THE STUBAI CO-OPERATIVE:
USING LOCAL ROOTS FOR GLOBAL COMPETITIVENESS

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THE STUBAI CO-OPERATIVE: USING LOCAL ROOTS FOR GLOBAL COMPETITIVENESS

Elisabeth Reiner*

Abstract
The Stubai Co-operative, founded in 1897 by several craftsmen and steel manufacturing companies located in the Tyrolean Stubai Valley, has developed in one of the most successful distributors of small steel products in the high quality segment on a global scale. The proposed case study will discuss the reasons for this remarkable success, given that the comparably small Stubai Co-operative is able to challenge big players in the iron manufacturing industry, mainly from the US and the Far East.

The Co-operative combines long-lasting local industrial traditions with a process of advanced professionalization and internationalization. Stubai’s success significantly depends on its legal status as a co-operative, as it provides the optimal framework for the successful collaboration of its members. Through the consistent uniformity of its presence, Stubai was able to establish itself in the international steel manufacturing sector as a brand combining the well-known quality of its products with its locality, the Stubai Valley. In a remarkable use of marketing synergies, the logo of the brand was offered (in a slightly changed version) to the tourism office of the Stubai Valley, thus linking the tourism marketing with the marketing of the Co-operative.

The historical foundations are another facet of the Co-operative’s grounding in the Stubai Valley. The roots reach back to the 14th Century, when the iron production and the iron manufacturing started in the valley. The founding process of the Co-operative is to be seen as an answer to a severe crisis of the market of iron products at that time –where the Co-operative offered better opportunities for the existing small manufacturers– and political interests of the socio-conservatives, who, successfully, tried to prevent the evolvement of a socialist workers movement in the region. Since then, the number of co-operative members has not been significantly modified. The right of membership exclusively belongs to metal processing companies from the valley. To guarantee the necessary pipeline of a specialised, highly skilled workforce, the co-operative also has enabled the foundation of a College for Mechanical Engineering and Manufacturing Technique in Fulpmes, the main place of business. A key to success is the diversity and quality offered by the member companies, which all are specialized on their own products. So, the marketing of a wide range of products under one brand becomes possible. By solely concentrating on local production, the information channels are short, what enables quick responses to new market demands. Furthermore, the Co-operative offers its mainly small sized members the opportunity to bring their products to the world market.

At present, the Co-operative records a steady growth. Nevertheless, any substantial growth of the Co-operative is strongly limited by its strict focus on local membership. Therefore, its activities on a global scale are limited to being a niche player. Given the size of its main international competitors and the huge potential of simple economics of scale, this will remain a significant challenge to the Co-operative in the long run.

Keywords
co-operatives, Austria, Stubai, co-operation, tradition and innovation

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1. Introduction

The case presented in this paper illustrates the capacity of a co-operative to overcome the typical problems related to the “liabilities of smallness”. As a consequence of the concentration of the co-operatives competences, co-operative internationalization requires a lower amount of internationalization-know-how from the co-operative members.

Small and medium sized enterprises (SMEs) often have difficulties in taking advantages of both economies of scope and economies of scale. The lacking divisibility of production factors leads to the fact that SMEs cannot produce on the minimum efficient scale in all areas of production. Thus, balancing the diverse areas implies optimization problems. For many SMEs, the questions arise whether, and how different parts of their business activities can and shall be sourced out or produced in a co-operative way. This holds true especially with respect to internationalization. On their own, SMEs quite often are not capable of being at the forefront of technological innovation, cannot secure the required quality standards in international markets, cannot take part in international trade fairs and have difficulties in managing relationships with international partners.

Against the background of volatile international market conditions, production-intensive companies in particular have to decide whether to grow further, to limit their activities to the local market, or to enter into co-operative arrangements. These decisions pose significant challenges and risks for SMEs at current. In this context, effective and efficient coordination mechanisms are imperative, especially concerning the co-operative internationalization of SMEs. Therefore, in a situation of increasing globalization it is an imminent necessity especially for SMEs to enter a co-operative relationship.

The Stubai case demonstrates in which ways the legal form “co-operative” is able to assist in managing these risks. It even shows how the problem of smallness can be turned into an advantage. The co-operative not only compensates potential disadvantages, but is also able to bundle the willingness of the individual companies to co-operate. Hence, this co-operative combines the advantages of small entities within a bigger framework.

2. Description of the case

2.1. Context and history

Stubai Werkzeugindustrie Genossenschaft mit beschränkter Haftung, a Co-operative active in the metal processing industry, is an outstanding example of a Co-operative which has managed to hold its own for many years as a relatively small niche player in the global market for metal products. The development of the Stubai Co-operative is closely linked to the history of the Stubai Valley region in the Austrian province of Tyrol. The geographical and the economic situation of the Valley have contributed significantly to the creation of the Co-operative.

The member enterprises of the Stubai Co-operative have produced small high-quality hardware for many years now and sell them under the common Stubai brand. The reliably high quality of the products as well as consistent marketing have helped to establish Stubai as a brand in the global market. Despite having to compete as a comparably small entity against big producers in a very cost intensive segment of
industry, *Stubai* is able to hold its market position even in economically challenging periods.

At the same time, the Co-operative has had a significant impact on the positive economic development of the Stubaital, and in particular the village of Fulpmes. The Stubaital Valley is one of the most important valleys of the Austrian Eastern Alps and is nowadays a highly sought-after tourism destination both in summer and in winter. The Stubaital region consists of the five village municipalities of *Schönberg im Stubaital*, *Mieders*, *Telfes*, *Fulpmes* and *Neustift im Stubaital*. The entire Valley has a population of about 13,000. The Brenner Motorway provides a convenient link to international traffic routes for the Valley. Since as early as 1904, a tram has connected Innsbruck, the capital of Tyrol located nearby, to the Stubaital.

### 2.2. Life cycle

The life cycle of *Stubai Co-operative* is intrinsically linked to the region and the Stubaital Valley. The history of is rooted in hundreds of years of tradition and has been shaped by several historical events. Owing to the geographical situation, the iron ore deposit and many creeks, iron and gold have been mined in the Stubaital Valley since the 14th century. The extracted raw materials were processed in smithies, which used the power of the *Schlickerbach* creek running through the village. The goods so produced were sold by traders within and outside of Tyrol.

This is all the more remarkable as the Stubaital Valley lacked a proper infrastructure for the longest time. There was only one road, which even was occasionally impassable in the winter. Goods were at first transported mainly by carriages, but growth was still relatively strong and sustained: by 1635, Fulpmes already had 17 smithies. In the 18th century, trading companies came into existence which sold the produced goods to places as far away as Russia and England. A major step in the development of the upcoming industry was taken at the beginning of the 19th century. In 1811, Volderauer Trading House was taken over by the dedicated entrepreneur Michael Pfurtscheller, who had fought alongside Andreas Hofer, a famous resistance fighter against Napoleonic troops. Subsequently, the iron industry experienced an economic upswing. Pfurtscheller took advantage of his position in order to promote the regional development in the Stubaital Valley, and especially in Fulpmes. Based on the successful performance of his trading house, he also got involved in other economic and social activities: thus, for example, he had a volunteer fire department set up and organised the construction of a school.

Furthermore, he did something that should have far-reaching consequences for the future development of the region’s iron-processing industry: He founded a research institute for iron processing. This research institute, coupled with the other favourable surrounding conditions, produced effects relatively quickly. In 1825, Fulpmes already had 73 master craftsmen with numerous journeymen each. In the 19th century, however, the small hardware industry in Fulpmes found itself in a threatening situation when the Pfurtscheller Trading House ran into trouble. Many enterprises which supplied the Pfurtscheller Trading House were unhappy about their existing dependence. A big issue was the fact that they were allowed to sell their products to the Trading House only.

Consequently, measures were taken at the end of the 19th century that were intended
to improve the structures sustainably. In 1897 in particular, two innovative key events occurred whose effects can still be felt today: The *Stubai Co-operative* was founded as a combination of various smithies in the Valley, and a vocational school for iron and steel processing was opened. Only a few years later, work was taken up on the Stubaital Railway, which ultimately started operating in the summer of 1904. The route runs from Innsbruck to Fulpmes. The Railway meant a massive improvement for market access of the still young Co-operative, as the goods no longer had to be transported by carriage.

The Co-operative spelled independence for the master craftsmen. It was founded against the resistance of the Pfurtscheller Trading House. The early days of the Co-operative thus proved to be difficult. In particular, the Co-operative faced financing problems as the admission charge and monthly membership charges were not enough to fund proper operations. The dominant local bank, Raiffeisenkasse in Fulpmes, itself a co-operative, had reservations concerning the *Stubai Co-operative* and thus did not extend any credit to it. In the end, Mr Kofler, the president of the Innsbruck Chamber of Trade and Commerce, granted an interest-free loan to the Co-operative.

The master craftsmen soon realised the advantages of the Co-operative: In 1900, a joint factory was set up. Special machines, which would have been too expensive for the individual to buy, could be used by all master craftsmen here. The next major step followed in 1906: A new article in the by-laws laid down that the Co-operative had the exclusive selling rights for all products manufactured by its members. This provision was the first step towards the creation of the *Stubai* brand.

During World War I, the iron industry located in Stubai was involved in armaments programmes. As a result, working for *Stubai Co-operative* saved many inhabitants of Fulpmes from being sent to the front. At the same time, the arms production led to an economic boom, which was, however, limited in time and collapsed following the end of the war.

After the downfall of the arms industry, the inter-war period saw a renewed economic upswing thanks to emerging tourism. This upswing, however, was stopped abruptly by the Great Depression starting in 1929. The crisis posed great challenges to both the *Stubai Co-operative* and the *Stubaital Railway*, which, however, could be overcome with the help of the co-operative structures.

At the same time, these co-operative structures, socially conservative due to their deep roots on thinking in terms of property as was strongly entrenched in the Valley, had a dampening effect on social policy issues. Most workers of the Co-operative were members of Catholic Workers’ Association. Thus, it was not possible for a socialist movement to gain a foothold, and the large factional fights of the last 1920s and early 1930s, which turned violent in other parts of Austria, were not reflected in the Valley.

After 1938, manufacturing was governed by the war. Due to the fact that the production was deemed to be of essential to the war efforts, the existence of the *Stubai Co-operative* was not called into question. Quite on the contrary, it was incorporated in the National-Socialist war industry. Also due to the increasing labour force shortage, prisoners of war and foreign labourers were put to work. *Neustift im Stubaital* was home to an ancillary camp of the Dachau concentration camp. It was not until the 1990s that the National-Socialist period of the Stubaital Valley was documented scientifically by Günter Fals.
After World War II, the Co-operative was granted an ERP (European Recovery Program, Marshall Plan) loan in 1950. Using those funds, the members were able to modernise their factories. In 1960, the Co-operative was renamed Stubai Werkzeugindustrie Gen.m.b.H. and the Railway was modernised. Business developed well in the 1950s as well the first half of the 1960s, even if the lack of labour force was felt throughout the entire period up to the recession which started in 1967.

The last few decades, finally, have mainly been shaped by the change in markets. In addition to the large industrial nations such as China, the US, Germany and Japan, the Asian countries of Singapore, South Korea, Taiwan and Malaysia recorded the largest average annual growth rates in export business from 1990 to 1997. The globalisation of the markets led to new sales potentials on the one hand, but also increased international price and competitive pressures on the other. As a reaction to the change in the markets, the KSHB (Competence Centre Forging Hardening Machining) subsidiary was set up in the legal form of a limited liability company. KSHB serves as a subcontractor to renowned companies such as Audi, pewag or VW all across Europe. The Co-operative and its member enterprises have thus established a stable second leg to stand on.

2.3. Core business model

Stubai Co-operative currently comprises 18 member enterprises, which carry the production and manufacture a range of high-quality iron products (overall, the Co-operative has 27 members, with the 9 remaining ones mostly inactive so called “old members”). The range of products includes the following segments: tools, screwing tools, wood processing, construction, plumbing, carving, forestry tools, cutting tools and mountaineering. All segments are supposed to incorporate “Innovation, Quality and Safety”, the Co-operative’s motto. The products which form the Co-operative’s range are uniformly sold under the brand Stubai. The main business areas of the Co-operative are the sale and the marketing of the products.

Each member specialises in the manufacture of certain products. The so called “right of item” assigns each member enterprise certain products which may then be produced only by this enterprise and for Stubai Co-operative. As a result of long-term specialisation, every member enterprise has the necessary know-how at its disposal. The different specialisations entail the big advantage that Stubai Co-operative is able to offer many products which meet the highest demands on quality. The product range covers 5,000 items. A small company would not be able to manage this by itself.

Each member enterprise is responsible for the further development of its products. This offers the significant advantage of preventing stagnation as each member enterprise is constantly in a situation of competition. As a result, the enterprises are naturally eager to develop new products and at the same time meet the quality requirements of the Co-operative.

The fact that nowadays each member enterprise also has products which it sells under its own name is another important success factor. However, even in this area, care is taken to ensure that several members do not manufacture the same product. This helps prevent undesired competition within the Co-operative. This understanding is also reflected in the by-laws (§6/1 fig. 6). Any co-operation with competing companies could thus, for example, lead to a member’s exclusion from the Co-operative.
Organising the Co-operative’s product range, however, is not up to the individual enterprises but is a core matter of the Co-operative. If a new product is to be included in the range of Stubai Co-operative or a certain component is to be developed for a customer, this product will be put out to tender within the Co-operative. All members can submit an offer as it is not “the cheapest but the best bidder” who will be awarded the tender for several years.

Again, the co-operative structure of Stubai proves to be very helpful: It would be very difficult for a small structure to take part in tender procedures of large companies as they would simply lack the capacity. Submitting an offer as a Co-operative offers far more extensive possibilities, as capacity bottlenecks can be absorbed within the Co-operative. It would be very difficult for the individual member enterprises to handle orders of such size. Several members filling the order jointly makes it possible to handle also large orders.

Only if the demand cannot be met by any of the member enterprises the services of a third company will be employed. In such a case, however, this will be done only as a “one-off transaction with the non-member”, because new memberships are handled very restrictively. If a new enterprise wants to join, the by-laws provide for the possibility of an admission charge, which means that the new member has to “pay” for the achievements of the Co-operative to date, i.e. in particular profiting from the reputation of the Stubai brand and the Co-operative’s production and distribution structures.

There is a high level of familiarity and solidarity among the members, which is promoted mostly by the “framework” of the Co-operative. If, for example, there is a loss of production in an enterprise due to a defective machine, it is usually not a problem at all for another member to step in. The members help each other because it is clear that a common goal is shared. There are also, again and again, co-
operations between the member enterprises. For the most part, they work without complex contracts but are rather based on the trust which has been built up by the community within the Co-operative over many years.

If one member enterprise, for example, suffers a loss of production due to a defective machine, it is possible for another member to quickly step in. This ensures that there is no delay in delivery and that the trust of customers is not harmed. Co-operations are also common for a new product, however: If such a product, for example, consists of several parts, each of these parts will be manufactured by the respective specialised enterprise.

The former division of the Co-operative which used to handle the important and, above all, very expensive tasks of hardening, forging and machining for the members of the Co-operative but also for third-party customers was transferred into a separate GmbH [limited liability company] in 2007, the above-mentioned KSHB. In recent years, the KSHB has been very active in subcontracting and has established itself as a competent development partner for large companies.

Stubai KSHB GmbH also handles the purchasing of raw materials for the member enterprises. Iron mining has long been abandoned in Stubai. As a result, the purchasing of raw materials is an important task for the Co-operative. The major advantage here is, of course, the more favourable conditions as very large quantities of steel are bought.

It is important to place a strong focus on the quality of the steel already in the purchasing process, as this is the only possibility to guarantee the quality of the finished product. Most of the steel is sourced from Austrian companies such as Böhler Uddeholm. The large and very expensive equipment which is required to machine the raw material is also purchased by KSHB. KSHB is 100% owned by Stubai Co-operative. This makes it possible to guarantee that large-scale investments are borne by everybody. In 2010, KSHB had 120 employees, a turnover of € 21.7m and processed 7,576 tonnes of steel.

Table 1 - Development of Stubai KSHB GmbH in figures

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel</td>
<td>100</td>
<td>107</td>
<td>118</td>
<td>126</td>
<td>127</td>
<td>136</td>
<td>114</td>
<td>120</td>
</tr>
<tr>
<td>Turnover (in € m)</td>
<td>10.6</td>
<td>12.1</td>
<td>14.5</td>
<td>16.1</td>
<td>17.7</td>
<td>20.1</td>
<td>14.5</td>
<td>21.7</td>
</tr>
<tr>
<td>Material used (Steel)</td>
<td>2,735 t</td>
<td>3,550 t</td>
<td>4,820 t</td>
<td>5,056 t</td>
<td>5,620 t</td>
<td>5,624 t</td>
<td>4,434 t</td>
<td>7,576 t</td>
</tr>
</tbody>
</table>

Source: KSHB homepage, www.kshb.at

2010 was the most successful year of Stubai KSHB GmbH to date, and thus also of the Stubai Co-operative: The turnover of KSHB was increased significantly compared to last year.

Stubai KSHB GmbH has visibly become an important second pillar for the Co-operative. From the point of view of the members of the Co-operative, the establishment of a GmbH made economic sense. The sub-contracting sector has developed so fast in the last few years that it has grown into a significant source of income for the Co-operative. However, this also means that the entrepreneurial risk has increased. Operating KSHB as a limited liability company makes it possible to
establish a strategic orientation of the sub-contracting field on the one hand and to minimise the risk for the Co-operative on the other. At the same time, control remains with the Co-operative and its members, since *Stubai Co-operative* is the sole owner of KSHB.

The significance which KSBH has for *Stubai Co-operative* became especially obvious in the 2009 economic crisis, which had led to a difficult situation for the entire metal-processing sector. Fortunately for *Stubai Co-operative*, however, its co-operation partners in the field of road construction and mining were not as massively affected by the crisis. Germany invested a lot in road construction to create jobs. There, KSHB is a sub-contractor for a German producer of road-milling machines, which were in such heavy demand that there was actually some risk of capacity shortages. Mining is not a sector that is directly affected by crises, either, as it employs planning horizons of up to ten years. The plunge in the tool and sub-contracting fields amounted to 20% overall.

In the meantime, however, there has been a considerable upswing. 2010 is the strongest year in terms of turnover in the history of the Co-operative. Decentralisation plays a major role in this context. Due to the co-operative structure, it was not necessary to lay down a uniform strategy. The fact that “Stubai has a lot of heads” was used to allow each individual enterprise to develop its own specific strategy to cope with the crisis, which in turn had a positive effect on all members of the Co-operative.

### 2.4. Institutional and governance structure

The number of members has remained virtually unchanged throughout the long history of the Co-operative. One of the reasons for this is the fact that the enterprises are family businesses from Fulpmes. Furthermore, the set-up of new enterprises in the field of small hardware production happens rarely because of the necessary know-how. Even though the by-laws of the Co-operative basically do provide for the accession of new members, the Co-operative handles this very cautiously. Over the many years, a strong feeling of trust has developed on the one hand, and the *Stubai* brand has reached a significant value by now on the other. New members would therefore have to pay a very considerable admission charge in order to contribute to the value created by the Co-operative.

A share in the Co-operative amounts to € 100 (§12/1 of the by-laws). Each member has to subscribe at least one share and “[...] can, beyond this, subscribe an additional share for each € 10,000, or a fraction thereof, of average net turnover [...] with the Co-operative in the preceding three business years.” The number of shares has an impact voting rights. Voting rights in *Stubai Co-operative* deviate from the “one head, one vote” principle. “Each member that has subscribed up to 50 shares has one vote in the general meeting. Members who have subscribed more than 50 shares are entitled to two votes.” Still, the Co-operative is marked by a flat hierarchy. It has a management board and a supervisory board. Important decisions must be taken together with the general meeting. Decisions are made swiftly thanks to mutual interests and the close proximity of the members.

One of the challenges that all member enterprises have to face is to find suitable successors in management who approve the Co-operative model. Leaving the Co-operative is hardly feasible from an economic point of view as the by-laws (§8/1)
preclude members from being compensated for their share in the brand’s value upon exit.

The *Stubai* brand is thus the most valuable possession of the Co-operative. If the brand were to suffer any damage and the *Stubai* name were no longer associated with its characteristics of *Innovation, Quality and Safety* in the market, this would be the biggest threat to the Co-operative also in the perception of the management of the Co-operative. Competitiveness in the international market must thus be achieved via the dimension of product quality.

As a result, *Stubai* products need to be manufactured with the highest quality possible. This is the only way to obtain adequate prices in the market and guarantee a positive distinction from comparable producers. What is special about *Stubai Co-operative* is that each member enterprise is responsible for the produced quality itself. This automatically creates various levels of quality control. The members have to inspect the products they manufacture themselves. *Stubai Co-operative* only carries out spot checks.

All products are sold under the uniform *Stubai* brand. The final customer has no way of knowing which member enterprise specifically manufactured the product. *Stubai Co-operative* itself, however, is able to identify the manufacturer based on lot numbers or "intentional processing traces", which may be of quite some significance if any problems arise. Finally, as mentioned before, successful quality control processes constitute one of the major success factors of the *Stubai* brand, which is also reflected explicitly in the *Stubai* advertising slogan “Decision for Quality”.

If a defect is not detected until the product reaches the customer, this is considered the worst case in quality control. In such a case, the image of the *Stubai* brand – and consequently just as much of all member enterprises of the Co-operative – could be damaged in a way that might have a disastrous impact given the increasingly tough competition in the international hardware market and the fact that *Stubai’s* market position is built primarily on product quality. If there are repeated problems with regard to the produced quality in a member enterprise, it will have to appear before and answer to a committee of the Co-operative.

The ultimate sanction that could be imposed would be the repeal of the “right of item”. With a view to the mutual interests, however, the parties concerned usually own up to the problems and remedy the defect. If a customer should still suffer any damage due to a defective product, the Co-operative takes the necessary legal steps. This is a big advantage for the smaller member enterprises as they would be financially and operationally unable to handle a lawsuit.

Such a situation of some consequence occurred in the 1990s. A pair of trapeze artists used a *Stubai* brand karabiner in the US. In the course of their act, a trapeze artist suffered a fatal accident. The *Stubai* karabiner was blamed for the tragic accident, and a multi-million dollar suit was filed. In this case, it was not the member enterprise which had manufactured the karabiner that had to appear in court, but *Stubai Co-operative* as a whole was named as the defendant. The lawsuit was won as it could be proved that the cause was not a production error but faulty application: The karabiner had not been screwed tight.

Thus, the Co-operative offers its members protection in legal disputes. Should the Co-operative, however, suffer any damage from a defectively manufactured product, it
will take recourse against the member enterprise responsible. This mechanism generates additional awareness of the meaning of guaranteeing high quality and creates a sense of responsibility among the individual member enterprises. Everybody involved knows that mistakes do happen. Therefore, what is considered crucial is how such mistakes are handled.

One important factor to ensure the desired quality is the trust that the members place in the Co-operative and which is in turn placed in them. The members of the Co-operative are very anxious to make sure that “one’s word still counts for something!” If everything needed to be governed by contracts, it is pointed out, the Co-operative would not be able to perform as successfully as it does.

2.5. External relations

Stubai Co-operative plays an important role for the Valley and the village of Fulpmes in particular. Stubai Co-operative and the tourism businesses are important employers in the Valley. The member enterprises of the Co-operative employ about 400 people, while KSHB has 120 employees.

At the “Höhere Technische Bundeslehranstalt” (HTBLA) vocational school located in Fulpmes, students can graduate as specialists in the fields of mechanical engineering and tool making. It has been considered a “talent forge” in the area of metalworking occupations for more than 100 years. The four-year vocational school has specialised in metalworking and tool making with a final school-leaving exam. Since 1999, it has been possible to graduate from the HTBLA as a certified mechanical engineer (Diplom-Ingenieur) after two years of continuing education. Many graduates of the HTBLA, which currently has about 260 students, go on to find employment within the Stubai Co-operative or its member enterprises.

Stubai Co-operative is committed to the HTBLA and, among other things, supports it within a circle of backers, which also counts numerous renowned companies among its members. Promoting young talent helps secure the future of the small hardware industry and thus the future of Stubai Co-operative. In order to reinforce the cooperation between the school and industry, Stubai Co-operative awards internships and technology projects to the HTBLA. The relationship between the HTBLA and Stubai Co-operative is mutually beneficial. The HTBLA is always at the cutting edge of technological practice and has access to labs and machinery. The Co-operative, in turn, can award projects to and establish initial contacts with the graduates. The HTBLA offers a significant contribution to the further development of the small hardware industry in the Stubaital Valley.

In addition to their entrepreneurial activities, some members of the Co-operative also hold political offices in the municipality of Fulpmes. There is and has been a close relationship between the municipality and the Co-operative. In recent years, however, the Co-operative has been trying to disentangle these connections. This is intended to curb expectations of the socio-political responsibility of the Co-operative as is strongly prevalent in the Valley due to the political involvement of specific individuals within the Co-operative. The idea is to create more leeway for entrepreneurial decisions.

Until recently, there was also a co-operation between Stubai Co-operative and the tourism board. For many years, the logo of the Stubai Co-operative was made available to the tourism board in a slightly modified version. The strong connection
between the Co-operative and the Valley was exploited in a skilful manner also in a
visualised form. The logo represents mountaintops and symbolises the characteristics
of Innovation, Quality and Safety.

At the end of 2010, the according agreement came to its end. Due to the new, now
highly centralised structure of the tourism marketing in Tyrol this locally rooted co-
operation was not prolonged to date, to the regret of the Stubai Co-operative which
saw this co-operation as a symbol of its importance for the regional and local
environment. Talks about a renewed linkage of the Co-operative with the local tourism
marketing are currently ongoing.

2.6. Economic data

The overall turnover of the Stubai Co-operative in the year 2010 was €
11,746,326.89. The year is perceived as being remarkably positive since it was
possible to regain most of the cutbacks from 2009, the year of the financial crisis. The
predominant amount of the turnover was generated in wholesale trade (cf. Table 2
below). The major part of the sales consists of construction and plumbing tools (cf.
Figure 1, page 7).

The export in wholesale trade makes up more than the half of the total turnover
(56.3% in 2010 after 55.7% in 2009 and 58.8% in 2008, the year before the financial
crisis). The main export countries are Germany and Sweden. At present, all major
export countries are in Western Europe and North America. The exports to Russia
though, while still a comparably small amount in total numbers, have increased by
72.8% from 2009 to 2010, what indicates that there might be a huge potential in the
export market outside the traditional export regions of the Co-operative.

Table 2 - Economic Turnover (in thousand EUR)

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesale</td>
<td>11,972.8</td>
<td>10,755.0</td>
<td>11,317.9</td>
</tr>
<tr>
<td>Retail</td>
<td>394.0</td>
<td>394.9</td>
<td>428.4</td>
</tr>
<tr>
<td>Stubai Co-op</td>
<td>12,366.8</td>
<td>11,149.9</td>
<td>11,746.3</td>
</tr>
<tr>
<td>KSHB GmbH</td>
<td>20,137.4</td>
<td>14,399.1</td>
<td>21,669.8</td>
</tr>
</tbody>
</table>

The declared profit of the Co-operative in the year 2010 was a comparably small €
309,549.25, with the large part of the earned surplus put into revenue reserves (€
4,800,869.42). Remarkable is the high turnover of the KSHB, which is owned by the
Co-operative – its turnover meanwhile is nearly twice as high as the turnover of the
Co-operative itself. This demonstrates that the production sector has become an
important “second pillar” for the Co-operative and its members.

The capitalisation of the Stubai Co-operative offers high security for times of crisis,
since possible losses can be covered by reserves. The member companies gain their
respective profit from the sale of the products they produce for the Co-operative. The
profit margin depends on the sales and is renegotiated with the Board each year.

2.7. Policy environment

A co-operative is a legal form of business provided for in Austrian law and thus has to
compete with other forms of business. What is regarded as a problem in this context
is the sometimes generous governmental promotion of cluster networks. Johann Hörtnagl, managing director of the *Stubai Co-operative* makes the following critical comment: “We have lived for 100 years what is now considered a cluster”. The Co-operative is not deemed a cluster and can thus not receive any subsidies. The general existence of subsidies is viewed critically, since they always pose some form of distortion of competition. Overwhelmingly, the management of the Co-operative feels that all competitors in the market should face as identical prerequisites as possible.

*Stubai Co-operative* and KSHB belong to the so called small and medium-sized enterprises, whose bargaining power – such as in negotiating electricity rates – is limited compared to that of a large company. Even so, the benefit of the Co-operative becomes apparent again: Without the Co-operative behind them, the chances of individual member enterprises to receive quantity discounts would be even worse.

### 3. Analysis of the case

#### 3.1. Impact analysis

The crucial success factor of *Stubai Co-operative* is the successful association of the co-operative and regional identity of the Co-operative with the brand – brought together in the word “Stubai”.

The Co-operative is present in Fulpmes and surroundings, and its history is well-known and keeps getting narrated. The town’s smithy museum, for example, whose custodian is a member of the supervisory board, offers tourists the opportunity to get an insight into the history of the Co-operative. The Co-operative thus makes its mark on the region in a significant manner.

It would be impossible for the region to imagine life without *Stubai Co-operative* and its member enterprises also because of their role as employers. The establishment of KSHB alone created 100 new jobs. The HTBLA, which is supported by the Co-operative, promotes young technical talent and thus secures the future of the Co-operative.

The “Stubai” model serves as an example to the inhabitants and the employees of the Co-operative. It conveys the idea that loyalty and trust are success factors without which economic survival would be very hard to achieve. The success of the *Stubai* brand thus has a high potential of identification. The Co-operative also uses this identification for its internal governance model, in which trust plays a deliberately big role. This self-image, which is represented in the phrase “where one’s word still counts for something”, has a performative effect on the local setting. Thus, the Co-operative’s mode of internal governance with its particular focus on the value of trust and the local socio-cultural and socio-political setting are mutually reinforcing.

Any socio-political responsibility derived from this process, however, has come to be viewed critically by the Co-operative. As a result, the Co-operative has made the conscious decision to disentangle its connections with politics. This decision is made against the backdrop of the Co-operative’s inability and unwillingness to be a socio-political panacea. The positive effects of the strong contextual entrenchment are thus limited by natural borders.

Therefore, the success of the co-operative business model in a difficult market
environment relies on a clear focus on the core elements – high-quality production and good marketing. The trust-based structural framework offered by the legal form of a co-operative are very helpful given contextual conditions as prevail in the Stubaital Valley. At the same time, however, the co-operative model must not overextend itself politically, but needs to focus on its essential nature as an entrepreneurial vehicle.

3.2. Prospects of evolution

The figures of Stubai Co-operative and KSHB allow an optimistic forecast. It was possible to increase turnover as early as one year after the financial crisis of 2009. All member enterprises were able to handle the economic slump of 2008 thanks to the co-operative structures. While some had to reduce the number of employees, nobody was laid off. Not a single member enterprise had to file for bankruptcy, which is astonishing as especially the small hardware industry was affected massively by the crisis.

KSHB, which is wholly owned by the Co-operative, proved to be a strong partner in the crisis for the member enterprises. During the economic crisis, Germany in particular invested heavily in road construction to strengthen the construction industry and create new jobs. KSHB is a subcontractor for road construction machinery. As a result, the order books were very well filled, which almost led to delivery bottlenecks at KSHB.

The crafts sector – out of which Stubai Co-operative developed – is still important for the brand, but does not account for the largest share in the turnover of Stubai Co-operative. Mountaineering has grown into a significant sales area for Stubai Co-operative. Among other items, karabiners, rock pitons and ice screws are sold under the Stubai brand. For mountaineering in particular, safety is one of the most crucial product features. Stubai’s mountaineering line enjoys a high degree of identification. Tyrol and mountaineering are inseparably intertwined and give the brand a modern touch, as climbing is becoming more and more of a trend.

Moreover, hardware goods are a rather traditional and “conservative” product group. For mountaineering in particular, but also for most other Stubai product lines, consumers tend to buy “tried and tested” products; this makes the brand accordingly powerful.

The SWOT analysis of the Stubai Co-operative (cf. Figure 2, page 15) shows that some of the weaknesses of the business model at the same time are also strengths. The Stubai Co-operative is firmly anchored in the local context. The entire production is happening in the Stubai Valley. This offers the advantage of the experience of the member companies, which can be drawn on.

At the same time, however, production costs in Austria are significantly higher than at the locations of most of the main competitors of the Co-operative, which in their majority are located in low-wage countries. The production site in Austria, combined with the brand “Stubai”, is currently perceived as a symbol for the high quality of the products. Once producers in emerging markets such as China reach the same quality in manufacturing and prove the reliability of their products also in the long run, such perception can change. Then, the high production costs potentially could become a disadvantage – as well as in cases of sudden significant increases in the prices of raw
To remain an interesting brand for the customers, it is essential for the *Stubai Co-operative* to take advantage of product and production innovations even in the relatively conservative and sedate market of small iron industry. In order to do so, the co-operative structure with the high autonomy of the member companies offers special opportunities, since such structure avoids at times cumbersome processes of centralized planning and production.

**Figure 2 - SWOT-Analysis of the Stubai Co-operative**

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>High profile of brand, long history</td>
<td>Weaknesses of location: High procurement costs</td>
</tr>
<tr>
<td>High degree of members’ autonomy</td>
<td>Dependency on major clients</td>
</tr>
<tr>
<td>Mutual trust among members</td>
<td>Lack of qualified workforce</td>
</tr>
<tr>
<td>Strong local roots</td>
<td>Dependency on raw materials (prices, availability, quality)</td>
</tr>
<tr>
<td>Relative market shares changing in times of crisis</td>
<td>Sustainable crisis in metal industry</td>
</tr>
<tr>
<td>High profile training facilities for workforce (HTBLA, University of Innsbruck)</td>
<td>Large-scale competition from low wage countries (e.g. China)</td>
</tr>
<tr>
<td>Linkage co-operative, brand and region</td>
<td>Successor-problem in family owned member companies</td>
</tr>
<tr>
<td>Product innovation in industry is linked to high-profile brands</td>
<td>Metal industry not favourable to innovation, favouring low-cost production</td>
</tr>
</tbody>
</table>

Another option might be a co-operation of the *Stubai Co-operative* with the University of Innsbruck, which is located close-by, or the set-up of a particular internal R&D-section within the Co-operative. The HTBLA and the University of Innsbruck could act as partners in that regard. Such steps would address the imminent danger of the lack of a highly skilled and specialized workforce.

Above all, the *Stubai Co-operative*, and the co-operative structures in particular need to remain interesting for the subsequent generation of owners and executives of the member companies, most of them family-owned businesses. There is no *Stubai Co-operative* without their member companies. At the same time, many of the small members would have to face severe economic difficulties without the Co-operative and the KSHB. This interdependency could potentially lead to frictions. On the other hand though it is one of the most important success factors for the Co-operative and acts as the foundation of its identity: “together we are stronger”. Between the *Stubai Co-operative* and its member companies there is a well-established and long-standing mutual trust, which is a clear advantage over the competitors.
Stubai has established itself in the market successfully, but it needs to react to new developments. The social rooting of the Co-operative and its specific, strongly trust-based internal structure, are apt to give it a competitive advantage also in the medium term, without which any sustained existence in the market would likely not be possible.

References