

Value Networks:

A Strong Strategic Intent for the Development of Co-operatives in Thailand

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Abstract:

The recent volatility in the global markets has created substantive pressures on the co-operative movement to adopt a greater competitive position in the market. As a result, Thailand's National Co-operatives Development Plans II began in 2007 and embraced the value network framework as its strong strategic intent. This new approach aims to create a new form of business networks based on an integrated supply chain management concept which combines interest groups, business partners, suppliers, and customers together in order to strengthen the co-operatives' business network through the supply chain. This paper provides a conceptual framework and the building process of the value networks under the National Co-operatives Development Plan II (2007-2011). The paper will also review the impacts that the value network framework had on the transformation of participating co-operatives and communities in the agricultural sector, for instance, the Moral Rice Value Network, the Thai Hom Mali Rice Value Network, the Fruits Value Network, and the Sampran Value Business Group. Empirical evidence and the analysis of factors affecting cooperatives indicate that the value network framework has been instrumental to the survival and the sustainable value creation of these co-operative businesses. Learning from this experience, the Value Network and Fairtrade Platform (VN&F platform) has been formulated for the future extension of this concept to other co-operative movements and communities across Thailand.

Keywords: Value Networks, Integrated Supply Chain Management, Strategic Framework

1. The Co-operatives Situation in Thailand

In 1916, the co-operative movement in Thailand began as a government's policy instrument for economic and social development. It was initiated by the groups and organizations operating as self-help organizations which can be divided into two groups¹ based on their original formation:

1. Registered co-operatives that are supported by the government or registered juristic organizations in compliance with co-operatives laws; and
2. Non-registered co-operatives that are voluntarily formed by groups of people and operate based on co-operative principles and methods, but have not officially registered themselves.

In terms of the overall economic performance of co-operatives in 2011, co-operative members accounted for 16.42 percent of the total population, for a total of 10.5 million co-operatives members. Their total assets were valued at \$419,355 million U.S. dollars while their business volume amounted to \$483,871 million U.S. dollars or 15 percent of the estimated gross domestic product (GDP) in 2011. There are five core services that co-operatives offer their members: credit services, deposits, product gathering and processing businesses, product procurement, and services. The main cash crops grown in the co-operative sector are rubber, paddy rice, cassava, sugarcane, coffee and fruits. In sum, the net profit of these core businesses was \$1,300 million U.S. dollars (12.46 percent). Their return on assets was equivalent to 3.62 percent, and their return on equity was 7.24 percent (Co-operatives Auditing Department, 2011).

2. Value Networks: As a Strategic Intent for Co-operative Development

Networks have been in existence in Thailand for quite some time, and their use in the social and economic development of the country is nothing new. Cooperation in the form of networks stems from relationships among groups, individuals, organizations, or institutions with mutual aims and objectives; however,

¹ According to "The Development of Co-operative Movements in 36 Provinces" research project, there are 3,875 registered co-operatives with about 10 million members from Agricultural Co-operatives, Land Settlement Co-operatives, Fishery Co-operatives, Thrift & Credit Co-operatives, Credit Unions, Consumer Co-operatives, and Service Co-operatives. There are over 100,000 groups, with around 10 million members, of non-registered co-operatives which include Agriculture Groups, Savings Groups, Women Groups, Occupation Groups, and Community Groups (Patrawat et al., 2006).

associate networks are more independent of one another (Pongpit, 2004). This definition is echoed by Brass et al. whose research explains that: “Networks are relational organizational forms that involve systems of interconnected actors or nodes and the ties or links between them.” Similarly, Hawe et al. also describe networks as “the links or relationships between actors [that] form the structure of the network. These actors interact and share resources in order to achieve a common goal (2004).

In the context of the Thai co-operative movement, “network links” were identified as a key strategy in the National Co-operative Development Plan (B.E. 2546 – 2549, A.D. 2003-2006) with a focus on network links among registered co-operatives and non-registered co-operatives. There are three main strategic steps involved with network links: 1). the setting up of knowledge sharing forums; 2). the use of situation analysis to create relationships in the form of networks; and 3). operational movements through established networks. Based on the survey of network links under CAI’s research project, the network links strategy has resulted in the creation of 127 networks spread out in 45 provinces, involving the participation of 42,353 co-operatives/groups². Figure 1 illustrates the process of network linkage effects on the development of co-operatives under the First National Co-operative Development Plan.

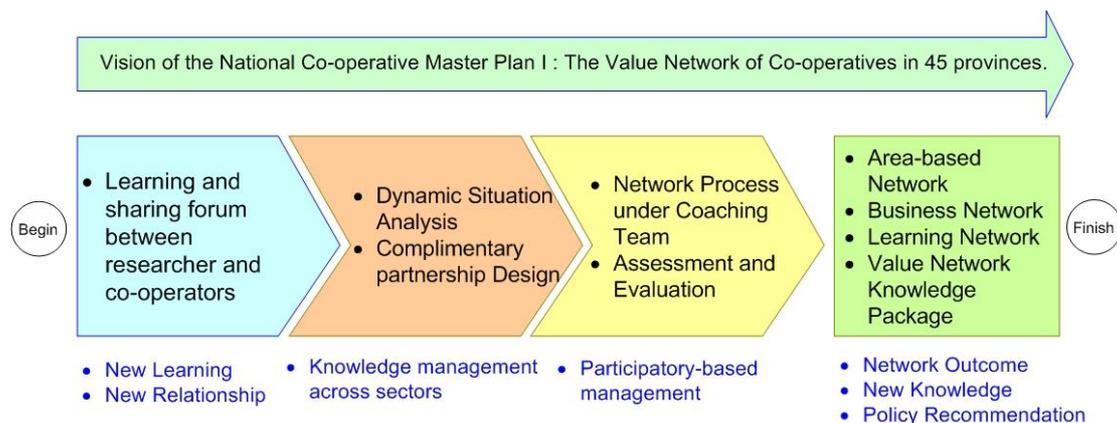


Figure 1: The process of the network links under the strategy framework of the First Co-operative Development Plan

² “The Value Network Links and Policy Proposal for Co-operative Development” (Patrawat, 2006).

The research project, “The Development of Co-operative Movements in 36 Provinces,”³ identified five key success factors of network links:

1. The co-operative spirit of the associates;
2. Trust among the associates;
3. Good communication among the associates;
4. Knowledge sharing; and
5. The establishment of an administrative system taking into consideration the associates’ mutual goals.

These factors are in line with McDemott and Snyder (2002) who suggest there are several critical factors of effective networks: establishing a clear purpose and goals; addressing the “hierarchy of needs;” including a culture of trust in stated core value; and maintaining a flexible infrastructure among other factors (Robeson, 2009). In addition, Robeson also summarizes important elements of networks: social interaction and relationship development; knowledge sharing and co-creation; a common knowledge and practice area; and interventions that facilitate the development.

In 2006, 20 co-operative researchers and 50 co-operators across Thailand participated in a workshop entitled “The Strategic Movement of Network Links” that synthesized the acquired experiences and knowledge from the first three years of the National Co-operative Development Plan which emphasized network links in the co-operatives movement. The participants mutually agreed on the definition of the “Value Network” as being “the relationships between network members that promote mutual learning toward the sustainable development of efficiency in partnerships and the well-being of members through a dynamic environment. The actors involved (groups, individuals and co-operatives) also work together for extended periods on common issues.” (Co-operative Academic Institute, 2006). As a result, network members can then adapt to changes.

In relation to the promotion of co-operatives, key strategic suggestions and recommendations must include changes in and the upgrading of the cooperatives’ capabilities. These changes must originate from within the co-operatives through the use of processes that encourage the creation of new learning and new relationships. This is only possible through the combined strength, participation, and collaboration

³ (Patrawat et al., 2006)

of a number of sectors, including co-operatives, the public sector, the academic community, and local municipal movements. Network links are important not only within the co-operative movements, but also throughout the cooperative businesses' supply chain due to the global phenomenon of globalization and IT innovations that are constantly changing people's consumption and production behaviors. Hence, network links are necessary and vital to the improvement of the co-operatives' capabilities as social-based businesses have the expressed aim of upgrading the well-being of their members. The conclusions from this research have been applied to the formulation of the strategic framework of the 2nd National Co-operative Development Plan by integrating the ideas from the book, *Value Network and Integrated Supply Chain Management* (Donald J. Bowersox, David J. Class and M. Bixby Cooper, 2007), into the core framework of this new national agenda.

As a result, from 2007 to 2011, the National Co-operative Development Committee entrusted CAI to draft the 2nd Co-operative Development Plan that was used to develop policies for co-operatives in Thailand. The details have led to a strategy map for change management and the development of a co-operative system that will achieve the vision of "A co-operative system that is valuable and that will lead to the country's peace and happiness" as illustrated in Figure 2.

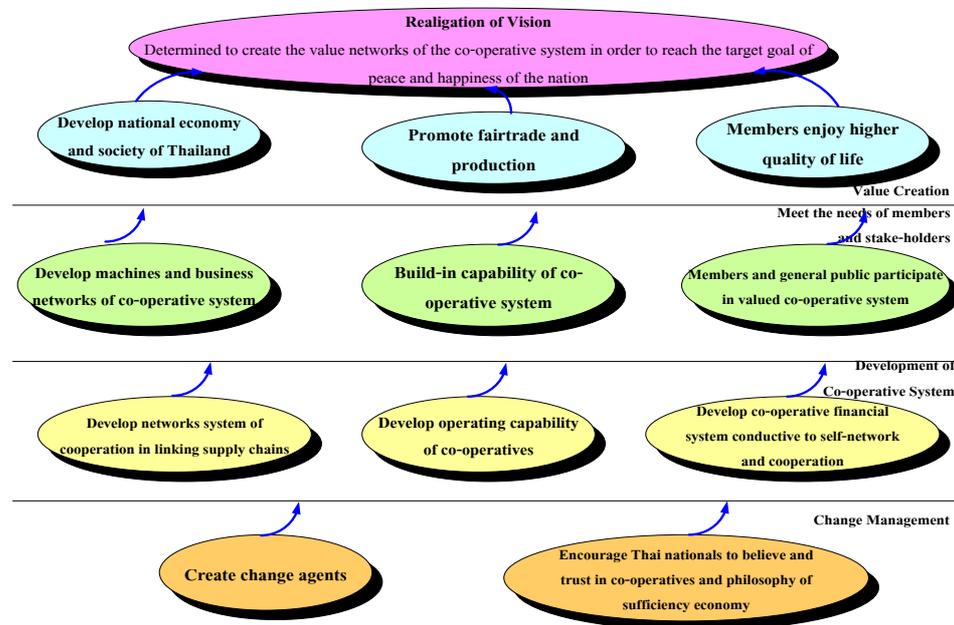


Figure 2: The strategy map of the Second Co-operative Development Plan

3. Value Network: As a New Business Model

Prior to the beginning of the value network's strategic movement, most of the co-operative networks in Thailand were vertically integrated and existed in the form of co-operative federations; examples include the following important organizations: The Agricultural Co-operative Federation of Thailand Ltd. (ACFT), The Federation of Savings and Credit Co-operatives Ltd. (FSCT), and The Credit Union League of Thailand (CULT) among others. Most co-operative federations served their co-operative members in terms of credit services, deposits, product gathering businesses, and training sessions for co-operative leaders. However, some limitations exist concerning the processing and marketing of businesses due to the competitiveness of rivals from the private sector that have better performance and organizational capabilities. As a result, it can be said that co-operative systems mainly deal with the beginning and the middle levels of the supply chain, and not with the whole process as they are not involved with exports and retail activities which are in the hands of the private sectors.

The strategy movement under the 2nd Co-operative Development Plan aims to create network links with co-operatives from the southern part of Thailand. The integrated supply chain has led to the creation of some interesting business models in the agricultural sector, for example, the Moral Rice Value Network, the Thai Hom Mali Rice Value Network, the Fruit Value Network, the Rubber Value Network, and the Sampran Value Business Group.

- **The Moral Rice Value Network** is a business model used by farmer groups and was established by linking alliances in the organic rice supply chain. The network helps farmers sell their products to consumers under the following motto: “no liquor, no cigarettes, no gambling.” This has resulted in the creation of the “Moral Rice” brand which has been very successful and has gained the customers’ and Thai society’s trust. The Moral Rice Value Network has become a symbol attesting to the farmer groups’ ability to adopt the value network concept to solve problems stemming from the declining price of rice.
- **The Thai Hom Mali Rice Value Network** is a horizon integration of 15 primary co-operatives leading to the creation of the Thai Hom Mali Rice Business System. Their mutual goal is to enhance each co-operative’s ability

and readiness for the liberalization of trade by pooling together their members' economic resources and social capital and allocating jobs based on each co-operative's unique capabilities and specialized skills.

- **The Koet Bun Rice** is the brand name of a “new product” that the network has selected in order to promote and familiarize people with 100% Hom Mali rice which is of high quality and produced and sold by small farmers from agricultural co-operatives. Through knowledge sharing, farmers have been able to undergo a paradigm shift as well as practice and enhance their supply chain administrative skills for co-operative managers. By working collaboratively, the co-operatives hope to gain increased bargaining power. In addition, they strive to optimize the use of their existing resources which would enable them to maximize the benefit they will receive in return.
- **The Fruit Value Network** is a business model used by the Khao Kitchakut Agricultural Co-operative in Chantaburi province to manage their supply chain. Its business plan stresses the importance of developing the fruit-cooperative's ability to produce quality fruit. They also engage in knowledge sharing of their lessons learnt with other successful agriculturists. There are also alliances with both domestic and international markets. Currently, the government agent responsible for supporting co-operatives is working to disseminate know-how about quality fruit production to other agricultural groups and agricultural co-operatives all over the country.
- **The Rubber Value Network** is a business model used by Yan Ta Khao Agricultural Co-operative Limited in Trang province, which is an important rubber production area in Thailand. Its business model is based on the establishment of a rubber tree area as a learning center for agriculturists to study how to reduce costs and increase their product yield. Risk management is also applied in helping farmers plan their co-operative business. They also learn how to gather, process, and sell their rubber products. Today, the Rubber Value Network has a number of associates including rubber agriculturists at the beginning of the value chain and alliances in both the domestic and international markets. The learning center has also been improved and also serves as an information center and a knowledge sharing forum for co-operative members and rubber agriculturists. Hence, members can keep

abreast with current situations and improve their knowledge and skills in order to sustain their livelihoods.

- **The Sampran Value Business Group** is a business model linking the relationships among farmers, groups of farmers, entrepreneurs, and the community in Sampran, Nakhonpatom province based on four mutual concepts: faith in organic agriculture; concern for consumers; endorsement of the idea of mutual reliance and cooperation; and consciousness of the importance of sustainable development. These concepts have been used to lay the foundation for the co-operative's administrative and management system. Through the learning center and community market, the co-operative has been able help promote a paradigm shift and highlight increased concerns about food safety and organic agriculture among farmers. Today, "Suk Jai Market" has gained the trust of both the local people and consumers from outside the area. In addition, the co-operative also organizes on a continuous basis knowledge management programs on organic agriculture for interested associates and communities.

Table 1 in the Appendix illustrates the situation review before the introduction of the Value Network Framework to each project and the ensuing outputs and outcomes.

4. Transformation in Co-operatives Business Management

The assessment and evaluation of the Value Network model through the use of a tool called the "Performance Measures' Tree"⁴ led to the identification of the following processes that contribute to changes in the co-operatives' operations as presented in Figure 3 and as outlined below:

- **Knowledge sharing among the associated networks** leads to the enhancement of the leaders' and co-operative managers' abilities and contributes to the learning process of members of the co-operatives which in turn help strengthen their skills and capabilities.
- **The pooling of both economic and social resources among strategic planners** will strengthen the network's and associates' business management processes.

⁴ Santos et al. (2001)

- **Supply chain management in co-operative businesses** can create operational plans that lead to mutual encouragement and support. In addition, associates will have a say in the co-creation of businesses.
- **Value Creation** leads to a new business model, value branding, concern for the community, and the building of trust among consumers through the co-operatives' products and services. Apart from increasing their income, it also helps increase the customers' and stakeholders' level of satisfaction. Finally, value creation helps improve the co-operatives' image as well.

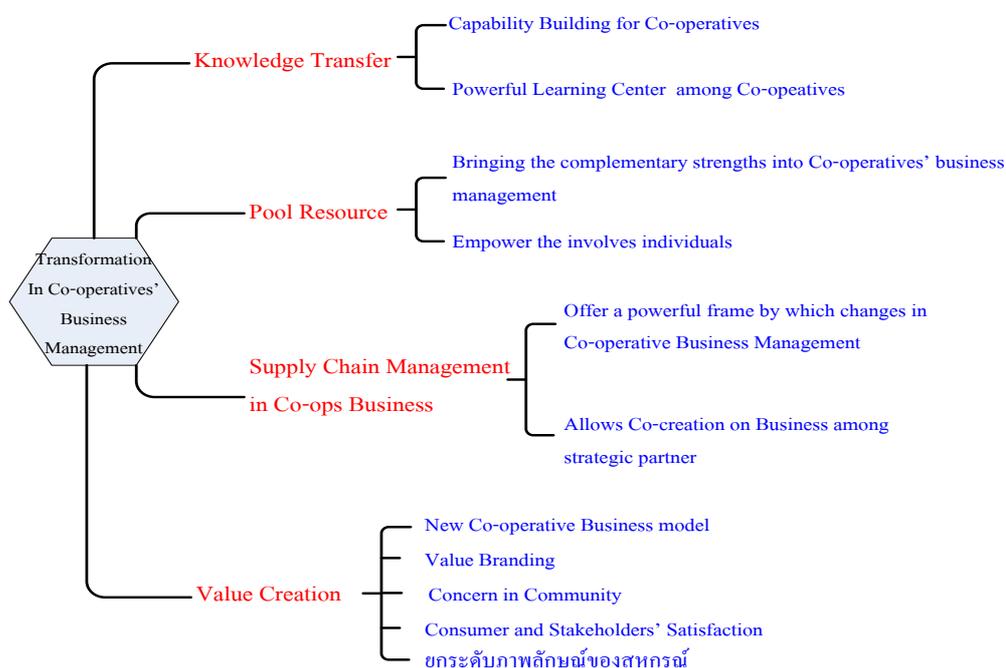


Figure 3: Transformation in Co-operatives Business Management

5. Looking forward

The strategy of network links under the Co-operative Development Plan has brought about social movements among co-operatives and associates who see the importance of a “value network.” They are able to work collaboratively to overcome challenges and intense competitions in this era of globalization. These social movements originated from interwoven relationships among organizations and evolved using co-operative values as a mutual goal, key resources and capabilities, the design of a new administrative system, and the application of ideas from what they learn from supply chain management to enhance their businesses. Although these

processes may be new to co-operators, a thorough understanding of these processes is vital for survival in today's competitive world. However, the following three networking concepts affecting the relationship among the associates must also be taken into consideration:

- **Clarity:** the associates must possess a clear understand of their mutual goals.
- **Consistency of Theme:** the associates must communicate in a consistent manner to one another so that everyone understands the network's principle objectives.
- **Creativity:** outstanding creativity is a unique character that adds tangible value and monetary benefits to the network.

A future policy recommendation for co-operative development is to promote and support umbrella organizations in setting up an agenda on supply chain management in order to strengthen their businesses. To achieve this goal, CAI has proposed a Value Network & Fairtrade Platform (VN & F Platform) which is made up of three strategies as follows:

1. The creation of four-dimensional value leaders who encourage the cooperative's spirit, shift the paradigm, believe in the co-operative principle, and follow good practices;
2. The enhancement of the co-operative operation based on strategic management ; and
3. The use of value network links in the co-operative businesses' supply chain management.

The policy proposal will lead to strong and sustainable co-operatives and bring about and add value to the co-operative members and the community. Furthermore, it will lead to the co-operatives' ethical development and inclusion of Fairtrade in the future.

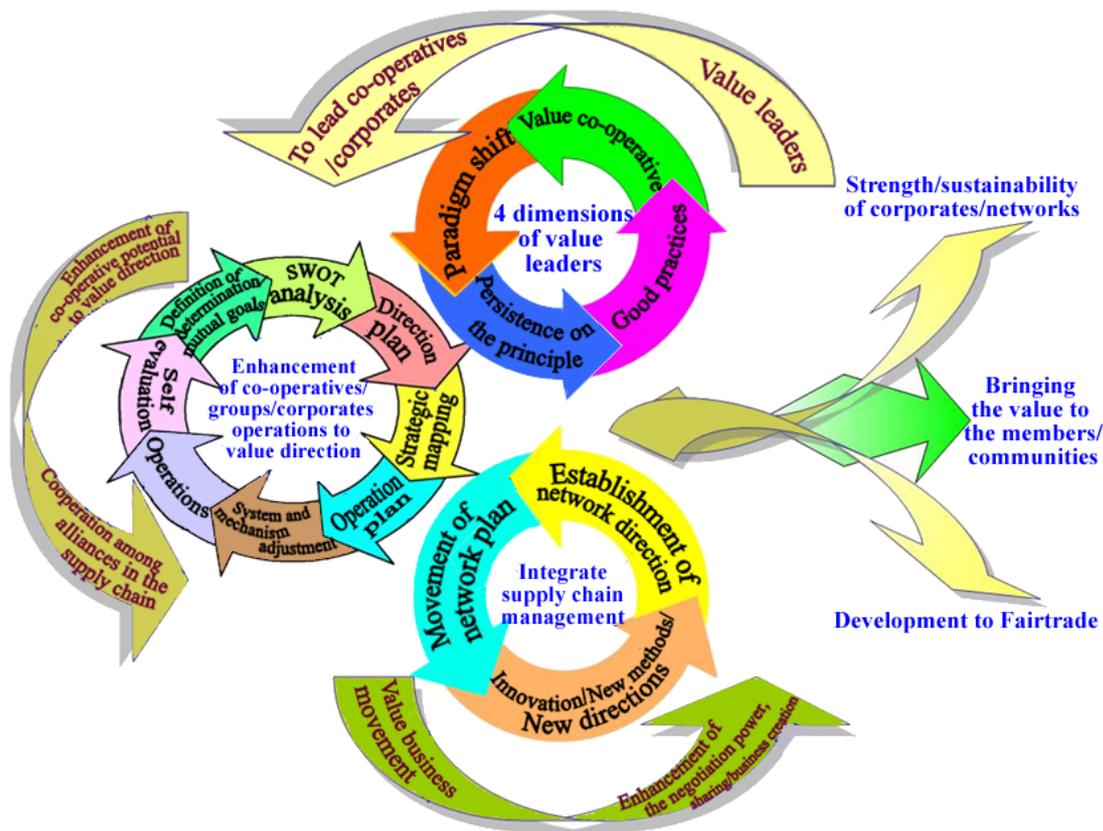


Figure 4: VN & F Platform: Value Network & Fair Trade Platform

6. Conclusion

The concept of “networks” is well-known in the 21st century. Although the Thai co-operative movement has adopted the concept of “value network connection” based on the co-operative principle as the networks’ mutual objective, the process or steps to sustainability still necessitates further development.

CAI is an organization that has conducted a series of policy-led research and supported linkages among value networks under two consecutive National Co-operative Development Plans. Their continuous research and development processes have significantly transformed the development of national co-operatives. Findings from the participatory action research concerning strategic movements under the Co-operative Development Plan identified several factors influencing the success of the network connection: the awareness of mutual reliance and cooperation among the network associates, mutual trust, effective communication among members, cooperative learning, and the network’s administrative system under a common goal.

Some examples of value network connections include the Moral Rice Value Network, the Thai Hom Mali Rice Value Network, the Fruit Value Network, the

Rubber Value Network, and the Sampran Value Business Group, which have demonstrated how the change processes have developed in the co-operative business system. These are, for example, the transfer of knowledge, the pooling of resources, the use of supply chain management in co-operative's business, and value creation.

A future policy agenda for co-operative development is to promote and support an agenda for the use of supply chain management in the co-operative businesses incorporating the Value Network and Fairtrade Platform through the co-operative federation in order to strengthen Thai co-operative businesses.

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Appendix

Table 1: The Impact of Value Network Framework

	Pre-Program	Post Intervention	
	Situation Review	Output	Outcome
1. The Moral Rice Value Network	<ul style="list-style-type: none"> • 110 member farmers • 700 acres of cropping area • Production of 1 million kilograms of rice • Falling price of rice • No sustainable market 	<ul style="list-style-type: none"> • Value network throughout the supply chain of the production process • “Moral Rice” brand • 19 leaning centers 	<ul style="list-style-type: none"> • 25% premium above market price • Farmers adopt the direct marketing strategy under the “Moral Rice” brand • Consumers trust the “Moral Rice” brand • This farmer group has been widely recognized at the national level, receiving the national outstanding award in 2011
2. The Hom Mali Rice Value Network	<ul style="list-style-type: none"> • This primary agriculture co-operative had suffered from low bargaining power in the rice market 	<ul style="list-style-type: none"> • Horizontal integration with a network of 15 agricultural co-operatives • Brand “Koed Bun” for the rice produced by the network 	<ul style="list-style-type: none"> • Significant increase of the group’s bargaining power in the market • Brand “Koed Bun” has successfully gained trust from consumer reviews which is due mainly to the desire to support small farmers. • The co-operators have adjusted their principles in marketing and branding strategy • Create a learning society in the agricultural co-operative which will support business development and ASEAN Economic Community in 2015
3. The Fruit Value Network	<ul style="list-style-type: none"> • Falling price and production • No market space 	<ul style="list-style-type: none"> • Value chain partnership to produce high quality fruits • Learning center for high quality fruits production 	<ul style="list-style-type: none"> • The farmer group obtained trade deals with exporters to China and Japan • Signed contracts with a number of hyper marts in Thailand

	Pre-Program	Post Intervention	
	Situation Review	Output	Outcome
			<ul style="list-style-type: none"> • Open to new wholesale and retail markets across Thailand
4. The Rubber Value Network	<ul style="list-style-type: none"> • Business risk and price fluctuation • Financial loss in rubber co-operatives 	<ul style="list-style-type: none"> • Learning center for co-operatives • Value chain partnership to produce and export rubber • Research and development center 	<ul style="list-style-type: none"> • New business model with risk management • Cost-reduction program
5. The Sampran Value Business Group	<ul style="list-style-type: none"> • Pollution problem in the Sampran area 	<ul style="list-style-type: none"> • The networking of the People Group and Farmer Group under a “Go Organic” vision • Establish a free market for a mutual learning center for producers and consumers • 57 community-based producers have joined 	<ul style="list-style-type: none"> • A free market promotes income generation within the community • Learning society for organic products

