as well as the type of product, the reason, and the challenge of each export strategy.

Table 22 Tatua’s Type of Export

Type of Export	Type of Product	Reason	Challenge
Export through NZDB	All Products	NZDB was the sole seller of dairy products in NZ until 1988	Limited international market experience, difficult to get export license from NZDB
Export through distributor / Indirect Export	Specialized Added Value Products	Local distributors have more knowledge of the local market, established supply chain and connection with local customers	Foreign Exchange Movement,
Direct Export	Bulk Ingredients	Less expensive than through agents but low margin	Traceability of Product

5.1.10.2. Subsidiaries

Tatua has evolved their internationalization process by setting up subsidiaries. Tatua currently have three subsidiaries in Japan, Shanghai and US. The main motivation for establishing a subsidiary is to have market presence and provide better customer service in their key markets.

“The reasons why we establish subsidiaries are so that we can get closer to our customers, understand our customers, be more responsive to our customers, and have a face in the market” (CEO of Tatua, 2018)

By having a subsidiary, they can get closer and be responsive to their customers. The subsidiary will allow Tatua to provide better technical support to the customers and greater market intelligence.

“Having people in the market is especially important to understand customers also where the opportunities are, who are we competing with, seeing other people’s products, talking to people, getting a feel of what is happening there”

(CEO of Tatua, 2018)

Subsidiaries have some benefits that are not provided by export. Subsidiaries can strengthen the connection, trust, and deep understanding of the market culture and values.

“Having people in the market that we can trust and talk to and be connected with means that we understand better what doing business is like in those countries. You don’t really understand until you live in the market. You really need to live in the country to really understand the country, culture, how business is done, what the values are. What export doesn’t provide. That’s the reason we have people in the market” (Senior Manager of Tatua, 2018)

Besides that, the benefit of having a subsidiary is better traceability of the product used by customers so Tatua will have better control for their supply chain.

“That’s one of the reasons we set up the subsidiaries in China because it is a very sensitive market. So, we would know who we are selling our products to and what they are being used for so that we will have certainty that the products we are selling are being used for the purpose that we intended for or manufactured for so that they don’t put customers or consumers at risk and don’t put our business at risk as well”

(CEO of Tatua, 2018)

In 2003, Tatua discussed the possibility of creating their first subsidiary in Japan as one of their biggest markets. Tatua’s existing Japanese customers also wanted to do business directly with Tatua. Mr. Yukio Ninomiya, as the head of product development at Tokyo-based Nippon proteins, was the person who played an important role and support in establishing the subsidiary and became the first President of the subsidiary in Japan.

“We have the former president of Tatua Japan who has been with us a long time so he understands Tatua. We have in the very early days, our former CEO that spent approximately 10 years living in Japan so he was up there with the NZ Dairy Board and became our CEO. He has a good knowledge of Japan and made it very helpful and very good for the relationship with the customers. In the case of Japan, we were able to find the right people to lead Japan.” (Chairman of Tatua, 2018)

Registering a foreign company in Japan was not straightforward. Tatua appointed a Japanese legal firm to assist them. Three months later, Tatua Japan was established in near record time by Japanese standards. Mr. Ninomiya was appointed as the first President of Tatua Japan Co Ltd with the help of three staff. Currently, Tatua Japan is led by Shin Mitarai with 12 staff. Even though all of the employees are Japanese, Tatua did not find any significant challenges of different nationalities because they maintain a good connection with them. Ninomiya’s capabilities delivered good results; within two years Tatua’s caseinate sales into Japan had tripled. By 2007, 35 per cent of Tatua’s exports were to Japanese buyers.

“In Japan, 100% of the employees are Japanese. The team in Japan spends a lot of time in New Zealand because when the customers come down to New Zealand for trial and work with us on products, one of them will usually come as well. So, we are very connected with them” (CEO of Tatua, 2018)

After Japan, the second major initiative to improve earnings’ premium was the establishment of new sales and marketing subsidiary companies in United States and China. Both of the companies were fully resourced and have commenced business operations in 2015. The senior management of Tatua said the reason to choose China and US is because of the strategic size and demand of products.

“Before the establishment of subsidiaries in China and US we used to sell through distributors. We decided to establish subsidiaries there because they are strategic in size, and also a fit for the types of products that we manufacture”
(Senior Manager of Tatua, 2018)

Half of 4000 tonnes of caseinate that Tatua produced each year went to North America that was formerly marketed by Fonterra. Tatua then established a distribution relationship with Farbest Brands in New Jersey. Farbest was an established distributor with more than 50 years' experience and had a nationwide distribution service providing specialised ingredients to United States' food manufacturers. Tatua decided to establish a subsidiary in the US where the process was uncomplicated.

"In US it's very straightforward, some other geographies are much less straightforward. So, it's about having partners around the world that we can get advice from and help when we step into the market. It's also about getting the right people in the market as well" (CEO of Tatua, 2018)

Tatua USA, based in Center Valley, Pennsylvania, has two staff who are led by President Peter Cheplick. All of them have US Citizenship.

"In the case of the USA, we decided to choose an American who has New Zealand experience, who knows the company well and also have same values and experience that we require in that particular market." (Chairman of Tatua, 2018)

Meanwhile, in China, the establishment was less straightforward and needed longer time and preparation.

"China has a big opportunity but sensitive market. You need to understand the way they are doing business, culture, rules and regulation to be successful. The best way to understand them is not by being at the bottom of the world, but you need to be up there in the market so you can understand what's going on" (CEO of Tatua, 2018)

In choosing a suitable leader in China, Tatua considered someone with vast experience about China as a sensitive market.

"In the case of Tatua Shanghai, we elected a New Zealander up there who had worked for our company, had then left our company, worked elsewhere and had

vast Asian and Chinese experience, then came back to Tatua. So, we put him to China.” (Chairman of Tatua, 2018)

Tatua Shanghai has three staff based in Xintiandi. It is currently led by President James Gordon with the help from local staff.

“We have another gentleman who spends about nine years in NZ but he is Chinese. So, he understands Tatua. He is very helpful; he can speak Mandarin well and understands the culture well. The rest of the team are Chinese nationals”
(CEO of Tatua, 2018)

The Chairman of Tatua emphasized the importance of having an experienced employee to help the successful establishment of their subsidiaries.

“So, it's very helpful having an experienced senior executive that either resided in that country or has had a lot of customer experience in the market”
(Chairman of Tatua, 2018)

Tatua initiated a close relationship with the key distributors in Japan, US, and China, but Tatua did not acquire them. They established their own subsidiaries in those countries. Tatua maintains a close relationship with the key distributors in the subsidiaries' market as partners. According to Tatua, direct foreign investment is not really expensive because they do not build manufacturing plants overseas. Their subsidiaries only represent as sales offices.

“Subsidiaries are not overly expensive. Our model is we do all of the manufacturing here in New Zealand. The subsidiaries we have in the market are simply sales offices; they are the face of our business in market. If we were setting up manufacturing facilities in market, then it would be a whole lot more complicated” (Senior Manager of Tatua, 2018)

Tatua ensures they maintain a strong balance sheet so there will be always be available funds for direct foreign investment when the opportunity comes.

“Capital is not really a challenge. We are not a huge company but big enough to set up a subsidiary, because we make sure that we have a good strong balance sheet so that we have capital to invest in opportunities when they come up. Also, so that we can be in a strong position if there is a financial crisis, but of course we don’t want that to happen” (CEO of Tatua, 2018)

Tatua is open to any opportunities of having subsidiaries in other markets; however, they are also careful to justify the financial condition of having a subsidiary.

“There’s a possibility to have another subsidiary but at this stage we have got a very nice balance with the three subsidiaries we have. Probably from the economic point of view we need a critical measure of business to justify the investments of putting a subsidiary in place” (Chairman of Tatua, 2018)

Subsidiaries are not directly considered as more profitable compared to the other internationalization approaches as stated by their CEO;

“We have some products that we send directly to the world and some of them are very profitable as well, but it just depends. There’s no rule there that the bigger market is actually more profitable. I can’t say it’s more profitable or not because it depends so much on price, the country, the category, the segment, we try to run very lean subsidiaries because there is a cost. We don’t want to be a high cost business” (CEO of Tatua, 2018)

In fact, Tatua need to be careful because having a subsidiary means adding cost to their business, especially if they have expatriates living in their foreign market.

“We have to be careful because it’s actually adding costs by having people in market. If you have expatriates in markets, it is very, very expensive. That’s why a lot of international companies prefer to have local employees rather than having expats. Expats cost money. Many companies try to get away from these expenses and go to local businesses run by local people” (Senior Manager of Tatua, 2018)

Tatua understands the importance of working efficiently, by not having too many people working in subsidiaries because of the additional costs they need to spend. Tatua is very careful in selecting the right people to be placed in the markets.

“There's always an argument of having more people in the market because if being in the market is good, so more might be better, but that's not always the way. We need very intelligent and productive people in the market who can make stuff happen and send the right signals back to Tatua so we can develop the products here and get them out to market so people in subsidiaries can sell them through and have direct contact with customers.” (CEO of Tatua, 2018)

Tatua believes that the key benefit of having a subsidiary is not gaining profitability, but it is more about establishing a close relationship, better communication and transfer of information.

“Subsidiaries are the arm of the business in some ways. By having people in the market, we got a better chance to understand what the real opportunities are and strong relationship that leads to far better transfer of information from the customers back to Tatua. So, flow of timely accurate information would be the key benefit and also the development of very close relationships” (Chairman of Tatua, 2018)

5.1.10.3. Licensing

Tatua also performed another internationalization strategy by having licensing agreements for their technology. Tatua helps the setup and maintenance of the licensed technology with an agreement for 5-10 years with the Australian company, Tatura Milk. In these mutually beneficial partnerships, Tatua licenses its manufacturing intellectual property and, in turn, receives product royalties, which creates value by providing additional revenue streams.

“We have a couple of licensing agreements for some of our technology. So, we are not licensing the product itself but some technology that we have so the other companies can manufacture products using that technology; in return we receive a royalty for 5-10 year's agreement” (Senior Manager of Tatua, 2018)

They chose to license their technology because it has the opportunity to grow their business as explained by the Chairman:

“Because we can make some money out of it. We licensed our technology that they want to access and they are prepared to pay for it. This is good for our business and could grow our business. It’s the right thing to do, let’s do it.”

(CEO of Tatua, 2018)

However, licensing has not been the focus strategy of Tatua’s internationalization because of some challenges that might arise.

“Challenges of licensing are very similar to joint venture. There can be more conflicts so we are very careful about those to decide. That’s not an area that we are keen on growing” (CEO of Tatua, 2018)

5.1.11. Analysis of Tatua’s Internationalization Strategy

Tatua can be categorised as an entrepreneurial cooperative with a highly individualised structure. The absence of external shareholders implies that the company could be categorized as an internal, entrepreneurial co-operative. The company pursues a focus strategy, which is appropriate for this kind of co-operative with a structure that strictly regulates milk supply and a capital structure that facilitates investment in value-added production.

Tatua starts their internationalization by exporting through NZDB as the single dairy exporter in New Zealand. Following the dissolution of NZDB, Tatua had a transition time to develop its own export network. Over time, Tatua evolved and wanted to further grow their business by not only exporting through distributors. They have established subsidiaries in their three significant markets. They also use licensing as one of the internationalization strategies because of the opportunity to maximise their resources and add value to the business. Each of the internationalization strategies has its own benefits and challenges, which are illustrated in Figure 17.

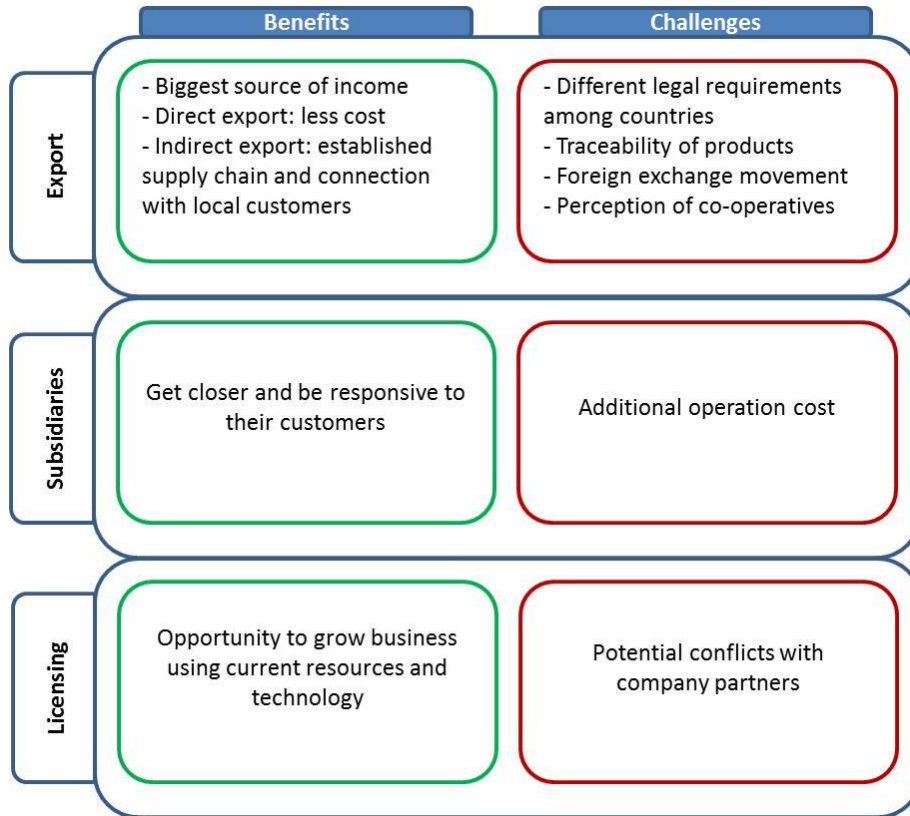


Figure 17. Benefits and Challenges of Tatua's Internationalization Approach

There are several factors that influence Alliance to choose their internationalization strategy (Table 23).

Table 23. Influencing factors of Tatua's Internationalization Strategy

		Export	Subsidiaries	Licensing					
Influencing factors	Network & Experience	+	+	+	+	+	+	+	+
	Human Capital	+	+	+	+	+	+		
	Financial Resource	+	+	+	+				
	Technology, Research & Innovation	+	+	+	+	+	+	+	

Note: (+++) as the most influencing factor and (+) as the least influencing for each internationalization strategy.

Network and experience are the most influencing factors in export. In the transition time after deregulation of NZDB, the first thing Tatua did was to contact their customers and partners to develop their own global network. They had years of earlier experience, making it easier for them to operate the independent exports. Network and Experience are also the most influencing factors in subsidiaries. Tatua already had a long-standing relationship and long business experience with their partners in Japan, China and USA before they decided to establish their subsidiaries there.

Human Capital is the second most influencing factor in export. Tatua assigned a special team that was very resourceful in understanding the market for export. The knowledgeable team has allowed Tatua to analyse the market and understand the legal requirements to enter the destined export market. Human capital also influences the subsidiaries.. The key behind the success all of the three subsidiaries was placing the right person that had suitable knowledge and capacity to lead the subsidiary. The selected leaders know Tatua very well and have a strong background of knowledge about the foreign market. The capabilities of these leaders have allowed them to successfully develop the subsidiaries. Human capital is quite influential in the licensing as well. In licensing their technology, they send capable employees to give technical support and maintenance, therefore knowledgeable human capital is a very important asset in their licensing approach.

Financial resource is quite an quite influencing factor to establish foreign subsidiaries because they have to allocate investment capital and it is adding to the operational cost. Financial resources are not considered that much in exports and licensing because they needs less capital and have less risk than direct foreign investment.

The technology, research and innovation have allowed Tatua to license their latest technology to other companies, therefore, are the most influencing factors. The technology, research and innovation also influence the export and subsidiaries because Tatua's focus business strategy is relying on collaboration with customers to develop products based on their specific demands.

5.2. Alliance Group Co-operative Case Study

5.2.1. Company overview

Alliance Group is a global leader in procuring, processing and marketing the world's best quality red meat products. Alliance Group is currently New Zealand's only 100% farmer-owned red meat co-operative consisting of over 5,000 shareholder farmers, both in the South Island (90%) and the North Island (10%).

Table 24 Alliance Group's Overview

Cooperative & Sector	Established	International Operation	HQ Location	Strength	Revenue (2017) & Shareholders
Alliance Group (Meat Processing & Marketing)	1980	Export: > 65 countries Subsidiaries: UK,Singapore Joint Venture: North America	South Island	Global leader in procuring, processing and marketing the world's best quality red-meat products	\$1.53 billion More than 4000 shareholders

As a co-operative, the aim of the Alliance Group is to maximise returns to farmer shareholders and support them to operate profitable and sustainable farms. Alliance maintains a good balance sheet with an annual turnover in 2017 of \$ 1.53 billion and doubled the operating profit from last year to \$20.2 million. Alliance has also halved its core debt reducing it to \$19 million in 2017.

The Alliance Group has a portfolio of more than 1600 products that have been sold to more than 65 countries across the globe. Alliance has a wide range of red-meat products including lamb, mutton, beef, and venison sold in carcass, or specific cuts, both in frozen and chilled form. Additionally, Alliance Group is one of the world's largest suppliers of wool, hides, pelts, casings, tallow and meal. The Alliance Group strives to create the best market value out of the products, whilst providing cost-effective and high-yielding meat processing.

Alliance has eight processing plants employing approximately 5,000 people. The processing plants are strategically located throughout the South Island and lower North Island. Annually, around 7,000,000 lambs and sheep, over 200,000 cattle and 90,000 deer are processed by Alliance Group.

5.2.2. History

The Alliance Group was initially formed in 1948 as Alliance Freezing Company (Southland) Limited to facilitate meat processing for Southland farmers. The first processing plant started operation in 1960, located in Loreville, near Invercargill. In 1980, Alliance Group's ownership structure changed and became a farmer-owned co-operative. The co-operative broadened its operation in 1987 by opening four processing plants with the acquisition of CS Stevens Ltd. The Alliance Freezing Company officially changed the name to Alliance Group after acquiring Waitaki International Ltd and the opening of the tenth plant in 1990. The Alliance Group has been growing its business by ongoing acquisitions. Table 25 shows the key steps of the Alliance Group timeline from a small business growing to become a global company:

Table 25. Milestone of Alliance Group

<i>Year</i>	<i>Milestone</i>
1948	Alliance Group formed aiming to provide an alternative processing facility for Southland farmers, Alliance Freezing Company (Southland) Limited was formed
1960	First Alliance Group plant opens Located in Lorneville, near Invercargill
1975	Acquired subsidiary in UK
1980	Alliance Group becomes a co-operative. Alliance Group's ownership structure changed and the business became farmer-owned and run
1987	Four plants opened with the acquisition of CS Stevens Ltd, a local meat processing company. The first big period of sustained company growth
1990	Official name changed after acquiring Waitaki International Ltd and opening tenth plant, Alliance Freezing Company officially became known as Alliance Group.
1991	Livestock numbers decreased following the withdrawal of government farm support in the mid-1980s, and responded by rationalising plant operations
1995-1999	Following a successful capital-raising plan Alliance Group underwent restructuring, and began exploring new opportunities including venison processing
2001	By 2001 Alliance group were processing in excess of 7 million lambs, 1 million sheep, 140,000 cattle and 80,000 deer annually in seven strategically placed South Island plants
2003	Alliance Group expands into the North Island through the acquisition and redevelopment of a plant in Dannevirke

2008	Alliance Group purchases the assets of Levin Meats, doubling sheep and lamb capacity in the North Island as well as providing cattle processing facilities. The acquisition takes Alliance Group's total number of plants back up to nine
2012	With reduced livestock numbers from conversion of sheep and beef properties to dairy, Alliance Group consolidates a number of processing operations: <ul style="list-style-type: none"> - Closing the Sockburn plant - Transferring venison processing to the Smithfield site in Timaru - Upgrading the Mataura beef plant - Transferring sheep and lamb processing to Lorneville
2013	Pure South brand born. Alliance Group launches the revitalised product brand Pure South, which brings together a number of brands to create one flagship international brand
2014	Investment in Mataura Plant commenced, upgrading and reconfiguring the plant and specialising in processing beef
2015	Refreshed company strategy with focus on continuous innovation and cost reduction to provide better returns for Farmer Shareholders and a major Health and Safety initiative to ensure people's safety
2016	New Primal Cutter installed at Smithfield and Pukeuri plants
2018	Launch of a new corporate identity and logo

Source: <https://www.alliance.co.nz>

5.2.3. Current Strategy

Alliance is implementing a business transformation strategy which is focused on maximising operational efficiency and capturing more market value (Figure 18). Alliance has made great steps in lowering costs, increasing operational efficiency to improve yields of meat, and use investments for continuous improvement. Now, Alliance puts more focus on the second loop by a better understanding of consumer segments in the global market, differentiating of products in the market and developing new products and markets to capture more value and increase profitability to benefit the shareholders.

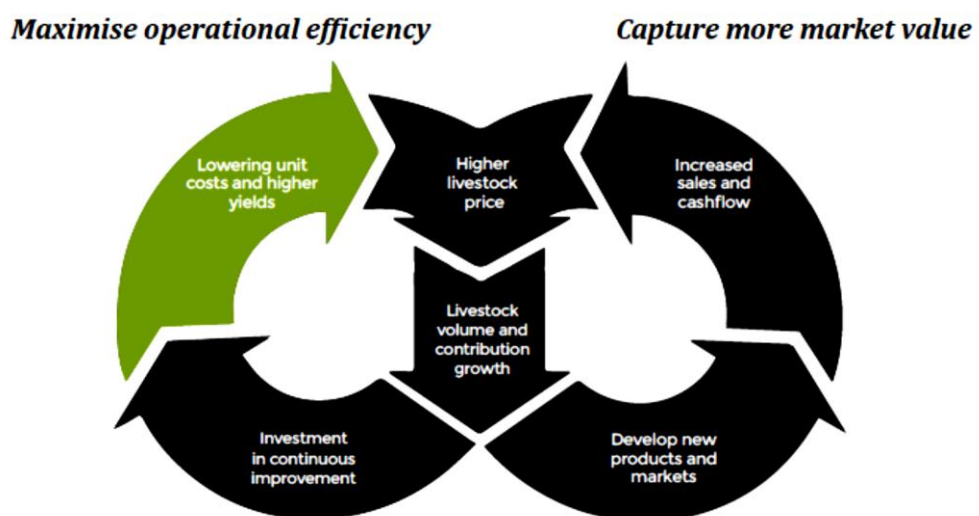


Figure 18. Alliance Group Business Strategy
 source:(Alliance Group Annual report 2017, 2017)

The company’s business transformation strategy is derived from seven pillars which are embodied in various business projects (Figure 19). As a co-operative, the business operation is based on co-operative principles. Alliance put the farmer shareholders at the heart of every decision they make. Alliance continues to invest in the business to build a better co-operative that provides better returns for the farmer shareholders through livestock pricing and profit distributions.



Figure 19. Seven pillars of Alliance's business transformation strategy
 source:(Alliance Group Annual report 2017, 2017)

Some of Alliance’s recent initiatives to maximise operational efficiency and capture more value from the market are:

- \$10.6 million investment in robotic primal/middle cutting technology
- \$2 million plus investment in beef x-ray
- Developing a major new world-class deer processing facility at Lorneville plant
- Invested over \$1 million in improving rendering operations at Lorneville plant to improve the recovery of both tallow and meal
- Launching a new “Pure South” product line for China and India
- Investing \$1.3 million in Pukeuri Plant to improve the recovery of offal
- \$10.6 million processing upgrade at Dannevirke
- Creating a new marketing function separate from sales to enable a specific and targeted focus

- Differentiating products by the development of a portfolio of premium brands by understanding the consumer in the market

Alliance Group is committed to being a global leader and local hero in the red meat market by implementing meticulous production values, techniques, innovation and dedication to produce genuine quality products. Alliance practises innovative technology, food safety, standards for health and safety, environmental practices and animal welfare to achieve the standards of global markets. Alliance Group continues to maximise the value of existing markets and develop new ones to operate a profitable and sustainable business.

In September 2018, Alliance Group marked the next stage in its transition into a food and solutions company with the launch of a new corporate identity. The new branding focuses on the strong connection with the farmer shareholders and reflects the growing demand from consumers who want to be directly connected to the farm.

5.2.4. Business Structure

The business structure of Alliance is more business to business transaction; consumer business is only a small part of their business.

“When I became Chairman at that point, the Alliance operation model was essentially manufacturing products, in other words, really it is a business to business (B2B). We do a tiny bit of business with consumers but it's essentially B2B”

(Chairman of Alliance Group, 2018)

As a global red-meat producer, Alliance offers a range of red meat and co-products:

- Lamb and mutton

The Alliance Group is the largest producer of lamb in New Zealand. Alliance delivered around 15% of the world's export traded sheep meat, both in frozen and chilled products. Alliance offers various lamb products for wholesale trade, restaurant, retail use, as well as base products for further processing by manufacturers.

- Beef

Alliance group delivers a wide range of chilled, frozen, aged beef cuts to meet exacting quality standards. The cattle are naturally grass-fed, and supported by enhanced research and technology to deliver high quality of beef.

- Venison

Alliance group sourced the venison from free-range farms and naturally raised without using hormones or steroids. The venison is sold in chilled or frozen with various cuts and specifications.

- Co-products

Alliance Group delivers a diverse range of co-products including fancy meats (offals), wool, hides, tallow, pelts, casings and Rendered Products Key include protein meals.

The Alliance Group products are sold under two main brand names. All of the beef products, as well as mostly lamb and venison, are marketed with the Pure South brand. Some lamb and venison are marketed and sold under the Ashley premier brand. Other products can also be found jointly marketed with other New Zealand exporters as Spring lamb, Fresh Lamb and Four Seasons Cervena Venison brands. Alliance also offers premium products which are Te Mana lamb, Silere alpine origin merino and handpicked 55-day aged beef.

The Alliance Group secures 85% stock from its own shareholders. Each Transacting Shareholder is required to have a Standard Shareholding. It is determined by a formula which is based on the amount of livestock that has been supplied in the past, or is expected to be supplied in the future. The distribution of profits is based on the supply of livestock to the co-operative in the form of refunds, rebates, bonuses including pool payments. Another distribution of profit is based on shareholding through payment of dividends. The amount of dividend is determined by the Board of Directors at the end of each financial year.

5.2.5. Capital Structure and Financial Performance

In 2017, Alliance's balance sheet showed a great performance by gaining an annual turnover of \$ 1.53 billion which increased 9% from the previous year. Alliance doubled the operating profit from \$10.1 million last year to \$20.2 million. As a co-operative,

Alliance’s source of funding is from farmers’ shares and also debt. Alliance successfully halved its core debt, reducing it to \$19 million in 2017.

The earnings of Alliance are either delivered back to the farmer shareholders or re-invested back into the business so that Alliance can deliver greater returns to the farmer shareholders. The shareholders’ equity at year-end has increased around 18% since 2015. In 2015, Alliance farmers experienced a tough season on-farm resulting in limited profitability so there were no pool surplus payments or dividends paid out. In 2017, Alliance bounced back and distributed pool payments of \$11.4 million to the farmer shareholders.

Table 26. Alliance Group’s Financial Indicators 2014-2017

<i>Financial Indicators</i>	<i>2017/2016</i>	<i>2016/2015</i>	<i>2015/2014</i>
<i>Annual Turnover</i>	\$ 1.53 billion	\$1.4 billion	\$1.5 billion
<i>Operating profit before tax, pool distributions</i>	\$20.2 million	\$10.1 million	\$7.9 million
<i>Pool Distribution</i>	\$11.4 million	\$9.8 million	No Pool Payment
<i>Equity ratio</i>	71%	70.6%	58%

Source: Alliance Group Annual Report 2014-2017

Alliance has achieved a significant improvement in profitability and achieved a stronger balance sheet that allows them to further develop their business. This can help them reach a stronger, sustainable and more resilient business for the farmer shareholders.

5.2.6. Governance Structure

- **Board of Directors**

Alliance Group is governed by a Board of Directors who are responsible for setting strategic direction and control the management of the company to deliver maximum result to their shareholders. The Board of Directors should consist of not more than ten directors including both elected and appointed directors. The elected directors should not be less than six and not more than eight directors. One-third of the elected directors retires by rotation each year and may stand for re-election. There might be up to four appointed directors who are usually appointed for three year terms. The current Board of Directors comprise nine directors including six elected directors and three independent directors.

- **Management Team**

The Board of Directors delegates the company’s management responsibilities to an appointed CEO supported by other executives helping the daily operation of the co-operative. The current executive management team of Alliance Group is as follows:

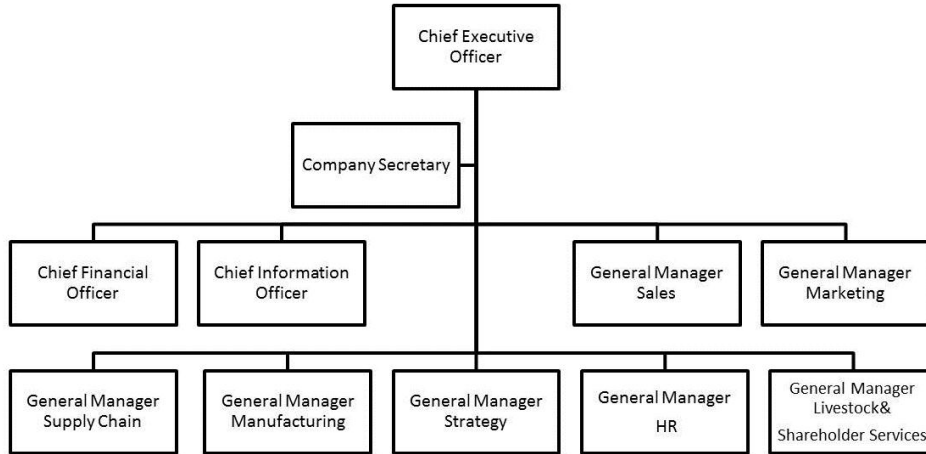


Figure 20. Alliance Organizational Structure 2018

Alliance’s CEO has stated that employees are vital for the co-operative. Alliance continues to build the organisational capability by implementing leadership courses or training programs for their employees.

“Employees are playing a vital role in the evolution of the co-operative. They embody the co-operative spirit, the ethos of working together, and with farmers, to build the customer experience.” (CEO of Alliance Group, Media release, 2018)

5.2.7. Alliance Group Competitive Position

5.2.7.1. Competition in the Industry

The competition in the red-meat industry is quite intense referring to the growth of global production and trade. The total world meat production has increased by 1.25% to 323 metric tons in 2017. The contributors to the production growth are USA, Russia, Turkey, Argentina, India, and Mexico. The global trade of meats was also expected to rise to 5% in 2018. The world meat trade in 2017 increased 1.5% from 2016. The growing exporters of meat are led by Canada, India, Thailand, Argentina, United States, and Ukraine (OECD-FAO, 2018).

New Zealand is also a significant exporter of red-meat. Brazil, Australia and USA are the main competitors for New Zealand markets (2017). New Zealand and Australia have a competitive advantage in sheep and beef production compared to other countries, which is a lower production cost with high-quality products, and are expected to continue to be major players in the global market ([AGMRC], 2018).

New Zealand mainly exports red meat in the form of raw material ingredients for manufacturing or processing in other countries. There are opportunities for New Zealand to process more value-added products to capture more value in the market (*iFAB 2013 Meat Review*, 2014). Alliance realized the intensity of competition in the global market and the importance to differentiate their products to be competitive in the market.

“The world is awash with protein, and so ,on one level, the competition is intense. So it comes down to how much we can differentiate ourselves from other competitors and in the reality if you’ve got the total market for protein you’ve got the market for animal protein, red meat protein, lamb, so as you sort of work your way through those sort of stages it narrows up to the number of people that like your product, heard of your product, can afford your product and want your product”
(Chairman of Alliance Group, 2018)

To face the high competition in the red meat industry, Alliance implemented a strategy to have a portfolio of brands for a various range of markets so they could capture more value from the market.

“Our distributors like Alliance because we provide quality products and then within Alliance we have a portfolio of brands as well, so we have premium, middle range brands, and sort of discount brands. Sometimes with two people in the same market, we will have two brands operating in the same market that people have access to”
(Chairman of Alliance Group, 2018)

The key to survival is to have product differentiation that gives competitive advantage compared to other competitors around the world in the red-meat sector.

“The key is using our strengths, our unique produce from this unique land and matching it to the needs of consumers around the world. Consumers want to know the provenance of their food and the values of the people behind their meal. They want to know what makes our produce different and worthy of their investment.”

(CEO of Alliance Group, Media release, 2018)

5.2.7.2. Power of Suppliers

While the global market for red-meat is intense, Alliance finds that domestic competition to source the raw material is a bigger cause for concern.

“The competition with other New Zealand companies is all about raw material. It’s a bigger issue than the competition for the market offshore. The global market is ample big enough for sought, but the problem is sourcing raw material of livestock within New Zealand. It’s really intense; if you lose the battle for raw material in NZ you die”

(Chairman of Alliance Group, 2018)

Therefore, it is important for Alliance to maintain the loyalty of their shareholders to secure the red-meat supply. Alliance believes that one way to be competitive is offering a higher price for the suppliers. Besides improving the pricing structure, Alliance also offer other financial benefits in the form of advance payments, pool distribution payments, loyalty payments, and bonus share issue. Alliance planned to pay a non-taxable bonus share issue to farmer shareholders in December 2018 based on supply to the co-operative. Alliance also has paid more than \$15 million in loyalty payments during 2017/2018. These initiatives are expected to strengthen the loyalty of suppliers.

Alliance also see some advantages as a co-operative where many farmers prefer to supply to them, because of the sense of ownership of the business and other services or benefits they can receive as shareholders.

“Pay them more than anyone else. You certainly have to be competitive on what you pay, but there are other factors that farmers value as well. Access to killing space when they need it, their perception of how innovative you are being in the market

place, and their ability to take an ownership stake in your business. In other words, we are a co-operative, where a lot of farmers would prefer to deal with a co-operative than a corporate, but we still have to perform in terms of pricing at the farm gate” (Chairman of Alliance Group, 2018)

Alliance is open for new shareholders to join the co-operative. Any farmer producing cattle, lambs, sheep, or deer, both in the South Island or North Island, can become a supplier. The benefits of being a shareholder include:

- An ownership interest in the company, with corresponding voting rights
- Eligibility for a share in distributions when approved by the Board in the form of rebates, refunds or bonuses (including pool payments)
- First preference for processing space allocation
- The option to supply stock under a Yield Quality Contract, with associated yield-based premiums
- The ability to qualify as platinum and gold suppliers, with eligibility for incentives such as advance payments and contract offers

5.2.7.3. Power of Customers

Alliance Group believes that one of the key successes in the global market is to be responsive to the need of customers. Alliance is currently more focussed on building a differentiated portfolio of products, brand development, added value products and developing premium brands to respond to the need of customers and capture more value from the market.

“The key of success is to deliver to customers; what they want, when they want it, what form they want it, at the right price” (Chairman of Alliance Group, 2018)

There is a growing demand from customers who want to be directly connected to the farm. It is important for Alliance to ensure traceability of their product and establish a sustainable supply chain. Alliance has been inviting the key customers to New Zealand including representatives from the UK, Europe, US, Japan and China. The customers are able to directly meet the farmers, meet the team, see the processing facilities, and get more understanding of the whole business process. The sales and

marketing team are also active in visiting customers in the global market and participating in global events as an opportunity to meet new clients and customers.

Alliance also believes that it is essential to develop a close relationship with their customers to build trust and run a sustainable business.

“Relationships are important; if you don't have a good relationship it just becomes a transaction based around price. So, we try to move beyond just being a transactional relationship to being a more strategic long-term relationship. We are a co-operative, we are in a game where the farmers run their farms for 40-50 years and they expect us to have 40-50 years' relationship in the markets. So, we're not interested in just trading, one person one day, one the next, to us that is not a sustainable model. It's just built around the spot market. We want to be established in a long-term relationship with people who are going to promote our brands in the market” (Chairman of Alliance Group, 2018)

5.2.7.4. Threat of substitute products

The red-meat products in New Zealand are well known for their high quality with low cost production and good traceability (Hutching, 2018). However, there are also quite a lot of substitute products available in the market.

“There are Australian lamb, Canadian lamb, Spanish lamb, French lamb, beef from everyone in the world” (Chairman of Alliance Group, 2018)

Besides the red meat, other meat like chicken, turkey, and even plant-based products could also be considered as substitute products. Plant-based proteins are made from products including soy, fungi, nuts, legumes, grains and vegetables. Meanwhile, cellular agriculture uses harvested cells from animals to grow meat products in a laboratory. Red meat producers should be aware of these alternative proteins and create strategies to be competitive in the market (Pickett, 2018)

The strategy that Alliance has implemented to overcome the problem is by product differentiation that can reach various consumer segments.

“Within Alliance we have a portfolio of brands as well, so we have premium, middle-range brands, and sort of discount brands. Sometimes with two people in the same

market we will have two brands operating in the same market that people have access to.” (Chairman of Alliance Group, 2018)

Alliance also keeps improving the efficiency of processing and investing in technology to improve the operational performance. Technology and innovation are part of Alliance’s key to eventually becoming more competitive than the substitute’ products in the global market.

“We’ve gone from selling frozen carcasses to chilled products where we can specify the yield and the quality. Yes, it’s a really big issue; technology has allowed us to provide a much higher quality product. We are investing enough to develop technology, research and innovation” (Chairman of Alliance Group, 2018)

5.2.7.5. Potential of new entrants into the industry

The global consumption of red-meat is growing, both in developed and developing countries, along with the growth of the world population which was expected to be 9.7 billion in 2015 (McNaughton, 2017). The global average per capita consumption in 1964 was 24.2 kgs , while in 2015 it had increased to 41.3 kg per year. The red meat consumption is still expected to rise by 2020 in developing countries are expected to increase 107 million metric ton, while developed countries will grow by 19mmt (Hutching, 2018).

This increasing global trend of red meat can be seen as a profitable opportunity so companies are interested in entering this industry. According to the Alliance Chairman, there is a threat of several new entrants to the red-meat industry in New Zealand. However, it is not easy for the new companies to compete against the established companies. High investment is actually needed to build advanced processing facilities, moreover, long-term experience and networking are also crucial to compete in this industry.

“It’s very easy to enter the industry. I’ve heard of about four in the last five years. I think a few of them are probably regretting it because they are not making any money”

(Chairman of Alliance Group, 2018)

5.3. Analysis of Alliance's competitive position

The competitive position analysis, using the five forces tool, is used to understand how Alliance Group shaped the internationalization strategy based on external competitive factors in the red meat industry. Figure 21 summarizes the analysis of factors.

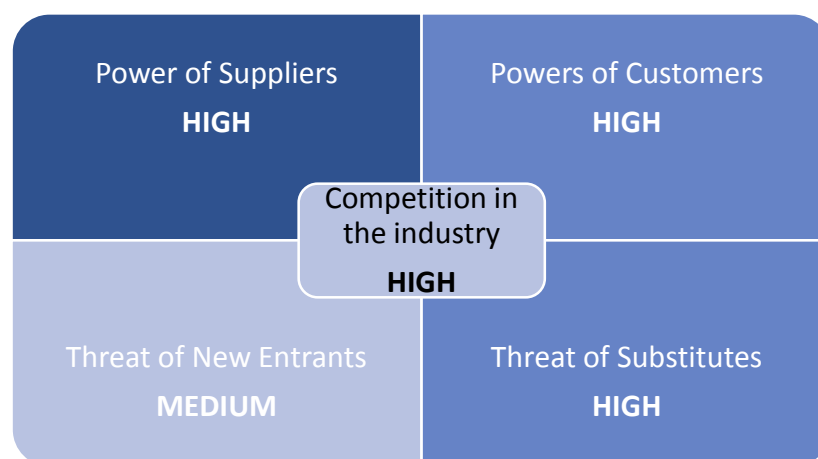


Figure 21 Alliance Group's Competitive Position Analysis

The competition in the red-meat industry is high. To be competitive in the industry, Alliance implements a strategy to have a portfolio of brands for a various range of markets so they can capture more value from the market.

The power of the supplier is high because Alliance faces tight competition with other red meat processors in New Zealand. Alliance Group, as the only 100% farmer owned red meat co-operative in New Zealand, actually offers more benefits to the farmers, so they prefer to supply to Alliance. By staying true to their co-operative values, it becomes strong enough to maintain the loyalty of suppliers who are also the owners of Alliance Group.

The power of the customer is high because, to be competitive in the market, Alliance has to understand and deliver based on the changing demand of customers. To address this, Alliance always interacts directly with the customers to build a close and sustainable relationship in the business.

The threat of substitute products is also high. The competition of other sources of protein and even plant-based protein in the global market is quite high. One of the key successes for Alliance to be competitive is the continuous innovation and technology to produce higher quality products that differentiate their products in the market.

The threat of new entrants is medium because, even though the future of red-meat industry is promising, it is actually hard to survive the business in the industry. Some of the new entrants are facing challenges from the other companies that are more experienced and resourceful.

Based on the external competitive factors in the red-meat industry, Alliance Group implemented an internationalization strategy by focusing efficiency optimization and differentiation of products to capture more value in the global market. Alliance operate the business based on the co-operative principles to benefit the shareholders.

5.3.1. Internationalization Strategy

5.3.1.1.Export

Alliance Group is exporting 95% of its products to more than 65 countries. Exporting has become the main strategy of internationalization since the establishment of Alliance.

“We have been selling to 65 countries around the world about 50 years, so there's nothing new about selling internationally. China is number one, and then it depends on what products you're talking. UK is a significant market, US is a significant market. Germany is important, also markets like Japan, Malaysia, Thailand, Belgium, and Holland”

(Chairman of Alliance Group, 2018)

There are various considerations that Alliance takes into account when choosing the target market. The choice of market is based on the type of products they are offering and demanded by the customers in various market segments.

“The factors depend on the product. Is it a meat product, is it for food, or clothing. Is it a country that you are even allowed to trade with, like Iran, for example. They would probably quite like to buy some stuff but we don't want to deal with them. And

then is it a product that sold in a consumer ready form or is it a product that needs more manufacturing.” (Chairman of Alliance Group, 2018)

Alliance has various approaches to exporting, starting from using their own distribution line, partnership with local distributors, or exporting directly with international traders. Normally, Alliance would prefer to partner up with locals, but it really depends on the situation and opportunity in the specific market.

“It depends on the products, in some countries we own our own distributors, in others we have long-standing relationships with importers and distributor;, some products are just done essentially through traders over the phone” (Chairman of Alliance Group, 2018).

Furthermore, Alliance has been developing and investing in new approaches in retail and e-commerce as they have been doing in New Zealand and China. The e-commerce model could be implemented abroad in China because they have a strong relationship with China’s largest meat distributor, so they have the access to storage and distribution there. This model could not be implemented in all of the markets especially with a perishable product.

“We take China for example, we were selling through Alibaba but we have a very strong relationship with the the largest sheep meat distributor in China. So, they provide our storage and distribution to sell through them. The online channel is not in any countries that we're already in because if you can't guarantee the last kilometer when you got a perishable product, then frankly e-commerce is nothing. If you haven't got the distribution already sorted, e-commerce is just not the main game.” (Chairman of Alliance Group, 2018)

5.3.1.2. Subsidiaries

Subsidiaries are entities controlled by the Alliance Group in terms of governing financial and operating policies to obtain benefit from the business activities. The New Zealand Holdings (UK) Limited subsidiary in United Kingdom is the first subsidiary that was acquired more than 40 years ago and has become a significant

contributor to Alliance's international trade growth since UK is one of the major markets.

"We have a subsidiary in the UK that is our importer and distributor. It was established in 1970. It used to be owned by three meat companies we bought and carry on" (Chairman of Alliance Group, 2018)

More recently, in September 2017, Alliance Group acquired the business of Goldkiwi Asia, a Singapore-based company now known as Alliance Asia. It is a well-established company in red-meat marketing that has built channels across China, Hong Kong, Malaysia, Singapore, Indonesia, Thailand and Vietnam.

"We also have business in Singapore. It was established by a Kiwi actually about 30 years ago and so we dealt with him for about 30 years and then he wanted to retire so we bought the business there. We appointed a new GM there, while he is a Kiwi, he already lived in Singapore for about 20 years and married a Singaporean." (Chairman of Alliance Group, 2018)

Before buying the company, Alliance had a close business relationship with Goldkiwi Asia for many years. It has played a key role in building a presence in the region, including supporting a strategic co-operation with Alliance's important Chinese in-market partner, Grand Farm. The Asia headquarters in Singapore will accelerate understanding and responsiveness to Asian customers' connection to some of the world's largest populations and their growing demand for quality foods, and lift visibility and engagement across all steps of the supply chain.

The Alliance Chairman stated that by having a subsidiary in UK and Asia, Alliance can get better information about the market, gaining better traceability of products and eventually gain more profit from the market.

"You get better information, you make more money, essentially you can trace where your products are placed in the market, and become a less transactional sales channel, you get the story much more clearly" (Chairman of Alliance Group, 2018)

Even though subsidiaries bring many benefits, there are also challenges, such as the need of more capital to operate the business and the more complicated management. Alliance maintains a good balance sheet to have sufficient capital to invest, so financial capital is not considered as the biggest obstacle to establish a subsidiary.

“It’s a more complex management of business; you have to supply more capital for you to operate down the distribution channel” (Chairman of Alliance Group, 2018)

5.3.1.3. Joint Venture

The Alliance Group also has several joint ventures which are more commonly called Associates. Associates are entities in which Alliance has significant participation and influence in the business, but does not directly control the financial decisions and daily operations. The Lamb Co-operative Inc. in USA and The NZ and Australian Lamb Company Ltd in Canada are two international joint ventures of Alliance Group. Porkcorp New Zealand Ltd, High Health Alliance Ltd, Alpine Origin Merino Ltd are joint ventures based in New Zealand and not relevant to the internationalization process.

“We have a large operation in North America in that we are the largest shareholder there. We are about 60% of the business and also two other NZ meat companies in it; it used to be four but one held out. We have other joint ventures in New Zealand but it’s not part of our internationalization” (Chairman of Alliance Group, 2018)

Alliance decided to have a joint venture in North America for historical reasons. The North American market is recognized as significant for Alliance’s business growth. Alliance is not too concerned about the form of business because it only comes down to technicalities whether it is a joint venture or a subsidiary as long as there is an opportunity to develop their business.

5.3.1.4. Strategic Alliances

For Alliance, a long-term partnership is very important for a sustainable business. They acknowledge their long-standing distributors or importers which they refer to as partners.

“Partners are essentially distributors. We know them extremely well, we have spent some time in their homes, we try to form really close relationships with these people. So, while we might not really actually own the company, it’s a very seamless relationship.

(Chairman of Alliance Group, 2018)

Some of their significant partners are: Grand Farm (China), Prime Meats (Germany), Alexander Eyckeler GmbH (Germany), Tesco (UK), Primex (France), Van Arde Food Group (Belgium), Frigo (Belgium)

The Chairman also said that in order to develop the business, they set some goals and targets together with their partners.

“We set targets together to achieve a very transparent business. Quite often we will be sitting down with their customers. Day to day ? is handled by our distributors; our people will be there meeting with the end customers with the distributors. And, likewise, the end customers, which in this case would be supermarkets or cash and carry, they would come to NZ and directly visit our plants and meet our people so we got to know a lot of our distributors and customers”

(Chairman of Alliance Group, 2018)

For example, Alliance’s partnership with Grand Farm in China began more than 16 years ago. Alliance and Grand Farm has collaborated closely from the beginning to maintain market leadership position in China. Alliance supported them with guidance, technical advice and expertise to develop co-operative branding programmes with Grand Farms. Another partnership is with Alexander Eyckeler GmbH in Germany which has been a business partner for more than 35 years. Since the beginning, Alexander Eyckeler GmbH has been an integral part of Alliance’s marketing strategy in Europe.

This relationship could be considered a strategic alliance. The partners have contributed to the accomplishment of Alliance Group to date and they are helping each other to grow their businesses. Alliance continues to seek and maintain strong

market connections all around the world. The challenge in forming strategic Alliances is how to work together with the same vision to maintain a long-term relationship.

5.3.1.5. Licensing

Another internationalization process that is implemented by Alliance Group is the licensing. They have licensed some of their brands so the distributors are allowed to do marketing and promotional activities using Alliance's brand.

"We license the use of our brand; the distributors who are distributing our products have the right to do promotional works using our brand."

(Chairman of Alliance Group, 2018)

However, Alliance does not consider licensing as a main internationalization strategy because this cannot be implemented in all of their markets.

"Some markets you can use branding, some you can't. The retail market may not allow, but the food service market might allow. If you go to the UK you don't get the brand on the shelf, you go to Germany or Belgium, and it's totally different, you can find the brand on shelf" (Chairman of Alliance Group, 2018)

One of the challenges that Alliance is facing in licensing is other local competitors that are trying to pirate Alliance's brand as they experienced in China.

"When you got to China, it doesn't matter if you license them or not you find a whole lot of other people copying your brand. Like our brand is pure south, in China you can find pure north, they are trying to pirate your brand"

(Chairman of Alliance Group, 2018)

5.3.2. Analysis of Alliance's Internationalization Strategy

Alliance's first internationalization strategy was exporting and they are still relying on exporting as their main approach. However, they are not only focusing on transactional business, they realize the importance to establish a close relationship with their customers

to run a sustainable business. Therefore, they develop Strategic Alliances as one of the internationalization strategies. Over time, Alliance has acquired some foreign subsidiaries and joint ventures to expand their business in significant markets. Lastly, licensing only plays a small part and they are not considering this as a main approach of internationalization. Each internationalization strategy has its own benefits and challenges which can be seen in Figure 22.

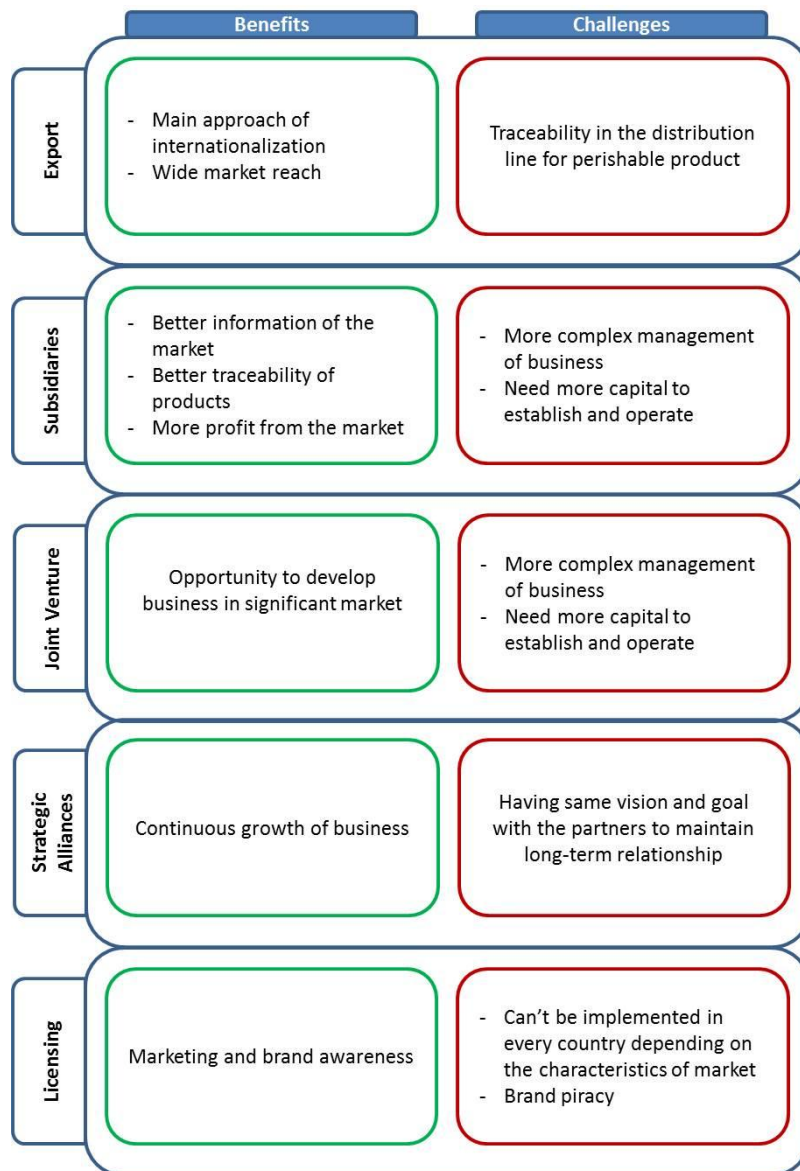


Figure 22. Benefits and Challenges of Alliance's Internationalization Approach

There are several factors that influence Alliance to choose each of the mentioned internationalization strategy (Table 27). Network and experience are the most influencing factors in export. To enter a new market for export, Alliance usually starts to approach local distributors and establish networks by understanding the market. Alliance already

has more than 50 years of experience in exporting, therefore, they have a well-established global network that facilitates the exports. The network and experience are also the most influencing factors in choosing subsidiaries, joint venture and strategic Alliances. Before the acquisition of subsidiaries and joint ventures, they already had a long period of business relationship together with the partners in the respective countries.











Human capital is quite an influencing factor in export, subsidiaries, joint ventures and strategic alliances. The expertise of Alliance Group’s employees plays an important role in developing their internationalization. Alliance Group sends them to overseas partners to give support and technical guidance for their business partners. Direct interaction is very important to establish a sustainable relationship with their partners. Human capital also influences the strategy, but not so much in the licensing.

Financial resource is also an influencing factor to establish foreign subsidiaries and joint ventures because they have to allocate investment capital and it is adding operational costs. Financial resource is not considered that much in exports, strategic alliances and licensing because it needs less capital and possess less risk than foreign direct investment.

Technology, research and innovation are the most influencing factors in licensing. By implementing the latest technology, Alliance can produce a high quality product that differentiates their product in the global market, thus it is possible to license its brand. Technology, research and innovation are also quite influential in the export strategy because it allows them to send perishable products overseas by still maintaining a high quality product. However, the establishment of subsidiaries, joint venture and strategic alliances are less influenced by the technology, research and innovation.

Table 27. Influencing factors of Alliance's Internationalization Strategy

		Exports	Subsidiaries	Joint Venture	Strategic Alliances	Licensing
Influencing factors	Network & Experience	+++	+++	+++	+++	++
	Human Capital	++	++	++	++	+

	Financial Resource					
	Technology, Research & Innovation					

Note: (+++) as the most influencing factor and (+) as the least influencing for each internationalization strategy.

CHAPTER SIX: DISCUSSION

6.1. Internationalization Stage

Based on the international product cycle theory, a product starts to grow in the local market, then gradually expands to the international market (Vernon, 1966). This

internationalization theory does not apply in the case of Tatua and Alliance Group because both of them could be considered as a born global co-operative since they focused on the global market soon after the establishment of the co-operative (Knight & Cavusgil, 1996). Both co-operatives are constrained by the limited market size in New Zealand that has pushed them to become born-global co-operatives. So, the main motive of their internationalization is to gain new market access and find new customers to grow their businesses (Ritossa & Bulgacov, 2009; Bojman, 2014; Grunig & Morschett, 2017).

Even though they are born global, both of them internationalized in a gradual process. Both of them initially export through foreign distributors, then direct exports and foreign direct investment. This is in accordance with the Uppsala Model internationalization theory which explains that internationalization is based on a sequential establishment chain. However, both of them are still not entering the fourth stage which is production/manufacturing in the foreign market (Johanson and Wiedersheim-Paul, 1975). Both of the co-operatives put forward the quality of raw materials sourced within New Zealand. Building a production site outside New Zealand also requires more capital and human resources.

History has shown that exporting was the earlier entry-mode choice of agricultural co-operatives internationalization strategies in New Zealand (Morris, 2017). The same event also occurred in the two co-operatives studied. Both of them did not begin to export to the physically close countries as shown in the earlier theory in the Uppsala Model, but to countries with a bigger market opportunity for their products (Bell & Young, 1998).

As born global co-operatives, both Tatua and Alliance Group are still using the export strategy because more than 90% of their transactions are contributed to by the export activities (Oviatt and McDougall, 1994). Both Tatua and Alliance still export through a distributor. They also do direct exporting for some of the bulk products, but in a smaller amount than indirect export. Porter outlines the importance of strategy formulation to face international competition in the export-based strategy. Based on the analysis of Porter's five-forces, both co-operatives have implemented the internationalization strategy using differentiation and focus strategies (Porter, 1990). The Porter's five forces were used to analyze the external factors of each industry which are addressed as the competitive position. The competitive position in the industry is relevant in order to analyze the

internationalization strategy implemented by the co-operatives studied. Both of the co-operatives produce specific and high-value products that give them a competitive advantage compared to the other companies in their sector (Masum & Fernandez, 2008).

Both co-operatives are still coherent with the principles and values of co-operatives and, at the same time, proactive in optimizing opportunities which are the key to being successful in the internationalization process for co-operatives (Errasti et al., 2003). Tatua and Alliance could not yet be considered as pursuing a multinational internationalization strategy, because they currently have not controlled their industrial and commercial activities in over five continents around the world (Guillouzo and Ruffio, 2005). Tatua and Alliance have many similarities in terms of the internationalization stage. The differences can be seen in the choice of their internationalization strategies which are analyzed separately later in this chapter.

6.2. Analysis of the Competitive Position

The competitive position analysis, employing the five-forces tool, is used to understand how the co-operative shaped the internationalization strategy based on external competitive factors in each of their industry (Table 28).

Table 28 Porter's Five-Forces Analysis

Five-Forces	Tatua Co-operative	Alliance Group
Competition in the industry	High	High
Power of Suppliers	High	High
Power of Customer	High	High
Threat of New Entrants	Low	Medium
Threat of Substitutes	Low	High

The competition in the industry is high for both Tatua and the Alliance Group. This condition influences them to strengthen their position by creating product differentiation in the market and ensure high quality of products and service. The strong differentiation is one of their key of success to be competitive in the international market.

The power of suppliers is also high for both co-operatives. However, the competition is in the local market, not in the international market, as each source their raw material

within New Zealand. Therefore, in this case, there has not been any international strategy implemented to address the supply issue. Even though the competition of supplier is high, as a co-operative, each has the benefit of loyalty and sense of ownership from their suppliers who are also members of the co-operative.

The power of customers is also high for both Tatua and Alliance. They shape their internationalization strategy based on the demands of their customers. Tatua and Alliance considered direct communication and interaction with the customers as an important strategy to be competitive in the international market.

The threat of new entrants for Tatua is low, meanwhile it is medium for the Alliance Group. To enter the industry, high investment of processing facilities is required. Besides that, the knowledge, technology and innovation are also valuable assets to survive in this industry. Long-term experience and relationship also contribute to their success, which hindered other new players in overcoming the competition.

Tatua consider that the threat of substitute products is still low because Tatua is playing in the niche market, offering specialized value-added products. On the other hand, the threat for Alliance is high. There are many other kinds of products from other producers that offer a wide-range of substitute products. This condition motivates the Alliance Group to create suitable internationalization strategies to successfully compete in the global market.

The external factors analyzed as a competitive position, using the Porter's five forces analysis, have influenced the co-operatives to shape their strategy of internationalization. By understanding the competitive position, they could identify their strengths and help them choose their strategy (Porter, 1990). Both of the co-operatives are still using the export-based strategy as their main strategy of internationalization. To be successful in the international market, each co-operative implements a focus strategy and differentiation of product. This condition reinforces Donoso's (2003) findings the previous study by Donoso (2003), where he found that export-based strategies were considered as the main strategy of agricultural co-operatives in New Zealand.

6.3. Analysis of Internationalization Strategy

According to Donoso (2003), there are six types of the common internationalization strategy for agricultural co-operatives. The differences of internationalization strategies between the two co-operatives can be seen in Table 29.

Table 29. Internationalization Strategy of both Co-operatives

	Internationalization Strategy	Tatua Co-operative	Alliance Group Co-operative
Export	Direct Export	✓	✓
	Indirect Export	✓	✓
Foreign Direct Investment	Subsidiaries	✓ (Greenfield)	✓ (Acquisition)
	Joint Venture	✗	✓
Strategic Alliances		✗	✓
Licensing		✓	✓
External Sourcing		✗	✗
Transnational Co-operative		✗	✗

Based on the earlier theory, firms start to enter a foreign market by exporting before developing other forms of internationalization. Tatua and Alliance Group also used exports as their first internationalization strategy in the early establishment periods as born global co-operatives. They are still relying on exports as their main approach of internationalization. They use both direct exports and indirect exports through distributors, depending on the type of product or market.

A lot of references show that a strategic alliance is one of the most common strategies of an agricultural co-operative's internationalization (Evans and Meade, 2006; Julia-Igual et al, 2012; Guillouzo, Perrot, and Ruffio, 2005). The strategic alliance is chosen because, in general, it is cheaper and faster than establishing wholly owned subsidiaries. It could accelerate internationalization by using their partner's knowledge and resources (García-Canal, Duarte, Criado, & Llana, 2002). This is in accordance with the Alliance Group that uses strategic alliances as one of their internationalization strategies. On the other

hand, even though Tatua has a very collaborative relationship with their customers and distributors, they do not yet consider any of their partnerships as strategic alliances.

Both of the co-operatives have direct foreign investments. The difference is, Tatua established its wholly owned subsidiary, while the Alliance Group attained the subsidiaries through acquisition. Alliance's strategy is similar to other agri-food multinational companies, such as Nestle and Unilever, that expand their businesses in the international market mainly through acquisitions and joint ventures (Schroder and Wallace, 1993). Acquisition has become one of the chosen strategies by many agricultural co-operatives (Errasti et al., 2003; Theuvsen and Ebneht, 2005). In contrast, Tatua has not yet pursued any acquisitions and joint ventures. Tatua tries to remain as independent as they can in order to avoid conflicts.

The two co-operatives use licensing as an internationalization strategy. The difference is; Tatua license their technology, while Alliance Group license their brand. Franchise agreements aim to take advantage of the knowledge and assets of commercial activity brought to foreign countries (Guillouzo and Ruffio, 2005)

Both co-operatives source their raw material within New Zealand and have no processing plants located in foreign countries, thus external sourcing for the main raw material is not considered as their internationalization strategy. Tatua's membership is closed, unlike Alliance, but both of them have not yet considered the transnational co-operative strategy. This situation is different from other agricultural co-operatives, especially in Europe, such as Arla Foods and Friesland Campina that have begun to become transnational co-operatives by recruiting foreign farmers from neighboring countries (Bijman et al., 2014).

6.4. Influencing factors of Internationalization

6.4.1. Network & Experience

Based on the analysis of each case study, both Tatua and Alliance Group show that network and experience are important factors in choosing their internationalization strategy. For Tatua, they are the most influencing factors for export and subsidiaries. However, for Alliance Group they are the most influencing factors for export, subsidiaries, joint venture, and strategic alliances. They are less influencing factors in licensing for both of the co-operatives (Table 30).

Table 30. Network and Experience Factor of both Co-operative

	Tatua Co-operative	Alliance Group Co-operative
Export	+++	+++
Subsidiaries	+++	+++
Joint Venture	-	+++
Strategic Alliances	-	+++
Licensing	++	++

Note: (++++) as the most influencing factor and (+) as the least influencing for each internationalization strategy.

The importance of network and experience factors for both of the co-operatives is in accordance with the network theory (Rastorgueva, 2014). Both co-operatives have shown that direct networking, by regularly visiting the markets, is very important in building a strong network. Both Tatua and Alliance show that the strong relationship among customers and partners has allowed them to build knowledge and their reputation for international market penetration.

Madsen and Servais (1997) also believe that an international network relationship is one of the key factors that help the internationalization from inception. Networking allows the co-operative to understand their customers better, then develop their products based on customers' demands. This is very important to stay competitive in the international market.

However, the case study of both co-operatives shows that by utilising the networking, they still internationalize gradually. This is in contrast with the network theory that suggests firms do not necessarily develop in a linear sequence of internationalization (Ojala, 2009). Instead, they were able to further develop from just exporting to

strategic alliances and further direct foreign investments because of the strong networking and long-term experience in their business. Tatua had a long business experience with Japan, China, and USA before they established the subsidiaries there. Alliance got the opportunity to acquire the subsidiaries in UK and Singapore because they already had a strong business operation and network there.

6.4.2. Human Capital

Table 31 shows that human capital is the second influencing factor for most of the internationalization strategies of both co-operatives. It is the second influencing factor for export, subsidiaries and licensing in Tatua. Meanwhile for Alliance, it is the second influencing factor for export, subsidiaries, joint venture and strategic alliances.

Exports of Tatua and Alliance Group are influenced by human capital because they have a knowledgeable commercial team who travel the world approaching customers and distributors in order to gain knowledge about the target market for export. They would then decide how they would export to the promising market based on the team's analysis.

The establishment of Tatua's subsidiaries in Japan, China, and USA is able to happen because they have the right people to be placed and be responsible to manage the business in those countries. The same situation goes for the Alliance group, where the right people contribute to the success of subsidiaries in UK and Singapore as well as the joint venture in North America.

Human capital is the least influencing factor in licensing for Alliance. This is because the Alliance Group is licensing their brand abroad for marketing purposes by the local distributors, so not much human capital from the Alliance Group is involved in this process. In the case of Tatua, the human capital is more important to give technical support for the licensing of technology.

Both co-operatives acknowledge that human capital is an important asset for them. The human capital includes the knowledge and managerial capabilities of the senior

management teams as well as employees that have contributed to the success of internationalization since inception (Madsen and Servais, 1997).

Table 31. Human Capital Factor of both Co-operatives

	Tatua Co-operative	Alliance Group Co-operative
Export	⊕ ⊕	⊕ ⊕
Subsidiaries	⊕ ⊕	⊕ ⊕
Joint Venture	-	⊕ ⊕
Strategic Alliances	-	⊕ ⊕
Licensing	⊕ ⊕	⊕

Note: (+++) as the most influencing factor and (+) as the least influencing for each internationalization strategy.

The right internationalization decision of each co-operative is also supported by the managerial capabilities of their Board of Directors that can improve the efficiency of international investments' practice (Shen et al., 2017). Both co-operatives have made human capital a priority to their current strategy and used initiatives to develop the quality of people and leadership management.

6.4.3. Financial Resources

The financial resource is one of the internal factors considered by firms to plan their internationalization choice (Shen, Puig, & Paul, 2017). The case studies of both co-operatives, as shown in Table 32, indicate that the financial aspect is the least influencing factor for export, strategic alliances, and licensing. Financial resource is the second influencing factor for the foreign direct investments; in the case of Tatua, it is the subsidiaries and additional joint ventures for Alliance Group.

Table 32. Financial Resource Factor of both Co-operative

	Tatua Co- operative	Co- operative	Alliance Group Co- operative
Export	+		+
Subsidiaries	+ +		+ +
Joint Venture	-		+ +
Strategic Alliances	-		+
Licensing	+		+

Note: (+++) as the most influencing factor and (+) as the least influencing for each internationalization strategy.

The result is in accordance with the literature stating that direct foreign investment requires the highest resources while licensing strategy requires the least financial resources. Wholly owned subsidiaries are considered to require higher resources than acquired subsidiaries (Erramili & Rao, 1990). However, in the case of Tatua, financial resource is not the main influencing factor because they are not developing manufacturing plants abroad; the subsidiaries only function as sales offices, thus the investment required is not that high. The Alliance Group's subsidiaries, or joint ventures, have also served as sales and marketing office to operate the distribution.

Further researchers argue that internationalization which require more investment are riskier because it involves greater financial exposure and requires more control mechanisms with greater complexity (Bijman et al., 2014). Tatua and Alliance both agree that subsidiaries and joint ventures pose a bigger challenge because more operational costs are required. However, the direct foreign investment also offers benefit for the sustainability of business and more profit will ensue in their significant markets. Therefore, the financial resource has not been considered as the main influencing factor in choosing their internationalization strategy.

6.4.4. Technology, Research & Innovation

Born-globals are usually associated with young, innovative, high-tech or knowledge-intensive firms (Scott-Kennel, 2013). The literature states that the technology factor could contribute to the acceleration of the internationalization process of exporting agri-food companies (Serrano & Acero, 2015). Both co-operatives are using technology, research and innovation to support their internationalization, however, these are not considered as the most influencing factors for most of their internationalization strategies (Table 33).

For Tatua, it is the second most influencing factor for export and subsidiaries because they are relying on innovative value-added products and collaboration to develop products with their customers. In the case of the Alliance Group, it is the second influencing factor for export but the least influencing factor for subsidiaries, joint venture and strategic alliances. Both of the case studies reveal that the technology, research and innovation is the most influencing factor in licensing. However, both Tatua and the Alliance Group have, until now, not considered licensing as their main strategy of internationalization.

Table 33. Technology, Research & Innovation Factor of both Co-operatives

	Tatua Co-operative	Alliance Group Co-operative
Export	⊕ ⊕	⊕ ⊕
Subsidiaries	⊕ ⊕	⊕
Joint Venture	-	⊕
Strategic Alliances	-	⊕
Licensing	⊕ ⊕ ⊕	⊕ ⊕ ⊕

Note: (+++) as the most influencing factor and (+) as the least influencing for each internationalization strategy.

Based on the literature, the development of technology, especially the internet, could rapidly accelerate internationalization through e-commerce and direct export channels (Serrano & Acero, 2015). However, in the case of Tatua and Alliance, the use of the internet could not replace the importance of direct communication. Even though the internet could reduce costs and the time of face to face interactions, Tatua and Alliance Group still regularly send their people overseas to meet their customers and distributors to strengthen the relationship and network. Tatua only use direct exports for the bulk commodities which are a very small percentage in their business. The Alliance Group already implements the use of e-commerce, but it is not considered their main strategy because they mainly do business to business which is not really suitable with an e-commerce approach.

6.5. Risks and Challenges of Internationalization

Based on the results, each internationalization strategy has its own challenges that need to be considered by the co-operatives, as seen in Table 34.

Table 34. The Challenges of Internationalization Strategy

Internationalization Strategy	Challenges
Export	Legal requirement, foreign exchange, traceability
Subsidiaries	Higher operation cost & complex management
Joint Venture	Higher operation cost & complex management
Strategic Alliances	Potential conflicts
Licensing	Potential conflicts, Brand piracy

Some of the challenges in exporting include the external factors such as currency exchange and legal bureaucracy, as stated by Ritossa and Bulgacov (2009). Moreover, both Tatua and Alliance Group are large and experienced businesses that are more

concerned with the challenges of managerial capabilities and organizational systems in accordance with the study of Scott-Kennel (2013).

Both Tatua and Alliance agree that the foreign direct investment have more financial risks and need more control mechanisms; this is in accordance with the view of Brouthers (2002). However, in contrast with the view of Hansen (2009), both co-operatives do not find financial resource as the biggest challenge for internationalization. Both of them manage a strong balance sheet and can raise enough capital to implement their internationalization strategies.

Moreover, the risk perception might differ for every co-operative. The classification of risk might not be the same for every co-operative, therefore, the risk perception that Ahmed et al. (2002) stated in his study could not be applied to every co-operative. Tatua did not choose the joint venture strategy because they consider the risk of conflicts of interest in the future, therefore, they remain independent. Alliance, on the other hand, implemented the joint venture strategy despite all the risks. Therefore, risks and challenges have also influenced the co-operatives in choosing their internationalization strategy

CHAPTER SEVEN: CONCLUSION

7.1. Summary of Study

The aim of this research was to describe the internationalization process of agricultural co-operatives in New Zealand and identify the influencing factors of the internationalization strategies. The key objectives of the study were to outline the internationalization process of the agricultural co-operatives in NZ, to identify the internationalization strategies chosen by the agricultural co-operatives studied, and to analyze the factors that influence the internationalization decision.

The research question was answered and objectives were addressed by using multiple case studies from two chosen agricultural co-operatives in New Zealand. The Tatua Co-operative and Alliance Group Co-operative were selected as the participants because of their successful history of internationalization in the dairy and red-meat industry. Semi-structured face-to-face and telephone interviews were conducted as the primary data

collection. This method enabled the researcher to obtain depth and comprehensive information from the key actors.

The participants were selected by using a purposive sampling method in order to ensure that insights from the important and relevant actors were included in the study. The participants of this study were the CEO, Chairman, and senior management in the co-operatives. Additionally, documentary data, such as annual reports, were used in order to support the primary data.

The data analyses were then performed starting with the transcription of the recorded interviews then grouping them into categories. The next step was to analyze the results to answer the research question and objectives. The cross-case analyses were performed to compare the result of both co-operatives which have different sizes, characteristics, and internationalization strategies.

7.2. Limitations of the Study

There are some limitations in this study that need to be considered:

- Owing to limitations of time and availability of the participants, only two cooperatives were included in this study. Several co-operatives were approached earlier on, but not many co-operatives were available and willing to participate. An attractive research proposal that could bring more benefits to the co-operatives is needed to attract more participants for further studies.
- Owing to the constraints of time and distance, a telephone interview was performed for one person. The timetable of this research was delayed because it took time to wait for the response of the co-operatives to accept the offer to participate. Therefore, the telephone interview was conducted. Based on the experience, the quality of data from the telephone interview were lower compared to the face-to-face interview. The quality of voice recording was not as clear as the direct interview. The telephone interview also could not provide body language, facial expressions and other physical

features which are useful to establish rapport and probe more comprehensive answers.

- The limited sample size of the interview might have limited the data for comprehensive qualitative analysis. Most of the key actors had quite a tight schedule, and some of the participants travelled outside the country for a long period. It was quite a challenge to schedule the interview according to the research timeline.
- The study is limited only to the dairy and red-meat industry as a sample of New Zealand's agricultural industry. Both of the sectors could be considered as a good sample as the biggest contributor of economy in New Zealand. However, analysis from more sectors could improve the quality of the study if more time was available.

7.3. Conclusion

This study outlines the internationalization process of agricultural co-operatives in New Zealand. The two co-operatives studied could be considered as born global because they went into the global market soon after the establishment. The limited size of the local market is their biggest motive to scale up their business through internationalization. However, even though they are born globals, they internationalized in a gradual way.

The internationalization strategies of each agricultural co-operatives has been identified in this study. Both co-operatives are still using export through distributors as their main strategy of internationalization. They also use direct export for some of the products because it is less expensive. Both co-operatives are implementing foreign direct investment as their internationalization strategy after they establish long-term networking with their foreign markets. The difference is, Tatua established its own subsidiaries in its key markets, while the Alliance Group established subsidiaries by acquisition. Alliance use joint venture and strategic alliances as their internationalization strategy, while Tatua remain independent. Both Tatua and Alliance use licensing as a small part of their internationalization and both of them have not yet considered the transnational co-operative strategy.

The external factors, analyzed as competitive position using the Porter's five forces Analysis, have influenced the co-operatives to shape their strategy of internationalization. By understanding the competitive position, they could identify their strengths and help them in choosing their strategy. Both co-operatives are still using the export-based

strategy as their main strategy of internationalization. Both of them agree that being a co-operative has brought more benefit, especially to win the competition of suppliers. To be successful in the international market, both co-operatives implement focus strategy and differentiation of product.

Moreover, the internal factors identified in this study have influenced the choice of each internationalization strategy of the co-operatives. This study reveals that the most influencing factors for both co-operative are network and experience. This explains the gradual process of internationalization, because the co-operatives need time to build their network and collect wisdom through their long-term international experience.

Human resource is another factor that influences the co-operatives in choosing their internationalization strategy. One of the success factors of their internationalization is because they have the right people with the right capability to lead their internationalization strategies. Moreover, both of the co-operatives agree that financial resources are not the main factor that influence both co-operatives for their internationalization strategy. It is more considered when choosing subsidiaries and joint venture because they have bigger financial risk than the exports.

This study has shown that technology, research and innovation are the most influencing factors in licensing, but licensing is not considered as their main strategy of internationalization. This study also reinforces that technology does not have the biggest role in accelerating the internationalization process of the co-operatives. Lastly, the risks and challenges have also become a consideration in choosing the internationalization strategies. The challenges are different for each strategy and are perceived differently by each co-operative.

7.4. Implications of the Study

This research represents the successful co-operatives in the agricultural industry of New Zealand, which are a big contributor to the economy of New Zealand. This research provides useful, additional insights to the agricultural co-operative sector in New Zealand. The study has contributed a comprehensive literature review on the topic of internationalization of agricultural co-operatives that had not been previously developed in depth.

This research may be useful for the co-operatives studied to evaluate their further internationalization steps, considering the influencing factors identified in this study. It may also be useful to other agricultural co-operatives for their internationalization planning. This research provides substantial evidence of a successful co-operative expanding their market through internationalization. It provides a better understanding of the influencing factors that need to be considered when formulating a successful internationalization strategy.

This research would be useful for organisations who are involved in co-operatives' development programs, such as NGOs and governments. This research helps to understand the process of internationalization in New Zealand Agricultural Co-operatives, and some of this knowledge will also be relevant to agricultural co-operative development in other countries.

7.5. Recommendation for further studies

In order to obtain a better understanding of internationalization of the co-operatives in New Zealand, further research is recommended in the following areas:

- Include more co-operatives from different sectors of the agricultural industry in New Zealand to confirm the factors identified in this study
- Use of a larger sample size of respondents to perform a quantitative analysis which might provide more reliable and valid results
- Study smaller co-operatives with different stages of internationalization to provide insight of comparison with the successful co-operatives
- Identify the risks for each of the internationalization strategy and analyze the mitigation strategies for a more comprehensive result

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Appendix 1. Information Sheet

THE INTERNATIONALIZATION STRATEGY OF AGRICULTURAL CO-OPERATIVES IN NEW ZEALAND

INFORMATION SHEET

Dear Sir/Madam

My name is Harumi Aini from Indonesia. I am a Masters student of AgriCommerce at Massey University in Palmerston North, New Zealand. As part of my study requirement, I am conducting a case study research on internationalization strategies of New Zealand agricultural co-operatives.

Project Description

The global market is transforming rapidly as globalization is influenced by advanced information, communication, and technological (ICT) development. Companies in the food and agricultural sector, including agri-food cooperatives in New Zealand, have embraced these global trends. Many agricultural co-operatives in New Zealand have been successful in growing their business globally by implementing different internationalization strategies in the form of exporting and a range of other approaches including foreign direct investment. My specific interest is to better understand how co-operatives have embraced these global trends to successfully internationalize.

This research aims to describe the internationalization of agricultural co-operatives in New Zealand and identify the factors that influenced the decisions made when choosing suitable internationalization strategies.

Implications of the Study

This study will provide useful, additional insights to the agricultural co-operative sector in New Zealand. It will also provide a better understanding of the influencing factors that need to be considered when formulating a successful internationalization strategy. This research will be a great learning opportunity for me to understand the process of internationalization in New Zealand agricultural co-operatives; some of this knowledge I hope will also be relevant to agricultural co-operative development in my home country.

Invitation

In that regard, I would like to include, as an example of a successful agricultural co-operative that can provide rich information for this study.

To fulfill the aim of this study, I intend to interview a small group of people involved in and knowledgeable of the co-operative's current internationalization strategy. I will also examine whatever information is available to ensure I understand the cooperative and its markets overall. Therefore, I would like to invite you to participate in this study.

This research proposal has been evaluated by the Massey University Ethics Committee and judged to be low risk. To ensure confidentiality, individual details of participants will not be revealed at any time. Your responses will be held by Massey University in a secure

facility and will be erased after five years. You will have the right to embargo the thesis and any subsequent publications for a stated period if there is any commercially sensitive information given. If you decide to take part, you will be asked to sign a participant consent form.

Project contacts

If you have any further queries, I would be pleased to answer them. You can contact me ([REDACTED], telephone: [REDACTED]), or alternatively my supervisors Prof. Nicola Shadbolt (N.M.Shadbolt@massey.ac.nz, telephone: +64(06)356 9099 ext. 84793) and Dr. Elena Garnevska (E.V.Garnevska@massey.ac.nz, telephone:+64(06)356 9099 ext. 84794).

Yours faithfully,
Harumi Aini
Master of Agri-commerce student
School of Agriculture & Environment
Massey University

Appendix 2. Interview Questions

Interview Guidelines **THE INTERNATIONALIZATION EXPERIENCE** **OF AGRICULTURAL CO-OPERATIVES IN NEW ZEALAND**

Demographic Characteristics of Respondent

- Name
- Age
- Education
- Position
- Experience & Responsibilities

Company Background

- History
- Members
- Employees
- Markets
- Financials & Trends
- Business Units
- How is the global competition for Tatua?

Internationalization Process

- How does Tatua internationalize
 - **Export**
When started exporting
How do you export
Why do you choose export
What are the markets
Why export to these markets
 - **Subsidiaries**
Where?
When was it established
Why establish subsidiaries
Why these countries
How do you establish the subsidiaries
 - **Joint Venture (JV)**
Where?
Are there any other foreign JV
When was it established
Why establish JV
How do you establish the JV

- **Franchise & Licensing**

When start franchise/licensing

Why choose franchise/licensing

Where are the markets

Why in those countries

How do you franchise/licensing

- **Other internationalization processes**

- What are the challenges of each internationalization
- What are the benefits of each internationalization
- Which internationalization method is more profitable
- Which internationalization has the least financial risk
- What are other risks considered

Factors of Internationalization

Most influencing factors for each internationalization process:

- **Human Capital & Resources**

Foreign staff, training provided, skills needed, capital needed, how to manage financial, how to overcome capital challenges

- **Competition**

Intensity of global & local market competition, market opportunity, marketing strategy, treatment of substitute products

- **Experience & Network**

Relevant business experience beforehand, how to gain access, the influence of existing network, the advantage of partnership

- **Market Knowledge**

Political, Economic, cultural/social, legal, environment

- **Technology, Research & Development**

Use of internet and e-commerce, innovation, impact of technology to accelerate internationalization process

Appendix 3. Participant Consent Form

THE INTERNATIONALIZATION STRATEGY OF AGRICULTURAL CO-OPERATIVES IN NEW ZEALAND

PARTICIPANT CONSENT FORM

I have read the information sheet and have had the details of the study explained to me. My questions has been answered to my satisfaction, and I undersatnd that I may ask further questions at any time.

I agree/do not agree to the interview being sound recorded.

I agree to participate in this study under the conditions set out in the information sheet.

Signature,

Date

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