Strategy, Structure, 
and Financial Performance: 

A Case Study of 

Farmlands Trading Society 

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Abstract

Structural contingency theory states an organisation's structure should be aligned with its strategy in order to maximise performance (Dent, 1990). Prior research has focused narrowly on this premise (Fisher, 1995). The existing research has concentrated on only one aspect of business strategy; either typology, position, or mission (Langfield-Smith, 1997). Also, structure has been investigated only in terms of management control systems, such as budgeting, and performance evaluation (Langfield-Smith, 1997). To overcome these limitations case study research should describe the wider organisational context of strategy, structure, and performance (Fisher, 1995; Otley and Pollanen, 2000). Therefore, this thesis describes Farmlands Trading Society's entire strategy, structure, and financial performance.

It was found that Farmlands' corporate strategy is customer and profitability driven. Its business strategy is derived from these aspects. Typology, position, and mission have been tailored towards each of Farmlands' four customer groups. Operational strategy delivers the corporate and business goals. Farmlands matches its strategy to customer objectives and behaviour. To achieve a match, its structure is used to determine the appropriate strategy, monitor the strategy, and respond to change in customers. Controls in Farmlands are tight, and employees participate in determining goals and budgets. Leadership from the Chief Executive ensures managers and employees communicate with each other so that customer objectives are meet. Linking customers, strategy, and structure in the manner described has been successful, as financial performance has improved significantly over time.
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Chapter One: Introduction

1. INTRODUCTION

"[S]uccessful companies must ensure that their administrative and control systems are designed to take account of their strategy" (Bruggeman and Van der Stede, 1993, p.206)

"In its simplest form, structural contingency theory suggests that organizations’ structures are contingent upon contextual factors" (Dent, 1990, p.9). Prior research has found organisations that achieve alignment between strategy and structure have superior performance relative to other organisations that do not achieve alignment (Langfield-Smith, 1997). There are three levels of strategy: corporate, business, and operational. Previous contingency studies have focused on comparisons of business-level strategy, structure, and performance (Bruggeman and Van der Stede, 1993).

A criticism of contingency-based research is that it has centred on too few factors, rather than studying the impact of multiple strategies and structures on performance (Fisher, 1995). Otley (1980; 1999) argues that management accounting research should examine the overall organisational context. The case study method has been advocated as an effective method for researching the wider organisation (Otley and Berry, 1994). Consequently this thesis investigates Farmlands Trading Society (Farmlands), using a wider organisational context approach, by describing Farmlands’ entire strategy, structure, and financial performance. Also, linkages between these factors are discussed.

Chapter 2 outlines the contingency model and criticisms of previous studies. Contingency essentially means one factor is dependent on another (Fisher, 1995). Contingency-based
research has studied relationships within organisations, as well as the impact of the environment on organisations (Langfield-Smith, 1997). Previous studies have been criticised for using different classifications of strategy and structure, oversimplified methods, and too narrowly focused research designs (Fisher, 1995; Langfield-Smith, 1997; Otley, 1999).

Chapter 3 defines strategy in terms of the predominant taxonomies in the literature. Corporate strategy is concerned with the owner’s objectives, the intent of the organisation, and patterns in resource allocation (Howe, 1986). Business strategy is defined in terms of three taxonomies: typology (Miles and Snow, 1978), position (Porter, 1980), and mission (Gupta and Govindarajan, 1984). Operational strategy is defined as “how the component parts of the organisation... effectively deliver the corporate- and business-level strateg[ies]” (Johnson and Scholes, 1999, p.13). Essentially, strategy that is achieved or realised, is an output of an organisation’s structure, in the form of patterns in its decisions and actions (Mintzberg, 1978).

Chapter 4 defines structure. At each level in an organisation’s structure is the relationship between planning, control, and activities (Anthony, 1965). Management plans desired outcomes and controls activities to ensure these outcomes are achieved (Anthony and Govindarajan, 2001). Strategic planning and budgeting are central in this process (Anthony, 1965), as well as management control systems (Anthony and Govindarajan, 2001). Controls include: monitoring processes, cost management, performance evaluation, and many others (Langfield-Smith, 1997). “Structure establishes roles and responsibilities that guide people’s actions” (Fisher, 1995, p.25). An organisation’s performance results from the actions carried out in its structure (Murray, 1988).
Chapter 5 reviews how an organisation’s performance can be evaluated. A financial analysis of the annual financial reports is the most common method of determining performance (Zeller and Stanko, 1994). A variety of measures of performance, derived from the annual reports, are defined. Whatever the measure it should be tracked over time to determine the exact nature of performance (Westwood, 1997).

Chapter 6 outlines the research method used. The research objectives, which are descriptive and explanatory, are identified. Describing and explaining is appropriate for the case study method (Ryan et al, 1992). Interviews were carried out with management and personnel in Farmlands. Interview questions were based on the literature review. Farmlands’ background and history are described. Limitations of this method are also identified.

Chapter 7 describes Farmlands’ strategy, which is customer and profitability driven. Chapter 8 describes Farmlands’ structure, which includes an integrated strategic planning and zero-based budgeting process. Leadership, interactive meetings, and team-based coordination are the major features of Farmlands’ control system. Chapter 9 describes Farmlands’ performance, through a financial analysis of its annual reports from 1993 to 2001.

Conclusions are given in chapter 10. Firstly, Farmlands’ strategy, structure, and financial performance are summarised. Secondly, linkages between Farmlands’ strategy, structure, and financial performance are discussed. Thirdly, avenues for future contingency-based research are put forward.
2. LITERATURE REVIEW – CONTINGENCY THEORY

"The applicability of control mechanisms is contingent on the circumstances faced by the organisation" – Fisher (1995, p.24)

2.1 Introduction

This chapter describes contingency theory. "The central premise of contingency theory is that there is no universally appropriate control system [or structure] that applies in all circumstances" Fisher (1995, p.24). Prior research has concentrated on determining the appropriate structure for specific sets of circumstances (Langfield-Smith, 1997). Contingency-based research is important as it can assist in the design and re-design of organisations as the environment changes (Otley, 1980; Miller, 1981).

The next section presents the contingency model. This section also discusses the importance of alignment between strategy and structure, particularly at the business-level (Govindarajan, 1988; Langfield-Smith, 1997). Criticisms of prior contingency studies are identified in the third section, which includes fragmented and inconsistent findings, oversimplified research methods, and narrowly focused research designs (Fisher, 1995, Langfield-Smith, 1997). To overcome some of these limitations, case study research that focuses on the overall organisational context is recommended. (Otley, 1999; Otley and Berry, 1994).
2.2 The Contingency Approach

The contingency approach implies that one factor influences another. A factor is any element of the environment. Thus, the environment influences organisations. Also, various elements within an organisation impact on one another. Figure 2.1 depicts contingency relationships:

![Diagram of contingency theory](image)

**Figure 2.1: Contingency Theory**

(Adapted from Anderson and Lanen, 1999; Otley, 1980; Simons, 1995)

The environment includes other entities such as owners, customers, suppliers, and competitors, as well as communities, governments, and the labour market (Anderson and Lanen, 1999; Anthony and Govindarajan, 2001). Also, the environment includes factors such as competition levels, market stability, national culture, technology, and many others (Fisher,
1995; Otley, 1980). These entities and factors influence the organisation, depicted by strategy, structure, and performance¹.

An organisation formulates intended strategy through its planning process. Activities put these plans into action. Control systems are used to monitor and evaluate the success of the activities. Management receives information on the performance of the organisation. Upon evaluating the performance of the organisation, management re-formulates its plans to account for changes in the organisation and the environment. Thus, structure is a cycle of planning (decisions), control and activities (actions), and re-planning. (Mintzberg, 1978; Anthony and Govindarajan, 2001).

Strategy and performance are outputs of the structure. Strategy is a set of patterns in the decisions and actions that have occurred (Mintzberg, 1987). Performance is a set of results that occurred because of the patterns in the strategy (Fisher, 1995). Therefore, strategy identifies patterns in the means or behaviour of the structure, and performance identifies patterns in the ends or outcomes of the structure.

“It has been suggested that the [structure] should be tailored explicitly to support the strategy of the [organisation] to lead to competitive advantage and superior performance” (Langfield-Smith, 1997, p.207). Thus, an important component of structural contingency theory is to identify an organisation’s strategy, structure, and performance, in order to determine whether

¹ Contingency-based research on the environment is not reviewed, as this thesis focuses on strategy, structure, and performance only.
or not decisions and actions in the structure are leading to the desired patterns in strategy and performance. Prior research has studied these relationships².

2.3 Criticisms of Contingency-based Research

Previous contingency-based studies have focused on a single element of strategy, structure, and performance. Fisher (1995, p.45) states “[m]uch of the empirical work on contingency theory has examined one contingent variable and one control system attribute”. Furthermore, Langfield-Smith (1997, p.210) highlights “[m]uch of the research that studies the relationship between MCS [management control systems] and strategy focuses on business strategy”.

Prior research has focused on only one dimension of business strategy, either typology, position, or mission. Langfield-Smith (1997) advocates that future research should simultaneously examine these three dimensions of business strategy. However, a limited number of studies have examined two dimensions of business strategy. For example, empirical research by Gupta (1987) studied position and mission. Also, case study research by Simons (1990) investigated typology and position.

Langfield-Smith (1997) classifies the strategy of SBU’s. She acknowledges that each of the taxonomies classify business strategy differently, but identifies common elements among them. However, prior theory and research has only examined two business strategy taxonomies at one time. Simons’ (1990) case study described two organisations: company A

² Prior research has focused on individual aspects of strategy and structure, particularly at the business-level (Langfield-Smith, 1997). This research studies the wider context of an organisation. The corporate, business, and operational levels have previously not been simultaneously studied. Since prior contingency-based research has used different methods, a review of this literature is outside the scope of this thesis. For a review see Otley (1980), Dent (1990), Fisher (1995), and Langfield-Smith (1997).
was a defender and cost leader, and company B was a prospector and differentiator. Gupta’s (1987) empirical study found similarities between cost leadership and harvest, and differentiation and build. As, prior research is limited; Langfield-Smith (1997) suggests future research should examine all three taxonomies simultaneously.

Business strategy research has also focused on a limited number of management control systems, particularly budgeting, and performance evaluation (Langfield-Smith, 1997). Corporate strategy research has too focused on a limited range of structural elements. Also, operational strategy is ill-defined in the literature and studies have focused solely on manufacturing firms. This narrow focus on structure has meant no complete framework has been developed. Langfield-Smith (1997, p.228) advocates, “[f]uture research… could aim to develop consistent classifications for controls.” Many other contingent factors are also not defined consistently, as well as being unexplored or unknown. Fisher (1995, p.45) suggests, “[f]uture research should also identify contingent factors that have not been examined in the control literature”.

Prior empirical studies have been simplistic in their research design. Fisher (1995) suggests that empirical research should focus on multiple strategies and elements of structure. Otley (1999, p.381) contends that “management accounting … need[s] to be evaluated not just from an economic perspective, but from a social, behavioural and managerial perspective, within an overall organizational context”. Examining the wider context of an organisation would allow interactions between the corporate, business, and operational levels to be documented.

Fisher (1995) advocates empirical studies that investigate multiple strategies and structures, and performance should use a time-series approach to determine causality. Also, Otley and
Berry (1994) advocate a longitudinal approach for case studies in contingency-based research.

2.4 Summary

Contingency theory implies strategy and performance are influenced by structure. It has been suggested that matching the appropriate strategy and structure will improve performance. Prior research has investigated this proposition, however, the focus of research has been on business strategy. Also, most research focuses on a limited range of factors.

It has been suggested contingency-based case studies that examine organisations in their wider context, by describing interconnections in organisations can help elevate these limitations (Langfield-Smith, 1997; Otley, 1980; Otley and Berry, 1994; Otley and Pollanen, 2000). Therefore, the next three chapters describe strategy, structure, and performance, in terms of their wider organisational context.

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3 This research uses the case study method, as described in Chapter 6. However, a limitation of this case study is that it is not longitudinal, this is further explained in Chapter 6.
Chapter Three: Literature Review – Strategy

3. LITERATURE REVIEW – STRATEGY

“A pattern in a stream of decisions” – Mintzberg (1978, p.935)

3.1 Introduction

Dent (1990, p.4) argued that: “Strategy is an elusive concept”, as “the term strategy has been defined in a variety of ways” (Mintzberg, 1978, p.935). Originally the term strategy came from ancient Greek and it was used “to describe the art of the army general” (Mintzberg, 1987, p.69). In the context of a business, Chandler’s (1962, p.13) defines strategy as:

“...the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals.”

Mintzberg (1978) highlights that this definition is limited, as it is applicable for strategy formulation and not strategy formation. He states that strategy formulation can be only intended strategy, whereas formation strategy can be intended, emergent or realised. Intended strategy “is a plan... [that is] a deliberate conscious set of guidelines that determines decisions into the future” (p.935). Emergent strategies are “[r]ealized strategies that were never intended” (p.945). Realised strategy is “a pattern in a stream of decisions, [or] a sequence of decisions in some area [that] exhibits a consistency over time” (p.935). Realising strategy involves recognising that intentions cannot be fixed; they must change as the environment and the organisation evolves. Therefore, an organisation must adjust its plans, in order to match strategy to the circumstances⁴.

⁴ This is the process of strategic planning, which is described in Chapter 4.
There are different levels of strategy within an organisation: corporate, business, and operational (Langfield-Smith, 1997). Corporate strategy includes the objectives of the owners, the strategic intent, patterns in resource allocation, and strategic business unit selection (Johnson and Scholes, 1999). Business strategy is concerned with how the corporate strategy is reflected in the individual products/services or market categories of the organisation (Johnson and Scholes, 1999). Business strategy can be described in terms of three taxonomies: typology, position, and mission (Langfield-Smith, 1997). Operational strategy focuses on how corporate and business strategy is mirrored in the organisation “in terms of resources, processes, people, and their skills” (Johnson and Scholes, p.13).

3.2 Corporate Strategy

Johnson and Scholes (1999, p.11) state:

“[c]orporate strategy is concerned with the overall purpose and scope of the organisation to meet the expectations of owners or major stakeholders and add value to the different parts (often individual businesses) of the enterprise.”

Corporate strategy can be divided into four areas: owner’s objective, organisational strategic intent, patterns in resource allocation, and strategic business unit selection.

3.2.1 Owner’s Objectives

Johnson and Scholes (1999, p.260) state:

“Executives may face issues concerned with change in ownership which have a fundamental effect on the strategies to be followed. They may also have to consider if the current ownership structure is appropriate to the strategic need of the organisation.”

\(^{3}\) In this chapter only, to reduce repetition products/services will be referred to as products.
Owners are the principals and executives are the agents. As agents, it is executives’ responsibility to act in the best interests of the principal (Jensen and Meckling, 1976). Executives should consider the objectives of the owners and how this affects the organisation’s strategy.

3.2.2 Strategic Intent

The strategic intent of an organisation refines the owner’s objective by specifying the purpose of the organisation (Johnson and Scholes, 1999). For example, a manufacturer may wish to be considered a market leader in the production of its products, or a restaurant may wish to be the best eatery in town. This statement is still broad, but it does indicate what the organisation does, that is its general markets or products (Johnson and Scholes, 1999).

3.2.3 Patterns in Resource Allocation

An organisation will aim to allocate resources to business activities, which operate in the markets or products derived from its strategic intent (Johnson and Scholes, 1999). Patterns in resource allocation can be separated into four categories: geographical expansion, diversification (related and unrelated), mergers and acquisitions (related (vertical integration and horizontal integration) and unrelated), and divestment:

- Diversification refers to the expansion of an organisation’s product range. This may be done through related or unrelated products. Business units may be directed towards increasing their product range.
• Geographical expansion is "the strategy of expansion within existing markets" (Howe, 1986, p.56). Expansion refers to business units\(^6\) being directed to expand operations, for example allocating more disposable funds to the business unit.

• Mergers and Acquisitions is expansion through other organisations. Two organisations may merge, thus increasing combined market share. Also, expansion may occur through acquiring business units from other organisations. The organisations involved may be unrelated, in terms of markets and products. However, if they are related, then the merger or acquisition may be termed vertical or horizontal integration. Vertical integration refers to a merger with, or acquisition of, suppliers or customers (who are not the end-user), thus the organisation moves closer to the end-user. Horizontal integration refers to the merger with, or acquisition of, competitors.

• Divestment refers to the corporate strategy of ending a business unit's operations. The business unit may be sold or liquidated.

(Howe, 1986; Johnson and Scholes, 1999)

3.2.4 Selecting Strategic Business Units

Strategic intent and patterns in resource allocation affect the number and nature of an organisation's strategic business units. Johnson and Scholes (1999, p.12) define a strategic business unit (SBU) as "part of the organisation for which there is a distinct external market for goods or services (i.e. distinct from another SBU)." Corporate management selects the markets it wishes to operate in. Johnson and Scholes (1999, p.12) highlight "A SBU is a unit of an organisation for strategy-making purposes. It may or may not be a separate structural part of the organisation". The next section defines the strategy of an SBU, in terms of typology, position, and mission.

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\(^6\) Business units are different from strategic business units. A business unit may be a division or a function. Refer to chapter 4 for further clarification of business units.

\(^7\) SBUs are present across an organisation's structural type. A centralised type has functions at the business level, which handle a part of each SBU. Conversely, a decentralised type has divisions at the business level, which handle one or more SBUs. Chapter 4 discusses type in more detail.
3.3 Business Strategy

Business strategy is at the second level in an organisation. Business strategies are patterns or plans that are identifiable in strategic business units. Simons (1990, p.129) states:

“Business strategy refers to how a company competes in a given business and positions itself among its competitors... [that is] [p]atterns in strategic actions... [are] identified at... the business level.”

Prior research has classified business strategy using different taxonomies, three of which have become dominant in the literature: Typology (Miles and Snow, 1978), Position (Porter, 1980), and Mission (Gupta and Govindarajan, 1984).

3.3.1 Typology

Miles and Snow (1978) classified typology as an SBU’s response to its environment in terms of: product change (Miles and Snow, 1978) or product innovation (Miller and Freisen, 1982), and market stability (Miles and Snow, 1978), as illustrated in figure 3.1:

<table>
<thead>
<tr>
<th>Market Stability</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Defender</td>
<td>Analyser</td>
</tr>
<tr>
<td>High</td>
<td>Reactor</td>
<td>Prospector</td>
</tr>
</tbody>
</table>

![Product Change or Innovation](image)

Figure 3.1: Business Typology

(Adapted from Langfield-Smith, 1997; Miles and Snow, 1978; Miller and Freisen, 1982)
As figure 3.1 shows, typology is divided into four business strategies:

- Defenders operate in a stable market and focus on a core product range, thus innovation is rarely needed. Success for defenders comes from directing attention towards improving efficiency in current activities.

- Analysers operate in a stable market and focus on a core product range, however, attention is placed on monitoring change or innovation in the market and responding to new opportunities. Success for analysers comes from a balance between improving efficiency in core activities and searching for profitable opportunities.

- Prospectors operate in an unstable market, often created through their own innovative practices. Their product range is constantly changing. Success for prospectors comes from continually searching for new opportunities, thus creating uncertainty in the market.

- Reactors operate in an unstable market, but do not respond effectively to opportunities. This strategy is the only unsuccessful strategy in the typology. However, reactors may be successful in markets which are heavily regulated by governments, thus they are forced to respond to the market’s requirements.

(Miles and Snow, 1978)

Classifying an organisation into one of the four categories requires examination of the SBUs market conditions and its approach to those conditions. However, the typology does not consider a SBU’s position, which is how products are placed in a particular market.

### 3.3.2 Position

Porter (1980, p.34) defines a SBU’s position or competitive strategy as: “taking offensive or defensive actions to create a defendable position in an industry.” Porter (1985) divides position into 2 dimensions: competitive advantage and target market (or competitive scope). Competitive advantage is concerned with placing a product in the market, which is valued by consumers over competitors’ products (Porter, 1980, 1985). The target market refers to the range of consumers that value the product (Porter, 1980, 1985). The possible positions are shown below in figure 3.2:
There are three sources of competitive advantage. Firstly, cost leadership is “[l]ow cost relative to competitors... [a]lthough quality, service, and other areas cannot be ignored” (Porter, 1980, p.35). Secondly, differentiation is defined as uniqueness in products offered to the market compared to competitors products (Porter, 1980). Uniqueness can be created through brand image, product customising, features, quality, service, and other areas (Porter, 1980, 1985).

Thirdly, breadth is defined as cost leadership and differentiation. Although, Porter (1980, 1985) argues that this position is not competitive, as an SBU would loose direction by following two strategies that have different objectives. However, “research (Dess and Davis, 1984; Hambrick, 1983; Miller and Friesen, 1986) has established that Porter’s generic strategies are not mutually exclusive – a firm can pursue several simultaneously” (Miller, 1988, p.283).

The target market refers to whom the competitive advantage is aimed at. A broad approach means that the whole market is targeted. A narrow approach means that a segment of the
market is targeted (Porter, 1980). However, Murray (1988) points out that whether a target market is broad or narrow is relative to the market it is classified in. For example, a chain of corner dairies operates in a narrow market compared to all supermarkets, but it also operates in a broad market compared to all corner dairies (convenience stores).

As figure 3.2 illustrated, these two dimensions can be combined to generate six business strategy positions. Unfortunately, Porter (1980, 1985) only described three strategic positions: cost leadership, focus, and differentiation. Murray (1988) notes that this has led to much confusion for researchers using Porter’s positions. Studies have tended to ignore target market and combination positions. It is sufficient to describe position in terms of cost leadership, breadth, and differentiation. Therefore, research must also identify when the position is broad or narrow. However, a SBU’s strategic position does not consider its mission, that is, its market share and the long-term growth opportunities in the market.

3.3.3 Mission
Mission is concerned with increasing the net present value of an SBU, by determining the relative market share of an SBU and potential growth in the market (Anthony and Govindarajan, 2001). If potential growth for the SBU is high, then long-term earnings (or cash flow) would be attractive. However, if potential growth is low, then long-term earnings would be unattractive, and the focus would shift to maximising short-term earnings. Market share determines an SBU’s approach given short-term and long-term prospects. Thus there are four business strategies, as illustrated below in figure 3.3:
Each of the four missions is defined below:

- Build refers to an SBU with low market share that is actively trying to increase its market share, because potential business growth (or future earnings/cash flows) is more attractive than current earnings/cash flow.

- Hold refers to an SBU with high market share and high potential business growth. A balance is necessary in a hold strategy, as the SBU will maintain current market share, even at the expense of short-term earnings/cash flow.

- Harvest refers to an SBU with high current market share, but low potential business growth. Thus, the SBU focuses on short-term earnings/cash flow, even at the expense of market share, as future earnings/cash flow are less attractive.

- Divest is a unique business strategy, as it refers to ending a SBUs operations. Low market share and potential business growth means that both current and future states are unattractive. Thus, the SBU actively aims to exit the product-market while maximising earnings/cash flow.

(Anthony and Govindarajan, 2001; Gupta and Govindarajan, 1984; Langfield-Smith, 1997)

Classifying a SBU into a specific mission allows the comparison between the different objectives, particularly in relation to its approach towards the short-term and long-term. Overall, business strategy is a general plan, which can only be successful when each operations under a SBU has a similar plan.
3.4 Operational Strategy

Operational strategy is the third level in strategy, as Johnson and Scholes (1999, p.13) state:

"[o]perational strategies are concerned with how the component parts of the organisation in terms of resources, processes, people and their skills effectively deliver the corporate- and business-level strategic direction."

Operational strategies are found in an organisation's operations. Each operation derives its operational strategy from an SBU's business strategy. For example, Stanton et al. (1994, p.628) suggest that "Marketing goals should be closely related to company-wide goals and strategies." However, specific operational strategies have been scantly researched (Langfield-Smith, 1997). An exception is manufacturing (operational) strategies, which have received increasing attention, for example quality strategies (Daniel and Reitsperger, 1991, 1992).

"Operational strategies address how the various [operations] of the organization contribute to the particular business strategy and competitiveness of the organization" (Langfield-Smith, 1997, p.209). In contrast too corporate and business level strategy, there is no framework that lists operational strategy possibilities. Also, prior research has not established which operational strategies are associated with particular business strategies.

3.5 Summary

Throughout each level in an organisation there are patterns or plans in decisions and actions. Corporate strategy represents a general statement about an organisation's objectives and where resources are allocated. Business strategy represents a more detailed pattern or plan concerned with an organisation's SBUs. The strategies are divided into three taxonomies: typology, position, and mission. These business strategies then influence an organisation's
operations. There is also a linkage between strategy and structure. The next chapter describes structure, which includes the process of achieving strategy: strategic planning and control.
4. LITERATURE REVIEW – STRUCTURE

"Every firm is a collection of activities that are performed to design, produce, market, deliver, and support its product [or service]" (Porter, 1985, p.36)

4.1 Introduction

Patterns in decisions and actions are identified as strategy, whereas, structure provides support to make decisions and actions (Anthony, 1965; Mintzberg, 1978). The purpose of an organisation’s structure is to formulate, implement, and control strategy, through people’s actions, so that the desired performance is achieved (Anthony and Govindarajan, 2001).

This chapter describes a framework for identifying and classifying an organisation’s structure. A broad perspective of management accounting information systems (MAIS) is used to describe the planning and control aspects of the framework. MAIS have different characteristics for example they can be formal or informal. MAIS reviewed in this chapter include: type, strategic planning, budget formulation, management performance evaluation and remuneration, responsibility centres and retail decision-making.

4.2 Structure Framework

Fisher (1995, p.25) explains the purpose of an organisation’s structure:

“Structure establishes roles and responsibilities that guide peoples’ actions. Through reporting relationships and job descriptions, structure influences the actions a person is permitted or expected to take.”

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* Retail decision-making is reviewed because Farmlands is a retail organisation.
There are three parts to an organisation’s structure:

- Planning is the process of forming intended strategies (Anthony, 1965; Mintzberg, 1978).
- Control is the process of “creat[ing] conditions that motivate the organization to achieve desirable or predetermined outcomes [or intended strategies]” (Fisher, 1995, p.25).
- Activities are “[the] basic unit[s] of work performed within an organisation” (Hansen and Mowen, 2000, p.820).

Plans determine what activities are to be performed. Controls monitor the activities to ensure they are preformed according to the plan. Controls and activities feed information back to the planning function, so that the plans can be altered as the circumstances change. The environment is the primary cause of changing circumstances. Different factors in the environment influence each element within an organisation’s structure. These relationships are depicted in figure 4.1.

![Figure 4.1: Structure Framework](image_url)

(Adapted from Anthony, 1965; Anthony and Govindarajan, 2001; Simons, 1995)

However, this framework is oversimplified. Unlike corporate and business strategy, no complete framework of structure has emerged from prior research. Organisations are
complex and many factors can influence their structure, for example organisational structure, perhaps this has caused frameworks to remain simplified.

Organisational size is significant when describing structure:

"Systems exist, at least in rudimentary form, in all organizations, whatever their size. Nevertheless, it is quite likely that the planning and control systems of small organizations—especially those so small that the management consists of one person rather than a group—are so different from those of larger organizations that many generalizations are not applicable to small ones, at least without considerable modification" (Anthony, 1965, p.9)

The framework shown in figure 4.1 is applicable to smaller rather than larger organisations. If an organisation increases in size the framework will increase in complexity, as more people are involved in planning, control, and activities.

4.3 Management Accounting Information Systems

This chapter focuses on planning and control, which can be broadly termed management accounting information systems9. These are defined as "[a]n information system that produces outputs using inputs and processes needed to satisfy specific management objectives" (Hansen and Mowen, 2000, p.825).

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9 The management accounting information systems reviewed include only those that present Farmlands’ structure. For a complete review of MAIS, refer to Anthony and Govindarajan (2001) and Hansen and Mowen (2000).
### 4.3.1 Characteristics of Management Accounting Information Systems

MAIS have different characteristics, which are summarised in table 4.1:

<table>
<thead>
<tr>
<th>MAIS Examples</th>
<th>Characteristics</th>
<th>Definition, Meaning, or Use</th>
</tr>
</thead>
<tbody>
<tr>
<td>- All MAIS</td>
<td>Formal or Informal</td>
<td>Formality implies rules, procedures, or standards. Informal is the opposite, for example cultural controls. (Langfield-Smith, 1997)</td>
</tr>
<tr>
<td>- Communication style</td>
<td>Top-down or Bottom-up</td>
<td>Top-down implies dictatorial decision-making. In contrast, bottom-up implies consultation with subordinates in decision-making. (Anthony and Govindarajan, 2001)</td>
</tr>
<tr>
<td>- Planning and budgeting</td>
<td>Participation or Non-participation</td>
<td>Participation relates to the level of subordinate involvement in decision-making (Bruggeman and Van der Stede, 1993)</td>
</tr>
<tr>
<td>- Nature of control system</td>
<td>Feedforward or Feedback</td>
<td>Feedforward controls predict future states. Feedback controls report on prior events. (Langfield-Smith, 1997)</td>
</tr>
<tr>
<td>- Type of control system</td>
<td>Diagnostic or Interactive</td>
<td>Diagnostic control is “used to motivate, monitor, and reward achievement of specific goals”. Interactive control is “used to stimulate organizational learning and the emergence of new ideas”. (Simons, 1995, p.10)</td>
</tr>
<tr>
<td>- Nature of control system</td>
<td>Tight or Loose</td>
<td>Tight control refers to no tolerance of objectives not being achieved. Loose is the opposite. (Fisher, 1995)</td>
</tr>
<tr>
<td>- Budget control</td>
<td>Outcome or Behaviour</td>
<td>Outcome control focuses on the ends. Behaviour control focuses on the means. (Ouchi, 1977, 1979)</td>
</tr>
<tr>
<td>- Performance measurement and evaluation</td>
<td>Objective or Subjective</td>
<td>Objective measurement is “formula-based”. “Subjective [measurement] is based on the… judgement of the evaluator” (Fisher, 1995, p.28)</td>
</tr>
<tr>
<td>- Performance measurement and evaluation</td>
<td>Financial or Non-financial</td>
<td>Financial evaluation focuses on monetary measures. Non-financial evaluation focuses on non-monetary measures, such as “product quality, market share, or employee moral”. (Anthony and Govindarajan, 2001, p.8)</td>
</tr>
<tr>
<td>- Focus of control</td>
<td>Short-term or Long-term</td>
<td>The short-term focuses on current events. The long-term focuses on future states. (Govindarajan and Gupta 1985)</td>
</tr>
<tr>
<td>- Performance measurement</td>
<td>Individual or Group</td>
<td>Receiving a reward may be based on individual or group objectives (or task completion). (Fisher, 1995)</td>
</tr>
</tbody>
</table>

**Table 4.1: Characteristics of Management Accounting Information Systems**
Organisational culture, management style, and other situation specific circumstances influence the selection of a particular set of characteristics (Anthony and Govindarajan, 2001). The aim of choosing a structural characteristic is to influence the actions of managers and employees, so that organisational objectives are attained (Fisher, 1995). The characteristics can be applied to each of the MAISs described in the remainder of this chapter.

4.3.2 Type

Type is central in the structure framework as it is “necessary in carrying out the basic goals and policies... of the enterprise” (Chandler, 1962, p.14). Type binds together the organisation and allows the planning and controlling to be carried out effectively and efficiently (Anthony and Govindarajan, 2001). Chandler (1962, p.14) states:

“[Type] can be defined as the design of the organization through which the enterprise is administered... It includes lines of authority and communication between the different administrative offices and officers and... the information and data that flow through these lines”

Type can be generalised into three categories:

1. A centralised type, “in which each manager is responsible for a specified function such as production or marketing”.

2. A decentralised type, “in which business unit [or division] managers are responsible for most of the activities of their particular unit, and the business unit functions as a semi-independent part of the company”.

3. A matrix type, “in which functional units have dual responsibilities”.

(Anthony and Govindarajan, 2001, p.66)

Type provides the formal arrangement for management in an organisation (Fisher, 1995). The style of leadership used by the Chief Executive, who is at the top of an organisation, influences management coordination. Chief Executives may rely on communication with
subordinates and/or formal reports. Under centralisation, leadership is required to promote coordination between functions to increase efficiency. Under decentralisation, the importance of leadership is shifted from the Chief Executive to the division managers (Anthony and Govindarajan, 2001).

4.3.3 Responsibility Centres

In organisation’s managers control an area of responsibility, such as a division, function, operation, or project. This section reviews responsibility centres, as described in Anthony and Govindarajan (2001). “A responsibility centre is an organisational unit that is headed by a manager who is responsible for its activities” (p.108). Every responsibility centre can be represented by a relationship between inputs, work, and outputs. Inputs are the (human and physical) resources used by the centre. Work is the activities carried out by the centre to transform the inputs into outputs. Outputs are the products or services produced by the centre. Responsibility centres are divided into four categories: expense, revenue, profit, and investment.

Profit centres, one of the most common responsibility centres, combine expense and revenue centres. The dollar cost of inputs is directly related to the dollar revenue, thus profit (revenue less expenses) can be estimated and determined. Profit centres are usually at the business level of the organisation that is it can be a division or function. Generally, managers control everything from input procurement to selling outputs, which is the entire value chain for a particular SBU.

The type of centre a unit is designated should relate to the unit’s input-output relationship, so that the unit is judged fairly and in accordance with its actions. Analysing units as
responsibility centres allows the efficiency and effectiveness of the unit to be judged. The planning and control practices in an organisation should be customised to encourage the desired actions in each unit, and reward or alter those actions where appropriate.

4.3.4 Strategic Planning

The Chief Executive directs the strategic planning process. Planning may be formal or informal, detailed or brief, frequent or infrequent, yet it always involves the estimation of future states and determining a stream of decisions or actions that will cause the realisation of the desired future state (Anthony, 1965; Mintzberg, 1978, 1987). This review focuses on the formalised planning process – strategic planning.

Anthony (1965) states:

“Strategic planning is the process of deciding on objectives of the organization, on changes in these objectives, and on the policies that are to govern the acquisition, use, and disposition of these resources” (p.24).

Anthony and Govindarajan (2001, p.315) summarised this process into six steps:

1. “Reviewing and updating the strategic plan from last year” – Corporate level managers will examine the past and make changes as appropriate. The organisation’s annual plan needs to be consistent with the long-term plan (normally five years).

2. “Deciding on assumptions and guidelines” – The environment (external and internal) needs to be examined, that is changes in the economy, legislation, and organisational structure, need to be factored into the long-term and annual plan.

3. “First iteration of the new strategic plan” – Business and operational level managers will prepare their own strategic plans, which are consistent with the corporate assumptions, guidelines, and objectives.

4. “Analysis” – Business level managers will aggregate operational plans to form the strategic business plan. Then corporate level managers will aggregate business level plans to form the strategic corporate plan. Although, aggregation is not blind, business and corporate managers will question the facts and figures in the plans they oversee.

5. “Second iteration of the strategic plan” – Analysis may cause plans to be revised.
6. "Review and approval" — Once all parties are satisfied with the aggregate strategic corporate plan, it will be presented to the board of directors. Further revisions may be required. Once approved the budget preparation process can begin.

4.3.5 Budget Formulation

This section reviews budget formulation, as described in Hansen and Mowen (2000). Budgets are defined as "[p]lans of action expressed in financial terms" (p.821). Budgeting links planning to control, thus it has dual roles. Firstly, budget formulation represents the estimation of the quantitative consequences of the strategic plan. Secondly, budget monitoring represents control by superiors\(^\text{10}\).

Budgets are generally formulated once per year, after the strategic plan has been formulated. There are two methods of formulation:

- "Incremental budgeting [is] [t]he practice of taking the prior year’s budget and adjusting it upward or downward to determine next year’s budget" (p.824).

- "Zero-base budgeting [is] [a]n alternative approach to budgeting in which the prior year’s budgeted level is not taken for granted. Instead, the existing operations are analyzed, and continuance of the activity or operation must be justified on the basis of its need or usefulness to the organisation" (p.830).

Zero-base budgeting is more time consuming than incremental budgeting, as all figures are reviewed, but the process reflects a more accurate projection of a responsibility centre’s operations. Zero-base budgeting assumes that participation in budget formulation is bottom-up.

\(^{10}\) Budget control is discussed in section 4.3.7.7.
Budgets may be formulated, so that they are easily achievable or not:

- Tight budgets formulation indicates “top management wants to have the actual cost, revenue and profit figure close to the budget target” (Bruggeman and Van der Stede, 1993, p.208).

- Loose budgets formulation indicates top management view the budget targets as only a guide for responsibility centres.

Once a budget is formulated, top management may allow a responsibility centre to revise its budget if circumstances change significantly:

- Static budgets are fixed for the year, until the strategic plan is reviewed.

- Flexible budgets are changed during the year, if circumstance change.

Budgets may be used as a basis for evaluating management performance. In this case, flexible budgets are seen as fairer, as managers are not held accountable for uncontrollable circumstances, for example unforseen changes in technology or law that decrease sales.

4.3.6 Management Performance Evaluation and Remuneration Schemes

In general, elements of the strategic plan and budget, which managers are accountable for, are used as a basis for evaluating management performance (Anthony and Govindarajan, 2001). Budget performance evaluation is an objective output control, whereas evaluation may be based on subjective behaviour controls, such as the job description (Fisher, 1995). Salary and bonuses are linked to these criteria, so that managers are motivated to achieve their targets (Anthony and Govindarajan, 2001).
4.3.7 Retail Decision-Making

Organisational type, responsibility centres, strategic planning, budgets, and management performance evaluation systems provide a framework for management. In retail organisations, managers have a variety of decisions to make, which will be based on the framework previously described. This section describes retail decision-making, which includes: operational planning, buying, pricing, promotion, services, budget control, inventory management, human resource management, and customer evaluation.

4.3.7.1 Operational Planning

Managers of a retail operation need to plan day-to-day tasks, so that the strategic plan and budget are achieved (Merrilees and Miller, 1996). Communication with employees throughout an organisation is an important aspect of retailing (Berman and Evans, 1995). Committees and meetings can be used to communicate objectives to employees and to gain feedback on task efficiency and effectiveness (Merrilees and Miller, 1996).

4.3.7.2 Buying

The merchandise function in retail organisations determines what products to buy, what suppliers to buy from, how much they should pay, and how much to buy (Rachman, 1969). These tactical decisions will be guided by the strategic plan (Hansen and Mowen, 2000). Purchasing may be centralised or decentralised. Decentralised buying means individual retail stores make the buying decisions, although store managers will be guided by rules and procedures set by the function or division manager (Rachman, 1969).
4.3.7.3 Pricing

After products have been purchased, they must be priced. The price determines the revenues of an organisation. There are numerous methods of pricing (Berman and Evans, 1995; Hansen and Mowen, 2000). One such method is market pricing where prices are set at the competitors price (Berman and Evans, 1995). Prices should reflect the position (cost leader or differentiator) of a business unit (Porter, 1980).

4.3.7.4 Promotion

Customers are required to purchase products. The promotion of products can be done through advertising and display (Rachman, 1969). Advertising may be broad or targeted using a variety of medium (Berman and Evans, 1995). Customer information systems can be used to increase the effectiveness of advertising (Berman and Evans, 1995). Display within stores is aimed at attracting the attention of customers (Rachman, 1969).

4.3.7.5 Services

Promotion does not solely focus on products, as retail organisations may offer services, which add value to the product (Rachman, 1969). A costing system may be required to track the cost of service to the product, so that losses are not made (Hansen and Mowen, 2000). Customer service, the most common service provided, is where salespeople assist customers in their buying decision, by supplying product information or after-sales support (Berman and Evans, 1995).

4.3.7.6 Budget Control

The budget is the motivating factor that drives buying, promotion, and selling. The budget is an operational control, which is defined as “the process of assuring that specific tasks are
carried out effectively and efficiently” (Anthony, 1965, p.69). Managers will monitor budget achievement on a regular basis. “[R]eports keep managers at high levels informed about the status of various programs in their charge” (Anthony and Govindarajan, 2001, p.17).

Budget Control has “been a central plank of most organizations’ control mechanisms” (Otley, 1999, p.370). Rather than examining the entire budget managers can look at key indicators to gauge budgetary performance (Anthony and Govindarajan, 2001). Also, management can focus on negative variances (i.e., actual is less than budget), which is known as management by exception (Garrett, 1990). Management by exception can also be applied to other areas of control where targets can be compared to actual results (Ricketts and Nelson, 1987).

Management by exception “is based on the idea that only variances assessed as being significant should attract decision makers' attention” (Ricketts and Nelson, 1987, p.235). The advantage of management by exception is that “manager[s] do not have to monitor all activities, [therefore] [f]ewer decisions are made, so each can receive more attention” (p.235). Although it focuses on problems, management by exception can also be used to identify opportunities (Garrett, 1990). However, the standards by which actual results are being assessed need to be realistic and up to date, otherwise problems may be missed and exceptions identified may be irrelevant (Ricketts and Nelson, 1987).

4.3.7.7 Inventory Management

Controlling inventory in retail organizations is important, as inventory must be on display to be sold, but holding inventory also incurs a cost. Inventory levels can be monitored through management by exception, however, inventory management, generally, focuses on delivery versus holding costs (Berman and Evans, 1995). Close relationships between suppliers and
the retailer are required to ensure inventory is available when needed (Merrilees and Miller, 1996).

4.3.7.8 Customer Evaluation

Purchasing inventory that customers want requires customer’s behaviour (eg patterns in sales) to be evaluated. Customer Evaluation involves monitoring customers in order to determine whether customers are retained (or loyal) (Reicheld, 1994) and/or profitable (Bellis-Jones, 1989; Foster and Gupta, 1994). Customer profitability has received increasing attention in recent years, however, customer revenue is often only analysed. Activity-based management also focuses on customers, by creating better value for customers (Hansen and Mowen, 2000).

4.3.7.9 Human Resources Management

The decision-making processes described require managers and employees to be well informed of organisation policies, procedures, and rules. Therefore, it is essential that personnel are managed well, so that they make the correct decisions, thus human resource management is critical (Macky and Johnson, 2000). "Human Resource Management is the selection, training, evaluation, promotion, and termination of employees so as to develop the knowledge and skills required to execute organizational strategy" (Anthony and Govindarajan, 2001, p.8).

4.4 Summary

The structure of an organisation formulates, implements, controls, evaluates and revises strategy. Organisations use a variety of management accounting information systems to realise strategy. The size of an organisation influences the formality of the systems employed. Leadership in an organisation can inspire and motivate management and
employees. Strategic planning and budgeting determines the objectives and financial goals. Management should be evaluated and rewarded according to the goals they are set. Responsibility centres are used to accomplish these goals.

Retail organisations use a variety of management systems to control operations. Communicating with employees, purchasing and pricing products, monitoring the budget and inventory, and evaluating customers are an important part of these systems. The output of an organisation's structure is its performance. The next chapter describes how performance can be assessed in financial terms.
Chapter Five: Literature Review –
Analysing Financial Performance

5. LITERATURE REVIEW – ANALYSING FINANCIAL PERFORMANCE

"Analysts derive a broad array of financial ratios from published financial reports to assess business enterprise performance" (Zeller and Stanko, 1994, p.51)

5.1 Introduction

This chapter reviews performance. Firstly, performance is defined and methods of assessment are described. Secondly, the financial analysis method is examined. Thirdly, overall financial measures are explored, which include measures of profit, cash flow, and return on investment. Fourthly, specific financial measures are identified which are categorised into: efficiency, growth, leverage, liquidity, solvency, and sufficiency.

5.2 Performance: Definition and Assessment Methods

Performance is the outcome, output, or result from the decisions and actions in an organisation’s structure (Anderson and Lanen, 1999; Fisher, 1995). Prior contingency-based research has often only loosely defined performance (Fisher, 1995). When an organisation is successful it is attaining its goals, thus performance should be assessed on the basis of those goals (Fisher, 1995). Goals can be evaluated in financial terms such as revenue and profit, or it may be evaluated in non-financial terms such as market share or productivity (Anthony and Govindarajan, 2001).
Measurement may also be subjective such as satisfaction of stakeholders (Fisher, 1995). However, Chandler (1962, p.396) highlights:

"if performance is to be evaluated in broader social and human terms, resources can hardly be employed effectively unless the men [sic] responsible for their use have the relevant information on which to base their decisions."

In other words, financial performance is the key indicator in any organisation, as in the long-term, if expenses are greater than revenues, no organisation can survive. At the very least, assessing financial performance provides an indication of the longevity of an organisation.

5.3 Financial Performance Assessment

"Financial analysis is concerned with the evaluation of the worth, progress and prospects of a business, and as one aspect of these, the detection of weaknesses" (Westwood, 1997, p.307). Performance can be assessed through the evaluation of the annual financial reports: statement of financial position, statement of financial performance, and cash flow statement. Evaluating financial reports over time is crucial to determine how an enterprise is performing (Westwood, 1997). Financial reports must be carefully scrutinised, as "[t]he drawing of valid conclusions in a financial analysis requires considerable skill" (Westwood, 1997, p.306). Many measures can be used to gauge the financial performance of an organisation.

5.4 Overall Measures of Financial Performance

"Most accounting and business texts acknowledge that enterprise survival depends on two factors: profitability and liquidity" (Robb, 1999, p.153). Monitoring these two factors involves plotting both Operating Cash Flow after Interest and Dividends (OCFAD) and Retained Earnings (Robb, 1999). OCFAD represents the amount of cash available to an organisation for investing and financing activities, such as asset maintenance and business
growth. Retained Earnings (RE) represents the amount of profit that is attributed to the owner’s equity. Robb (1999, p.154) suggests “Comparative [and cumulative] figures should be given to allow trends to be seen”.

While an OCFAID and RE comparison assists in determining the level of prior performance, it is not infallible. Return on investment (ROI) provides insight into the effectiveness of assets used to generate profits (Hansen and Mowen, 2000). ROI is defined as net profit before tax divided by average assets\(^\text{11}\) (Westwood, 1997). However, overall measures of financial performance can mask problems in an organisation, an analysis of specific aspects of the annual reports is required to fully determine the financial performance of an organisation.

5.5 Specific Measures of Financial Performance

“Individually, financial ratios tell only a little about the whole company, but taken together the entire picture of financial health comes into focus” (Eisemann, 1997, p.51). There are many ratios or measures that are used to scrutinise an organisation, which can be divided into six categories:

1. **Efficiency** describes how well a company generates cash flows relative… to other years” (Giacomino and Mielke, 1993, p.55).

2. **Growth** describes the trend in the size of an organisation, which is generally expressed in terms of sales, profits, or assets (Westwood, 1997).

3. **Leverage** describes the financial structure of an organisation (Westwood, 1997).

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\(^{11}\) ROI can be defined in a variety of ways, but for simplicity tax has not been included so that the relationship between Farmlands profit and assets can be clearly demonstrated. Also, interest has been included as Farmlands interest received and paid balance each other out.
4. **Liquidity** describes the adequacy of current assets to settle current liabilities (Westwood, 1997).

5. **Solvency** describes the adequacy of sales and resources to allow an organisation to continue operating into the future (Rushinek and Rushinek, 1987).

6. **Sufficiency** describes the adequacy of cash flows for meeting a company’s needs” (Giacomino and Mielkee, 1993, p.55).

Each category can be evaluated using various ratios, which are defined in Table 5.1.

<table>
<thead>
<tr>
<th>Performance Measure Criteria and Ratio(s)</th>
<th>Definition</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Efficiency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Asset Turnover</td>
<td>Sales</td>
<td>Lerman and Parliament (1990)</td>
</tr>
<tr>
<td></td>
<td>Fixed Assets</td>
<td></td>
</tr>
<tr>
<td>Inventory Turnover</td>
<td>Cost of Goods Sold</td>
<td>Lerman and Parliament (1990)</td>
</tr>
<tr>
<td></td>
<td>Inventory</td>
<td></td>
</tr>
<tr>
<td>Managerial Efficiency</td>
<td>Net Profit Before Tax</td>
<td>Westwood (1997)</td>
</tr>
<tr>
<td></td>
<td>Sales</td>
<td></td>
</tr>
<tr>
<td>Operational Efficiency</td>
<td>Gross Profit</td>
<td>Westwood (1997)</td>
</tr>
<tr>
<td></td>
<td>Sales</td>
<td></td>
</tr>
<tr>
<td>Use of resources$^{12}$</td>
<td>Administration Expenses</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Number of Members</td>
<td></td>
</tr>
<tr>
<td>2. Growth</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in Sales</td>
<td>Sales$_1$ - Sales$_0$</td>
<td>Westwood (1997)</td>
</tr>
<tr>
<td></td>
<td>Sales$_0$</td>
<td></td>
</tr>
<tr>
<td>Member Loyalty$^{12}$</td>
<td>Sales</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Number of Members</td>
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$^{12}$ These ratios have not been published, but were seen to be important when analysing Farmlands' financial performance. Use of resources shows how much Farmlands' spends on members (administration expenses includes all expenses except the cost of sales and depreciation). Member loyalty shows how the amount members spend with Farmlands.

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<table>
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<th>Performance Measure Criteria and Ratio(s)</th>
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<th>Source</th>
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<td>Debt to Equity</td>
<td>Total Liabilities</td>
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<td>Westwood (1997)</td>
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<td>Sales</td>
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<tr>
<td>6. Sufficiency</td>
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<td>Debt coverage</td>
<td>Total Liabilities</td>
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<td></td>
<td>Cash from Operations</td>
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</table>

Table 5.1: Financial Performance Ratios

Determining whether the ratios indicate good or bad performance is subjective in that performance is relative to the environmental circumstances in which a business operates. Consistency in these ratios is important, as well as low variability (Westwood, 1997). For
example, the quick ratio should always be greater than one; otherwise an organisation cannot meet its short-term debts (Westwood, 1997).

5.6 Summary

Performance is the output of an organisation. A financial analysis of performance can be used to determine the success and long-term survival of an organisation. In this chapter a number of measures are defined, which can be used to evaluate financial performance. An analysis should examine these measures over time, and look at the consistency and variability of the measures. However, this process is subjective, as financial performance is relative to the circumstances of an organisation. Having presented the relevant literature for this research, the thesis now turns to describing the research method.
Chapter Six: Research Method

6. RESEARCH METHOD

"Case study research offers the potential for a deeper examination of the processes involved in the relationship between MCS [management control systems] and strategy" (Langfield-Smith, 1997, p.221)

6.1 Introduction

This chapter outlines the research method. Firstly, the research approach, which was identified in chapter 2, is reviewed. Secondly, the research objectives, which resulted from this approach, are described. Thirdly, the case study method, which was used to investigate the objectives, is explained. Fourthly, the process used to collect and assess evidence is described, which includes personal interviews and document analysis. Fifthly, limitations of the research method are identified. Finally, the research site is described including its history.

6.2 Research Approach

Structural contingency theory suggests an organisation's strategy and structure must match in order for it to be successful (Dent, 1990). The literature review identified four areas in which contingency research could be further extended.

1. Langfield-Smith (1997, p.228) advocates that "[f]uture research… could aim to develop consistent classifications for controls and other contingent variables, and use established classifications of strategy."

2. Fisher (1995, p.45) states that, "future research should document the relationship between contingent factors."

3. Studies should simultaneously examine multiple contingent factors, multiple control systems and performance (Fisher, 1995).

4. Otley and Pollanen (2000, p.495) concluded that "there is considerable scope for more intensive studies of single organizations aimed at elucidating the impact of different accounting control practices within their wider context."
Therefore, based on these recommendations, structural contingency theory is investigated in a case study of a single organisation namely Farmlands Trading Society (hereinafter called Farmlands).

6.3 Research Objectives

The objective of this thesis is to describe Farmlands’ strategy, structure, and financial performance in its wider organisational context. To accomplish this objective the following sub-objectives are given:

1. Farmlands’ strategy, based on chapter 3, is described in chapter 7.
2. Farmlands’ structure, based on chapter 4, is described in chapter 8.
3. Farmlands’ financial performance, using the analysis described in chapter 5, is assessed in chapter 9.
4. Linkages between Farmlands’ strategy, structure, and financial performance are discussed in chapter 9 and 10.

6.4 The Case Study Method

Ryan et al. (1992) describe the case study method that is applied in this research. They state that accounting case studies can be descriptive, illustrative, experimental, exploratory, and explanatory. Descriptive case studies “describe accounting systems, techniques and procedures currently used in practice” (p.114). This research is descriptive as it describes the strategy, structure, and financial performance of Farmlands. Overall, this means that the method is qualitative, as it focuses on the description of the economic and social reality at Farmlands (Burrell and Morgan, 1979).
6.5 Evidence Collection and Assessment

Farmlands was selected as a research site because it has previously not been studied. Access was gained through a contact\textsuperscript{13}, which is a recommended approach (Buchanan et al., 1988). After Farmlands agreed to participate, background and financial information was collected. This consisted of web-site information, annual reports, and Farmlands’ advertisement publications.

A list of potential interviewees was constructed from this information and e-mailed to the Chief Executive, who then selected the interviewees. Also, the Chairperson and Member #15 were contacted by telephone, at the suggestion of the Chief Executive, and they agreed to participate in the research. Gaining additional interviews through a contact, the Chief Executive, is appropriate for qualitative case study research (Cassell and Syman, 1995). The interviewees are shown in table 6.1\textsuperscript{14}:

<table>
<thead>
<tr>
<th>Chairperson of the Board of Directors</th>
<th>General Manager Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Executive</td>
<td>Branch Manager Hastings</td>
</tr>
<tr>
<td>Marketing Manager</td>
<td>Retail Supervisor Hastings</td>
</tr>
<tr>
<td>Merchandise Manager</td>
<td>Technical Advisor Hastings</td>
</tr>
<tr>
<td>Farmacard Manager</td>
<td>Member #15</td>
</tr>
</tbody>
</table>

Table 6.1: Interviewees

The background information, in conjunction with the literature review, was used to form the interview questions\textsuperscript{15}. Prior to the interviews, management were sent interview questions, which were tailored to their area of expertise. However, the Chairperson, Retail Supervisor,

\textsuperscript{13} Alan Robb, a senior lecturer in the Accountancy, Finance, and Information Systems Department, had been in contact with the current Chief Executive of Farmlands. Alan e-mailed the Chief Executive an outline of the research (objectives and method) and participation in the research was accepted the following day.

\textsuperscript{14} See Appendix 1 for a description of each interviewee’s role at Farmlands.

\textsuperscript{15} Refer to Appendix 2: The Interview Questions.
Technical Advisor, and member #15 were unable to receive questions prior to their interviews.

The interviews were held over two days in June 2001 at Farmlands headquarters at the Hastings branch. Interviews were set according to a prearranged schedule, which was set by the Chief Executive, with most interviews lasting approximately two hours. All interviews were tape recorded, with the consent of the interviewees.

The interviews were semi-structured and relatively informal. The questions in Appendix 2 were used as a guide for the interviews with management. In contrast, the interviews with the Chairperson, Retail Supervisor, Technical Advisor, and member #15 did not follow any prepared questions. In all interviews the conversation flowed relatively uninhibited. Areas of interest were explored as they emerged in the course of the interviews.

The interview process proceeded smoothly and everyone at Farmlands was very cooperative\textsuperscript{16}. After the interviews were completed, the tape recordings were transcribed and analysed. Follow-up information was collected through e-mail interviews, although only minor points needed to be clarified through these communications.

6.6 Limitations of Research Method

The method of research used has limitations. Otley and Berry (1994) prescribe that case studies should be longitudinal. However, this was not possible in this research, as the study

\textsuperscript{16} Everyone at Farmlands seemed very friendly and they were all most helpful. A good relationship was built with them in the short time I was there demonstrated by this e-mail to Alan Robb on the 26 June 2001. "[The Chief Executive] wrote: Alan, It has been a pleasure to have Neil with us over the last two days. He has been very professional in his presentation and manner. Our personnel have enjoyed their time with him..."
needed to be completed within one year, which does not allow for a long study. Also, gaining access for a long period of time may be difficult for some organisations.

The Chief Executive selected interviewees. The only restriction on interviewees came from availability of individuals on the days that were allocated for interviews. Also, the interviews focused on management, which may bias the information towards a management perspective. However, two branch personnel and one member were interviewed, which provided an alternative perspective.

When collecting evidence, there is always a possibility that the information obtained is not valid. Ryan et al. (1992, p.123) states that validity can increase through “collecting multiple sources of evidence on a particular issue”. This method is known as triangulation. The collection of evidence from multiple interviewees, annual reports, the web site, and various publications increases validity.

Bias can arise from a researcher’s input in interviews and from their interpretations of information (Cooper and Schindler, 1998). Personal interviews are advantageous as they are targeted and insightful, although, there can be bias from poorly constructed interview questions, the interviewers interpretations of responses, and reflexivity (when the interviewee tells the interviewer what they want to hear) (Cooper and Schindler, 1998). However, triangulation should reduce these problems, as different interviewees talked about the same events.

Tape recording interviews can cause bias from the interviewee (Richardson et al, 1965). They may not disclose all relevant information or they may feel intimidated by the tape recorder.
However, during the interviews all the participants were willing to be tape recorded and did not appear to notice the tape recorder, as in some instances their language was colourful, for example some profanities were used.

As mentioned e-mail interviewing was used. Shanahan (2000) comments that electronic interviews offer advantages over regular interviews. E-mail is cheap, all communication is recorded, detailed information can be provided, and communication can be done when it is convenient for both parties. However, there are some disadvantages of e-mail interviews, as messages can be erased and respondents may not reply. Interviewers must be careful not to overload the interviewee with information requests. In e-mail interviews there is a loss of emotion conveyed in the language used.

Information gained from personal and e-mail interview research has a potential drawback, researcher bias. Only through careful planning can this bias be reduced, but bias cannot be entirely avoided, as it is a factor in all research (Ryan et al., 1992). Awareness of researcher bias is the first step in minimising it. Furthermore, case study methods need to be disclosed and replicable, so that anomalies in studies caused by researcher bias will be detected in future research (Otley and Berry, 1994). Acknowledging these limitations will place the findings in perspective. As stated above this research is a case study of Farmlands. The site is now described including its history.
6.7 Site Description

6.7.1 Farmlands Beginnings and Growth: 1962 – 1980

6.7.1.1 Monopolistic Competition

Farmlands began in Hastings in 1962, at a time when less protection was afforded to the consumer against collusive or monopolistic behaviour of suppliers (manufacturers/wholesalers/retailers). The lack of protection in the market was the driving force for the creation of the cooperative, as Member #15 explained,

"Why did twenty or so farmers get together and start a cooperative? ... The driving force was we [farmers in the area] felt [at the time that] the current stock and station firms were running a bit of a cartel... They had obviously got their heads together over commissions and that sort of thing. In terms of farm suppliers, we were pretty sure they had their heads together, as they were working with the manufacturers of drenches, sprays, [and] all the ones we needed. And we felt that a cooperative could, if it grew, put a wedge in there."\(^{17}\)

When Farmlands first started it faced two cartels, the retailers and the manufacturers, as well as a problem of the retailers bundling goods and services to their customers. The stock and station firms were very strong because they provided both farm supplies and banking services to farmers.

"If you owed the stock and station firms a bit of money, and a lot of people did, you were expected to do business with them, and put all your business through them...It was sort of an unwritten rule. [It is] totally different now with the commerce commission..."

The environment Farmlands faced was tough, but Farmlands was not the only organisation affected by the cartel situation. Other cooperatives and local manufacturers were emerging throughout the North Island, with the aim of reducing the power the incumbent retailers and manufacturers had.

\(^{17}\) All quotes in italics with quote marks are from interviewees
"And of course that is exactly what happened... Within quite a short period of time there were very substantial rebates coming in... rebates in the order of up to 20%.” To achieve this successful reduction in prices Farmlands worked with the local manufacturers who were also trying to break into the market.

“At that stage there was a relatively small farm manufacturing company in Wanganui... They were looking to expand. They were having a problem in getting their product accepted by the big stock and station agents... so we [Farmlands] hooked up with them. That’s the basis of it - cooperation. They couldn’t supply everything we needed, but it was a start.”

The Wanganui manufacturer supplied products to Farmlands at a low cost, enabling Farmlands to reduce prices by 20% less than competitors, which caused the business to grow.

“We got ourselves four or five hundred members and we were spending a bit. We were a small force to be reckoned with. We were able to talk to suppliers... that’s when things snowballed.”

However, Farmlands did not become successful by solely purchasing product and putting it on display.

“You’ve got to have the management to do this sort of thing. When we started we had a very small store and back office... I would suggest maybe three people, a manager, accounts person, and a storeman.”

Also volunteer time from the founding farmers aided Farmlands growth.

“Those guys who set the thing up... we couldn’t afford to pay them... a lot of goodwill... It was just set up very, very well.”

Farmlands’ management played an important role in developing strategy and operations.

“The concept was to work on very small amounts of stock carried, returning as big a rebate as possible, keeping all costs down, and working in with other suppliers. In other words keeping to core business.”
6.7.1.2 Agencies

Management were still able to expand away from the core business of Farmlands, executed through a unique arrangement:

"I would say the success of this thing was conservatism. [We] didn't expand to fast and stuck to the knitting. [For example] there had been a cooperative in the Waikato that had started about the same time as us, and they grew very, very rapidly. They had gone outside what is core business, as they were marketing carpet... They got in serious trouble. We observed the problems with rapid expansion and getting away from what you know [core-business]. When [Farmlands] did decide to expand into non-core business, they went to the people whose core business it was, and said 'We've got so many members. We will recommend they go to you, now what can you do.'"

This arrangement is an agency relationship. Members supported agents: "We would give them as much business as possible." This cooperation between members, suppliers and agents was coordinated successfully by management, which allowed Farmlands to grow and expand.

6.7.1.3 Towards A Competitive Market

The old stock and station firms did not ignore the competition, whether cooperative or investor-owned:

"[The stock and station firms] suddenly realised they were loosing business and they started bringing prices down. They came down pretty dramatically, certainly by 20%. It might have been more. Things became pretty competitive... that's what we [Farmlands] wanted, that's what we were set up to do."
The fight back by the incumbents ensured the market would now remain competitive. Farmlands was set up to increase competition and survive in the new market place:

"[Farmlands] members [were] loyal, even when the stock and station firms started matching prices. It became pretty difficult at that stage for the [stock and station firms] to demand loyalty as they had in the past, [as a lot of] competition [was] setting up... [Farmlands] had gained the loyalty of a growing clientele because of what we had set out to do. We had achieved it. We had brought [competition into] the industry... People recognised the value of what had been done. They wanted it to succeed and grow. Had it failed the old cartel might have got going again."

6.7.2 Farmlands Recent History: 1980 – 2000

6.7.2.1 Board and Management Problems

Farmlands was successful through the 1960’s, until the late 1970’s. However, problems can build up slowly over time. In the 1960’s there was not widespread use of computer systems. Management would only know Farmlands’ financial performance once a year: "We would hold our breath hoping it [financial performance] would turn out alright". Survival depends on keeping up to date with technological change, but Farmlands accounting systems remained manual until the late 1980’s. Also, the Chairman and Chief Executive in the early 1980’s were not seen as being committed to Farmlands: "they were in it [Farmlands] for their own personal gain".

In the late 1980’s, Farmlands had acquired other cooperatives, such as Bay of Plenty, Gisborne, Fielding, and Palmerston North Trading Societies. These acquisitions had dramatically increased Farmlands debt. Also, their manual accounting systems were reaching crisis point, as they could not handle the increased amounts of information. These factors, combined with poor leadership and management, led to substantial financial losses. In 1987

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18 In 1987 the incumbent Chairman joined the Farmlands' board as a director.
these losses led to the dismissal of the Chairperson and the Chief Executive. In 1988 a new Chief Executive and new senior managers were appointed.

6.7.2.2 A New Board and Management

"When I came on the board we'd had two successive years of losses, and had no computer systems in terms of operations and management." The new members on the board immediately addressed the problems. "We basically had a share call from members to put some money in, so we could computerise our inventory." Switching from a manual inventory control to a computerised system increased Farmlands management control efficiency, but at this time there were other problems that needed to be addressed.

Farmlands had much debt from the mergers and acquisitions of trading societies. They were also facing losses and potentially more debt from an expansion in operations, away from their core business, into farm real estate and loan financing for members who purchased new farms:

"[Farmlands] decided there was an opportunity in farm [and] orchard sales. They set up an agency in here for farm sales. They got an arrangement with the AMP society for financing. [Farmlands was] taking head on the other land agents and particularly the stock and station industry which was very strong in the Hawkes Bay and [their established] sales teams... [Farmlands real estate and finance operations] ran I suspect for no more than two or three years...[but] they were losing money... and they let it go."

The board members were instrumental in the decision to drop this non-core operation: "Real Estate was the last thing we walked into without doing significant research as to what were the risks."
6.7.2.3 The Influence of the Current Chief Executive

Since 1988 the Chief Executive has been influential in shaping Farmlands:

"We were seen as a cost cutting exercise... since then [Farmlands] has taken a very substantial turn for the better, in terms of profitability, and support from members... We have made the business commercially focused and rewarded members by way of patronage."

Farmlands have also continually expanded, by opening new branches and acquiring other retail businesses. For example, in 1995 Farmlands purchased the retail operations of Elders, which was located in the central North Island. Although this increased their debt, the Chief Executive was confident that Farmlands would benefit.

The improvement is reflected in the increase in membership, from approximately 7000 members in 1988 to 14291 in 2001:

"[The Chief Executive]'s doubled it. And that comes back to I imagine, that we are doing things well that our members are appreciating, and they're telling others, and we are growing the business as a consequence."

Throughout this period farmers have experienced a drought, with less rain than they require in the North Island. Consequently farmers have had less production and income than normal, which makes Farmlands success extraordinary: "[Farmers have] had drought and our membership grew!"
6.7.3 Farmlands Today: 2001

6.7.3.1 General Description\(^{19}\)

In 2001 Farmlands operates 26 branches covering the East Coast, Bay of Plenty, and the Southern third of the North Island. Farmlands is primarily a retail organisation. For the year ended 30 June 2001, sales totalled $265 million and membership equalled 14,291. Today there are over 160 full-time staff and Farmlands is among the top 100 companies in New Zealand. In 1962 membership (or shareholding) was five pounds. Now membership consists of 10 shares at $55 each.

Members are entitled to a range of benefits such as discounts on goods and services at any Farmlands store or agency, one account for purchases and bonus rebates (based on their purchases). Bonus rebates are paid according to the amount of purchases each member makes. Different percentage rebates are paid depending on the margin on the product purchased. Also, members are benefiting from technology, as electronic-funds-transfer-point-of-sale (EFTPOS) has allowed members to be issued with EFTPOS style charge cards.

Farmlands has maintained its relationship with agencies. Farmlands acts as a trade clearing house, when members purchase from agents they receive a discounted price. Farmlands coordinates payment from members to agents, as all purchases are on credit. Also, Farmlands receives a percentage of the sales for providing the service to agencies. This gives members and agents the convenience of purchases and sales being displayed on one statement from, and to Farmlands.

\(^{19}\) Further description of Farmlands is provided in chapter 7 and 8, including product and services offered, customer behaviour, and management hierarchy.
6.7.3.2 Competitors

Farmlands sells a wide variety of products and services through branches and agencies, this is in contrast to its direct competition in the North Island. There are six major competitors in the North Island: Williams and Kettle (a regional competitor, which sells dry stock aimed at Sheep and Beef Farmers), Anchormart (a national competitor, which sells products aimed solely at dairy farmers), Wrightson (a national competitor, which sells similar products to Farmlands stores but generally only one brand of each product, the Wrightson brand), FruitFed (a regional competitor, which sells orchard related products), Veterinarians (are generally small businesses located throughout the country, but only sell animal health products), Taranaki Farmers (are a regional competitor, which operates in Taranaki and is strong enough to prevent Farmlands opening stores in that area).

Other competitors to Farmlands are emerging through the Internet, such as RD1.com, which has the same owner as Anchormart, and the Wrightson web site. Also potential competitors to Farmlands are located in the South Island, such as CRT, Greenfields, Landbase, and Pyne Gould Guiness.

Farmlands has formed an alliance with Greenfields and Landbase. This allows Farmlands to exchange information, benchmark operations, and act as a national retailer when it approaches suppliers and agencies for discounts. Overall, the market that Farmlands operates in is very diverse, although farmers still remain the main focus of their business.
6.8 Summary

This research uses a qualitative, descriptive case study method to investigate Farmlands' strategy, structure, and financial performance. Information is collected from multiple sources, such as the Internet, annual reports, Farmlands publications, and personal and e-mail interviews. As with all research evidence, there are concerns with the reliability and validity of the information. Bias could have been introduced from the interviewee and the interviewer. However, using evidence triangulation should have reduced this limitation.

Also, Farmlands history was described. Farmlands grew, experienced decline, and then under new management began to grow again. The next chapter describes the patterns in Farmlands strategy, which have been present in its recent history.
Chapter Seven: Findings – Strategy

7. FINDINGS – STRATEGY

What is important? “The first thing is profitability” – Chairman

7.1 Introduction

This chapter describes Farmlands’ strategy, as defined in chapter 3. Farmlands strategy has been to meet the long-term needs of its members. Profitability is the most important objective as Farmlands must remain in business to be able to service members. Strategy at each level of Farmlands is consistent with this focus. The corporate strategy describes the member’s objectives, Farmlands’ strategic intent, patterns in resource allocation, and the selection of strategic business units (SBUs). Farmlands’ SBUs are its customer groups: corporate, lifestyle, traditional, and urban. Each customer group has its own typology, position, and mission, however, there are common themes in the SBUs business strategies. Each component of Farmlands has an operational strategy, which is derived from the corporate and business strategy.

7.2 Impact of Organisational Size

In this chapter Farmlands’ entire strategy is described in terms of corporate, business, and operational strategy taxonomies. As Farmlands is a relatively small organisation, the separation of its strategy into these categories causes overlap as the Chief Executive and function managers determine and deliver each level of strategy. In larger organisations, different levels of management determine each level of strategy (Anthony and Govindarajan, 2001). Therefore, there is repetition throughout Farmlands’ strategy.
7.3 Corporate Strategy

Farmlands’ members are both owners and customers. Member’s objectives are primarily centred on customer-based needs, rather than return on investment. Farmlands’ management recognise this and focus corporate strategy on meeting members’ needs, although profits must be sustained. Patterns in resource allocation have arisen from this focus through: geographical expansion, diversification, mergers and acquisitions, and divestment.

7.3.1 Owner’s Objectives

Consumer objectives, such as product price, are more important to members than owner objectives, such as bonus rebates:

"The question is do bonus rebates make the difference in the buying decision at the time, I would argue not. When they come in here and price it, walk up over the road and up to Wrightsons; is it in their mind that they got a 2% bonus rebate last year? The answer is no. My feeling is it comes as a nice surprise. I’ve talked to quite a few farmers... when they get their cheque, they get a nice warm fuzzy feeling, but does it figure in their buying decisions during the year? No."

Members focus on a short time horizon, as future benefits are not as important as current benefits. When comparing two identical products, members will purchase the cheapest one.

The interviewees were in agreement on the objectives that members of Farmlands have:

- Competitive Prices (or competition in the market)
  
  "Prices at Farmlands are generally just below prices of competitors, but not much below"

- Choice (or competition within Farmlands) – multiple similar products and agencies

  "There is more choice in specific lines [than in the past]"

  "Its not wholly about profitability, its about giving your members choice, so that they can line up one product against another product and make an informed choice"
• Product requirements (availability, quality, and range)

"You must have the product available when the customer wants it"

"Farmers won’t tolerate any second rate products"

"We have to have faith in the products we sell... we never take on those really down and dirty cheap products"

"There is a huge range of products"

• Customer Service (or friendly, helpful, and knowledgeable staff)

"The staff here don’t sit round waiting for things to happen, they make things happen"

"Farmlands recognised that customer recognition [eg greeting customers] is crucial before a lot of other people did"

"Customers like to come where people know a lot about something"

"It is the staff that are just so important, and they have been brilliant in this organisation"

Farmlands aims to know and meet members objectives:

"You’ve got to know your customers and your market."

7.3.2 Strategic Intent

Farmlands intended corporate strategy was developed from member’s objectives and is expressed on their web site:

"Farmlands Mission: Market leader in rural retail, supplies and services."

(http://www.Farmlands.co.nz/FarmlandsPromise.htm)

Being a market leader means: “To be the preferred supplier of rural retail, supplies and services to members”. Farmlands intends to be member (or customer) driven as they respond to member needs as they change. In the 1960’s Farmlands aimed to be a price leader, but
over time members’ needs changed. Farmlands’ corporate strategy has changed its focus from a price leader to a market leader. However, interviewees expressed that being a market leader should not be at the expense of profitability:

“Farmlands won’t go anywhere if we are not profitable. It has quite a high emphasis. We are a commercial business, as well as a cooperative. We make genuine profits.”

There is a balance between focusing on members and maintaining profitability:

“We understand our market, we are totally service orientated... we are a cooperative, but we think corporate. We’ve got to make money, and the Chairman said that just the other day when we were opening Morrinville. He said ‘We are here to make money’. We got the odd look off people’s faces. ‘We are a cooperative, but we can’t give you the service and products you require unless we make money out of you. And when we make money out of you, you’re going to get it back at the end of the year as a [bonus] rebate or straight away as a discount on the sale.’ They all understood you’ve got to make money.”

Therefore, providing what the member wants now is constrained by the need for profits to be generated to maintain the ability to provide what member’s want in the future.

7.3.3 Patterns in Resource Allocation

To achieve this member driven corporate strategy, Farmlands has allocated resources to different areas and developed the markets it operates in.

7.3.3.1 Diversification

Farmlands has diversified its product and service range. Merchandise and Farmacard functions deal with the suppliers to branches and agencies. There are at least 800 suppliers and over 2000 agencies. The philosophy at Farmlands is to have core business in store and non-core business handled by agencies. Members can purchase almost anything through their Farmlands account, as was commented, “We sell the total package to farmers.”
Products and services offered to Farmlands' customers are generally related to the rural sector, as Farmlands Mission states, although unrelated diversification is also possible:

"We've still got to keep our focus on rural... that's our core business, but it doesn't negate our ability to get out there and seize opportunities."

Diversification has occurred as the market has changed, from animal related products for sheep and beef farmers, to plant related products for orchardists. Farmlands' branches each stock mainly on-farm products, as well as limited clothing and food products. Agencies stock other on-farm products, such as farm machinery. Also, they sell other farm-related products, such as electricity.

Farmlands only deals with selling products and services, not manufacturing:

"Farmlands' brand is a very strong brand for retailing, but it's not a strong brand for electric fencing. To become strong [in a specific product] I have to develop it, put a marketing cost on that, and become a specialist. Also I have to forecast raw materials. Its not [Farmlands'] forte, its retailing and adding value to [suppliers'] product by being an expert retailer."

Thus, Farmlands' business, particularly in their branches, is related to the rural retail market.

7.3.3.2 Geographical expansion
Farmlands' branches are at the core of their expansion. As new branches open, retailers and manufacturers in the local area are recruited as agencies and suppliers. These organisations are attracted to Farmlands growing membership. As Farmlands expanded operations throughout the North Island from one to twenty-six branches, it gained purchasing power and administrative economies of scales. In accordance with their strategic intent, Farmlands has two criteria for opening new branches: members (or potential members) must want it and it
must be profitable, “You’ve got to have a population base to make it worthwhile.” The focus on profits allows Farmlands to retain enough resources so that it can expand:

“We identify our member’s objectives in terms of how they see it... and that’s changing. It changes because we want to grow our business... [However] growth is only good if it is profitable”

7.3.3.3 Mergers and acquisitions

The geographical expansion has been assisted by mergers and acquisitions of other cooperative trading societies and others retailers, such as Elders in 1995.

7.3.3.4 Divestment

Farmlands active expansion has not been without difficulty. It’s Real Estate and Finance operations were divested in the 1980’s. Farmlands’ willingness to divest demonstrates that profit is an important part of its corporate strategy.

7.3.4 Selection of Strategic Business Units

Farmlands’ patterns in resource allocation show that it predominantly operates in the rural retail market. Johnson and Scholes (1999, p.12) define a strategic business unit (SBU) as “part of the organisation for which there is a distinct external market for goods or services (i.e. distinct from another SBU).” Farmlands operates in the rural retail market.

Within this market Farmlands’ has identified four customer groups: corporate, lifestyle, traditional, and urban. Each group has different requirements, as they do not purchase the same products. For example, corporate customers purchase larger quantities than traditional customers do. The following discussion describes the differences between these customer groups, which are Farmlands’ SBUs by definition.
7.3.4.1 Four Customer Groups

In the 1960’s, when Farmlands began, there was only one customer group, the farmers. However, over time farming practises have changed, which has seen the traditional farmer group being divided into three groups: the corporate farmer, the lifestyle farmer, and the traditional farmer. Also there is the urban (or non-farmer) market, which is relevant to Farmlands as: “a lot of gardening stuff, a ten kilogram bag of blood and bone can be sold to anyone.”

7.3.4.2 The Traditional Farmer

The traditional farmer is still an integral part of Farmlands’ business, despite much land being sub-divided into lifestyle blocks or being amalgamated into large corporate farms. Traditional farmers operate businesses with high input costs and “are very, very price conscious. They are business people, they are hard and sharp”. Traditional farmers want the cheapest price: “They’ll walk down the road for five bucks mate, for five bucks on a drum of drench worth $250.” Member #15, a traditional farmer, confirmed this view: “every now and again I will go off and get something cheaper at Wrightson, because they [Farmlands] can’t be the cheapest for everything”, thus this portion of the market is very price sensitive.

7.3.4.3 The Corporate Farmer

The corporate farmers are very similar to the traditional farmers:

“[Corporate] farmers will bend a little bit but the managers who run the farms have this real fixation. With everything they do they have to provide the cheapest products for their company, their owner. [These managers] are basically judged on how low they can keep their inputs onto the farm. So [corporate farm managers] see it as they haven’t done their job if they haven’t broken your arm and screwed it right off literally.”
The Chief Executive also recognises that corporate farms have special needs because of the size of the operation:

"The guy [sic] will not necessarily come into the store. So it's a matter of calling the guy [sic]... and perhaps doing some big deals. Going back to the manufacturer and saying 'I want three pellets of the stuff. We want a special price. We want to deliver it straight from the factory onto the farm.' And therefore we can get some economies in. Pass those on and basically it's a sale and a book transaction for us. We reduce our margin compared to if we had the product sitting in store..."

For Farmlands, having a store and agencies is not enough to secure the corporate business, but competitive prices and on-farm ordering and delivering is sufficient. Similar to the traditional farmers, this SBU is extremely price sensitive.

7.3.4.4 The Lifestyle Farmer

Contrasting to these two SBUs is the lifestyle farmer:

"Lifestylers don't know the difference between prices. They are not price conscious. The only difference with the lifestylers is they are high maintenance customers. You can spend half an hour selling them $200 worth of merchandise, whereas a farmer comes in and says 'I want that one'. [Lifestyle farmers] can be a pain but they are good spenders."

"Lifestylers" are information conscious:

"And those sorts of people own a sheep, a horse, or a pig, and they have no idea how to look after them. So they come to us and we sell them smaller packs. So we stock smaller packs on the shelf, which means extra stock. But we get a higher margin for that. And their discretionary spend is such that they don't really care how much it costs, because their need is met by us as we tell them how to look after that sheep. And they'll come back and that's how we pick up a lot of Farmacard stuff on the other side."

7.3.4.5 The Urban Customer

The urban market is similar to the lifestyle market except the urban consumer is not a member. Although anyone can become a member of Farmlands, urban customers at this stage
are not encouraged to join. The Merchandise Manager describes the focus on the urban market as unique: “Very few rural retailers have a focus on [the] urban, that cash market.”

The Chief Executive reiterates:

“One of the things we have been conscious of is that things that we sell are of interest to [urban] customers... we are looking at developing a pet care centre in each store and [to] try and pick some of that business back from the supermarkets. We are not just talking about the big forty-kilogram bag of tux dog biscuits. We’re talking about the premium products with a high margin... add on sales, the treats, the dog collars and things. We keep findings new ways of twisting your existing business to create a wider market for something that you’ve already got in stock...”

The urban market represents value for Farmlands, as non-members do not share in discounted prices or bonus rebates. In effect Farmlands is: “Taking some urban money and giving it to farmers.”

7.4 Business Strategy

Management at Farmlands focuses on their customer groups: traditional, corporate, lifestyle, and urban. “The key value for us is knowing those four markets and knowing how to speak to them individually.” Farmlands must interpret information from its customers groups and then co-operate with suppliers and agencies to deliver the required products and services. “All parties know we are working with three groups: us, suppliers, and members. When we work together, it works well.” With four customer groups, and many suppliers and agencies that provide products and services, Farmlands must be very responsive to the market. “If we see something going wrong, we get in there and sort it. We sit down and nut it out together [with all three parties].” These factors influence the business strategies.

This section describes Farmlands’ business strategy in terms of typology, position, and mission. Each dimension of business strategy is discussed in terms of Farmlands in general
(as there are similarities among the SBUs strategies) and separately (to highlight the differences among the SBUs). Business strategy is formulated in Farmlands’ functions\footnote{Farmlands is centralised, as described in chapter 8, which means that its functions formulate part of each SBU’s business strategy. Whereas, in a decentralised organisation a division would handle a SBU’s entire business strategy (Anthony and Govindarajan, 2001; Johnson and Scholes, 1999).}.

7.4.1 Typology

Typology is defined by two factors: market stability and the rate of product/service change or innovation (Miles and Snow, 1978). In general, the rural retail market is stable, it has experienced much change in the past 40 years, but now it has matured. Products within the market do change, but the changes do not significantly influence the stability of the market. Therefore, the most appropriate business typology is the defender or analyser. Consequently, Farmlands typology should be directed towards increasing efficiency in operations and delivering products to the market at low cost (Miles and Snow, 1978). Farmlands changes its product range and innovates when positive profit opportunities present themselves.
7.4.1.1 Product/Service Change or Innovation

Farmlands approach to e-commerce, selling products via the World Wide Web, demonstrates that its typology can be classified as a defender or analyser:

"Conversation with members is an essential part of our business. It’s an essential component for that member to come into town rather than do his business by e-commerce. [The farmer] comes into town because they want to. They want to pick up the product, shake it, look at it, ’yep I’ll take it’. And... I sat there and looked at Wrightson, Fencepost, and RD1 driving the customer away, ‘Fuck-off [sic] we don’t want you in our branches, we want to do our business via the net’. And I [saw]... a whole industry saying go away, we are going to encourage you not to come into our branches. [Whereas Farmlands is] saying to the members: ‘Guys [sic] we want you. We’re the information and the price...come on in!’ Cause once we’ve got [the farmer] in our shop, they can browse a damn sight further than what they can browse with a mouse. The eye is so much better. [Also it is] easier to add on sales when they come into the store. You find out more about them and their needs."

Farmlands listens to its customer and does not always adopt new innovations, for example Internet selling, just because its competitors have. An important aspect of the defender and analyser is that they evaluate situations carefully and only change their products or services when the opportunity is beneficial (Miles and Snow, 1978).

Farmlands strategy has been to sell products it is familiar with, although this does not rule out innovation. Suppliers and agencies are a source of product innovation, as they offer Farmlands new products or services. Then Farmlands analyses the value of “the total package” and selects products and agencies that will enhance what they can offer to customers. Product innovation occurs through selection, not creation (or research and development), which is a characteristic of the defender or analyser typology (Miles and Snow, 1978).
7.4.1.2 Analyser

Farmlands acts as an analyser by focusing on its core rural products in its branches and through agencies, as well as offering innovation from suppliers and agencies. Opportunities that are outside the rural focus are evaluated before being adopted. Farmlands can buy small quantities of profitable products and sell them on quickly, and then look for the next opportunity. Also, successful product changes may become part of their core product range:

"The market has changed. We can hold three items in stock and sell them quite successfully. If we see an opportunity, we'll give it a flick and see how it goes. It is reviewed on an annual basis in the business plan."

Branches and agencies often sell products that are unrelated to rural retail, but all products and services are aimed at members: "Just because you're a farmer doesn't mean you don't like other activities." Viewing members as general consumers, not just farmers, led to the introduction of in-store products such as kayaks and whiteware:

"With 14,500 members you've got a great opportunity to... use the strength of the cooperative to bring members a deal over and above the norm... I got cries from business managers, 'What are you doing with Kayaks in the store?' [But] sales is all about numbers [and] we did over $300,000 in turnover with a 25% mark-up. This was totally outside rural."

However, management recognises there is a danger in stocking non-core products, as it is easy to introduce products that members do not want. Also, management's attention on core rural products must not be lost, as competitiveness could fall:

"We get challenged at times. We've got to be very careful because the breadth of our operation really extends through the [agencies]... But we've got to make sure we're seen to be relevant, but all member expectations are a bit different. I mean we've got white goods in stock at the moment. That is a bit of a test. We have an ability to purchase [competitively] and some members say they can't understand why we are selling fridges and deep freezers. We're doing it coz we can buy well and we can sell well at really competitive prices."
Also, frozen chickens are an example of an opportunity that turned into a permanent product range. Farmlands acquired many frozen chickens at a special price. The Chief Executive directed staff in the branches to try to sell a frozen chicken to each customer. Sales were very successful and frozen food items became a permanent fixture in branches.

7.4.1.3 Typology is Matched to Customer Groups

Corporate farmers are the one exception to the analyser typology. Traditional and lifestyle farmers are very similar, as they purchase rural and consumer products from branches and agencies. On the other hand, corporate farmers manage large farms, which means they are primarily concerned with the cost of farm inputs, so they generally only purchase rural-related products. Farmlands approaches corporate farmers with a defender strategy. Corporate farmers are very price sensitive, thus Farmlands concentrates on reducing operating costs associated with corporate farmers and achieving maximum discounts from suppliers through economies of scale. Therefore, Farmlands can offer corporate farmers the cheapest price, compared to purchasing from competitors or direct from suppliers.

Urban customers are similar to traditional or lifestyle farmers, but they are generally not members, so they do not purchase from agencies through Farmlands. An analyser strategy is used to target urban customers. Existing (or core) products are marketed at the urban customer, as well as new (or non-core) products, for example, the proposed pet care centre. Overall, as an analyser Farmlands focuses on products, which is also apparent in its position.

7.4.2 Position

Position is defined by two factors: target market and competitive advantage.
7.4.2.1 Target Market

Porter (1980) states the target market can be broad or narrow. Farmlands "operates predominantly in the North Island market and in one industry, namely the agricultural supplies sector" (Farmlands Annual Report, 2001, p.14), which is a broad market. However, Farmlands has four customer groups, which are sub-sectors of the agricultural supplies sector, therefore, Farmlands' target market for each customer group is narrow.

7.4.2.2 Competitive Advantage: Breadth

Farmlands approach to competitive advantage has also changed due to the market changing. In the 1960's when Farmlands began it pursued cost leadership:

"[Farmlands] was to work by carrying very small amounts of stock, returning as big a rebate as possible, keeping all costs down, and working with other suppliers. In other words keeping to core business, and... using agencies with their established business..."

Over time the member's objectives changed, as stated in the corporate strategy. Price as well as choice, product requirements and, customer service is now important. These factors other than price equate to differentiation thus members want a strategic position of cost leadership and differentiation, or breadth.

7.4.2.3 Breadth through Suppliers

Co-operating with suppliers is essential in maintaining a long-term position of cost leadership:

"Suppliers are a key part of our business. It is as much about purchasing as it is about selling. People have an expectation that a trading cooperative is about screwing suppliers; we actually don't see it like that... we don't make any products of our own... it is a matter of working with suppliers to get the best product available at the time, to provide choice at the best prices, but on a continuing basis. Quite frankly, if I could go and screw the shit [sic] out of our suppliers I'd probably be able to return greater profits, but the longevity of that I would question."
Also suppliers are essential in maintaining a long-term position of differentiation:

"What do [suppliers] intend to do differently that adds value to [Farmlands’] business? ...If it is just price then I’m not interested. I want to know that they... are going to offer me value."

For example:

"We’ve just had Ivermectin come off patent. It has been the only animal health molecule... for many years running at a huge premium. All of a sudden... I’ve got all these generics [clones] knocking on my door. The first one came to me and said ‘Look at the price, LOOK AT THE PRICE.’ I said ‘That’s good’. The next one said ‘Were using the same molecule, but we’ve actually differentiated it by doubling its the strength, so we’ve enhanced the value. Not only that, we’ve brought the packaging in line with the rest of our products. Plus we’ve enhanced the product’s presentation. And we’ve got a really good price for you.’ And when they come to me with that, I get really turned on with that guy [sic]. The guy [sic] who came to me first and said ‘I’ve got the price for you.’ It works and I’ve got price, but I don’t believe there is any longevity in that kind of proposal."

Product breadth is established by purchasing value-added products at the lowest price.

7.4.2.4 Breadth through Agencies

In contrast, agency breadth is established by gaining discounts from agencies and offering choice (ie more than one agency with the same product). Value-added product differentiation cannot be achieved from agencies, as Farmlands does not control the products agencies offer. Farmlands’ can only influence which agencies that they negotiate price discounts from.

Agency cost leadership is established by a large membership, so that agencies offer the maximum possible discount off their regular prices:

"This is what I say to agencies: ‘We’ve got these 14 thousand members. They are the cream of the crop of farmers, and they do buy from us’. We show them our success stories, and we negotiate a deal. The deal basically is ‘we would like a discount for our members...’"
Agency differentiation is established by offering choice to members:

"[Farmlands] offers choice with everything. [For example,] in insurance we have gone down the same road as we do in broad-brush strokes with everything, and offer choice. On fire and general insurance, we offer a deal through [two insurance companies]... Obviously it is very tempting to get into bed with one outfit and get a better deal, but we like to spread the risk, and people don't like to be told what to buy, they like that choice."

7.4.2.5 Breadth in Branches

Finally, breath is established in Farmlands operations. Firstly, through cost leadership:

"Prices at Farmlands are generally just below the prices of competitors, but not much below... The key advantage for us is buying products at a cheaper price than competitors... [To maintain this position] you need to be switched on in terms of utilising purchasing power, and keeping our costs relatively low, so we are able to operate effectively."

Secondly, through differentiation:

"To be [the preferred supplier of members] you have to offer choice, so that when an end user walks into a retail experience he [sic] has choice. To be number one you have to be prepared to take on the competition directly, or you have to offer competition within the branch [ie multiple similar products]. For example, if I was going to buy a PVC raincoat and I've only got one in the store, I'll go 'yeah this is good, but in comparison to what?' So the first thing I've tried to do is provide our members with choice. Offering choice differentiates ourselves from the opposition who don't."

"Product knowledge, our focus is on making sure staff know what they are talking about, it is a key strength."

"Our staff differentiates ourselves from the opposition. Our staff in general are happy campers. Staff have a good work environment with a focus on them [by senior management]. We don't get phone calls from our opposition asking for jobs for no reason. Their businesses aren't as stable, as they are driving into areas where their staff feel uncomfortable... We talk to our staff."
7.4.2.6 Breadth is 'not stuck in the middle'

Porter (1980) stated that simultaneous cost leadership and differentiation, or breadth, causes an organisation’s position to become unclear. However, Farmlands position of cost leadership and differentiation support each other:

“At the end of the day it is about wanting to do the best for our customer, our staff, and us. It’s really about looking after each other and then from there building up the service thing, the knowledge thing, and from that everything else comes. All these values stem from wanting to do the right thing by you and your customers.”

Differentiation supports cost leadership because customers are attracted to Farmlands by the choice and service they receive, thus the more customers Farmlands has the greater the discount that is obtained from suppliers and agencies. Receiving greater discounts is based on the principle of economics of scale or “strength in numbers”. These cost advantages also attract more customers to Farmlands, which enables more resources to be spent on improving service, staff knowledge, and other points of differentiation.

7.4.2.7 SBU Position: Traditional and Urban Customer Groups

Primarily, the position of breadth is aimed at two of Farmlands customer groups, traditional and urban customers. These two groups are targeted this way because they are sensitive to price (ie the cost leadership aspect) and they want customer service (ie the differentiation aspect), as well as the other points of differentiation.
7.4.2.8 SBU Position: Corporate Customer Group

However, corporate customers are very price sensitive. Management aims to reduce costs associated with corporate customers and pass on those gains to increase the volume of sales:

"We have become more aggressive in terms of getting the big volume business... We basically deliver from a manufacturer and drop off on the farm... so it's a charge through and we have a finer margin."

7.4.2.9 SBU Position: Lifestyle Customer Group

The lifestyle customer is less concerned with the price of products and more concerned with receiving advice on using those products. Thus, Farmlands positions itself with a differentiation approach. Targeting lifestyle customers with small quantity, high margin products, justifies the extra expenditure on more customer service. Also, to attract lifestyle and urban customers, Farmlands updated its retail image:

"That's one of the reasons we have redone the buildings with the signs and the exterior. We were looking very rural with the green and the brown. We dumped that, now it's just green, red, and white. It really gives the stores a feeling and a look that is more relevant to people who aren't necessarily farmers."

Farmlands match the conditions in the environment to its position, which is also apparent in its mission.

7.4.3 Mission

Mission is defined by two factors: potential business growth and current market share (Gupta and Govindarajan, 1984).
7.4.3.1 Potential Business Growth

In terms of potential business growth, the Chief Executive estimates that Farmlands sales will double in the next ten years:

"I want to work here for another eight or ten years. I want to grow this to a half a billion-dollar business. So we will probably have forty stores by then."

This goal appears realistic as in the past, under the current Chief Executive, Farmlands has dramatically increased its sales. "When I joined the board [in 1987] turnover was $87 million"; in 2001 sales are excess of $265 million. Furthermore, from 1993 to 2001 sales have risen from $126 million to $265 million.

There is plenty of expansion opportunities within and outside the areas Farmlands operates in. Outside the areas of operation there are many locations being considered:

"We could possibly go into the top of the South Island. I'm more interested in moving further north. I'd like to move into Taranaki, but there's two strong cooperatives operating there at the moment, in terms of the Dairy Company and Taranaki Farmers... We will move into the South Auckland area, and perhaps North of Auckland."

The corporate strategy of geographical expansion is not the only source of potential business growth. Also, Farmlands aims to increase the purchases of existing members as members often make purchases with competitors. Membership does not guarantee loyalty:

"Loyalty doesn't count for a lot in the retail industry. If someone is upset they will walk very quickly in this world."
Members may make purchases with competitors for a number of reasons. The simplest reason is the competitor has the same product at a cheaper price:

“Every now and again I will go off and get something cheaper at Wrightsons because Farmlands can’t be the cheapest for everything. And their pencil has got to be kept sharp by the organisation and by their clientele.”

Consumers may simply not realise that Farmlands sells a product that they require:

“Five years ago we identified that locals [in small towns] were driving past our stores and to the main centres and buying stuff we could have sold them... So we decided to target them with the usual means [advertising and media], and had a couple of campaigns a year called our ‘town and around’.”

In 2001 the merger between dairy cooperatives, which also run dairy-related retail operations, provided an opportunity for increasing member numbers:

“With the merger of kiwi and dairy, it has disenfranchised a number of dairy farmers who didn’t like the idea... And that gives us the opportunity to go out there and grab up those farmers...”

To support the build mission and to ensure that potential business growth is possible, Farmlands needs the support of suppliers: “We are very fortunate, we don’t have to attract suppliers... they are like moths round a light bulb.” Similarly, agencies are also keen to become part of Farmlands and offer discounts to members. Farmlands already has many agencies that operate nationally, which would assist with a build mission.

7.4.3.2 Current Market Share

A build mission is applicable to those SBU’s that have low current market share (Gupta and Govindarajan, 1984). Farmlands’ current market share is different among its four customer groups, but each is relatively low compared to the nationwide rural retail market. The
lifestyle and urban groups are relatively new, thus there is still plenty of opportunities to increase their purchases:

"Anybody can join and we are getting quite a few lifestylers joining."

"And then we've got the urban consumer, who we sell pots and pans, jerseys. Stuff you and I would want to buy."

"Very few rural retailers have a focus on the urban market"

Farmlands has a higher market share with the corporate and traditional groups in some geographical areas:

"Another threat or maybe even a weakness is that we have got very high market share of members in an area... In some areas we would have 90 to 100% of sheep or beef farmers as members of Farmlands. So the real threat there is that we become too complacent and people get bored of the same thing. You're got to keep changing so people come along with you."

Overall, the current market share for lifestyle and urban customers is likely to be low. Thus a build strategy is appropriate. The current market share for traditional and corporate customers is likely to be high in areas where Farmlands has operated for a long period of time, but lower in other areas: "Hastings was one of the earliest branches and we've got a big [membership] base". Either a build or hold strategy may be appropriate for traditional and corporate customers. Farmlands has realised a build mission for all of its SBUs and this approach has been necessary because of the high levels of competition:

"We have been so strong recently growing our market share, that we might have thought our competition are bloody hopeless. [For example] take Wrightsons, they've got their act together again and they're putting some pretty bucks into promotion and getting their name out there."

Farmlands' typology and position differs from mission, as it has only one mission, whereas it has different typology and positions strategies for each customer group. Collectively, each SBU's business strategy is delivered through Farmlands' operational strategy.
7.5 Operational Strategy

Operational strategy, by definition, is how the component parts of Farmlands effectively deliver corporate and business strategy\(^{21}\) (Johnson and Scholes, 1999). This section examines the operational strategy of Farmlands primary components: the Chief Executive, Commercial, Marketing, Merchandise, Farmacard, Retail, and Branches\(^{22}\).

7.5.1 The Chief Executive

The Chief Executive oversees Farmlands, therefore his operational strategy is to ensure that the Farmlands’ functions are capable of achieving the corporate and business strategy. In day-to-day terms this means communicating with management and authorising resources when necessary.

7.5.2 Commercial

The commercial function is involved with account services, administration, and accounting. Commercial coordinates the financial flows in Farmlands. In terms of cost leadership or defender strategies, operational efficiency is commercial’s primary concern. For example, they must ensure members pay their accounts on time so that Farmlands does not incur interest or debt recovery costs. Also, commercial monitors the corporate strategy of profitability. They ensure this is achieved on a day-to-day basis.

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\(^{21}\) The literature review highlighted that, unlike corporate and business strategy, operational strategy has not been classified into a framework. Therefore, the description in this section is limited, to a general outline of Farmlands primary functions and the functions’ operational purpose or strategy.

\(^{22}\) Farmlands size means that functions and branches deliver business and operational strategy. Contrastingly, multinational organisations deliver business and operational strategy through different areas of the organisation (Anthony and Govindarajan, 2001).
7.5.3 Marketing

Marketing focuses on customers. They collect customer information, in order to determine which customers to target. Marketing supports the build mission by promoting awareness of Farmlands and all aspects of its business to potential and existing customers. Awareness is focused through the function’s operations: Farmacard Magazine, Advertising, Customer Information, and Customer Monitoring. Also, marketing is critical in determining what business strategies are suitable for which customer groups, and in turn creating the environment necessary to build market share.

7.5.4 Merchandise

The merchandise function delivers the analyser typology and breadth strategies by determining which suppliers to deal with and what products to purchase. Operations include: product selection, product management, pricing, and purchasing. The product selection operational strategy is to ensure that customers want the products on offer:

"Every chance I get I like to get into a branch. One of the biggest problems with businesses today is that they are not talking to their customers and not getting out their and asking the customer what do you want."

To achieve its goals merchandise coordinates with the marketing and retail operations.

7.5.5 Farmacard

Similarly the Farmacard function delivers the analyser and breadth strategies by determining which agencies to deal with and negotiating discounts with them. Profitability from agencies depends on their willingness to allow Farmlands to "clip the ticket", that is gaining a percentage of each sale. Also, the differentiation position amongst traditional and lifestyle SBUs depends on Farmlands ability to attract a wide variety of agencies. The aim of
Farmacard is to build market share by ensuring that when members make any purchase outside the branch product range, that it is from an agency: “The one big thing that we push very hard is whatever [members] purchase it goes on one account.” The operational strategy is aimed at creating awareness of agencies amongst members and sustaining long-term benefits in the relationships.

7.5.6 Retail

The retail function coordinates with the other functions and with the twenty-six branches. Retail monitors the branches on a daily basis and ensures that they are profitable. Also, retail must ensure that branches are capable of delivering corporate and business strategy, through their interactions with customers.

7.5.7 Branches

Branches deliver the corporate and business strategy, as they are Farmlands primary contact with customers. The manager of each branch must ensure staff provide excellent customer service, as part of differentiation, “The biggest challenge is you can lose people [that is staff] if you don’t look after them, because it’s a people game”. Also, branches market locally to customers and aim to “get members into the branch and make them happy.”

7.6 Summary

Farmlands is focused on meeting the long-term needs of members, which means profitability must be sustained. Geographical expansion achieved through the opening of new branches, and acquiring other retail organisations, has been part of Farmlands ongoing corporate strategy. This has enabled Farmlands to gain economies of scale in purchasing power and administration costs. Diversification, through products and agencies, has attracted many
members. Farmlands has four customer groups, which are targeted with different business strategies.

There are common themes in its business strategies. Farmlands typology is an analyser, as they focus on core products in the rural market and only deal in non-core products when the opportunity is profitable. Strategic position in Farmlands has been one of breadth, as it focuses on price, value-added products, and customer service. Derived from their expansion policy, Farmlands’ mission has been to build market share by increasing its number of customers and the amount they purchase. The operational strategies, executed through Farmlands’ functions, have supported the corporate and business strategies. Overall, Farmlands’ strategy has been achieved because of strong leadership, as well as elements in its structure, which are described in the next chapter.
8. FINDINGS – STRUCTURE

“I keep saying to the [function managers and staff] here: The branches are our customers and we have to service the branches. The branches service the members.” – Chief Executive

8.1 Introduction

The structure of Farmlands is described in this chapter. Emphasis is placed on planning, control, evaluation and decision-making processes. Describing these elements shifts the focus of this chapter on to the formal elements of structure, although informal elements are identified where they are used to support or supplement the formal structure. The next sections describe Farmlands’ centralised type and responsibility centres. These sections portray the framework in which Farmlands operates, specifically that the size of the organisation causes an overlap in management roles between the different levels of structure.

The remainder of this chapter is divided into two sections. Firstly, planning and control at the corporate- and business-level, which are the standard procedures and rules used to guide Farmlands are described. Secondly, retail decision-making, which are used to achieve the task efficiency and effectiveness, are described.

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23 The structure of Farmlands is complex and detailed. Many aspects of the structure are not included in this chapter, as they are outside the scope of management accounting information systems as described in Chapter 4. Also, the evidence collected is incomplete on issues unrelated to management accounting information systems. Therefore, it would not be appropriate to describe elements of structure, which have not been thoroughly investigated.
8.2 Type – Centralised

Farmlands’ hierarchy is centralised: “you don’t have a lot of bullshit [sic] to go through to get a decision”. There are five functions: merchandise, retail, marketing, commercial, and Farmcard. The Chief Executive and the five function managers coordinate daily. Effectively this team of six operate as one business unit, incorporating both corporate and business level actions. Each function in the business unit provides services to the operational units or retail branches. Farmlands centralised type is depicted in figure 8.1:

![Diagram of Farmlands' Type - Centralised](image)

**Figure 8.1: Farmlands’ Type - Centralised**

Farmlands is a small organisation in comparison to large multinational organisations, for which models of management accounting information systems are designed (Anthony, 1965; Anthony and Govindarajan (2001). Farmlands’ size can be paralleled to a division of a multinational. However, in the context of New Zealand Farmlands is large, as it is ranked within the top 100 companies. Its’ size ensures function managers have dual roles at each level in the organisation. A general description of the purpose of each part of Farmlands is given below:

- The board of directors governs Farmlands. There are nine directors, of which one is independent. The board meets monthly to review and discuss monthly executive reports. In general the board’s role is to: hire or fire the Chief Executive, review and approve the strategic plan and budget, and evaluate and remunerate the Chief Executive.
- The Chief Executive’s role involves: driving the strategic planning and budgeting process, allocating resources, determining formal procedures, evaluating performance of function managers, and setting remuneration and human resource policy.

- Function managers are involved at the corporate level, as they assist in strategic planning and budgeting. Primarily, they guide their function towards ensuring branches and agencies effectively service customers and generate profits.

- Middle managers (product, area, and account) are involved at the business and operational level, as they assist in strategic planning and budgeting. Primarily, they manage Farmlands’ relationship with suppliers, branches, and agencies.

- Branch or operation managers control all activities specific to their branch and the surrounding area where their customers live and do business.

8.3 Responsibility Centres

Each function in figure 8.1 is a responsibility centre, as well as the branches. For example, the marketing function is a revenue centre, as it is responsible for increasing sales through advertising and promotions. However, Farmlands’ formal responsibility centres are divided between the 26 operating units and headquarters (or the functions).

Headquarters is a profit centre:

“That [revenue from agency sales] is kept separate... the agency side is part of the office, so that profit... basically keeps head office ticking. The branches don’t get charged a bunch of money by us, that is why they can see the advantages of boosting Farmacard. Because Farmacard pays for head office.”

Each branch or operating unit is also a profit centre:

“Each one of the branches runs as a separate profit centre, and each one is responsible for every [product] cost they’ve got, and all [operating] expenses that they have. Nothing can be paid from head office without their [operations manager’s] authority, and nothing can be debited to their expenses without them knowing about it.”
Table 8.1 summarises what headquarters and branches are responsible for:

<table>
<thead>
<tr>
<th>Financial Item</th>
<th>Headquarters</th>
<th>Branch</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>Agency sales plus notional rent</td>
<td>Branch sales = price x volume</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Price set by headquarters, but branch can override to remain competitive</td>
</tr>
<tr>
<td>Cost of Sales</td>
<td>Cost of agency sales</td>
<td>Cost of products sold</td>
</tr>
<tr>
<td>Expenses</td>
<td>Total expenses</td>
<td>Branch Operating Expenses</td>
</tr>
<tr>
<td></td>
<td>For example:</td>
<td>For example:</td>
</tr>
<tr>
<td></td>
<td>- Marketing costs not associated to a specific branch</td>
<td>- Salaries and wages</td>
</tr>
<tr>
<td></td>
<td>- Training for all personnel</td>
<td>- Marketing costs specific to a branch</td>
</tr>
<tr>
<td></td>
<td>Not included:</td>
<td>- Rent on facilities (or notional rent paid to headquarters if Farmlands owns the premises)</td>
</tr>
<tr>
<td></td>
<td>- Branch Operating Expenses</td>
<td></td>
</tr>
<tr>
<td>Profit</td>
<td>Consolidated profit less tax</td>
<td>Branch profit before tax</td>
</tr>
<tr>
<td>Bonus Rebates</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td>Share capital plus retained earnings</td>
<td></td>
</tr>
<tr>
<td>Current Assets</td>
<td>100% including:</td>
<td>Controlled by headquarters:</td>
</tr>
<tr>
<td></td>
<td>- Cash</td>
<td>- Allocated cash levels (minimal)</td>
</tr>
<tr>
<td></td>
<td>- Inventory</td>
<td>- Not responsible for debtors</td>
</tr>
<tr>
<td></td>
<td>- Debtors</td>
<td>- Allocated inventory levels</td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>100% including:</td>
<td>Controlled by headquarters:</td>
</tr>
<tr>
<td></td>
<td>- Overdraft facilities</td>
<td>- Branch informs and approves current liabilities to be paid by headquarters</td>
</tr>
<tr>
<td></td>
<td>- Creditors</td>
<td></td>
</tr>
<tr>
<td>Fixed Assets</td>
<td>100% including:</td>
<td>Controlled by headquarters:</td>
</tr>
<tr>
<td></td>
<td>- Equipment, fixtures, and property</td>
<td>- Allocated fixed asset levels</td>
</tr>
<tr>
<td>Term Liabilities</td>
<td>100%, although there have not been any for at least the last nine years</td>
<td></td>
</tr>
</tbody>
</table>

**Table 8.1: Profit Centres – Financial responsibilities**

Table 8.1 identifies the formal responsibilities of headquarters and branches. Branches are each subject to the same controls. Also, branches are responsible for financial items that are specific to the operational unit. Branch managers are motivated by profit and are allocated inventory based on sales. The controls in table 8.1 are discussed in more detail throughout the remainder of this chapter.

### 8.4 Planning and Control: Corporate and Business Level

**8.4.1 Strategic Planning and Budget Formulation**

Chapter 4 described that, in general, an organisation formulates a strategic plan then formulates a budget. However, Farmlands’ strategic planning and budgeting formulation
processes are integrated. Also, the management performance evaluation and compensation scheme is integrated into the process. Table 8.2 summaries the strategic planning and budgeting process:

<table>
<thead>
<tr>
<th>Month</th>
<th>Process</th>
<th>Level of Involvement</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>April</td>
<td>¼ Annual Result</td>
<td>Board of Directors</td>
<td>Direction given to management for the next year’s annual plan</td>
</tr>
<tr>
<td></td>
<td>Long-term (5 year) Strategic Plan</td>
<td>Board, Chief Executive,</td>
<td>Once every three years the long-term plan is re-formulated over one or more days</td>
</tr>
<tr>
<td></td>
<td></td>
<td>and Functional Managers</td>
<td></td>
</tr>
<tr>
<td>May</td>
<td>Annual Strategic Plan Formulation</td>
<td>Chief Executive and</td>
<td>Annual plan formulated centrally, although operation managers are kept informed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Functional Managers</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2. Operation (or Branch) Managers formulate plan and budget. Retail Function consolidates into one budget</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>3. Chief Executive and Commercial Manager review and approve budgets</td>
</tr>
<tr>
<td>July</td>
<td>Plan and Budget</td>
<td>Board and Chief</td>
<td>Board reviews, then orders revisions or approves</td>
</tr>
<tr>
<td></td>
<td>Presentation to Board</td>
<td>Executive</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Reward Schemes</td>
<td>Remuneration Committee and Chief Executive</td>
<td>Chief Executive salary package set, 75% fixed and 25% based on bonus criteria. Employee bonus scheme set.</td>
</tr>
<tr>
<td>August</td>
<td>Annual Financial</td>
<td>Board and Chief</td>
<td>Board discusses annual financial result and determines if Chief Executive should receive bonus</td>
</tr>
<tr>
<td></td>
<td>Result</td>
<td>Executive</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Management Conference</td>
<td>Chief Executive and all</td>
<td>- Annual financial result and annual plan presented to management.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>managers</td>
<td>- Managers receive function and branch budgets</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Managers present plans</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Strategic Video Filmed</td>
</tr>
<tr>
<td></td>
<td>Strategy Video</td>
<td>All personnel</td>
<td>Personnel watch and discuss the strategy video and budget with their manager</td>
</tr>
<tr>
<td>September</td>
<td>Salary Review</td>
<td>Management and</td>
<td>Past performance reviewed and next year’s salary agreed upon</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Personnel</td>
<td></td>
</tr>
<tr>
<td>January – February</td>
<td>Performance Review</td>
<td>Management and</td>
<td>Future goals discussed, including any training required.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Personnel</td>
<td></td>
</tr>
<tr>
<td>March</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 8.2: Strategic Planning and Budgeting Formulation

8.4.1.1 Three-quarters Annual Result

"In the April board meeting we discus the three-quarters result and where to next. We don’t just focus on reports that management might give us. We focus on our strategies, and what opportunities are coming up."
The board gives direction to the Chief Executive, so that he can begin the annual planning and budgeting process.

8.4.1.2 Long-term Strategic Plan – Formulation

Once every three years the board, the Chief Executive, and function managers re-formulate the five year strategic plan:

"Every three years we do a strategic review where by the management team and directors go away for a couple of days with a facilitator. We start from scratch or pull [the previous five year plan] apart. And say what are the major changes in the market. What do we need to do to remain relevant and maintain our position... The strategic plan is on a general level. The actual detail comes into the annual business plan. For example, in the strategic plan 7 years ago we identified that we were too reliant on the East coast, that is why we got into dairy and moved over the hills. We became less dependent on sheep and beef [on the East Coast]. At the business plan level we decided what we are going to do, for example we said we would open a store in Matamata."

8.4.1.3 Annual Strategic Plan – Preliminary Formulation

For management, the annual planning process begins with an examination of the strategic plan and guidance given by the board. "The management team develops an annual plan each year; it redefines where Farmlands is going and how management is going to operate the business." The Chief Executive formulates the preliminary annual business plan, with extensive input from the function managers. Operational managers may be consulted on issues related to their branches, and are kept informed of the content of the preliminary plan.

8.4.1.4 Budget Formulation

Farmlands’ budget formulation process is zero-based: "We’re all pretty ruthless. And [the Chief Executive] is ruthless in zero-rating the business plan. It’s not just an add on from last year... It’s a legitimate cost or value-added". Zero-based budgeting requires Farmlands’
managers to provide reasoning for the figures, that is a plan accompanies the budget. Nonetheless, “budgets are compared to previous years. Budgets contain figures from the previous year as a comparison. If there is a big change for some reason we can see if that has happened before.”

Planning and budgeting is integrated, specifically in branches where a plan and budget are created in one step. Each function and branch formulates a budget. The commercial budget focuses on headquarters expenses. The Farmacard budget focuses on estimating discounts from agencies and the volume of sales. The marketing budget focuses on the impact of advertising and promotion. The merchandise budget focuses on determining the cost and price of products sold in the branches.

The Farmacard manager commented on the budget formulation process:

“We lock ourselves up for a whole day, which is hard work, and we go through every single category. We argue and debate: ‘what can be the realistic percentage on this year?’, ‘why has it been good this year?’, ‘can we possibly do it next year?’; ‘what are we going to do in the marketing plan?’; or ‘who are we going to target to make it rise another 20%?’. So we crunch it to the nth degree and we get a figure in our head.”

Branches are consulted as to the realism of the figures:

“Then we send it all out to the branches… ‘What do you think?’ They straightaway go ‘I don’t know’. The team rings them and we get a feel from the branches what they think... and we go ‘yes, we’ve got a feeling from both sides of the fence’. Then we go away and put it into the big picture.”

While each manager in these functions participates in formulating the budget, only one budget is necessary as each function consists of few personnel. Conversely, the retail function is large and more complex with senior, middle, and operation managers.
The retail function budget is formulated bottom-up (Anthony and Govindarajan, 2001). Operation managers use information from the initial plan and information from the merchandise budget to construct their budgets. Operation managers consider patterns in previous year’s sales. Branch budgets are determined in three steps: first they analyse the branches’ strengths, weaknesses, opportunities and threats, and secondly they discuss with personnel next year’s sales level.

“Each branch manager participates. They have 13 product categories, they look at each one and work out where the opportunity is to grow the business in that area. They budget for each area. Staff within the store know in their speciality product how to sell and how much.”

The third step involves budgeting for expenses. When the budget is complete, financial information is accompanied with explanations. The budgets are then consolidated by the retail function.

All the function budgets are consolidated together and examined by the Commercial manager and Chief Executive. The information systems allow the consolidated budget to be broken down “by product group, geographical area [branches and agencies], or month”. The Chief Executive and Commercial manager examine the areas that do not meet expectations and break them down in to smaller areas. Explanations are sort and possibly revisions are ordered: “If the bottom line is not enough, then they have to increase sales or decrease expenses, simple as that.”

A branch manager commented on the process:

“Staff in each area know how much sales may total up to... I’ve never had a budget changed [after submission to head office], but I believe they do change them. They will change it if they think it’s too low. I like to keep goal posts quite high.”
Also, a function manager commented on the process:

"Then it goes from [the function manager] to [the Chief Executive], and [the Chief Executive] goes 'that's not my feeling at all', and it goes back one way or the other, we basically do the coffee grinding again. But normally it is pretty well spot on. As long as I can stand by it, and [the Chief Executive] will come stomping in here 'And why is that?' and I go 'because of... ' and [the Chief Executive] says 'Ok'."

Once the Chief Executive approves the function budgets, the annual plan and consolidated budget are finalised for presentation to the board.

8.4.1.5 Annual Plan and Budget Finalisation – Review and Approval

The board of directors reviews the plan and budget. Enquires are made into figures that may be below expectations:

"The board may say 'your budget is soft' and I say 'no it has gone up in this category, but these categories are flat for these reasons'. And that's where the coffee grinder comes in [knowledge from the formulation of the budget] we all have a good grip on it."

8.4.1.6 Reward Schemes

After the annual plan and budget are approved the remuneration committee (a subset of the board) meets to determine the Chief Executive's remuneration package. His salary is fixed for the following year. Seventy-five percent is paid regularly. Twenty-five percent, a one-off payment, is subject to achieving specific goals derived from the annual plan and budget.

"About 25% of my salary is at risk... it revolves around sales growth, profitability and margin... 50% of my bonus relies on profit, 20% on sales... and if there are any strategic issues that are important, for example there may be two new branches expected to be opened, they may tag 10% of my bonus towards that... They will change those percentages according to where they want my effort to go”
8.4.1.7 Annual Financial Result

The completion of the budgeting process coincides with the determination of the annual financial result. Effectively, the annual financial reports are presented to the board. Also, additional information is provided, as the Chief Executive will compare the result with the previous year’s business plan and budget. The board will determine whether the Chief Executive met the criteria for his bonus or not. The bonus is determined objectively, although other factors are considered.

"A couple of years ago I was just slightly short of the target margin... In that year we become more aggressive to the corporate part of the market, that’s big farmers, selling big items. We deliver from a manufacturer and drop it off on the farm. But we have a finer margin. It was part of our strategy... to become more aggressive in that part of the market. We did it very successfully, our sales and profitability went up, but our percentage margin was a bit below what we projected. So I was able to convince the board ‘sure the percentage is back a bit, but we are about a million dollars extra in gross profit’... So I didn’t get penalised.”

8.4.1.8 Management Conference

In August Farmlands holds a management conference. The Chief Executive, function managers, middle managers, and branch managers attend. The annual financial result, and the next year’s plan and budget are presented, which includes an individual budget for each function manager, middle manager, and branch manager. During the conference, all managers present their plans, which includes opportunities in their areas of responsibility, and Farmlands in general. "The idea is to align our objectives together.” After conference a video is recorded, which “shares the results and successes, [and] talks about objectives.”

8.4.1.9 Strategic Alignment

The strategy video and budgets are then viewed and discussed by branch personnel: “All branches have ten days to organise a staff meeting to watch and discuss the video.” This
process is designed to align staff objectives with the intended corporate and business strategies.

8.4.1.10 Salary and Performance Review

To reinforce the objectives in the annual plan and strategy video a salary review for management and personnel begins in September. The salary review focuses on the past performance of individuals and sets their salaries for the following year. Also, in January a performance review is conducted, which examines individual goals from the previous year and sets goals for the future. The performance review acts as a “cross-check” that individuals are behaving in the desired way. Management reviews are discussed here, while branch employee reviews are discussed under operational planning and control.

Function managers, middle managers, and branch managers are each assessed by their superiors. The management salary review examines the individual’s previous year’s budget and compares it to the actual result:

“They have got to be performing. They have got to be achieving sales and budgets... The [branch] managers, well they have a sales objective on a monthly basis, and a margin percentage profit... Its quite objective rather than subjective through senior management.”

If targets are not met managers will not receive a salary increase, but as long as they have performed their job acceptably then their salary will not decrease either:

“[The] process is important. If you miss your target because of external factors you may not get a bonus but you will not be punished.”

The salary review is an output control, as it focuses on results, whereas the performance review is a behaviour control, as it focuses on processes:
"We have a performance review done annually at the beginning of the year, that sort of sets the goals and talks about what goals were achieved for the previous year. That's quite a broad approach."

"You must hold people accountable for the process. It's demoralising to be held accountable for the number and not to have input into the process. That's been the key... stepping back and looking in."

The performance review effectively focuses on the job description of the manager. The processes that they perform are examined. The future of managers with Farmlands is discussed, that is promotion opportunities. Also, any training that may be required to improve their performance is discussed.

8.4.1.11 Bonus Scheme

Management and personnel at Farmlands are rewarded through their salary. Currently Farmlands does not have an individual bonus scheme. In 2001, the Chief Executive put forward a bonus scheme that rewarded all employees because Farmlands had far exceeded profit expectations. Management and employees got the choice of a reward, for example a middle manager got the choice of "a weekend away, a refrigerator, a coffee maker, washing machine, a DVD player, or they could take cash."

In the future, Farmlands may implement an individual bonus scheme:

"For the next year in this business plan, we are putting in a different form of incentive scheme for the branches, and that's based on a European [model]... it will just be based on sales [and] people will be paid in terms of a portion of their salary, so its all quite clear and quite transparent... There is a provision in there, if they meet sales after 6 months they get a pay out at that stage."

In general, the planning process is linked to the performance evaluation and reward system.

The other management controls used are also linked to the strategic plan.
8.4.2 Management Control

Farmlands’ management controls are designed to support its strategies. The Chief Executive commented on the nature of the controls:

“We don’t have all the crap of what is the correct procedure... We make sure people put their energy into things that are productive... We’re always assessing everything.”

Previously, responsibility centre controls and employee performance evaluation have been described. Management controls described here include: budget control, function management coordination, customer evaluation, benchmarking, target pricing, and capital investment decisions.

8.4.2.1 Budget Control

Budgets are controlled tightly at Farmlands. Firstly, the board of directors closely monitors the annual plan and budget:

“Out of that [the annual plan and budget] we build our performance indicators for the year... That’s monitored closely as we go through the year. We look at budget compared to last year.”

The Chief Executive and function managers also monitor their budgets closely:

“Month by month we really know what we are making. We can tell if it doesn’t [meet the target]. Sirens, beeps, and lights flash if its not going according to budget.”

Centralisation at Farmlands causes each function’s budget to impact on other functions, therefore managers also check other function manager’s budget progress.
8.4.2.2 Function Management Coordination

Centralisation causes overlaps between function manager’s jobs. A high degree of coordination is required between function managers and the Chief Executive. There is a strong culture at Farmlands’ headquarters. Function managers know the boundaries of their jobs, but provide support to others function managers. There is a lot of informal communication between senior managers:

"[At Farmlands] management can freely make suggestions to other people... When I came here I thought ‘this is stepping back in time. We’ve got doors and walls. This is not conducive to consultation. This can’t work.’ Yet I came from a corporate with an open plan office... with a so-called environment where everyone can bounce ideas off each other, yet everyone protected their desk with their egos. So it’s not so much about the physical, it’s about the mental. It would be a disaster if we [function managers] could not walk in to each other’s offices and bounce those ideas."

8.4.2.3 Customer Evaluation

Function managers require information about customers to determine how best to implement strategy in their function. The marketing function collects, analyses, and distributes customer information throughout Farmlands. The primary source of information is from Farmlands’ customer information database:

"Being a member you have given me a certain amount of information that I can use to market to you. As a customer we’ve got heaps and heaps of sales information about you."
Information is also collected from branch reports and meetings with personnel, as well as customer surveys and customer focus groups. At the business level, this information is used to determine a strategic position for each customer group, for example:

"We have in our database 7% of our membership that say they are retired, but it's a lot higher than that. Its just some members don't tell us they're retired... That market is getting bigger. Those retired members have a lot of discretionary spending. We have to get them to spend with us, rather than just resign or do nothing and go into the cobwebs. They still have to get insurance, fuel, and telecom. And this is all stuff we sell at branches and through Farmacard [agencies]."

Farmlands focus on customer revenue, rather than customer profitability.

8.4.2.4 Competitor Analysis

Farmlands compares its strategy, structure, and performance to other organisations. Competitor analysis can assist Farmlands in determining corporate and business strategy, that is to determine where there are opportunities in the market:

"Anchormart are dairy only and that limits their potential to capture the big sale. If you look at Wrightsons, they have been going up and down like a yo-yo, with no faith or confidence in their business from the consumer. When they [Wrightsons] have a special on a commodity product they [consumers] go in there. Williams and Kettle is solely focused on dry stock. I think [Farmlands] biggest success factor is our diversity."

Also, Farmlands compares salaries it pays to similar to organisations:

"Salary is the basic form of recognition and we aim to pay our personnel in the upper quartile with in our industry."

Finally, Farmlands compares its performance against other organisations:

"We look at Rams and Damns [industry] figures on a regular basis. All I can say is based on our catchment we have the greatest market share of any rural retailer in New Zealand. Based on national distribution it is very poor. But if we compare Farmlands’ store sales to store sales of our opposition, then Farmlands by far blows the opposition away."
8.4.2.5 Pricing and Marketing Decisions

Customer evaluation and comparisons provide information for determining the products and agencies which Farmlands wants to be involved with. Farmlands has two pricing systems. Firstly, the Farmacard function negotiates discounts for members from agencies. Farmlands uses its membership base and marketing ability to secure the maximum possible discount. The Farmacard function may compare discounts with other organisation's loyalty schemes to determine if the discount offered is competitive.

Secondly, the merchandise function uses a target pricing system to determine price, margin and cost of products:

"Rural retail today is no longer about cost-plus, those days are gone. The market sets the price. It's about how you can negotiate the buying price."

To determine the competitive price of a product Farmlands uses independent organisations to survey the price among competitors, as well as information from customers that may visit competitors’ stores.

Similarly to Farmacard, merchandise uses Farmlands size to reduce the cost of products and achieve the budgeted margins.

"We have to negotiate our profit back the other way. We have to lever our position: 14,500 members, 26 branches, history. These all help us reduce the cost. We offer our suppliers the best forum to deliver their product to the market, there is no doubt about that."

The merchandise function negotiates with suppliers using either long-term supply contracts or short-term bulk orders. Farmlands prefers long-term contracts where prices are fixed to provide certainty for branch managers purchases. However, if a supplier offers a special deal
for a large quantity of inventory, then Farmlands will purchase it, as long as branch managers collectively feel they can sell it.

When negotiating with suppliers the product cost is not the only factor considered. Quality and product warranties are also important: *"We have to have faith in the product."* Also, staff training is important, as employees need to have the knowledge to tell customers how to use products, especially chemicals, *"A lot of that information is given to us freely by the manufacturer, who gives our staff training."* Finally, a *"trade spend"* is negotiated, which is a percentage of purchases from the manufacturers used to market their products to Farmlands customers:

"Say a supplier has one million dollars of business with Farmlands. One percent may go into dually owned and managed trade spend. That pool of money is used to market that product until the end of the year. Farmlands doesn’t contribute to the pool directly. We use the money for promotions. Then we look at what the spend was and how much the result was. It makes you look closer at promotions, otherwise it is hard to quantify. I don’t have to ask [the marketing manager] for money to market products."

The target pricing system means that inventory is managed traditionally, as the cost of the product drives the amount accumulated, thus, a large proportion of capital investment at Farmlands is in inventory.

8.4.2.6 Capital Investment Decisions

Capital investment at Farmlands is in the form of inventory, equipment, fixtures, and fittings for new branches. Few buildings are purchased, as most branches premises are leased. Also, the cost of hiring new staff and training them can be high. Capital investment decisions are based on qualitative information. For example, a function manager commented on the characteristics a potential branch location must have:
"Farmers need to be able to bring big vehicles into our branches, but we still want foot traffic. We also need to be close to agencies in town."

Formal discounted cash flow analysis is not used, but new branches are expected to have high returns:

"For a new location we would expect that [the branch] sales would go up [throughout] the year between 15 and 25%.

The management controls set rules and procedures for Farmlands.

8.5 Retail Decision-Making

Farmlands decision-making systems are designed to ensure task efficiency and effectiveness. Senior management and branch managers use these mechanisms. Firstly, the Chief Executive, function and middle managers use operational controls, which focus on management by walking around, meetings and reports, and management by exception. Secondly, branch managers’ use operational planning and controls which include: branch budgeting and inventory management, marketing controls, branch committees, selling control, management by exception, and performance evaluation.
8.5.1 Management by walking around

The Chief Executive is active at Farmlands. He regularly visits the 26 branches, speaks to members, holds focus groups, and attends community events:

"I am approachable by members. It is an important part of our culture. Members can phone or e-mail me. I write an article in the monthly newsletter and invite people to contact me. Recently we had a focus group in Matamata with 20 members. I fronted it with the Chairman and executives. Its part of our research, very informal, 'are we meeting their expectations?' We cover stock, range, pricing, invoicing, ... the whole bit. [Similarly,] at Morrinsville's opening night, I greeted everyone at the door and introduced myself. They think they know me because they see my photo there every month in the newsletter... they call me [by my first name]... they don't realise I don't know them."

Being seen in public, and being accessible to members enables the Chief Executive to see how well the intended strategy is being achieved at the operational level or "coal face". This control is interactive, as it provides feedback on strategy and enables corrective action to be taken.

Customer complaints or "issues" are dealt with by senior management, which enables management to gain feedback on customer satisfaction, as well as providing a check on branch performance. The Chief Executive commented:

"I will get perhaps twice a month a letter or a call from somebody saying that they have this problem, and I deal with it. I always go back to the member to check the issue is resolved. If you deal with issues in a positive way, take ownership of the issue, get it addressed, then you end up with a higher level of commitment. My parting shot is always 'whenever you have any concerns feel free to contact me direct. Just give me a call.' You leave people with the understanding that you care."

---

24 Anthony and Govindarajan (2001, p.62) state that "[m]anagers come in all shapes and sizes... Some spend much time looking and talking to people ("management by walking around")." Farmlands' Chief Executive uses this approach to management.
The merchandise manager commented:

"When a member complains, it should be as important to me as if my mother complains, who is also a member. I want to make sure that the experience they get out of the complaint [handling process] is a positive one. As a member if I point out an issue and get a letter or phone call responding to me, I'm going to feel really good that its been recognised... A letter will detail the mechanics put in place to deal with the issue... Getting a letter that says we recognise your complaint and we will look into it means nothing. So I like to talk to and consult with my members, ask them their opinion. To be number one you have to have their input."

Also, function managers use branch visits as an interactive control, as it stimulates organisational learning. They are able to better understand the effect of their decisions at the operational level:

"Every chance I get I like to get into a branch. One of the biggest problems with today is that [organisations] are not talking to their customers... I know what I think you want, but it might be miles away from what you want."

The job of middle (category, account, and area) managers is to visit branches, suppliers, agencies, and members. Their role is to deal with day-to-day operational matters, thus ensuring each party is committed to Farmlands. For example:

"Category managers manage day to day operations, they monitor profitability, turnover, and margin. Also, they plan promotions with suppliers, what and when to promote. And they negotiate deals. They are the mother [or in charge] of that category. They liaise between the supplier and branches. They determine volume, price, and timing for decisions on products, in consultation with branch managers."

8.5.2 Meetings and Reporting

Formal controls are also used to stimulate organisational learning (Kloot, 1997). Meetings are held throughout the organisation. Every month the board meets with the Chief Executive and occasionally function managers will present reports to the board. The directors are also farmers and management uses the board meetings to present new opportunities to them. In this way the board can act as a focus group of customers.
Every week the Chief Executive meets with the function managers. Each person presents a report on their function and comments on strategy, budgets, control, or any relevant issue. Also, every six weeks branch managers meet with the senior managers at Farmlands’ headquarters. Again, strategic and operational issues are discussed and plans are revised. Finally, branch managers hold a meeting with their personnel every week to discuss operational issues. Formal meetings are used in Farmlands to check on progress, and to provide information on potential threats and opportunities.

Also, employees are encouraged to improve the efficiency and effectiveness of operations within branches:

“I encourage people all the time, 'Stop moaning, just go and fix it, just make it happen, just do it', cause if you wait for someone else you'll be waiting forever. It's easier to pop that information down and they [function managers] can deal with it. If they don't know, they can't fix it.”

Similar to customer complaints, employee complaints are dealt with through a formal letter explaining how the issue was resolved. Employees are rewarded for their ideas, with a quarterly “best idea award”. The recipient receives a small cash bonus and recognition from the Chief Executive for their initiative.

Management learns through the reporting system whereby branch managers:

“Every Wednesday send a report by e-mail to us. It tells us what all the stores have done, up until the previous Friday in terms of sales plus margin. Every time we make a sale we have the cost of the product in the system, so we know what the margin is. Profit margins over stores are benchmarked against each other, and compared to targets.”
The reports also contain qualitative information, which generally explains why targets have or have not met, as well as comments from employees and members:

"The monthly reporting function feeds back information and includes member feedback. Often reports from different branches will have the same comments."

Reports provide information that is analysed and if necessary action can be taken.

8.5.3 Management by exception

Function managers scrutinise monthly branch reports, as well as reports they generate themselves. Management by exception is the rule:

"Reports are on a consolidated basis and are designed to monitor. If a problem occurs, for example stock levels rise, then I can go deeper into branches, products etc, and ask 'why stock levels have risen?' If the numbers are out then an explanation is sort. Traceability and accountability are big time [important] with us."

Budgeted targets for each function manager are monitored constantly. If any item is inconsistent with the standard, then it is investigated:

"If a new branch does not meet the budget then we get in there and work out what's gone wrong, maybe our advertising or promotional work hasn't been as good."

"We keep an eye on those [monthly reports] and if anything raises the eye we ask questions."

"We keep the finger on the purse by having the systems in place to identify problems."

Similarly, member account payments are also monitored closely:

"If they don't pay us by the 20th of the month following, they lose all those rebates [that is the discount on sale]. We don't have a bad debt problem. Everybody sins once because they've forgotten, then they see what it costs them and they never do it again."
Also, member account purchases are monitored closely. As previously mentioned customers are evaluated through sales information. At an operational level, individual customers can be targeted by product group or agency group. Managers look for customers that are not spending in specific areas, when similar customers are. Then these customers can be informed of the discounts they are not receiving from purchasing elsewhere.

"I can go through and see the negatives and positives. We ask the database how the key accounts are going."

Farmlands’ management closely monitors customers, branches, and agencies. When an exceptions occur, managers investigate them immediately, so corrective action can be taken.

### 8.5.4 Branch budgeting and inventory management

Branch budgets are zero-based and tight. The branch managers and personnel use their experience to formulate the budget. Each month a branch has a target to achieve, but as the year and circumstances progress, each month a branch must re-assess what inventory they need for next month. Branches are authorised to purchase a specified level of inventory, but they must determine which products to purchase:

"Each store is allocated a stock level based on a minimum of six stock turns a year... There are some products which each store must have, for example in the newsletter each month there are specials so each store must carry those items."

Inventory management in branches is traditional, as stock is purchased in bulk quantities a month or more in advance. Branch managers must rely on the experience of branch staff when purchasing stock:

"As a general rule I try and buy it and sell it in the same month."

"[Branch staff] have got a better feel for their area of the market than I do."
"[For example,] a [salesperson] said, 'I'm going to sell $400,000 worth of fencing next month', I said 'narr! [no]', I would never have budgeted for that high, so I put it down a little bit, but he bloody well has! He has done it already [on the 14th] and the month hasn't even gone. Its important to involve them [staff], they are the ones dealing with corporate business. With the seasonality of things [budgets] change."

Branches have fixed budgets, but inventory is not managed directly from the budget. Each month the branch personnel plan ahead. In order to reach targets, branch personnel also actively promote their branch to the public.

8.5.5 Marketing control

There are two ways branches sell products. Firstly, they can sell products to customers when they enter the branch. This involves making sure staff have training in sales and have knowledge in their product area:

"We're continuing working on building people's knowledge up. They've got to be at an acceptable base level. Customers like to come where people know a lot about something. You've got to get it right with farmers, cause you don't get a second chance with them."

Secondly, they can seek out the customers and sell products directly to them. This involves a geographical map on the wall of each branch, which details where members and non-members farms are located:

"That is a pretty important map. It gives all the roads, which we have farm members or customers on. We don't have representatives on the road, but we, together with suppliers get out there... When we plan our canvassing we use it to work out which routes to take. We do a lot of phone canvassing, and we do a history on the previous months, year's sales. Find out who bought the product and ring them up. And often we spend two or three days with those important products, canvassing. And we might not sell anything, on the other hand we are putting our name in front of the customer and that's what its about."
Branches use training, local area maps, and sales information as a control to promote Farmlands to customers and to increase sales.

8.5.6 Branch Committees
To manage a branch efficiently and effectively, branches have various committees that deal with operational issues, such as budgeting, managing inventory, and product display, as well as others. Committees provide an opportunity for learning between the branch managers and their staff.

8.5.7 Selling Control
Target pricing is used in Farmlands (Hansen and Mowen, 2000). Branches do not set the price of products, however, Farmlands aims to maintain competitiveness. Sales people are able to override the price and offer extra discounts to customers. The branch computer will show the sales person the margin on the product, so that the any overrides are always above the cost price. Sales people also have other options than just decreasing the price:

"I take a lot of farmers off our local opposition cause I sell them products. If it's the same product and your price is a bit more than the opposition they'll walk. They might stay if you give them a give-away [an extra product for free]. Even then they might still walk. To be honest, were more order-takers today, than salesmen [sic]. Twenty years ago we were salesmen [sic], today were just customer service and price."

In branches sales staff need to be aware of the different business strategies, that is they need to allocate their time carefully:

"'Are shit [sic] here's Mr X, he's going to be dicking [sic] with us trying to get another cent off. And here comes dear old Mrs Y.' The thing is Mr X is probably working on a few ton of product, whereas dear old Mrs Y is coming in for a jersey and wanting to spend all day talking to me. You've got to be careful, just because they're members, and they own you, that you don't put them in the same pot."
8.5.8 Branch Management by Exception

Similar to function managers, branch managers closely monitor the budget, inventory levels, and margins. Again, management by exception is the rule:

"When you look at your branch reports, you flick through and go 'hay what's that?' You get to know what you are looking for. Sometimes figures may be out because of timing, for example an item bought at the end of the month, and not sold till next month, then two months figures are out, but they balance each other out."

"I look at the daily cost to sales report. Usually you can easily explain problems. We might have dropped a product to half price to get rid of it. Or an item may have been entered into the computer at the wrong cost or price. 99% of the time you go back and its just a simple error."

"The daily price override report is important, I look at negative or low margins and see what's going on."

"We also focus on stock over $2000, you can pick up a problem quickly."

"If something was drastically out then an executive rings you up and asks about the suspect items."

Management by exception ensures that issues are dealt with in a timely manner. As an output control, it feeds back information on performance, and acts as a check on forward feeding and behavioural controls (Langfield-Smith, 1997; Ouchi, 1977, 1979).
8.5.9 Performance evaluation

Performance evaluation of employees within branches is another feedback control (Langfield-Smith, 1997). All employees have a salary and a performance review. During the salary review, the branch manager evaluates employees using a standardised form based on 12 criteria to rank employees:

"The salary review is based on performance. Staff get a salary increase if they are working well. If not, they get no increase, and are told to shape up [ie perform to the required standard]. They are rated over about twelve items and there is space in there for comments. The comments are about team effort, [staff] knowledge, as well as their commitment and contributions at staff meetings."

"Their salary depends on their qualifications, attitudes, approaches to work, and efforts in developing their product knowledge all the time... all that impacts on their value, so we pay people according to their value."

In contrast, the performance review sets goals for the future. The future of employees will be discussed, as well as training required for them to attain their goals. However, a branch manager commented:

"We have a formal appraisal every year, but I like to do it every quarter, so you have a better [understanding] of your goals."

8.6 Summary

Farmlands’ structure is geared towards strategy achievement. Its centralised type causes senior management to be involved at the business and operational levels. Leadership is important to control the structure. Responsibility to divided between headquarters and branches, which are both profit centres. Branches are responsible for sales and expenses, which they have direct control over. Headquarters controls branches by setting product prices centrally and allocating resources based on sales volume.
The strategic planning and budgeting processes are integrated. The Chief Executive initially formulates plans, although input is sought from the entire organisation. Budgeting is zero-based and participative. Budget goals are tight. After a review process, the final budget is linked to the Chief Executive’s bonus. Also, a strategy video informs all personnel of Farmlands goals for the following year. Management salary reviews are linked to the achievement of budgeted targets.

Management and operational controls monitor budgets daily, through management by exception. Organisational learning is stimulated through formal and informal meetings and reports. Employee evaluation is based on behaviour. Overall, Farmlands structure aims to implement strategy, monitor it, and review it, as the environment changes. The Chief Executive leads the organisation and involves employees in the decision-making process. The result of Farmlands’ strategy and structure is reflected in their financial performance, which is analysed in the next chapter.
9. FINDINGS – ANALYSING FINANCIAL PERFORMANCE

"Without a doubt our biggest strength is our history, we've been here for forty years" 

9.1 Introduction

This chapter evaluates Farmlands' financial performance. Firstly, an overview of the annual financial reports from 1993 to 2001 is presented^2^5. Secondly, events from 1995 and 2001 that significantly altered financial performance are described. Thirdly, Farmlands' overall financial performance is examined. Fourthly, the financial ratios defined in chapter 5 are analysed, which includes efficiency, growth, liquidity, solvency, and sufficiency^2^6.

9.2 Statement of Financial Performance

The statement of financial performance is summarised in table 9.1^2^7:

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</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>118.72</td>
<td>128.98</td>
<td>130.93</td>
<td>140.40</td>
<td>150.38</td>
<td>159.11</td>
<td>170.30</td>
<td>200.96</td>
<td>252.36</td>
<td>161.35</td>
<td>10.11%</td>
</tr>
<tr>
<td>Cost of Sales</td>
<td>110.35</td>
<td>120.49</td>
<td>121.74</td>
<td>130.56</td>
<td>139.50</td>
<td>147.36</td>
<td>157.15</td>
<td>186.06</td>
<td>234.05</td>
<td>149.70</td>
<td>10.10%</td>
</tr>
<tr>
<td>Other Income</td>
<td>0.35</td>
<td>0.38</td>
<td>0.33</td>
<td>0.41</td>
<td>0.50</td>
<td>0.59</td>
<td>0.72</td>
<td>0.60</td>
<td>0.75</td>
<td>0.51</td>
<td>11.26%</td>
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<tr>
<td>Expenses</td>
<td>6.67</td>
<td>7.28</td>
<td>8.50</td>
<td>9.20</td>
<td>9.80</td>
<td>10.32</td>
<td>10.95</td>
<td>11.74</td>
<td>13.82</td>
<td>9.81</td>
<td>9.62%</td>
</tr>
<tr>
<td>Net Profit before Tax</td>
<td>2.04</td>
<td>1.58</td>
<td>1.02</td>
<td>1.07</td>
<td>1.57</td>
<td>2.02</td>
<td>2.92</td>
<td>3.76</td>
<td>5.24</td>
<td>2.36</td>
<td>16.88%</td>
</tr>
</tbody>
</table>

Table 9.1: Statement of Financial Performance

^25^ The annual financial reports' accounting policies were consistent throughout the period examined. There were only three minor changes to depreciation rates, which had only a negligible effect, as non-current assets represent approximately 10% - 20% of total assets.

^26^ Leverage is not included in the analysis, as it was found not to provide any insight into performance because Farmlands has no long-term debt. Therefore, the current and quick ratios are more important.

^27^ In this chapter each table includes figures for each year, the average of these figures, and the average change of these figures. The average change equals the average percentage change per year.
Table 9.1 shows that revenue, cost of sales, other income, and expenses have doubled in the period reviewed. Revenue and the cost of sales have increased on average by 10% each year, which means sales margins on average have not changed. Expenses have risen more slowly than other items, which has contributed to profit before tax growing faster than revenues, although profits have been less stable over time than other items. This growth can be attributed to Farmlands expansion policy and build mission.

9.3 Statement of Financial Position

Table 9.2 summarises the statement of movement in owner’s equity and financial position.

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<tbody>
<tr>
<td>Change in Equity</td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Bonus Rebate to Members</td>
<td>0.00</td>
<td>0.50</td>
<td>0.00</td>
<td>0.25</td>
<td>0.80</td>
<td>1.20</td>
<td>1.50</td>
<td>2.50</td>
<td>3.09</td>
<td>1.09</td>
<td>n/a</td>
</tr>
<tr>
<td>Net Contribution from Members</td>
<td>0.29</td>
<td>0.32</td>
<td>0.30</td>
<td>0.30</td>
<td>0.29</td>
<td>0.40</td>
<td>0.35</td>
<td>0.37</td>
<td>0.43</td>
<td>0.33</td>
<td>6.04%</td>
</tr>
<tr>
<td>Financial Position</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Current Assets</td>
<td>17.57</td>
<td>17.56</td>
<td>18.49</td>
<td>18.15</td>
<td>21.46</td>
<td>22.23</td>
<td>25.13</td>
<td>33.22</td>
<td>44.98</td>
<td>24.31</td>
<td>13.23%</td>
</tr>
<tr>
<td>Non Current Assets</td>
<td>3.53</td>
<td>4.04</td>
<td>4.96</td>
<td>5.31</td>
<td>4.92</td>
<td>5.28</td>
<td>5.22</td>
<td>5.49</td>
<td>5.43</td>
<td>4.91</td>
<td>5.90%</td>
</tr>
</tbody>
</table>

Table 9.2: Statement of Financial Position

Changes in owner’s equity have been caused by bonus rebates, contributions from members, and retained profits. Table 9.2 shows that profits have been increasingly rebated back to members. The net contribution from members indicates Farmlands has increased its membership, which can be accredited to Farmlands expansion policy and build mission.

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28 Immaterial changes in equity were not included in table 11.2. For example, in 1995 a gain on the sale of assets of $26,000 was recorded. There were seven of these items that totalled -$23,000.
Distributions have increased but by in large profits been retained, as equity has nearly doubled in eight years. Current assets and current liabilities have been rising on average 13.23% and 15.71% respectively. The rapid increase in 2001 in current liabilities was caused by a $3.8 million short-term loan and a $4.9 million increase in creditors. If this trend continues working capital available for operations may be restricted. Non-current assets have increased at a slower rate than other items. The low non-current asset levels from renting rather than purchasing most branches gives Farmlands flexibility, which corresponds to the analyser typology.

9.4 Statement of Cash Flow

Table 9.3 summarises the statement of cash flow.

<table>
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</tr>
</thead>
<tbody>
<tr>
<td>Operating Cash Flow</td>
<td>0.58</td>
<td>0.57</td>
<td>-0.90</td>
<td>2.36</td>
<td>1.36</td>
<td>0.56</td>
<td>3.06</td>
<td>2.31</td>
<td>-1.92</td>
<td>0.89</td>
<td>-60.67%</td>
</tr>
<tr>
<td>Investing Cash Flow</td>
<td>-1.01</td>
<td>-0.94</td>
<td>-1.42</td>
<td>-0.86</td>
<td>-0.03</td>
<td>-0.95</td>
<td>-0.28</td>
<td>-0.87</td>
<td>-0.65</td>
<td>-0.78</td>
<td>414.13%</td>
</tr>
<tr>
<td>Financing Cash Flow</td>
<td>-0.37</td>
<td>0.28</td>
<td>0.30</td>
<td>0.30</td>
<td>0.04</td>
<td>-0.40</td>
<td>-0.85</td>
<td>-1.13</td>
<td>-2.07</td>
<td>-0.43</td>
<td>-141.68%</td>
</tr>
<tr>
<td>Change in Cash Flow</td>
<td>-0.80</td>
<td>-0.09</td>
<td>-2.02</td>
<td>1.81</td>
<td>1.37</td>
<td>-0.79</td>
<td>1.93</td>
<td>0.31</td>
<td>-4.64</td>
<td>-0.32</td>
<td>-44.43%</td>
</tr>
<tr>
<td>Closing Cash Balance</td>
<td>-0.64</td>
<td>-0.73</td>
<td>-2.75</td>
<td>-0.94</td>
<td>0.44</td>
<td>-0.36</td>
<td>1.58</td>
<td>1.89</td>
<td>-2.75</td>
<td>-0.47</td>
<td>-109.11%</td>
</tr>
</tbody>
</table>

Table 9.3: Statement of Cash Flow

The reduction in the working capital is reflected in 2001's cash flows, which are negative through each category. However, large fluctuations in cash flows are evident from the analysis presented in table 9.3, which is in contrast to the stable position presented in statements reviewed. These fluctuations are reflected in the high average change percentages. Operating cash flows are largely positive, although in 1995 and 2001 they are negative. Investing cash flow has been negative every year as fixed assets have consistently been purchased. Financing cash flows have been varied. Closing cash balances are on average
negative, however, the negative cash flows are not increasing in size. Fluctuations in cash
flows can be attributed to the build mission, as cash flow maximisation is sacrificed in the
short term (Gupta and Govindarajan, 1984).

9.5 Events Relating to Financial Performance in 1995

The negative operating cash flow in 1995 was inconsistent with other years reviewed. The
decrease in performance was caused by an acquisition of part of Elder’s merchandise
operations. The 1995 annual report highlighted: “This acquisition did result in increased
costs for stock, wages, and initial promotion, but did not involve any other cost to
Farmlands.” The negative performance experienced was only temporary as Farmlands
absorbed and reorganised operations to cope with extra retail branches.

9.6 Events Relating to Financial Performance in 2001

Similarly operating cash flow in 2001 was negative. During the financial year, which runs
from 1 July to 30 June, Farmlands opened a new branch, Morrinsville, which was the “first
one with a purpose built building. We are more confident with that one. We have gone in
there with the full nine yards.” The branch was opened in June 2001 before the balance date,
thus current liabilities were higher than normal. Also a one-off purchase of milk powder was
made in June 2001, which can be attributed to the analyser typology:

“The increase in members accounts and stock soaked up the funds. The
dramatic increase in business generated a requirement for additional stock
in all stores and the Morrinsville stock was certainly extra. There was big
demand for Milk Powder being generated and we had the opportunity to
buy a significant quantity, prior to the price increase. We did this in the
knowledge that we would be carrying it at year-end but would ultimately
make additional margin. Most of that stock was liquidated in July [2001]”
Therefore, performance in 2001 was adversely influenced by events that were nonrecurring, but the events were consistent with the strategic direction.

9.7 Overall Performance: Cumulative OCFAID versus Cumulative RE

Figure 9.1 shows two large decreases in OCFAID in 1995 and 2001 that is caused by events previously mentioned. Also in 2001, operating cash flow after interest and dividends has decreased significantly because of the increase in the magnitude of bonus rebates. Overall, profits have been consistently retained over time, as well as operating cash flow, except in 2001. Assuming the decrease in cash flow was only temporary, as stated by Farmlands, the upward directory of the RE and OCFAID suggests improving performance. Farmlands build mission is clearly observable in figure 9.1, as retained earnings rise steadily, while cash flow fluctuates.

![Figure 9.1: Farmlands' Overall Performance](image-url)
Table 9.4: Return on Investment

Similar to retained earnings, return on investment is increasing over time, as shown in table 9.4. The percentage change between net profit before tax and average assets clearly shows that profits are rising faster than assets, which suggests assets are being used efficiently. An important aspect of Farmlands' centralised structure is cost efficiency (Anthony and Govindarajan, 2001), as it supports the profitable, defender, and cost leadership strategies. However, this measure does not show the cash flow implications that are visible in figures 9.1. Overall, Farmlands performance is improving, but there are problems with cash flow.

9.8 Ratio Analysis

Ratio analysis in this section provides further insight into Farmlands' profitability and liquidity, as well as other areas.

9.8.1 Estimated Retail and Agency Sales and Cost of Sales

Since 1999 Farmlands' have been separately reporting retail and agency sales in the annual reports. Inventory is held by Farmlands for the retail branches only, as agencies are separate.
Therefore the inventory turnover ratio should only be applied to the cost of branch sales as no stock is held for agency sales. Table 9.5 estimates the cost of retail branch sales.

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<tbody>
<tr>
<td>Agency Sales</td>
<td>61.79</td>
<td>68.42</td>
<td>70.76</td>
<td>77.29</td>
<td>84.28</td>
<td>90.76</td>
<td>98.85</td>
<td>118.95</td>
<td>151.57</td>
<td>91.41</td>
<td>12.10%</td>
</tr>
<tr>
<td>Retail Sales</td>
<td>56.93</td>
<td>60.56</td>
<td>60.17</td>
<td>63.12</td>
<td>66.10</td>
<td>68.35</td>
<td>71.45</td>
<td>82.01</td>
<td>100.79</td>
<td>69.94</td>
<td>7.62%</td>
</tr>
<tr>
<td>Cost of Retail</td>
<td>52.92</td>
<td>56.58</td>
<td>55.95</td>
<td>58.69</td>
<td>61.32</td>
<td>63.30</td>
<td>65.93</td>
<td>75.93</td>
<td>93.48</td>
<td>64.90</td>
<td>7.61%</td>
</tr>
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</table>

*Table 9.5: Estimated Sales and Cost of Sales*

### 9.8.2 Efficiency

The estimated cost of sales was used to calculate retail inventory turnover. Table 9.6 provides the efficiency ratios.

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<tbody>
<tr>
<td>Operational Efficiency</td>
<td>7.05%</td>
<td>6.58%</td>
<td>7.02%</td>
<td>7.01%</td>
<td>7.23%</td>
<td>7.38%</td>
<td>7.72%</td>
<td>7.41%</td>
<td>7.25%</td>
<td>7.18%</td>
<td>0.45%</td>
</tr>
<tr>
<td>Managerial Efficiency</td>
<td>1.72%</td>
<td>1.23%</td>
<td>0.78%</td>
<td>0.76%</td>
<td>1.04%</td>
<td>1.27%</td>
<td>1.71%</td>
<td>1.87%</td>
<td>2.08%</td>
<td>1.38%</td>
<td>5.81%</td>
</tr>
<tr>
<td>Inventory Turnover</td>
<td>16.27</td>
<td>17.33</td>
<td>13.97</td>
<td>15.94</td>
<td>16.74</td>
<td>16.75</td>
<td>17.42</td>
<td>17.81</td>
<td>15.04</td>
<td>16.36</td>
<td>-0.37%</td>
</tr>
<tr>
<td>Retail Inventory Turnover</td>
<td>7.80</td>
<td>8.14</td>
<td>6.42</td>
<td>7.17</td>
<td>7.36</td>
<td>7.19</td>
<td>7.31</td>
<td>7.27</td>
<td>6.01</td>
<td>7.18</td>
<td>-2.63%</td>
</tr>
<tr>
<td>Fixed Asset Turnover</td>
<td>34.07</td>
<td>32.08</td>
<td>26.54</td>
<td>26.48</td>
<td>31.70</td>
<td>30.99</td>
<td>33.53</td>
<td>36.84</td>
<td>47.28</td>
<td>33.28</td>
<td>5.06%</td>
</tr>
<tr>
<td>Use of Resources ($ per member)</td>
<td>596.94</td>
<td>614.44</td>
<td>680.21</td>
<td>694.15</td>
<td>713.76</td>
<td>702.96</td>
<td>718.83</td>
<td>739.76</td>
<td>805.22</td>
<td>696.25</td>
<td>3.88%</td>
</tr>
</tbody>
</table>

*Table 9.6: Efficiency*

Operational efficiency shows that the margin between sales and the cost of sales has remained virtually unchanged over the period reviewed. Conversely, the managerial efficiency ratio shows an initial decrease and a steady increase from 1996 to 2001, which suggests an increase in efficiency. This is reflected in table 9.6, as expenses have been rising more slowly than

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29 Agency and retail sales were estimated between 1993 and 1998, by projecting the trend from 1999 to 2001 backwards. The cost of retail sales was estimated as a percentage of retail sales to total sales. The trend was also projected backwards.
revenues and the cost of sales. This demonstrates improvements in the profitability and cost leadership aspects of Farmlands’ strategy.

The first inventory turnover ratio is misleading as it includes agency sales, for which there is no inventory. The second inventory turnover ratio reveals a decline in turnover in 2001, which was caused by the milk powder purchase and the new branch opening. Retail inventory turnover has exceeded six each year, which shows that Farmlands’ policy of a minimum of six stock turns per branch is being achieved. The fixed asset turnover ratio declined initially and then rose between 1996 and 2001. The use of resources per member is based on 90% of operating expenses, as not all customers are members. The dollar value spend on each member has increased significantly, which supports Farmlands’ efforts to increase market share. Also, it represents the differentiation position by increasing expenditure on customer services.

9.8.3 Growth

Table 9.7 presents the growth ratios.

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<tbody>
<tr>
<td>Change in Sales</td>
<td>8.64%</td>
<td>1.52%</td>
<td>7.24%</td>
<td>7.10%</td>
<td>5.81%</td>
<td>7.03%</td>
<td>18.00%</td>
<td>25.58%</td>
<td><strong>10.11%</strong></td>
<td><strong>112.57%</strong></td>
</tr>
<tr>
<td>Member Loyalty (Dollars)</td>
<td>11,595</td>
<td>11,942</td>
<td>11,474</td>
<td>11,687</td>
<td>11,882</td>
<td>11,690</td>
<td>11,991</td>
<td>13,417</td>
<td>15,893</td>
<td><strong>12,397</strong></td>
</tr>
<tr>
<td>No. of members</td>
<td>9,215</td>
<td>9,720</td>
<td>10,270</td>
<td>10,812</td>
<td>11,390</td>
<td>12,250</td>
<td>12,782</td>
<td>13,480</td>
<td>14,291</td>
<td><strong>11,579</strong></td>
</tr>
</tbody>
</table>

Table 9.7: Growth

Sales have increased significantly between 1999 and 2001. Member loyalty is based on 90% of sales being associated with members. The increase in sales is caused by two factors; firstly
an increase in purchases from existing customers, and secondly an increase in the number of members. Again this demonstrates Farmlands’ is growing thus achieving its build mission.

9.8.4 Liquidity

Table 9.8 provides the liquidity ratios.

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<tbody>
<tr>
<td>Current Ratio</td>
<td>1.61</td>
<td>1.69</td>
<td>1.65</td>
<td>1.76</td>
<td>1.75</td>
<td>1.78</td>
<td>1.80</td>
<td>1.57</td>
<td>1.45</td>
<td>1.67</td>
<td>-1.11%</td>
</tr>
<tr>
<td>Quick Ratio</td>
<td>0.99</td>
<td>1.02</td>
<td>0.87</td>
<td>0.95</td>
<td>1.07</td>
<td>1.07</td>
<td>1.15</td>
<td>1.07</td>
<td>0.95</td>
<td>1.01</td>
<td>-0.02%</td>
</tr>
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</table>

Table 9.8: Liquidity

Liquidity is very important for Farmlands because operations rely on working capital being available, as Farmlands aims to have no long-term debt. Farmlands’ liquidity has been relatively consistent. The events of 2001 have caused the quick ratio to go below 1:1, which means they cannot meet short-term debts. However, the quick ratio should improve as the milk powder is sold. The current and quick ratios are averaging 1.67 and 1.01 respectively, which means Farmlands has consistently met its short-term debts over time.

9.8.5 Solvency

Table 9.9 provides the solvency ratios.

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<tbody>
<tr>
<td>Ability to generate sales</td>
<td>17.79</td>
<td>17.92</td>
<td>18.04</td>
<td>17.98</td>
<td>16.38</td>
<td>16.31</td>
<td>15.24</td>
<td>16.61</td>
<td>18.01</td>
<td>17.14</td>
<td>0.33%</td>
</tr>
<tr>
<td>Coverage</td>
<td>23.45</td>
<td>22.35</td>
<td>10.92</td>
<td>6.82</td>
<td>14.09</td>
<td>36.47</td>
<td>79.92</td>
<td>209.61</td>
<td>51.38</td>
<td>50.56</td>
<td>47.25%</td>
</tr>
<tr>
<td>Return on sales</td>
<td>1.25%</td>
<td>0.94%</td>
<td>0.50%</td>
<td>0.57%</td>
<td>1.00%</td>
<td>1.09%</td>
<td>1.47%</td>
<td>1.66%</td>
<td>1.79%</td>
<td>1.14%</td>
<td>10.26%</td>
</tr>
</tbody>
</table>

Table 9.9: Solvency
Farmlands have remained solvent overtime. Firstly, the low average change in their ability to generate sales reflects that the ratio has been consistent over time. Secondly, short-term interest costs have been consistently covered. Thirdly, return on sales has fluctuated, but steadily increased since 1996, which reflects management’s efforts to improve profitability.

9.8.6 Sufficiency

Table 9.10 provides the sufficiency ratios.

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</thead>
<tbody>
<tr>
<td>Debt Coverage</td>
<td>18.66</td>
<td>18.22</td>
<td>-12.49</td>
<td>4.38</td>
<td>9.02</td>
<td>22.27</td>
<td>4.56</td>
<td>9.13</td>
<td>-16.10</td>
<td>6.41</td>
<td>-38.57%</td>
</tr>
<tr>
<td>Reinvestment</td>
<td>2.35</td>
<td>1.95</td>
<td>-1.71</td>
<td>0.44</td>
<td>0.72</td>
<td>1.79</td>
<td>0.30</td>
<td>0.38</td>
<td>-0.69</td>
<td>0.61</td>
<td>-57.17%</td>
</tr>
</tbody>
</table>

Table 9.10: Sufficiency

Debt coverage and reinvestment has fluctuated considerably as reflected by the large average percentage change. These cash flow ratios have varied as cash flows have fluctuated. Again these ratios reveal the negative impact of the aforementioned events in 1995 and 2001. However, on average debts have been covered over time. Similarly, Farmlands has reinvested funds in all but 1995 and 2001.

9.9 Summary

This chapter has highlighted many trends in Farmlands’ performance. Increasing profitability and variable cash flows are the primary patterns. Events in 1995 and 2001 have caused anomalies in performance ratios. Overall, Farmlands sales and profits have increased significantly over time. Also, expenses have not risen faster than sales. Fluctuating cash flow is concerning, although negative years have in the past been followed by positive years. Therefore, Farmlands financial performance has improved over time. The ratios presented also show that Farmlands’ has achieved its profitability, expansion, and build strategies. The
next chapter concludes the thesis by providing further linkages between strategy, structure, and financial performance.
10. CONCLUSION

"In terms of the strategy... this business has been established for forty years servicing ordinary farmers. In more recent times the market has changed. Now we service each part of the market quite differently... We have to keep that service mentality... I hate the idea of a dictatorship, [where] communication is all down.” – Chief Executive

10.1 Introduction

This thesis has described Farmlands’ strategy, structure, and financial performance in its wider organisational context. The findings are summarised in this chapter. Subsequently, linkages between these factors are discussed. Finally, future research opportunities are identified.

10.2 Summary

10.2.1 Strategy

Farmlands’ corporate strategy is customer and profitability driven. Profits are needed to meet the member’s objectives in the long-term. Using a corporate strategy of geographical expansion and diversification, Farmlands aims to be a “market leader in rural retail, supplies, and services”. Four SBUs were identified in this market: corporate, lifestyle, traditional, and urban.

Farmlands’ business strategies are customised for each SBU, however, analyser, breadth, and build are the predominant typology, position, and mission. Farmlands’ operational strategy is derived from the corporate and business strategy. Each component of Farmlands drives different aspects of the wider strategy.
The separation of Farmlands' corporate, business, and operational strategy results in some overlap. The similarities between the levels of strategy is caused by Farmlands size, as the Chief Executive and function managers each influence all of the strategies. However, repetition demonstrates there is consistency in their strategy. Overall, Farmlands' strategy is tailored to its customers.

10.2.2 Structure

Farmlands' structure promotes goal congruence as all employees are informed of the strategy and how it influences their roles. The strategic planning process determines the strategy and achieves goal congruence through bottom-up planning and zero-based budgeting. A video outlining strategy, viewed by all employees, creates further awareness of strategy.

Management monitors the achievement of tight budget goals through diagnostic controls. Functions, middle, and branch managers scrutinise daily, weekly, and monthly reports, by looking for figures that are below the standard or budget, thus, management by exception is Farmlands' primary means of control.

Management promotes organisation learning through interactive controls, such as committees, informal communication, and meetings. Employees actively provide information of potential threats and opportunities to Farmlands. Function managers coordinate amongst themselves and with branch managers to determine the best response to these issues. The board of directors is also used as "sounding board to bounce ideas off", as the directors are also members. Farmlands' Chief Executive is the driving force behind these controls.
The Chief Executive drives corporate and business activities, as well as operational activities because Farmlands is relatively small. The Chief Executive controls Farmlands by communicating with managers, employees, and members, or management by walking around. (Anthony and Govindarajan, 2001). This strong leadership style means that Farmlands’ is an example of “an institution [that] is the lengthened shadow of a [Chief Executive]” (p.62.). The Chief Executive does not dictate to management, employees, or members, but asks for input and bases decisions on their input.

10.2.3 Financial Performance

Farmlands’ strategy and structure appear to have been successful, as its financial performance, in general, has consistently improved from 1993 to 2001. Total assets, revenue, and profit before tax have increased 139%, 113%, and 157% respectively. However, this growth has been at the cost of Farmlands in terms of cash flow, which has fluctuated dramatically over time, but positive and negative cash flows have tended to balance out each other out. Strategic events in 1995 and 2001 led to decreased performance in liquidity measures. Overall, Farmlands’ performance has improved over time. Finally, the majority of Farmlands’ strategies are reflected in its improving performance.

10.3 Discussion

Structural contingency theory suggests that strategy and structure have to match in order to be successful (Dent, 1990). In general, Farmlands has matched its strategy to the behaviour and objectives of its customers. Farmlands’ structure has been used to monitor customers, so that if changes occur the strategy can be adjusted. Farmlands uses profit centres, which are controlled through tight budgets, and any deviations are investigated. Also, controls have been used to ensure managers and employees are delivering the strategy to customers. This
relationship between customers, strategy, and structure appears to have improved financial performance over time.

Interestingly, in a case study by Archer and Otley (1991), it was found that the breadth position was associated with tight cost controls, and informal and formal control. Also, meetings were used to align the strategy and structure. These findings are consistent with the findings in Farmlands.

The evidence shows that there is a linkage between Farmlands’ strategy, structure, and performance, therefore, this case study provides an example of an organisation where strategy and structure alignment has led to success.

10.4 Future Research Opportunities

10.4.1 Rural Retail Market

The discussion identifies how Farmlands has improved its performance over time. Further case studies in the rural retail market could be used to compare these findings to similar retail organisations. There are approximately ten competing retail organisations in the rural retail market including Farmlands. A comparative analysis of financial performance would determine the relative success of each organisation’s strategy and structure.

10.4.2 Classifications of Strategy, Structure, and Performance

Further wider organisational contextual studies would benefit from improved classification of operational strategy, structure and non-financial performance (Fisher, 1995; Langfield-Smith, 1997). This case study and future research is limited by the frameworks available, to describe organisations. However, future studies could seek to document many organisations’
strategies and structures. Common themes in the findings would lead too more standardised classifications.

10.4.3 Longitudinal Case Studies

When standard classifications are developed, future case studies should seek to study the dynamics of organisations as they change over time. For example, if a researcher had to visited Farmlands over a long period of time they could have observed how and why specific strategies and structures changed, and the influence these changes had on performance. Thus, contingency relationships would be identified.

10.4.4 Contingency Relationships

Further research into the wider organisational context could examine contingency relationships. In Farmlands, leadership, communication, and meetings were important in achieving strategy. Also, the size of Farmlands influenced its structure. These relationships could be analysed in multiple organisations so generalisations can be made.

10.4.5 Prior Contingency-based Research

Relationships found in case studies should be reconciled with findings from prior contingency-based research. Previous empirical studies have been narrowly focused on contingency relationships. Reviews of these studies have not viewed these findings collectively; instead they have focused on only specific aspects of organisations. Future reviews should seek to reconcile empirical findings and determine the influence of the findings in the wider organisational context.
10.4.6 Empirical Research Opportunities

Future empirical research could seek to test the wider organisational perspective. Contingency relationships that are present throughout an entire organisation need to be researched. For example, Farmlands’ customer focused strategy is reflected in its entire structure (e.g. pricing, control, and evaluation systems). An empirical study could seek to survey organisations to determine relationships that are present in the wider organisational context, which significantly impact on the success of organisations. A survey instrument could ask if a strategy or structure is present, as well as the importance or effectiveness of it. These relationships should be examined against a measure of performance that is relevant to all organisations.

10.5 Conclusion

The findings of this thesis provide insight into how Farmlands uses its structure to maintain alignment between its strategy and customers. The focus has been on description. Accounting practitioners can use the findings to improve management accounting information systems in retail organisations. Academics can use the findings to further advance contingency-based research. Finally, this thesis provides a contribution to knowledge by describing a previously unstudied organisation.
REFERENCES


References


APPENDIX 1 – THE ROLE OF EACH INTERVIEWEE

This appendix describes the role of each interviewee:

- **Chairperson of the Board of Directors**
  Is accountable to the other board members and Farmlands’ members. Is responsible for the governance of Farmlands, primarily through the monitoring of the Chief Executive. Also he has a strategic (plan and budget approval) and operational role (member focus groups).

- **Chief Executive**
  Is accountable to the board of directors. Is responsible for strategic planning, budgeting, operational oversight, human resource management, performance evaluation, and salary reviews of executives.

- **Marketing Manager**
  Is accountable to the Chief Executive. Is responsible for strategic planning, marketing activities, which includes analysing member revenue, targeting current and potential members through promotional activities, member and staff focus groups, and some supplier relationships. Is assisted by a marketing assistant, who produces a newsletter every month and an advertising/lifestyle magazine twice a year.

- **Farmcard Manager**
  Is accountable to the Chief Executive. Is responsible for the Farmcard function, which involves strategic planning, budgeting, and managing relationships with agencies. He has two account managers, which liaise between agencies and members. Primarily his role is to ensure Farmlands has the right agencies (that members want and use) and agencies offer member’s good terms of trade.

- **Merchandise Manager**
  Is accountable to the Chief Executive. Is responsible for strategic planning and budgeting (price and margins of products sold in retail branches), and managing relationships with suppliers. He has two product managers who liaise with suppliers and negotiate price and quantities. Also he has marketing and operational roles.

- **General Manager of Retail**
  Is accountable to the Chief Executive. Is responsible for strategic planning, budgeting (sales targets in retail branches), retail operations and staff, retail performance. He supervises two area managers that are each responsible for 13 different branch managers.

- **Business Manager, Hastings**
  Is accountable to an area manager. Is responsible for activities specific to the Hastings branch which includes planning, zero-based budgeting, staff (hiring, firing, training, and evaluation), administration, member relationships, inventory management, and locally focused promotions.
- Retail Supervisor Hastings
Is accountable to the Hastings branch manager. Is responsible for retail staff, selling products to customers and providing them with the product information. Also assists in general operations such as budgeting, committees, inventory control, and promotion.

- Technical Advisor Hastings
Is accountable to the Hastings branch manager. Is responsible for providing technical advice to customers on Chemicals and Fertilisers. Primarily a sales role through providing quality information and assistance to the customer.

- Member # 15
He is an original member of Farmlands, who has owned and operated a farm for at least the last forty years. He has actively purchased from Farmlands and its competitors.
APPENDIX 2 – THE INTERVIEW QUESTIONS

This appendix details the interview questions.

Interviewee: The Chief Executive

1. Please describe the organisational structure of Farmlands?

2. How long have you worked at Farmlands?

3. Have you worked in other organisations?
   a. If yes, what type of organisations were they?
   b. Do you find that Farmlands functions differently from the organisations you have previously worked in?

4. What does your role as Chief Executive involve with regards to:
   - Members
   - Board of Directors
   - Employees (Executives, Managers, and Staff)
   - Suppliers
   - Cooperatives
   - Competitors
   - The Community

5. What values do you see as being important in this business?
   a. Are these expressed in a formal mission statement?
   b. How often are the goals and objectives of Farmlands reviewed?
   c. If goals and objectives have been altered why have they altered?
   d. If goals and objectives are changed is the mission statement altered to reflect these changes?

6. How are these objectives implemented at Farmlands?
   a. Are there any monitoring processes in place?
   b. If yes, can you describe them?

7. Do you undertake regular planning and reviewing?

8. Are there any planned changes to current systems?

---

Some of the questions listed below were asked to provide evidence for another research project and are not used in this thesis.
9. Does Farmlands focus on efficiency and effectiveness of the services provided to members?
   a. If yes, how are efficiency and effectiveness of services planned, controlled, measured, and reviewed?

10. Please describe the details of the Alliance Farmlands is involved with?
    a. How has the Alliance impacted on Farmlands?

11. Is performance measured and monitored with regards to:
    a. Employees (Executives, managers, and staff)
       - How are employees rewarded?
    b. Farmlands performance – compared to
       - Previous years and/or targets
       - Cooperatives
       - Competitors
       - Other industries
    c. Member benefits
       - Financial
       - Non-financial (eg quality of service provided)

12. If yes to question 11 how?

13. What are Farmlands strengths, opportunities, weaknesses and threats?
    - Strategy
    - Information systems
    - Members
    - Competitors
    - Suppliers
    - Management controls

14. What characteristics of your organisation have influenced its growth?

15. Do you have any additional comments?
Interviewee: General Manager, Retail

1. How long have you worked at Farmlands?

2. What activities do you undertake in your position?
   a. Have you been given training for your position?
   b. If yes, can you describe the training?

3. Have you worked in other organisations?

4. If yes, what type of organisations were they?

5. Do you find that Farmlands functions differently from the organisations you have previously worked in?

6. What values do you see as being important in this business?

7. What are the goals/objectives of Farmlands?

8. How are these objectives communicated to you?

9. How do you set about achieving these objectives?
   a. Do you undertake regular planning and reviewing?
   b. Are there any planned changes to current systems?

10. How are goods and services priced?

11. What relationship do you have with suppliers?

12. Does Farmlands focus on cost control?
   a. If yes, can you describe how costs are controlled?

13. Can you describe the inventory management systems Farmlands uses?
   a. Does member demand affect the level of inventory that is carried in stock?

14. How is your performance measured and monitored?

15. How do you measure and monitor the performance of
   - Retail branch managers and employees

16. What are Farmlands strengths, opportunities, weaknesses and threats?
   - Strategy
   - Information systems
   - Competitors
   - Members
   - Suppliers
   - Management controls

17. Do you have any other comments?
Interviewee: Merchandise Manager

1. How long have you worked at Farmlands?

2. What activities do you undertake in your position?
   a. Have you been given training for your position?
   b. If yes, can you describe the training?

3. Have you worked in other organisations?

4. If yes, what type of organisations were they?

5. Do you find that Farmlands functions differently from the organisations you have previously worked in?

6. What values do you see as being important in this business?

7. What are the goals/objectives of Farmlands?

8. How are these objectives communicated to you?

9. How do you set about achieving these objectives?
   a. Do you undertake regular planning and reviewing?
   b. Are there any planned changes to current systems?

10. What relationship do you have with suppliers?

11. How many suppliers do you have and where are they situated?

12. Do you monitor and evaluate the price and level of service given to Farmlands by suppliers?

13. Do members influence the choice of suppliers? If yes, how?

14. How is your performance measured and monitored?

15. How do you measure and monitor the performance of merchandise operations?

16. What are Farmlands strengths, opportunities, weaknesses and threats?
    - Strategy
    - Information systems
    - Competitors
    - Members
    - Suppliers
    - Management controls

17. Do you have any other comments?
Interviewee: Marketing Manager

1. How long have you worked at Farmlands?

2. Have you worked in other organisations?

3. If yes, what type of organisations were they?

4. Do you find that Farmlands functions differently from the organisations you have previously worked in?

5. What activities do you undertake in your position?
   a. Have you been given training for your position?
   b. If yes, can you describe the training?

6. What values do you see as being important in this business?

7. What are the goals/objectives of Farmlands?

8. How are these objectives communicated to you?

9. How do you set about achieving these objectives?
   a. Do you undertake regular planning and reviewing?
   b. Are there any planned changes to current systems?

10. What information do you provide to current members?

11. How do you attract prospective members to Farmlands?

12. Do you measure and monitor the performance of the marketing function? If yes, how?

13. How is your performance measured and monitored?

14. What are Farmlands strengths, opportunities, weaknesses and threats?
   - Strategy
   - Information systems
   - Competitors
   - Members
   - Suppliers
   - Management controls

15. Do you have any other comments?
Interviewee: Branch Manager, Hastings

1. How long have you worked at Farmlands?

2. Have you worked in other organisations?

3. If yes, what type of organisations were they?

4. Do you find that Farmlands functions differently from the organisations you have previously worked in?

5. What activities do you undertake in your position?
   a. Have you been given training for your position?
   b. If yes, can you describe the training?

6. What values do you see as being important in this business?

7. What are the goals/objectives of Farmlands?

8. How are these objectives communicated to you?

9. How do you set about achieving these objectives?
   a. Do you undertake regular planning and reviewing?
   b. Are there any planned changes to current systems?

10. How is your performance measured and monitored?

11. Do you measure and monitor the performance of Hastings business operations? If yes, how?

12. Do you measure and monitor the performance of Hastings business employees? If yes, how?

13. What are Farmlands strengths, opportunities, weaknesses and threats?
   - Strategy
   - Information systems
   - Competitors
   - Members
   - Suppliers
   - Management controls

14. Do you have any other comments?
Interviewee: Farmacard Manager

1. How long have you worked at Farmlands?

2. What activities do you undertake in your position?
   a. Have you been given training for your position?
   b. If yes, can you describe the training?

3. Have you worked in other organisations?

4. If yes, what type of organisations were they?

5. Do you find that Farmlands functions differently from the organisations you have previously worked in?

6. Why and how was Farmacard developed?

7. Are both members and suppliers encouraged to use Farmacard? If yes, how?

8. What values do you see as being important in this business?

9. What are the goals/objectives of Farmlands?

10. How are these objectives communicated to you?

11. How do you set about achieving these objectives?
    a. Do you undertake regular planning and reviewing?
    b. Are there any planned changes to current systems?

12. What information systems are in place to facilitate the use of Farmacard?

13. Do you measure the performance of Farmacard operations? If yes, how?
    With respect to:
    - Farmlands
    - Members
    - Suppliers
    - Employees

14. Is your own performance measured and monitored? If yes, how?

15. What are Farmlands strengths, opportunities, weaknesses and threats?
    - Strategy
    - Information systems
    - Competitors
    - Members
    - Suppliers
    - Management controls

16. Do you have any additional comments?