Loughborough University

This item was submitted to Loughborough University as an MPhil thesis by the author and is made available in the Institutional Repository (https://dspace.lboro.ac.uk/) under the following Creative Commons Licence conditions.

creative commons

COMMONS DEED

**Attribution-NonCommercial-NoDerivs 2.5**

**You are free:**

- to copy, distribute, display, and perform the work

**Under the following conditions:**

**Attribution**. You must attribute the work in the manner specified by the author or licensor.

**Noncommercial**. You may not use this work for commercial purposes.

**No Derivative Works**. You may not alter, transform, or build upon this work.

- For any reuse or distribution, you must make clear to others the license terms of this work.
- Any of these conditions can be waived if you get permission from the copyright holder.

**Your fair use and other rights are in no way affected by the above.**

This is a human-readable summary of the Legal Code (the full license).

Disclaimer

For the full text of this licence, please go to:
http://creativecommons.org/licenses/by-nc-nd/2.5/

LOUGHBOROUGH
UNIVERSITY OF TECHNOLOGY
LIBRARY

AUTHOR/FILING TITLE

GASKIN, R J

ACCESSION/COPY NO.

040013155

VOL. NO. | CLASS MARK

date due:-
26 NOV 1991
LOAN 3 WKS. + 3
UNLESS RECALLED
PRESTON

date due:-
12 OCT 1993
LOAN 3 WKS. + 3
UNLESS RECALLED

25 JUN 1994

LOAN COPY
28 JUN 1996

date due:-
-1 MAY 1997
LOAN 3 WKS. + 3
UNLESS RECALLED
TK92087

10 MAR 1998

040013155 2

ROGER J. GASKIN M.Phil THESIS

'The Use and Development of a Descriptive Organisational Model in a Retail Co-operative Society Environment'

SYNOPSIS

The organisational model chosen for the study was a descriptive one comprising the elements of Strategy, Structure, Process, Performance and Management Style set in the context of the socio-economic environment of the organisation studied and constrained by the organisation's history and antecedents.

The purpose of the study was two fold.

Initially the model was applied to two very different Retail Co-operative Societies, both very large and mature organisations but with contrasting socio-economic environments, development histories and attitudes towards business strategy.

One was an inertial organisation where structure was seen as a constraint on strategy, the other a dynamic organisation which appeared more in line with the Chandlerian concept of Strategy/Structure relationships.

Application of the model to these organisations tested the relevance of the elements, their comprehensiveness and their interactions.

Conclusions drawn were that some expansion of the model was necessary to make it an adequate descriptor of the businesses, and that interactions between the elements were bi-directional, resulting in a far more complex activity-matrix than had first been envisaged.

The second purpose was to use the expanded model to draw some conclusions about the future of the Co-operative Movement.

The technique used for this was to use the model to identify success-indicators in external businesses taken largely from two studies - one by Goldsmith and Clutterbuck of successful UK enterprises and the other more prestigious study of US businesses by Peters and Waterman. Priority was given to UK experience, as having an environment in common with the Co-op.

Some care has been taken in the first chapter to document the history of the Co-operative Movement from pre-Rochdale times to the present, and out of this comes the inevitable conclusion that its fortunes began to deteriorate when it deviated from its initial clearly-stated goals. Its failure seems to have been that of not evolving corporate objectives in line with socio-economic developments in the environment, and this has promoted questions as to its contemporary relevance and viability.

The model is soundly based in organisation theory and a comprehensive review of the literature is offered in Chapter 2.

The model itself is explained in Chapter 3.

Chapters 4 nd 5 document its use in the two Retail Co-operatives, supported by structured interviews with their respective Chief Executive Officers, and with the Food Controller of one Society.

Chapter 6 contrasts the two organisations, whilst Chapter 7 evaluates the model based on experience in using it.

The final chapter seeks to draw comparisons between the 'Co-op' and successful commercial enterprises by applying the model.

The elapsed time between completion of the manuscript and production of the final thesis was such that some developments have taken place.

Suffice to say that nothing concluded from the study has been disturbed in retrospect.

ROGER J. GASKIN, FCMA, MBIM.
September 1987.

# 'THE USE AND DEVELOPMENT OF A DESCRIPTIVE ORGANISATIONAL MODEL IN A RETAIL CO-OPERATIVE SOCIETY ENVIRONMENT'

by

ROGER JOHN GASKIN

A Master's Thesis

Submitted in partial fulfilment of the requirements
for the award of
M. Phil of the Loughborough University of Technology
October, 1987

© Roger J. Gaskin, 1987

Loughborough University
of Technology Library
Date Oct.89
Class
Acc. No. 0400131 55

## ACKNOWLEDGEMENTS

The Author acknowledges with gratitude the contributions of the following individuals and organisations without which the Thesis would never have been produced.

Mr. Terry Norris, Chief Executive Officer of the North Eastern Co-operative Society Limited.

Mr. Harry Lovatt, Chief Executive Officer of United Co-operatives Limited (formerly North Midland Co-operative Society Limited).

Mr. John Thompson, Deputy Chief Executive Officer and Financial Controller, United Co-operatives Limited.

Mr. Bill Wood, Food Controller of the North Eastern Co-operative Society Limited.

These individuals gave generously of their time and provided an invaluable insight into both the operation of their organisations and their own underlying philosophies, which they discussed with total frankness. Both the work and the author benefitted from the contact.

The Co-operative Wholesale Society, whose manpower development programme made a welcome contribution to the costs of word-processing and publication of the Thesis.

Bridge Business Services of Hebden Bridge whose proprietor, Christine Welch, has succeeded in creating order out of chaos by deciphering the author's handwriting and coping with a prolific and erratic workflow.

Mr. John Piper of Loughborough University whose help and guidance has contributed immeasurably to the content and direction of the work.

The Chartered Institute of Management Accountants whose enlightened approach to the broader educational needs of their Members made the whole thing possible in the first place.

**ROGER J. GASKIN,**
**September, 1987.**

**M. Phil Thesis**

**R. J. GASKIN, FCMA, MBIM**

**'The Use and Development of a Descriptive Organisational Model in a Retail Co-operative Society Environment'**

## KEY WORDS

For the purpose of cataloguing the Thesis:

Organisational Theory

Organisational Model

Co-operative Movement

Strategy

Structure

Process

Performance

Management Style

Type of Organisation

Management Information Systems

## CONTENTS


Page

**CHAPTER 1 - HISTORY AND BACKGROUND OF THE BRITISH CO-OPERATIVE MOVEMENT**

The Pre-Rochdale Movement 1
The Rochdale Movement 5
The Development of Accounting 10
The Introduction of Computerisation 19
Summary 25

**CHAPTER 2 - TOWARDS AN UNDERSTANDING OF ORGANISATIONS**

Introduction 29
The Management Information System 30
Relationship of the MIS to the Management Planning and Control Process 33
Identification and Classification of Archetypal Organisations 49
- the Adaptive Firm 49
- the 'Running Blind' Firm 51
- the Stagnant Bureaucracy 53
The Effect of Organisational Structure on the Information System 54
Antecedents - The Literature 59
Conceptual Framework - The Model 63
Summary 66

**CHAPTER 3 - RATIONALE AND EXPLANATION OF THE MODEL**

Introduction 70
The Elements of the Model 71
- Corporate Past and Present State 71
- The Environment 77
- Management Style 83
- Organisational Archetypes 85
- Strategy 85
- Structure 106
- Process 117
- Performance 123
- Reward Structure 133
- Management Information System 135
Summary 135

CONTENTS (continued)


| | Page |
|---|---|
| **CHAPTER 4 - THE NORTH EASTERN CO-OPERATIVE SOCIETY LTD.** | 137 |
| Past and Present | 138 |
| - History | 138 |
| - Organisational Form and Principles | 139 |
| - Relationship to Local Community | 142 |
| - Financial Position and Performance | 143 |
| - Diversification of Activities | 152 |
| - Customer Services | 153 |
| - Summary and Conclusions | 153 |
| Current Strategic Response | 159 |
| - The Need for a Strategy | 159 |
| - The N.E.C.S. Ltd. Response | 161 |
| - Conclusion | 170 |
| Explanation in Terms of the Model | 172 |
| - Environment | 172 |
| - Antecedents | 174 |
| - Management Style | 178 |
| - Strategy | 182 |
| - Structure | 186 |
| - Process | 193 |
| - Performance | 196 |
| - Management Information | 201 |
| - Reward Systems | 213 |
| - Summary and Conclusions | 215 |
| **CHAPTER 5 - NORTH MIDLAND CO-OPERTIVE SOCIETY LTD.** | |
| Introduction | 219 |
| History and Environment | 224 |
| Strategic Response | 239 |
| Summary and Conclusions | 250 |
| **CHAPTER 6 - COMPARISON OF THE N.E.C.S. LTD AND NORTH MIDLAND CO-OPERATIVE SOCIETY LTD. CASE STUDIES** | |
| Introduction | 253 |
| History and Environment | 253 |
| Strategic Responses | 255 |
| Summary | 262 |

CONTENTS (continued)

Page

CHAPTER 7 - AN EVALUATION OF THE MODEL IN ITS PRACTICAL APPLICATION

Research Method Rationale 265
Construction of the Model 270
Operation of the Model 273
Conclusions 278

CHAPTER 8 - CONCLUSION - THE WIDER IMPLICATIONS

Introduction 283
History and Culture 284
Management Style 288
Strategy 297
Structure 303
Process 307
Performance 312
Rewards 318
Management Information Systems 320
Conclusion 325

REFERENCES 328

# CHAPTER 1

## HISTORY AND BACKGROUND OF THE BRITISH CO-OPERATIVE MOVEMENT

*"There is one right which a man has been generally thought to possess which I am sure he neither can nor does possess - a right to subsistence when his labour will not fairly purchase it. I firmly believe that such persons by the laws of nature, which are the Laws of God, have no claim to support."*

Thomas Malthus - Essays, Vol III

### 1. THE PRE-ROCHDALE MOVEMENT

The concept of 'Co-operation' is rooted in antiquity, but references to Aristotle, to Minos, the Cretan convention and to the practices of the pre-Christian Essenes would at the same time impart a spurious scolatiscism to the present study and divert attention away from the true 19th Century genesis of the British Co-operative Movement.

The 19th Century was a time of unprecedented change in the infrastructure of Britain, with the development of railways and canals, and with the growth of factories. The latter concentrated production and hastened the decline of cottage industries.

All these developments were set against the backcloth of economic pressures of taxation, inflation and the interruption of foreign trade resulting from the Napoleonic wars.

Many of the mill owners were short of capital, incompetent and hardly able to survive in an environment of ruthless competition. Their reaction tended to be to reduce net costs by the only available method - that of minimising the cost of labour by a combination of low basic rates and the implementation of claw-back procedures disguised as 'penalties' for the infringement of arbitary and trivial rules. Examples of infringements were 'whistling at work' and working with a window open.

Child labour was widely used, safety standards were non-existent and such remuneration as was ultimately passed to the workers was often wholly or partly in the form of tokens redeemable at factory shops.

An exception to this dismal social scenario was to be found in the New Lanark Mills of Robert Owen.

In 1834 he was able to write a letter to 'The Times' addressing his friend Lord Chancellor Brougham and cataloguing the success of his operation thus:

"For twenty-nine years we did without the necessity for magistrates or lawyers, without a single legal punishment; without any known poors' rate; without intemperance or religious animosities. We reduced the hours of labour, well educated all the children from infancy, greatly improved the condition of the adults, disminished their daily labour, paid interest on capital and cleared upwards of £300,000 of profit."

Inspired by the Owen lead a large number of Co-operative ventures sprang up and enjoyed varying degrees of success; in particular the ideas of Dr. William King, expounded in the 'Co-operator' between 1928 and 1933 had a widespread influence in the Midland and the North.

The essence of King's philosophy was that workers were capable of remedying their own condition. Education was the key and the acquisition of knowledge was a first principle of Co-operation.

Thereafter, the barrier to self-determination was lack of capital, but this could be overcome by the pooling of workers's savings which would be channelled into a small commercial venture - King recommended a shop. Trading would be based on "ready money". Capital would be retained in the business to finance expansion. When sufficient capital had accumulated to sustain trading at its economic limits for the catchment area of the business, profit would then be utilised to pay wages to Members to provide services and to produce artefacts. Thus,

progressively, all Members would become self-employed and as they would enjoy the whole product of their labour their capital would increase at an accelerating rate.
They would be ale to purchase land and produce their own foodstuffs, build their own homes, provide their own schools, maintain sick and aged Members and feed, clothe and educate Members' children. The Society would thus evolve into a community.

King's influence rapidly bore fruit and before the end of 1828 he knew of nine trading associations, a number which grew to 130 by the end of 1829.

When 'The Co-operator' ceased publication in 1830 it was claimed that over 300 societies were in existence and these were supplemented by a number of producer-co-operatives dealing in broadcloth, silk, linen, worsteds, shoes, hats, cutlery and furniture.

The need for organisation was identified and a series of 'congresses' (an Americanism) were held in:

| | | | |
|---|---|---|---|
| Manchester | - | May 26-28, | 1831 |
| Birmingham | - | October 4-6, | 1831 |
| London | - | April 23-May 1, | 1832 |
| Liverpool | - | October 1-6, | 1832 |
| Huddersfield | - | April 8-10, | 1833 |
| Barnsley | - | March 31-April 4, | 1834 |
| Halifax | - | April 20-21, | 1835 |

The first congress was attended by delegates from 56 Societies and its principal achievement was the passing of a resolution to establish "The North West of England United Co-operative Company" to furnish and stock a wholesale warehouse in Liverpool to serve Co-operative Societies to promote the sale and exchange of all articles of Co-operative manufacture and "to unite all Societies in this part of the Kingdom into one body for mutual protection and advantage and for the interchange of kind offices and benevolent actions."

This venture failed because its scale owed more to optimism than to realism. When it was wound up its lossses were made good by the subscribing societies so that no-one outside the Movement suffered.

Robert Owen then organised a system of National Equitable Labour Exchanges. These were a development based on the Exchange Bazaars, one of the first of which was started in Greville Street in London in 1830. At that time there were some 40 Co-operative Societies in London, and the Exchange arranged the interchange of goods and services on a barter basis, with money being replaced by 'exchange notes' issued as receipts for deposits of goods.

Problems arose in the areas of raw materials valuation and in the difficulty of fixing relative values for skilled and unskilled labour content within the finished goods price.

A system of more complex exchanges was organised to deal with foodstuffs, to be financed and administered by the Trades Unions. Owen floated the 'Grant National Consolidated Trades Union of Great Britain and Ireland', which was formally established in February, 1834.

The collapse of this organisation in the summer of 1834 was ascribed to the conflicting political ambitions of its leading figures (the arrest of the Tolpuddle Martyres at that time was purely co-incidental). The collapse saw the end of the Labour Exchanges and of Co-operative Societies, although Owen did attempt to continue to promulgate his ideas by forming or inspiring such organisations as "The Association of All Classes of All Nations" and the "National Community Friendly Society". Congresses continued to be held until 1846.

The "Pre-Rochdale" Movement can be summed up as having a universal thread of benevolent paternalism (the idea that environment and education could shape character) a lack of traditional class distinction, opposing views as to the start-point for the attainment of its objectives, (the Owen view was that caring communities would facilitate the creation of caring communities), strong democratic sentiments, an abhorrence of government involvement and an optimistic view of the working man's potential for graduating into the trustee of his own

destiny.

In the view of Holyoake (1), its failure resulted from multiple causes. Internally, mismanagement, the abrogation of democracy by Trustee' control, withdrawal of capital and the unwise granting of credit - all compounded by the inadequacy of accounting - were the major factors as was the apathy of the membership and the prevailing selfishness and occasional dishonesty of officers.

An observation by John Finch at the 1832 Congress highlighted that Members' neglect of meetings, their failure to make themselves acquainted with the principles and proceedings of their Societies, their willingness to delegate management to a few individuals and a general spirit of selfishness were major contributors to failure.

There were external causes of failure; the struggle for the Reform Bill, the agitation for factory legislation, the revolt against the new Poor Law and the Chartist Movement with their sense of excitement and historical moment must have dwarfed the hundrum efforts of the small Co-op store or producer. This may have been overcome, had Owen not sought to invest Co-operation with a social and historical weight beyond its means to sustain by its current achievements. (2)

## 2. THE ROCHDALE MOVEMENT

Rochdale is a town situated on the boundary of Lancashire and Yorkshire, both seedbeds of various political movements in the early part of the 19th Century and historically then (and now) disinclined to submit to the whims of government or bureaucracy.

Flannel manufacture had been its staple industry but was suffering from the combined effects of power-loom competition and the American tariff policy.

The cotton industry (introduced in the final decade of the 18th Century), coalmining and

machinery manufacture were evolving and there was an influx of immigrants from Ireland.

There are numerous reports of strikes ending in violence. Eleven hundred Halifax Volunteers were brought into the town in 1808 to quell a violent strike, they were followed by regular troops who remained stationed there until 1846.

Another strike in 1820 ended in disturbances which were put down by horse and foot soldiers with some fatalities; they involved the subsequent handing-out of heavy prison sentences and transportation for one of the strike leaders. A reform meeting - held two weeks before Peterloo - attracted an audience estimated to number 13,000.

Co-operative activity started well before 1830, in which year the 'Rochdale Friendly Co-operative Society' was formed. A small retail store was opened in Toad Lane at number 15 and a little way down the street from where the Rochdale Pioneers would later open their store.

The Society survived until 1835, when it foundered on the rock which wrecked most Co-ops - the injudicious granting of credit. (3)

Amongst those associated with the Society were Charles Howarth, James Standring and John Aspden, later to be involved with the Pioneers.

It was at a meeting on August 15th, 1844, attended by 34 people of whom four were arbitrators that the Rochdale Society of Equitable Pioneers was formed.

Of the 34, 15 were Owenite socialists and 10 were weavers. They were, by and large, skilled artisans, some in business on their own account.

The objectives of the Society included:-

- the formation of arrangements for the pecuniary benefit and improvement of the social and domestic conditions of its Members;

- the establishment of a store for the sale of provisions, clothing, etc;
- the building, purchasing or erecting of a number of houses in which those Members desiring to assist each other in improving their domestic and social condition may reside;
- to commence the manufacture of such articles as the Society may determine upon for the employment of such Members as may be without employment or may be suffering in consequence of repeated reductions in their wages;
- to purchase or rent an estate or estates of land which shall be cultivated by Members who may be out of employment or whose employment may be badly remunerated;
- to arrange, as soon as practicable, the powers of production, distribution, education and government or, in other words, to establish a self-supporting home colony of united interests;
- for the promotion of sobriety, to open a temperence hotel in one of the Society's houses as soon as convenient.

To realise these objectives (4), various detailed rules were laid down to govern the structure and administration of the Society, with a particular injunction against the granting of credit. Rule 21 allowed for any officer, flouting the "ready money" policy to be disqualified from holding office and to be fined the sum of ten shillings.

A rule (5) which exemplified the basis of remuneration of Members in respect of their proprietory status, allowed for the distribution of profits by paying interest on shares at the annual rate of three-and-a-half per cent, with further profit to be distributed pro-rata with money spent at the store.

This is the rule which introduced the concepts of 'divi' and tied the income of a Member to his

transaction with the Society as well as to the capital he had invested in it.

Different writers have sought to distil some general principles from the Rochdale rules and have produed various lists. However, in 1860 the Society did make a statement in its annual almanac of the rules of conduct and points of organisation touching the business transactions of the Society. These are summarised as follows:-

- Religious and political neutrality.
- Common bond of self-interest.
- Capital to be provided by Members and to bear a fixed rate of interest.
- Only the purest provisions procurable to be sold.
- Full weight and measure to be given.
- Market prices should apply.
- Transactions should be on a 'cash only' basis.
- Profits to be divided pro-rata with Members' purchases.
- "One Member - one vote" to apply.
- Sexual equality to apply in Membership.
- Management by elected officers.
- A percentage of profits to be allocated to education.
- Frequent statements of profits and balance sheets to be presented to Members.

The Rochdale Pioneers supported diversification into flourmilling, manufacturing, insurance, building societies and wholesaling.

It became heavily involved in education and was instrumental in forming the national organisations which today are at the heart of a large economic and socio-political Movement.

In 1862 the Industrial and Provident Societies Act, born out of the Co-operative conferences, became law and enabled a Society to hold shares in other Societies thus allowing Federation.

An amending Act in 1867 corrected an oversight relating to the value restriction on individual

shareholdings and conferred limited liability on shareholders. Thus the major impediments to the raising of Co-operative capital were removed, although Societies registered under the Act were prohibited from engaging in banking.

On Christmas Day in 1862 a conference was held in Oldham in which the formation of a wholesaling agency was raised. A prospectus was prepared for submission to a future meeting, and this was held on Good Friday, 1863. Final differences were resolved and the rules were submitted to the Registrar in August 1863, the Society being registered as The North of England Co-operative Wholesale Industrial Provident Society Ltd. At a meeting in Manchester in October, 1863 the officers of the Society were appointed.

The Co-operative Insurance Society was formed in 1867 with headquarters in the premises of the Rochdale Pioneers. It was registered as a joint stock company as the Industrial and Provident Societies Acts, at that time, did not provide for Societies undertaking insurance business.

From 1870 there was increasing recognition of the need for a national organisation. In 1889 such an organisation was registered, in the name of "The Co-operative Union".

In 1872 the name of the wholesaling organisation was changed to the "Co-operative Wholesale Society Ltd."

It opened branches countrywide - Newcastle (1872), London (1874), Liverpool (1875), Leeds (1882), Bristol (1884), Huddersfield and Loughton (1885), Nottingham (1886), Blackburn (1890), Northampton (1890), Cardiff (1891) and Birmingham (1892).

Buying depots were also set up outside England - Tipperary (1866), Kilmarnock (1868), Limerick (1869), Armagh (1873), Waterford (1873), Tralee (1874), New York (1876), Rouen (1879), Copenhagen (1881), Demia (1896), Sydney (1897), Odense (1898), Esbjerg (1905). Productive units were established via a dairy at Drumcolloghen (1889), another at Castlema-

hon (1895). Bacon factories were opened in Tralee in 1901 and at Herning in Denmark in 1900. Tea estates were purchased in Ceylon in 1913.

Banking activities were gradually developed by the CWS Ltd following a resolution at the 1872 Congress. They were of doubtful legality because of the prohibition in the Industrial and Provident Societies Act; the Act was amended in 1876.

The value of CWS (6) productive activities increased from £120,754 in 1865 to £29,732,154 in 1912, by which time the Society employed 20,000 people, in conditions of stability and environment which were superior to those generally prevailing in manufacturing.

By 1980 the CWS had sales of £1,806,826,000 and the number of employees in the intervening period had increased by only 3,500 - a considerable increase in productivity.

The Member Societies numbered 323 of which 195 were Retail Societies, 20 were local Federations, 24 were productive and special purpose Societies, 54 were Agricultural Societies and 30 were overseas Co-operatives.

## 3. THE DEVELOPMENT OF ACCOUNTING

A conclusion which can be drawn from studying the records of failed Co-operative Societies is the apparent inability of management to grasp the value of structured information as an input to the decision process, particularly in relation to liquidity and to risk factors inherent in high levels of debtors.

The Central Co-operative Board (comprising Regional Boards representing Scotland, Northern England, North-West England, Midlands and Southern England) met in annual session, and out of the 1879 and 1880 sessions came "A System of Book-keeping, specially arranged with an appendix, containing explanations of mercantile terms and transactions and other useful information for Directors, Secretaries and Managers of Industrial and Provident Co-operative Societies Limited."

Published in 1880 it quotes from E. V. Neal in the "Co-operator" of November, 1860:-

"Rules, fair to all and securing legal aid, full accounts of everything that's owing, gained or paid; clear reports, good auditors and safe guarnatees; Practise these rules and in time you may be great - Neglect them and they'll break you, as certainly as fate."

The introduction defined book-keeping as: "a science which treats the correct methods of recording the transactions of traders in a plain and systematic manner."

It covered the transactions of a Society conducting its affairs in one place of business and carrying on the Grocery, Drapery and Boot and Shoe trade.

Its purpose was "to facilitate the economising (of) labour of the person keeping the accounts while rendering the audit of the transactions easy and giving a completeness not generally found."

It seems reasonable to speculate that the definition, codification and documentation of a complete book-keeping system was generally ahead of normal practice of the time, having regard to the general tenor of contemporary organisations.

The text was divided into six sections, viz:-

(1) Share Capital, Loan Capital and Small Savings.

(2) Cash, including Bank, accounts.

(3) Trade Accounts.

(4) Impersonal Accounts:-

- Building and Fixed Stock
- Investment in other Societies
- Departmental Accounts

- Profit and Loss Account
- Interest and Dividend Account

(5) Model Balance Sheet

(6) Explanations on the Return to the Chief Registrar.

The appendices comprised:-

(1) Special Accounts
- Butchering
- Leakage

(2) Table of Interest (this was at 4.1/6 per centum per annum and described as the rate generally given in the Small Savings Bank Department of a Society).

A pro-forma of every single document and book of record for every transactions undertaken by the hypothetical Society is included, together with an explanation of its purpose and method of compliation.

Reading the document (7), it comes across as a quaint cross between a procedure manual and a text-book, for example in the maintenance of Trade Accounts, meticulous checking between the Order Book, the Goods Received Book and the Invoice Book is emphasised, with the verification of the accuracy of extensions on invoices falling to the Secretary.

"These forms having been gone through, the invoice should be neatly folded and pasted in the Guard Book. This invoice book takes the place of a Day Book Inwards, as required by many systems of accounts" ... "If by error an invoice for Drapery Department is posted in Boot and Shoe Department column, this will cause Drapery to show more profit by the amount of that particular invoice, while, on the other hand, it will decrease the profit of the Boot and Shoe Department by the same amount."

"As a complete check upon the Trade transactions of the Society for any given period it is a very safe proceeding at the close of the quarter to ask the Merchants or Wholesale Dealers to send

in a statement of the position of their accounts on the date of making up the society's books."

It is interesting to note that in 1985 the volume of invoices generated by the CWS in respect of its supplies to Retail Societies is some 3 million individual documents and experiments with electronic transmission of data are taking place with a view to preserving the standards of accuracy and security laid down in 1880.

Nor is the question of stocktaking neglected;

"It is of vital importance that stocks are to be taken with the utmost accuracy. Errors made in this respect are considered 'original errors 'and cannot be rectified without the work being gone over again, if they exist in the form of quantities. If in the extension of the value column the errors may be detected by the Auditors in their examination of the books. All stock should be taken at the cost price, less discount (if any) allowed." (8)

The procedures placed relatively greater emphasis on the areas of real potential loss - i.e. the extension of suppliers' invoices - and the checking process was delegated to a senior official. Where the error would result merely in a misreporting of profit and assets (the wrong extension of stock sheets), detection is left to the auditors. A pragmatic approach which forms the basis of modern accounting practice and reflects in perceptions of 'materiality'.

The text then goes on to comment on deficiencies perceived in the then current practice.

"The keeping of a Balance Sheet Book is much neglected in Co-operative stores in general. One fact will convince the many directorates in the Movement of the importance of such a book being kept, namely that in the law courts no Balance Sheet could be taken as evidence other than the official Sheet from the Society's Balance Sheet Book. Written, not printed, documents are taken and they must bear the official signature of the Society's Auditors."

In 1925, Professor Hall produced text-books (9) devoted to "Co-operative Book-keeping" as it

had by then become known. In June, 1938 he presided at the national conference of book-keeping teachers called by the Educational Executive of the Co-operative Union. This conference appointed a consultative committee to promote the ideas put forward and endorsed by it.

After Hall's death the Educational Executive appointed John (now Lord) Jacques to continue the work of revising his texts, and Jacques produced three books (10), which became the standard works on the "science" of Co-operative Book-keeping. In 1939, a Co-op Union survey of the balance sheets of 1,000 Co-operative Societies revealed substantial and widespread deviations from the standards of Hall in 1925.

It was evident in that survey that there was a perception of book-keeping as something more than the recording of transactions to satisfy arbitrary legal requirements.

The paragraph on "The Standard Balance Sheet" points out:
"Finally, the proposed methods need not be defended merely on the grounds that they bring the Standard Balance Sheet into line with the present-day practice of Societies. They can also be justified on the grounds of efficiency. It is obviously desirable that the productive expenses of every Society and every department should be shown separately from the distributive expenses so as to facilitate comparison and promote keen management."

The Jacques texts are very full expositions of the contemporary principles and techniques, and they portend some later thinking, for example:-

"Office and administrative expenses are often allocated to the departments according to their sales, a practice which penalises progressive departments because, for every increase in sales there is an increase in expenses. Unprogressive departments are favoured because the smaller their sales, the less the expenses charged against them."

When Jacques strays into the areas of the Balance Sheet his thinking is rather more shaky,

viz:-

"It is necessary to make a (depreciation) charge for the following reasons:-

(1) to ascertain the true value of assets at the end of an accounting period and the true costs for the periods;

(2) to provide funds for the replacement of the asset."

By 1961 the published accounts had assumed a form more recognisable to students of contemporary practice. They comprised:

(a) The Trading Account

(b) Interests and Investments Revenue Account

(c) Balance Sheet and Auditors' Report

Prior-year comparisons were incorporated and it was noted that the adoption of standardised formats went some way towards facilitating inter-Society comparisons, albeit with a caveat that the analysis of expenses and the accounting treatments of transactions differed so much between Societies that the superficial comparisons would be misleading.

Jacques is preoccupied with the allocation and apportionment of expenses to a trivial level, whilst his preferred method of charging interest is to net the totals of payables and receivables and then allocate the resultant figure pro-rata with working capital!

On April 7th, 1982 Jacques wrote to the Co-operative News to comment upon the current practices of accounting in Retail Societies.

"For well over 100 years, Co-operative accounting was based upon hard practical experience and sound common sense...

"To have charged departments (and branches) with the cost of labour, but not with the costs of

capital would have been regarded as an elementary mistake, showing a lack of common sense.

"Our departmental accounts were, in effect, cost accounts and the accuracy attained depended upon the pains taken in analysing direct expenses and apportioning the indirect.

"I would have anticipated that the coming of electronics would have permitted more sophisticated methods of analysis and apportionment, resulting in a degree of accuracy hitherto unobtainable except at relatively high cost.

"But what do I find? Just at the time when the new aids become available to facilitate accuracy we abandon the practice of accurate costing of departmental activities, cease charging interest upon the capital they employ and make no attempt to allocate the costs of central services.

"Instead the accounts simply show the amount, if any, that is available from each department as a contribution to cover these costs. The result is that nobody, not even a professional, can ascertain the profit or loss of a department without spending some time with a calculator doing work which should have been done in the office.

"For example, a department may appear to be making a contribution when, in fact, it is responsible for a substantial loss because it is using a great deal of expensive capital.

"The contribution which this kind of accounting is making is to the decline of the Movement."

There is, throughout, a strong emphasis on accounting and the maintenance of records as, if not an arbiter of policy then at least a primary basis for the policy-setting process.

This emphasis follows through into the budgeting process. A comprehensive budget and annual operating plan should be used as the basis of comparison with actual results and the erstwhile importance of prior-year comparisons should diminish.

The budget should summarise:

- Projected capital expenditure for each department.
- Estimated revenue income and expenditure for each department.
- Estimated cash flow for the business as a whole.

"The question sometimes arises as to whether the budget should be realistic or simply a target. It should, of course, be a realistic target, something that can be reasonably expected, having regard to all the circumstances. The term 'flexible budgeting' is currently being used. It simply means a budget that is modified as the year proceeds, say at monthly or quarterly intervals to take into account circumstances that were not foreseen." (This definition does not comply with accepted modern usage e.g. ICMA terminology).

As a treatise on management accounting, Jacques' book is trivial and technically inaccurate in some instances. It is interesting in exemplifying the way in which the history of the Co-operative Movement is punctuated by self-styled "leaders of thought" who presume a ubiquitous expertise and whose willingness to commit their views to print must be a reflection of the ambient competence levels. Jacques offers gratuitous advice to store-planners:

"There is ample evidence that is pays to modernise and exploit the techniques of self-service and self-selection. As a general rule, very cheap buildings and fittings should be avoided. They go shabby too soon. The middle line is best."

Presumably this advice would cause as much amusement to the modern planning specialist as his preaching on accounting would to the specialist management accountant.

Nevertheless some valid concepts are evidenced, albeit in embryonic form.

Much of the work is concerned with developing basic reporting formats and establishing

performance-indicators. Personnel costs measured as a rate per £1 or sales was (and still is) a measure of supposed efficiency, and a matrix was constructed for Grocery branches keying personnel ratios to the levels of weekly sales (larger units offering economies of scale) and the proportion of tobacco sales (a distorting influence on the sales profile).

The problem of stocks is central to the assessment of gross profit and the issuing of seven Trade Advisory Bulletins by the Co-op Union between June 1963 and August 1965 is an indicator of the Co-operative Movement's preoccupation with it. Where periodic (ie 4-weekly) stocktaking was not feasible the calculation or estimation of stocks was advocated, supported by cyclical counting.

This position has not changed in principle; technology, in the form of hand-held terminals coupled with portable printers dedicated to stocktaking, and the development of scanning to facilitate product-line analysis of outputs are contributing to the accuracy of estimated stocks at progressively lower levels of detail and, incidentally, addressing the other source of profit erosion in retailing - the disappearance of stocks, known in the Co-op as 'leakage'.

Given the present 'state of the art' Co-op accounting, areas such as leakage, cash flow analysis and product performance are sadly neglected. As evidenced by the Jacques words, by 1966 Co-operative accounting practice was conceptually a generation removed from the ideas of financial management and control being documented by a host of authors in the UK and the USA (e,g Wilson [11], Soldofsky and Olive [12], Van Horne [13]).

A contributory factor to this lack of development was undoubtedly the introverted nature of the Movement, with its own training college at Loughborough and its internally - administered secretarial "qualification" - CSD (Co-operative Secretarial Diploma) regarded as the passport to a career in Retail Society management.

Unhappily the initially worthy concentration on education by the Movement's founders had resulted in the developments in the outside world being ignored - a tendency observable in

many aspects of "Co-operation" and which may be contributory to its relative decline as a force in the market place.

## 4. THE INTRODUCTION OF COMPUTERISATION

In parallel with the growth and expansion of the Retail Co-operative Societies the Wholesale Societies (CWS) had progressed from a bulk buying and warehousing operation to the provider of a wide range of services.

It had taken advantage of early developments in electronic data processing (EDP) to cater for massive volumes of transactions and was using Hollerith 555 machines, programmed using plugboards to perform what were essentially card-sorting operations.

In 1962 the Organisation and Methods Department merged with the Hollerith Department to form a new Computer Group. Co-incidentally a Honeywell 400 computer was purchased and work was started - inhouse - to develop packages to deal with trading and financial aspects of the business.

Between 1962 and 1969 a number of such packages emerged including: payroll, trade ledger, warehouse stock control, credit trading, shares and loans, small savings (around 20 in all).

During the same period a number of regional bureaux were opened using Honeywell equipment.

In 1969 an ICL 1901 was purchased by the CWS centrally and then ICL equipment progressively replaced Honeywell, with the consequent need to convert existing packages to run on the new hardware.

Coincidentally two major projects were embarked upon. One was the development of an

automated warehouse at Birtley, near Newcastle-upon-Tyne. This was one of the most ambitious and advanced developments of its era, and indeed was one of the very few real-time systems ever on such a scale, being featured on the BBC programme 'Tomorrow's World'. Sadly the venture ended in failure and it was finally dismantled in 1981 admidst legal proceedings against the builders, Simon Engineering.

The other development was an accounting system designed to integrate all the existing individual packages (by now expanded to include TV Rental, Capital, Financial Accounts, Management Accounts, Vehicle Fleet, Shopper Card, Development Bonds) into a nominal ledger and management reporting facility.

The accounting project had been initiated by the CWS following complaints by the Registrar of Friendly Societies about the standards of statutory accounting and reporting within the Co-operative Movement.

This recognition of inadequacy is seen by the author as an inevitable corollary of the Movement's introspective attitudes towards the injection of professional standards of competence in specialist areas. The response to the demands of the 1970s and 1980s was essentially no different to that of the demands of the previous century - viz to cater via internal training. A hundred years previously this had been a worthy, innovative and advant-garde attempt to generate a facility not generally available in the market-place. In the mid-20th Century it represented a blindness to the outside world and to the techniques and institutions extant in the environment which was likely to be a constraint on organisation viability and competitiveness.

The accounting development was based on existing packages and run on existing equipment at CWS bureaux. Consequently it was an old fashioned batch-processed system heavily dependent on manual intervention in terms of data entry and in the phases of processing which required frequent changes of computer tapes to update files. Because of the possibilities for error, validation procedures of prime input could frequently result in the need for re-processing

to ensure completeness of input and, hence, accuracy of output.

More importantly, the size and scale of the development coupled with the need for massive educational programmes within recipient societies diverted available resoures away from the development of 'front-end' systems to provide control information on trading performance. Consequently trading management finds itself well served in areas of retrospective financial reporting but very lacking in fast-response database information systems to manage its day-to-day business.

It also finds itself reliant on large centralised computers run by the CWS on a bureau basis and increasingly supplemented by micro computers installed in individual societies on a largely unstructured basis with the primary focus often on the hardware rather than on the range of applications of software, the expansion potential, the transportability of software and the ease (or possibility) of communications with other hardware. This latter point of communications has proved a deterrent to the development of reporting and modelling applications using a powerful micro and mainframe modelling language (FCS).

The Co-op's position as the largest retailer in Europe remains for the time being, but it is being gradually eroded, with leadership in packaged groceries being surrendered to Sainsbury's in 1983. Market share has fallen in both Food and Non-Food, as shown in Table 1.

**Table 1: Decline in Co-operative Market Share (%)**

| | FOOD | NON-FOOD | TOTAL |
|---|---|---|---|
| 1971 | 10.8 | 2.9 | 7.0 |
| 1983 | 8.4 | 2.2 | 5.5 |

**Source: Co-operative Union Economic Res. Dept.**

Performance against competitors is poor by almost every criterion of measurement. Table 2 compares numbers and average sizes of trading outlets with a crude measure of performance - Sales per square foot.

**Table 2: Store and Store Performance Comparisons**

| | No. of Outlets | Av. Size (ft) | Sales/ft (£/wk) |
|---|---|---|---|
| ASDA | 75 | 33,399 | 7.50 |
| TESCO | 550 | 11,250 | 6.00 |
| FINE FARE | 730 | 4,700 | 4.50 |
| CAVENHAM | 1,000 | 3,700 | 4.50 |
| CO-OP | 7,000 | 3,000 | 3.00 |

There are disturbing trends readily identifiable from a superficial scan of the trade press. "Supermarketing" (14) for the first few months of 1985 reported extensively on investment by the Co-op's competitors.

A few examples have been noted as exemplars of the general trend:

(1) In the early weeks of May a takeover by ASDA of MFI created a group with turnover of £2,000 millions and pre-tax profit of £150 millions, putting it in the same league as Sainsbury's and within striking distance of Marks & Spencer and Great Universal Stores.

(2) The takeover came almost exactly one year after ASDA was previously dominating the headlines with a £500 millions development in the South East involving the opening and/ or re-furishment of 60 new Stores at an average cost of £8 millions.

Coincidentally, the Henley Centre for Forecasting were predicting that London could be using as many as 100 additional superstores by 1991.

ASDA was confidently talking about maximising organic growth and capitalising on the

opportunities for physical expansion which the next decade will present, involving "building up a partnership for the future with council planners" to help it achieve "massive superstore expansion in the years ahead".

(3) On a small scale Tesco was proposing to raise £140 millions additional capital by way of a rights isssue to help it finance the openings of 13 new stores, providing an additional 469,000 square feet of selling area.

(4) Both Tesco and Marks & Spencer have capital programmes of £100 millions per annum, with Tesco predicting that its planned investment will enable volume gains to be made across its trading profile and ultimately putting it into the same league as Sainsbury's and ASDA.

(5) Argyll Foods, through its Presto Stores Division has recently launched a major programme to exploit the trend towards health foods, including the provision of nutritional training to stores staff.

Of the Co-op's 1980 performance, the Co-operative Union's Economic and Research Department noted:-

"The turnover increase secured by the Movement was 12.9%. This is a substantial figure and brings the total turnover to a remarkable £3,963,128,000. Regrettably, though this does need to be set against the change in the relevant price index of nearly 14%, which implies a volume reduction"

"The overall rate of net surplus, when measured after provision for share interest dropped markedly ... It is not surprising, therefore, that the Movement's ability to generate new activity from self-engendered resources was circumscribed during this period, although it must be strongly emphasised that since reserves (on an historical cost basis) are now at a rate of 180.9% of share capital, the intrinsic doughty financial strength *and security* (my italics) of the

Movement manifest."

The publication of such a view illustrates the complacency underlying introspective examination of the Movement. The fact is that share capital is redeemable at will as there is no price mechanism to reflect financial performance in the market value of shares. A 50% redemption of capital would, on the Co-op Union's analysis double the "doughty financial strength and security" of the Movement by doubling the reserves-to-capital ratio. In real terms it would involve replacement of the withdrawn capital at rates some 3 to 4 times those paid to shareholders. The same Co-op Union document points to the egress of shareholders' funds between 1979 and 1980:-

| **Sources of Funds** | **1980** | **1979** |
|---|---|---|
| | **% of total** | |
| Reserves | 40.8 | 43.3 |

It appears highly unlikely that the differential rates of investment between the Co-op and its competitors can ever be reversed, particularly as the competitors are able to fund a significant proportion internally from profits, whereas the Co-operative Movement as a whole generates substantial losses year by year, even after the distorting effect of profits on the sales of fixed assets has been brought into the accounts to improve the trading picture.

The published accounts of the 10 largest Societies for the year ended January 1983 is as follows:-

**The 'Top Ten' - Financial Performance**

| | **£000** |
|---|---|
| Total Sales | 2,179,425 |
| Profit before Asset Sales | (25,018) |
| Amount Tranferred to reserves | 5,004 |
| Share Capital | 110,372 |
| Reserves | 123,609 |
| Profit on sales of assets were, therefore | **30,022** |

Aggregated losses for all societies after taking profits on sales of assets for that year as £46 millions and between 1978 and 1983 (£228.6 million has been "appropriated from the asset base" [to use the Co-op euphemism for living off past earnings]).

The decline in profitability and in market share is taking place against a structure of vertical integration (largely via the CWS) into farming, processing and manufacturing, with a consequent high level of fixed costs.

Remedies urgently being sought to overcome this potentially disastrous situation include the rationalisation of the manufacturing base by closures of factories and the sale of large tea estates in India and an attempt to claw back some of the declining market share by diversifying into retailing which is not overtly "Co-op" and by convenience stores, privately run but retailing Co-op brand as well as branded goods.

## 6. SUMMARY

How, then to summarise the nigh-on 150-year history of an organisation as diverse in activity, purpose and ownership as the Co-operative Movement.

Whether its origins were rooted in economic advantage or social change it has fulfilled the objective in survival for a century and a half. In commercial terms a comparison might be Sainsburys, which has been is existence for a similar time. There the similarities cease. Sainsburys is an overtly commercial organisation, publicly owned but managed along normal business lines. Philanthrophy consists in distributing profit after it has been earned and banked rather than excusing the failure to earn a commercially acceptable rate of profit by reference to some ill-defined concept of social accountability.

The view is often expressed that the Co-op is a unique organisation and therefore no valid comparisons with competitors can be made.

Within the framework of the present study that view is discounted as a cover-up for a simple lack of clarity concerning goals and objectives.

The Co-op - irrespective of its superordinate goals - has set itself up as a supplier of consumer goods in the retail market place. It is, therefore, quite voluntarily in an environment of customers and competitors and is obliged to demonstrate some form of distinctive competence in order to capture a market sufficiently large to sustain a level of activity capable of supporting its costs, and long term survival.

There is nothing remotely unique in this situation. If the normal commercial criterion of generating enough profit to fund stability and growth is not satisfied, then the inevitable corollory is decline and - when the asset-base has been exhausted - demise.

Uniqueness may lie in the manner in which the generation of profits above those necessary to satisfy the commercial criteria was controlled, or in the manner of distribution of those profits. This question does not arise because the minimum criteria are not being met - by a very long way.

The view is taken, therefore, that Co-operative Societies are businesses involved in commercial transactions, directed mainly towards retailing and that any attempt to represent them as anything else is invalid.

The implications of that contention are that the study is not restricted because of its research context and that any general statements applicable to Co-operative Societies will be equally applicable to organisations in general.

That is not to diminish the importance of history as a determinant of organisational structure and culture. Much is made of this by external commentators.

A detailed analysis of Co-operative Retailing in 'Management Today' (October 1983) opens with

a comment on the structure of the Movement:

"Recipe for retailing success in the grocery trade: a strongly grouped, homogenous chain of stores, tied to a centrally controlled buying and warehousing operation with little or no manufacture but a clear, unified image and strategy. Recipe for retailing failure: a strongly centralised, wholesaling and manufacturing organisation loosely linked with a disparate band of retailing operations, all with an unclear image and a fuzzy strategy"

The 'Guardian' of 1st June, 1983 features a headline in its financial section: "Will the day come when the Co-op means nothing to the supermarket giants?"

The text points to problems of structure, and an unchanged organisation in a rapidly changing environment:

"The decline in sales in real terms ... comes at a time when real personal disposable income has risen by around five per cent. The Movement's loss of market share has a momentum which, at best, would take some years to reverse.

"But worse than this, given its present structure, it is very hard to see how it could be reversed. Arguably, even if it were to succeeed in re-grouping itself into 25 large regional organisations each of those would still be too small to compete effectively with Sainsbury, ASDA and Tesco.

"But in a way the problem is worse than that: the problem is not just the fragmented structure of the Movement; it is the whole philosophy. Sheer economic pressures will force larger groupings of Co-ops, but will they change the philosophy?

"If you look at the successful food retailers, the key to success is to drive the product mix up market. Marks and Spencer achieve extraordinary margins by relentlessly selling customers slightly better quality than they would be prepared to accept.

"In the US the multiples have gone a stage further (reference to an article in the same paper on retailing in California). This is a trend in retailing which the whole Co-op Movement has failed to grasp. Like Woolworth it is stuck at the wrong end of the market and like Woolworth prior to its takeover it has neither the money nor the talent to pull itself up...

"You can make an argument that the whole concept of Co-operative retailing is an outdated Nineteenth Century one and will die along with the adding of the non-conformist zeal which helped establish it."

Such then, is the context in which the present study is undertaken.

# CHAPTER 2

# TOWARDS AN UNDERSTANDING OF ORGANISATIONS

## 1 INTRODUCTION

The previous Chapter provided a detailed insight into the nature and antecedents of the organisations in which the study is based - Retail Co-opeative Societies.

It concluded with a statement that despite the claims of people associated with them, these organisations are not unique either in their structures or in the basic principles which govern their interactions with the environment.

It followed, therefore, that observations, analysis and conclusions deriving from a study in Co-operative Societies are transportable into organisations in general.

Such being the case it is appropriate to preface the study with a review of organisation theory, embracing the relationship between constituent elements and functions, tracing the requirement for, and development of, management information and noting the various methods of classifying organisations in terms of behaviour and attitude, inter-reactions with their environment, product/market positioning, structure, methods of goal-setting and control mechanisms.

What follows in the remainder of this thesis is the adoption of a structured approach in attempting to apply a broad spectrum of theory in a practical environment.

The result is the development of a model representing the elements of the business and its environment juxtaposed in such a way that their dynamic inter-relationships can be explored, analysed, and the results of the analysis fed back into the model to expand or modify both the elements and their inter-relationships.

A brief description of the model is developed in Chapter 2 and further refined in subsequent chapters.

The study, therefore represents an example of established scientific method, involving empirical research into the formulation of a hypothesis and the subsequent testing of the hypothesis (via the model) with feedback from the testing process.

## 2 THE MANAGEMENT INFORMATION SYSTEM

Yewdall et al (15), talking about computerised information systems, signal a caution and constraint:-

"It is increasingly being realised that the real payoff from the computer lies not in computerizing an outmoded management but in devising a new system of management within which the computer has a logical role to provide valuable information. The information can only be valuable when management are capable of using it effectively, and to do this demands not only a knowledge of objectives but also of contemporary numerical ideas in information utilisation. These ideas have been loosely termed management science though they cut across and embrace the old disciplines of economics, mathematics, statistics, accounting and operational research.

"This is perhaps where business is most lagging. Computer technology and application has advanced more rapidly than managements' capability at absorbing numeracy for the effective utilisation of information. As a result there has been created a quantitative barrier to improve business efficiency."

Gordon and Miller (16), talking about the design of accounting information systems introduce other dimensions and in so doing implicitly define the boundary between information and control systems.

"For the most part, the efforts to date (in designing an accounting information system) have

been directed at searching for the single most desirable method of generating financial data to promote effective decision-making. On the other hand, little attention has been given to the need for considering environmental, organisational, and decision making style attributes in the design of an A.I.S. Also overlooked in much of the previous work is the contingent nature of most decision-making."

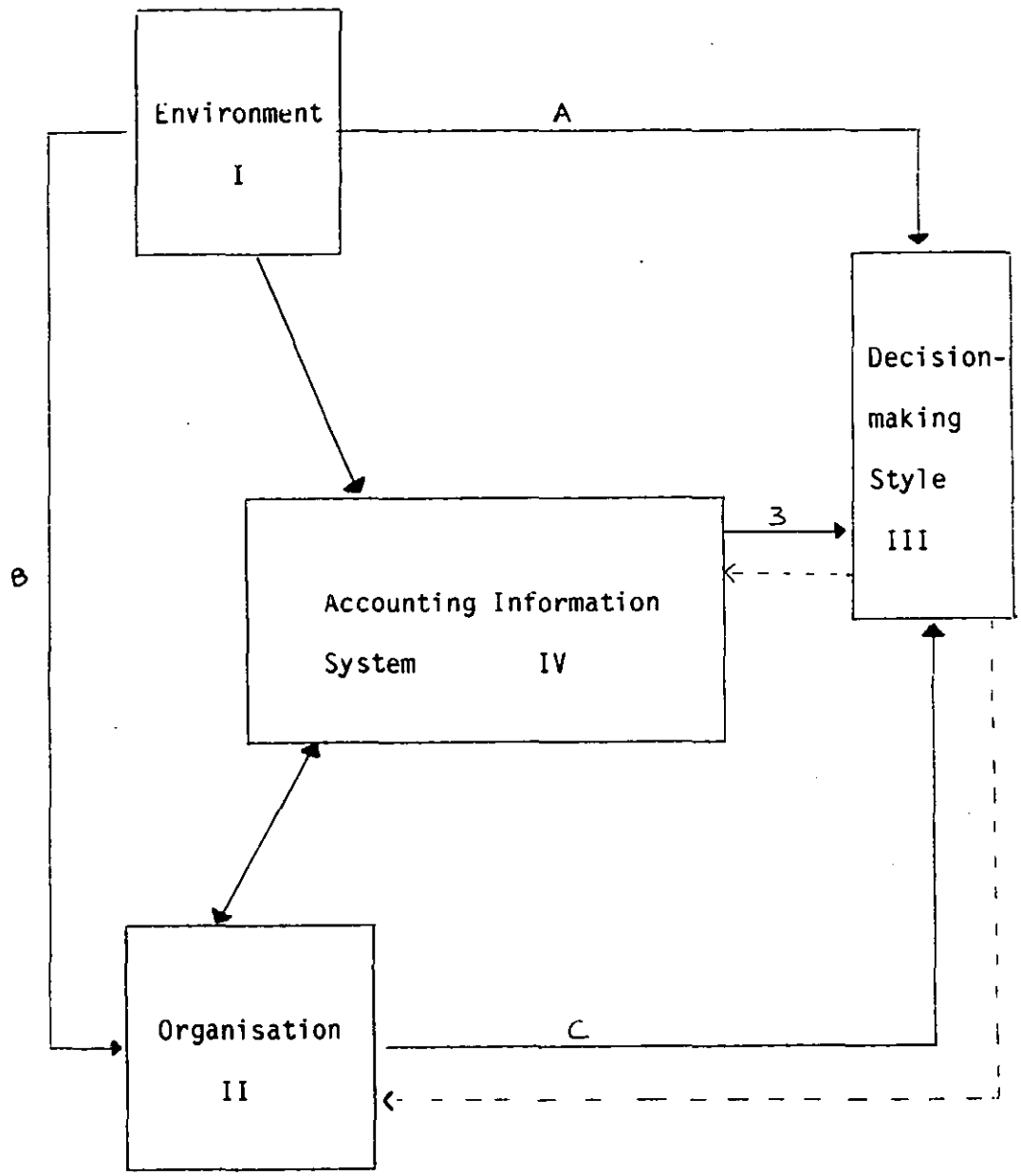



**Fig. 1 The contingency model of Gordon & Miller**

"..... The characteristics of the accounting information system, to which the environmental, organisational and decision-making variables will be related are: information load, centralisation of reporting, cost-allocation methods (with reference to both amount and timing), fre-

quency of reporting, method of reporting (eg statements, raw data, charts, pictures), time element of information (eg ex ante vs ex post data) performance evaluation, measurement of events (eg financial vs non-financial data and internal vs external data) and valuation methods (eg historical cost vs market value vs price level adjusted information)."

Gordon and Miller look at the organisation in terms of its environment, its structure and its decision-making style.

They identify three basic characterisations of environment - environmental dynamism, environmental heterogeneity and environmental hostility.

The first of these characteristics involves the rapid and unpredictable shifts in consumer taste and the emergence and demise of new competitors and products.

MIS's in this sort of environment are characterised by the introduction of non-financial data, increased frequency of reporting, greater use of forecast information and greater conservatism in the allocation of expenses (costs are written off rather than capitalised, for example).

The second characteristic concerns the diversity of product/market orientations, consumer characteristics, production technologies and raw material markets, and the MIS related characteristics are:

- subsectionalisation of the MIS to fit with the environmental diversity (eg decentralisation),
- inter alia, cost profit and investment centres.

The third characteristic is associated with the threatening actions of competitors or random interruptions on vital sources of supplies. As hostility increases, Gordon and Miller hypothesise that the effective information system will increase the frequency of reports, provide substantial non-financial data specifically keyed to the environmental threats and provide a fairly sophisticated cost accounting and control system.

Khandwalla (17) points out that the sophistication of a firm's control system is highly correlated with the intensity of competition.

## 3 RELATIONSHIP OF THE MIS TO THE MANAGEMENT PLANNING AND CONTROL PROCESS

In talking about control aspects there is an immediate broadening of perception, away from the narrow focus of the Management Information System per se and towards the purpose of management information as an input into strategy formulation, as a vehicle for expressing the measurable implications of strategy, as a barometer for evaluating the actuality of performance against the scale of strategic expectation and as a method of feeding back measured and analysed variances into the control mechanisms and into the revised strategy.

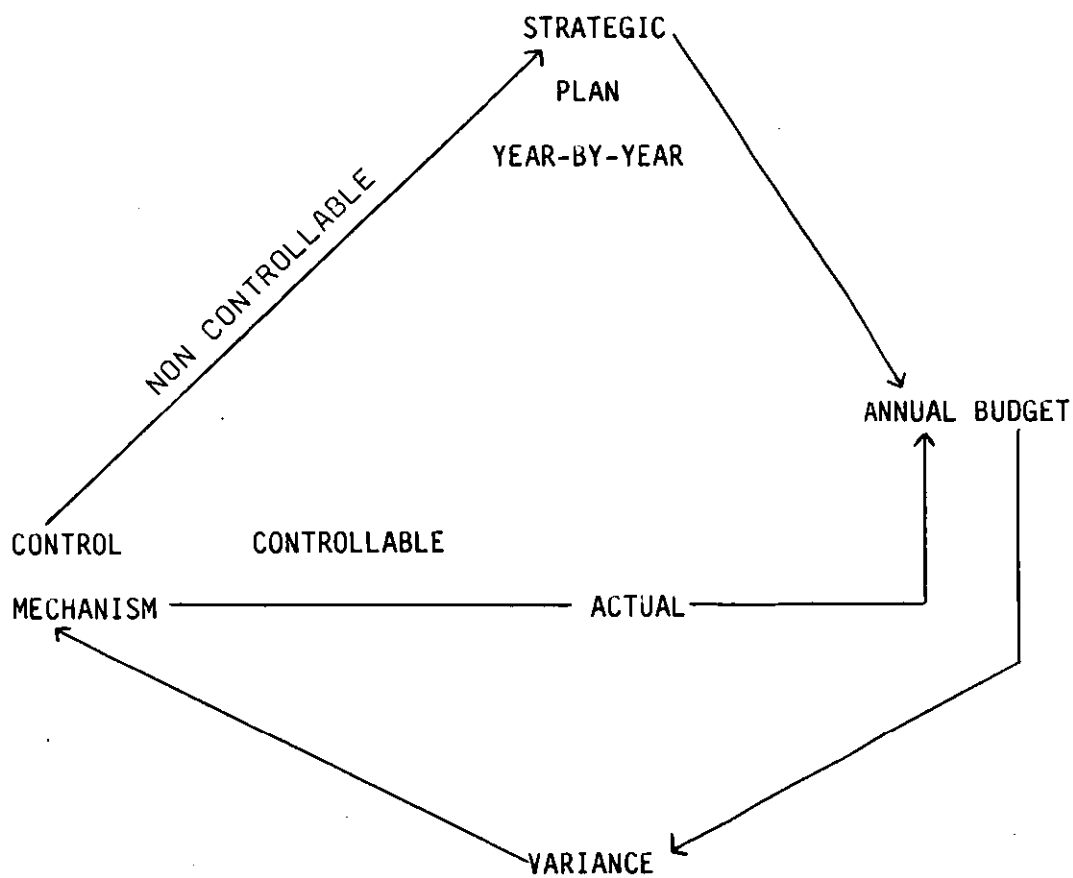



**Fig. 2 Aspect of M.I.S. feedback to Strategy and Performance.**

In order for control to be effective a number of conditions are pre-requisite.

(a) The management information system must be "clean". It is highly counterproductive on both a short-term and a long-term basis for system errors to be reported as real variances and become the subject of management investigation (system deviation).

(b) The system outputs must be understood. There is, therefore, a high priority on formatting outputs in such a way that they are tailored for recipients. Specialists in all disciplines are guilty of conceptual and terminological tunnel vision and tend to believe that non-specialists have a duty to acquaint themselves with jargon. This should not be confused with the tendency on the part of generalists to insist on over-simplification to the detriment of understanding.

(c) The system output must be directed to the appropriate destination. This is a shared function with organisation structure where an essential of effective control is that executive authority must be vested in the control points of the business. More will be said about this aspect later, but it is appropriate at this time to note that Woodward (18) (1965), Lawrence and Lorsch (1967) (19), Burns and Stalker (20) (1961), Thompson (21) (1967), Perrow (22) (1970) and a host of other writers have pointed to the need for more "sophisticated" organisational devices to counter increasing environmental dynamism, heterogeneity and hostility.

These organisational mechanisms often are geared towards uncertainty reduction and include decentralisation, divisionalisation, differentiation of organisational subunits and integration of these diverse orientations via committees, rules and policies as proposed solutions.

Under decentralisation, Gordon and Miller hypothesise that the information system must become more sensitive and sophisticated to facilitate the monitoring of divisional progress at corporate level. Specifically, the information system must:-

(i) produce more explicit reports on the performance of organisational subunits. Indeed Benston (23) 1963, points out that there is an argument that a decentralised reporting

system is a pre-requisite for the decentralisation of the organisation,

(ii) develop substantial supporting information to enable subunit performance evaluation. Examples include transfer pricing systems (subunit profitability), cost analysis and output measurement (Abdel-Khalik and Lusk (24) [1974]).

(iii) include a sophisticated planning and control system to allocate and control resources amongst divisions to maximise return whilst preserving motivation,

Godfrey (25) (1971) has suggested a short-run planning model for use in a decentralised firm which recognises the need for corporate allocation of scarce resources whilst promoting divisional autonomy.

A highly differentiated firm is defined by Lawrence and Lorsch (19) (1967) as one with subunits which are very dissimilar in their modus operandi, time horizons, goal orientations and the interpersonal habits of their staff.

Gordon and Miller hypothesise that the information system in such an organisation should be tailored to the specific needs of the subunits. Watson and Baumler (26) (1975) discuss the role the accounting information system can play in facilitating the requisite degree of differentiation amongst organisational subunits via the appropriate transfer pricing system.

The centrality of transfer pricing is developed by Solomons (27) who defines the "theoretically right" price as that at which "the activities of the two divisions taken together would be the same as if they had been jointly organised as a single profit centre instead of as two separate profit centres."

An important point made by Solomons is that the theoretically correct price cannot always be set by the supplier division on its own because it may not have all the information to enable it to do so. The exhibit quoted by Solomons illustrates that the level of output from division A which would equate the company's marginal cost of making it could only be determined by

someone in possession of both division A's cost data and data relating to the market for the products of divisions B and C. Where the marginal cost is constant over a range of outputs (i.e. implying an absence of capacity constraints) the supplier division is in a position to set the transfer price.

The question of transfer prices has important bearings on the concept of "profit centres" (where autonomy is assumed) and on the management information systems, which must reflect the interdependencies. It is one of the determinants of the "self-supply (make) or buy out" decisions as illustrated by M Wells (28).

Two articles, by Henderson and Dearden( 29) and by Goetz (30) attack the notion that profit centres and transfer prices can help in inducing managers of semi-autonomous divisions of companies to work in the best interests of the firm as a whole and in controlling what they do. Both discard fictitious transfer prices and propose instead that divisions be charged the marginal or incremental costs of a contemplated action.

They also suggest that a system of budgets should be used to control the actions of managers and that managers are unlikely to be induced to work towards organisational objectives by any other means. However, it is not suggested that profit centres and transfer prices are of no use where divisions are autonomous and trade freely in the market place. Dearden (31) suggests that where a company can be logically broken down by type of business instead of functional activity (manufacturing, marketing, etc.) a profit-centre system is appropriate, having, inter alia, the following advantages:-

(a) The manager is motivated to maximise the return of his investment and thus contribute to the profit goals of the company (ie his goals are consistent with those of the company).

(b) A profit centre manager can be evaluated on the basis of his profit performance.

The concept that constraints within the management information system can result in arbitrary decisions and thus reduce autonomy is one which is pursued in Chapter 5 and it

echoes an earlier quotation from Benston (ref 9) suggesting an interdependency between information and activity.

This interdependency is further reinforced by consideration of the integration of the management information and management control systems.

At a systems level, this is done through budgets (ref. fig 2), whilst at an organisation level the integrative devices include participative management, co-ordination committees, explicit policies and group objectives (Lawrence and Lorsch, 1967, Khandwalla, 1972).

Thompson (1967) speaks of various modes of interdepartmental co-ordination such as rules and reciprocal feedback mechanisms which become necessary as the degree of environmental uncertainty (dynamism and hostility) increases.

Gordon and Miller contend that the information system can serve as a powerful co-ordinative device and postulate that the effective information system:-

"(a) Incorporates plans and budgets which represent overall corporate targets to which each subunit must contribute. However, achieving goal congruency (Bierman and Dyckman, 1971 [32]) amongst subunits is easier said than done and thus the difficulty of implementing this suggestion should not be underestimated.

"(b) Present information to managers of subunits on some vital matters or parameters concerning other units. Such informtion should help to encourage joint problem-solving among the managers of separate units which in turn can serve to foster invaluable inter-unit information communication."

The budgetary control aspects of the integrative process are dealt with at some length by Hofstede (33) who quotes Anthony's (34) definition of managment control as "The process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organisation's objectives."

Hofstede develops four classifications of activity in relation to management control viz:-

| | | |
|---|---|---|
| Objectives | - | ambiguous/non-ambiguous |
| Outputs | - | measurable/non-measurable |
| Effect of Management Intervention | - | known/unknown |
| Activity | - | repetitive/non-repetitive |

He can then develop an associated typology for management control:-
Routine Control, Expert Control, Trial and Error Control, Intuitive Control, Judgemental Control and Political Control.

Models of management control comprise, inter alia, the cybernetic model, characterised by the first order negative feedback loop and exemplified by the thermostat. The additions of a feed-forward loop and second - and higher-order feedback loops are possible, but the cybernetic model is always associated with routine control.

This simplistic model becomes complicated by a phenomenon labelled "psychological short-circuiting" and in an earlier empirical study of budgeting processes (35) Hofstede identified three possibilities:

- people change the objectives rather than the process itself,
- people change the measurements rather than the process itself,
- people make some unintended interventions in the process (e.g. they adjust cost at the expense of quality).

By means of these psychological short-circuits, control changes into pseudo-control, the latter being defined as a state in which the control system shows an equilibrium without the process actually being controlled.

"The more formalised a control system the greater the risk of obtaining pseudo-control rather

than control."

Solutions to pseudo-control are psychological contends Todd (36) and one of the most promising ways for avoiding pseudo-control is moving control downwards to the level of those who actually intervene in the process. This replaces external control by self control in wich the cybernetic cycle of measuring, comparing to standard, feeding information back and intervening is in the hands of the same person or work-group.

This control cycle is limited to the surrounding organisation only through the standards that are set and such a process is homeostatic rather than cybernetic, with the analogy a living cell rather than a thermostat.

There are, of course, implications in terms of the management information system here.

One of the problems with the Gordon and Miller criteria of short-term reporting in conditions of environmental turbulence is that the requirements for frequency and accuracy are mutually incompatible, the problem is compounded by two effects identified by Galbraith (37).

The first is concerned with volumes and resources.

Galbraith points out that every set of plans begins to decay in usefulness from the moment of its creation in that unforseen events arise which necessitate upward referral out of the closed routine. This overloads the hierarchy and creates a pressure for new plans. Reduction of the planning cycle from one month to two weeks doubles the amount of information processed with consequent pressures on resources, or degradation of accuracy of output.

Secondly, where resources are scarce and where environmental turbulence makes the outcome of their disposition less certain the requirement for information increases. The effect is the same as in the first instance.

A method of mitigating this effect is to eliminate as many variables as possible and shorten the

feedback control loop.

This solution can be seen in certain capital-intensive manufacturing industries.

Traditionally the management information system reported actual performance for a process or a cost-centre. The actual performance was compared with standard at the interface between the management information system and the control system.

The resulting variances were broken down in a complex hierarchy of relationships (38), the objective being to isolate at each level of the hierarchy a controllable or measurable variance which could be pursued or fed back into the planning system to modify the standards and carry through into the profit planning process.

This procedure suffered from every imaginable drawback.

The information system was rarely "clean". The more detailed the control required the greater was the number of elements comprising a variance and consequently the greater was the scope for wrong allocations (eg spoilage into efficiency or yield, misinterpretation of transaction codes on input documents, wrong extensions of prices and volumes, etc.). This resulted in a great deal of wastage of supervisory effort in attempting to track down the causes of what were in effect systems deviations.

The genuine variances were themselves complex, and often in an attempt at simplification an omnibus transaction-code was used, resulting in the costing equivalent of a "sundries" account. The value in this "dump" often dwarfed the values specified for investigation, making a mockery of the "control" system.

The information was inevitably late, being usually produced from a monthly reporting cycle. In industries where production run durations were measured in hours (eg cosmetics) the idea of monthly reporting was farcical.

Modern automated processes have rendered the traditional variance analysis obsolete because the machinery is self-checking, variances are signalled to the machine operator who takes immediate corrective action and logs the incident.

In retailing one of the main problems in the management information and control systems is the plethora of detail.

The process itself is very simple - merely one of receiving goods into the back of the shop and passing them out at the front.

The major problem lies in the variety of goods involved. A hypermarket may carry well over 20,000 different "lines" and the maintenance of a price and stock file to record "ins" and "outs" is a major headache. It is only recently that bar coding and scanning has offered any hope at all of capturing output data. Previously the best available method was to record inputs and stock levels and to force outputs and margins - a system fraught with disadvantages of inaccuracy and cost (taking stock is an expensive business, and not lightly entered into for very low-margin commodities like food).

One of the country's most successful retailers has reputedly gone some way to solving the problem without recourse to complex technology.

They operate a system of standard margins throughout their stock range - thus avoiding the complexities of mix variance in budgeting and reporting - and administer on a marketing orientation with counter staff managing their own stocks and feeding sales information back to specialist buyers.

In this way control is pushed downwards to the people actually intervening in the selling process and demand information is fed back to the buying point, facilitating quick response.

In this way Todd's injunction on "pseudo-control" is applied, the feedback control loop is shortened and the wasteful process of historical reporting and volume/mix variance analysis

is obviated.

In this example the financial information system is increasingly confined to a reporting function with the integration of information and control at a non-financial level.

Apart from the cybernetic model, Hofstede offers two other models for control-political and "garbage-can" (39) and these are especially related to judgemental and poltical types of control.

From a management information system viewpoint these are perhaps less directly interesting than the cybernetic model but from the viewpoints of organisational culture, structure and control they are more relevant, and Hofstede goes on to develop a matrix of budgeting units, budget types and control classifications:

| Types of Budgets | Types of Management Control | Major Management Problems | Available Tools/ Techniques | Social Process Involved |
|---|---|---|---|---|
| Investment Budgets | Expert Control<br>Intuitive Control<br>Judgemental Control<br>Political Control | Resource allocation | Economic Analysis<br>DCF<br>PERT | Discretionary Power<br>Negotiation<br>Salesmanship |
| Operations Budgets for Input Centres | Judgemental Control | Resource Allocation<br>plus<br>Performance Motivation | Programming<br>Planning<br>Budgeting<br>System (PPBS)<br>M.B.O.<br>Zero-Base Budgeting<br>Policy Analysis<br>Programme Evaluation | Discretionary Power<br>Negotiation<br>Salesmanship<br>plus<br>Leadership<br>Subordinateship<br>Motivation<br>Gamesmanship |
| Operations Budgets for Input/Output Centres | Routine Control<br>Trial & Error Control | Performance Motivation | Semi-participative Budget-setting and feedback of Budget variances<br>MBO | Leadership<br>Subordinateship<br>Motivation<br>Gamesmanship |

Table 1: Types of Budgets from a Managerial Control Viewpoint - Holfstede, 1980.

Notes: "Input Centres" are more usually known as "cost-centres" whilst "Input/Output Centres" are more usually called "profit centres".

Hofstede's evaluation of the control techniques is based primarily on the adequacy of relevant information incorporated in them, their intrinsic "fit" with the situation they are purporting to describe, and their acknowledgment of innate cultural and psychological factors in the human beings who are the ultimate instruments of control.

He points, for example, to the exclusion of non-economic aspects of resource-allocation

determinants from the Discounted Cash Flow technique, although these can often be prime in the decision process.

In the context of investment decisions, he dismisses economic analyses as the determinants of decisions, relegating them to a posteriori justifers of decisions that were made on the basis of non-economic preferences, and quote Aharoni, 1971 (40) : "It is not so important that the economic arguments supporting an investment decision are right in an absolute sense, it is important that they appeal to the decision-makers. The rightness of the economic assumptions that went into investment proposals is rarely checked afterwards; and even if it is checked, nobody is likely to learn from any errors discovered (as the process is non-repetitive)."

The technique of goal-setting and feeding back of variances (classical budgeting) is acknowledged to be quite effective, but leadership is considered of greater importance in bringing about effectiveness than any particular version of the budgeting technique (Hofstede, 1967 [41]), Dunbar, 1971 [42]) as is organisational structure (Bruns & Waterhouse, 1975 [43]), technology (Hofstede, 1967 [41]) and national culture (Aharoni, 1971 [40]), Hofstede, 1977 [44]).

In particular, Hofstede cautions against the use of budget variances as a basis for financial incentives, pointing out that the arbitrariness of budgetary standards disqualifies them as acceptable performance criteria.

The converse problem applies to Management by Objectives (MBO) which works only in a situation where outputs are measurable - ie in input/output centres.

The social processes which operate in the budgeting/control processes in input/output centres are leadership, its mirror-image subordinateship and gamesmanship.

Input centres provide the area of greatest problems, inherent in the absence of measurable outputs against which to measure the effectiveness of alternative allocations of resources.

Because of this, they have given rise to the greatest proliferation of techniques including

Programming Planning Budgeting System (PPBS), a product management concept whose protagonists arguably ducked the issues of ambiguous objectives and non-measurable outputs.

However, PPBS has the advantage of focussing on programmes rather than on departments, and of taking into account a time horizon beyond the normal contrived annual cycle of normal operations budgets.

PPBS has been extensively documented by Anthony, 1972 (45), Lyden and Miller 1972 (46), Wildavsky 1975 (48), 1979 (49), Hofstede 1978 (50), Jablonsky and Dirsmith, 1978 (51) and has mostly been considered a failure because it has tended to bury fundamental choices in a welter of techniques, destroying its own cost/benefit justification.

Management by Objectives is another technique which has achieved only modest success, because it is based on naive assumptions about the psychological interactions between superiors and subordinates (the agreement of objectives is no pointer to agreement on the evaluation of results) and also because the separation of objectives from resources and constraints is an entirely artificial device. Wildavksy (1978) states:

"Objectives by themselves are meaningless: they suggest that everything may be obtained and nothing need be given up. Objectives make sense only in the context of resources available to achieve them together with an understanding of alternatives foregone. Yet considering opportunity cost immediately suggests a full-scale analysis, which, presumably, MBO is designed to avoid."

The theme of limited success is carried over into a third technique, Zero Base Budgeting (ZBB), developed specifically for input centres and originated at Texas Instruments.

It is extensively documented in the literature (eg Hurzlinger, 1979 [52], Wildavsky 1975, 1978a, 1978b, Cheek 1977 [53], Bariff and Galbraith, 1978 [54], Sarant, 1978 [55], Wholey, 1978 [56], Draper and Pitsvada, 1979 [57], Anthony and Herzlinger, 1975 [58]).

Wildavsky encapsulates experience in the succinct and telling comments: "Some butterflies were caught, no elephants stopped".

The reasons given are inherent in the nature of the technique, under which input centres are split by activities; for each activity various levels of expense - including a zero level - are considered together with their expected consequences. Subsequently the activities are lined up in order of priority and the availability of resources determines a cut-off points beyond which activities will not be funded. This leads to some activities being abandoned altogether, some reduced and others expanded.

The decision packages which have to be prioritized soon become so unwieldly as to preclude informed decision-making and the cost of producing the paperwork quickly outranks the benefits accruing from the technique.

As with PPBS and MBO, the behavioural premises underlying ZBB are naive, there is a bland assumption that a manager will submit proposals which, if implemented, would terminate his job. The notion of poltical pressures over-riding objectivity is ignored.

The ways to rehabilitate ZBB as a credible and useful device are firstly to simplify it, to consider incremental variations in expenditures rather than a zero option and to decentralise decision-making so that decisions would be taken on manageable packages of alternatives by people with some specialised knowledge.

Hofstede's suggested alternatives to the established techniques (quoting Wildavsky) are forms of Policy Analysis and Program Evaluation involving activity audit by multidisciplinary teams. These alternatives themselves have intrinsic drawbacks but, Hofstede says, they at least do not suggest simplistic ways of dealing with complex problems and they avoid both naive assumptions and mountains of paperwork.

The second integration of MIS is with the organisation's planning system. The "chicken vs the

egg" question is not addressed here, and the view is of a rolling cyclical procedure as described in fig. 2 (page 33), where the out-turn of a strategy is fed back into the planning process and the control process so that performance is enhanced whilst expectations are pulled back to realistic levels.

Lindblom, 1968 (59) describes a type of decision-making which is disjointed, that is where executives tend to maximise short-term objectives and parochial interests at the expense of strategic goals and long-term plans. This is a tendency particularly prevalent in a heterogeneous environment and in an attempt to focus an explcitly corporate viewpoint, the information system should, according to Gordon and Miller, incorporate a system of targets and objectives which must be met by each department and provide a statement of how far those targets and objectives have been met. (This accords with Hofstede's view, subject to his caveat about leadership as the main determinant of adherence to strategy.)

In formulating strategy, however, the replayed experience of the match between objectives and actuality is only one input to the process. Internally generated information is by its nature self-limiting and a vital input into strategic choice is information about the market and about competitor activity and performance.

Ansoff (60) introduces the concepts of Strategic Intensity and Environmental Impedence.

The intensity of an industry is the amount of energy members devote to interaction with others. It can be measured by the strategic budgets of participants in the industry.

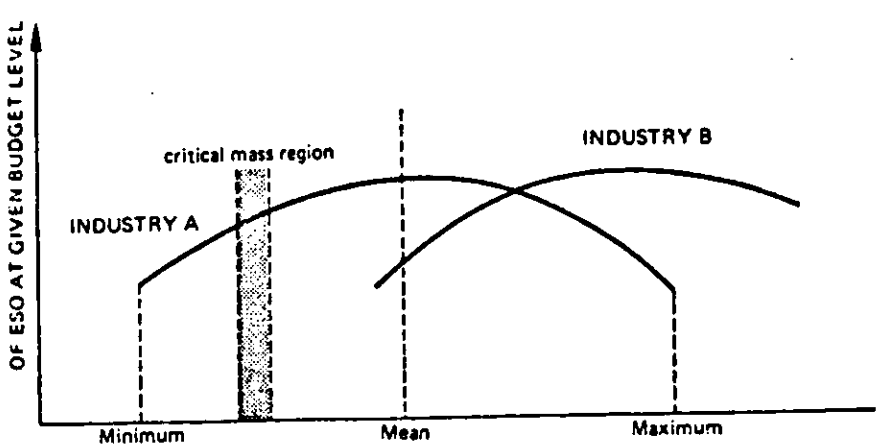



*Figure 4. Distribution of Strategic Budgets in Two Industries*

Figure 4 illustrates two distributions of strategic budgets in which industry A is shown as having the higher intensity.

The strategic budget consists of two parts: (a) the marketing budget supports sales of the industry's products and (b) the intrepreneurial budget which supports innovative activities such as changing the character of the products, markets, technology and basic sources of supply.

The two parts are complementary; marketing assures sales of the current products to the current customers and new customers for those products, whilst entrepreneurship changes both the products and the markets.

It is true to say, therefore, that high marketing budgets can be taken as a sign of intense competitive activity with competitive vigour related to the industrial concentration. However, this is not the only reason for high marketing budgets and Ansoff lists others as:

(i) Ratio of total market demand to total available capacity. A low ratio will increase competition for market share - hence high-expenditure.

(ii) The agressiveness of the market leaders.

(iii) Legislation - this may increase or decrease levels of expenditure depending on whether it restricts marketing or requires wide publicity for factual information.

(iv) Customer pressure and buyer resistance.

Ansoff defines his concept of "environmental impedance: "the sum total of the pressures by other factors in the industry, as well as from outside forces, which increases the budget needed... to sell output to customers."

The marketing budgets are, by definition, correlated with environmental resistance.

A similar concept, termed by Ansoff "innovation pressure" is related to entrepreneurial budgets, and pressures for higher budgets come from:

(a) The rate of technological innovation generated internally or injected from outside.

(b) Saturation of demand for current products.

(c) Entrepreneurially aggressive competition by leaders of the industry.

(d) Legislation (eg on lead-free petrol, etc.).

(e) Customer demand for innovation.

The differences in strategic activity between profit-making organisations and non profit-making ones is explained in terms of "environmental dependence", Ansoff's hypothesis being that the profit-makers survive in a world where resources are freely allocable between petitioners on the basis of perceived performance and prospects (often measured by the p/e ratio) whilst non-profit organisations exist on assured income-streams. (See fig. 5)

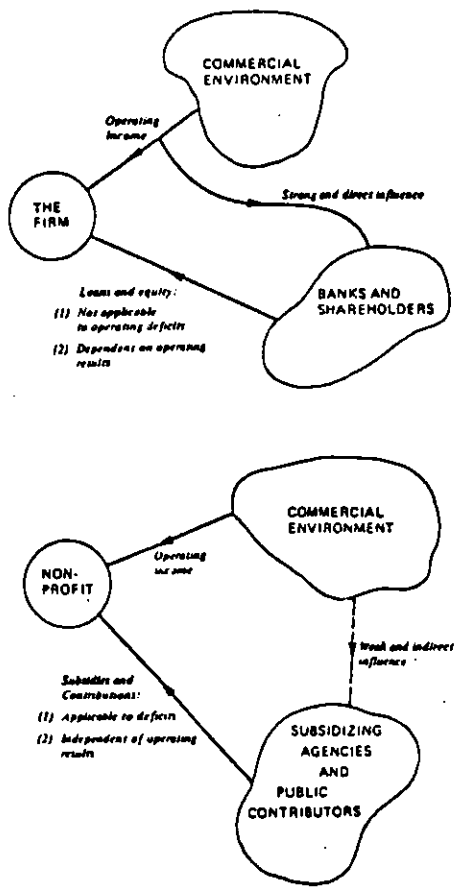



*Figure 5 Differences in Market Dependence*

Clearly this difference in dependency has an impact both on management style and outlook and on mangement information system requirements. The profit-making organisation is selling not only its products but itself and so in terms of management information inputs it has a wider need for feedback not only from the product maker, but also from the financial market. The need for window-dressing is more acute in an organisation which relies for external growth funds on commercial markets than for one which enjoys a public perception of intrinsic worth and which is maintained through subsidy. It should be said, however, that in recent years the availability of philanthropic subsidies has been seriously curtailed and the non-profit making organisations have been jerked into a state of enhanced strategic awareness by being forced to go out into the market place to remain viable. (One example is the London Symphony Orchestra, which is now very closely associated with films and with 'popular classics'.)

## 4. IDENTIFICATION AND CLASSIFICATION OF ARCHETYPAL ORGANISATIONS

Associated with the environment and the stance of the organisation within it are three archetypal firms proposed by Miller, (61) 1975. These exemplify typical agglomerations of environmental, organisational and decision style traits. They are (1) adaptive, (2) running blind and (3) stagnant bureaucracy.

Gordon and Miller relate the information system which they hypothesise to be effective under each of the types.

They do, however, point out that Miller's analysis seems to point to a restriction in the combinations of environmental organisational and decision-style traits because they appear not to be distributed randomly but to cluster together to form commonly-occurring configurations.

### (1) The Adaptive Firm

These firms are characterised by:-

Moderate heterogeneity, longstanding dynamism, substantial decentralisation of authority, moderate-to-low differentiation and more than adequate integration, abundant

technocratic and managerial resources, multiplexity in decision-making styles, substantial analysis of strategic issues, an adaptive and responsive orientation to important trends in the environment and an explcit and well-defined strategy.

Executives tend to be innovative and pro-active.

The firm's performance levels tend to be high.

A large part of the success of the "adaptives" seem to be due to the type of information and intelligence systems which they employ.

The main information charactieristics which are hypothesised to be effective for such firms are:-

(a) capacity for gathering information on the external environment. Environmental turbulence makes this a particlarly vital component of the MIS.

(b) the collection of non-financial and well as financial information (eg inflationary trends, new products, new technology, shifts in consumer preferences).

(c) uniform accounting systems between subunits. Centralised, rather than decentralised MIS (Star configuration).

(d) internal communications, both vertical and lateral are unimpeded and informative. They are succinct, and geared to the recipient in their level of detail. Decentralisation of operations and the abundance of competence relieves top management from a concentration on detail.

(e) the array of information provided to managers is quite broad, often at the manager's iniative as they tend to be adaptive, multiplex and analytically inclined. The MIS should, therefore, be capable of storing a lot of diverse

information so that it is on call.

(2) **The Running Blind Firm**

The firms tend to be involved in heterogeneous markets with a quite high degree of environmental turbulence. In some cases competitor activity shaped the firms, in others they were the results of multiple acquisitions of companies in various spheres of activity.

Organisational differentiation is high and the various orientations are not easily reconcilable through integrative devices. Separate and sometimes conflicting objectives seem to be pursued by the organisations' subunits.

The managers tend to be pro-active, entrepreneurial and to take substantial risks - for example in the introduction of new product lines with associated technological innovation on the basis of very little pre-launch analysis.

The decision-making style is characterised by low multiplexity and intuition rather than analysis. Power is highly concentrated in a few hands.

The businesses tend to grow like Topsy, the structures being products of opportunistic acquisitions rather than planned growth.

Performance tends to be low because of the lack of corporate perception and the fragmentation of managerial talent in pursuit of suboptimal objectives.

The intelligence system is inadequately geared to the changing environment which is scanned infrequently, only by top management, and with a very limited range of cues (eg acquisiton candidates).

Controls which highlight performance are often lacking, and communication tends to be strictly one way - top down.

Individual divisions are often isolated and top managers usually do not know what is happening until a crisis breaks.

Gordon and Miller suggest ways in which information systems can be designed to overcome some of the problems as follows:-

(a) Out of control situations should be anticipated and facts sent to top management.

(b) external information should be harvested and communicated to top management - eg new products, technological innovations in the firm's area of operation, customer preference shifts, etc;

(c) top managers should be provided only with highly summarised data, as centralisation of authority carries with it a high risk of information overload. Key indicators should be highlighted and early warning signals should trigger a controlled response;

(d) environmental turbulence carries its own imperative for external intelligence-gathering and thus should be high on the organsation's list of priorities. Such intelligence covers not only market and competitor factors but also legal, and socio-economic change;

(e) in view of the high degree of differentiation in the organisation and the lack of integrative mechanisms, the information system should involve co-ordinative measures such as corporate profit objectives, resource allocation procedures, etc. These should encourage goal congruency and foster contact and discussion vertically and laterally, thus leading to resolution of conflicts within, and between head office and subunits;

(f) attention should be given to developing and implementing common criteria for measuring divisional performance so that subunits have a basis for inter

comparison and the allocation of resources can be explained and justified.

(3) **The Stagnant Bureaucracy**

This archteypal organisation represents a failure to recognise and/or respond to the change in environmental turbulence. Structural and decision-making styles are geared to past homogeniety and stability. Organisational differentiation is low and integration is achieved by rigid rules and programs.

Power is high centralised in the hands of a few top people whose managerial and technocratic expertise is lacking. Decision-making styles are characterised by low multiplexity, poor analysis, unresponsiveness to external trends, and excessive conservatism.

Environmental scanning is done frequently, the intelligence systems are totally inadequate, controls are too insenstive to highlight important trends before they become extremely troublesome, internal communication is minimal and exclusively top-down - usually of a critical and non-constructive nature.

Gordon and Miller's prescription for the information system in these organisations is to make the organisation more responsive to its changing environment, for example:-

(a) there should be a move towards gathering information on external factors such as economic trends, new products, trends in the firm's market share and in competitor market-share, profitability, growth records and plans;

(b) reporting should provide timely information on problematical trends with some estimated indications of the out-turn of the various options open to the firm,

(c) multilevel integrated profit planning should be introduced to force all levels of management to contribute to an agreed heirarchy of mutually compatible objec-

tives. This has the tripartite objective of forcing vertical and lateral contact and communication, highlighting non-contributors, assessing the quality of thinking and of reducing suboptimisation;

(d) three-year forecasts and rolling annual projections should concentrate minds on the future whilst indicating the current levels of success and achievement against immediately past expectations,

(e) a disciplined approach to the identification and exploitation of profit opportunities should strengthen corporate resolve and encourage innovation, whilst developing the intelligence-gathering mechanisms.

## (5) THE EFFECT OF ORGANISATIONAL STRUCTURE ON THE INFORMATION SYSTEM

The dependence of information systems on the organisation variables is taken up by Waterhouse and Tiessen, 1978 (62). The model they use hypothesises that the distribution of organisational authority and the extent to which procedures can be specified are contingent on technology and environment. Waterhouse and Tiessen examine, inter alia, the manner in which organisational structure may affect Management Accounting System processes such as planning, resource allocation and performance measures.

Following from the views of V Thompson (1973) (63) and Perrow (1972) (64) who define organisations as purposefully designed tools for accomplishing ownership goals Waterhouse and Tiessen suggest that planning and control in centralised organisations is optimally achieved through the specification of procedures rather than through the budgeting process.

Procedure specification implies that the knowledge base for operating or managing decisions is known to centralised decision-makers, therefore, ownership goals will be translated into operational sub-goals with a minimum of conflict and a minimum of input from lower organisational members - ie it will be non-participatory.

By contrast control in decentralised organisations is more complex. Decentralisation exists (according to Waterhouse and Tiessen's hypothesis) because managers at lower levels have access to information not avaiable to the owner or his agents. Consequently procedures are difficult to specify and document and it becomes more difficult to establish non-conflicting operational sub-goals. In such circumstances, the process of sub-goal formation will involve participation of all the actors and the product will be at trade-off of conflicting aspirations. The budget document may therefore be considered "an explicit surrogate statement of implied organisational goals, budgetary goals will now be broader and less clearly specified than in organisations characterised by specified procedures."

The concept of "budgetary slack" is introduced, defined as "The difference between the minimum necessary costs or maximum possible revenues and budgeted costs or revenues: (Schiff & Lewin, 1968) (65). Schiff and Lewin's view, proposed originally by Williamson (66) in 1964 is that slack is consciously built into budgets by managers to serve their personal goals and establish "attainable" performance criteria. Onsi (67) (1973) states that budgetary slack is created as a result of pressure and the use of budgeted profit as a main criterion in evaluating managerial performance. Cyert and March (68) (1963) take a more charitable view, maintaining that slack arises unintentionally during the budgeting process and serves the purpose of stabilising the firm's performance in spite of environmental fluctuations.

The concept of budgetary slack is closely related to Pondy's (69) concept of discretionary resources defined as the excess of revenues over all costs.

These resources may be allocated to profit, or to salaries (increases or extra staff) or hidden in reserves as depreciation, etc.

The existence of goal incongruity, coupled with the high cost of information raises questions about the allocation of discretionary resources. Nominally the authority for deciding on the allocation may be vested centrally at corporate HQ, but the information necessary for the decision is dispersed throughout the hierarchy because of technological and environmental

uncertainties. The centralised decision-maker is faced, therefore, with the very real danger of making a suboptimal decision for the organisation becuase he does not have access to complete information. If the allocation decision is decentralised, suboptimal results may still arise because of the selfish priorities of the lower-level decision-making.

The same difficulties have been touched on earlier in a discussion on transfer pricing.

Waterhouse and Tiessen suggest that there may result from this a transfer of organisational power from the operational management to the management accounting function itself and conclude that the MAS plays an important role in the development of organisations.

They further suggest that budget flexibility is an important organisational response to unpredictable and changing environments.

Talking about performance measurement, they point to areas of activity (notably production, research and development, and marketing) where financial budgets may be poor indicators of effectiveness because financial measures are poor surrogates for the total set of variables which influence departmental performance.

A dimension of the information system which is relatively neglected is the relationship between properties of organisation and the technology of information system design and implementation.

"The general thrust of the contingency approach to the study of organisations is such as to strongly suggest that organisational and management accounting system design variables are closely linked."

Waterhouse and Tiessen conclude:-

"Studies of MAS - based processes have potential theoretical and practical implications because

of their pervasiveness and their importance to organisational efficiency. Moreover, many MAS are good descriptors of organisational processes and interdependencies through well-documented outputs (eg budgets). Therefore, research on MAS variables may be a means of conceptualising and observing more abstract processes such as goal formation, power attempts or conflict resolution."

Two diagrams from Ansoff illustrate, respectively, the formation of managerial expectations based on a learning-curve principle implicit in the affirmative responses in the logic flow-chart (fig 6),

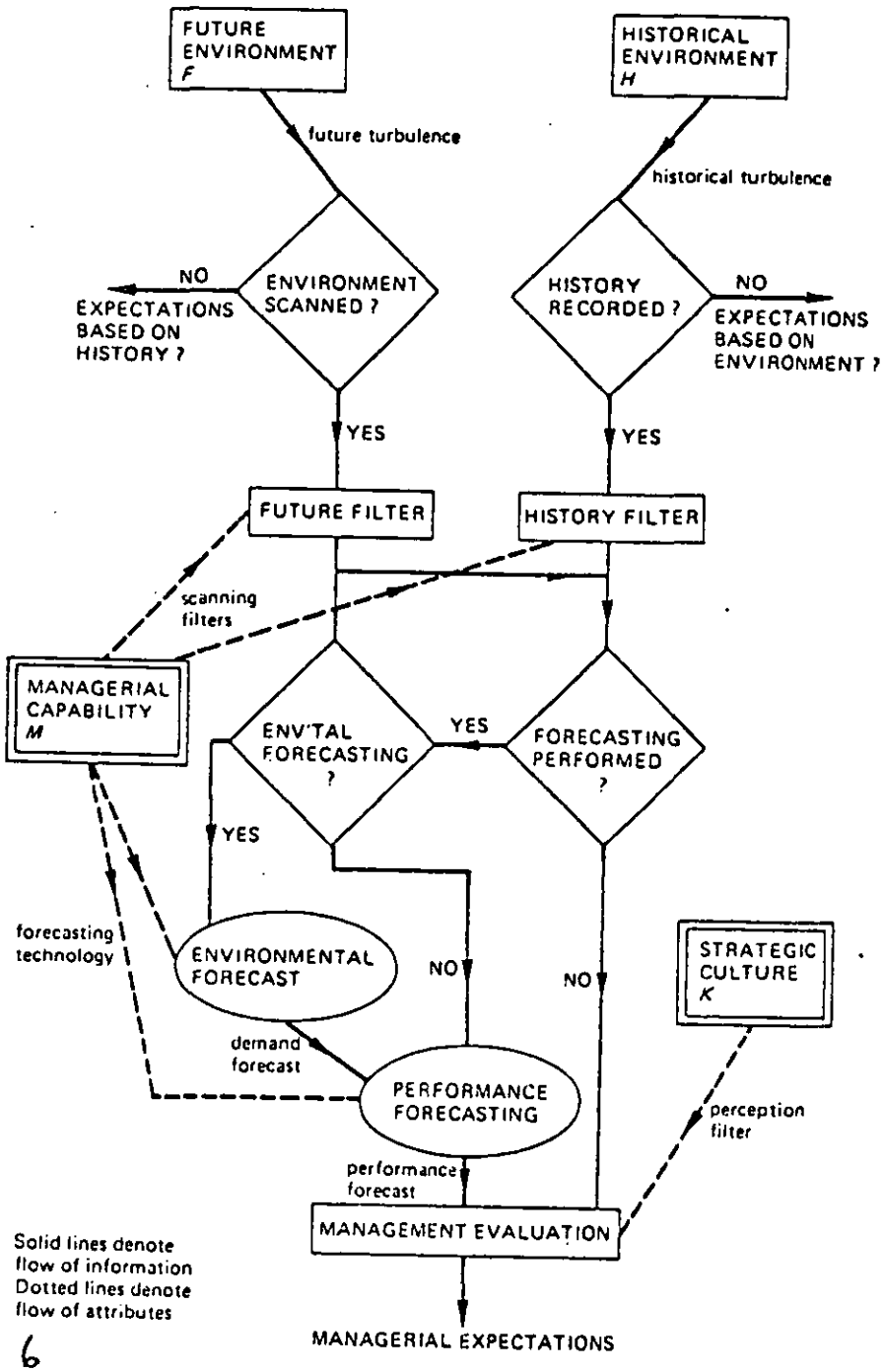



fig 6

and (fig. 7) the development of performance aspirations with the component factors placed in their relativities.

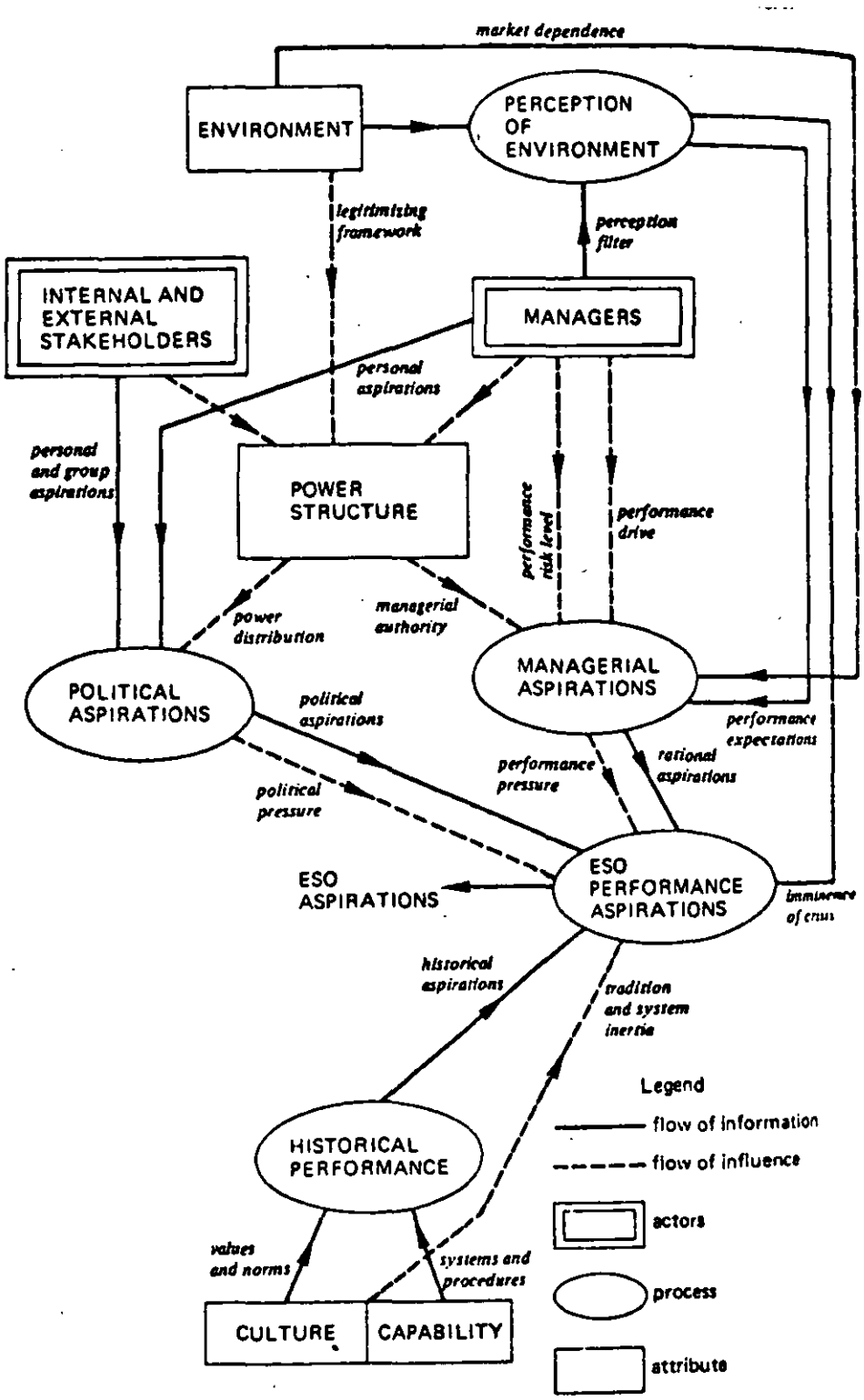



*Figure 7 Formation of Performance Aspirations*

## 6. ANTECEDENTS - THE LITERATURE

The foregoing pages have been to some extent a "trawl" of the literature relating to organisations and their information and control systems.

The object of this exercise has been to identify and classify the development of thinking about organisational management and the reporting of organisational performance in such a way that insights, characteristics and methodology can be applied to the present study.

For example, Gordon and Miller's exposition of archetypal organisations and the correlated characteristic of their management information system, Khandwalla's identification and classification of management styles, Hofstede's view on the limitations of various management techniques and Ansoff's broad perception of organisations as systems interacting with their environments all provide components for the construction of a framework within which to study Retail Co-operative Societies.

The application of scientific methodology to the study of organisations is problematical for a number of reasons, amongst them the variety and complexity of interacting variables, the absence of a definitive normative theory and the inherent lack of control over the organisation under study and its environment.

The status quo can be documented with some precision, as can its antecedents. The influence of factors such as strategy, structure and process in achieving the status quo can only be studied on the basis of assumptions as to cause and effect and in relation to an implied normative theory which permits speculation on the effects of alternative parameters and the interaction between them. The first classification of the literature is probably in its "micro" vs "macro" approach, in which Ansoff is at one end of the scale dealing with the broad sweep of interactions between systems and their environments, whilst Hofstede is at the other end seeking to deal with specific techniques, their relevance and constraints.

Again, in an attempt to follow the pattern of scientific methodology, it is possible to clarify the

literature in terms of original thinking, where hypotheses are stated, their application in test situations, the reporting and classification of the results and their evaluation and embodiment in normative theory.

The adoption of this classification yields the following outcome:-

(1) **Development of New Ideas/Classifications**

Ref.2 Classification of environments: dynamism, heterogeneity, hostility. Gordon & Miller.

Ref. 20 Definition of Management Control - Anthony.

Ref.21 Psychological short-circuiting - Hofstede.

Ref.22 Level at which controls are implemented - Todd.

Ref.25 "Garbage-can" model - Hofstede.

Ref.46 Strategic Intensity & Environmental Impedance - Ansoff.

Ref.47 Classification of archetypal firms: Adaptive, Running, Blind, Stagnant Bureaucracy - Gordon & Miller.

Ref.48 Dependence of information systems on organisational variables - Waterhouse & Tiessen.

Ref.49/50 Definitions of Organisations - Thompson, Perrow.

Ref.51/54 Budgetary Slack - Schiff & Lewin,s Williamson, Onsi, Cyert & March.

Ref.55 Discretionary Resources - Pondy.

(2) **Applications and Observastions**

Ref.2 Relationships of MIS to operating environments - Gordon & Miller.

Ref.4-8 Increasingly sophisticated organisational devices to counter increasing environmental dynamism, heterogeneity and hostility - Woodward, Lawrence & Lorsch, Burns & Stalker, Thompson, Perrow.

Ref.9-11 Sensitivity of MIS as a determinant of organisational structure - Benson, Abdel-Khalik & Lusk, Godfrey.

Ref.12 Role of transfer pricing system in facilitating the requisite differentiation amongst organisational subunits - Watson & Baumler.

Ref.13 "Theoretically Correct" transfer price - Solomons.

Ref.14 Influence of transfer pricing system on organisation structure (make or buy-in) - H C Wells.

Ref.19 Problems with budgetary control methods - Hofstede.

Ref.23 Declining utility of controls as upward referral out of closed planning/control cycle increases - Galbraith.

Ref.24 Breakdown and analysis of variances - ICMA.

Ref.26 Utility of economic arguments as retrospective supporters of decisions rather than as causal factors in decision-making - Aharoni.

Ref.27-30 Effects of leadership, organistional structure, culture and tehcnology on effectiveness of control techniques - Hofstede, Tavistock, Dunbar, Bruns & Waterhouse.

Ref.31-37 Applications of Programming, Planning, Budgeting System - Anthony, Lyden & Miller, Wildavsky, Hofstede, Jablonsky & Dinsmith.

Ref.45 Short-term opportunism the factor in decision-making - Lindblom.

Ref.18 Problems associated with the achievement of goal congruency - Bierman & Dyckman.

(3) **Conclusions Drawn**

Ref.1 Sophisticated techniques will never realise full potential because of lack of mangerial competence. Yewdall et al.

Ref.3 Sophistication of a firm's control system is highly correlated with the intensity of competition - Khandwalla.

Ref.15,16 Transfer price mechanism rejected as a motivator in relation to semi-autonomous divisions - Henderson, Dearden & Goetz.

Ref.17 Profit-centre concept can be a motivator in autonomous divisions which trade freely in the market place - Dearden.

The foregoing classification is far from perfect and reflects the divergence betrween sociological/organisational study techniques and the methodology applicable to the traditional sciences where the process of hypothesis - experimentation - vindication - embodiment in scientific law is limited only by the "state of the art" in experimental technique.

In the organisational literature there are frequent overlaps which blur the distinctions between the phases. New ideas are, therefore, often simply new views of established phenomena, experimentation is further back in terms of its techniques than is the case with the traditional sciences and so conclusions tend not to be as firm and definitive.

The identification of causal factors, and the examination of cause and effect in organisations becomes blurred because it is difficult to determine how far an observed cause-and-effect relationship is determined by some immutable law of nature, how far it is a function of imperfect execution of cause, and how far observation of the phenomena has an effect on it (a philosophical concept shared with the physical sciences and perhaps best illustrated in the sociological literature by the Hawthorne Experiments).

The examination of the literature has, if nothing else, served to illustrate some of the problems underlying the study.

Notwithstanding this, I now want to attempt to look at the organisation in its environment and to use a (necessarily) simplified model to illustrate key features and determinants of performance.

## 7. CONCEPTUAL FRAMEWORK - THE MODEL

In developing the current analysis the Management Planning and Control System is seen in the context of the organisation as an organic entity within its historical, cultural, demographic, economic, legal, technological, ecological and sociological environment.

The interactions of management style, strategy structure process and performances are examined together with the impact of the reward structure.

The Management Information system is the instrument through which the corporate metabolism is monitored and data fed back into the planning and control systems.

The limitations of any modelling approach are freely acknowledged.

One of the major errors in the mid-1960's was the attempt by mathematicians and computer experts to use the new power of the mainframe to construct mathematical corporate models and to predict behaviours and performances for a range of conditions.

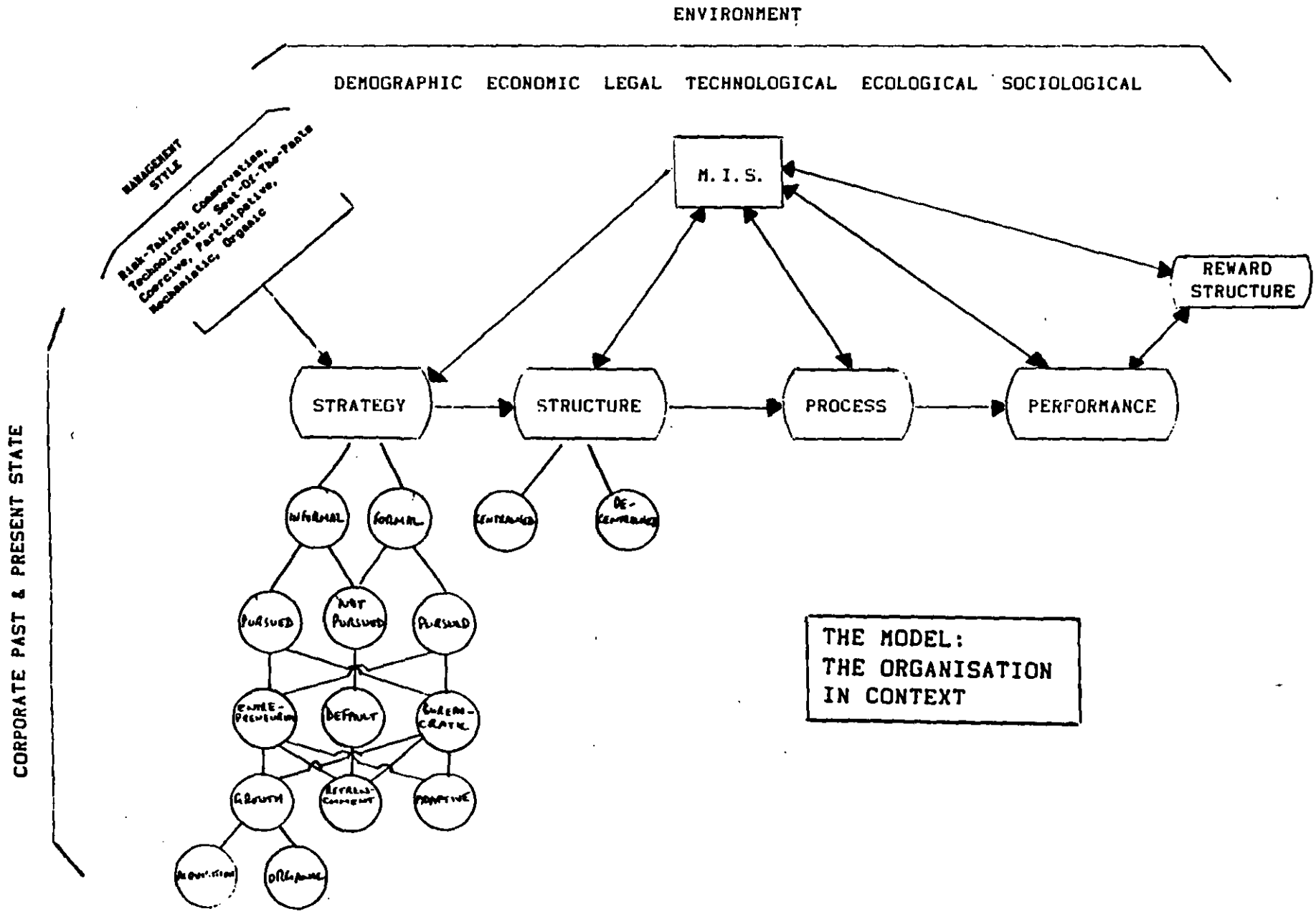
This technique, predictably, fell flat and caused some residual antagonism to the concept of modelling.

There has latterly been a resurgence of interest based on the availability of micro computers which are felt by managers to be somehow less threatening than their larger counterparts. Along with the hardware, a number of simplistic quasi-modelling packages have been produced.

My view is that these are potentially as useless (or dangerous) depending upon the utilisation of their output) as their more ambitious antecendents.

The downfall of modelling lies in its inherent matrix form. As variables increase arithmetically, their relationships increase geometrically. Ergo, the choice lies in restricting the variables to limit the size of the matrix (which was necessarily the case with mainframe modellers) or in making the assumption that individual variables, or clustered variables, form discrete non-interactive packages. This is the technique used in micro modellers, and it is just as flawed as its mainframe predecessor.

The conceptual model used in the analysis is, therefore, a compromise designed to be illustrative rather than prescriptive, much less quantitative. The relationships are represented largely as mono-directional and linear. This is not the case in reality but serves to facilitate the examination of a manageable number of key variables and relationships.


ENVIRONMENT
DEMOGRAPHIC ECONOMIC LEGAL TECHNOLOGICAL ECOLOGICAL SOCIOLOGICAL
MANAGEMENT STYLE
Risk-Taking, Conservative, Technocratic, Seat-Of-The-Pants Coercive, Participative, Mechanistic, Organic
M. I. S.
REWARD STRUCTURE
STRATEGY
STRUCTURE
PROCESS
PERFORMANCE
CORPORATE PAST & PRESENT STATE
INFORMAL
FORMAL
PURSUED
NOT PURSUED
PURSUED
DEFAULT
GROWTH
THE MODEL:
THE ORGANISATION
IN CONTEXT

## 8. SUMMARY

The relationship between information and control for organisations in different archetypal environments - dynamic, heterogenic and hostile has been examined.

We have seen that information is not merely financial, but essentially includes non-financial elements.

The organisations themselves differ in their structures on a continuum with highly centralised at one end and highly decentralised at the other; within this broad classification there are correlated organisational subdivisions into cost-centres, investment centres and profit centres, alternatively known as "input centres" and "input/output" centres.

The sophistication of information and control systems is seen to be highly correlated with the intensity of competition.

A further classification of organistations is made in terms of their characteristic reactions with their environments.

"Adaptive" firms are associated with decentralised structures, analysis of strategic issues, innovation dynamism and high performance, and the information systems which match their demands in terms of both sophistication and speed.

"Running Blind" firms are relatively highly differentiated, poorly integrated, operate in turbulent environments and are largely shaped by their competition. Managers favour the "seat of the pants" approach and corporate identification is low.

Information systems tend to be poor and not geared to environmental change.

Controls and communications are inadequate and growth is opportunistic rather than planned. Performance is poor.

"Stagnant Bureaucracies" as the name implies represent a failure to respond to change in environmental turbulence and their structures and decision-making styles are geared to past homogeniety and stability. Power is highly centralised, and managerial and technocratic expertise are limited.

Intelligence systems are inadequate and controls are too insensitive to highlight important trends before they become critical.

Having attempted to classify organisations and environments we then looked at the relationship between information and control systems, identifying the primary integrative mechanism as the budget.

Understanding of control systems was aided by analogy with physical and biological systems exemplified respectively by cybernetic and homeostatic models.

Some "systems-based" caveats were highlighted, for example the attainment of equilibrium representing the appearance of control without its substance.

More detailed study was made of the sociological dimension; various techniques were considered, including, inter alia, Planning, Programming, Budgeting System (PPBS), Zero-Based Budgeting (ZBB), Management by Objectives (MBO) etc.

These were examined in terms of their strengths and weaknesses. For example, a phenomenon labelled "psychological short-circuiting" was identified by Hofstede under which control was degraded by people changing the objectives and the measurements, and by unintended intervention in the process, eg compensating for increased prices by reducing quality.

Suggestions on how to overcome these inherent tendencies to degrade control were examined and the principle conclusions were that controls should be implemented at operational level (against Taylor) and that as the final analysis leadership was a more effective element than

mechanism.

Types of control were classified as Routine, Expert, Trial and Error, Intuitive Judgemental and Political, and these were allied to the degree of ambiguity in the assigned objectives of an activity.

It was established that the dynamic thrust of any organisation is the reduction of uncertainty, with its concomitant effect of pushing decision-making down the hierarchy.

Having established and traced out the 3-way integration of mangement information to organisation, environment and control mechanisms we then proceeded to examine the relationship between management information systems and organisational structure and concluded that cause and effect was less simplistic than might be supposed; the facilities within the MIS were seen to be limitation on - if not sometimes a determinant of - organisation structure, the example of transfer pricing being used as a convenient illustration.

The Chapter concluded with a resumé of the literature and an attempt was made to classify it in some logical sequence based loosely on the processes of theory experimentation and conclusion underlying the attempted scientific methodology.

The point was made that any study of a set of variables is valuable only if some sort of scale can be used in their measurement. That scale may be another set of variables, or it may be some arbitrary norm. It may be said, therefore, that a tree is twice as tall as a man, or it maybe said that the same tree is 4 metres high. The former statement may mean one thing in Japan, and another in America, were the modal heights of males are quite different. The second statement will be equally true and equally understood in both countries.

In the same way any hypothesis regarding the results of different combinations of varables implies some normative behaviour patterns established either theoretically or empirically. In the absence of empirical studies all forms of modelling assume normative relationships

between variables and the model is simply a prediction of the outturn of different combinations of variables and processes.

Some of the questions posed in this study will be of the "what if" type. The difference is that they will be asked in the absence of normative theory. Thus, for example, it is impossible to look up a table of vectors to answer the question "What would the effect on sales performance be if a matrix form of organisation rather than a hierarchical form were set up?"

Because of this, we are forced back onto whatever theory is available, and onto case study material which parallels the hypothesis.

For this reason, much attention has been paid to the literature in Chapter 2. In later chapters this type of support diminishes hence the reliance on situational comparisons.

# CHAPTER 3

# RATIONALE AND EXPLANATION OF THE MODEL

## 1. INTRODUCTION

In Chapter 2 mention was made of an organisational model around which to build the current thesis.

The objectives of this approach are:-

(a) to impose a structure on the narrative. It can be readily seen from Chapter 1 that the literature has, to some extent grown like Topsey, reflecting the tendency of the authors to pursue sectional interests. Some aspects are, therefore, superbly documented from both theoretical and practical viewpoints whilst others, less susceptible to research techniques have been relatively neglected.

The statement can be illustrated by comparing the volumes applied to Control techniques (MBO, PPBS, ZBB, PERT and the like) with the relative paucity of literature on the relationship between organisational structure and performance.

(b) to restrict and simplify a subject which is so wide-ranging and complex in its interrelationships that it can tend to defy comprehension other than by analogy. Thus, the elements of the model represent key factors only; they do not pretend to define or describe the totality of organisational or environmental attributes.

Similarly, the relationships between elements are generally assumed to be mono-directional. This is obviously not true but the view has been taken that any iterative attempt to resolve counter-directional influcences into single vectors would tend to obscure the substance under a plethora of detail. In the final analysis, approximation has triumphed over obfuscation; the merits of this may be arguable at a philosophical level, but it represents an immediate pragmatic imperative.

(c) to provide a framework for developing the analysis embarked upon in this work. With notable exceptions, and in the absence of an Einstein or Newton, most areas of knowledge are advanced by small steps along an uncertain route. The availability of some sort of schematic may at the very least provide some reference-points from which to progress or some fall-back positions when an unprofitable diversion has been abandoned.

## 2. THE ELEMENTS OF THE MODEL

### 2.1 Corporate Past and Present State

Any current event or state is a function of contemporary influence and historical antecedents.

The UK economy is a good illustration of the statement. Although it is quite misguided to talk of the "Industrial Revolution" as a discrete event in history there were, nevertheless flash-points within it which have bound the direction and pace of subsequent UK economic and social developments. Equally important were the political events of the corresponding period, ensuring ready markets for the good produced and a ready supply of cheap raw material for their production. The prevailing social mores allowed that the working population could be regarded, along with capital and raw materials, as another of the "factors of produciton" of the classical economic theory.

The industrial infastructure thus created, based on hierarchical organisation structures dominated by owner-managers has left the UK with a legacy which arguably imposes a very significant constraint on current development and future development potential.

It is interesting to note that the concept of a matrix organisation is credited to the Americans, and it is easy to understand how such a concept would arise from the imposition of a multi-disciplinary approach to problem-solving by the pressures of an unfamiliar and hostile environment.

More recently, the work of Pascale and Athos (70) in studying the giant Matsushita Electric Company, points to a far older concept of the matrix organisation and to na embodiment of it within organisation practice ten years ahead of the States.

"As Matsushita's organisational structure evolved, he alternatively added and subtracted company-wide functions such as R and D centres and centralised production engineering. In 1953 he organised his divisions into product-groups with division managers reporting vertically to the president of Matsushita and horizontally to their group vice-presidents who served as specialists with detailed knowledge on a whole family of products. This concept of having two bosses was anathema to managers of his day. Matsushita reckoned, however, that we all grow up under two boses - a mother and a father - and that it is the nature of life to have to juggle the complexities that arise from such arrangements. Here were the makings of a matrix organisation perhaps ten years ahead of its widespread appearance in the United States."

Reference to Japanese business practice highlights another component of the corporate past - that of the culture of the society in which it is located.

The common stereotype of the western European and North American socieites is that of acqusitive materialism, with industry geared to either the satisfaction of material wants (needs having been already secured) or the defence of that society against assumed external threat. Consumerism and defence are, therefore, the prime mentors of the western industrial democracies.

The spread of this materialistic orientation to other environments is generally seen as a pointer to the inherent strength and soundness of the Western ethos, and it is a difficult shift in thought processes to consider (let alone concede) the possibility that the West - even America - should be displaced from its leadership in the market-place by a country whose prime motivation for materialistic supremacy is not materialism per se.

The Matsushita Corporation spend 400 million dollars annually on research and development into better ways to produce more advanced products for a widening consumer market place.

Their explicit company philosophy is worthwhile quoting in full as a contrast with their western counterparts:-

"BASIC BUSINESS PRINCIPLES

To recognise our responsibilities as industralists, to foster progress, to promote the general welfare of society, and to devote ourselves to the further development of world culture.

"EMPLOYEES CREED

Progress and development can be realised only through the combined efforts and co-operation of each member of our Company. Each of us, therefore, shall keep this idea constantly in mind as we devote ourselves to the continuous improvement of our Company. Each of us, therefore, shall keep this idea constantly in mind as we devote ourselves to the continuous improvement of our Company.

"THE SEVEN 'SPIRIITUAL' VALUES

(1) National Service Through Industry
(2) Fairness
(3) Harmony and Co-operation
(4) Struggle for Betterment
(5) Courtesy and Humility
(6) Adjustment and Assimiliation
(7) Gratitude"

Pascale and Athos draw a stark comparison between Matsushita and the giant American multination ITT.

The driving force behind ITT was Harold S Geneen, a prime examplar of the macho style of North American managers.

ITT and Matsushita have roughly comparable revenues, $11.8bn vs $10bn, although ITT is far more diversified.

Geneen was an absolute ruler and the matrix organisation he set up was specifically designed to achieve performance through aggressive competition between managers with an elaborate system of "dotted line" relationships to provide "checks and balances". Managers of ITT;s subsidiaries reported up the line to the ITT Chief Controller in New York. Thus, if a subsidiary's controller thought his boss's budgetary forecasts were not soundly conceived he was required to disclose that to headquarters.

This system of cross-reporting was applied throughout the Company and was reinforced by regular management meetings where Geneen would zero in on problem areas and the manager concerned would be interrogated and castigated publicly.

Executives were required to be contactable 24 hours a day, seven days a week, and there was a very explicit instruction that they should put the company before their families and their friends.

ITT did not tend to develop and promote from within, but rather to recruit from outside to plug executive gaps with people who were minutely screened for personal qualities appropriate to the ITT central ethos. Failure was rewarded with dismissal.

American managers in general are seen as tending to overfocus on the so-called "hard elements" - the "cold triangle" of strategy, structure and systems. This is attributed to the influence of American business schools which concentrate on an intellectual and analytical perspective.

This concentration reflects the American culture's central beliefs about business management.

Geneen seemed to regard people as productive tools, whilst Matsushita regarded them both as objects to be used and as subjects to be honoured in achieving his and their purposes.

In Matsushita, the reward for failure is not peremptory dismissal, but reassignment to another equivalent or lower position from which the individual could grow.

The Japanese way makes possible great corporations that successfully exist in harmony with their culture's deepest values. The American way often does not.

Where it does not, the result is often failure. ITT regressed considerably when Geneen retired, whereas Matsushita thrived and prospered after Matsushita himself finally bowed out completely.

Burns and Stalker (71) point to cultural antecedents to explain failures of UK companies. For example, failure to adapt due to the presience of the 'old guard' in the boardroom and in management. Equally important the different cultural background of elements in the workforce militate against effective communication and tend to impute "ulterior motives" when attempts are made to bridge the gap.

A major step in organisational development was the separation of ownership from management. This facilitated considerable growth in organisational size, enabled a more balanced view to be taken of profit retention for growth, and opened up endless possibilities for diversification.

The corresponding development of organised labour increased the general level of expectation and generated mass markets where economies of scale could be exploited and product-

ranges expanded. The new wealth brought with it a growth in service and leisure industries, with new organisations to satisfy demand.

Organisations were forced to adapt to new production technologies and new markets. Arguably the cultural propensities and dominance of tradition in the UK constrained both the pace and extent of development and allowed less hidebound countries to exploit unfilled gaps in the UK's market.

The ability to respond quickly to a dynamic situation is seen as a central attribute of the successful organisation (72) by the Boston Consulting Group. Pascale and Athos describe how Matsushita varied the structure of its organisation to accommodate strategic imperatives. An often-voiced criticism of UK companies is that instead of starting off with a strategy and forming the organisation structure around it they start from the existing structure and establish a range of practicable strategies. In these circumstances, structure becomes a constraint not a facilitator.

Neither is the concept of "sunk cost" generally understood. The result is that a bad investment of sufficient magnitude tends to exert a gravitational field, attracting good money after bad, when the manifestly sensible course is to write off the "sunk cost" to experience and put new money into something more viable.

Part of the explanation for this may lie in the antiquated information systems available to some UK organisations where, for example, the outcome of an investment decision is reported in terms which are different from those used to assess the project's viability. We are only just starting, in the UK, to harness technology to produce accurate information quickly - another reflection on the historical managerial archetype extant in too many UK organisations.

In summary, therefore, the present state of the organisation is a function of its present management, its workforce, its position in the marketplace, the level of technology it employs and its degree of "fit" with its environment.

However, the present grows out of the past where images and perceptions have been formed, where organisational postures and management styles have been fixed.

The break with tradition is not an easy one as many organisations (e.g. Woolworths and the Co-op) have found to their cost and where some organisations are too deeply committed to dying industries or to outdated management styles to pull out.

## 2.2 THE ENVIRONMENT

Sommerhoff (73) defines environment as "those surrounding conditions which affect the organism or the results of its actions."

The broadest differentiation of environment is between micro and macro. The former represents an area of immediate interchange (e.g. with suppliers and customers) whereas the latter takes in the traditional broad-brush areas - demographic economic, legal, technological, ecological, sociological. Hofer and Schendel (74) have developed a matrix (fig 1) to assess the impact of the broader environmental trends on the business.

Fig. 1 A Typical Business Level Broader Environment Impact Matrix

| | Key Market Trends | | | | Key Industry Trends | | | | Key Supplier Trends | | | | Key Competitor Actions | | | | Key Resources | | | | Major Functional Area Policy Decisions | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| BROADER ENVIRONMENTS | 1 | ... | M | | 1 | ... | N | | 1 | ... | O | | 1 | ... | P | | 1 | ... | Q | | 1 | ... | R | |
| (a) Economic Conditions | | | | | | | | | | | | | | | | | | | | | | | | |
| –GNP Growth | 1 | | | | | 2 | | | | 3 | | | | | | | | | 4 | | 5 | | | |
| –Inflation/Deflation | 6 | 7 | | | | | | | | | | | | | | | | | | | | | | |
| –Monetary & Fiscal Policy | | | | | | | | | | | | | | | | | | | | | | | | |
| –Interest Rates | | | | | | | | | | | | | | | | | | | | | | | | |
| –Wage & Price Controls | | | | | | | | | | | | | | | | | | | | | | | | |
| –Tax Levels & Incentives | | | | | | | | | | | | | | | | | | | | | | | | |
| –Energy Availability | | | | | | | | | | | | | | | | | | | | | | | | |
| –Balance of Payments | | | | | | | | | etc | | | | | | | | | | | | | | | |
| –Devaluation/Revaluation | | | | | | | | | | | | | | | | | | | | | | | | |
| (b) Demographics | | | | | | | | | | | | | | | | | | | | | | | | |
| –National Population Growth | | | | | | | | | | | | | | | | | | | | | | | | |
| –Regional Shifts in Population | | | | | | | | | | | | | | | | | | | | | | | | |
| –Age Distribution of Population | | | | | | | | | | | | | | | | | | | | | | | | |
| (c) Socio-Cultural Influences | | | | | | | | | | | | | | | | | | | | | | | | |
| –Career Expectations | | | | | | | | | | | | | | | | | | | | | | | | |
| –Personal Life Styles | | | | | | | | | | | | | etc | | | | | | | | | | | |
| –Consumer Demands | | | | | | | | | | | | | | | | | | | | | | | | |
| (d) Political Legal Considerations | | | | | | | | | | | | | | | | | | | | | | | | |
| –Anti-trust Regulations | | | | | | | | | | | | | | | | | | | | | | | | |
| –Health and Safety Laws | | | | | | | | | | | | | | | | | | | | | | | | |
| –Environmental Protection Laws | | | | | | | | | | | | | | | | | | | | | | | | |
| –Special Production Incentives | | | | | | | | | | | | | | | | | | | | | | | | |
| –SEC Regulations | | | | | | | | | | | | | | | | | | | | | | | | |
| –International Trade Agreements and Regulations | | | | | | | | | | | | | | | | | | | | | | | | |

SOURCE: Adapted from C. W. Hofer, "A Conceptual Framework for Formulating a Total Business Strategy," (Boston: Intercollegiate Case Clearing House, #9-378-726, 1976), p. 12.

Environmental characteristics are classified by Emery and Trist (75) under four headings:

(a) The simplest type is where goals and noxiants are relatively stable and are randomly distributed. Emery and Trist term this the PLACID, RANDOMISED, ENVIRONMENT. This corresponds to Simon's (76) idea of a surface over which an organism can locomote, mainly empty but with random piles of food. It also corresponds to the economists' classical market.

A critical property or organisation response under random conditions has been stated by Schutzenberger (77) namely that in such an environment there is no distinction between tactics and strategy "the optimal strategy is just the simple tactic of attempting to do one's best on a purely local basis."

(b) A more complex, but still placid, environment is that which can be characterised in terms of clustering. Here, goals and noxiants are not randomly distributed but hang together in certain ways. This type of environment is called by Emery and Trist the PLACID, CLUSTERED ENVIRONMENT. In its response to this environment the organistaion must develop strategies in addition to tactics. Survival becomes critically linked with what an organisation knows of its environment. Under these conditions organisations tend to grow in size and also to become hierarchical, with a tendency towards centralised control and co-ordination.

(c) The third classification has been called the DISTURBED-REACTIVE ENVIRONMENT and is comparable to the economists' oligopolic market. It is a variation on the placid, clustered environment in which there is a number of similar organisations, all seeking a common domain. In such an environment, each organisation will seek its own advantage by hindering its competitors. The concept of "operation" - distinguished from strategy and tactics - now comes to the fore and consists of deciding which of the competitors' tactics one wishes to take place whilst at the same time ensuring that others do not. An operation consists of a campaign involving a planned

series of tactical initiatives, calculated reactions by others, and counter actions. The required flexibility involves decentralisation and high quality local decision-making. Stability can also be achieved by mutual co-operation between competitors on the assumption that a fight to the death can ultimately benefit no-one.

(d) The fourth classification has been labelled TURBULENT FIELDS, where dynamic processes creating significant variances for the component organisations arise from the field itself. An analogy would be that of a company of soldiers marching in step over a light bridge, creating a dynamic feedback through the structure.

Emery and Trist identify three trends which contribute to the emergence of these dynamic field forces viz:

(i) The growth of organisations under type 3 conditions which become so large and persistent that they create distortions in the economy.

(ii) The increasing interdependence between economic and other facets of society, which means that economic organisations are increasingly involved in legislation and public regulation.

(iii) The increasing reliance on R and D to meet competitive challenge. Thus there is a continuing change in the environment, with developing product/market orientations.

The upshot of these trends is to increase uncertainty in relation to the consequences which flow from organisations' actions.

It is useful to conceive of the organisation as a flexible, multidimensional organism which relies for its existence on interchange with its surroundings. The shape of the space accorded to it by those surroundings is constantly changing, and interchange can occur only at the points of contact.

In such a situation the greater the surface area of the organism in contact with its surroundings the greater the interchange.

The organism, therefore, relies for its continuing viability on its ability to form a 'fit' with its surroundings and thereby maximise the contact area, and hence the interchange.

Looked at in this way, a rigid structure is essentially passive, relying on environmental fluctuation to provide occasional contact and ultimately being deprived of interchange to an extent where it becomes non-viable.

A flexible structure with no concept of environmental space is equally disadvantaged. It will change shape but contact and interchange will be contingent upon randomised concurrence of organisational shape and environmental space. Such an organisation may be thought of as active/disorientated.

Maximum contact and interchange will be assured by a flexible organisation which is precisely in tune with its environment so that the organisational contours exactly match the space - profile afforded by the environment - an active/synchronised organisation.

This theme of 'environmental fit' is central to the model and will recur in the discussion.

Ansoff (78) develops a number of useful concepts relating to the environment. He points to four factors which describe the increasing turbulence of the environment as follows:-

(i) Growth of Novelty of change. Western economies have evolved from production to marketing orientations and latterly to a post-industrial orientation. Each step has introduced new uncertainties, new skills and new technologies and the rate of evolution has increased progressively as each step has generated momentum. The basic cause of the new turbulence is economic affluence. The mass production era was a drive to meet the basic physical comfort and safety needs of the population; the mass-marketing era lifted the aspirations of comfort and safety to a drive for affluence. The

post-industrial era is the arrival of affluence.

(ii) Growth in intensity of the environment as evidenced by the increasing allocations to marketing and entrepreneurial budgets of successful organisations.

(iii) Increase in the speed of environmental change as illustrated in figures 2 and 3 below.

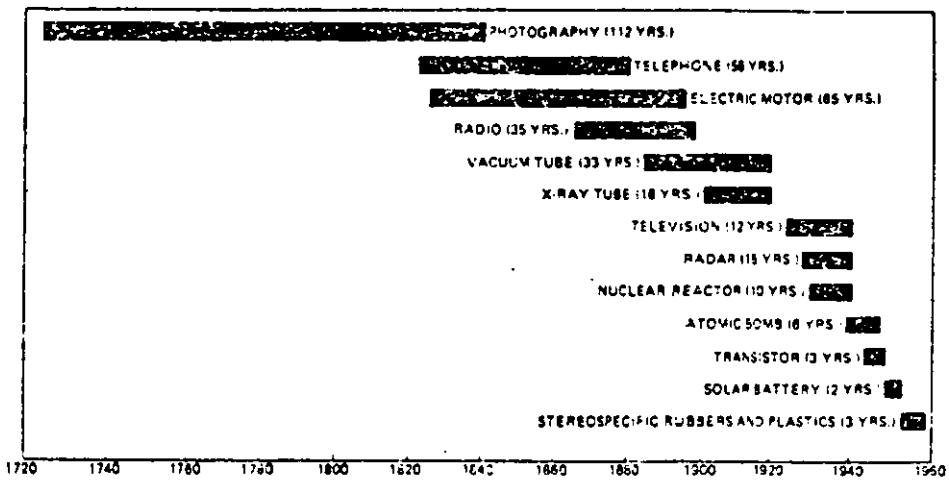



*Figure 2. Speed of Commercialization Change*

*Source: Center for Integrative Studies, World Facts and Trends (Binghamton, New York: School of Advanced Technology, State University of New York, 1969).*

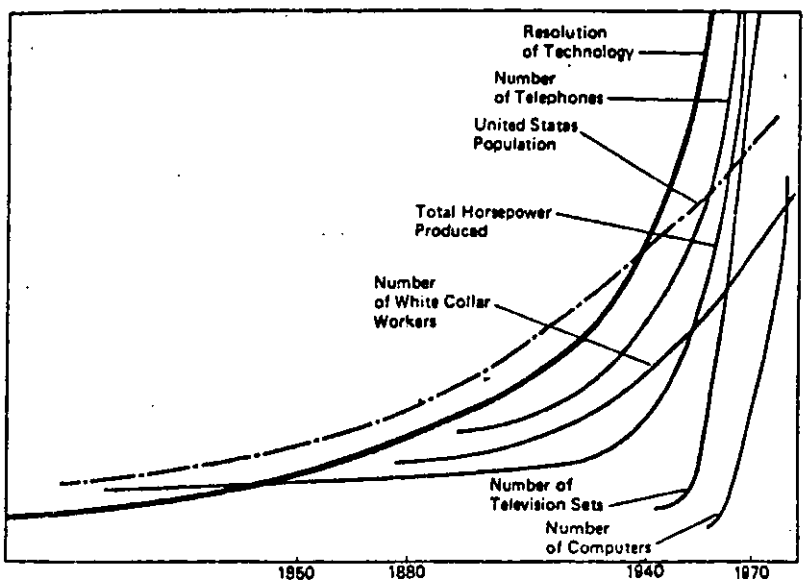



*Figure 3. Speed of Diffusion of Change*

(iv) Growth complexity of the environment as illustrated in figure 4 (below).

*Figure 4 Complexity of the Environment*

| Attribute | Period: Industrial (1900–1950s) | Period: Post-Industrial (1950s– ) |
|---|---|---|
| Boundary of environment | Around commercial activity of the ESO. | Includes commercial socio-political activity |
| | Stable | Changing |
| | Well-defined | Vague |
| | Non-permeable | Permeable to new influences |
| | Few different types of actors | Many different types of actors |
| | Environment segmentated into industries | Industry lines indistinct |
| | Influences among actors largely direct | Direct and indirect influences |
| | Firm the center of power | Centers of power in political bodies |
| | Common shared knowledge | Many foci of privileged knowledge |
| Dynamics of environment | Environmental change generated by the ESO | Change generated both inside ESO and outside environment by many sources |
| | Few surprises | Many surprises |
| | Technology, markets, continuously evolving | Discontinuous changes frequent in market structure, technology, government relations. |
| | Occasional discontinuities | |
| | Prior experience applicable to new situations | Prior experience inapplicable to new situations |

The concept of environmental resistance embraces pressures by other "actors" in the industry as well as other external forces, which combine to increase the budget needed by an organisation to sell its output to customers.

Innovation pressure is defined as the aggregate of the pressures in an industry which increase the budget needed by an organisation to make its products saleable to customers.

The combination of environmental resistance and innovation pressure is covered by the omnibus term environmental impedence.

The level of marketing budgets in an industry is correlated to its environmental resistance, whilst the level of the entrepreneurial budget is correlated to its innovation pressure.

Environmental dependence is a concept which classifies organisations in terms of their dependence for continued existence on commercial activity, and leads into concepts of critical mass which will be looked at later under "strategy".

Other useful concepts to facilitate understanding of the environment are found in the work of Gordon and Miller (79). They have been quoted at some length in Chapter 1, and it will suffice at this point simply to remind the reader that they comprise dynamis, heterogeneity and hostility.

In constructing the model it has been very clearly recognised that the organisation is a function of its own past, whilst its viability is contingent upon an adequate fit with its environment, with which essential transactions are conducted.

In some ways the model can be thought of as analagous to the organic entity. The "corporate past" can be thought of as the genetic makeup of the individual coupled with early cognitive experience.

The "environment" then translates into the "Society" which demands a certain level of conformity of "fit" as a precondition to mutually beneficial transactions. The elements then missing from the analogy are the education and personality aspects of the individual which govern attitude toward, and relative success within the social context.

## 2.3 MANAGMENT STYLE

The following is a tabulation of sources and charactertistics identified in the literature:-

(a) Burns and Stalker - degree of flexibility is one dimension.

| RIGIDITY | FLEXIBILITY |
|---|---|
| (Mechanistic) | (Organic) |
| - Highly structured channels of communication and highly restricted flow of information. | - Open channels of communication. Free flow of information throughout the organisation. |

| | |
|---|---|
| - Uniform managerial style insisted upon. | - Managers' operating styles allowed to vary freely. |
| - Authority for making decisions routed in formal line managers. | - Authority for making decisions routed in situational expertise. |
| - Insistence on holding fast to true and tried management principles despite changes in business conditions. | - Free adaptation by the organisation to changing circumstances. |
| - Personnel to follow formally laid down procedures. | - Emphasis on getting things done rather than on following procedures. |
| - Tight control of operations through sophisticated control systems. | - Loose, informal control, emphasis on norm of co-operation. |
| - On-job behaviour to conform to job descriptions. | - On-job behaviour permitted to be shaped by requirements of the situation and the personality of the individual doing the job. |

(b) Likert (80)

| | |
|---|---|
| INDIVIDUALISTIC | PARTICIPATIVE (Group Oriented) |

(c) McGregor (81)/Cyert & March (82)

| | |
|---|---|
| FREEWHEELING | COERCIVE |

(d) Lindblom (83)

| | |
|---|---|
| ANALYTICAL/RATIONAL - COMPREHENSIVE/PLANNING ORIENTED. | "SEAT-OF-THE-PANTS" ORIENTED |

(e) Mintzberg (84)

| | |
|---|---|
| ENTREPRENEURIAL/RISK-TAKING | CAUTIOUS/CONSERVATIVE |
| Entrepreneurial Risk-taking growth-oriented decision making. | Cautious, pragmatic Stability-oriented decision-making. |
| Emphasis on R & D technological leadership, innovations. | Emphasis on marketing of tried and tested products, avoidance of R & D. |
| Proclivity to high risk, high return investment. | Proclivity to low-risk average return investment. |
| External financing of investments. | Internal financing of investments. |
| Competitive "undo the rivals" philosophy. | Philosophy of co-operative co-existence with rivals. |

(f) Khandwalla. (85)

| | |
|---|---|
| HIGH OPTIMISATION ORIENTATION | HIGH "SATISFYING/LOW OPTIMISATION ORIENTATION" |
| (i) Strong Planning Orientation | Little strategic importance of long-term planning forecasting, market research, operations research etc. |

| | |
|---|---|
| (ii) Systematic search for opportunities. | Great reliance on personnel with "experience" and "Common sense" in decision-making. |
| (iii) Systematic assessment of alternatives. | Heavy reliance on apprenticeship "learning by hard knocks". |
| (iv) Emphasis on long-term profit maximisation and efficient achievement of organisational objectives. | |
| (v) Strategic importance of forecasting future sales technology etc. Operations & Market Research. Long-term planning of goals and investments. | |
| (vi) Reliance on specialist staff and formal management training programmes. | |

(g) Khandwalla.

| HIGHLY COERCIVE ORIENTATION | NON-COERCIVE ORIENTATION |
|---|---|
| (i) Organisational changes instituted without explanation; threats for non-compliance. | Explanation of changes to those affected by them, no threats. |
| (ii) Resolution of disagreements between senior managers on "might is right" basis. | Disagreements resolved on a rational basis. |

| | |
|---|---|
| (iii) Investigation of organisational problems by outside experts. | |
| (iv) Institution of arbitration procedures. | Absence of arbitration procedures. |

(h) Khandwalla.

| PARTICIPATIVE MODE | NON-PARTICIPATIVE MODE |
|---|---|
| (i) Concensus-oriented team decision-making at top management level. | Decision-making by formally responsible executives at top management level. |
| (ii) Use of human relations techniques in affecting change and securing co-operation. | Lack of emphasis on human relations. Participative management and organisation development. |
| (iii) Involvement of personnel in change affecting them. | |
| (iv) Strategic importance of middle management involvement and MBO. | |
| (v) The use of in organisation development of techniques like sensitivity training and managerial grid. | |

## 2.4 ORGANISATIONAL ARCHETYPES

Following from the analysis and classification of management styles, an organisational archtetype classification has been built up. Gordon and Miller's work was discussed at length in Chapter 1 and it is sufficient at this point to remind the reader of the archetypes, viz:-

(a) The Adaptive Firm

(b) The Running Blind Firm

(c) The Stagnant Bureaucracy

Pursuing the biological analogy, it is perhaps appropriate to consider personality traints in parallel with the organisational archetypes above and perhaps to correlate those traits in relation to social progress of the representative groups (although here one is in danger of violating the philosophical prohibition against arguing from an analogy).

In summary, it is useful to relate the various top management orientations to the structural mechanisms of organisations and Khandwalla's tabulation is a succinct statement of those relationships.

## 2.5 STRATEGY

The biological analogy can be persevered with in discussing the nature and role of strategy.

It can readily be seen that some organisations are very successful, some moderately or marginally so, whilst others fail completely. These phenomena can be observed irrespective of environment. The biological equivalent is summed up in the term "survival of the fittest". Hofer and Schendel (86) translate this succinct statement into organisational terms thus:

"Over the long run, only those organisations survive that serve the needs of their societies effectively and efficiently, that is, that provide the benefits demanded by society at prices sufficient to cover the costs incurred in producing them.

Where the biological analogy fails is in respect of the speed of reaction to environment. Organisms evolve to adapt to changes in environment or to enhance their viability within a fixed environment, but this (in the absence of mutation due to external factors) takes place over thousands of life-spans of the individual organism. Organisations, on the other hand, are able to effect fundamental changes at will.

Such changes fall into two broad categories:

(a) those that affect the relationship between the organisation and its environment (associated with effectiveness) and

(b) those that affect the internal structure and operating activities of the organisation (associated with efficiency).

Chester Barnard (87) made the initial distinction between effectiveness and efficiency, suggesting that the latter tended to be the principal preoccupation of management as lack of efficiency would inevitably retard performance and would, in the long run, ensure failure.

In the long run, however, corporate survival is more a function of effectiveness than efficiency. Drucker (88) sums up the argument succinctly when he suggested that it is more important to do the right things than to do things right.

An early illustration was the comparative fortunes of the Ford Motor Company and General Motors. Ford were by far the most efficient produce of motor cars, but General Motors saw preference-shifts in the market-place that Ford did not and better effectiveness (ie the offering of annual model - changes in an integrated range) triumphed over greater efficiency.

From the above, Hofer and Schendel's definition of strategy can be deduced, viz:

"The basic characteristics of the match an organisation achieves with its environment is

called its strategy."

All organisations can be said to have a strategy. This is not to say that the strategy has been developed, or that it is explicit, or that it is a good match between resources and environment. Nor is it to say that a formally developed and explicit strategy is actually pursued. Often the end result of the corporate planning process is a wall-chart of corporate goals and objectives that is analogous to a war memorial - homage is paid once a year and in between times it is totally ignored.

Clearly the formulation of strategy should not be left to chance. Organisations need formalised, analytical procedures for formulating explicit strategies. Reasons for this include:-

(i) To aid in the formulation of organisational goals and objectives. A clear distinction is drawn by Richards (89) between goals and objectives, goals being statements of qualitative ambition whilst objectives are characterised by having:

- a content
- a measure or indicator
- a level
- a time period for achievement

This distinction is reinforced by Pascale and Athos (90) who talk of "superordinate goals" as being the significant meanings or guiding concepts that an organisation imbues in its members.

(ii) To aid in the identification of major strategic issues.

Bower (91) and Ansoff (92) have both pointed out that the strategy formulation process is really a general theory for solving the strategy problem of an organisation as illustrated over.

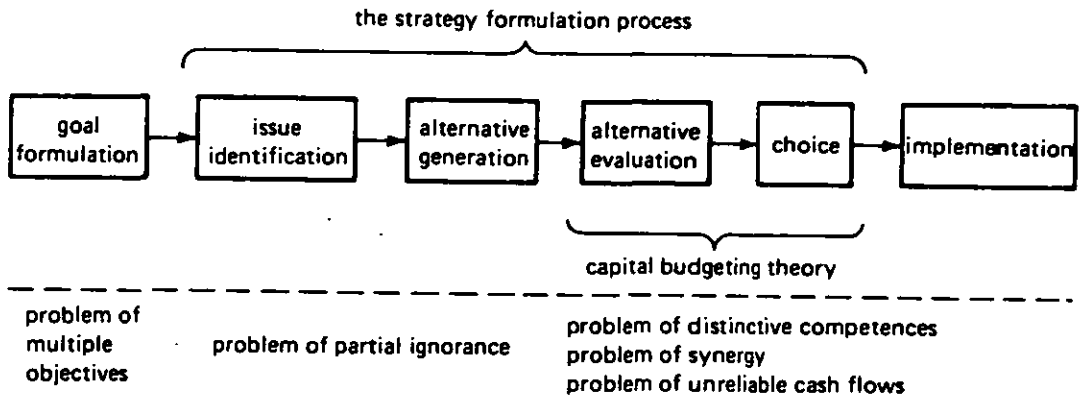



Fig 5. Strategy Formulation as an Unstructured Problem-solving Process (Source: Hofer and Schendel)

As such, one of the most important functions is to identify the key strategic issues that will face the organisation in the future, especially since increasing rate of environmental change have decreased the response-time available to the organisation - a problem that is compounded by increased competition and limited organisational resources (refer back to Ansoff, Figs 2 and 3).

(iii) To assist in the allocation of discretionary strategic resources.

The traditional capital budgeting techniques such as pay-back period, internal ROI, net present value, NPV index and so on have been used extensively in the past to determine the allocation of resources. In terms of clearly-defined alternatives, of known opportunity costs, of known discretionary management expense allocations (often as large as the capital budget itself) these techniques are valid. Unfortunately none of these variables are usually known fully; in particular the opportunity cost - the value of projects not yet in hand is a totally unknown quantity (Ansoff's [93] problem of partial ignorance). Nor are they adequate for dealing with situations involving multiple objectives, substantial project interdependencies (synergy) or unique qualitiative attributes.

(iv) To guide and integrate the diverse administrative and operating activities of the organisation.

The complexity of modern business tends to blur the perception of ultimate corporate objectives by inducing managers to focus on parochial sub-goals. The extrapolation of these subgoals often diverts from the main thrust of corporate purpose and the role of strategy is to ensure that "the home team knows the direction of play".

(v) To assist in the development and training of future general managers.

This implies a corporate commitment to develop in-house potential to the full, and has important implications for recruitment policy down the line. Different approaches were illustrated earlier when Matsushita was contrasted with ITT. The latter was not really committed to the principle of internal succession, preferring instead to plug managerial gaps by external recruitment. Consequently, Geneen's retirement left a large gap and corporate performance suffered.

The process of strategy formulation does not directly concern us at this point in the analysis. It is, however, useful to keep in mind some of the functional area policy options open to consideration in the process. These include:-

Geographic coverage, markets or market segments, product lines, distribution and service, pricing and credit, promotion and advertising, packaging, branding, manufacturing system, production scheduling and control, research and development, product design, labour and staffing, finance (including source of funds, dividend policy, method of financing growth, leverage, etc.) and organisation (including specialisation and groups of components, method of co-ordination, delegation of authority, information system, measurement and evaluation, rewards and sanctions, recruitment and selection, training and development, promotion, leadership style).

An alternative definition of strategy offered by Hofer and Schendel is:-

"The fundamental pattern of present and planned resource deployments and environmental interactions that indicates how the organisation will achieve its objectives."

From this, and bearing in mind the dual requirement for efficiency and effectiveness the following four components of strategy emerge:-

(a) Scope. This refers to the extent of the organisation's present and planned interactions with its environment and is sometimes referred to as the organisation's domain.

(b) Resource deployments, i.e. the level and patterns of the organisation's past and present resource and skill deployments that will help it achieve its goals and objectives. This is sometimes referred to as the organisation's distinctive competence.

It is probably appropriate to key this aspect of distinctive competence back to the earlier section on corporate past and present because two essential ingredients of success in any area of activity are the reality of and the perception of prior successful experience in that area or in a related area. In the absence of "home grown" experience the buy-in technique is often applied. It is nevertheless important to establish that any diversification stands in synergistic relationship with the mainstream corporate activity and with the prevailing ambience and management style.

Again referring back to the Japanese study, the point is made that neither Matsushita nor ITT had styles or structures which were conducive to real innovation. Long-term corporate success was visualised in terms of "doing better what we're already good at" such as, for example, characterises the approach of Clive Sinclair, Apple or Polaroid. In a situation where activities are controlled by being duplicated, or where the subordinate is encouraged to comment upon his boss's decision across the normal hierarchical channels of communication, no-one is going to risk substantive innova-

tion where, by definition, the out-turn is uncertain.

This is not to deny that improvements have taken place within the activities of both Matsushita and ITT but they have by and large arisen out of an extrapolative approach as defined by Willis, Wilson, Manning and Hildebrandt (94).

(c) Competitive advantages, ie the unique positions an organisation develops vis-a-vis its competitors through its pattern of resource deployments and/or scope decisions.

(d) Synergy - i.e. the concept that the whole can amount to more than the sum of the parts through a process of positive reinforcement.

Hierarchies of strategy are identified as:-

- Corporate Strategy - concerned primarily with answering the question "what set of businesses should we be in?"

- Business Strategy, which focuses on how to compete in a particular industry or product/market segment. Thus, distinctive competence and competitive advantage are usually the most important components of strategy at this level. Scope diminishes in importance at this level whilst synergy increases.

- Functional Area Strategy. At this level the principal focus is on the maximisation of resource productivity, hence synergy and the development of distinctive competence become the key components whilst scope virtually drops out of sight.

Hofer and Schendel postulate three constructs for visualising business strategy the first being a product-positioning matrix in which the competitive position of each of the company's major products and those of its competitors are plotted for each of the major segments of the market it serves. (Fig 6)

**Figure 6 A Product-positioning Matrix for Industry X ***

| Competitor | Products | Market Segments A | B | C | ·· | M | Σ |
|---|---|---|---|---|---|---|---|
| You | 1 | $10x | 10 | 0 | | 0 | $25 |
| | 2 | 5 | 5 | 15 | | 0 | 30 |
| | : | | | | | | |
| | n | 0 | 0 | 5 | | 30 | 40 |
| I | 1′ | 5 | 5 | 5 | | 0 | 20 |
| | 2′ | 5 | 5 | 10 | | 5 | 35 |
| | : | | | | | | |
| | n′ | 0 | 0 | 0 | | 10 | 10 |
| – | | | | | | | |
| N | 1″ | 10 | 0 | 0 | | 0 | 10 |
| | 2″ | 0 | 5 | 5 | | 0 | 10 |
| | : | | | | | | |
| | n″ | 0 | 0 | 0 | | 50 | 50 |
| | | $35 | 40 | 45 | | 100 | $250 |

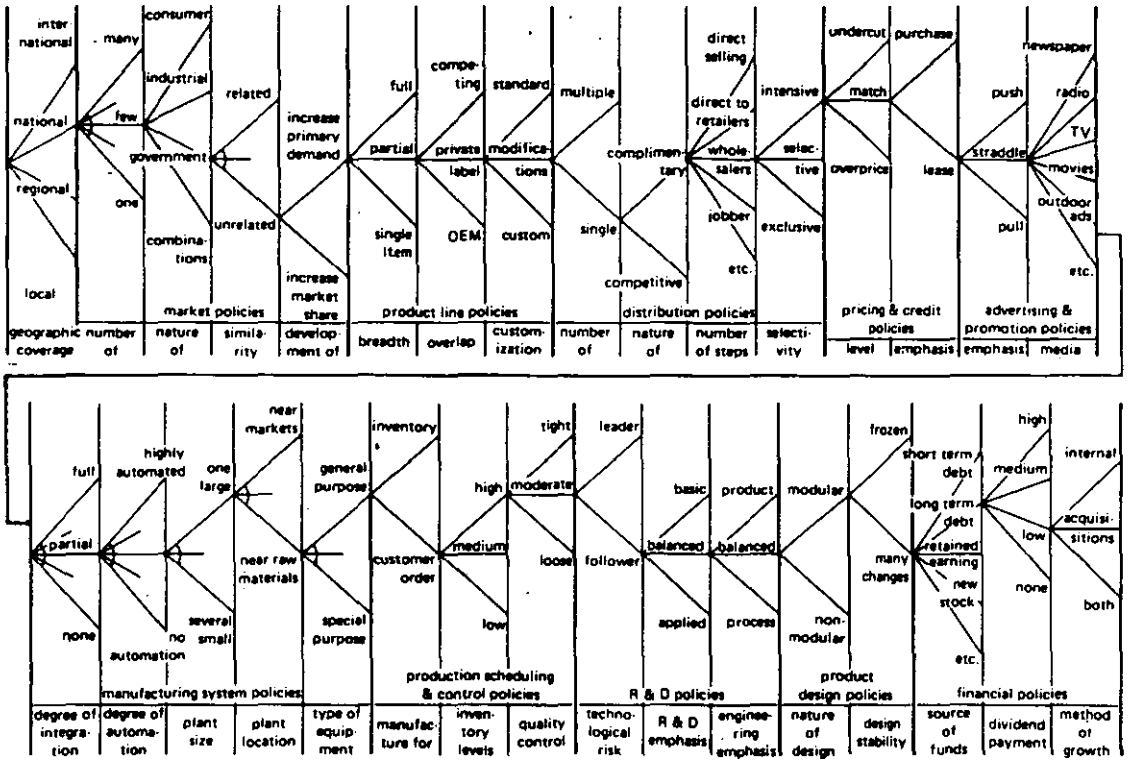
* Such matrices can be completed in terms of dollars sales, unit sales, market share, dollar profits or any other measure that seems appropriate for the industry involved.

SOURCE: Adapted from C. W. Hofer, "Conceptual Constructs for Formulating Corporate and Business Strategies," (Boston: Intercollegiate Case Clearing House, #9–378–754, 1977), p. 12.

The second construct is the policy decision tree in which the various functional area policy decisions that the firm might take should be sequenced according to their relative importance. Similar trees should be constructed for the company's major competitors. Consideration of the results should point to the company's distinctive competence, and a comparison of those against the company's product positioning matrix should help to establish the ways in which competitive advantage can be gained in the market-place (Fig 7, over).

The third construct is a functional area resource deployment matrix, depicting the key resources used in each of the firm's functional areas. These correlate with the decision trees, yielding valuable indications of the relative importance of the firm's various functional area policies and the way it hopes to achieve competitive advantage in the market. Developed where possible for competitors, they will help identify differences in the business strategies or the competition. (Fig 8, over)

**Figure 7 A Functional Area Policy Decision Tree**




SOURCE: C. W. Hofer, "The Uses and Limitations of Statistical Decision Theory," (Boston: Intercollegiate Case Clearing House, #9–171–653, 1971), p. 34.

Fig. 8 - **A Functional Area Resource Deployment Matrix**

| Functional Areas | Resource Deployment Emphasis | Five Years Ago | Four Years Ago | Three Years Ago | Two Years Ago | One Year Ago | This Year |
|---|---|---|---|---|---|---|---|
| R and D + Engineering | % Strategic Development Dollars | | | | | | |
| | Focus of Efforts | | | | | | |
| Manufacturing | % Strategic Development Dollars | | | | | | |
| | Focus of Efforts | | | | | | |
| Marketing | % Strategic Development Dollars | | | | | | |
| | Focus of Efforts | | | | | | |
| Finance | % Strategic Development Dollars | | | | | | |
| | Focus of Efforts | | | | | | |
| Management | % Strategic Development Dollars | | | | | | |
| | Focus of Efforts | | | | | | |

One of the major advantages of such resource deployment matrices is the objective data check they provide on the subjective judgements made about the relative importance of each of the decision branches depicted in the functional area policy decision trees of the firm and its competitors.

They also serve to graphically illustrate where management is defining its priorities, together with shifts in those priorities. Such shifts help point out reasons for future growth which, when applied to competitors, identify threats in the firm's present and future markets.

At the corporate level a two-stage progression can be used, the first stage comparing sales of each firm in each market segment (product-positioning matrices) whilst broad areas of marketing, production, finance, R & D and geographical scope would be examined comparatively in the resource deployment matrices. Such a comparison is perfectly practicable and serves to outline the broad parameters of each competitor's business strategy.

In the second stage this broad-brush approach can be refined by whatever intelligence can be harvested to provide a more in-depth strategic analysis.

Two categories of business not discussed in the foregoing analysis are the single product-line company in the early stages of major diversification and the dominant product-line firm whose non principal business is closely related to its principal business.

Such firms have a unique set of strategy problems; they must devote sufficient resources to the areas of diversification to make them viable whilst not neglecting their dominant areas, even though these dominant areas hold a declining position in the corporate future.

The research of Wrigley (1970) (95), Channon (1973) (96), Pavan (1972) (97), Thanheiser (1972) (98), Pooley Dias (1972) (99) and Rumelt (1974) (100) suggests that the transition from a single product-line firm to a multi-industry firm (via the stage of dominant product line) is one of the principal evolutionary paths followed by business organisations in Western Society.

Thus it seems appropriate that the strategy constructs used by dominant product-line firms should include ideas from both the business and corporate levels in order to help management understand the transition they are making.

In the context of the current analysis and develoment of the model the environment of retailing provides some parallels with the concept of dominant product-line and multi-industry in terms of marketing philosophy.

The traditional environment of the businesses concerned resulted in a large number of small outlets serving local communities.

A shift in emphasis to the concept of supermarkets involved major changes in management techniques at both business and corporate levels, although it was possible for co-existence of community store and supermarket with some interchange of technique and personnel.

The development of hypermarket retailing finally defined a new business in both practical and conceptual terms and the paradox of the specific area of Retail Co-operative Societies is that they are forced by the weight of their history and underlying philosophy to manage the co-existence of radically different business areas.

Hofer and Schendel identify form characteristics of good strategy statements, viz:-

(1) They should describe each of the major components of the organisation's strategy, i.e.:

(a) Scope

(b) Resource deployment

(c) Distinctive competences

(d) Competitive advantages and how they will be produced

(e) Intended Synergy.

(2) They should indicate how the strategy will lead to the accomplishment of the organisation's objectives.

(3) The strategy should be described in functional, rather than physical, terms.

(4) The strategy statement should be as precise as possible.

Levitt (1960) (101) in a now classic article entitled "Marketing Myopia" makes the case for functional rather than physical statements of strategy. He argues that a firm such as Penn-Central Railroad should consider itself to be in the transportation business and not in the railroad business, thus removing the blinkers from management's perception of related business opportunities.

The danger of this approach is that strategy statements can become too broad to be useful and that an "omnibus" perception of business involvement can lead management into areas who superficial similarity to their mainstream business causes a real dilution or diversion of managerial resource.

A recent practical example of this occurred in the acquisition by Greenhall Whitley of the Arrowsmith holiday subsidiary of the defunct Laker Airways. Greenhalls thought of themselves as being in the leisure industry, and package holidays certainly fall under that umbrella. Unfortunately the packaged holiday business is so specialised and so lacking in similarity to the licenced houses business that they first year's operation resulted in very substantial losses.

Peter Drucker was the first to point out the potential shortcoming, in his article "The Big Power of Little Ideas", 1964. He argues that strategies must be both specific and precise.

In constructing the model for the current analysis it has been assumed that every business

has a strategy.

The strategy may be the product of a corporate planning process, in which case it will be formal, written down, pursued, monitored and updated or modified.

Alternatively, the corporate planning process may have been viewed as an end in itself and the strategy documented may not be pursued.

In the absence of the planning process - or perhaps in a very small company, the strategy may simply arise out of the predilections of the owner/managers - an informal consensus which derives its continuity from the style of its authors in their reactions to events and their ambitions for the future. In such circumstances there is a tendency for strategy not to be pursued; ambitions are partly realised, the motivation for sustained effort declines and a default strategy results where opportunities are missed, the driving force behind the business is extinguished and it gradually concedes ground to its competitors.

Many small enterprises fall into this category, the businesses are run with a view to satisfying the wants of the management with no detailed provisions for corporate survival beyond the retirement dates of the owner/managers.

Formal or informal strategies which are pursued can vary in their objectives and in their corporate manifestations. The style can be entrepreneurial or bureaucratic, the former characterised by its opportunism but bounded by predetermined criteria for accepting and rejecting opportunities presented, the latter progressing along a clearly defined route for growth.

By definition the bureaucratic implementation of strategy will be less characterised by "thinking on its feet" than the entrepreneurial and may be inherently less adaptive, this is not to say, however, that the bureaucratic process is totally fixed, but rather that it adapts in a more formalised and ordered way to situations which have been subjected to analysis and

consensus. In other words, the 'ICI way' rather than the way of Arnold Weinstock or Tony Rowlands.

Both the entreprenueurial and bureaucratic approaches can result in growth or retrenchment.

The latter may be a sensible "drawing in of the horns" to consolidate a position of potential advantage. No business is immune from the prevailing economic climate and an economic downturn may provide an ideal cover for divestment and re-grouping of funds in anticipation of a sectoral advancement to be exploited in due course. Many marginal activities will be consciously deferred in times of capital famine and high interest-rates. There is, however, a world of difference between the formal retrenchment strategy undertaken to harvest resources for the future and the default strategy where the business is carried hither and thither on the waves of economic and competitive fluctuation.

Growth strategies will be rooted in the analysis of existing and future product/market configurations based on competitive advantages and unique strengths which can either be developed in-house or acquired by merger or takeover.

Growth resulting from the exploitation of existing strengths or competitive advantage is organic and is often associated with innovation. A prime example is Sinclair who, having identified a gap in the market proceeded to fill it and capitalise on the absence of competition.

Such an advantage is often best pursued by entrepreneurs in areas of high technology, where development costs can be rapidly amortised against the appeal of a new product resulting in rapid price-reductions at the point where the R & D expenditure of competitors is maximised to get something comparable onto the market.

This is prevalent in the chemical and pharmaceutical industries as well as in the field of electronics and computer science.

It is, of course, reasonable to pose the question: "Why planning?" Does not the main advantage lie in "getting on with it" rather than taking time out to anticipate eventualities which may never materialise?

The question can never be answered for those conceptual innovations which never saw the light of day because on second thoughts their inventors got cold feet and decided to stay on the production line, or wherever. In their case it may not even be a valid question to ask.

Curiosity forces us to wonder why some companies seem able to go on from strength to strength whilst others develop and fizzle out. Are the reasons for success simply superior resources, good products/services, innovative management, luck, and so on. Does formalised strategy really make a difference?

Academics and consultants have consistently argued that it does but may have been suspected of self-interest in pursing the affirmative argument.

Latterly, however, several research studies including those of Thune and House (1970) (102), Herold (1972) (103), Eastlack and McDonald (1970) (104), Ansoff et al (1971) (105) and Karger and Malik (1975) (106) have indicated that formalised approaches to strategy formulation do indeed result in superior performance as defined by sales, profits and return on assets.

Thune and House compared the performances over seven years of matched pairs of firms of medium to large size in the steel, chemical, drug, food and machinery industries. Each pair consisted of one firm that used formal planning systems and one that did not.

They found that the formal planners significantly outperformed the non-planners in terms of RoI Return on Equity and Earnings per share growth, whilst equalling or surpassing the non-planners in terms of sales growth. They also found that post-planning performance outstripped pre-planning performance in the areas of dollar sales growth, Earnings per Share

growth and stock appreciation (See figures 9 and 10 below).

**Figure 9 Performances of Formal and Informal Planners During the Planning Period**

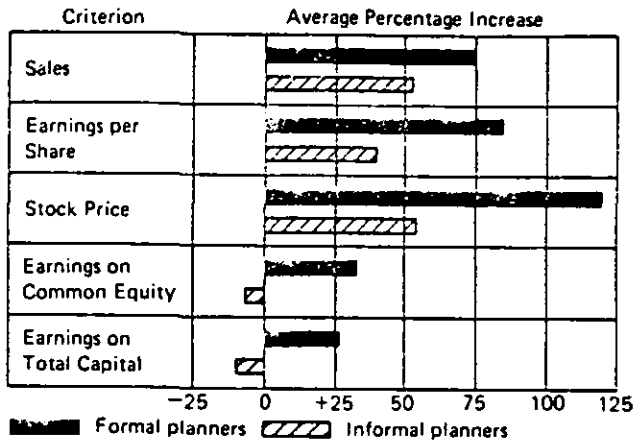
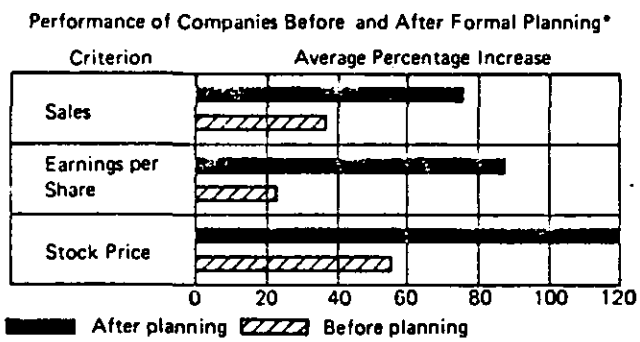



**Figure 10 Performance of Companies Before and After Formal Planning ***




*Data used for five industries. Steel was excluded because the preplanning period for this industry was atypical. Data on earnings on common equity and total capital were not available for the preplanning period.

SOURCE: S. S. Thune and R. H. House, "Where Long-Range Planning Pays Off," *Business Horizons* 13:81–87 (August 1970), p. 83. Copyright, 1970, by the Foundation for the School of Business at Indiana University. Reprinted by permission.

Herold extended the Thune and House study for four additional years for the firms in the chemical and drug industries and found that the formal planners in those industries not only continued to outperform the non-planners but increased their lead over the non-planners in almost all performance measures.

Eastlack and McDonald studied the leadership characteristics of the Chief Executive Officer of 211 companies, 105 of which were in the Fortune 500 and found that those CEOs who got

involved in strategic planning personally headed the fastest growing companies.

This does not, of course, prove that planning produced faster growth but it does indicate that the leaders in the most successful companies placed enough value on the activity of planning to devote their most scarce resource - their own time - to it.

The Ansoff et al study examined the impact of formal planning procedures on merger and acquisition decision-making and performance. They found that the planners out performed the non-planners on all financial and sales measures. Additionally, the performance of the planners was more predictable than that of the non-planners (although this is perhaps an expected finding).

Karger and Malik studied the performance, over a period of ten years, of 19 planning and 19 non-planning firms in the machinery, electronic and chemical industries. Their findings (summarised in figure 11) indicate that the formal planners significantly out-performed the non-planners.

**Fig 11 A Summary of the Differences in Average Performance between Planners (Mean $X_1$) and Nonplanners (Mean $X_2$)**

| Index | Compare Means ($\bar{x}_1 > \bar{x}_2$) | 't' Test ($H_1\ \bar{x}_1 > \bar{x}_2$) | Rank-Sum Test (For Median) |
|---|---|---|---|
| **Annual Rates of Change** | $x_1 > x_2$ by ___% | significant at a% | significant at a% |
| 1. Sales Volume [a] | 127% | 5% | 1·1% |
| 2. Sales per Share [b] | 68% | 6·5% | 6% |
| 3. Cash Flow per Share [b] | 151% | | 3·7% |
| 4. Earnings per Share [b] | 321% | 11% | 12% |
| 5. Book Value per Share [b] | 186% | 4% | 3·2% |
| 6. Net Income [c] | $\bar{x}_1 = 292_1\ \bar{x}_2 = 1$ | 2·5% | 0·7% |
| **Mean Annual Rates** [d] | | | |
| 7. Earnings per Capital | 48% | 1% | 1·1% |
| 8. Earnings/Net Worth | 86% | <0·5% | 0·7% |
| 9. Operating Margin | 55% | 6·5% | 9% |
| 10. Dividend/Net Income | $\bar{x}_2$ is 13% > $\bar{x}_1$ | too high | too high (50%) |
| **Mean Values per Year** [e] | | | |
| 11. Capital Spdg/Share ($) | $\bar{x}_1 < \bar{x}_2$ | — | — |
| 12. Stock Price ($) | $\bar{x}_1 < \bar{x}_2$ | — | — |
| 13. Price/Earnings Ratio | 13% | 15% | 14·7% |

[a] Mean of Simple Annual *Rate of Change* over period 1963–1973 (calculated by authors for study).
[b] Compounded Annual *Rate of Change* over the period (*Source:* Value Line Survey).
[c] Mean of Annual Rates for the period (calculated by authors for study).
[d] Cumulative percentage change during the period (calculated by authors).
[e] Mean of Annual Values for the period (calculated by authors).
All calculations by authors from raw data.

SOURCE: D. W. Karger and Z. A. Malik, "Long-Range Planning and Organizational Performance," *Long-Range Planning*, December 1975, p. 63.

However, it would be dishonest to claim that the evidence is unanimously supportive of planning.

Studies by Rue and Fulmer (1973) (107) and (108) and Sheehan (1975) (109) cast some doubt on the universatility of the principle of planning benefit.

Rue and Fulmar concluded that in service industries the non-planners out-performed the planners in all instances but that in durable goods the reverse was true. Their study involved surveying the planning practices and performances of 432 firms in three main industrial groups - durables, non-durables and services.

Their results support previous research in manufacturing industries, and in the service industries their sample may be suspect in that performances were compared for a period of three years only, and about 50% of the firms indicated that they had started planning only two years prior to the study. It is quite possible, therefore, that poor performances had motivated them to start the planning process and that at the time of the study they had not yet reaped the benefits of their planning efforts.

Sheehan's study found that in his survey of Canadian firms, the 37 non-planners grew more rapidly than the 23 low planners, that the 23 low planners grew more rapidly than the 41 medium planners two in turn grew faster than the 47 high planners.

However, Sheehan did not examine the effects of planning on efficiency measure of performance such as profitability ratios, RoE and RoI.

He failed, also, to consider the period of time that the planing firms had been engaged in the activity, thereby leaving his findings open to the same doubt as that applied to Rue and Fulmer's study.

We found that variability in growth was inversely correlated with the degree of planning and

it is worth noting that there was a similar inverse correlation between degree of planning and size of enterprise - a finding that runs counter to experience.

Sheehan recognised the dubious nature of his findings and performed three additional analyses to check them out. Unfortunately, these analyses did not resolve the issue conclusively.

His work does however introduce a valuable caveat to the otherwise glib assertion that formalisation of planning will necessarily lead to superior economic performance.

In this section an attempt has been made to define and describe the concept of strategy; to relate it to the construction of the model; to outline its heirarchical construction; to illustrate one or two facets from practical experience and finally to assess its impact by contrasting the performances of comparable firms which are differentiated only by their planning orientation.

## 2.6 STRUCTURE

Pursuing the biological analogy of the model, if strategy can be likened to the process of "getting fit" - with the "survival of the fittest" as the motivating allegory - then structure is the end product of the fitness process. It can be thought of as a short-term development for a particular purpose - the "peaking" of an athlete's performance to coincide with a major event, alternatively it can be longer-term development - the difference between a runner and a weightlifter in terms of stature, muscular development and stamina.

Longer still, the concept can be extended into an evolutionary cycle as an analogy drawn with the development of landbased lifeforms from their aqueous predecessors, with the evolution of the cerebral cortex as an ultimate response to the need for mastery of the environment.

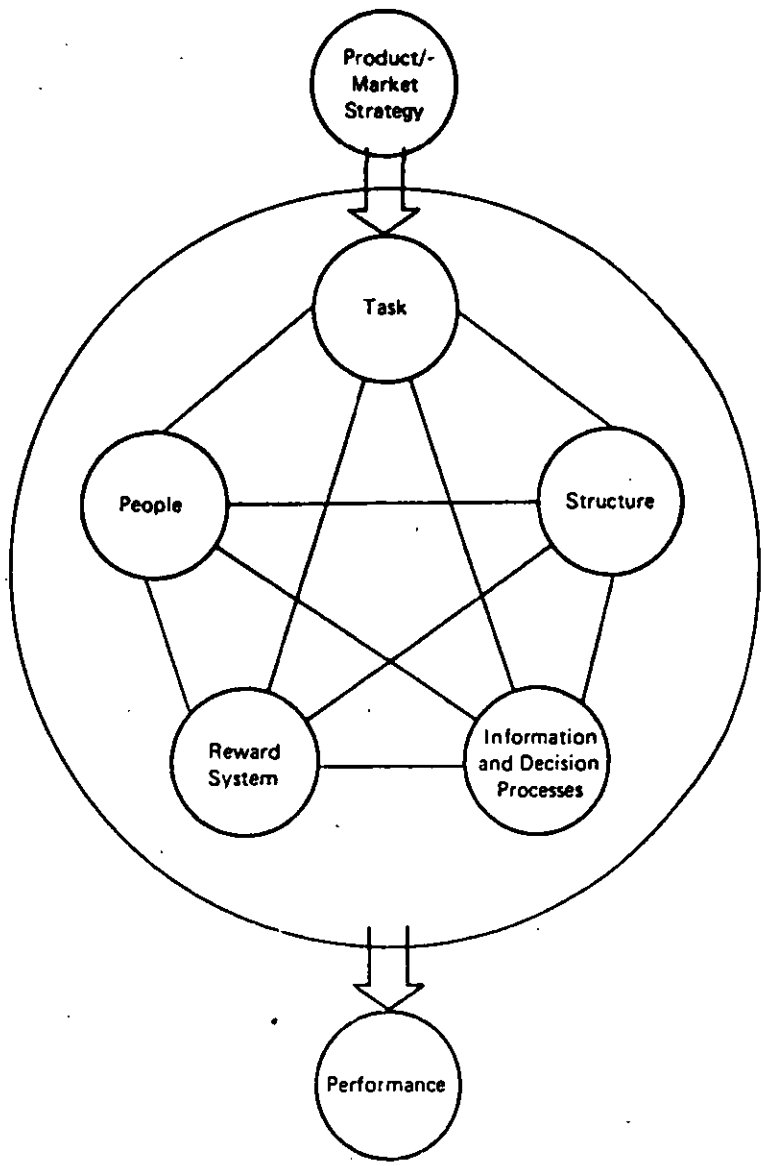
An organisational parallel is drawn by Chandler (110) whose central thesis is that structure

follows the growth strategy of an enterprise. The parallel with the biological imperative of evolutionary progress is contained within the word "growth".

More explicitly, Chandler's thesis concerns the relationship between structure and the product-market strategy of the firm.

Galbraith and Nathanson (111) extend Chandler's concept and expand the notion of organisation to include more than departmental structure and the degree of centralisation. They include the process of integrating departments, resource allocation, processes, reward systems and people, with a basic premise that effective financial performance is obtained by the congruence between strategy, structure, rewards and people. This is an equilibrium-like state that is never achieved but always sought (see fig 12).

**Figure 12 Schematic Showing Fit Among Major Organization Design Variables**



Chandler distinguished certain key growth strategies that were most important for securing the long-term survival of the organisation, viz: expansion of volume, geographic dispersion, vertical integration and product diversification. He then showed how each strategy posed a different type of administrative difficulty and therefore tended to lead to a different form of organisational structure.

This issue of strategy/structure "fit" is central to theorists in various disciplines.

Chandler defines structure as the design of organisation through which the enterprise is administered, and implicitly, therefore, structure is a derivative of activity.

This concept is reinforced by Piper (112) who in looking at control systems summarises the research of Khandwalla (113), Bruns and Waterhouse (114), Ouchi (115) and Hayes (116), the main thrust of which is that technology and environment predominantly affect the organisation structure and the organisation strategy and that this in turn affects the information system.

From our point of view at this juncture the information system is incidental and the quotation is made to support the thesis that strategy and structure are functions of the interaction between the enterprise and its environment.

The Piper article looks at the element of "task complexity" as a determinant of the financial control system, via the intervening variable of the organisation structure-task complexity affecting whether the activity will be treated as an engineered cost-centre or as a discretionary cost-centre.

A scale was constructed on which to measure the variable, the basis of ranking being:-

(a) The range of products offered - the greater the range the greater the stock control, purchasing and margin control problems.

(b) The diversity of product-range in price, size and margin.

(c) Seasonality of the business with the implications of high depreciation on surplus stocks, budget phasing needs, etc.

(d) The variability between stores in terms of size, location and product mix, with its implications of difficulties for a central control mechanism of dispersed and disparate locations.

The results of the research clearly point to a high correlation between increasing task complexity and degree of centralisation - a concept echoed in earlier references to organisational differentiation and environmental heterogeneity.

The concept will be found particularly relevant to the case studies in later Chapters where the two organisations are illustrative of the opposite ends of the spectrum of task complexity and organisational centralisation.

Task complexity is a parallel in decentralisation terms with span of control in hierarchical terms in the sense that in each case, as the variable increases, control of the extremities from the centre becomes more problematical and greater autonomy at the extremities is the practical out-turn irrespective of the proclivities implicit in the dominant management style.

As stated earlier, a major criticism of British business expounded, inter alia, by the Boston School is that structure is a 'given' condition and is a limiting factor on strategy, process and performance.

Within the Co-operative Society area of study in this paper the Boston view has a particular relevance in that large Co-operative Societies tend to be agglomerations of smaller societies and the structure of the large society is often determined by the need to accommodate senior

members of staff of the pre-merger small societies in positions of influence and status.

Structure tends, therefore, to be a function of history rather than a vehicle designed to facilitate the implementation of strategy.

This is a practical exemplar of the Cyert and March (117) view which sees the firm as a coalition of interests with multiple changing acceptable level goals. "The criterion of choice is that the alternative selected should meet all the demands of the coalition". (118)

Chandler's thesis - that the structure of an organisation follows its growth strategy - stimulated a large amount of research, and of particular interest is that undertaken by the Harvard Business School in its Industrial Development and Public Policy Program, summarised by Scott (119) in 1973. This research contributed several refinements and extensions of the basic Chandler thesis.

Firstly, it refined the theory of diversification strategy by distinguishing between different types of diversification (Wrigley, 1970 [120]).

Secondly, it demonstrated that not all multidivisional structures are alike, by identifying different structural forms.

Thirdly, it quantified the analysis with data on financial performance (Rumelt, 1973 [121]).

The analysis was updated by extending the database in the US and extending it to encompass European countries. Works already quoted in the section on "Strategy" (above) are Rumelt 1973, Channon 1971, Pooley-Dyas 1972, Pavan, 1972, Thanheiser 1972. Finally it was extended to consider international strategies for American (Stopford & Wells 1973) and for European firms (Franco, 1974 and 1977).

Wrigley (122) took a sample from the Fortune 500 and distinguished four different strategies

that were being followed viz:-

(i) Single product

(ii) Dominant Business

(iii) Related Business

(iv) Unrelated Business

From this study it became clear that the more diversified the strategy the more likely one is to find the multidivisional structure.

Single-product or single-business firms are always organised functionally.

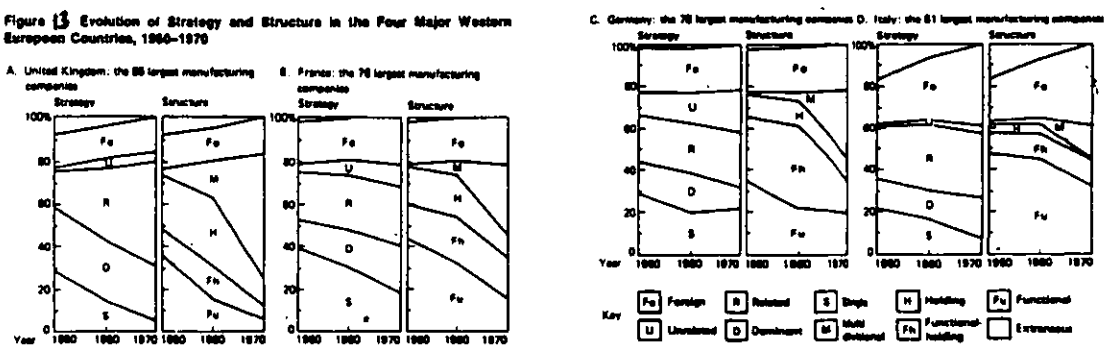
A hybrid form of structure was observed in the dominant product firms under which the dominant business was managed via a functional structure and the diverse products via a divisionalised structure. This amounts to a partial move towards the multi-divisional structure.

Those companies that diversified into related and unrelated businesses overwhelmingly chose multi-divisonal structures.

These results support the thesis that structure follows strategy in general, and that diversification leads to multidivisional forms in particular.

Interestingly, in replicating the analysis in European countries some differences and some similarities are evident (fig 13).

Figure 13 Evolution of Strategy and Structure in the Four Major Western European Countries, 1960–1970




From Bruce R. Scott, "The Industrial State: Old Myths and New Realities," *Harvard Business Review*, March–April 1973, Copyright © 1973 by the President and Fellows of Harvard College; all rights reserved.

For all countries there is an increase in diversification between 1950 and 1970. Single and dominant business categories are substantial but declining. Similarly, there is an increase in the use of the multidivisional structure to replace functional and holding company firms. However, there are variations over the different countries and in all cases the adoption of multidivisional structure lags behind diversification strategy.

The explanation offered is that diversification alone is not sufficient to immediately disturb established power structures. The pressure for change is exerted via competition. This explains why the UK, in the period under review, had gone further down the track than its European counterparts, but the decline of tariff barriers in the EEC will tend to augment competitive pressure and increase the adoption of the multi-divisional structure within continental Europe.

The latest - and most comprehensive - research into the structural causal factors of business was undertaken by Rumelt.

By using subjective judgements and some quantitative measures he produced nine different classifications of strategy to characterise a sample of US firms from the FORTUNE 500.

The single business category remained unchanged but the other three were elaborated and expanded upon.

The dominant business product (ie product sales between 70% and 95% of total sales) was divided into four subcategories, viz:-

(a) Vertically integrated firms. These firms were described as having sales other than of the dominant product, but the products sold were by-products arising from stages of production of the dominant product.

(b) This and subsequent subcategories were distinguished by the degree of "relatedness"

of the non-dominant products. Subcategory (b) firms were classified as "dominant-constrained", that means that their diversification was constrained by their desire to exploit a particular advantage.

(c) The third subcategory contained firms which maintained links between businesses, but were not constrained by a single unifying link. In this class, some products shared a common technology and these may also share common distribution-channels with non-related technology products. This category was called "dominant-linked".

(d) The last category was simply called "dominant-unrelated", the firms within it having diversified into business areas totally non-related to their dominant businesses.

The "unrelated" category was itself divided further into two types, contingent upon their aggressiveness in acquiring other firms. The types were then "unrelated passive" and "acquisitive conglomerate" and brought the total number of subcategories to nine.

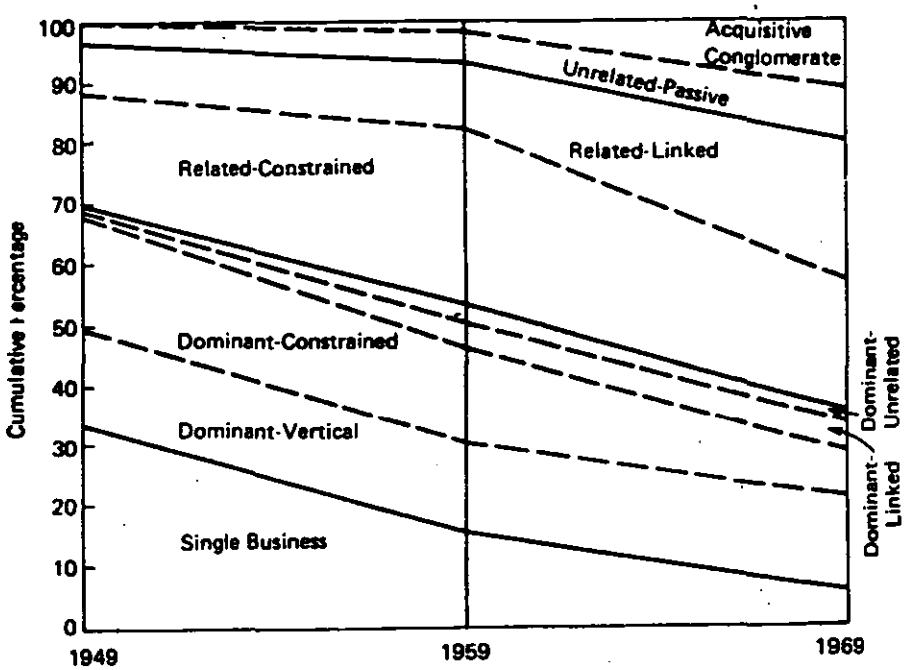
Rumelt then related strategies to the different types of structure the latter being classified as "functional", "functional with subsidiaries", "multidivisional" (both product and geographic) and "holding companies". The "holding company" classification encompassed those firms with highly autonomous divisions and with a miniscule formal organisation above them.

Strategies and structures employed by the sample were examined from 1949 to 1969. The result clearly demonstrates the decline of the single and dominant business over the 20 years and reveals a sustained thrust towards product diversification (See fig 14, over).

The results bear out Chandler's predictions in that:

- the multidivisional form follows the diversification strategy,
- the single and dominant business strategies are conducted through functional organisations;
- the greater the diversity the more likely one is to find the multidivisional form.

**Figure 14. Estimated Percentage of Firms in Each Strategic Class**




Reprinted by permission of Harvard University Press from *Managing Diversity and Interdependence: An Organizational Study of Multidivisional Firms* by Jay W. Lorsch and Stephen A. Allen, Boston, Mass.: The Division of Research, Graduate School of Business Administration, Harvard University. Copyright © 1973 by the President and Fellows of Harvard College.

Over time, an increasing percentage of firms fall into line, by 1969 functional and holding companies give way to multidivisional structures and this "snowballing" effect could well be explained as a function of competitive pressures in the market.

Stopford (123) again studied a "Fortune 500" sample and demonstrated that the divisional firms adopted international strategies, he also demonstrated that American firms adopted common structures when following common strategies, and that the first structural concession to "internationalism" was the formation of an international division alongside the existing domestic product divisions. This international division was, however, a transitory form of structure and gave way to one of a number of global forms which were dependent upon the firms' international growth strategies. Those firms that took their entire domestic product line abroad would eventually adopt worldwide product divisions, whereas those firms that expanded internationally with only their dominant business adopted geographic divisions that divided the world into areas.

Galbraith and Nathanson then proceed to a complex analysis of the different international

strategies and examine why each led to new structures, concluding that the abandonment of the international division was concomitant upon the adoption of wide product diversification abroad leading to exactly the same management problems that had prompted the divisional structure at home - and with the same result i.e. product diversity is best managed through product divisionalised structures.

The disappearance of the international division by firms which "internationalised" on the basis of dominant business rather than diversified products is ascribed in Stopford to both the complexity of managing different areas (hence regional specialisation and the breakup of the monlithic structures) and to the increase in size of the monolithic structure to the point where it was competing successfully with the domestic organisation for allocation of investment capital and other resources.

Stopford raises an interesting question (which he does not answer) viz: "What happens as area divisionalised forms diversify, or world-wide product firms increase foreign sales?" Some mixed forms were observed where the firm had area divisions, but one large and unique product had been organised as a worldwide product division. One of Stopford's firms had been organised as a matrix form by simultaneously assuming both a geographic and a product form.

These questions although of undoubted academic interest are outside the scope of the present paper, and the discussion has been extended to its present length to illustrate the degree of reinforcement of Chandler's central hypothesis - that the structure of a company follows its growth strategy.

In the later studies we will be examining the effect on a divisionalised structure of a Chief Executive Officer with a tendency for centralised management.

Before moving on from this necessarily simplified overview of structure it is worthwhile introducing two other concepts relating to the determinants of organisational form.

Contingency theory states that there is no one best way of organising, but that all ways of organising are not equally effective. Therefore, the choice of organisational form will make a difference to economic performance of the firm.

Contingency theorists have, therefore, concentrated on situational attributes that influence form and performance.

The initial impetus came from British sociologists and in 1965 Joan Woodward (124) proposed that manufacturing technology was a primary determinant of organisational form. Some of her findings have been supported and others modified by subsequent research (Hinings et al 1969, Child and Mansfield [125] 1972, Blau et al [126] 1975). Generally the impact of production technology per se is limited to the manufacturing area and the lower the level in the structure the greater the impact. As a consequence this school of thought is not of primary interest in the present analysis.

In 1961 Burns and Stalker suggested that it was the rate of change of environment that determined organisational form. They suggested that in industries characterised by environmental turbulence (high rates of change in markets and technology) successful firms adopted what they called an "organic" form - that is decentralised structure with ambiguous roles and a great deal of lateral communication. Conversely, firms in stable environments adopted a "mechanistic" organisation form characterised by centralisation with well-defined roles and with communication following the line relationships within the organisation. This form was hypothesised to be successful in conditions of stability.

The results of these studies when combined with the new contingency theories of leadership (Fiedler, 1967 [127]), small group processes (Leavitt, 1962 [128]) and Chandler gave impetus to a good deal of new research arising from the belief that a new discovery was in the making.

Some work was conceptual (Perrow, 1967 [129], Thompson, 1967 [1930]; other work was

empirical (Hall 1961 [131], Hage and Aiken 1969 [132] whilst yet more research concentrated on measuring uncertainty (Duncan 1971 [133]; Van de Ven and Delbecq, 1975 [134]). The rationale for contingency theory was established in 1969 when Lawrence and Lorsch published "Organisation and Environment" (135).

In studying ten firms in three different industries the authors, amongst other things, showed that high performing firms in an uncertain environment had greater decentralisation than low performers; in the predictable industry, the high performers were more centralised.

These findings fit in well with the concepts of task complexity and programmable tasks and have given contingency theory the necessary credibility.

In summary, therefore, organisation theorists have adopted their own contingency theory of structure. Instead of focussing on strategy they have examined various dimensions of the task to be performed and demonstrated a correlation between task uncertainty and organisation structure in high-performing firms. This is consistent with the Chandler hypothesis, since uncertainty and diversity tend to go hand in hand. All the studies lend weight to the strategy-structure thesis.

## 2.7 PROCESS

Staying with the biological analogy of the model, process relates to the mechanism of resource conversion - the input/output dimension. In an animal or other biological entity the process is basically one of food-to-energy and/or growth; performance is measured on some predetermined quantum relationship between the parameters.

The organisation is concerned with resource conversion, i.e. raw materials, energy and human input being converted into finished product and services of varying kinds. In crude terms performance is measured by the viability of the price of the outputs in the economic system coupled with the ability of the organisation to find its own long-term viability out of

retained surpluses.

Within the boundaries set by strategy (i.e. the product-market position of the organisation) process is concerned with the acquisition of "raw material" and its efficient conversion into acceptable-quality outputs.

Galbraith and Nathanson having viewed structure as the segmentation of work into roles such as production, finance, marketing etc., and the recombination of roles into departments or divisions around functions, products, regions or markets then look at process as the direction and frequency of work and information flows linking the differentiated roles within and between departments of the complex organisation.

Greater competition carries with it a need for greater co-ordination and control. The required increase is achieved through the use of formalised systems and procedures for measuring and reporting performance and greater delegation of decision-making authority within those systems and procedures.

Perrow (1977) is one of the modern theorists who point out that narrowing spans of control occur under uncertain conditions and are associated with decentralisation.

This interpretation underlies the convergence of all the previous studies, viz:

(a) Competitiveness affects organisational structure and process.

(b) The effects are decentralisation and formalisation.

(c) There is, in a competitive environment a strong positive correlation between degree of decentralisation and formalisation and economic performance.

(d) Ergo, the need for co-ordination and control is created in the competitive environment.

Galbraith and Nathanson and Perrow have discussed process in terms of its definition - the

frequency and direction of work and information flows - and in terms of its contextual influences - a competitive environment affecting corporate structure and, therefore, the flows of work and information inter and intra the structural components.

It is reasonable to suppose that process has other attributes and influences, and an examination of some practical situations documented by Peters and Waterman (136) in the USA and Goldsmith and Clutterbuck (137) in the UK provide some useful insights.

As with structure, process must be determined in relation to strategic imperatives. Corporate strategy identifies the product/market orientation of the organisation, business strategy determines the structure and resources needed to optimally achieve corporate goals and operational strategy sets the processes and standards necessary to give practical effect to the wider objectives.

Clearly, a failure at operational level will compromise the attainment of the higher-level objectives.

It is possible to ague that PROCESS has the attribute of effiency and effectiveness. This implies clear criteria, measures of performance, and control mechanisms to correct adverse performance variations. Immediately links back into operational strategy, management style and organisational culture are suggested.

Goldsmith and Clutterbuck quote Clark's shoes (C & J Clark Ltd.)

"At Clark's all managers down to foreman level are instilled with the understanding of what counts is return on assets employed... The limits of authority are very clearly defined."

Another quote, from Sainsburys, emphasises the effectiveness of the retailing process in achieving corporate image:

"We are selling consistency" says Sir John Sainsbury. "The customer has to feel familiar with the layout and goods offered in any of our stores, wherever they are in the country.

"The whole sales pitch is based on the customer's knowledge that the packet of frozen peas he buys in Lancashire will be the same quality and value for money wherever he goes within that shopping chain. So the key areas where the retailers maintain central control include design, presentation, stock and pricing, as well as more commonplace areas such as capital expenditure. Significantly, the less successful retailers have had the greatest autonomy at shop level in these areas.

"Where the successful retailers do allow considerable autonomy is in the organisation and motivation of the people within the stores. This, says John Clotheir of Clark's retail division, is where the real difference comes in return from stores of comparable size and location. A really good manager can increase sales by up to 30 per cent he believes, simply by how effectively he uses his people.

"Lord Sieff (Marks & Spencer), whose company exerts rather more direct control on the individual store manager puts the difference between the good and bad store manager at 10 per cent above or below average. On individual turnovers of millions of pounds that difference affects the bottom line considerably."

A quote from MFI illustrates the link between clear strategy, structure, management style organisational culture and process.

"We are very action-oriented. We call it 'sense of urgency'. We can move from signing the contract on a piece of land to opening the store in six months. A building programme for a 40,000 square foot would normally take forty-four weeks; it takes us twenty-six."

Ernest Harrison, Chairman of RACAL Electronics forges the link between process and control in his comment that "a good manager knows how he has done at the end of the week

without a P & L. Historic accounting just confirms what you should already know."

Peters and Waterman's American investigations lend further weight to the importance of PROCESS in achieving corporate excellence.

"Our findings ... showed, more clearly than could have been hoped for, that the excellent companies were, above all, brilliant on the basics. Tools didn't substitute for thinking. Intellect didn't overpower wisdom. Analysis didn't impede action. Rather these companies worked hard to keep things simple in a complex world. They persisted. They insisted on top quality. They fawned on their customers. They listened to their employees and treated them like adults. They allowed their innovative and 'service' "champions" long tethers. They allowed some chaos in return for quick action and regular experimentation.

The eight attributes that emerged to characterise most nearly the distinction of the excellent, innovative companies go as follows: (only five are quoted as being directly concerned with PROCESS as against other components of the model):

(1) A bias for action, for getting on with it. Even though these companies may be analytical in their approach they are not paralyzed by the fact. In many of these companies the standard operating procedures is "Do it, fix it, try it." Says a Digital Corporation senior executive, for example 'When we've got a big problem here, we grab ten senior guys and stick them in a room for a week. They come up with the answer and implement it.' ..... What is striking is the host of practical devices the excellent companies employ to maintain corporate fleetness of foot and counter the stultification that almost inevitably comes with size.

(2) Close to the customer. These companies learn from the people they serve. They provide unparalleled quality, service and relaibilty - things that work and last ... many of the innovative companies got their best product ideas from customers. That comes from listening, intently and regularly.

(3) Autonomy and entrepreneurship. The innovative companies foster many leaders throughout the organisation. 3M has been described as "so intent on innovation that its essential atmosphere seems not like that of a large corporation but rather a loose network of laboratories and cubbyholes populated by feverish inventors and dauntless entreprenneurs who let their imaginations fly in all directions." They don't hold everyone on so short a rein that he can't be creative. They encourage practical risk-taking and support good tries. They follow Fletcher Byrom's ninth commandment: "make sure you generate a reasonable number of mistakes".

(4) Productivity through people. The excellent companies treat the rank and file as the root sources of quality and productivity gain. They do not foster "we/they" labour attitudes or regard capital investment as the fundamental source of efficiency improvement. Thomas J Watson Jr, said of his company "IBM's philosophy is largely contained in three simple beliefs. I think the most important is our respect for the individual. This is a simple concept, but in IBM it occupies a major portion of management time."

(5) Hands on, Value Driven. Thomas Watson Jr said that "the basic philosophy of an organisation has far more to do with its achievements than do technological or economic resources, organisational structure, innovation and timing." Watson, and Hewlett Packard's William Hewlett are legendary for walking the plant floors. Mcdonald's Ray Kroc regularly visits stores and assesses them on the factors the company holds dear, Quality, Service, Cleanliness and Value.

The works of Peters and Waterman and Goldsmith and Clutterbuck concentrate on trying to identify and understand the reasons for corporate excellence, and it is revealing that they come down ultimately to PROCESS as the major differential component. Of course, to extrapolate the argument and decry strategy and structure as irrelevant would be absurd - the sample population used for differentation is culled from a wider population where

strategic and structural factors have been got right; the comparison is between success and excellence, not between success and failure.

Peters and Waterman refer back to academic theory as the basis for their work:

"The stream that today's researchers are tapping is an old one, started in the late 1930s by Elton Mayo and Chester Barnard, both at Harvard. In various ways, both challenged ideas put forward by Max Weber, who defined the bureaucratic form of organisation and Frederick Taylor, who implied that mangement really an be made into an exact science. Weber had decried charismatic leadership and doted on bureaucracy; its rule-drive impersonal form, he said, was the only way to assure long-term survival. Taylor, of course, is the source of the time and motion approach to efficiency: if only you can divide work up into enough discrete, wholly programmed pieces and then put the pieces back together in a truly optimum way, why then you'll have a truly top-performing unit.

In relating to process as the interface between strategy and output, President Truman (quoted by Nenstadt, 1960) talking of his imminent successor Eisenhower prophesided: "He'll sit here and he'll say 'Do this! Do that!' and nothing will happen. Poor Ike - it won't be a bit like the army. He'll find it very frustrating.

## 2.8 PERFORMANCE

Performance can be considered as the way in which an entity converts available inputs into planned outputs. The biological entity is at the lowest level concerned with converting an intake of nutrition into energy and growth and is constrained by both its environment and its internal mechanisms. The evolutionary process is concerned with the adaptation of mechanisms to be a close "fit" with environment (in its widest sense). Where there is some evolutionary misdirection (e.g. mutation) or where environment undergoes a hostile change which outpaces the evolutionary process the entity and its genus becomes extinct. At the highest level there is both environmental modifiction and extension of the internal mecha-

nism to facilitate an optimum fit between organism and environment. Performance is, therefore, a function of available resources, resource conversion and planned "output".

Performance measurement is in terms of the match between actual and planned output in relation to actual and planned resources, that is to say, it is a measure of the internal mechanism in its adaptation to environment.

In organisational terms, the model described in the preceding pages is almost entirely concerned with the achievement of a "fit" between the entity and its environment. Strategy is concerned with the product/market. Compatibility structure is the vehicle through which the interchange with the environment occurs and process is concerned with the efficiency of resource conversion. Performance is the barometer of the acceptance of the organisation by its environment and is customarily expressed in economic terms.

One of the limitations on performance measurement is the definition of terms and the setting of standards. Money is generally regarded as the lowest common denominator and so all measurable performance characteristics ultimately have a monetary dimension. The efficiency of an engine can be expressed in engineering terms at one level, but ultimately is translated into running costs, with development costs ultimately ignored in the creation of the genus. Even in areas such as medicine there is at the margin a conscious measurement of the economic contribution of an individual, the risk factors associated with realising that contribution and the input costs associated with the individual's health maintenance. This judgement is exercised in the allocation of scarce resources in critical areas (eg kidney machines) where the immediate survival imperative are not necessarily paramount in prioritising the call on resources.

This concept of performance has been laboured because the case study is concerned with a movement which is confused about the role of economic performance as an arbiter of success, whilst the writer contends (along with Drucker) that economic success is legitimately the primary concern of organisations operating in the material world. (Indeed, the Church itself

is not oblivious to the need to preserve its fabric as a vital contributor to its spiritual goals.)

J. M. McInnes talking about management control processes (fig 15) says:

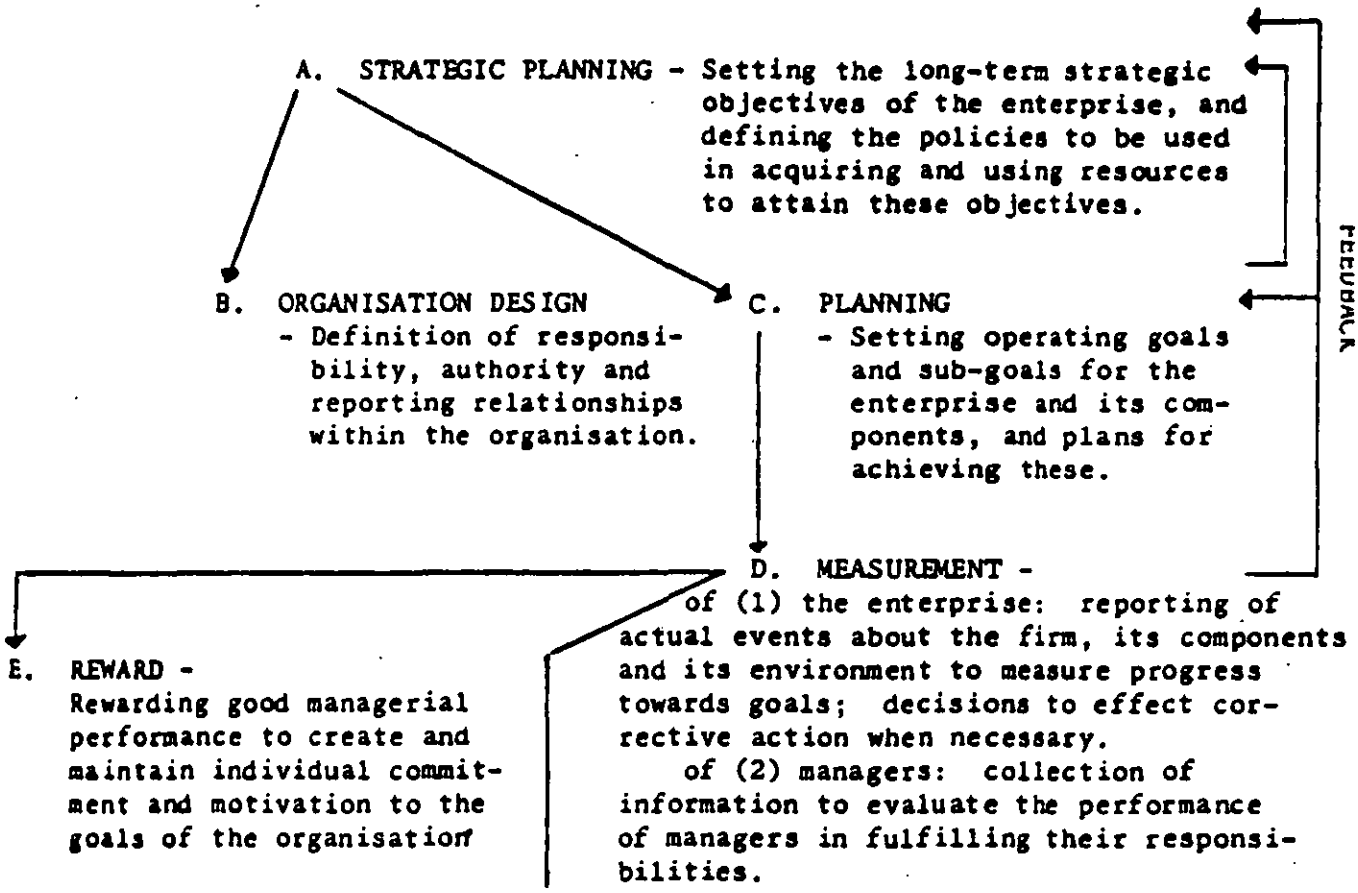
"The measurement process is generally considered to be central to the control process evaluating on the one hand before the event what will be considered good or acceptable performance and evaluating after the event whether or not performance was in fact good or acceptable. There are two important aspects to this measurement process: the measurement of performance of the enterprise in total and its component parts and the measurement of performance of individual managers within the organisation. With regard to the latter aspect of measurement the ultimate control in an organisation is considered to derive from the actions (decisions) of individuals being consistent with the achievments of organisational goals."

The paper deals with the relationship between organisation structure, measurement structure and reward systems and is based on questionnaires completed by top finance executives in "Times 500" companies and highlights the pyramid of measures of performance within the hierarchy; top management are concerned with few key performance indicators. The number increases slightly one level down indicating that senior operational managers add on a few specific more detailed indicators to the top management key indicators. At the third level down, the number of measures decreases sharply, indicating that more junior managers have control over, and responsibility for, fewer of the variables affecting performance and so fewer measures are necessary.

The number of measures used at the top level of management in a large number of firms is surprisingly high. Two suggested alternatives are put forward for this, viz:

(i) there is an excessive degree of centralisation or a lack of organisation of the control information within the firm, or

Fig. 15. Analysis of the Management Control Process




(ii) the concept of 'management by exception' may in practice be less applicable than is indicated in the literature.

The statistics collected by McInnes clearly indicate that history and budget are the two most important bases of measurement with budget having the edge. One would expect a strong correlation between budget and recent history.

Inter unit comparisons are more predominant than at lower levels of management, competition declines in importance as a measure further down the organisation. (See fig 16)

Fig. 16

Bases of Comparison/Measures/Levels of Management

| | | Investment | Profit | Cost | Other | Aggregate |
|---|---|---|---|---|---|---|
| 1st Level | History | 32 | 39 | 23 | 32 | 126 |
| | Budget | 31 | 45 | 26 | 35 | 137 |
| | Interunit | 16 | 16 | 5 | 7 | 44 |
| | Competition | 23 | 17 | 5 | 12 | 57 |
| | Other | 5 | 2 | 1 | 2 | 10 |
| 2nd Level | History | 32 | 33 | 34 | 29 | 128 |
| | Budget | 35 | 47 | 43 | 40 | 165 |
| | Interunit | 17 | 22 | 22 | 12 | 73 |
| | Competition | 12 | 12 | 5 | 11 | 38 |
| | Other | 2 | 2 | 2 | 6 | 12 |
| 3rd Level | History | 18 | 29 | 33 | 28 | 108 |
| | Budget | 13 | 30 | 41 | 26 | 110 |
| | Interunit | 7 | 10 | 18 | 13 | 48 |
| | Competition | 1 | 4 | 1 | 7 | 13 |
| | Other | 0 | 1 | 4 | 4 | 9 |

The ideal attributes of an overall measure of performance were identified as:

(a) Clear linkage between unit and corporate objectives.

(b) Unequivocal.

(c) Motivational.

(d) Economically correct, reflecting the soundness of a manager's judgement over time.

(e) Consistent with the economic criteria adopted for decision-making.

(f) Enabling the identification of a particular responsibility centre's contribution to total company performance (particularly vital when divestment decisions are being considered).

To be useful, the measures should be:-

(i) reproducible in a number of different situations to facilitate comparisons;

(ii) sufficiently simple and comprehensible to be used as an every-day guide to decision-making rather than a sophisticated tool for special analysis.

The survey indicated a remarkable reluctance to introduce the most basic measurement techniques such as profit budgets and RoCE (Fig 17).

fig. 17 Introduction of Measurement Techniques: a Chronology.

| Measurement Technique/ Date of Introduction | Prior to 1960 | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Profit Budgets | | | | | | 1 | | | 3 | 4 | 2 | | 2 |
| Return on Capital Employed | | 1 | | 1 | | 1 | | | | 3 | 6 | 2 | 1 |
| DCF | 1 | | | | 1 | | | | | | 2 | | |
| EPS | | | | | | | | | | 1 | | | |
| Divisional Contribution | | | | | | | | | | | 1 | | |
| MBO | | | | | | 1 | | 1 | | | 2 | 1 | |

However, it is significant that it was compiled at the end of a period of prosperity in the UK, and this underlines one of the basic problems in performance reporting, namely that its relevance is generally best anticipated in a period of decline, when there is a natural reluctance to contribute the money and resources necessary to set up the necessary systems.

There is also a depressing tendency to blame the messenger for the content of his message and the comment has been heard many times that "until I put your system in we were doing alright". In fact the system is only confirming the decline, suspicion of which initiated its installation in the first place!

In the McInnes sample, 34 companies drew a clear distinction between the performance of the organisation as a whole and the performance of individual managers, of these 34 companies,

only 50% reflected that recognition in their measurement systems. 26 companies did not recognise any distinction.

The relationship between strategy, structure and performance was first discussed by Rumelt (73) in the study mentioned earlier in this Chapter.

The multidivisional structure was the best performer for growth and had average returns on equity and capital. Growth and returns were also positively related, demonstrating that the multidivisional structure could achieve growth without sacrificing profitability.

Rumelt's fit tests were performed on companies that had diversified, and indicated that those who had accommodated the diversification via a functional structure performed less well than those which had gone for a multidivisional structure.

Parts of Rumelt's research have been replicated by Channon (1977) in the British service industries such as banks, insurance companies and hotels.

He used the categories of single business, dominant business, diversification into related business and found that the single and related business categories were superior on a number of measures of growth and returns with related businesses being marginally superior overall.

This implies that diversification is pursued only after the single business begins to decline, and when it happens, greater success is achieved by going into related businesses rather than into unrelated ones.

As with Rumelt the multidivisional firms had high growth rates for sales, assets and earnings per share whilst maintaining above average returns. Functional organisations had slightly higher returns and holding companies were the poorest performers.

Channon's work included no test for the fit between strategy and structure.

A study on 364 American firms by Poensgen (1974) (138) using categories from a questionnaire by Mauriel and Anthony (1966) (139) reinforces the familiar hypothesis, and further indicates that structure accounted in the sample for around 10% of the variance in return on equity.

Cable and Speer (1977) (140) undertook a study based on 82 British firms and found that successful firms are multidivisonal in diversified businesses and functional in single businesses. Non-successful firms were holding companies, multidivisonal structures in which corporate offices interfered excessively in divisional activities and diversified functional forms. The familiar pattern was once again confirmed. Cable and Speer indicated that organisational form was a significant predictor of return on equity and assets, accounting for between 7% and 9% difference in returns. However, there is a caution in accepting their conclusions on the adverse effect of corporate-office interference, this may be a response to poor performance rather than a cause of it.

Generally speaking there is a general caveat in relation to cause and effect applicable to all studies based on correlation. Nevertheless, the replication of findings in different studies at different times is fairly convincing.

Scant attention has been paid thus far to the actual performance measures used and the reporting thereof. It will be assumed that the reader is familiar with basic measurements of margins, asset turnover, return on assets, gearing ratio, return on investment etc. The combination of these and other measures into a hierarchy of performance and control data is illustrated in the two figures (Nos 18 and 19) on pages 131 and 132.

The apparent failure of a significant proportion of respondents in the McInnes sample to differentiate between organisational and individual managerial performance is all the more remarkable because of the plethora of techniques aimed specifically at managerial performance enhancement - such techniques as those evaluated in the Hofstede (78) paper referred

to earlier in the Chapter.

The clear justification for individual performance enhancement is the concomitant improvement in the organisation's overall performance on the basis that this is a function of both external environmental factors and internal mechanisms.

Fig. 18

Figure 18. STRATEGIC PROFIT MODEL: AN EXPANSION

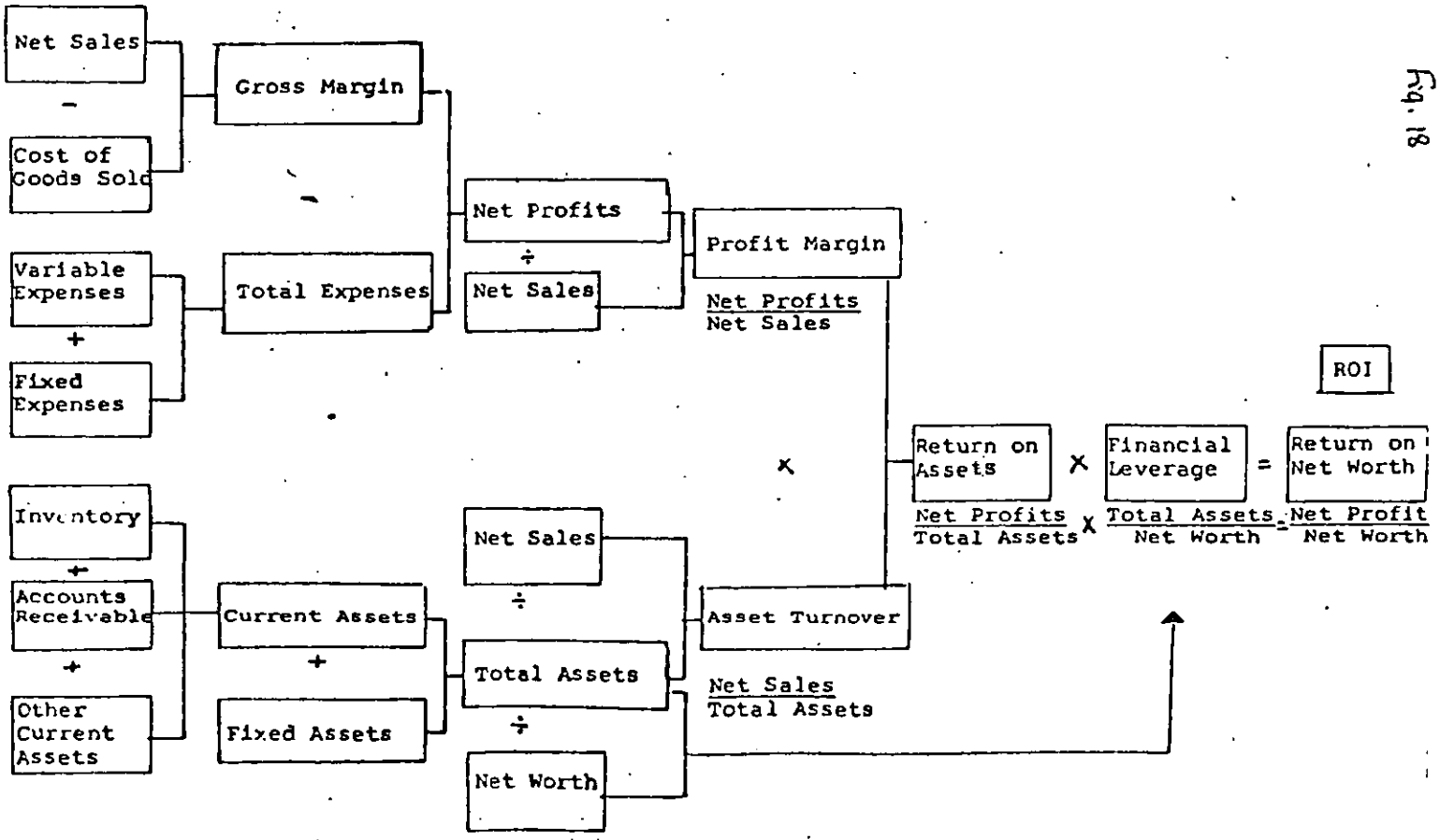


Fig. 19.

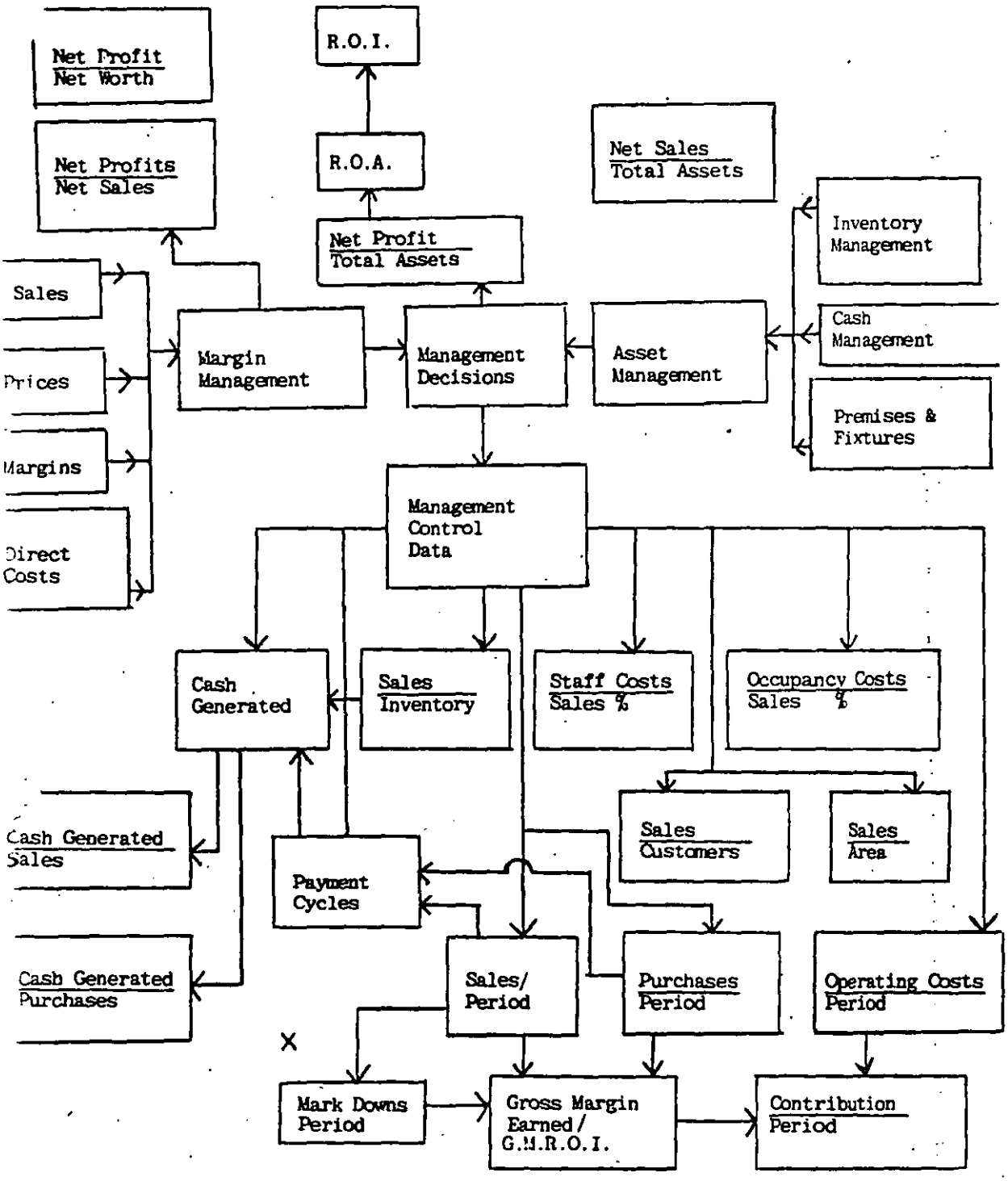



Figure Developing Management Control Data.

Blake and Mouton's (79) concept of the managerial grid is one of the more comprehensive attempts to address the problem of internal mechanisms with a view to profit improvement, and field research is quoted to demonstrate that organisations have shifted away from outmoded practices which were hindering production.

## 2.9 REWARD STRUCTURE

In the model there is a two-way relationship between performance and reward structure indicating a mutual dependence. Having due regard to Maslow's (80) hierarchy of needs and the work of Herzberg (81), Humble (82) and a host of other writers on motivation theory the concept of "reward" is not restricted to its monetary aspects.

An essential dimension of the reward structure is its link with controllable parameters so that the concept of responsibility accounting is followed through into tangible benefits. The definition of what are controllable parameters can be fairly arbitrary as long as it is accepted both by the firm and by the benefitting employee.

One example of practice in a retailing environment uses gross profit less heat, light and packing materials as the arbiter of annual salary increments for branch managers, whilst the manager's annual bonuses are calculated on the basis of company net profit. These are entirely arbitrary standards, but succeed in establishing a link in the managers' minds between their individual performances at branch level whilst emphasising (in terms of annual bonus) that overall company performance is necessarily a limiting factor on the ultimate reward for personal achievement. In that way, the blinkers are removed and an identification with corporate objectives established.

The point is made by McInnes that:-

"It is, of course, possible to interpret the key concepts of 'rewards' and 'performance' in a wide

variety of ways, ranging from rather narrow definitions based on purely financial rewards and performance indices to more wide-ranging definitions which consider the complex nature of rewards which are operative at the managerial level in an organisation and the multi-dimensional nature of managerial performance. The meaning and implications of any possible relationship is highly dependent upon the precise interpretation given to the key concepts and the fact that the role of the financial control system in this area is dependant upon rather simple definitions of both rewards and performance is the reason for both its potential advantages to some organisations as well as its disadvantages."

This concept feeds back directly into the idea of task complexity as an arbiter of structure (discussed at some length earlier in the Chapter). Where tasks are simple, the correlation of output and reward is well defined. As task complexity increases the correlation becomes blurred by the impact of internal and external factors outside the direct control of the jobholder and the method of reward may then consist in clustering jobholders into groups who can be deemed to exert overall control on discrete areas of business and setting a base "group bonus" within which individual differentials can be accommodated.

McInnes's sample yield a somewhat surprising lack of direct linkage between performance and rewards (fig 20).

FIG. 20.

| | Formal Review Procedure | | |
|---|---|---|---|
| | Yes | No | Total |
| Rewards Explicitly Related to Performance | 15 | 4 | 19 |
| Rewards Not Explicitly Related to Performance | 29 | 12 | 41 |
| | 44 | 16 | 60 |

McInnes (writing in 1971) notes a surprising lack of effort to evaluate the impact of reward structures, quoting Lupton and Gowler (83) as the major source of research. Their investi-

gation (from which a procedure was developed to recognise the interactions between individual motivations and technological and market circumstances of a firm in designing a wage structure) was directed at the shop floor level, with no basis for assuming that their conclusions can be extended to higher levels in the organisation.

The biological analogy, which has been pursued thematically throughout the explanation of the model, is continued in likening the reward structure within the organisation, to the pleasurable or uncomfortable sensations experienced by an organism when beneficial or detrimental influences are present.

## 2.10 MANAGEMENT INFORMATION SYSTEM

The nature of MIS has been dealt with previously, and the brief discussion in this section is concerned with its relationship to the elements of the model.

Essentially the MIS can be likened to the central nervous system through which messages essential to the monitoring and control of the organism are passed. It is distinguished from the communications aspect described within "process" in the same way that impulses to activate motor functions within the organism are distinguished from the cognitive processes of perception and control governing the organism's behavioural response to its environment.

Hence, the MIS has a two-way relationship with all the organisation's elements.

## 2.11 SUMMARY

This Chapter has attempted to expand and explain the model central to the thesis.

The objective has been to describe and explain the elements of the model per se but, more than that, to illustrate how they hang together as a coherent entity - just as the successful organisation does.

This sort of dynamic equilibrium has been explained by the analogy of the biological organism, but care has been taken to avoid the trap of arguing from the analogy. Consequently the explanations have been culled from the orthodox literature.

The importance of antecedents has been brought out as equal with environment in influencing organisational posture.

Strategy has been seen as primarily concerned with fitting the organisation to its environment, using structure as a vehicle for implementing strategy and process as the mechanism of low-level communications and actions, the efficiency of which determines the viability of the organisation in converting inputs to outputs.

Performance reflects the success of the organisation in matching strategy and actuality, whilst the MIS is the cognitive process of perception, feedback and control which measures the progress of the organisation along its strategic path.

# CHAPTER 4

# THE NORTH EASTERN CO-OPERATIVE SOCIETY LTD.

## PART 1

### A. Past and Present:

- History
- Organisational Form and Principles
- Relationship to local community
- Financial position and performance
- Diversification of activities
- Customer Services
- Summary and Conclusions

### B. Current Strategic Responses

## A. PAST AND PRESENT

### (i) History

The North Eastern Co-operative Society can trace its roots back into the early days of the Co-operative Movement.

In 1859, 15 years after the Rochdale Pioneers had launched the present Co-operative Movement, a group of workers in Sunderland started up their own Co-operative Society.

Also in that year talks started in Newcastle-upon-Tyne; these bore fruit on February 18, 1861 - two years before the Co-operative Wholesale Society was founded - when the eleven members of the newly-formed Newcastle Society opened the doors of their first shop. They had a stock of flour and groceries worth £17.17s.7d. We are not told whether this stock was valued at cost or retail price, but it compares with the £18 million stocks held by the present North Eastern Co-operative Society to give an idea of growth.

By the end of its first trading year the Newcastle Society's Nelson Street shop had recorded sales of £1,758 and this expansion enabled the employment of a full-time assistant at a wage of 24/- per week.

Expansion followed the usual pattern and by 1918 membership stood at 38,000 and a network of Co-op stores traded throughout the city with annual sales of £1.7 million.

A number of other Co-operative Societies formed in the area; by 1875 no fewer than 39 Societies were trading in County Durham, 31 in Northumberland and 8 in Cleveland.

The Co-op revolutionised the retail scene, sending prices tumbling, introducing new standards of quality into products and bringing new standards of equity into the selling process.

Over the years competition became stronger; the emphasis began to change to self-service, then to larger units - supermarkets, superstores and eventually hypermarkets.

The corner shops saw their traditional markets disappearing. Many societies failed either to recognise or to adapt to the trend and began to find themselves in increasingly desperate financial straits.

Thus it was in the early 1960's that the Co-operative Wholesale Society together with Durham University conducted a major survey of retail trade within the region resulting - in 1970 - in the amalgamation of 31 small Co-operative Societies to form a single large group, the NORTH EASTERN CO-OPERATIVE SOCIETY LTD.

It is most important that in looking at the subsequent development of the new Society (N.E.C.S.Ltd.), cognizance is given to the parlous state of the constituent societies in terms of asset base, liquidity and trading. Due emphasis will be given to this aspect in the following sections.

**(ii) Organisational Form and Principles.**

The Co-operative Movement was founded in 1844 to serve the interests of its members. This theme has continued to the present day and is embodied in the statement of Co-operative Principles as reformulated by the 23rd Congress of the International Co-operative Alliance.

These are:

1) Open Membership.

2) Democratic control (one man, one vote).

3) Payment of limited interest on capital.

4) The economic result arising out of the operations of a society to be distributed to members in proportion to their trade with the Society.

5) Provision of education for members, officers, employees and the general public.

6) Co-operation amongst co-operators, nationally and internationally.

Within the statement of principles there is a very clear and undisguished bias against the normal principles of capitalism in the raising of capital.

Voting power is not pro-rata with shareholding - each shareholder has an equal voice with every other irrespective of the size of the holding. Interest on capital is minimal and members' dividend comes as a reward for trading with the Society, not as a benefit of ownership.

Nor is there any prospect of capital gains; shares are purchased and redeemed at par, irrespective (within limits) of the performance of the society. Where a society becomes no longer viable (in the final analysis, insolvent) it is taken over by its surrounding societies, or by the Movement's 'ambulance society' Co-operative Retail Services Ltd and the members are unaffected.

This "no risk and no reward" philosophy in relation to shareholding has served to maintain control in the hands of people who tend to be passive and who are not remotely entrepreneurial in outlook.

The North Eastern Co-operative Society Ltd has approximately 460,000 Members. They elect eight divisional committees, each one covering a geographical area of the Society. Total committee membership is about one hundred individuals. Each of the eight committees meets once a month to receive reports from the Society's management and to comment on its operation.

Each committee is represented on a central council which meets at least quarterly to discuss key policy matters affecting the Society and which is empowered to elect the Board of Directors.

The Board of Directors is made up of twelve members, nine from the Divisional Committees and the Central Council and three representatives of the Co-operative Wholesale Society.

Board meetings are monthly and their purpose, amongst other things, is to debate policy issues and to set guidelines for the executive.

The Executive comprises the Chief Executive Officer, advised by the Secretary. Reporting to the CEO are the Society's Divisional Controllers. At present they manage major trading areas of the business organised as follows:-

| | | |
|---|---|---|
| FOOD DIVISION<br>Turnover £110 million | - | includes Grocery & Provisions, Butchery, Freezers, Fresh Foods, Restaurants, Wines & Spirits, Tobacco. Milk is supplied via an associated company. Animal feedstuffs are produced in a separate mill. |
| NON-FOOD DIVISION<br>Turnover £40 million | - | includes Furniture , Drapery & Fashions, Footwear, Electricals, D-I-Y, TV Rentals, Carpets, Textiles, Menswear. |
| SERVICE TRADES DIVISION<br>Turnover £60 million | - | includes Garages, Funerals, Pharmacies,Transport, Works, Travel, Post Offices, Estates & Property. |

The Secretarial Division takes care of the administration of the pension fund, the member service offices, the education fund, the political activities of the Society, etc.

The Co-operative Movement was founded to serve the interests of its members primarily in their roles as consumers, and it subscribes to a National Consumer Code which states:

"1) Our Society aims to give all consumers a fair deal and value for money, including goods of reliable standards, at competitive prices - and supported by effective customer services.

2) We, of course, respect the legal rights of consumers. More generally:

(a) We will observe the highest standards of truth and accuracy in all our advertising, claims, advice and pricing.

(b) We aim to give full satisfaction to any customer who has a genuine complaint about our goods.

(c) Where independently-established standards of quality exist, we will seek to offer and publicise these goods within our range of merchandise.

(d) We will provide consumers with adequate information wherever possible about our merchandise so that they are better able to make their choice.

We hope that all consumers will help us in bringing any failure in observing these principles to our notice."

**(iii) Relationship to Local Community.**

In the past the Co-operative Movement did much to ameliorate the deprivations of the working classes in terms of providing good quality at affordable prices in terms of housing (the Movement as a whole and NECS itself is a large owner of domestic property) and in terms of education. Profits were distributed to members on the basis of carefully-maintained records of purchases. This "divi" was then distributed more widely to all Co-op shoppers in the form of stamps, with a marginal benefit to members in the slightly higher redemption-rate applied to stamps paid into a member's account.

Latterly, with the poor trading performance of most societies 'the divi' has largely disappeared (the distribution of non-existent profits is simply a way of reducing the capital of the business).

Instead of a blanket payment to every shopper the concept of a "social dividend" has become fashionable. This social dividend covers a wide sphere of community-based activities including sponsorships, environmental schemes, financial and advisory support for self-help groups, etc.

The activities support include the "Support Local Industry" Campaigns, help for underpriviledged members of the community, backing for children's concert-parties, junior football clubs, mother and toddler groups. In 1981 the North Eastern Co-operative Society handed over a cheque for over £22,000 towards the purchase of a body scanner for the region.

In the same year, the Co-operative Movement nationally set aside more than £950,000 for educational and social purposes.

Also at a national level there is involvement directly in Parliament via the Co-op party which has members in both the Commons and the Lords, and there is a long history of association with both the Labour Party and the Trades Union Movement.

**(vi) Financial Position and Performance.**

In 1970 the 31 constituent societies of NECS came together. As is often the case with mergers in the Movement there was no synergenistic combination of strengths but rather a combination of weaknesses. The Durham Survey presents a picture of decay in an environment of structural obsolescence.

During the 19th Century the region was transformed from an agricultural economy to one based on mining and heavy industry and by 1914 coal, metal manufacture, shipbuilding and marine and heavy engineering provided about 67% of total jobs. The post-1945 inflation masked some of the underlying economic problems and it was not until 1958 that a really major decline was evidenced, as shown in tables 4.1 and 4.2.

**Table 4.1**

**Average number of wage-earners on Collieries' books ('000)**

| 1958 | 1959 | 1960 | 1963/4 | 1964/5 | 1965/6 | 1966/7 | 1971 | 1975 | 1980 |
|---|---|---|---|---|---|---|---|---|---|
| 140.5 | 134.5 | 125.6 | 103.2 | 96.9 | 88.5 | 79.2 | 48 | 28 | 6.5 |
| | | | | | | | | Estimate, 1967 | |

**Table 4.2**

**Unemployment Rates % : Males - Northern Region**

| 1958 | 1959 | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 |
|---|---|---|---|---|---|---|---|---|---|
| 2.5 | 3.6 | 3.1 | 2.7 | 4.3 | 5.8 | 3.8 | 3.0 | 3.2 | 5.0 |

The colleries' decline mirrored the decline in the other traditional heavy industries, and in today's climate the region is one of the country's economic blackspots.

The small mining settlements had been the strongholds of Co-operative trading and the demise of the industry resulted, in 1968, in 179 of the total of 368 Co-operative outlets being located in static or declining zones.

A study of the shops themselves showed large-scale non-viability in terms of turnover, cost ratios and the physical condition of the properties themselves.

Features noted in the survey included:

- high personnel cost ratios;
- standards of merchandising and hygiene low - in some cases the latter below legal limits;
- rotting window frames and decaying brickwork attested to long-term neglect;
- pricing policy was ill-judged and inconsistent between comparable outlets;
- cost controls were in many cases inadequate;
- fratricidal competition, both between fixed shops and mobiles, was in evidence.

**Table 4.3**

**Shops Survey : Distribution by Weekly Sales**

| Weekly Sales (£) | No. | Proportion |
|---|---|---|
| 0 - 399 | 86 | 0.24 |
| 400 - 799 | 142 | 0.40 |
| 800 - 999 | 44 | 0.12 |
| 1,000 -1,199 | 21 | 0.06 |
| 1,200 -1,399 | 18 | 0.05 |
| 1,400 -1,599 | 12 | 0.03 |
| 1,600 -1,999 | 15 | 0.04 |
| 2,000+ | 18 | 0.05 |
| | 356 | 1.00 |
| | === | === |

The consolidated balance sheet of the 22 Durham Societies at Jan/April 1969 was as follows:-

**Table 4.4**

**Balance Sheet - Durham Societies**

| | | £'000 | | | £'000 |
|---|---|---|---|---|---|
| Share Capital & Interest | | 6,971 | Fixed Assets: | | |
| Loans & Small Savings | | 1,125 | Trade | 3,454 | |
| Superannuation Funds | | 1,354 | Non-Trade | 134 | 3,588 |
| Bank: Loans | 113 | | Investments | | 5,576 |
| Overdrafts | 674 | 787 | Stocks | | 3,514 |
| Creditors | | 2,235 | Debts | | 1,042 |
| Reserves | | 1,215 | Prepaids, etc. | | 104 |
| Balance Disposable | | 406 | Cash at Bank | | 269 |
| | | 14,093 | | | 14,093 |
| | | ===== | | | ==== |

Notes:-

(1) Total investments of £5.5 million included almost £2.5 million which was highly illiquid, consisting mainly of non-withdrawable shares in CWS or other Federal Societies.

(2) The remainder, £3m, included £434,000 Savings Bonds maturing in 1970 and £612,000 longer-term securities, liquidation of which would involve an estimated capital loss of £200,000 on book values.

(3) The true liquidity element was only £2.9 million against which must be set bank overdrafts of £674,000 and overdue trade balances estimated at £516,000.

(4) There were, therefore, net liquid reserves of only £1.75 million which was less than the net outflow of share capital experienced by the 22 societies in the previous year.

(5) Stocks were considered to be overvalued, and due to poorly controlled credit schemes a significant writedown of the debt figures was advised.

(6) The concensus was that this group of societies would be stripped of all liquid resources by 1970 at the very latest.

Such, therefore, was the trading and financial position inherited in 1970 by the new Society.

Subsequent performance cannot be divorced from:

(a) The general decline in Co-operative Societies as a force in the market-place.

(b) The economic situation of the North Eastern Region.

The general decline of the Co-operative Movement is traced in both absolute and relative terms.

In absolute terms it is showing a general erosion of its trading based and a very poor record of profitability (£46 million pounds loss in 1982).

In relative terms it is showing a steady fall in market share with the bulk of its lost business going to the Multiples.

Tables 4.5 and 4.6 illustrate these trends.

**Table 4.5**

**Turnover Trends by Type of Grocer**

| | 1961 | 1971 | 1975 | 1976 | 1977 | 1978 | 1979 |
|---|---|---|---|---|---|---|---|
| Independents Symbol | 12.7 | 22.0 | 20.5 | 20.6 | 20.4 | 19.1 | 18.7 |
| Independents Other | 39.6 | 16.5 | 16.2 | 15.2 | 14.0 | 13.4 | 13.3 |
| Co-operatives | 20.8 | 13.2 | 15.5 | 15.8 | 15.5 | 15.4 | 14.8 |
| Multiples | 26.9 | 48.3 | 47.8 | 48.4 | 50.1 | 52.1 | 53.2 |

**Table 4.6**

**Co-operative Societies' Retail Sales**

| Year | £M | Index | Change | % of Total Sales |
|---|---|---|---|---|
| 1978 | 2,915 | 100 | - | 6.6 |
| 1979 | 3,290 | 113 | 13 | 6.4 |
| 1980 | 3,670 | 126 | 12 | 6.3 |
| 1981 | 3,860 | 132 | 5 | 6.0 |
| 1982 | 3,960 | 136 | 3 | 5.8 |

In 1982 the Co-operative Movement as a whole had retail sales of £3,960 - just £100m more than in 1981 and a rise of 3%. Overall prices in that year rose by 5% but food - of which 74.4% of Co-op business consisted - rose by only 2%.

On this mix, constant volume would give sales value growth of 2.77% so it is clear that Co-operatives

have remained static whereas retailers as a whole saw a 2.5% volume increase and food shops an increase of 1%.

Over the period 1978-1982 Co-ops increased sales by 3% against 55% for all retailers and a 63% rise in the RPI (which covers many items outside the retail trade).

Over the same period the Co-ops sales advance equated with an annual average of 8.0% (more than double the 1981/82 increase) compared with 11.7% for all retailers and 12.9% for all food retailers (Source: Retail Business No. 303, May 1983).

Increasingly the Co-operaties, whilst a component of the DoI's "Large Business" index have been performing at very much the same rate as small businesses - until 1982 when even that rate of growth was not achieved.

Analyses of the North Eastern Co-operative Society Ltd Profit and Loss Accounts and Balance Sheets appear in Appendices 1 and 2. These cover the years 1970-1981. Appendix 3 shows the Return on Capital Employed for the same years, as a graph.

There are some disturbing trends evident in the figures:-

**(a) Sales Growth**

From 1971 to 1981 sales grew by an average of 13% per annum. This growth must be seen against the background of inflation as follows:

**Table 4.7**

**Sales Growth, NECS compared with General Price Inflation**

| | 1977 | 1978 | 1979 | 1980 | 1981 |
|---|---|---|---|---|---|
| Sales Increase % | 12.4 | 3.6 | 9.9 | 20.4 | 7.2 |
| Average Inflation % | 15.8 | 8.3 | 13.4 | 18.0 | 11.9 |
| Real Sales Increase % | (3.4) | (4.7) | (3.5) | 2.4 | (4.7) |

Such a comparison is misleading because of the inclusion of the inflation index of items not within the Society's trading profile, and also because well over 50% of the Society's sales derive from food, where price inflation has been minimal. Similarly, in some areas of non-food (eg electricals) prices have been held steady over long periods.

**(b) Gross Profit to Sales Ratio**

This ratio peaked at 22.08% in 1974 and declined to its lowest level of 19.3% in 1981. The 2.7% difference represents a sterling value of £475,000 in profit on 1981/2 level of activity. The decline in margin may be attributable to pricing policy, which itself would be a component of sales value.

**(c) Personnel Costs to Sales Ratio.**

A critical area in retailing, this has remained stable at 12.5%. A substantial part of total sales (36 million pounds in 1981) is derived from Community Stores. The total gross margin % from these shares was 14.67%. Average sales per employee was £53,000 per annum, contributing only £7,775 gross profit out of which total branch costs must be met - clearly a non-viable situation.

Comparable figures for Saver Stores and Pricefighters are as follows:-

| £ Sales | Sales/Employee (£) | Gross Margin % | Gross Margin per employee (£) |
|---|---|---|---|
| Saver Stores: | | | |
| 15,015,000 | 56,570 | 13.62 | 7,705 |
| Pricefighters: | | | |
| 43,282,000 | 69,660 | 11.84 | 8,248 |

**(d) Other Costs to Sales Ratio**

Other costs as a % of sales have increased from 5.4% in 1970 to 6.7% in 1981. Whilst there have been fluctuations over the total period the trend in the last five years has been consistently upwards (from 5.6% to 6.7%).

**(e) Trading Profit to Sales Ratio**

After initial economies in personnel costs in 1970-1972 there has been a steady decline in the Trading Profit ratio arising from a reduction in gross margin coupled with a rise in other costs.

**(f) Profit/(Loss) Before Tax and Extraordinary Items**

This ratio is strongly influenced by the way in which the balance sheet has been managed. A central feature has been the erosion of share capital and its replacement by loan capital.

The North Eastern Co-operative Society has approximately 460,000 members, holding £4.1 million pounds' worth of shares (an average holding of £9 per member).

In 1982 "Contributions" (increases in investments) were £417,000 whilst withdrawals were £1,096,000 - a ratio of more than 2:1, only partially offset by the takeover of Townley Society which increased capital by £472,000.

Share interest in the year was £139,000 and allowing for the phasing of contributions and withdrawals and for the lack of information on whether the ingress of the Townley capital was cum-div or ex-div the effective rate of interest on capital is 3.5%. The effect of the marginal premium in redemption of dividend stamps can now be virtually discounted as the stamps are phased out.j By contrast, the £17.25 millions' worth of loans are made up of:

| | £m | Rate |
|---|---|---|
| Secured Bank Loans | 1.3 | Base + 2.25% - 3% |
| Superannuation Fund (Secured) | 4.2 | 12% - 14.25% |
| Members' Loans | 1.0 | 3.5% - 7.5% |
| Secured Loans | 2.3 | Fin. Houses Assn. Rates |
| Unit Loans | 1.0 | 27.5% over 2 years |
| One-year Fixed Interest Bonds | 6.8 | |

Short-term needs are catered for by a bank overdraft and calculations indicate the average rate of interest on this source of borrowing in 1982 to be 15.9%. Furthermore the overdraft is now defacto a source of long-term finance albeit repayable on call (it went up to £11 million briefly in 1984). Thus, the worst of all worlds has been achieved - expensive short-term money to finance a long-term requirement for capital.

The drift away from cheap share capital has had a severe impact on net-profit; simplistic calculations indicate that the interest on bank overdraft compared with interest on a comparable sum of share capital is £617,000 higher. Replacement of all the loan capital by share capital would save interest charges of £1.5 million pounds annually. The cost of the 1982 depletion in Member capital could be £68,000 in additional interest.

The balance sheet is being weakened by the replacement of equity with external financing; a more insidious weakening arises from the bolstering of reserves by sales of property to support trading losses. This has the effect of revaluing assets and appropriating the proceeds towards negative cash flows arising from poor trading performance, whereas such proceeds ought properly to go towards re-investment. In effect the Society is living off its capital, whilst choosing not to make full disclosure of the fact in its accounts.

The highest surplus on sale of assets was £2.067 million in 1978, the lowest £215,000 in 1975. On average £500,000 surplus has been realised each year since 1970.

Stocks are standing at approximately 40 days' trading, and are only 60% financed by creditors. Prior to 1981, therefore both sides of the balance sheet appeared to be substantially mismanaged.

**(v) Diversification of Activities.**

Between 1970 and 1983 turnover of the North Eastern Co-operative Society increased from £53 million to £200 million.

Over 50% of that turnover comes from food sold from 200 Community Stores, Savers and Pricefighters.

£40 million derives from Non-Food sales effected via a range of outlets varying from small specialist units to large departmental stores.

A Garages Group (marketed under the name 'Priory') turns over more than £30 million, retailing over six million gallons of petrol per annum and holding no fewer than eight main agencies, selling 2,800 new and used cars each year.

Fifteen travel agencies sell 40,000 packaged holidays each year in addition to thousands of rail, sea and air tickets. A recent innovation has been own tours (the Society being the principal rather than the agent) and Travel Group was a leader in the installation of Prestel into all its units. It operates an in-house Budget Plan credit system.

The NECS Funeral business is the largest of its kind in the UK, with 40 funeral homes and a training school which is used by competitors from all over the North of England.

Other activities include:

- Sub Post-Offices, operated in eight locations.

- Building Services, carried out from three Works depots employing 100 craftsmen and contracting out to hospital authorities, public utilities and local councils.

- A 93-bedroom holiday centre, set in a 100-acre estate.

- Investment property, with around 1,000 private and 300 commerical tenants.

- Concession sites operated in most department stores bringing in £400,000's worth of income, annually.

- A mill supplying local farmers with processed grain and other agricultural supplies. Adjoining farmland is also owned by the Society.

- Restaurants operated in Department Stores and other locations and featuring "party nights".

- Speculation in commodities; recent purchases of tea showed profits of £300,000.

- Development of fleet business through the Garages Group using the Society's influence with its own suppliers to create an initial market.

- Specialist electrical business is being developed using the Society's buying power (backed by CWS) to couple technical knowledge with low prices.

**(vi) Customer Services.**

**(a) Credit.**

A feature of the present economic climate is the easy availability of credit in an attempt to stimulate demand.

Nationally the Co-operative Bank PLC (a subsidiary of CWS Ltd) operates Handycard and Handyloan as in-house credit facilities for Retail Societies.

The North Eastern Society operates its own in-house credit, internally financed and administered, serving 70,000 customers.

It also accepts Access and Visacard, and various Agency cards for petrol in its 16 garages.

TV and video rental is a service enjoyed by 55,000 customers.

**(b) "Member Services"**

A network of 55 "Member Services Offices" afford facilities for share contributions and withdrawals and for the entering-up of interest, etc. Credit accounts can also be paid at these offices, as well as at most of the ordinary grocery and non-food branches. Dividend stamps are redeemed at MSO's for payment into Members' accounts at premium rates.

**(c) Banking**

The Member Services Offices (MSOs) operate a bank agency service offering cheque encashment and credit transfer facilities.

Foreign currency transactions can be carried out via the Travel agencies.

**(d) Cash Handling**

The Society acts as the agent of local authorities in paying wages and in handling carpark receipts.

**(e) Funeral Scheme**

The Society has recently introduced a scheme under which subscribers pay in advance for

funerals - either by lump sums or instalments. The full values of the payments are credited towards funeral costs, but 50% is immediately remitted back to the subscribers in the form of vouchers, redeemable in the Society's shops.

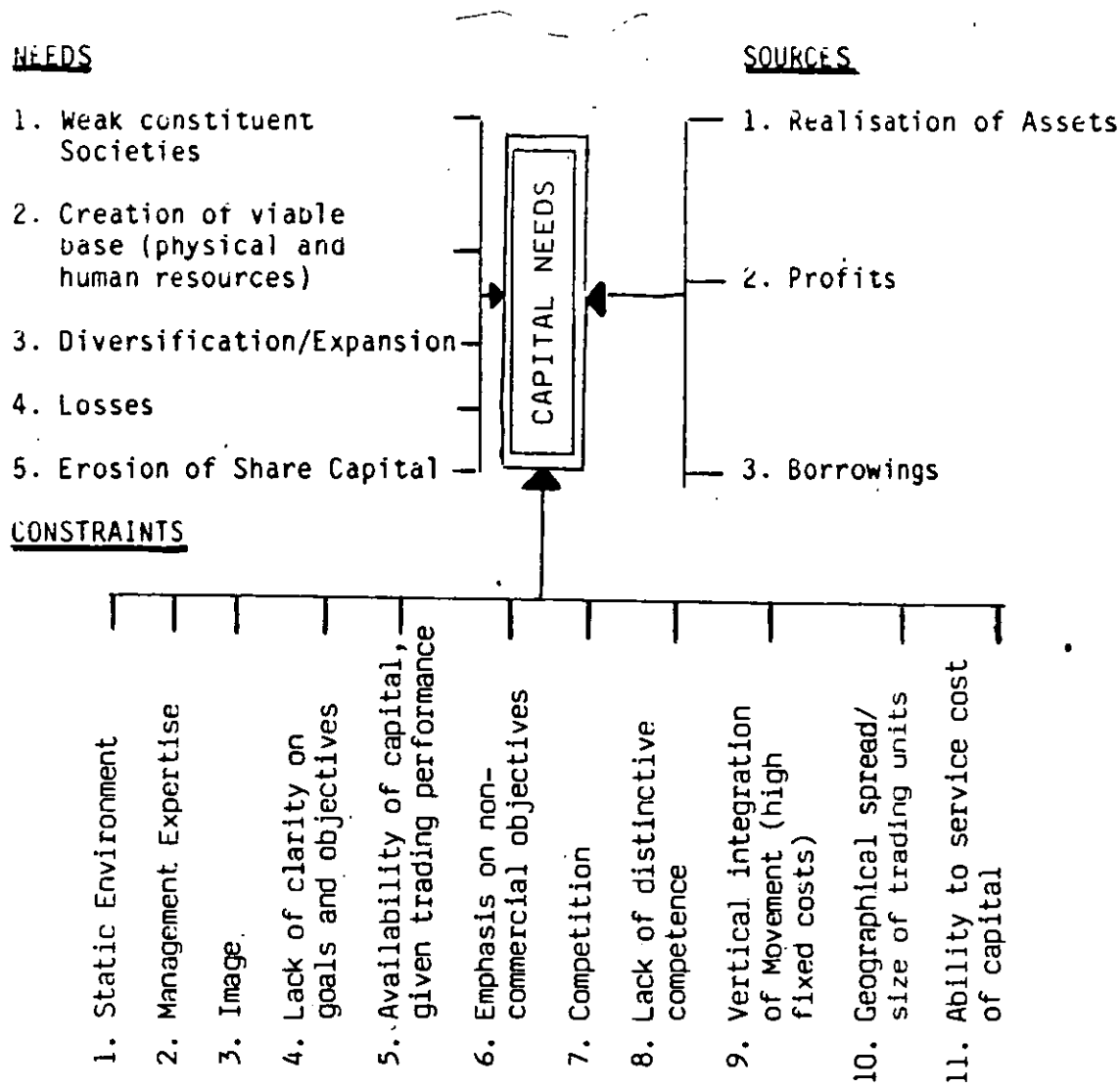
### (vii) Summary and Conclusions.

I believe the dilemma of the North Eastern Co-operative Society is the microcosm of the dilemma of the Co-operative Movement as a whole.

I have represented it diagrammatically in Figure 1.

**Fig. 1**

**The North Eastern Co-operative Society Ltd - the central problem in perspective.**



As with many of the mergers between Co-operative Retail Societies, the North Eastern Society was founded on weakness. Decay was predominant; decay in physical assets, crumbling buildings; decay in efficiency with massive overstaffing; decay in the principles of Co-operation, with internecine strife very apparent; decay in markets with the mobility of populations contingent upon the demise of the traditional industries in the North East; structural decay in the economy, temporarily masked by inflation, then by the Regional Development policies of government.

The new management was therefore faced with the task of welding a number of disparate and unsuccessful organisations into a viable trading force with sufficient virility to compete successfully with the Asdas, Fine Fares, Tescos and Sainsburys as well as the Hintons, Lowes' Stores and other regional organisations who could vie with the Co-op in commanding parochial loyalties.

The response was to attempt to rebuild a viable trading base in existing areas of activity, recognising that the existing mode of trading from small shops widely dispersed over a huge geographical territory could only slowly be changed without the risk of alienating the existing customer base.

The problem was - and is - one of capital; clearly there was a need to rationalise the number of outlets to relocate into better positions and to refurbish run-down shops. The problem was one of the market-place; who would buy shops in areas too poor even for the Co-op?

There was also a need to broaden the trading base into growth areas to counter reliance on a volume-static food trade and an unsuccessful non-food business.

Some success has been achieved in both aims; turnover has increased very substantially, the business is conducted in fewer shops with an improved structure. There has been considerable diversification into new areas (garages, pharmacies etc.) and a dramatic improvement in peripheral areas such as funerals.

All this has been at the expense of a large increase in gearing, with new money being obtained externally at very expensive rates. High interest charges coupled with a trading performance which

has been patchy in the dimension of areas covered and inconsistent in the dimension of time has resulted in an organisation which is highly geared, overstaffed, burdened with redundant assets, buffetted by competition and subject to social pressures which run contrary to its commercial interests.

This picture contrasts somewhat with the picture presented by the then Chief Executive Officer in 1976 when he was quoted as saying:-

"Five years ago co-operative retailing in the North East was conducted by 35 or so separate societies, fragmented - in total - unprofitable. Contrast that with today's situation we here in the North Eastern Co-op represent the biggest single retailer in our area and, together with our dairy, Associated Co-operative Creameries, have a total turnover of near £110 million per year."

Mr. Whitehead claimed the society had a major profitable share of the food market and were not only holding a major share of the durables market but were expanding the total market through discount trading in their Disco Stores in addition to a string of retail garages.

He said that in the four years to January 1975 "they had made £7.3m trading profit, distributed £3.2m in dividend stamps, increased unallocated reserves by £2.2m and spent £4m on new and refitted shops".

Less tangibly but equally important, during the past five years the Society had established credibility "with our suppliers, with finance institutions and with all originators of retail developments - who now accept the North Eastern Co-operative Society as an enterprise they want to see trading in their new ventures."

A number of deep-rooted "Co-op" prejudices are exemplified in Whitehead's statements, such as :

(a) Breakeven is the target; anything below is failure, anything above is success.

The figures show that in the six years from 1970-1975 inclusive, £3.057m were allocated to reserves, after paying tax of £2.077m, but included in the transfer were profits on sales of assets and extraordinary items of £2.410m. The average capital employed in the six years was £15.135m and transfers to reserves adjusted for surpluses on sales of assets and extraordinary items amounted to 4.27% of average capital employed in six years. Profit before taxation, share interest, sales of asset surpluses and extraordinary items average £612,000 per annum, which was 4.04% on average capital employed.

(b) There is general confusion concerning accounting principles which causes the write-back of over-depreciated assets to be construed as a source of income. This writeback usually occurs in respect of properties depreciated to zero in the balance sheet but sold at market rates. Much credit is taken for "expansion through investment" as a result of the recycling of proceeds of sale.

At the end of 1978, profit before taxation, interest and extraordinary items had gone down to £512,000 whilst capital employed has increased to £24.4m. Shareholders' equity (excluding deferred taxation) had fallen from 56% to 52% of total capitalisation.

In January 1979 a new Chief Executive Offier was appointed.

He was Mr Terry Norris, and his career had begun with J Sainsbury where he had run their first self-service store, in London. After that, he had spent time in Canada and the USA working for Atlantic and Pacific Supermarkets. On his return to the UK he held various appointments in the multiple grocery trade before becoming executive director of a Spar wholesale company in 1966. He jointed the CWS in 1968 and became involved in the Durham Society, which led to the formation of NECS. He joined NECS from Co-operative Retail Services Ltd., where he was Regional General Manager for Bristol and Bath.

It is within Mr Norris's tenure of office that the present study is set.

## B. CURRENT STRATEGIC RESPONSE

### (1) The Need for a Strategy

The preceding pages have illustrated what I hold to be the central problems of the Co-operative Movement, shared by the North Eastern Co-operative Society.

They are, inter alia:-

(a) A fragmented and non-focussed trading posture deriving from a lack of clarity on product/market positioning.

(b) A broad base of physical assets ranging from small shops to hypermarkets with wide disparity in quality of both structure and presentation.

(c) Vertical integration into warehousing, distribution and manufacturing resulting in a high level of fixed cost outside the control of individual societies and charged through to them in the cost of goods supplied.

(d) A corporate identity which is not well defined or projected, but which is pitched at the lower quartile of trading performance and prestige.

(e) Bureaucratic control which extends the duration and degrades the quality of the decision process and passes the commercial advantage to more flexible competitors.

(f) An in-bred management structure recruited from graduates of the Co-op College and within which progression was historically a function of length of service rather than ability. Mergers of societies have resulted in a surplus of nominally senior executives and therefore have further inhibited external recruitment.

These factors have inevitably led to confusion on corporate objectives, poor trading performance, lack of real growth, an inability to grow organically, a reliance on the lower socio-economic groupings to provide the customer base, an erosion of market share, an increasing reliance on outside sources of capital merely to preserve the existing asset base and, consequently, an increasingly unsupportable cost of capital.

Past responses to the evidence of decline have tended to be pitched at the operational level. Cost control has played a prominent role in mangement effort with the primary focus on overheads.

Purchasing and other decisions have been increasingly centralised in an effort to influence sales mix.

Computerised systems have been introduced in a somewhat unstructured way in an effort to reduce clerical staff and speed up the information process.

Branches have been closed as a response to the fall-off in trading performance; there has been a general trend towards larger stores.

The consequences of these operational responses have not always been beneficial.

In a situation of high fixed cost, for example, the reduction in the trading base - and therefore in volume of throughput can result in higher unit cost. The move to larger trading units may be beneficial if the quality of management is adequate.

Computerised information systems presuppose that management can define their information needs, that the output is understood and that the management structure and capabilities are such that effective executive action can follow.

Even staff savings can be counterproductive if they are managed in such a way that the best staff exploit their marketability and leave.

More importantly, the tactical approach does not provide a way forward for the future. It does not address the central questions of the market-place, of the organisation's position within the market of its strengths, weaknesses, opportunities and threats; it does not offer any insights into distinctive competences or point to the best growth opportunities into which to direct investment. Nor does it recognise that the planning of the capital structure of the business is itself both a major determinant of profitability and growth potential - and a long-term exercise.

The traditional Co-operative managers tend to regard issues of strategy with suspicion and then to discount them as mere speculation on matters which are non-controllable or too far in the future to permit an acceptable degree of certainty.

"Academic exercise" is a pejorative term used to justify the dismissal by "practical men" of impossibly theoretical concepts.

## (2) THE NORTH EASTERN CO-OPERATIVE SOCIETY RESPONSE

In order to gain an insight into the Society's response to the question of Strategy, interviews were separately conducted with its Chief Executive Officer and its newly-appointed Food Controller. The salient points from both interviews have been amalgamated into a corporate view as follows:-

### (a) Antecedents

The Co-op's present position must be viewed in the context of its past; spectacular growth was a feature of the early history and the image matched the actuality of a thrusting dynamic organisation at the forefront of social and market-place development. The parallel was with Sainsburys, but whereas the latter identified an image and consistently upgraded it to maintain pace with rising expectations the Co-op atrophyed and based its appeal on loyalty

to a memory rather than to a contemporary repository of excellence.

The acquisition of good sites is crucial to the development of trading, and in this regard the Co-op's combination of amateurism in the property market and bureaucracy in the decision process militated against it, allowing rivals to acquire prime sites and condemning the Co-op to trade in older downtown areas.

The resulting image has carried over to the extent that town managers and developers tend to favour the Co-op's competitors as partners in prime-site developments.

Self-image is also bad, and this is at the same time reflected in, and perpetuated by, the standard of personnel and management in Co-op retail outlets.

The lack of clear focus in the market-place is itself held to be a product of history; whereas Asda has had only 20 years' existence, and can therefore be specific in its target market, the Co-op has 150 years' existence and has in that time accumulated a wide spectrum of customers, catered for by widely differing types of outlet. Asda can gear its "product" (in its case a hypermarket) to meet specific requirements; the Co-op has to meet all requirements and is therefore a prisoner of its history.

It was suggested that there was a need to release the accumulated wealth of past generations to escape from a situation where current financial performance could not sustain existence.

**(b) Environment**

The perception of environment embodied a mixture of pessimism and complacency, and had an interesting impact on the way in which the model applied to the North Eastern Co-operative Society.

Clearly the Society is Regional and not national. The North East Region was seen as at best

economically static with economic activity generated by satellite subsidiaries of southern-based companies. Stability rested on the fragile relationship between labour, distribution and capital costs. It is possible to envisage a scenario in which increased costs of fuel and other elements of distribution would force a re-think on location and where the continuing viability of the North East would rest on political rather than economic considerations. A further decline in the wider economy, perhaps as a corollary of the exhaustion of North Sea Oil reserves would have a similar effect. These factors were recognised and yet the idea that changes in the socio-economic environment had a direct and major impact were discounted. On the one hand the idea that nothing had radically altered the mechanics of retailing since the advent of self-service was used to refute any concept of environment-led change; on the other there was a view that the Co-op in general was not under pressure from the environment because it had such a vast unexploited potential for expansion within its existing framework of trading.

This latter is the more interesting concept in that it somewhat alters the perception of forces within the model; they are assumed to be generated from outside and to be directed inwards, resulting in a change in the internal components of the model. The alternative perception would be that evolution of the internal components could occur through cognitive processes and that they could modify the shape of the environment - by moving into totally different markets, for instance.

Notwithstanding the regional nature of the business there were seen to be national constraints exercised by the environment; one of these was the trade union restrictions on staffing and salaries, governed by the National Association of Co-operative Officials (NACO), involving the Hay/MSL method of job grading. This was seen as a limiting factor in achieving competitiveness in the salaries market. Another environmental factor with national derivatives was the antipathy shown towards the Co-op by local authorities and developers, who ranked it well below its competitors in the allocation of new sites.

Yet another external disincentive was the taxation system, which actively assisted profitable

competitors to spend money on capital projects. Unprofitable Co-operative Societies were unable to offset capital expenditures against corporation tax and so the real cost was the gross value rather than the post-tax figure enjoyed by the competition.

The level of economic activity in the environment was doubly disadvantageous to the Co-op in that on the one hand it depressed performance in those shops catering for the deprived market sector, whilst on the other hand it depressed the property market so that non-viable shops were difficult to dipose of.

From an NECS viewpoint, the CWS itself is part of the environment; the inter-relationships between CWS and NECS impose a high level of fixed cost chargeable through in the cost of purchases. They impose a limit on the freedom of NECS to pursue independent policies, not only in terms of the various legal and trading restrictions but economically, in that a reduced level of activity would result in a higher unit cost and, therefore, increased pressures on margins or prices.

Finally, the financial environment itself is seen to be a constraint on the aspirations for greater efficiency via investment, in that the Co-operative Movement in general is experiencing a substantial increase in gearing at a time of unfavourable movements in interest rates. There is a general weakening of balance-sheets without any sign of an upturn in profitability, generally. It is possible to speculate that a shift in power will eventually result with the "democratic" control of shareholders giving way to control by the banks and financial instiutions, pre-eminent amongst which are the Co-operative Bank and the Co-operative Insurance Society (both subsidiaries of the Co-operative Wholesale Society).

Given the gloomy prognosis on the environment, one is led to question the rationale for the building of four superstores and two hypermarkets involving a capital outlay of some £25 million. This will be explored in the following sections.

(c) **Strategy/Structure/Process**

The over-riding impression in talking to the Society's two senior executives was that strategy tended to be implicit rather than explicit, capable of being deduced from statements of short-to-medium term tactics rather than laid down as a grand framework within which plans were formulated.

Short-term needs were readily identified. There was an ongoing programme of evaluation of shop results and planned closures of shops which were not found to be viable. The suggestion that such a programme violated the Co-op's superordinate goal of "social service" was refuted by both the respondents. On the one hand it was felt that social service could only be sustained on the basis of profitable growth, and that it was first necessary to earn profits before they could be distributed in a controlled way as a "social dividend". On the other hand the creation of secure jobs as a by-product of profitable growth was held to be of more long-term benefit to the community than the distribution of capital in the support of unviable trading units servicing marginal community needs.

In releasing the one specific objective of "longterm profitable growth" there were clearly identified short and longterm subsidiary objectives. In both, the role of committed and competent personnel was viewed as central.

Given a static market, expansion could only come from a broadened customer base and an increased market share. This would be achieved at the expense of existing operators of proven competence and with excellent track records.

Advertising represented a means of attracting customers on a short-term basis, as did promotional activity. This could be highly counterproductive, as the raising of expectations followed by disappointment would compromise the longterm future.

Therefore, the groundwork had to be done at shop level with better standards of merchandising, a wider range of goods, better quality stocks, more diversity, more attractive

layouts, higher standards of decor and cleanliness, more overt competence and friendliness on the part of staff and less of the "few minutes to closing" attitude.

The Food Controller, as a new appointee, had found standards and attitudes well below the minima for a successful operation. The communicating of policy by management appeared to be more a matter of negotiation than instruction, critical deadlines for new merchandising plans were viewed as advisory rather than as mandatory there was an absence of follow-up procedures to establish that policies were being adhered to and training programs were totally inadequate. The phrase used was that the staff at all levels were simply not "sharp" enough, were not achievement orientated and did not attend to details that distinguished successful traders from the rest.

Part of the problem was seen to be that personnel were promoted beyond their levels of competence, with succession determined by seniority rather than ability.

Reward structures were geared to the avoidance of error rather than the achievement of excellence and general salary levels were not competitive.

The remedy was well-directed investment, more selective appointment of key personnel, training programmes, closer management control by senior people at store level, more recognition of achievement via promotion and a better-directed reward system.

It would be impossible to tackle the problem across all the 250 food shops; rather, it was planned to start on the Pricefighter stores - of which there were between 25 and 30. These stores had the best management and staff, were probably more comparable with each other than Community or Saver Stores and would offer a source of peer-group influence both internally within the store category and externally for other categories of food store.

These tactical measures would be complemented by the strategic moves into superstores and hypermarkets, and it was in this area that the real forward thinking became apparent.

The new developments were seen as the means of introducing into the organisation a new type of professional retailer; it was openly admitted that such people would have to be bought in at salary levels competitive with those paid by other major multiples.

Detailed recruitment plans had been formulated involving specialists in the fields of butchery, fresh foods, etc., flexible general staff who would work on a full or part-time basis and be mobile between departments or even between stores and, most importantly, trainee managers who would be graduates or people with high-level experience in retailing. The latter category of recruit would be moved around the hypermarket to gain maximum experience of the total business; thereafter he would be placed for a time as manager of a small shop to gain "grass-roots" experience of dealing with the public in a relatively unsupported environment. Following successful completion of the field assignment he would be returned to the hypermarket as a section manager with the aim of advancing to a manager position in one of the hypermarkets or large superstores.

In this way a flow of quality personnel would be created and a formal career path established - the first step in a major structural and strategic development.

The source of turnover for the new generation of stores would initially be the other multiples in their areas of operation. In the case of the first of the hypermarkets at Longbenton the expected source of custom would be from the Savacentre at Preston Grange and Woolco at Killingworth. The hypermarket's location had been carefully chosen to avoid competing with existing Co-operative shops which, in the area concerned, tended to be town-centre units reliant upon pedestrian traffic from the lower income brackets who tended to shop daily.j Advertising would be pitched at three levels; in the first instance direct mail would be used in the immediate catchment area and this would emphasise quality and range of stock and the proximity of the store.

Concurrently, image advertising on Tyne Tees Television would reinforce the quality and range aspects.

The third avenue would be local press with intensive campaigns run area by area. This would be supplemented by market research within the store to assess the impact and effectiveness of the advertising, to identify the customers and to assess any gaps in the stock range or deficiencies in its quality.

The development of the new type of store would bring with it a change in the structure of the Society involving the creation of a Retail Division. It was acknowledged that the existing Divisional structure did tend to create barriers against a truly corporate identification - particularly at the level below that of Controller, where Divisional loyalties tended to obscure wider business opportunities. The Retail Division would consist of Grocery Shops and Specialist Non-Food shops at either extremity with Superstores (including Hypermarkets) in the middle.

The Divisional Controller, unencumbered by artificial boundaries would take a broad view of development opportunities and would be supported by specialist managers in training, store layout merchandising, marketing and business development. These specialists would occupy staff positions and would be called in as advisers by line management who would themselves be granted greater autonomy in the areas of profit planning, budgeting and the investigation of new trading opportunities.

The wide use of external information would continue as at present; additionally there was seen to be a need to compare stores with common competitors so that different pricing and merchandising policies could be adopted and comparisons made of performance criteria.

Within the concept of centralised planning and policies on stock lines carried, pricing, advertising, and corporate identity there was seen to be a clear need to respond to local markets and therefore the ability to access information and respond quickly to it was an important requirement. The ability to react to the market rather than to the competition was viewed as an important advance.

## (d) Management Style

My assessment from the interviews was that management style - hitherto dictated entirely by the Chief Executive Officer - would necessarily change as a professional team was gradually built up. This has already started to happen in the area of Finance, where the appointment of a new Financial Controller some two years ago has resulted in substantial benefits being derived from the devolution of autonomy to the finance area. Major changes in the capital structure of the Society are in process involving a substantial reduction in the cost of capital; on the other hand the use of capital has been greatly improved to the extent that release of capital from stocks and increased financing by creditors has virtually covered the cost of the Longbenton hypermarket. This has been brought about to a large extent by the better use of enhanced management information, and the education of trading management in the impact on profitability of more economical use of funds.

The style of top management is therefore becoming more participative.

It must necessarily become more planning oriented, although there is still a perception that planning inhibits freedom to capitalise on windfall opportunities.

The Chief Executive Officer was keen to quote examples of business opportunities siezed in the face of the current recession, including:

(a) Granting of concessions in Non-Food stores, yielding £400,000 annual income.

(b) The use of CWS money for speculation in commodities, yielding £300,000 income in 1983.

(c) The institution of "Party Nights" in restaurants to replace the "Works Outing" income lost through the recession.

(d) The build-up of substantial fleet business in Garage Group by exploiting Supplier

contacts.

(e) The establishment of highly profitable specialist electrical shops arising from the closure of a non-viable department store in Sunderland.

The fact is that a planning orientation would incorporate a systematic review of business opportunities and, by proper evaluation, reduce downside risk whilst not in any way circumscribing freedom of action.

## (3) CONCLUSION

In evaluating the Society's strategic response to their present circumstances it is apparent that there is a considerable risk element in planning a major expansion in a static and potentially declining market.

My own evaluation of the Longbenton feasibility study implied that the risk was not subject to a very great depth of analysis.

What is clear - although it was never stated - is that the new development does not imply simply an expansion of trade by a combination of newly generated non-food business and an increased market share in food; it implies a transfer of business from existing Co-op stores. The implication of this is a major change in the shape of the Society with a far greater proportion of its trade coming from large units. The presumption is that economies of scale coupled with a far more professional management will greatly enhance profitability; indeed the budgets for 1984 indicate that after writing off £578,000 set-up costs for the hypermarket there will be a transfer to reserves of £2.6 million. This compares with a trading profit of £800,000 and a transfer to reserves of £1 million in 1983.

The gamble is that the changes will be accomplished without net loss of business - that sufficient of the traditional Co-op market will be retained to result in a net inflow of new business. A static market has been assumed in the feasibility studies, therefore the presumption is that somehow

a level of distinctive competence can be demonstrated sufficient to entice away the adherents of Sainsburys, Fine Fare, Woolco, Asda, Hintons and Lowes Stores in great enough numbers to generate the level of turnover necessary for six major retail stores.

I cannot comment on the realism of that assumption. The instinctive doubts attaching to such a proposition could equally be applied to Asda whose plans include an average of six new hypermarkets each year and who have grown tenfold in the last ten years (including a period of unparalleled recession) or to Sainsburys, Tesco, Fine Fare et al. The winning of market share must have limits, by definition; hitherto the multiples have expanded at the expense of the Symbol groups, the independents and the Co-op. We have, in the North East, a proposition that the Co-op is now ready to reverse the trend.

## PART 2

## EXPLANATION IN TERMS OF THE MODEL

### (1) ENVIRONMENT

It has been suggested earlier in this thesis that business strategy is the way in which the organisation achieves the best possible fit with its environment and maximises the efficiency of the interchange between itself and its environment.

Much is made in the literature of the importance of identifying the corporate environment and of identifying influentical changes within it. Hofer and Schendel describe the identification of the broader environment and the assessment of the impact of changes within it as outside-in forecasting and contrast this approach with the alternative method of identifying the specific environments that have - or can be expected to have - an impact on the business and the forecasting of changes in these narrower areas.

The purpose of environmental analysis is to identify the ways in which changes in the economic, demographic, technological, social/cultural and political/legal environments can influence either the opportunities and threats posed for the business by changes in its market, industry, supplier and competitor environments or the key resources and skills upon which it could build an effective competitive strategy to meet these opportunities and threats.

At the business level, inside-out environmental forecasting techniques are clearly more relevant whereas at the Corporate planning level, where the determination of the arenas of competition is carried out, outside-in forecasting is an appropriate method.

Thompson's analysis of organisation/environment interaction starts from the propostion that organisations stake out domains, that is that they determine to offer certain products or services to certain customers or clients. This is simply the product/market strategy. The choice of domain is a means of focussing strategy onto a specific group of suppliers, users, competitors and regulatory agencies. The concensus on domain is the environmental counterpart of the business policy concept

of product-market distinctive competence, except that the latter is determined from the viewpoint of the focal organisation whereas the former is defined from the point of view of the environmental groups.

Thompson recognises that domain-concensus must be maintained continually in the context of changing technology, population and competition.

Cyert and March (1963) contend that business firms negotiate their competitive environments by industry standards and their common practices through trade associations and other means. To the extent that competitor reactions can thereby be anticipated, market uncertainties are reduced.

The underlying assumptions common to all these theorists is that the environment exerts a pressure on the organisation which provokes a strategic response and, following Chandler's hypothesis, a concomitant structural modification.

The North Eastern Co-operative Society bears out many of these propositions in its historical development and in its present-day reaction to the changes forced upon the Region through the recession.

Historically, structural economic changes have resulted in social regrouping and forced the Co-operative Societies to relocate into the urban connurbations which evolved from the closure of the mines and the breakup of the pit communities. In recent times economic and legal pressures have forced an amalgamation of area societies into a Regional grouping, involving the coming together in 1971 of 31 individual businesses. Pressures for economies of scale have, in the last five years, caused an acceleration of the closures of small community stores and a move to develop Pricefighters and Superstores.

At the same time, advances in technology have been exploited to reduce costs in an effort to bring down the cut-off point beyond which a trading unit ceases to be viable.

Notwithstanding this evidence of environmental influence, senior management refute the idea that minor changes in the socio-economic climate do influence the business. They point instead to the large unexploited potential for expanding volume and profitability within the organisation as it presently exists, claiming that operational improvements would generate a quantum leap in market share. The resultant volume increases, applied to a cost base which is largely fixed, would automatically generate income and cash flow.

The suggestion is, therefore, that internal changes should come about as a result of cognitive processes rather than environmental pressure.

It is difficult to accept that the competitors for market-share in what is largely a zero-sum game would be particularly sanguine if they observed a change in the Co-op's domain, and it is therefore suggested that the model is an accurate reflection of the relationship between the environment and the organisation.

It may also be argued that a closer scrutiny of the environment could have raised questions concerning the product-market positioning of the organisation and led to speculation about the role of the different types of store against a background of changing expectations. The point was made concerning Sainsburys that they had identified a particular market niche and had then maintained an empathy with the market, synchronising their own development with market expectation.

The Co-op, on the other hand, had reached a product-market positioning based on a historical match between distinctive competence and market expectation but had then atrophyed and by remaining static relative to a changing environment had lost its appeal, leaving itself in the position of reliance on a progressively ageing customer base.

**(2) ANTECEDENTS**

In the interviews, the Co-op's 150 year history was contrasted against Asda's 20 year span. The distinction was made in the context of the customer base and the relative breadth of focus in the market-place. The distinction runs far deeper, however, for the Co-op's heritage and culture places

an emphasis on political and social considerations which in other organisations are incidental to the commercial imperatives.

This raises real problems in the contemporary commercial environment because the 19th century empathy between the goals of the organisation and the needs of its potential customer base no longer exists, whilst the negative aspects of democracy in the functions of planning and control continue to militate against success in situations where the advantage lies in clear definition of purpose and swift reactions to change.

There is an inevitable dichotomy in the relationship between professional managers and the bureaucratic control to which they are subjected in the definition of corporate objectives.

One manifestation of the problem arises in the quality and age profiles of Co-op management, highlighted by Dr Robert Houlton in an article in Co-operative News of 11th January, 1984 as follows:-

"..... the 'population' from which we can draw our future decision-makers is about 10,000 (out of 100,000 employees).

"If these were placed on an age-distribution histogram it would look like an hour-glass on its side - there would be a concentration of men between the ages of 16 and 26 and another concentration between 56 and 65. The older age group comprising probably 4,000 men are the survivors of the "golden age" of Co-operative distribution.

"Some of the older generation have experience but lack motivation; others would not show a return on educational investment.

"At the other end of the age scale there are the young men with inadequate experience and qualifications who require considerable investment and who are likely subsequently to take their talents to more remunerative pastures. Therefore, when the residual 10,000 is subject to further

fractioning it is clear that we are dealing with very small numbers indeed. Our key available managerial manpower resources base is very, very small - probably no more than 3-4,000."

Even this gloomy prognostication needs to be qualified.

In the first place the managers described are shared between more than 120 organisations in multiple businesses and are not concentrated in a co-ordinated corporate thrust as would be the case with a Sainsbury or a Marks & Spencer. Their talents are fragmented and spread very thinly over a range of separate companies whose diversity in competence and performance is as great as in their geographical location.

Secondly - and in the writer's view more importantly, the definitions of quality within and outside of the Co-operative Movement are based on different scales.

Dr Houlton is Chief Education Officer of the Co-operative Union Ltd., an organisation which runs the Co-operative College and Stamford Hall, Loughborough. This college now caters primarily for students from overseas Co-operative organisations, but used to award an internally recognised qualification in general administration and book-keeping called the Co-operative Secretarial Diploma (C.S.D.). Many senior managers in Retail Societies proudly suffix their names with the letters C.S.D., and it was until recently a passport to managerial positions within the Movement. It has no independent standing whatsoever and appears to be pitched at a level well below the Accounting Technicians' qualification, which currently provides an entry to the Accounting bodies of those aspiring students without the necessary 'O' and 'A' level qualifications.

A further insight into the educational standards extant within the Retail Movement was afforded by a front page article, under a banner headline in the Co-operative News of July 11th, 1984 proclaiming that Co-operative Retail Services (the largest of the Retail Societies with turnover of £923 million and assets of £233 million) was intending to undertake a graduate recruitment programme with an intake of up to ten graduates in the first year.

The Co-operative Wholesale Society, with turnover* of £2.1 billion and assets of £298 million recruits between 15 and 20 graduates per annum on an unco-ordinated programme.

Sainsburys, with a turnover* of £2.5 billion and assets of £412 million recruits 120-150 graduates per annum.

As with the pattern of trading, the recruitment and educational policies of the Co-operative Movement, whilst probably at the forefront of enlightened social change in the early part of the 20th Century have tended to atrophy, and instead of being a heritage which provides a springboard for the future they are a tether to the past.

Such then are the antecedents of the present Co-operative Movement in which the North Eastern Co-operative Society shares. The recognition of the need for change is prevalent throughout the Movement but many would echo the sentiments of the leader writer in the Financial Guardian of June 1, 1983:-

"This is a trend in retailing which the whole Co-op movement has failed to grasp. Like Woolworth it is stuck at the wrong end of the trade and like Woolworth prior to its takeover, it has neither the money nor the talent to pull itself up.

"But unlike Woolworth there is no buyer in the wings.

"..... You can make an argument that the whole concept of Co-operative retailing is an outdated nineteenth century one and will die along with the fading of the non-conformist zeal which helped establish it." There is little comfort from the fact that the leader writer sees the exceptions to this pessimistic prognosis as being the Co-operative Bank and the Building Societies.

Gladys Bunn is Vice-Chairman of the Co-operative Union, Chairman of the Education Executive and President of the 1984 Congress; quoted in the July 11th edition of Co-operative News she said that "The Co-operative Movement is now paying the price of chronic underinvestment for over

30 years.

"Some societies with inadequate professional management had completely failed because their directors were unable to comprehend their commercial responsibilities or carry out their legal obligations.

"In any democratic setup it was important to know what they were doing but within the Co-operative Movement, now a multimillion pound organisation where they prided themselves that it was the democratic structure which differentiated themselves from their competitors - democracy without some test of competence was a nonsense in today's complex society - and they were highly vulnerable without it.

"'What I was trying to say in my Congress Presidential address' said Mrs Bunn 'was that whatever our role - be it directors or managers - the quality of our collective stewardship in the recent past has been deplorable. Now the rot has got to stop - at once - for there is no more time."

"..... 'Productivity was so much lower than competitors. Sales per square foot did not match up. Even in Co-op Superstores the rate per square foot was only half that of other operators and this performance influenced their decisions about development.'"

The North Eastern Co-operative Society shares the antecedents and problems of the movement, but as will be seen, is pre-eminent amongst those Co-operative Societies who are attempting to prove the Guardian leader-writer wrong in his view of the future.

(3) MANAGEMENT STYLE

The theoretical speculation about and classification of management style implies an internal stability in the quality of and relationships between, managers.

In the North Eastern Co-operative Society the composition of the mangement team is being subjected to accelerated evolutionary - and indeed sometimes revolutionary - change.

The initiator of this process is the Chief Executive Officer, and he is very clearly dominant in the decision processes of the Society and the author of its current management style.

His background in retailing may at first sight signal an orthodoxy of style - Sainsburys, Atlantic and Pacific (USA), Spar, CWS, Station Town, Seaham and Horden Societies and CRS.

Closer study reveals that his career has always been in the vanguard of inovation and change; at Sainsburys he managed the first self-service store and sees the change to self-service as the most fundamental departure ever from traditional method and organisation structure. In America he witnessed the shape of things to come and compares the state of retailing in the US 30 years ago with the best of present UK practice.

In the CWS he was involved in the appraisal of new sites, and therefore closely in touch with the trends in the market-place - as he had been at Spar.

The Regional General Manager's position with CRS offered a degree of autonomy rare within such a bureaucratic organisation, and in moving into NECS he inherited an organisation in a formative phase, having by no means settled down after the trauma of its renaissance from 31 constituent societies - a process in which he was closely involved, having been part of the Durham Survey.

The term "mercurial" applied by one subordinate epitomises a tendency to become intensely involved at a detailed level in a succession of different areas of activity or concern. He usually takes work home at weekends, in the evenings and even on rare holidays, returning to the office with detailed plans formulated after solitary consideration and often without any interactive involvement by subordinates.

The derivation of a management style from studying such behaviour would require careful contextual evaluation.

The Society has hitherto been run by a largely inherited management team many of whom had

presided over the failures of NECS's constituent societies, and who carried with them the portent of failure in their new roles. The CEO's concern with detail could, therefore, be held to stem from a soundly-based concern for the competence of his management team, and the sheer volume of work generated thereby could be a factor in the communication gap perceived by his subordinates.

I have therefore been very circumspect in drawing conclusions on 'management style' and have sought to compare and contrast the attitudes displayed towards long-serving managers with those affirmed or implied during my interview with the CEO and also with those manifested in dealings with the newer, professional managers recently appointed.

There has hitherto, within the Society, been no formal longterm planning. A wealth of detail about the status of the market-place is gleaned from various research organisations, by regular conversations with manufacturers' representatives and by personal contacts. However, much of this is competitor-oriented rather than market-oriented, and may therefore be held to be indicative of a short-term reactive outlook rather than a longterm pro-active, market leader posture. The CEO said that "all the elements of retailing can be observed on a greengrocer's barrow"; this, together with the comments that "little has changed fundamentally in the last 30 years" point to a reliance on experience and "learning by hard knocks" in the makeup of a successful NECS manager.

There has thus far been no <u>systematic</u> search for growth opportunities. A number of developments were outlined in the interview but these were quite openly admitted to have arisen from recessional pressures - indeed they were to be presented to the Northern Co-operative Secretaries meeting in a paper dealing with the positive aspects of recession in forcing the search for new sources of income.

These factors are prima facie an indication of a HIGH SATISFYING/LOW OPTIMISATION ORIENTATION in Khandwalla's classification.

The change in the trading base of NECS has been slow; there are still many small units whose continuing existence is contingent on the vicissitudes of both macro and micro-economic environ-

ments.

To this extent it can be held that the history of innovation and change points to a CAUTIOUS/ CONSERVATIVE management style, based on the marketing of available products and with a pragmatic approach to decision-making. Historically investments were financed from equity capital and retained earnings, and the change towards higher gearing is seen largely as a consequence of over-distribution of inadequate earnings by past administrations.

The hypermarket/superstore development may point to an evolutionary change, with the CEO's proclivity for a more entrepreneurial approach being realisable by the ingress of new-style management.

An alternative view - and one heard within the Society - is that the hypermarket was an opportunistic development with long-term implications, rather than part of a long-term growth strategy.

The facts are somewhat ambiguous; whilst preliminary analysis of performance projections suggest a relatively low return on capital employed there has been a change - at least in initial intentions - to seek external finance for the project and thus break with the tradition of relying on the Co-operative Movement (Co-op Bank and CIS) as the providers of funds.

It would also be true to say that the scale of the total new developments (2 hypermarkets and 4 superstores) represents a reasonably high risk.

There is an apparent trend towards greater participation in decision-making within the top management echelon. This has been slow to extend downwards, and the perception of store management places them firmly outside the decision process. This, according to the Chief Executive Officer is likely to change when the larger stores come on-stream. Then the store managers will be charged with budgeting and budgetary control, with the identification of new business opportunities, and with the effective utilisation of central experts in areas such as merchandising.

Nevertheless the change is seen as one of degree rather than of principle; central control of pricing, stock lines, marketing and advertising will be retained, and the present formal channels of information dissemination will continue. The style will continue to be moderately COERCIVE with a gradual movement towards a more PARTICIPATIVE orientation down the organisation as levels of competence at operational level are improved.

(4) **STRATEGY**

The earlier theoretical analysis (Chapter 2) stressed the centrality of GOALS and OBJECTIVES in the consideration of Strategy.

The writer's contention is that the Co-operative Movement's antecedents form a major impediment to achieving clarity in the formulation of goals and to distinguishing goals from objectives.

A recent statement by the largest retail society - CRS - exemplifies the problem.

A headline in the Co-operative News of August 1, 1984 proclaims that "CRS plans annual audit of its community goals".

"CRS plan to introduce a set of clearly defined social *goals*, together with an annual audit so that members can see what progress is being made towards the *objectives*" (writer's italics).

These goals include, inter alia:-

- "to offer high quality goods and services to customers at the lowest possible prices by the efficient management of the Society's human, financial and material resources" (N.B Loss, y/e January 1984 - £12.7 million).

- "to extend the Co-operative sector of the economy ..... and encourage understanding of co-operative forms of organisation.

- "..... to provide a fair return, with maximum security, on members' investment."

- ".... to encourage consumer awareness."

- "to encourge members' involvement in the democratic control of the Society."

- "to encourage employees to play a full role in the democratic structure of CRS *and in society generally*" (writer's italics)

- "to maintain the *best possible* working conditions and an *exemplary working climate.*"

- "to extend the influence of the Co-operative Movement in public affairs and society generally."

- "to meet, within the limitations of the resources available, social and community needs which cannot be met by other agencies."

- "to work towards the maintenance of peace and improvement in international understanding."

The above is not a full list of the objectives but they are taken in order and one may venture the opinion that they reach a crescendo of pretentiousness as they become progressively distanced from the normal spinoffs associated with the interaction between a commercial organisation and its social environment.

The author of the "Social Charter" hopes that eventually the CRS example will be adopted by the Movement as a whole."

The extract has been included at this juncture to give some insight into the direction of peer-group

pressures on individual societies in the formulation of their own objectives, and to illustrate some of the confusions extant in the movement in separating goals from objectives - not to mention the difficulties experienced in defining meaningful objectives.

The Hofer and Schendel model of strategy formulation referred to in Chapter 2 places the identification of issues as a process subordinate to that of goal formulation.

The traditional Corporate Planning model as postulated, inter alia, by Hussey (Corporate Planning, Theory and Practice. Pergamon 1974) derives primary objectives from the expectations of the stakeholders in the organisation. We have to be wary of terminology in this context with Hussey referring to primary objectives as map references (p.109), allowing the formulation of alternative strategies or "routes" to lead to a predetermined destination. "Goals" in this terminology become "landmarks" and "milestones" against which to check progress (p.111). These semantic differences are not important - the conceptual process leads from a concensus of expectation to the formulation of broadly stated aims from which more specific actions progressively derive.

Identification of strengths, weaknesses, opportunities and threats, the prioritisation of strategic resource allocation, the optimisation of structure and process and the design of the management information system are all referenced back to central ideas on product/market positioning.

The Co-op's inability to identify its market (the reason given being its logevity and consequent universality of appeal) is here held to be a major weakness. It appears to shift the corporate focus from "ends" to "means".

Thus, the broad base of small shops is an inherited condition and the focus is on the performance of small shops rather than on the product/market rationale for their existence. As profit potential and alternative-use possibilities reduce, so the shops are disposed of; the strategy is reactive rather than proactive with performance feedback providing the trigger for action and forced sale the end product.

Superstores and, latterly, hypermarkets are seen more as an emulation of competitors than as an attempt to establish a distinctive competence. This hypothesis is supported by the existence of the "Saver" store which, having neither the local appeal of a community store nor the product-range of a "Pricefigher" seems to be an administrative, rather than a trading unit.

In terms of model, therefore, the status quo presents a number of serious problems.

The lack of goals and objectives means that the setting of standards and performance objectives is impossible at other than at a highly suboptimal level. This has been commented upon by the new Food Controller, and was exemplified in his telling observation that "the Co-op is its own competitor."

The identification of major strategic issues is obfuscated by the plethora of collateral topics arising from the very diffuseness of the organisation.

Problems of individual store profitability, staff training, the level of decision-making autonomy to be awarded at the various levels within shops all tend to obscure the central issue of identifying the market-place. The Food Controller has started to come to grips with the first stage of resolving the operational problems by restricting his area of initial impact to a single type of store - the Pricefighter. Here the questions of market segmentation, store location, customer service policy and store image can be addressed in a manageable area of the business and decisions on the depth and breadth of products, pricing policies, promotions, staff training etc., can be taken with some confidence that policy can be implemented and controlled, that standards can be enforced and sustained and that the sector of the business is sufficiently large and visible for overt improvements to have some impact on corporate image.

Confusion about the market-place has led to lack of direction in the allocation of strategic resource. This is broader than the Food Division, and considerable sums of capital have been applied to sectors of apparently high profit which have subsequently been shown to be loss-makers after interest on capital has been taken into account.

Within a Divisionalised structure, one function of Corporate objectives is to integrate the diverse operating and administrative activities and to achieve goal congruence - even at the expense of Divisional priorities. This greater level of corporate awareness has, ironically, been achieved very recently largely because of the demonstration by the Financial Controller that business areas previously held to be beyoned reproach were in fact net users of cash and,, after interest charges, unprofitable. The benefit gained from the exercise has been far more than a reduction in working capital.

Finally, it is worthy of note that in an organisation employing over 5,000 people, with a turnover of £200 million, all the recent high-level appointments (including those of Financial Controller, Food Controller, Retail Operations Manager, Development Manager and Hypermarket Manager) have been made from outside - a clear demonstration of the failure of past strategic policy to establish internal succession for senior managerial posts. This evidence must also call into question the depth of support for existing senior managers and, therefore, the quality of input to the decision-making and control processes at middle manager level. Such doubts have been vindicated by the adverse comments from the Food Controller who expressed surprise at the discursive nature of policy communications between managers and subordinates, the absence of post-event audit and the failure to absorb experiences into the corporate learning-curve. Perhaps the problem is exemplified by the subsequent appointment of the departed Food Controller as an auditor with Co-operative Retail Services Ltd.

**(5) STRUCTURE**

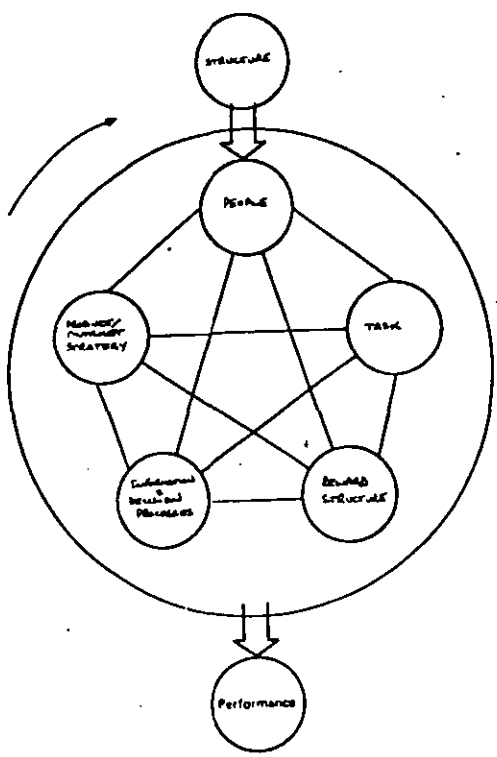
If the Co-operative Movement can be held to be a prisoner of its history, then one of the most powerful constraining mechanisms must surely be the structure of Societies. The legacy of small shops in unfashionable areas, the economic ceiling on salaries thereby imposed and the consequent quality of personnel serving as trading managers represented at the same time a constrain on development, a determinant of management style and a barrier to the lifting of corporate image following the amalgamation of the 31 Societies to form the North Eastern Co-operative Society.

Arguably, the retailing task itself has been defined in NECS by the type of outlet with a very high level of programmability, a highly centralised form of control and little if any discretion afforded to the branch manager.

Galbraith and Nathansons schematic showing the fit amongst major organisation design variables is then effectively rotated to give (fig. 1):-

The migration into larger stores did not result in a materially better quality of personnel applied to their management. The argument advanced by senior management was that tight centralised control continued to be necessary because personnel could not be entrusted with tasks requiring judgemental skills. Much less could they be invested with any entrepreneurial characteristics. This value-judgement may explain why - until very recently - the Society did not develop any very large stores (the two Superstores are in reality large Pricefighters). Thus if the schematic is "rotated" through the next arc, "people" emerge out of the top as the dominant factor and "structure", along with "task" and "product/market strategy" become dependent variables.

**Figure 1. Schematic Showing Fit Amongst Major Organisation Design Variables: Source: Galbraith & Nathanson, amended for NECS**



The key - and I believe this is very important in explaining current developments - is "people". If the people become "right" then they diminish from a controlling to a dependent variable, the schematic is rotated back to the "rest" position of Galbraith and Nathanson through the position in which structure is the controlling variable. This mid-position has, I believe, just been achieved within the Society.

During the course of the interviews with the Chief Executive Officer and the Food Controller, stress was continually laid on the people within the organisation; they were store-minders, not entrepreneurs; they had by default been accorded discretion in the past but had not capitalised on it; staff were not "sharp" enough. All these were expressions of a deep and shared conviction that given the constraints of the current human resources a centralised structure, with high programmability and simplicity of task at the peripherae and close control and monitoring at the fulcrum represented the only viable method of trading.

It was readily acknowledged that the Divisionalised structure tended to build organisational barriers and that the Area structure - based on geographical rather than functional parameters - was a concession to the size and sophistication of the Society.

Nevertheless a vision was put forward of the future in which the synergy inherent in interdivisional "joint ventures" (notably in advertising) was recognised and in which a better calibre of managerial recruit would facilitate greater autonomy and responsiblity.

The interviews with the CEO and the Food Controller took place in March 1984.

In the August 17 issue of "SuperMarketing" the back-page headline read "NE Co-op merges food and non-food". The ensuing text explained:-

"The North Eastern Co-operative Society has announced one of the most important management changes since its formation in 1970.

"The Society's food division, consisting of 200 supermakets and superstores between Berwick and Scarborough, and the non-food division, with 35 department and specialist stores, have been integrated to form a new Retail Division.

"..... the new division has combined annual sales of more than £154 million and employs almost 4,000 people.

"'The way the North Eastern Co-op is developing - building hypermarkets and superstores - means that the dividing line between food and non-food retailing is becoming progressively greyer' said the Retail Division Controller.

"'By pulling the two groups together it means that we can develop not only new stores but our existing specific communities - not just their needs in food or non-food, but a mixture of both'.

"Mr Wood explained that all existing large supermarkets and superstores were to be reviewed with this objective in mind.

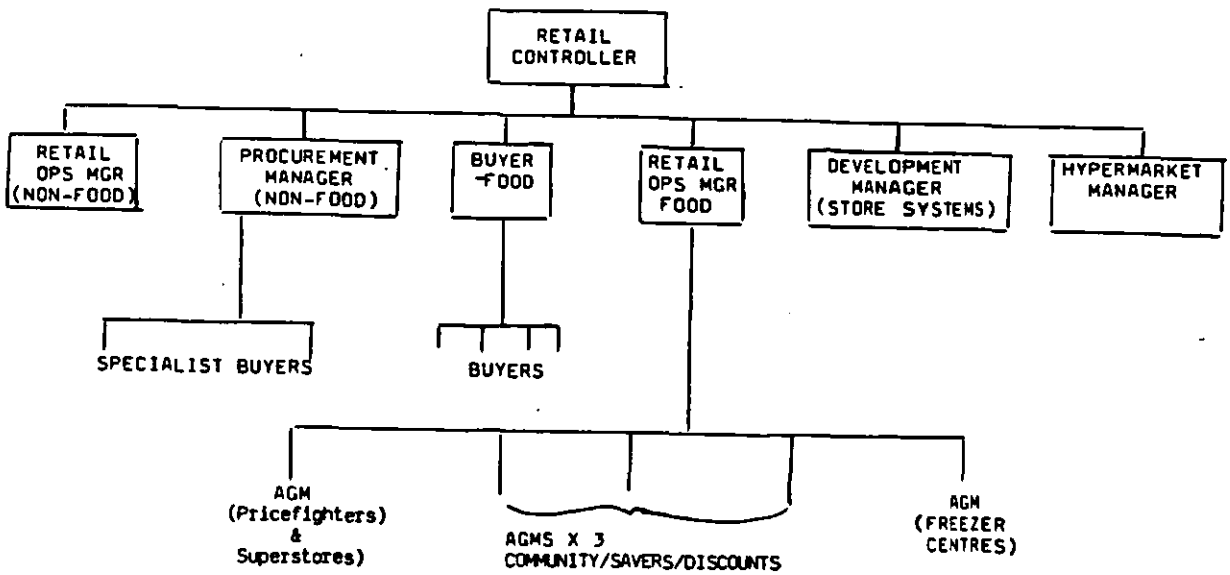
".....All the new style stores will aim to reflect the same standard set by the Co-op's new £6 million hypermarket scheduled to open at Longbenton on North Tyneside this autumn. The 100,000 square foot hypermarket has been heralded as one of England's most technologically advanced retail site with full laser scanning at the 30 checkouts and its own in-house computer."

This announcement is the culmination of many months of painstaking reorganisation within the Society supported by a highly significant recruitment programme in which, using the Longbenton hypermarket as the magnet, a number of senior management positions have been filled with imports from Sainsburys, Tesco, Argyll Foods and other market leaders.

This influx of new blood has generated a climate within which organisational change has been possible without the negative influence of traditional Co-op managers.

The new structure is as follows:-

Fig.2 NECS Ltd - AMENDED ORGANISATION STRUCTURE - RETAIL DIVISION




There is now a situation where the key managers in Food and Non-Food report directly into the Retail Controller, and the Hypermarket Manager is clearly viewed as a very senior appointment.

The importance of store systems is reflected in the direct reporting of the Development Manager.

Under the Retail Operations Manager the Area General Manager structure has been reduced in the number of appointees and streamlined from a functional viewpoint so that specialisms rather than geographical spread has dictated the allocation of units. Superstores and Pricefighters have been grouped under a single AGM, Freezer Centres under a second manager whilst the remaining trading units, consisting of Community Stores, Discounts and Savers have been grouped under 3 managers - a concession to the number of units and their geographical spread.

Within Food, three of the four direct reports to the Retail Controller are new appointees from outside the Society.

The buying structure for food is not arranged on a matrix structure because the ordering mechanism operates at store level. Buying consists of administering the orders and negotiating contract prices. The majority of the orders are drawn on the CWS Retail Distribution Centre at Birtley, and the pricing of directs is largely dictated by CWS agreements with external suppliers. Thus the specialist role is diminished and area knowledge becomes of relatively greater importance. In the case of Non-Food the position is somewhat different and specialist buyers are retained, with a matrix organisation.

In examining the structural evolution (which has happened very quickly) it is possible to apply Chandler's hypothesis that structure follows the growth strategy of the business.

The growth is clearly coming from a change in trading emphasis away from community and saver stores and into hypermarkets and superstores. This, in Bill Wood's words, has forced the integration of food and non-food. Therefore, a change in structure at Controller level has occurred.

Larger stores demand a better quality of management because the retailing task is less programmable and judgemental factors have a bigger role to play. The career pattern has more depth, therefore a need for top-end expansion arises. This has been catered for by placing the Hypermarket manager as a direct report to the Controller.

Given the greater complexity in the management function, there is a greater need for management information. This new emphasis has been reflected in the appointment of a development manager - again as a direct report to the Controller. The systems over which this senior manager has jurisdiction are not financial ones - rather they are operationally based, with financial information as a spin off. This clearly reflects a trend towards operational control, with short feedback loops, very reminiscent of the Marks and Spencer style of operation.

The growth strategy has also brought about a growth in span of control for the Retail Controller;

whereas the Area General Managers in the previous regime used to be direct reports, they now answer to retail controllers, in Food and Non-Food. This change in vertical structure complements the shift towards functionalism in the horizontal structure, giving a more manageable span of control at the top level and according greater weight to the importance of area balance by intervening a dedicated senior manager into the operational role.

There is also a suggestion - drawn from Bill Wood's comments in SuperMarketing - that the new structure could facilitate a change in the product/market stance, with the emphasis in catering for community needs at the Pricefighter and Community store level, whilst adopting a "supra-market" posture in the hypermarket.

It is possible to hypothesise that the new structure represents a blueprint for the next decade, and that within it there will be an inexorable shift in balance away from the stores of lowest economic return and towards those with the highest.

The interesting area of speculation - in the writer's view - concerns the direction of the change. Will it be a polarisation of small and large stores with the middle ground conceded, or will it involve a process of gravitation towards larger units reaping economies of scale in the exploitation of new technology and (for the Co-op) new markets?

Whatever the out-turn, it appears currently that a close correlation exists between the Model and the actuality of change, with the important caveat that the influenes exerted by the model's elements are neither uni-dimensional nor uni-directional. There is clearly a feedback from structure into strategy; the effect on management is arguably causative, but it could equally be held that the changes in personnel have merely allowed latent stylistic proclivities to surface. But - note that STRATEGY is still implicit rather than explicit.

## 6. PROCESS

Galbraith and Nathanson, quoted in Chapter 2 (2.7) look at PROCESS in terms of the direction and frequency of work and information flows linking the differentiated roles within and between departments of the complex organisation.

In terms of the biological analogy, if structure is a representation of the positional relationships between the organs in the body then process is concerned with their action and interaction in their life-sustaining roles.

The suggestion is that greater environmental pressure results in the need for increased co-ordination and control; in the organisation this is achieved through the use of formalised systems and procedures for measuring and reporting performance and greater delegation of decision-making authority within those systems and procedures.

Process therefore was held in Chapter 2 to be concerned, inter alia, with resource conversion.

The increase in co-ordination and control can be triggered by an external stimulus and is then a reaction to an environmental pressure. In terms of the co-operative's self-perception a more fitting explanation would be to regard it as a cognitive reaction to poor performance. There is a subtle difference between a collapse caused by external pressure and the same effect brought about by an internal vacuum. The relativities are the same but the cause - and therefore implicitly the remedy - is different.

NECS can be argued to be an example of the deterioration of process within a badly constructed organisational form.

Poor information systems whose outputs were poorly used; a failure to recognise key performance criteria (or to react to them); the misuse of available management information tools by inadequately skilled personnel; all were apparent from an examination of the business.

The statistical evidence is available in the declining financial performance of the Food Division under its former administration.

Anecdotal evidence recounts the tale of a senior member of staff whose job it was to use a mainframe modelling tool to forecast performance based on current mid-term actuals. The branch results were advised and he compared them with budget. Where actuals were significantly below budget he assumed that the raw data was in some way incomplete or wrongly allocated and in his model he adjusted margins upwards to better equate with expectation. On that basis he projected forward and produced some quite reassuring forecasts. Everyone breathed a sigh of relief, said that they always suspected the accounting systems were flawed and carried on as before. At year end the full extent of the disaster could no longer be masked by massaging the data and by philosophical conjecture. Whilst it was true that there had been a certain amount of systems noise, giving rise to inaccurate results at individual branches, the general trend had been a degeneration in gross margins arising from competitive pricing policy. The forecasting techniques had simply resulted in an illsory upward adjustment, invested with a spurious veracity because it had been produced using sophisticated computer modelling.

The executive responsible was banished to the carpet department of a city-centre store and eventually left the company, an unfortunate casualty of a specialist tool being put into the hands of an amateur.

As has been mentioned elsewhere operational standards had become lax. There was a general tendency to rationalise failure rather than to insist on success and to pledge better performance without grasping the nettle of inadequate managers and poor controls.

External help was sought from CWS, amongst others. Radical changes in stocking policies and pricing were recommended and implemented under CWS control. Merchandising was improved and planograms introduced.

When the external influence was removed there was a fairly rapid regression into former practices.

The Finance function was viewed as a predominantly negative influence whose outputs tended to cause questions to be asked without providing either the means of answering them or any forewarning to the respondent. Consequently the management information systems tended to be a source of tension and were viewed in a very negative light.

Improvements started with the appointment of a new Financial Controller, whose first priority was to install a properly qualified management accountant.

Budgetary controllers, who had previously been located in trading areas and whose loyalties led them to attempt to discredit unfavourable results, were integrated into the finance area and thenceforward their role was to help and guide traders in the interpretation of financial data, and point them towards remedial action.

The available database, hitherto vastly underutilised, was accessed via computerised reporting packages and meaningful figures on margins and stocks produced each period. The result was an immediate improvement in the standing of the finance department and an insistence by the trading managers that the quality of source data originating in their areas be improved. The benefits fed through into outputs and even greater reliance was put onto the reporting.

The focus on stocks was extended to other balance-sheet items, culminating in the acceptance of economic rentals and interest on capital at departmental level. Frank discussion of performance is now a feature of senior management meetings and criticisms are accepted in good part. Central changes, previously a 'black box' area have been opened up to public scrutiny, and functions such as Member Services Offices and Credit Control have been converted from cost-centres into profit-centres with their incomes representing charges to trading departments for services which are agreed as being cost-beneficial.

As a result, a reduction of over £4 million in working capital has been achieved in twelve months.

Management information systems are still rather poor, and based on inflexible batch-processing packages run by the CWS computer bureau at Birtly. Some limited improvements have been effected by the use of distributed computing equipment, but this is constrained by the difficulties of data transfer between machines.

Steps are in hand to introduce a new generation of data-base systems, linked in to powerful modelling and reporting systems.

The influx of new management, the reductions in spans of control, the ascendency of functionalism as a determinant of line relationships, - the dismantling of artificial barriers between trading divisions and the gravitation towards larger units with operational systems instore have all combined to effect a radical change in atittudes to mangement information. Its production is now demand - led by professional managers, whereas before it was a commodity of indifferent quality pushed out into a unreceptive market by a less-than-convincing group of authors.

## (7) PERFORMANCE

Performance is seen as a measure of the achievement of objectives. A recurring problem in this analysis is the lack of explicit objectives with measurable parameters.

There are nevertheless some surrogate objectives which can be reasonably held to apply to any organisation whether it be a business, a charity, a club or any other structured, purposeful entity. One such objective is survival, and this ultimately comes down to the Micawberian equation of inputs vs outputs/income vs expenditure. The equation must result in some definable equilibrium so that the substance of the entity is not dissipated in the prosecution of its objectives. As the CeO put it during the interview: "To distribute profits which have not been earned is to give away the seed-corn of the business". This is undeniably true, but does not address the question of "what is profit?" The concept of increase in net worth is a judicial one; the measurement of net worth in terms of a dynamic entity is an economic concept. The problem of how to write down the answer

is an accounting one. None of the concepts or problems appear to be particularly well understood by Co-operative Retail Societies who hold fast to the idea that break-even on a historical cost basis of accounting represents equilibrium with success on a positive extrapolation and failure on a negative one.

Not only is the concept of maintaining the substance of the business in real terms not well understood; the idea of providing an economic rate of return to investors on their share capital and on their undistributed profits over the years has been totally lost.

The essential difference between a co-operative society and a normal commerical enterprise is that Co-op shares are not traded in the market. The investor is therefore totally reliant upon interest and dividends for his return. Interest has always been nominal, reflecting the original precept that Co-operatives were run for the benefit of traders and customers. Consequently the distribution of profit was always geared to the volume of activity rather than to the level of capital invested. This was perfectly tenable when investors were active in the business and when there were profits. Nowadays there are few profitable societies; dividends - originally converted from cash payouts to trading stamps - have been virtually eliminated, whilst interest rates remain static.

Nor does the investor have the ultimate consolation that if his Society goes into liquidation he will receive a payout greater than the nominal value of his shares. Where societies fail they are absorbed by the Movement - either by neighbouring societies, by Co-operative Retail Services Ltd or by the Co-operative Wholesale Society Ltd. Whichever route is followed, the investor ends up with his original shareholding converted into the identical nominal value in shares of the new society. The various investment theories concerning the relative merits of profit distribution vs retention in their effects on share price have nothing to contribute to the Co-op shareholders' dilemma.

The persistence of some 10 million people in holding shares is therefore something of a puzzle, and probably reflects lack of awareness as a dominant characteristic. This was confirmed by the CEO's comment that a rise in interest rates may well have the reverse of the intended effect and cause

a significant outflow by highlighting the discrepancy between Co-op and market place rates of return on capital.

The CEO was not disposed to improve matters believing that share capital was not a good basis of financing long-term investment. This view highlights another difference between the Co-op and the private sector; Co-op shares are redeemable on demand and do not, therefore, provide a fixed base of investment.

All these factors are significant in that they point to a complete lack of influence on a Society's performance by shareholder pressure-groups. Even the sources of loan capital have tended to be from within the Co-operative Movement and requirements have arguably been less stringent than those exacted at arms' length. For example, rigorous planning is virtually unknown; budgeting of annual results is often of highly dubious quality and at a summarised level of detail which obviates the application of formal budgetary control techniques. The presumption is that internal providers of capital are aware of the significant undervaluation of assets by client societies and use this as an undeclared security for the loan. This view is increasingly suspect as the practice of societies to eliminate trading losses by realising book profits on asset sales continues. The ability of the market to absorb increasingly unattractive properties must be in question.

In seeking to fund the new hypermarket and superstores developments NECS explored the more orthodox financial markets. The criticisms encountered concerning lack of current and future information came as no surprise to the Financial Controller who welcomed it as a vindication of his own attempts to introduce formal budgeting, forecasting and control techniques in collaboration with external consultants from Thompson McLintock and the CWS.

Performance of the organisation as a whole is, to take McInnes's view (op cit, Ch 2), a function of the performances of its component parts and of the individual managers, measured in relation to the organisational objectives. This view is consistent with those of the Chief Executive Officer who stated that a business can only be controlled by controlling its individual parts.

Performance, therefore, is a barometer of the success, over time, of combing the elements of management style, strategy, structure and process in beneficial interaction with environment.

The size and diversity of NECS - both in total business terms (where a number of separate industries are combined) and within the Food operation itself (with its diversity of outlets) - tends to militate against the establishment of a clear linkage between unit and corporate objectives, so that the small shop manager would be operating in a conceptual vacuum were it not for the existence of a subset of parochial objectives. Even at this level there is a degree of equivocation between the priorities of economic performance and community service.

Given the operation of the reward system, with its temporal separation between cause and effect, motivation of shop managers is potentially a problem. The level of recruitment into the smaller shops virtually precludes a formal career structure. Centralised control of many critical elements reduces the scope for local judgement and weakness the link between the managers' decision and the performance of their units.

The confirmation of individual units to the total company performance is obscure because of the impact of interest charges and other costs which are not disclosed at unit level.

Under the new management, many things are changing.

Objectives are becoming less ambiguous; profitability is now assuming a central priority as being the key both to survival and to the attainment of any collateral social objectives.

Measures of performance are being clearly spelt out in better budgeting and planning.

The evolution towards larger units is at the same time improving recruitment and opening up formal career paths to successful managers.

Greater discretion is being given to the managers of larger stores so that control is being gradually

pushed outwards and downwards.

The information systems are being improved with greater emphasis towards the profit-centre/ investment centre concepts.

There is inevitably a closer correlation between the performance of the larger units and the performance of the company as a whole and the relationships are more clearly perceived by the new higher-calibre managers.

The abolition of arbitrary separation of the elements of retailing (Food and Non-Food) has yet to feed through into performance. In fact, the multiplicity of changes will inevitably make the distinguishing of individual cause/effect relationships difficult.
Under the new top management structure there is a clear emphasis on operational performance, recognising that financial performance is merely a measure of the efficiency and effectivenes of the retailing tasks carried out within an optimum strategic framework. Control, therefore, is exercised at the operational level so that, for example, poor buying performance is recognised on a weekly basis by examining throughput, margin and stockturn rather than by looking at financial variances five or six weeks after the event.

The other aspect of control is, of course, that warning signals can be picked up and remedies implemented before problems become serious.

This implies the correct management hierarchy, decision-points at the correct level within it and the right people manning the decision-points.

Once again, the emphasis is on people; people in top mangement setting the structure up in such a way that it complements strategy; people in top management appoint effective middle managers; people in middle management having the confidence and authority to act and the ability to act correctly.

The recruitment of those people was clearly uppermost in the CEO's mind during the interview; when asked about the disparity between the graduate intake of Sainsburys and that of the CWS (representing the Co-operative Movement) he responded that Sainsbury's policy could only be sustained by an expanding organisation. What he has done in his own organisation is to create a growth area to enable him to recruit the calibre of personnel he believes will lead the company into its next stage of development.

## (8) MANAGEMENT INFORMATION

If the key to good decision-making is having good decision-makers focussing on relevant issues at the appropriate levels within the organisation, and if the raw material of decisions is information, it therefore follows that the quality, timeliness and relevance of the information is one real determinant of performance.

Theoretical aspects of management information have been dealt with comprehensively in Chapter 1, and so at this point the objective is to examine the status of management information within NECS drawing some comparisons with normative theory and hypothesising on the effects of divergence of compliance.

During the interview the Chief Executive Officer commented that the Society was not materially better served by management information systems today than it had been five years ago.

Given the advances in compu[illegible]nology in the intervening period this would appear to be a severe indictment of the MIS architects, of the users and of NECS top management who are in a position to demand that their needs are met from the £400,000 spent annually with CWS Ltd to process various computerised information packages.

The last five years have in fact seen some fairly major changes in financial information systems; the direction and rate of change, and the priorities accorded to different aspects of the

information process are matters for some depth of analysis, particularly in relation to the structural and strategic changes over the same period.

Within the Co-operative Movement computer processing and associated software development is generally the province of the Wholesale Society. It uses big ICL mainframes in six regional bureaux at Glasgow, Birtley (near Newcastle), Manchester, Ipswich, Bedworth (near Birmingham) and Woolwich. The CWS has, over the years, developed approximately a score of different packages, the core ones being:- trade ledger (creditors), branch charging, payroll, shares, loans, credit card, fixed assets and TV rental. The branch charging system was developed for food, and depends on the efficient maintenance of a price-file for individual commodities or precise markup and markdown details by commodity group within supplies where a product file is not economically feasible or practically possible to operate. Latterly, Non-Food systems designed by external software houses have been surveyed and as a result the Hoskyns Non-Food Merchandising system was purchased centrally by CWS for use in Retail Societies.

The problems of designing and running a large number of systems for over 120 users, varying in size from £10 million to £250 million turnover, dispersed throughout the country are manifold, and the result is, predictably, mediocrity. There is, inevitably a compromise between what is required by the individual user and what the concensus of users makes available. Development tends to be subordinated to maintenance, with the consequence that systems and equipment are old-fashioned with non-standard requirements being met by file-tabs. For example, the Branch Charging System (erroneously entitled "Food Stock Management System" by some users and by certain non-cognescenti within CWS) is supported by no fewer than 112 file-tabs. Some of these arise from the ignorance of users, compounded by the very poor documentation common to all CWS-written systems so that exploitation of all the available facilities from any system is never achieved.

Over a number of years, the trade ledger system had been expanded to form a quasi nominal ledger, and using the additional facilities societies achieved some rudimentary management reporting. There were major problems of incompleteness of information, and incompatibility of the elements of data juxtaposed to produce the so-called "management accounts". For example, gross profit

margins from the branch charging package were applied to sales data and sterling values of gross profit computed from which were deducted a mixture of budgeted and actual expenses to arrive at net profits. On the basis of these results management decisions were taken. At year end, when the statutory accounts were compared with the annualised management accounts there were, predictably, major differences, and yet more effort was expended in the entirely pointless exercise of reconciling the different figures.

The exercise is described as pointless because even if the causal factors were identified and quantified there was no possibility of building in compensating adjustments to apply in subsequent years (although some societies were sufficiently naive to attempt this).

Seven years ago the situation was commented upon by the Registrar of Friendly Societies who found the lack of sophistication in financial management and accounting entirely inappropriate to the scale of business operated by the Co-operative Movement (notwithstanding its de facto fragmentation, the "Co-op" is perceived as a monolith by the outside world).

At that time the CWS Financial Controller was W Quentin Russell, an elderly Scot whose career had been mainly in the Profession.

Russell, with the agreement of his fellow directors charged the CWS with developing for the retail societies a system of accounting and reporting which used a common base of data for all financial management and reporting purposes, which provided adequate audit trails, and which ensured that the elements of data were screened for compatibility before being combined.

The decision was taken to use existing packages as far as possible, and to computerise those aspects of the business currently being dealt with manually (one of which - surprisingly for a retailer - was cash).

A vehicle was then designed to receive all the outputs from the various packages, perform certain checks for cross-matching, etc., undertake certain book-keeping entries automatically (for VAT, etc.) and produce a tabulation, together with supporting audit trails, covering financial and systems

aspects, which captured all the financial transactions for the business. This tabulation was called the nominal ledger.

The concept was, after various mnemonic faux pas, called Retail Integrated Accounting (R.I.A.) and was destined to become invested with a totally unjustified mystique in the ensuing years, due in part to the fear felt by traditional Co-op book-keepers for the concept of balance sheets.

The basis of RIA was - and currently still is - a nine-digit code which can be manipulated to represent the structure of a retail society.

The coding is as follows:-

(1) Division - the level below Society representing the major areas of trading or administrative activity, eg: Food, Non-Food, ServiceTrades, Admin.

(2) Area - representation of the geographic breakdown of the business - into Area Managers, for example.

(3) Group - a non-financial subdivision of trading, perhaps down to supervisory level, or as is often the case, to distinguish individual stores across their divisional or departmental boundaries.

(4) Department (2 digits) - used to distinguish the next logical break after Division. For example, within Food division there would be a number of departments such as grocery, butchery, freezers, etc.

(5) Section - generally the subdivision of a branch into its sub-departmental activities. For example, a garage may be divided into separate sections for new cars, used cars, spares and accessories, petrol, tyres, etc.

(6) Branch (3 digits) - representing a physical location - a shop or garage or funeral parlour, etc.

Intricate rules govern the operation of the coding, and some expertise is required in setting up Society files to correctly describe the operation of the business in both trading and balance sheet terms. For example balance sheets are automatically generated at departmental level by the generation of current account postings within the computer. This does not happen at a level below that of department, although it automatically applies at all higher levels.

It may be, therefore, that a Society wishes to regard Grocery, Butchery, etc as its "Departments"; in that event the balance sheet will be set for Grocery, Butchery, etc.

On the other hand, it may wish to report capital employed by location, particularly if it operates large stores. There is then a competition for "departmental" status because although the trading aspects can be flexibly manipulated by re-sorting data on different coding priorities, the fixing of the current accounts, the derivation of postings for cash, VAT and creditors' transactions, for example, is governed by the location within the coding structure of key analyses of data (called "account-codes").

A further complication lies in the inflexibility of the structure between time periods. If, for example, a branch transfers between Area Managers midway through the year it will be reported as part of the original area manager's totals up to the date of transfer and as part of the new area thereafter - appearing twice in all the reports. In order to move historical data, a utility program has to be run over a number of hierarchical files - a major task in terms of checking the changes.

These major disadvantages from a management information viewpoint are caused by the age of the constituent systems, the systems architecture, the priority accorded to audit trails within

the systems and the method of processing.

Subsequently, a group of people from various disciplines (including the author) have been reviewing the situation, and major changes are in prospect.

The system as described accurately mirrors the priorities attending its development; there was an urgent need for integrated management and statutory information to satisfy the Registrar. This, together with cost considerations and the willingness of retail societies to foot the bill, ruled out any thoughts of a greenfield development. Therefore, all the inadequacies and constraints of history were built into the basic design, which also bore the inprint of a chartered accountant in what was arguably an over-emphasis on input validations and audit trails.

That such an unwieldy and inflexible system should have been adopted by 26 of the largest societies, representing 70% of the retail movement's turnover (excluding Co-operative Retail Services) is a fair indicator of the parlous state of the pre-RIA management information scenario.

The RIA pilot society was Portsea Island, based in Portsmouth. The CWS team involved in that implementation quickly realised that a pre-requisite of computerisation was a complete overhaul of existing systems. This condition was repeated by virtually all subsequent implementations, and the RIA development has had a beneficial spin-off in improving the basic accounting within the retail movement.

The second major society to implement RIA was the North Eastern Co-operative Society, and in November 1979 the author led a CWS team to instal the system and operate it "live" from mid-January 1980.

Concurrently with the RIA implementation the Society also installed the branch charging package, with considerable help from CWS Organisation and Methods Department.

These two major implementations coincided with the merging of two regions of the Society into a single entity, based at Gateshead, and with the production of year end accounts - a major ritual in

1979.

Christmas and New Year came at precisely the wrong time that year!

Prior to RIA and the branch charging system, the Society had based its management information on a variety of CWS packages, including one written specially for NECS which consisted of an upgrade to the trade ledger package to enhance outputs and increase the inputs it would accept. It was known colloquially as the "High-level Management Accounting Package" and featured many customised output reports.

Notwithstanding the variety and detail of these reports, they were based on incomplete input and suffered the same fate as their less sophisticated counterparts elsewhere when the test of comparability with audited accounts came around.

For NECS, therefore, RIA has been a major step forward and there has been a very significant improvement in the quality of source data, the level of expertise applied to its processing, the range and quality of output reports, and - consequently - the perception of the finance function by trading management at all levels.

Major inadequacies do, nevertheless, exist. The most obvious is the inflexibility of the system in reflecting the structural changes within the business. This has largely been overcome, but at the expense of continuing technical support and increased cost.

Allied to inadequate modelling ability is the method of updating - both in terms of sourcing of data and method of processing.

The source is basically cost-oriented with goods received information providing data on margins, the retrospective evaluation of stock shrinkages, price variances, etc. This data is available weekly, because the 'feeder' systems are old-fashined batch processing ones with heavy input validation and the re-input of any rejections in the following week's computer-run.

In a business where stock-turn should be one week - and at the most two weeks - the turnround of management information on purchases is far too slow.

Despite protestations that the Co-op is effectively not in a turbulent environment, there is nevertheless regular monitoring of competitor activity, and a clear policy to match competitors on pricings of "prime lines" - Heinz baked beans, etc.

Whilst the gathering of data on competitors is done systematically processing is carried out manually so that there is no electronic archiving of data, nor is there computer-assistance in the matter of assessing the effect of matching competitor prices; more importantly there is no modelling of the likely effect of leading competitors on price, nor is any archived data on past promotions available.

1984 was the first year in which detailed budgeting was done at branch level; hitherto the possibility had been dismissed because of the effort involved in preparing data for processing by the mainframe modelling system, PROSPER. This task has been simplified by the writing of interfaces between the modelling system and the base of financial data within RIA. Without the availability of budget information and variance analysis the effectiveness of management control must be open to question.

The fact that all information is available only on printouts, rather than on-screen, and that there are virtually no facilities for exception-reporting suggests that the sheer volume of material is a powerful deterrent to its use by managers - particularly those whose orientation is towards selling rather than administration.

This doubt has been vindicated by a recent decision by NECS to throw out the product-based branch charging system run by CWS on a mainframe and replace it with a supplier-based system run on ICL DRS equipment in-house. Considerable product information has been sacrificed thereby, but the arguments in favour of the change were: (a) that a very considerable cost-saving would result and (b) that the great mass of product information produced by the CWS system was never looked at. It should be pointed out that the decision to change systems was made by the former food

administration, but it has not been repealed by the new regime.

No environmental information was maintained on any computer system in the past; the idea of planning was rejected as being impracticable and an academic diversion. The concept of cash flow reporting and forecasting was not introduced until RIA, despite the existence of an overdraft which topped £6 million on occasion.

With the new administration in Finance has come a changed attitude towards budgeting, budgetary control and forecasting. Balance sheet budgeting and reporting is now standard, and trading management appears to accept that the level and deployment of corporate resources ranks equally with the procurement of adequate margins and volumes of sales.

Once again, the question of people is central. Where the information system was operated on a "supply push" basis with inadequate management on both ends it failed - and the organisation failed with it. Management information was not however a constraint because the over-riding deficiency lay in the inability of management to use information.

Now there has been change of a dramatic order and the production of information is on a "demand-pull basis" with high quality management as both users and suppliers.

As a result the managment information system is very clearly being found inadequate, and a constraint on development.

The systems are not dynamic enough; batch-processed, out-of-date material presented in a non-assimilable form with no structure or prioritisation is not adequate for the demands of professional retailers.

The external information about competitors and about the economy is very inadequate. The Chief Executive Officer said he would like to be able to classify shops in terms of their predominant competitors and to look at volumes and margins on that basis; the newly-appointed Retail Operations

General Manager, fresh from Argyll Foods, wanted to know where his VDU was and where he should go for up to the minute data on shop performance, current year vs budget vs latest forecast vs prior year; he said that previously such information had been immediately available to him.

Recently an exercise has been done to extrapolate current trends onto a 3-year forecast. The results have been presented to Controllers and they have been asked:

(a) whether they are satisfied with the predictions;

(b) if not, what they plan to do.

The exercise is designed specifically to raise the awareness amongst senior managers of the role of planning. The prediction is that the outcome could well be further pressure on the Management Information Systems within the Society as being central to the processes of control (without which planning is indeed academic) and as being an essential feedback into the strategic process so that future plans are solidly based.

As the MISs become more sophisticated, so their conceptual backups in areas of design and usage need to be improved.

It is easy to criticise the old-style practice of computing gross profit by multiplying cash sales values by margins on purchase transactions, with no account taken of the different identities of the transactions themselves, no adjustments for stock shrinkages or revaluations and no adjustments for mix variations between opening and closing stocks and accruals.

RIA itself introduced into computer systems for the first time the concept of "contribution accounts". This consists in computing, for each branch, the value of the gross profit from trading less the "direct costs" of the branch - ie those costs which would cease if the branch were to be closed. On this basis the resultant figure of "contribution" is held to be the effect on net profit at Society level of closing the branch (after separately taking into acount the specific closure costs).

This is held to be a major conceptual advance and a valuable decision-making tool. The argument runs that where a branch shows a nil contribution after charging depreciation it should be considered for closure; where there is a nil contribution before charging depreciation then the branch is a net consumer of cash and urgent action is called for.

At the "micro" level - ie when considering individual branches, this may well be true. At the macro level - when looking at a major society, or at the movement as a whole it ceases to be true. The reason is that the movement is vertically integrated back into the farms which grow the food, the processing plants which make it ready for the table and the packaging and canning plants which enable it to be merchandised, and the distribution centres which deliver it to the shelves of the supermarket or corner shop. All these processes represent fixed costs. The CWS has 100 factories which, at 1981 values, produced £490 million of goods. The Regional Distribution Centre costs vary from society to society within the range of 3% to 7% of gross purchase cost.

To assume that an overall reduction in volume of throughput can be tolerated in these circumstances is to court disaster, and yet to the uninitiated this is precisely what the concept of "contribution accounts" implies.

Another example of the risks inherent in management information arises in the financial planning model developed for retailers by the CWS.

That such a model is a beneficial step forward in undeniable; it covers a forward period of five years and is constructed so that year end trading and profit and loss accounts are produced together with balance sheets. Detailed analysis of year end results is embodied in the model.

From a practical viewpoint, however, the critical relevance of cash flow is ignored; the fact is that for a retail society year end is the best possible time for cash because stocks are at a minimum, peak Xmas sales takings have been banked and creditors - particularly for Non-food supplies - have probably not been paid. In October/November the picture is dramatically different with a massive

build up in stocks and overdraft.

There is some risk, therefore, that the information designed for planning may actively mislead managers on the availability of funds.

NECS, with a £25 million expansion plan, are currently using the model and their finance people were quick to appreciate the shortcoming.

It would be misleading to claim that formerly the Society was without management information.

As always happens where there is a gap it will be filled with whatever material can be made available. The growth and siting of the budgetary controllers in trading groups was a response to the lack of formalised information systems. What they produced may well have been valuable. It is, however, clear that no-one was in a position to critically and knowledgeably evaluate their output; the individuals filling the positions were widely disparate in terms of background and qualifications, a fact which is itself difficult to explain; whatever the quality of their output it was not fed back into any central data base and so did not impact upon strategy, structure or process at a central level.

Indeed, the entire structure of management information under the former administration seems to support the predominance of operational considerations over those of a strategic nature and it is arguable that this method of running the business, in a series of short term operational steps, was a major factor in the loss of direction and of performance which showed up so clearly in the financial results. The interesting debate is one which centres around the question of whether the information system was pro-active or reactive in that situation.

In the present situation its role is reactive, but its ability to react may well constrain the ambitions of its users until the necessary enhancements can be made.

## 9. REWARD SYSTEMS

The nature of 'reward' has been dealt with at some length in the theoretical evaluation (Chapter 2.9). It was mentioned by both the Chief Executive Officer and the Food Controller in the interviews, and both monetary and career aspects were covered.

In monetary terms, NECs uses the Hay/MSL system for job evaluation and salary determination. The Chief Executive indicated that Hay/MSL had been 'adjusted' to make salary levels more competitive; the Food Controller stated bluntly that they were not competitive in the market-place.

Low salaries are clearly considered to be a deterrent to recruitment of high level or potentially high level staff.

Because of this, career progression is by definition ruled out for the majority of new entrants.

The correlation between performance and salary - which, given the low task complexity in small shops could be fairly direct - is destroyed by the temporal separation between achievement and salary review. Thus the worst of all worlds is brought about; good mangers are not rewarded for their efforts, whilst poor managers are not penalised - the concept of equity is procedurally excluded.

At a more senior level increased task complexity and the encroachment of exogenous factors, coupled with the greater impact of career prospects reduces the priority of money per se but its impact is still felt in terms of the human resources available to senior managers and the consequent constraints on strategy, structure and performance.

There are those who hold the quality of shop managers to be the ultimate constraint on strategy and so the implied direction of influence within the model is reversed with reward systems a determining factor.

In recruiting management for the new hypermarket the priority was to attract staff from major

competitors, and so the bureaucratic determination of salary levels gave way to market forces.

The reward structure of Co-operative Societies in general is a further example of the way in which both antecedents and structure impact on the determination of policy.

Ted Stephenson (formerly of Leeds University) has made a special study of the Co-operative Movement. Writing in 1963 (8 years before the formation of NECS) in his book "Management in Co-operative Societies" he discusses the fixing of salary levels for Co-op managers by the lay boards, and the effect of low salaries in deterring competent managers from entering the Movement.

"Being composed of lay members, some of them housewives, some of them workers earning less than the successful candidate will earn, its attitude may be ambivalent. It may be very generous to show that the society is as good an employer as any private-enterprise firm; it may, however, be very careful, feeling that it is the custodian of the Members' money and that it must be careful not to lay itself open to the charge of being profligate. ".... To give salary increases to management may not come easily to a lay board which contains little management experience and which may contain a number of people who are used to looking at management from a worker's point of view.

"Then there is often a feeling that management in a co-operative society owes a special loyalty to the movement, that there is a special satisfaction to be obtained from working for the movement, that Co-operative managers should fall into the category of dedicated people."

Given that such attitudes are still extant within the movement the NECS attitudes with regard to the hypermarket reflect not only a grasp on current realities, but a conscious break with a still-active peer group influence.

The changed reward structure, in common with other elements within the model indicates a break with the past. It also shares, with all the other elements examined, a clearly demonstrable interlinking.

Finally, it supports the writer's contention that an unspoken divide is developing within the North Eastern Society, with the base of small shops and traditional attitudes and structures on one side and a new base of large commercial enterprises staffed by professional managers and dedicated to profitability on the other. These new managers will have more in common with Drucker's concept of loyalty to a professional and to a personalised value-system (Managing in Turbulent times) than with the confused ethos of the traditional Co-op.

## 10. SUMMARY AND CONCLUSIONS

The purpose of this Chapter has been to examine NECS Limited in relation to the model and to explain the elements of the model by illustration with a live situation.

In this respect the changes recently occurring within NECS have been highly beneficial to the study in a number of ways.

Firstly, the examination has illustrated how the elements of the model are interlinked; how for example, antecedents affect attitudes towards the reward structure; how this in turn puts a ceiling on the calibre of manager recruited and retained and how in turn this influences the structure towards centralisation and the management style towards a high satisfying/low optimisation orientation. Under the former regime, strategy was hostage to structure - very much an exemplar of the Boston Consulting Group's criticisms rather than of Chandler's optimal relationship. This is now changing.

Secondly, in focussing on the evolutionary (or some may conclude, revolutionary) developments, the predominance of the product/market orientation in setting strategy is questionned, and in its place the idea of an emulative strategy was floated. In this, the orientation is towards the creation of an archetypal organisation structure and process which would of itself ensure success.

Overt strategy then becomes downgraded from Corporate to business with a weighting towards

tactical rather than strategic planning.

Thirdly, the method of achieving the transition has been to recruit successful executives from the criterion organisations, and it has been possible to examine the steps they have taken to effect the change from old-style Co-op to Argyll Foods/Fine-Fare "look-alike" organisations. Changes in management style and structure have taken place and can be correlated with increased task complexity and a new perception of the competitive environment.

Fourthly, the same trend has resulted in a higher awareness of the need for satisfactory performance from individual managers as a prelude to improved overall performance. Operational control is allied to a greater delegation of responsibility and authority coupled with a more vigorous enforcement of policy by top management through tighter control.

Fifthly, the management information systems are being improved (within feasible limits) to provide the means of control, evaluation and forward analysis.

Finally, the model is seen very much as a dynamic rather than a static one, with all the elements interacting and the general thrust tending to change direction as the elements settle down into a new dynamic equilibrium.

No conclusions about the progress of NECS have been drawn; this was not the objective of the study. Rather its purpose was to test the model in a 'live' environment and examine how far it assisted in the structured explanation and evaluation of a dynamic business situation.

It is suggested that the North Eastern Co-operative Society provided an ideal case study; it is further suggested that the model has proved quite comprehensive in its elements; that actual changes have been adequately described in terms of the interaction of those elements; that a degree of structure has been imposed and has assisted in the identification and comprehension of underlying processes; that in the transition from a bureaucratic organisation with no clear objectives to a commercial business oriented towards profitable growth, most of the observed developments and

changes have followed the normative theory researched and set out in Chapter 2 of the thesis.

The purpose in developing the model may be questioned. It was intended to be neither prescriptive nor predictive; in seeking to deepen understanding of the organisation within its environment it may possibly contribute to the organisational management.

Within the Co-operative Movement there is abundant scope for such improvement and any optimism deriving from the description of change at NECS should be tempered by the realisation that although it is in the upper quartile of Co-op managerial competence it is simply not in the same league as its competitors on any of the normal criteria of performance.

To their great credit the management of the Society acknowledge this and are actively trying to remedy the situation. Elsewhere in the Co-operative Movement recognition of the realities is often blurred by the sort of confusion about goals and objectives exemplified by the CRS charter, and epitomised in the Corporate slogan "People Who Care" a form of words which largely fails to conjure up any tangible association with the business of purchasing groceries. On the other hand it does invite an invidious comparison between the Co-op - as the self-appointed repository of compassion - and other major retailiers. Whilst by implication they are acting from baser motives they nevertheless manage to achieve standards of presentation, pricing, customer service, store ambience, staff competence, civility, range and quality of stocks and working environments which at least match, and often surpass, the achievements of the Co-op.

The final irony is that, arising out of their successful pursuit of unclouded commercial objectives they are also able to return to the community a higher social dividend than is possible out of Co-op losses. An example is Marks and Spencer, whose travelling fashion show - in addition to contributing to the motivation of Marks and Spencer staff - has raised £3.5 million for charity since its inception some ten years ago. In 1984, as part of their centenary celebrations they set aside a further £3 million for charitable causes.

Thus the Co-op slogan is viewed as a final desparate appeal to sentiment in the absence of any

verifiable distinctive competence.

The real danger is, perhaps, that where the Co-op is successful in dramatically elevating its standards it will simply merge into the pattern of excellence established by its competitors, and its distinguishable identity will continue to be derived from those traditional Co-op outlets staffed by people who may care but who are unfortunately not good at retailing.

* CWS Jan. 1983, Sainsburys March 1983 - Published Accounts

# CHAPTER 5

## NORTH MIDLAND

## CO-OPERATIVE SOCIETY LIMITED

### 1. INTRODUCTION

On 1st May, 1980 a new Superstore opened in Macclesfield, Cheshire.

Costing £2 million the store offers a 25,000 sq. ft. ground floor area given over predominantly to Food, but incorporating also a comprehensive range of housewares, sports and leisure goods. DIY items (including paints and wallpaper) and a large selection of gardening items. For those of a less energetic persuasion, a ground floor "browsers' area" with a large display of books, magazines and records is provided.

The latest display units and fixtures, costing over £450,000 house a wide range of standard foodstuffs with the added interest of a wet fish bar, an extensive selection of loose cheeses, a greengrocery department using both pre-pack and free flow techniques, a very fine delicatessen, instore wines, spirits and tobacco and an instore bakery operation selling cream cakes and gateaux in addition to a range of standard and specialist bread.

Upstairs (and, due to the steep slope on which the store was built, accessible from the outside, also) is a 22,000 sq. ft. non-food department. Carefully merchandised to preserve the upmarket image of the food hall, it is set out in Ideal Home Exhibition style. Room settings display, amongst other items a £1,050 bed, a billiards table, electric organs costing up to £4,000, high technology TV setse with Ceefax and Prestel capability and other quality items from European manufacturers.

A collection of china, glassware and silver features a silver teaset costing £3,000, Venetian glasses costing up to £100 each, Waterford crystal, Wedgewood and Royal Doulton china and many other

luxury items.

An instore bank and travel agency further enhance the level of service, and for mothers with babies a special nursing room is provided.

Having passed their purchases through the extra-wide trolley-to-trolley checkouts, those customers who do not have cars to park in any of the 200 spaces are able to use a free telephone to summon a taxi to the front door.

A fully-equipped first aid unit is provided for any health contingency.

The store was modelled on an established format, the most impressive example of which is the 75,000 sq. ft. hypermarket at Talke, near the junction of the M6 and the A500.

A highly speculative venture, the hypermarket features parking for 1,000 cars, a petrol station offering heavily discounted fuel and a vast range of goods which exemplify the phrase "one-stop shopping".

The furniture and electrical department follows the same layout as was later installed in Macclesfield, with more extensive ranges and services.

Attractively laid out kitchen settings are backed by a complete planning and consultancy service.

In addition to the manufacturers' guarantees on electrical goods and the normal consumer rights, up to 12 months' free labour is provided on various makes of transistor radio and tape recorder.

Free labour and parts for 12 months from the date of installation is provided on purchased TV sets and audio equipment; video equipment is demonstrated by trained staff.

The food department provides a huge range of fresh fruit and vegetables, delicatessen, dairy products, meat and bacon. The fresh fish bar features trout, whitebait and mackerel amongst more common species.

So that valuable shopping time is not wasted in queuing, a number system is operated to signal to customers that their cooked meat order has been made up.

An abundance of frozen food varieties is complemented by a wide range of ethnic and specialist foods. The picture is completed by an instore bakery, and the one-and-a-half hour journey around the wide aisles can be broken by a visit to the "Coffee Pot" restaurant which serves a vast selection of cold and hot meals all day in a very attractive environment.

In addition to eight hypermarkets the Company also operates around 50 "filler stores". Typically these are approximately 4,000 sq. ft. and the emphasis is on quality both inside and outside. The store in Nantwich, for example, was formed from an existing old building and the black and white architecture of the exterior has been carefully renovated.

The Holmes Chapel store is notable for the absence of the familiar company logo. In keeping with the town centre, the frontage appears to be that of a small community grocers shop, but once through the front door the customer finds herself in a 6,300 sq. ft., immaculately kept supermarket featuring an unusually well-stocked delicattessen, a range of high-quality fresh foods, the normal variety of tinned and frozen foods, fresh meat and a number of non-food lines.

Community-store status is confirmed in the "filler" shops by the presence of community notice boards, keeping shoppers in close touch with local activities and matters of interest.

The number of shops run by the Company has fallen from 264 in 1969 to 126 in 1976 and 118 in 1983. Turnover, on the other hand, has risen from £8.6m in 1969 to £34.2m in 1976 and £114.7m in 1983.

This has been achieved by a policy of radical alteration in the trading profile under which a base of small shops has been rationalised into a core of hypermarkets, supplemented by a spread of refurbished and new community stores. Throughout, the emphasis is ahigh quality - both in the shopping environment and in the merchandise displayed.

In September 1974 on the occasion of the opening of a new 18,000 sq. ft. superstore at Tunstall, the Company's Chief Executive was quoted* as saying "This Store is our interpretation of the requirements of present-day consumers. It is large, spacius and carries a wide range of food and quick replaceable non-food items.

"In the present economic situation it may seem unwarranted to speak in temrs of expansion for any commodity group other than bare essentials but perhaps this is even more reason for pursuing the development."

He pointed out that hte move into superstores allowed the Company to reduce margins - and thereby prices - which would benefit the consumer.

"In this way I believe we shall be demonstrating (our) historical, if perhaps latterly dormant role in acting aggressively in the best interests of the consumer. That is our aim."

Quoted in October 1974 in the context of the Talke hypermarket development the Chief Executive gave a further indication of strategy:

"Our other superstores have accented food sales to a large extent and we have found this to be very successful. The hypermarket will, therefore, have an extensive food range, but our main objective will be to improve our overall non-food penetration - in the belief that this will provide a service in the North Staffordshire area which is totally unique and will fill a pressing need."

The prophetic nature of the statement was borne out within six months of the store's opening, when 28,000 sq. ft. of the warehouse was turned over to supplement the original 50,000 sq. ft. of retailing space. With an average shopping basket weight of 80 lb, the manager was claiming that the

remaining 72,000 sq. ft. of warehouse space could easily be taken over for retailing.

The non-food penetration continued at a fast pace. In 1977 one of a serious of Homemaker stores was opened in Hanley, and in 1978, reporting on its runaway success, the demand for quality products was emphasised, with one of the top sellers being a £1,500 three-piece suite. Sales of foam-backed carpeting had fallen away in the face of a high demand for top-quality carpets. The store was a joint development with Stoke-on-Trent City Council and share lift access to the adjoining multi-storey carpark with Marks and Spencer.

The Chief Executive described the store as a "three-dimensional catalogue" and said he had been gratified to hear it referred to as a "mini-Harrods".

"It has been our over-riding philosophy that we would do well in a high-class but discount operation and we have been able to make profits with that equation."**

We have, then a picture of a successful retailer whose achievements have been founded on the rationalisation of a trading base comprising a number of small shops into a compact profile of hypermarkets, superstores and "filler" community stores.

Initially there was consolidation in the established area of food retailing, with an up-grading in the quality of both the shopping environment and the merchandise.

The successful development of bigger food stores was used as a base of experience from which to diversify into non-food merchandise - retaining the image of quality as a proven and positive marketing tool.

Throughout the organisation's development a high degree of entrepreneurial flair has been evident.

In 1976, the deputy mayor of Crewe praised the courage of the Company in pushing ahead with a

£5m development of which the extension and refurbishment of the 1971 Crewe hypermarket was part.

The above description might well be that of a Sainsburys or an Asda.

In fact the organisation in question is the North Midland Co-opertive Society Limited, one of the striking success stores of the Co-operative Movement.

## 2. HISTORY AND ENVIRONMENT

The North Midland Co-operative Society comprises six formerly autonomous societies, to which a further two were later added. The individual societies were:- Butt Lane (trading to the north and west of Burslem, around Alsager and Kidsgrove); Crewe; Leek and Moorlands; Macclesfield; Sandback; Congleton; Silverdale and the "base" Society of Burslem and District.

Despite the use of the word "merger" most large Co-opertive Societies arise through takeovers of weaker societies by their stronger neighbours. Central to the formation of North Midland was the original Burslem Society.

Formed in 1901, its first trading premises were opened in Newcastle Street. Shortly afterwards it started to bake its own bread and operated a van delivery service.

A key figure in its development was Sir Fred Hayward, a typical "co-op" man who rose from the occuption of biscuit placer to Managing Secretary, and was very largely self-educated.

Branches were opened in Tunstall (1904) and in the refurbished Newcastle premises in 1905. They included a ground floor for groceries and provisions and a first floor for drapery and footwear. In 1910 a new bakery was opened, and in 1911 there was a takeover of the neighbouring Stoke Society.

Formed in Longton in 1888 it was in financial difficulties at the time of the takeover.

The combined Society changed its name to the Burslem and District Industrial Co-operative Society. Its activities then extended to cover the whole of the "six towns" of the Potteries.

In 1926 the Society opened its first butchery shops and 1927 saw the opening of ten new butchery and nine new grocery shops to bring the total number of branches to sixty.

A new small department store was opened in Burslem in 1932 and shortly thereafter the total number of branches passed the one hundred mark.

Sir Fred Hayward retired in 1935, when turnover had reached £1.5 million.

By the following year the society had 126 trading branches rising to 152 by the outbreak of World War II.

When Sir Fred Hayward's successor retired in 1948, annual sales were £2.7 million.

From the mid '50s, trading performance was erratic with turnover figures of £4.27 million recorded in both 1955 and 1958. The intervening years saw falls in turnover, an experience repeated in 1961 when the figure was £3.69 million.

By 1968 a turnover of £4.8 million was recorded; this represented a fall in real terms, reflecting a process of rationalisation undertaken by their third Managing Secretary, H. C. Greening, in an attempt to maintain financial stability.

The North Midland Society came into being in June, 1969 following the merger of the Leek and Moorland and Burslem societies.

Later in 1969 the Butt Lane Society came into the group, followed shortly by the Crewe Society, which had itself taken over Sandbach. In April 1977, the ailing Macclesfield Society joined the fold, followed eventually by Congleton and Silverdale.

The first Normid Store was located at Crewe in 1971 as a result of re-arranging the former small department store (dating from 1959) to form a discount food store with twelve checkouts on the entire ground floor and a non-food sales area on the first floor.

Total selling area was 22,000 sq ft and buildings opposite were demolished to provide a 200-space car park for the store.

The site is in the town centre, adjacent to the retail market area.

The development was an experimental one, and much was learned about discount selling. In 1976 it underwent a major transformation involving a floor extension to provide a relocated convenience goods superstore area. The former store area was used for a two-floor furniture and furnishings operation and total selling space was increased to 50,000 sq ft.

In between the formation and redevelopment an unsuccessful appeal had been attempted to gain planning permission for a superstore on the southern edge of town.

The second Normid was opened at Burslem in May, 1973, away from the shopping area.

In contrast to Crewe this was a purpose built store of 44,000 sq ft gross floor space with a selling area of 26,000 sq ft.

Parking facilities were provided for 450 cars, and the store was next to Port Vale FC ground.

Also in 1973, a third Normid was developed in a suburb of Newcastle-Upon-Lyme.

Developed in a former Co-op bakery, a selling area of 30,000 sq ft incorporated a specialist freezer centre and the outer area included a petrol station.

The fourth Normid opened in Tunstall town centre in September 1974. With a selling area of 18,000 sq ft it did not technically qualify as a superstore but was nevertheless run as a "Normid".

October 1975 saw the opening of the Society's flagship, the huge hypermarket at Talke. Initially with 55,000 sq ft of selling area it was provided with a carpark for 1,000 vehicles and a large petrol station. The 16.5 acre site included planning permission for a leisure complex (so far undeveloped).

Within a short space of time the selling area was extended by 20,000 sq ft by appropriating part of the huge warehouse (leaving a residual area of 75,000 sq ft for warehousing).

The phenomenal success of Talke totally vindicated the decision to build it in the "middle of nowhere", and the huge volume of traffic it attracted flowed easily along the M6 and A500. An option to convert it into a central warehouse for the Society underwrote a risk which never materialised, but which tstified to the shrewd business sense of the Chief Executive and his deputy.

In 1976 the Staffordshire County Council rejected a scheme for a superstore at Blythe Bridge on the south-east fringe of the Potteries connurbation.

Subsequently a plan to locate a 30,000 sq ft net floorspace store at Longton was approved and this was completed in 1980. The store incorporated a number of innovations, including the "Europallet" system of merchandising.

The latest Normid store was opened in Leek, in 1985with a selling area of 68,500 sq ft.

In March 1983, a pottery and giftware manufacturer was purchased and renamed Longton Ceramics, a diversification into a related area of activity which represented a small degree of vertical integration.

The major expansion of the Society's business came from well-planned developments in superstores and hypermarkets.

An essential component of their development strategy, however, were smaller "filler" stores.

In 1970, new 4,000 sq ft premises were opened at Norton Green whilst a 3,000 sq ft supermarket was rebuilt at Weston Coyney.

1971 saw the building of a 3,000 sq ft supermarket at Sandbach, whilst a 4,000 sq ft operation with a small carpark was opened at Milton in 1973. Also in 1973 an enlarged and modernised store came on-stream at Market Street, Longton.

In 1974 redeveloped food stores included Leek (3,500 sq ft) and Fenton. In 1975 a rebuilt 3,000 sq ft supermarket was opened at Whitehill, Kidsgrove and the Sneyd Green store was redeveloped.

1976 saw the purchase of a new supermarket at Cheadle, and the Normacot store was re-modelled.

The 1976 statistics listed a cluster of sixteen stores in the sales area range 2,000-4,000 sq ft and three stores in the range 4,000-6,000 sq ft. The Society also had forty stores with a selling area of less than 2,000 sq ft (this was before the merger with Macclesfield Society).

In 1977 a traditional supermarket with car parking facilities was developed at Blythe Bridge; also in 1977, the Society purchaed a small modern suburban supermarket at Crewe.

The three largest district supermarkets are at Alsager (6,000 sq ft net), Kidsgrove (4,500 sq ft net) and Meir (6,000 sq ft net).

There has been a consistent policy of reshaping the structure of shops so that where superstores or hypermarkets are built, small shops are disposed of. Because the small shops are going concerns,

they are attractive in the market-place and do not incur the forced-sale prices common amongst disposals by less well-managed societies.

This continuing rationalisation process has resulted in a smaller number of larger and high-quality units which attract a better class of customer.

Much of the success of the North Midland Society is directly attributable to its two senior managers, the Chief Executive Officer, Bill Farrow (since appointed CEO of CRS Ltd) and his deputy Harry Lovatt (appointed to Chief Executive on Bill Farrow's departure).

Bill Farrow was with the Oldham Society (now part of Norwest Pioneers) from 1940 to 1960, having been their assistant secretary since 1954.

In 1960 he went to the Dartford Society (now Invicta) as Accountant, but was appointed deputy Chief Executive Officer in 1961, a post he held until he went to Burslem Society in 1968.

In the late 1960s he went on a visit to Sweden and was impressed by the Co-op (OBS) stores at Varby and Rotebro, both outside Stockholm. He returned to the UK convinced that the Swedish pattern of trading could be beneficially transplanted.

Harry Lovatt has a meat trade background but was personnel officer at Burslem when Bill Farrow took over in 1968.

He was appointed Food Trades Officer partly to cope with problems arising from the influx of new societies in 1968/69; in 1972 he was promoted to Deputy Chief Executive Officer.

A writer on Co-operative affairs Desmond Hopwood, who has made a study of North Midland voiced the opinion that two factors have been of major importance in the success of the Society. The first was the close working relationship between the Chief Executive and his deputy; the second was the empathy which existed between the management and the board of directors, led by the President,

Aubrey Wood.

Wood was president for well over a decade spanning the formation of the Society; he was also the Society's personnel officer and so was uniquely placed to view its strategy from a dual standpoint.

Another director was J. Blaize, manager of the first Normid store at Crewe, and therefore totally committed to the broad thrust of corporate policy.

The area covered by the Society is compact. The distance between Cheadle in the south east and Crewe and Sandback in the north west is twenty-three miles. From Blyth Bridge in the south to Macclesfield and Wilmslow in the north is twenty-five and twenty-nine miles respectively. From Nantwich in the west to Leek in the east is a distance of twenty-three miles.

The Society did not use the CWS regional warehouses, relying on Talke as the major warehouse and distributing from there to the small shops and hypermarkets/superstores to supplement direct deliveries. Control of warehouse and distribution costs was, therefore, vested internally.

Chief executives of other (less successful) societies have been quoted as saying that North Midland was fortunate to have avoided the keen competition that Co-ops often encounter in other parts of the country (notably in the South East).

This may explain the ready availability of a market for their high quality, distinctively "non-Co-op" marketing and merchandising policy. They were certainly the pioneer of large supermarkets, superstores and hypermarkets in the Potteries region.

More recently other national and regional organisations have come into contention and they now constitute a significant degree of competition on two levels: (a) superstores and (b) limited line discount stores.

Tesco have a 60,000 sq ft hypermarket trading on one floor on the edge of Hanley town centre, the

main shopping centre for the region. Adjacent car-parking facilities exist for 600 cars.

At Crewe, Asda opened up a 40,000 sq ft superstore in late spring, 1979.

At Newcastle-upon-Lyme Sainsburys operate a 15,000 sq ft supermarket on the edge of town. This competes with the Normid Superstore at Milehouse Lane, a mile away.

Sainsburys also have a highly successful 15,000 sq ft supermarket in the very "upmarket" town of Wilmslow and built a similar store at Macclesfield in 1980.

At the other end of the spectrum, the Potteries was the traditional home of Cee-N-Cee the limited line discounter, which became part of Kwiksave in 1978.

North Midland therefore currently faces competition from a range of very experienced retailers with well-established national images competing for a discerning market in a compact trading area.

In 1979, population of the "six towns" of the Potteries (Burslem, Fenton, Hanley, Longton, Stoke and Tunstall) was around 250,000, whilst Crewe and Nantwich had a combined population of 65,000. Macclesfield (45,000), Kidsgrove (23,000), Leek (19,000) and Sandbach (14,000) are other importance centres. Wilmslow (30,000+) was in the old "Macclesfield" area but was distinctly "non-Co-op" in its population profile and was very much a neglected area.

The chief non food centre of the Potteries is Hanley, which serves not only the Potteries but also the Newcastle-under-Lyme district on the other side of the valley with a population of 120,000.

The overall population in the North Midland catchment area in 1979 was, therefore, of the order of 500,000.

The depressed economy of the region has not reflected badly in the Society's trading results as illustrated in Table 1.

**Table 1: NORTH MIDLAND CO-OPERATIVE SOCIETY LTD.**

**KEY INDICATORS, 1973-1983.**

| | Shares | Reserves | Stocks | Turnover | Total Surplus |
|---|---|---|---|---|---|
| 1973 | 1,345 | 715 | 1,051 | 2,090 | 669 |
| 1974 | 1,356 | 1,281 | 1,866 | 16,836 | 712 |
| 1975 | 1,339 | 1,566 | 1,844 | 23,097 | 777 |
| 1976 | 1,353 | 2,278 | 2,654 | 34,216 | 1,054 |
| 1977 | 1,380 | 3,244 | 3,754 | 44,899 | 1,325 |
| 1978 | 1,742 | 4,232 | 4,509 | 53,833 | 1,621 |
| 1979 | 1,798 | 4,947 | 4,480 | 61,258 | 2,187 |
| 1980 | 1,844 | 6,907 | 5,947 | 70,369 | 3,114 |
| 1981 | 1,869 | 8,219 | 6,576 | 85,776 | 2,485 |
| 1982 | 2,460 | 9,576 | 7,831 | 95,396 | 2,691 |
| 1983 | 2,5801 | 1,797 | 8,468 | 11,469 | 3,023 |

A study undertaken by the CWS in December 1970 highlighted some of the unique features of the Region.

It commented on the "fractured open structure" of the connurbation, a description which sought to embody the concept of separate identities of the smaller constituent towns retained within the combined region. This structure created in parallel with it a unique shopping hierarchy with strong local connections but without the range of facilities necessary to attrct people living in the outer regions of the connurbation. This in itself led to the emergence of stronger convenience parades in those outer regions than would normally be expected.

The survey report noted that, with the exception of Hanley, nothing had been done to stimulate central redevelopment in the other five towns.

It went on to say:

"The North Midlands connurbation in many ways has characteristics which are less those of the Midlands than those of the North. It is an area very much on its own, standing apart from the remainder of the region and its people form a closely-knit community with a marked sense of local patriotism; although the connurbation is equally distant from Manchester to Birmingham its inhabitants tend to look towards Manchester rather than Birmingham for, in particular, entertainment or any specific shopping excursions."

There followed a review of the trading potential and existing facilities throughout the connurbation, based on available statitics. The towns covered are Hanley, Newcastle-under-Lyme, Tunstall, Burslem, Stoke and Longton. Data is patchy and sometimes outdated. The results produced are as follows:-

**(a) Hanley**

The town was the major shopping concentration throughout the connurbation. Table 2 represents the weekly turnover potential of existing sales area based on a range of £/sq ft parameters and Table 3 examines actual experience in existing shopping facilities to provide an estimate of the 1970 trading expectation.

Table 2: ESTIMATE OF SALES WITHIN HANLEY TOWN CENTRE (based on various sales/sq ft assumptions)

| Year | Convenience | | | Durable | | |
|---|---|---|---|---|---|---|
| Sales/ sq ft | 0.75 | 1.00 | 1.25 | 0.25 | 0.50 | 0.75 |
| Sales | £'000pa | £'000pa | £'000pa | £'000pa | £'000pa | £'000pa |
| 1966 | 2,490 | 3,319 | 4,149 | 6,331 | 12,663 | 18,994 |
| 1968 | 2,706 | 3,608 | 4,510 | 6,808 | 13,616 | 20,424 |
| 1970 | 3,274 | 4,366 | 5,457 | 8,102 | 16,203 | 24,305 |

Table 3: EXTRAPOLATION OF ACTUAL 1966 SALES FOR HANLEY TOWN CENTRE

| Year | Food | Non Food | Total |
|---|---|---|---|
| 1961 | 1.61 | 9.20 | 10.80 |
| 1966 | 3.00 | 13.10 | 16.10 |
| 1970 | 3.90 | 16.60 | 20.50 |

From the above tables it is clear that the existing level of trade in 1970 equates to the median sales per sq ft projections.

**(b) Newcastle-Under-Lyme**

This was the second most important trading centre in the region at the time of the survey, and contained a wide degree of national multiple representation. The stores, however, were small and did not carry the range of stock to be found in their Hanley counterparts. In 1961 the central area trade amounted to £6.1 million split between £2.5m Food and £3.6m Non-Food. The CWS 1970 survey suggested that, pro-rata, trade had fallen by around 5% in volume terms.

**(c) Tunstall**

The town was described in the survey as having "small, congested shopping facilities", with trade for the most part being of a convenience nature. An assessment of actual trading in 1970 suggested that turnover per sq ft for convenience sales was around 75p, whilst the corresponding figure for durables was 25p giving actual sales of £1.864m and £2.327m respectively.

**(d) Burslem**

Like Tunstall, Burslem was noted to be a small congested district centre with very limited national multiple representation; this had decayed over the past years with the growth of the Hanley town centre. Shopping frontages were not confined to one main street and were frequently broken by non-retailers. Estimates based on samples of actual trade yield the same rate per square footage

as for Tunstall (75p convenience, 25p durables) and these translate into sterling annual sales of £1.669m and £0.751m for convenience and durables respectively.

**(e) Stoke**

The town centre was predominantly a convenience-orientated area, with little representation by national multiples other than Boots, Woolworths, Cavendish, Tesco, Fine Fare and John Collier. The centre had suffered as a result of the growth of Hanley and of the higher degree of traffic congestion throughout the main shopping frontages. Estimated turnover rates were: convenience £1.00 per sq ft, durables 50p per sq ft; these translated into annual sterling values of, respectively: £1.741m and £6.440m.

**(f) Longton**

The centre of the town formed the main concentration point for retail shopping facilities in the south eastern area of the connurbation, and whilst by 1970 considerable development had already taken place little success had been achieved in dominating the surrounding area. Despite the presence of natinal multiples, the CWS survey team considered that heavy congestion on the A50 access road and the lack of major space users in the central development itself caused slow establishment of hte town as a shopping centre. The survey indicated throughput for convenience and durables as £1.00 and £0.50, translating into £1.857 (convenience) and £2.447 (durables) annually.

Throughout the connurbation it was noted that car-parking facilities were poor with Hanley restricted to 3,600 spaces altogether and the other towns relying on street parking supplemented by small supplementary carparks.

Some major road developments were in the planning stage in 1970, the main ones being the A500/ M6 linkup and the extension of the Derby link road/Longton by-pass.

A planned Birmingham overspill development amounting to 50,000 people was in the planning stage in 1970 and several other pockets of housing development on a relatively small scale were

commented on in the survey.

Shopping developments were few and far between in 1970, with Hanley again having the major share of the improvements, comprising the development of the market square and the modernisation of Marks & Spencers and Woolworths. Tunstall, Burslem and Stoke were not scheduled for development, and much of the Bennett Precinct in Longton remained unlet. Newcastle had little planned development and such as had taken place was on a very small scale, usually in the form of improvements to existing shop frontages.

Against this general background, then, a detailed analysis of sites was carried out at (a) Talke Pits, (b) Sneyd Green, (c) Burslem, (d) Blythe Bridge, (e) Newstead Industrial Estate, (f) Corbridge.

The site assessments incorporated a number of variables as follows:-

**(i) Trading Area**

It was assumed that the maximum driving time a potential customer would accept would be 20-25 minutes at off-peak periods. The trading area was divided into two principal zones, the primary zone being that area contained within an off-peak driving time of 10-15 minutes and the secondary zone being the remainder of the area.

**(ii) Population and Spending Power within the Trading Area.**

The 1966 Census figures were adjusted by growth estimates to 1970 to establish population figures. The weekly spending poer on groceries was obtained from the National Family Expenditure Survey and other research data.

**(iii) Social Class Structure**

The population within each zone wa split into the following social class groupings:

1. Professional
2. Intermediate Occupations

3. Skilled Occupations

4. Semi-skilled Occupations

5. Unskilled Occupations

**(iv) Expenditure of car-owning Households**

If the standard expenditure figures were applied to car-owning families only, tables were produced to reflect revised total expenditure potential for the catchment zones.

**(v) Site Potential**

It was assessed that as a Superstore has as its trade base food sales, the turnover in the fresh foods and non-food departments would largely depend on the customer flow generated by the main grocery department. Therefore, the assessed site penetration of grocery expenditure from car-owning families in each zone was tabulated for each site.

**(vi) Fresh Foods**

It was considered to be absolutely essential that in trading in Superstores the primary emphasis would be on fresh foods and therefore the highest standards of presentation and uality would be maintained. The effect on sales of fresh foods was carefully evaluated site by site.

**(vii) Gross Profit**

Assumed margins were: Grocery 10%, Fresh Foods 22.5%, Non Food 25%.

**(viii) Wines and Spirits, Cigarettes**

No allowance had been made in the site assessments for cigarettes, Wines and Spirits in the evaluation.

**(ix) Restaurants**

No allowance had been made for turnover through restaurants in the site evaluation.

### (x) Other Services

No allowance had been made for income or expenditures arising from the provision of any other customer services in the site evaluation.

Table 4 summarises the median estimates for turnover in the sites evaluated whilst Table 5 presents a summarised view of the social class structures in each of the catchment areas.

| | Median Turnover/Weekly | | |
|---|---|---|---|
| | Food | Non Food | Total |
| Talke Pits | 40,146 | 32,116 | 72,262 |
| Sneyd Green | 18,537 | 4,634 | 23,171 |
| Burslem | 31,444 | 15,722 | 47,166 |
| Blythe Bridge | 21,061 | 12,636 | 33,697 |
| Newstead Ind. Est | 27,133 | 8,139 | 35,272 |
| Corbridge | 23,389 | 8,186 | 31,575 |
| TOTAL | 161,710 | 81,433 | 243,143 |

Table 4. Estimated weekly turnover for sites evaluated.
Source: Site Assessment Report: North Midlands Connurbation. CWS Ltd. December 1970.

| LOCATION | | | CLASS STRUCTURE | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | % CARS | 1 | 2 | 3 | 4 | 5 | Non-Class |
| Talke | 21 | 46 | 3 | 11 | 52 | 22 | 11 | 1 |
| | 22 | 45 | 2 | 11 | 53 | 21 | 11 | 2 |
| Sneyd G. | 21 | 36 | 2 | 9 | 54 | 22 | 12 | 1 |
| | 22 | 48 | 3 | 15 | 50 | 21 | 9 | 2 |
| Burslem | 21 | 36 | 2 | 9 | 54 | 22 | 12 | 1 |
| | 22 | 46 | 3 | 14 | 51 | 20 | 10 | 2 |
| Blyth Br. | 21 | 42 | 2 | 11 | 54 | 21 | 10 | 2 |
| | 22 | 40 | 3 | 13 | 51 | 20 | 11 | 2 |
| N'Stead | 21 | 41 | 3 | 11 | 55 | 20 | 10 | 1 |
| | 22 | 40 | 2 | 11 | 52 | 22 | 11 | 2 |
| Corbridge | 21 | 36 | 2 | 9 | 54 | 22 | 12 | 1 |
| | 22 | 47 | 3 | 14 | 50 | 22 | 9 | 2 |

Table 5: CAR OWNERSHIP AND SOCIAL GROUPINGS FOR EVALUATED SITES
Source: CWS Survey, 1970

Amongst the conclusions within the survey report was the statement:

"It is also considered that in order to maximise the trade potential within any of these sites a marketing policy attuned to the predominant social structure and income levels should be adhered to as far as possible without destroying any of the fundamental trading principles necessary to achieve and maintain the trade projections."

## 3. STRATEGIC RESPONSE

### Environment and Background

In 1968, shortly after taking over as Chief Executive Officer, Bill Farrow was faced with a series of takeovers ("mergers" in Co-operative parlance) which transformed Burslem Society with a turnover of £4.8m and a profit of £56,000 into North Midland Society with a turnover of £8m and no profit.

Farrow saw his first objective as being a rapid return to profitability and the steps towards achieving that objective as being:

(a) to form the management team necessary to devise and implement policy; and

(b) to rationalise the inherited trading base of 269 shopsintoa smaller number of profitable units.

At that time, Harry Lovatt was in personnel and Bill Farrow asked his advice on the management structure. Lovatt responded that there were too many direct reports into the CEO. The situation was remedied by cutting them down to two - a Food Controller and a Non-Food Controller. Harry Lovatt, with his meat trade background and personnel experience was appointed food controller and a new non-food controller was appointed - Sid Hicks (now Assistant Chief Officer - Trading).

75% of the business in 1968 was food - hence the value of trading background; administratively, the immediate problem was the influx of a number of societies and all the staff problems associated

therewith - hence the relevance of Lovatt's experience in personnel.

An executive team of six or seven senior managers was formed, and met weekly to undertake a systematic review of shops and determine which were to be closed and which could beneficially be developed.

In 1969 the National Association of Co-operative Officials (the Co-op's management trade union) organised a a two-week study trip to Sweden. Farrow and Lovatt were amongst the party, and were impressed by what they saw of the Swedish edge-of-town facilities.

Shortly after their trip, merger talks were concluded with Crewe Society, and North Midland was further enlarged. Along with Crewe came a town-centre department store, which was turnover over £5-6,000 per week and achieving a ROCE of less than 5% before charging depreciation or interest. Opposite the store was a row of semi-moribund shops owned by the Society. After some debate around the merits of selling the department store and developing the shops it was decided to develop the department store into a ground-floor food hall and a first floor non-food area. The shops would be demolished and their former site made into a surface carpark to serve the store.

The targeted turnover of £30,000 per week was achieved in the very first week of trading and Crewe provided Farrow and Lovatt with their first taste of success. More importantly it provided a low-cost training-ground to develop expertise in the running of large mixed stores.

The next development opportunity arose becasue of a contract in Port Vale Football Club. The club had gotten itself into financial difficulties, and North Midland suggested that a mutually beneficial solution would be for the Society to develop a superstore next door and use the Football ground car-park to service the common requirements of the Store and the Club.

Thus was NORMID 2 conceived and developed.

The term "NORMID" is a derivation from North Midland, and this relates not only to the Society

but also to the North Midland buying co-operative, a joint venture between a number of midlands co-operative societies which provides competition for the Co-operative Wholesale Society in the negotiation of purchase contracts.

Normid 3 was built from an old Co-operative Bakery which had been previously sold to J. W. French (now Spillers-French) and closed by them. Once again the emphasis was on low-cost acquisition to minimise the value at risk. Coupled with low initial investment there was an underwriting of the risk by alternative-use planning. The Society was very much in need of a non-food warehouse and each superstore was developed with that fall-back in mind.

Normid 4 barely scraped into the classification of Superstore, but the definition rested not on size but on the marketing and merchandising philosophy applied to the Normid concept.

The area around the A34/A500 junction had been identified as a potential site by the CWS survey team.

The location consisted of a 1.4-acre scrapyard and a 4-acre field.

Harry Lovatt's approach to acquiring the site was in two stages. Firstly he obtained a pair of overalls and approached the owner of the scrapyard as a fellow-dealer, interested in expanding. The proposition was attractive to the owner who wanted to release his capital. £16,000 changed hands - £14,000 for the site and £2,000 for the scrap, and Harry Lovatt went away to change out of his overalls.

His next approach was to the owner of the adjacent 4-acre field. Discussions started about the purchase of another piece of land owned by the owner of the field. This he was not willing to sell. An apparently disappointed Harry Lovatt came away having acquired the real objective of his bargaining as a "consolation prize" - for £5,000. Thus, 5.4 acres of land had been purchased for £21,000 (including the scrap).

A set-back was experienced with the local authority who refused to grant planning permission for a superstore. They were, however, interested in developing an industrial site. Negotiations took place concerning the clearance of the scrap, the purchase of further land in the area and a contribution to an access road. The Co-op emerged with planning permission for a 150,000 sq ft. development consisting of 2/3 warehouse and 1/3 selling. The land and buildings cost a total of £1.6 million. Later planning permission was obtained for two hotel developments on the same site, of 50 and 100 bedrooms respectively.

A key factor in the negotiations was the backing of the North Midland Board, which had complete trust in the commercial activity of its senior management and therefore allowed them to act in an entrepreneurial, non-bureaucractic way.

That North Midland Society was taken as a serious contender in the market-place was confirmed by their experiences in Macclesfield where they acquired the site in competition with Sainsburys and in Longton, where Asda were competitors for the store location.

The suggestion that initial developments were facilitated by an absence of competition was firmly rejected by the present CEO, Harry Lovatt. On the contrary they were in an area well populated with discount operators, including C-N-C (later taken over by Kwiksave) and Sweatenhorns, later to become Victor Value and then Tesco. Later, Fine Fare, Asda, Sainsburys and Tesco came into the area, but Tesco have undertaken a rationalisation programme due in part, it was felt, to the pressure of North Midland competition.

Market share was built to the point of saturation, when expansion could occur only geographically or functionally (into Funerals, Travel, Leisure etc.).

There was a shoppers' survey done in 1970 by CWS, and as a result of that the Soceity decided to target the B1, B2 and C1 sectors, building upmarket stores with excellent carparking facilities which would attract custom from a catchment area of between 10 and 30 minutes off-peak driving time.

This strategy reflected the greater income stability in the chosen market sector whilst capitalising on the lack of shopping foci in the area and the consequent tendency for consumers to gravitate towards Manchester. The market potential was not, therefore, constrained by local competition. The competition was 40 miles or more away for the targetted consumers.

But what of the traditional 'Co-op' shoppers who patronised the former six Societies? Harry Lovatt's answer was that they still shopped with North Midland. The move into hypermarkets had been complemented by the development of "filler" stores - units of 2,000-6,000 sq ft in the high street or on residential estates. The filler stores had been created by refurbishing existing shops or by building new ones. Although the numbers of small shops had declined substantially on a planned basis the public's perception was of store openings rather than store closures. Each closing store had large notices announcing the "Business is to be transferred to ....", with an address within walking distance of the closing unit. Customers going to the address would find a high-quality shopping environment under the Co-op label. Openings of new or refurbished shops were supported by extensive press advertising emphasising the "creation of new and superior shopping facilities at our ..... St. Branch". Thus it was that a ratio of four closures to one opening or refurbished store could be presented to the public as an expansionist policy. The same central philosophy of providing a range of competitively priced quality merchandise in a pleasant environment was applied to the filler stores. At the same time it was recognised that the creation of an up market ambience for merchandising quality goods could, paradoxically, allow the intrusion of a carefully selected and controlled range of cheaper items, which would enjoy an imputed quality derived from their setting. The juxtaposition in effect caused an apparent levelling - upwards, broadening the market whilst not deterring the targetted consumers.

There were still some poor quality shops. They were in areas without development potential and existed as a service. No investment would be put into them.

Given the number and size of North Midland shops in relation to the total area, there would seem to be some overlapping of catchment zones. This was acknowledged by Harry Lovatt, but again was something that had been foreseen and planned for. Whilst the filler stores were merchandised

under a prominent "Co-op" label (albeit with considerable sensitivity to the environment, as at Holmes Chapel and Nantwich), large stores were very deliberately developed along individualistc lines to create distinct and separate identities. The Co-op identity is subservient to that of the store. Different physical formats create units as diverse as the two-storey Macclesfield store, the gigantic Talke hypermarket and the Hanley Home-maker, with its £1,500 suites and quality carpets. (The Hanley store is an interesting example of entrepreneurism; the ground was rented from the local authority and the society then re-rented the airspace above the store so that the local authority could build a multi-storey carpark, linking the Co-op with other crowd-pullers such as Marks & Spencer.) Thus, the concept of "catchment area" becomes broadened beyond its geographical limits.

### 3.2 Strategy

"Define 'Strategy'" was Harry Lovatt's comment when asked whether he had one - and if so was it written down? From an Ansoffian viewpoint the question was something of a conversation-stopper, but a concept of goal and objective-setting followed by the formulation of enabling policies including the identification of product-market segments and the manipulation of strategic resources via an appropriate corporate structure was quicky put over. Yes, there was, then, an informal concensus on strategy within the Society but nothing written down.

Strategic considerations led to the early definition of a product-market segment and to a rejection of the idea of following a traditional Co-op path of competing at the lower end of the market. The CEO remembered a catchphrase repeated by the CWS Chief Officer, Arthur Sugden "this is the opportunity of a lifetime; seize it within the lifetime of the opportunity". North Midland had been quick to recognise the direction of the market and had reacted to it with the alacrity needed to "seize the opportunity". This had involved making extremely quick decisions in the property market, possible because of an intimate knowledge of the trading area and the availability of suitable sites, but also because of the unfailing support of the Board in the decisions of the executive.

The strategy also consisted in recognising strengths and weaknesses "Doing what we're good at".

Thus, clothing and footwear were out; food and durables were areas of proven performance and so were built on in the context of large stores. Customers would come from Tesco, Times Furnishing and Cavendish Woodhouse, and be drawn back from Manchester.

The strategy is translated into financial performance objectives by the budgeting process. At a lower level of detail, product performance is monitored both by internal and external comparisons. Customer service, embracing concepts of stock range, store ambience, attitudes of staff, peripheral and support services is monitored by shops inspectors and by area managers. A telling comment was that Harry Lovatt knew each shop manager personally and was aware of his or her potential. He had a policy of visiting each shop himself at least twice a year and experiencing first-hand the state of the shop and the attitude of its staff.

The success of the NORMIDS generated profits which were ploughed back into community service in a number of ways. The perception of "Co-op" objectives was refreshingly "hard-nosed". To take over failing societies and make them profitable was to preserve a shopping opportunity for the community - but this was very clearly not seen as synonymous with subsidising failure and preserving non-viable situations.

A further example was the current joint project with a developer to re-develop Crewe town centre; North Midland and the developer have a 50:50 stake in a joint company.

The Society under-wrote a worker co-operative in the ceramics industry by guaranteeing a £250,000 bank overdraft. Subsequently the worker co-operative failed and the Society took it over. Experimentation has been carried out in other retailing areas by the provision of risk capital. There is seen to be no contrariety in the ideas of community service and commercial realism.

Attitudes towards the "Co-op" image were more ambivalent. "There is a Co-op logo on all of our stores" was a response which could have indicated a degree of reservation. The paradox lay in the disadvantage conferred by traditional "Co-op" associations in the public mind against the impossibility of changing those associations other than by an overt identification of "Co-op" with

the best in NORMID-style retailing. I suggested that the slogan "Co-op difference", prominent in a previous national advertising campaign, could actually be counterproductive. Those centres of excellence such as the NORMIDS tended to be judged on an individual basis and the generic association was with comparable operations run by Tesco, Sainsburys, Asda, Fine Fare etc. The unique "Co-op" attribute therefore became identified with the small poorly-run shops in traditional buildings with the blue and white logo prominent on down-market facades and with inferior service; the "Co-op difference" was transformed into a marketing liability, not an asset. Harry Lovatt agreed with this view and pointed out that there was an increasing trend towards marketing stores under alternative images - NORMIDS in warm brown and cream decor, Leo Stores under CRS, County Stores as part of Cumbrian Co-op, Priory as a trading style for North Eastern Society's garages and many more.

The Co-op own label goods could be an asset if the CWS could get its pricing policy right. Own label generally was coming into greater prominence. (In fact, it is a major platform in Sainsburys current marketing and advertising strategy, with an association with quality strongly reinforced). The great advantage of own label was that it removed the pressure of price comparisons and opened up possibilities in profit margins.

The Society had developed its own warehousing and a high degree of buying independence, and felt that the CWS had little to contribute through their Regional Distribution Centres. Harry Lovatt saw the need to sort out the "Manchester situation", in particular the degree of duplication between CWS and the Co-op Union.

On the subject of the Co-op's non-commercial goals, the view was unambiguous. The Co-op should get out of politics and stick to retailing.

A component of North Midland's success was the ability of its Chief Executive to mix on a non-partisan basis with leaders of commerce and local government. To Tories he was true blue, to Socialists an appropriate colour of pink and Social Democrats applauded his middle-of-the-road commonsense. An amusing anecdote was recounted about a business colleague who was a

prominent brewery-owner in the region. The family had been scandalised when one of its members had confessed to shopping at the Co-op and a strict patriarchal edict had debarred further contact with an organisation whose views and objectives were anathema to everything the brewery family stood for. Having a good acquaintance with the people involved I could well believe their reaction to be an extreme expression of a generally-held belief by a significant sector of the market penetrated by the NORMIDS at the top end of their trade.

The feeling was that saturation point had been reached in the existing North Midland trading area and that further expansion could arise only from functional or geographical diversification - into funerals, travel, garden centres, general leisure etc. or by further takeovers of societies in surrounding areas. (In fact North Midland took over Greater Lancastria Society to extend its boundaries into the Fylde Coast and the Lake District but the new combined Society - United Co-operative Ltd - is outside the scope of this thesis.)

Asked about the Co-op Union's "25 Society" concept, the Chief Executive was very clear that the ultimate way forward would be through a National Co-operative with a regional structure, to compete with the other national multiples.

### 3.3 Management Style

The 1968 idea of a policy-making body taken from the Society's senior management and meeting on a weekly basis has continued up to the present time. Since 1968 the major change has been the strengthening of the finance function with the appointment of a Financial Controller (the position has been further upgraded to that of Assistant Chief Officer under the UCL reorganisation and has been broadened to incorporate business development). All planning, whether at corporate, business or operational level starts in the same forum. Plans are translated into actions by communication downwards through the various levels of management and reactions are communicated upwards. Disagreements are resolved in formal and informal discussions and management is by concensus as far as possible, with the backstop that the Chief Executive Officer is in control and whilst he is open to influence, his authority will ultimately prevail.

Performance targets tend to be self-imposed with real participation by Branch and Area managers. These are incorporated into financial budgets, for which central guidelines on inflation and other exogenous factors are provided by the finance function. Particular emphasis is given to personnel numbers and key indicators in the hypermarkets are almost self-checking by inter-store comparisons. The general feeling of an outsider examining the budgeting process is that a successful formula has been cloned and refined by frequent repetition and examination.

A surprising statistic is that 75% of managers are "homegrown". As expected, this arises out of a well-defined training and succession policy. The original hypermarket managers were recruited from within the Society. One of the valuable inheritances from the constituent societies was a number of people in the 50 year old age-group who, having been denied the benefits of higher education opportunities by the deficiencies of their era, went into retailing at a time when it was staffed predominantly by males and provided a good career path. Some of them would in modern-day terms have been "high flyers" a claim supported by the success they brought to the management of large and sophisticated trading units.

Presently hypermarket managers are recruited into the Superstores Division from high turnover shops. they then progress into more senior management positions with the goal of achieving hypermarket manager status. Success is rewarded by career progression. Within the shop structure, managers who perform well are moved to progressively larger units. Those who perform badly pass them on the way down, some eventually falling out of the system altogether when remedial opportunities are exhausted.

The move into the Superstores Division is a significant one, and is reversible without loss of status. The simple fact is that a good small shop manager may never make a good hypermarket manager but that is not taken as a slur on his worth in a different arena.

Some graduate intake occurs, mainly from the Co-op College. Additionally external courses at Polytechnics are supported and rewarded where successfully completed. Great interest is

evidenced by staff in training opportunities within and outside the Co-operative Movement.

There are no bonus schemes, but salary scales are both reasonable and geared to performance. Salaries paid within hypermarkets are geared to that of the manager so that the entire team is given an interest in working together to enhance store performance.

Branch manager payscales are generally competitive. Trainees are, on demonstration of worth, given special assignments which merit special consideration for levels of salary. Throughout the Society, therefore, remuneration is related to longterm achievement.

Some degree of autonomy is generated at branch level in terms of stock range and mix and the control of personnel costs. There is a basic shelf profile set centrally but this does allow for some flexibility, which increases with size of store and the lifting of some purely physical constraints.

Information about the performance of the business generally, about new policies, about mergers, about staff matters etc. is circulated five or six times a year by the Chief Executive.

Ideas from branch managers are encouraged through their area controllers.

Considerable use is made of external sources of information and expertise, including the Co-op Union, the CWS (Marketing, Retail Planning etc.), architects, estate agents, property developers and suppliers who, together with more formal sources, provide indications of product performance.

High-level contact is maintained with local authorities in the trading areas, and the Chief Executive is able to speak to his counterparts in Blackburn, Bolton and Liverpool on first-name terms.

At each yearend the Financial Controller produces a statement of comparative performance indicators in which North Midland published data is compared with a spectrum of leading multiples.

No single competitor is generally regarded with particular apprehension. Competition is judged

on a location basis and steps taken to counter threats in the relevant catchment areas.

Advertising is regarded as vitally important and the budget is set at precentages of sales, viz: 1% for Superstores and Hypermarkets, 2% for Non-Food. The Society's trading area covered two TV regions, Granada and Central, consequently the expense of total regional coverage was very high. As a result the only TV exposure is through composite advertisements (eg Granada-Land Co-ops Christmas Campaign etc.). North Midland is fortunate in having good press coverage of 90% of its trading area and so the main bulk of advertising is newspaper and local radio.

Harry Lovatt concluded by identifying some general trends in the market-place.

He believed there was a trend towards heavily discounted operations along the lines of Kwiksave. More "Eight 'till Late" stores were appearing. The Superstores should concentrate on a different approach with more upmarket developments, bigger stock ranges, more instore facilities and better service. The Superstore of the future would be more than simply a place to go to buy groceries, and North Midland would be preeminent in those new developments.

## SUMMARY AND CONCLUSIONS

Harry Lovatt's comment that "There's nothing difficult about retailing - you just buy and sell things" is the sort of remark that the successful can afford to make about their field of endeavour, confident that their self-deprecation will be contrasted with the relative failure of their rivals.

The same grudging attitude which sought to diminish the achievements of Farrow and Lovatt by rationalising it in terms of "no competition" is evidenced more recently in "Supermarketing", where the price paid by Sainsburys for a
supermarket site (£15 million) is criticised by the Chief Executive Office of non-performing Oxford Co-op as a sorry indicator of the way retailing is degenerating into a business about big money buying up High Street trade.

In fact, the charge of no competition was not true. The Potteries was served by a number of discount operators. The skill of Farrow and Lovatt was to identify a product/market sector with, at the same time, potential for growth and the right return on a minimal capital outlay.

A number of factors worked in their favour. In the first place the market they identified - the B1, B2 and C1 sectors of society were badly served by existing retail outlets and so, with their superior mobility they simply transferred their business to Manchester.

The retailers were similarly badly served by the local authorities, who were slow to offer suitable sites with adequate services, such as carparks.

The Potteries area was sufficiently compact to enable up-market shoppers to satisfy their demands outside its boundaries.

Thus the potential for entrepreneurial intervention was considerable. Using Lovatt's maxim, the opportunity of a lifetime was recognised and siezed within the lifetime of the opportunity.

Once again, four major factors combined to support their plans.

The first was the level of resource they had inherited from the constituent societies, consisting of experienced and ambitious shop managers who regarded retailing as a career rather than simply as a job. On this core of experience, they were able to build a management team capable of dealing with large stores.

Secondly, the two senior men were able to bring their plans to fruition in a totally non-Co-op-like way, thanks to the unfailing support of the Board, whose expression of confidence was voiced in their non-interference in the commercial activities of the business. As a consequence, Harry Lovatt's adventures impersonating scrap dealers were successfully possible.

Thirdly, the density of existing Co-op shops in the area enabled the target market to be truly

supplementary to the existing traditional business. Skillfull marketing of a rationalisation policy gave it the appearance of expansionism. The liquidity and talent thus released enabled a major diversification policy to be implemented whilst enhancing the quality and appeal of the existing trading base.

Fourthly the compact size and area of the Society enabled control mechanisms to be personalised. Harry Lovatt made the point that he knew all the Society's managers individually and that he visited each shop himself twice a year.

The method of expanding the business actually re-inforced the potential for entreprenueurial rather than bureaucractic control. The number of units fell steadily, and the quality and structure of management was increased progressively. Hypermarkets can be easily monitored in terms of financial performance, and key criteria uniformly applied over compatible businesses. Learning is therefore transferrable and lessons quickly implemented by competent personnel.

The building-in of a career structure, with rewards in the form of upward progression and with the remuneration structure designed to promote synergy amongst senior store personnel has led to a degree of stability and succession in the management hierarchy such that 75% of managers are "home-grown".

All this has fed through into a financial performance remarkable by Co-op standards.

It has given rise to a number of indicators which are of fairly profound relevance for the Co-operative Movement as a whole, and which will be examined in a later chapter.

* Co-op News June 4, 1974

** Co-op News April 26, 1978

# CHAPTER 6

## COMPARISON OF THE NECS LTD AND NORTH MIDLAND CO-OPERATIVE SOCIETY CASE STUDIES

### 1 Introduction

The siting of the case studies in the North Eastern and North Midland Societies was done with the intention of addressing virtually the two extremes of the continuum of Co-operative Societies and assessing whether the model provided a conceptual framework within which to draw valid and structured comparisons and conclusions about the two organisations.

The method of drawing the comparison will be in terms of the elements of the model per se, but also in relational terms so that dynamic interactions between elements are drawn out. The results of this will then be used in an evaluation of the model itself as an analytical and prescriptive device.

### 2 History and Environment

The most obvious distinction to be drawn between the two Societies is the size of the area they serve, with the distance between the northernmost and southernmost shops of NECS representing two days' driving time often on rural roads. By contrast North Midland's area is extremely compact and densly populated.

The number of shops within each of the Societies is another important feature. North Eastern had inherited almost 400 properties, most of them in a state of total or partial dilapidation (as described in the Durham Survey, quoted in Chapter4). The asset base inherited in the form of 264 units by North Midland would not have inspired a property magnate but did provide development or market potential as witnessed by the subsequent post-rationalisation profile of trading units (down to 118 by late 1984).

The siting of shops in relation to markets represents a further difference. In the North East,

a major structural decline in the economy had caused significant population shifts away from the scattered mining communities and into urban centres of population. Further decline of staple industries was experienced and only partially offset by the creation of new towns and new jobs under the regional aid programmes. Moreover, the Co-op's reputation made it difficult to be accepted as a part of new-town development, as local authorities and developers favoured the multiples with their ability to make rapid decisions, their record of growth and their proven ability to attract customer flow into the area.

North Midland, centred on six existing towns, had properties in viable sites ready for development. Its senior management was keyed into the property and development market in the compact trading area and did not experience the same barriers of credibility with town planners and property companies.

Whereas the customer base in the North East was shifting away from Co-operative strongholds, in the Potteries the problem was one of exploiting a market opportunity by recognising the drift to Manchester by the upper socio-economic groups as a comment on the lack of parochial shopping facilities. Development was not therefore undertaken in pursuit of an existing market but as a genuine expansion into new markets offering prospects of stability in non-food areas as well as in the traditional Co-op grocery trade.

Human resources inherited by the two societies appear to have been different, in that the CEO of North Midland recognised a base of solid male careerist managers upon which he was able to build an expansion strategy; the North East CEO by contrast pointed to the quality of managers of small shops as one link in a chain of mediocrity, where the size of the shop limited earning potential which in turn disqualified the employment of entrepreneurial staff, thereby precluding development. Worse still the intrinsic hopelessness of the small shop scenario appears to have infiltrated back up the chain of command so that ineffectiveness of control was a major indictment by the recently-appointed Retail Controller.

The key to effectiveness at corporate level is the attitude and support of the Board for the decisions

of the Executive. The system of local boards and vociferous minorities with collateral ambitions was identified as a constraint by the North Eastern Chief Executive Officer. By contrast, the North Midland Chief paid tribute to the immediate and unstinting support of his Board for the policies of the Executive.

Competition within the trading areas appears to have been of a comparable order. In the North East the multiples were active across the range of goods and markets, supplemented by established local firms. In the North Midland, local competition was concentrated at the discount end of the market but the effective competition in the upper market-place was from the major Manchester Connurbation with its vast range of suppliers and services.

## 3 Strategic Responses

The elements of style, strategy, structure, process and performance have been merged for the purpose of the analysis. This reflects the fact that they are not independent elements, but are strongly inter-reactive with the direction of forces as important as the components.

The North East management's response to its situation was to conduct a "holding" strategy as far as the inherited components of its business were concerned whilst undertaking diversification into collateral areas such as travel, garages and funerals. Nevertheless in value terms well over 50% of the Society's turnover continues to derive from food. The rationale of diversification was clearly to produce a broader trading base and generate profit and cash flow. In fact, the latest information suggests that certain of the new business areas (Garages, for example - turning over £30m annually) are net users of funds, a fact previously masked by poor management information and the impact on liquidity of asset disposals. Only recently, under the influence of the new Financial Controller, has the concept of departmental capital employed been put into practice, and this itself is made more difficult by technicalities within the MIS system which cause the major CWS creditor movements to be wrongly treated at Departmental level from a cash flow viewpoint.

In terms of the model, there has been an inheritance of a non-viable structure resulting in inefficient process and, hence, poor performance. The resultant lack of profitability has represented a constraint on the ability to change <u>structure</u>, which has itself compromised the implementation

of a growth strategy. A further negative influence has been exerted in the management of the sourcing of funds where gearing has increased at very high marginal levels of interest, putting profitabiltiy and long-term cash generation under increasing pressure.

Because of the poor quality of middle management, remedial policies instituted by the Chief Executive Officer with support from CWS specialists have failed when the specialist support has been removed. Lack of effectiveness in control has allowed inefficiencies to dominate process with the result that such cash as has been generated from sales of assets has tended to fund trading losses and excessive working capital rather than growth.

The control processes have been essentially bureaucractic, with the entrepreneurial skills of the Chief Executive Officer frustrated by a lack of relevant information and a lack of middle-management support.

The lack of growth in major business areas combined with the bureaucratic reward structure (designed by Hay/MSL) has failed both to generate performance-related salary scales and to provide a career structure for successful managers.

Therefore, all the forces in the model have been counter-directional and against the Chandlerian concept of structure following from growth strategy.

Recently this "circle of mediocrity" has been broken by the creation of a new (to NECS) retailing concept in the form of the Longbenton Hypermarket and a planned series of Superstores. The initial development has been largely funded out of working capital released by the actions of the Financial Controller.

The development has coincided with major changes in senior management and the reorganisation of the management structure to remove former 'Divisional' barriers.

Significantly the entire development has been imported and planted within the existing Society.

its purpose is clearly seen to be to generate profit and cash flow, but more importantly, to act as a vehicle for the implantation of multiple-style retailing, with large efficient units generating their own magnagement information, providing a top-end career structure for the motivation of management Society-wide and setting standards of excellence and effectiveness which will infuse the society at all levels.

The development represents a clear statement by the Chief Executive Officer and his Retail and Financial Controllers that the next stage of growth will not materialise organically and must, therefore, be bought in, with the recognition that initially, the Galbraith and Nathanson design variables are led by 'People' with structure, product/market strategy and information and decision processes temporarily subordinated.

From a business rationale viewpoint, the subordination of the product/market strategy is of some concern in the sense that if strategy is basically non-viable then all else is in immediate peril. Having found the initial investment from working capital, the Society could not support a drain on its liquidty of the magnitude implicit in a serious misjudgement of viability, of such a significant influencer of cash.

Initial results were encouraging with turnover at #500,000 for each of the opening weeks. Subsequently turnover fell off and there is some anxiety to know where it will stabilize, particularly as such financial modelling as was carried out indicated a high downside risk.

In contrast with the North Eastern Society's holding strategy, North Midland decided to tackle the mainstream business of the Society - Food and Non-Food.

Faced with the prospect of a substantial trading base and no profit their priority was not only to rationalise their outlets but to examine their product/market segment and generate some income and cash flow.

Secure in the knowledge that the "people" variable of the Galbraith and Nathanson model would

support an expansionist policy the Society went ahead with an intial development of a former department store.

Whether product/market or structure come first in their thinking is not clear. Quotations from the former Chief Executive Officer do not help; on the one hand he is reported as saying:

"Our other superstores have accented food sales to a large extent and we have found this to be very successful. The (Talke) hypermarket will, therefore, have an extensive food range, but our main objective will be to improve our overall non-food penetration in the belief that this will provide a service in the North Staffordshire area which is totally unique and will fill a pressing need."

Again, the former CEO is reported:

"In the present economic situation it may seem unwarranted to speak in terms of expansion for any commodity group other than bare essentials but perhaps this is even more reason for pursuing the development ....

"In this way we believe we shall be demonstrating (our) historical, if perhaps latterly dormant role in acting aggressively in the best interests of the consumer. That is our aim."

Clear statements implying a definition of the product/market segment, one could argue and support such a statement by reference to the CWS survey identifying superstore and hypermarket sites, albeit with some reservation that the majority population profile identified by the CWS was actually the market aimed at in the hypermarket developments. (ref: Table 5, Chapter 4)

On the other hand, the concept of out-of-town one-stop shopping facilities is represented as being brought back from Sweden by Farrow and Lovatt and transplanted into the UK. Quoted at the opening of the Tunstall store, Farrow stated:

"This store is our interpretation of the requirements of present-day consumers. It is large, spacious

and carries a wide range of food and quick replaceable non-food items."

No-where is the "consumer" defined and there is some doubt as to whether it is the store or the merchandise within it that is the saleable commodity.

Whichever came first, the fact remains that North Midland provides an example of the model working in a Chandlerian direction with the momentum being generated by strategy and structure and flowing through into process and performance.

Management style was incontestably entrepreneurial, albeit tempered by research findings from both the Society and the CWS. The early setting-up of a management team which met - and still meets - on a weekly basis to determine policy at corporate and business levels indicates a strongly participative approach; this view is reinforced by the degree of freedom accorded to both hypermarket and ordinary store managers and by their active participation in the setting of budgets, etc. There is no doubt, however, that the Chief Executive - former and present - is ultimately in control.

The method of expanding the business reinforces the entrepreneurial approach because the number of outlets has fallen to less than half its original value. A successful formula has been cloned and so the learning curve has been refined through frequent repetition. A small number of key performance parameters suffice for reporting purposes, and reliance is placed upon the businessmen who manage the individual stores to control operational aspects. Thus control is vested at the lowest practicable level whilst policy-making is firmly at the centre.

Effectiveness is finally assured by the personal attention of the Chief Executive Officer to the business of retailing, and he was quick to point out that he visited each store at least twice a year and knew each manager personally.

The motivation of career progression is integrated down from the hypermarket managers to the smallest community store, but with a safety net for those whose forte is in the smaller more personal

shops rather than as large store administrators. Within large stores, the reward structure, linking salaries of interdependent functionaries, promotes goal congruence and synergy.

The loose identification with the "Co-op" image - in the identity of stores, in the membership of an external buying consortium and in the raising of capital for the first superstore development at Crewe from the Midland Bank, all point to an indepedence of mind which states that North Midland is a retail business first and part of a movement with other aims and priorities second. This is a feature shared by the North Eastern Society whose new hypermarket plays down its associations in the interests of broadening its appeal.

This break from the traditional 'Co-op' image and ethos could have a profound impact upon the Co-operative Movement, especially if the Lovatt concept of a National Co-op with Regional Divisions is ever brought about. The matter of the wider implications for the Movement is considered in Chapter 7.

Reference has been made to lack of proper management information, and the deficiency is common to both North Eastern and North Midland. Historically, the tendency has been for rudimentary computerised systems to be developed over many years by CWS. The philosophy behind the systems has been to satisfy 80% of the needs of 150 small socieites and to concentrate on control and audit trail aspects in preference to the needs for management information. To some extent this is a reflection on the quality of mangement within the Societies, and to some extent it is a response to the concept of Bureau processing, where batch mode, the need to segregate and secure inputs and outputs, the need for Bureau controls and audit trails and the problems of scheduling workloads to accommodate peaks (payroll processing, for example) imply suboptimal priorities in designing systems.

Whatever the historical reasons for the situation, the fact is that the quantum leap from 31 Societies to 1 Society in the North East, and from 6 Societies to 1 Society in North Midland has not been mirrored in the management information systems. Consequently the Societies are aware that

they are "running blind" in a number of critical areas. The North East, with its more diversified trading base and wider geographical spread, is comparatively more disadvantaged than the North Midland.

Both Societies have responded by exploiting new technology to attempt to fill information gaps; in the North East ICL DRS micro equipment has been used extensively to process off-line data, extracting operational information at an intermediate stage and then passing summary financial reporting information through to the appropriate mainframe batch-fed systems. Examples of subsystems include stock control, utilities, fixed assets, etc.

In North Midland a similar approach has been adopted in areas of Sales/Labour reporting, product mix/margin reporting on top 300 lines, etc.

The subsystems, by definition, tend to serve operational needs and do not address the broader issues of corporate decision-making. Recent developments within CWS and supported by the six largest retail societies are now seeking to remedy the situation, but developments are too little advanced to incorporate meaningfully into the study.

Preliminary investigations have served to highlight Management's awareness of deficiencies, and their apprehension that concentration on the financial and executive reporting database may deprive operational systems of scarce development resources and result in the businesses going out of control. Exactly similar reservations were expressed independently and spontaneously by both North Eastern and North Midland management.

Consideration of the extent to which poor management information has influenced growth strategy is interesting, but not verifiable.

In the case of North Midland specialisation in hypermarket management has been the key with repeated learning curves, entrepreneurial control and trend information on product mix and margins offering rudimentary management information. The large scale of store developemt

offers the possibility of instore management information systems generated from instore transaction analysis at point-of-sale. This is being experimentaly installed.

In the North East, diversifications have been into areas which offer both high returns (Garages and Funerals) and the prospect of internally generated management information. In fact, this latter objective has not been very successfully realised.

The diversification of localised management information systems itself introduces problems in reviewing information, accessing it, cross-system compatibility of treatments and the inability of parochial and discrete systems to handle centralised functions such as cash management, mangement of creditors etc. The Divisional Managing Directors are effectively, therefore, looking at incomplete records and the management processes are compromised thereby.

## 4. SUMMARY

The two Societies, North Eastern and North Midland have their genesis around the same time - the end of the 1960's.

Since then they have adopted radically different approaches to the retailing world, with differing rates of success as measured by financial performance.

Arguably, the model developed in this study provides a reasonable vehicle with which to examine the components of the businesses.

The ENVIRONMENTS were radically different - the North East presenting an environmental influence which was essentially non-compatible with the historical and geographical inheritance of the Co-op, with the breakdown of a socio-economic and demographic structure in which the Co-op's roots were embedded. By contrast the North Midland's environment offered scope for expansion into new product/market segments and the retrieval thereby of a substantial volume of regional trade which circumstances had forced out of the area.

The size and structure of the organisations and their geographical spread enforced a system of bureaucratic control on the North Eastern Society, whilst the same elements were conducive to entrepreneurial control in North Midland.

Support by the Board for the Executives reinforced the geographical and structural factors in both societies. In the case of the North Eastern Society the Board represented a constraint on the Executive, whilst in North Midland it reinforced the entrepreneurial proclivities of the senior management.

Growth strategy in North Midland directly influenced structure, both in terms of the top management organisation and of the type of store developments achieved. Therefore, the Chandlerian concept was fully vindicated. In the North Eastern Society, structure and performance were seen to be constraints on strategy.

Process in North Midland was beneficially influenced by entrepreneurial management style, with effectiveness monitoried by the Chief Executive Officer on a personal basis.

In North Eastern, personal control was impossible and so the monitoring of effectiveness had to be achieved through bureaucratic processes. The control process was hampered by on the one hand inadequate management information (too little, too unfocussed, too late) and on the other hand by ineffectiveness of middle management. The top management were therefore caught in a spiral of escalating problems manifested in late reporting which occupied progressively more of their time to sort out. Process, therefore, combined with structure, performance, environment, antecedents and the Board to limit the potential for growth strategy. In such a situation the inevitable corollory is that the reward structure becomes relatively meaningless and the "circle of mediocrity" in which the human resource is a key component is perpetuated.

The solution identified by the North Eastern Society is to diversify; not into collateral areas of business with relatively little potential to influence fundamental trends, but into mainstream areas

of food and non-food, using the medium of the hypermarket as an engine for generating turnover, cash flow, profitability and an environment for external acquisition of high-quality human resource. In short, an externally fuelled Renaissance. The implicit problems of importing an alien culture are not here dealt with but are noted in view of the Edwardes/British Leyland experience referred to in an earlier chapter.

No such problems exist in North Midland, 75% of whose manageers are homegrown, motivated to stay by a structured reward system which links monetary rewards to team performance and which links personal excellence to bigger jobs.

In terms of the model, the most fundamental difference between the two Societies is the diretion of forces within and between the elements; the North Eastern Society represents instability of direction of forces, with strategy "squeezed" by the counter-influences of environment, history, structure, process and performance. North Midland is an example of the forces in the model acting in a single direction, thereby ensuring synergy between the elements.

In both cases, the Management Information Systems are poor.

The crucial question for North Midland is whether it can sustain a growth situation and maintain its business rationale in the face of the changing retailing environment and increasing marginal costs of expansion.

The crucial question for the North East is whether its de facto emulation of North Midland's development is sustainable as a concept, and whether the initial phase - the Benton Hypermarket - can be enough of a centre of gravity to realign the forces within the model so that they operate in a synergenistic manner.

# CHAPTER 7

## AN EVALUATION OF THE MODEL IN ITS PRACTICAL APPLICATION

This penultimate Chapter is approached as providing an opportunity for stocktaking - for standing back and reviewing the original rationale in restrospect; for forming a judgement on the original approach and assessing its effectiveness in relation to the objectives of the study.

Clarification of the objectives may seem a reasonable start-point for an evaluation of success in meeting them.

### 1. RESEARCH METHOD RATIONALE

There is a long-standing and oversimplified dichotomy in research between quantitiative and qualitative methods.

On the one hand there is atavistic desire to assign numbers and to view the world in terms of mathematical relationships between defined and quantified variables.

Such was the basis of the organisational modelling in the 1960's with the exploitation of the newly-available power of the mainframe computer to handle a relatively large subset of interdependent variables and to perform iterative processes derived from operational research theory to predict outturns of various scenarios.

The flaw in this method was essentially that it violated the philosophical prohibition of arguing from an analogy. The assumption was that the relationships between real-world variables in their dynamic interactions followed mathematical principles and that the outcome of a reaction between a number of defined elements could therefore be predicted. The second flaw in the theory was that all the interactive elements in a given reaction could be identified and defined and that they would

not be supplemented or changed in the course of the reaction.

The subsequent demise of corporate modelling in its 1960's form attests to the inadequacy of the method.

However, it did have a virtue in that the objectives were clearly defined, and were external to the methodology.

Objective truth - as exemplified by the numerate view of the world - is in some danger of being replaced by subjective cognition with the replacement of the object under examination by the research method employed.

This dichotomy was a central problem in deciding the nature and scope of the research project.

Within the environments under examination the "accounting view" of reality predominates. In effect, therefore, we are back to mathematical modelling, assigning numbers to variables and predicting the out-turns of various quantifiable scenarios. This is a utilitarian concept with the question implicit (and often explicit) "does your model tell me what to do to improve my bottom-line profitability?", the further implication being: "If it doesn't, what is its value?"

A valid question, and one that cannot be avoided without impugning the worth of the project.

The response was to examine all the elements present in the model in terms of:-

(a) Are they sufficiently important to be included, and

(b) Are they quantifiable?

If the answer to both those questions had been affirmative, then a mathematical model of the organisation would have been implied and there would have been an entirely different study

produced.

In fact the answers were a mixture of negative and affirmative; the affirmative answers to question (a) identified the boundaries of the study whilst the negative answers to question (b) established that the model would not be a mathematical one.

Further questions were then spontaneously generated, such as:-

- was the purpose of the study to achieve some greather depth of qualitative perception of the organisations under examination? By whom? For what purpose?

- How would that qualitative perception be verified? The epistemology of positivism suggests an "objective" form of knowledge that specifies the precise nature of laws, regularities and relationships among phenomena measured in terms of social "facts" (Pugh & Hickson, 1976, Skinner, 1953, 1957) whilst the phenomenologically orientated perspective challenges the idea that there can be any form of "objective" knowledge that can be specified and transmitted in tangible form because all knowledge is personal and merely a projection of the 'persona' of its possessor.

Assuming the subjectivist argument to be largely incompatible with any view of cumulative cognition, the questions in relation to the positivist view are:-

- does the qualitative perception engendered by the study give rise to any concepts or truths which are transferrable:

(a) between individual students (thereby contributing to the corporate body of knowledge), and

(b) between organisations (thereby establishing a basis and framework for comparison, evaluation and prediction)?

The first point raises important considerations of culture and relates back to the issue of whether or not human beings can ever achieve any form of knowledge that is independent of their own subjective construction. Brown (1977), Morgan (1980), Schon (1963) make the case that science of all kinds is basically metaphorical, the metaphor that theorists choose as a basis for their detailed theorizing usually deriving from very fundamental and often implicit core assumptions about human nature. This is particularly so in the case of the 'pure' sciences - notably mathematics and underlies the popular science fiction storyline where evidence of intelligent life is deemed to reside in basic number progressions which will be instantaneously identified and recognized by alien life-forms.

The further science departs from mathematical 'purity' the more culturally-dependent it becomes and the greater the importance attaching to cultural homogeneity as a precursor to communication and understanding. Language, as the vehicle of culture is particularly important as are the means of pan-cultural influence such as Coca Cola, blue jeans and television.

This is to state the problem on a macro scale, but the barriers which prevent the Christian fundamentalist from communicating with the Jesuit priest, let alone with a Zen Buddhist apply equally between the Yorkshire Miner and the Public-School civil servant or between graduates from the Harvard Business School and the Co-operative College at Loughborough.

Therefore, if the purpose of the study is defined as to achieve a greater depth of qualitative appreciation of the organisations under study in relation to generally applicable principles the dichotomy lies between the culture which has given rise to the relevant normative theory - the 'donor' culture (of which the author is a product) and the culture extant within the organisation under study - the 'recipient' culture.

This dichotomy can be overcome <u>either</u> by relating the study to 'commercial' organisations - ie those which are governed by a market-place rationale and therefore conform to the 'normative' profile of the Strategic Business Unit (Ansoff's phrase) - and then drawing contrasts with the Co-ops; alternatively it can be assumed that the Co-ops in their present forms represent varying degrees

of aberration, departures from the logical transition from socio-economic to commercial forms of organisation, and thus departures from normative theory represent failures of achievement or perception rather than some unbridgeable cultural gap.

Arguably the latter view is the 'survivalist' one, because like it or not the Co-ops exist in a commercial world and failure to come to terms with that fact will ultimately lead to their demise.

In real terms commercial pressures are forcing the issue, with a declining number of societies, the importation of professional management from profit-orientated competitors, firming up of the more nebulous 'social goals' into a concept of 'social dividend' (ie the re-distribution of profit back into the community) and the language of retailing and marketing replacing the 19th century political cant of the previous decade.

Therefore, the study can legitimately address a real audience of professional managers and be couched in the language of the business/organisational theorist.

It is an attempt to construct a framework for structured qualitative analysis and is, therefore, a device for facilitating the thinking process rather than for producing answers.

Such a description of purpose does itself raise a number of important questions, such as:-

- does the model as a whole represent an appropriate metaphor?

- are the elements comprehensive, well-defined?

- are the definitions of elemenets and relationship accurate or appropriate; are they so tightly drawn as to represent a constraint on the way in which reality is paraphrased in the model?

- how can real but non-tangible influences be represented?

- are the elements too "tightly" defined; does the requirement for a manageable level of complexity in the elements and inter-relationships belie the truth and invalidate the concept of the model?

These sorts of considerations were addressed in the construction of the model and the thinking was extended and/or revised to some degree in its subsequent operation, as described hereunder.

## 2. CONSTRUCTION OF THE MODEL

The model represents a macro view of the organisation within its environment. The focus is on the organisation in terms of its functional rather than physical elements, and not at all upon the 'actors' - whether customers, shareholders, stakeholders or managers.

The building-blocks of the model are discrete conceptual functional elements, attributes or processes. The reason for this is that such elements, attributes and processes can be defined and juxtaposed in relationships of interaction or interdependence and an iterative process of re-examination, re-definition and re-interaction can then be undertaken to provide an optimum 'fit' with observed facts.

As with the earlier quantitative models, there are constraints on the number of interdependent or interactive variables that can be dealt with; there is a compromise between degree of definition and complexity with the recognition that at some point the search for fineness of detail in defining the variables will result in a product of such size and complexity that understanding is forfeited.

Reference back to the purpose of the model will tend to determine the boundaries of the trade-off. If the primary purpose is to promote understanding, an incomprehensible metaphorical analysis is self-defeating. On the other hand, proponents of the mathematical mdoelling techniques will be well aware of the dangers of extrapolating a composite variable and the need to analyse it into its components.

An example relative to the model is the element of 'management style'. Because of the basis of

construction this is a corporate phenomenon, rather than an aggregation of the individual styles of the actors. But it is quite possible to speculate that other elements within the model (process or performance, for example) will cause the mix of actors to change, which may itself precipitate a change in management style - not necessarily in line with expectation.

The model is based upon normative theory and this is quite acceptable in terms of evaluating general behavioural characteristics of organisations where individual aberrations may tend to cancel each other out. However, within a single organisation where the varied sub-goals of dominant individuals cannot be either known or anticipated, the application of stereotyped theory has some limitations.

This is not an argument against the way in which the model is constructed, but rather a caveat against an uncritical acceptance of stereotypes to explain or describe real-life situations.

A similar caveat attaches to the assigned direction of forces within the model.

The construction indicates an oppressive environment, and within that, the general direction of influences is assumed to be from "left to right" ie strategy influences structure (in line with Chandler) and they jointly influence process. Performance is then a function of process with the consequences of performance evaluation feeding back into strategy and process.

This is an example of the application of normative theory; in fact, experience in the operation of the model led to some modification of views as will be described later.

In a qualitative (as against a quantitative) model it is possible to consider influences of both a tangible and intangible nature; organisatinal culture is one example, where the attitudes of mind predominating over an extended period influence the way in which the organisation responds to stimuli. Culture is perhaps manifested in the actors, albeit transmitted by the organisational mores. An example may be "effectiveness", where the application of an identical management style, strategy, structure, process and reward structure in two organisations in the same industry may

result in entirely different performances. The differences may well reside in the fact that one organisation is historically made up of 'satisficers' - ie those who are content to 'get by' whilst the other is performance-orientated and staffed by 'optimisers' - ie those who are motivated by achievement. The problem then is to add a time dimension to elements which prima facie seem incompatible. Is the present management style of recent origin, and is poor performance a function of cultural inertia? Is the managment style compatible with a pervasive social culture which will over-ride the organisational culture? Is the model diverting attention from the real problem by seeking to stereotype and simplify relationships which are very complex in terms of historical associations and social interplays?

One of the reasons canvassed for the success of the new industries in towns like Northampton and Milton Keynes is that the tendency for a high influx of population from geographically distant sources tends to ensure that there is no dominant social culture to counteract that of the organisation, therefore imprinting of the organisational culture is relatively easy and leads to a closer identification with company goals. This principle tends to be wrapped up in terms such as "quiescent workforce", etc and is an attraction for the establishment of those companies whose sophistication in technology or marketing carries over into manpower planning. The element of culture was added to the model as a result of its operation as will be described later in the chapter.

If the purpose of the model is to foster an understanding about organisations, then that understanding must be transferrable, to be of any utilitarian worth. In fact, because the model is based on normative theory it can be assumed to be of general relevance, and the test for the purposes of this study is whether it is also relevant to the Co-operative Societies under examination, and in broader terms to the Co-operative Movement as a whole. The secondary objective of the study is to be able to make some structured comments about Co-operatives in general based on the analysis constructed by applying the model to two large Societies. (In fact, one conclusion may be that these societies, although different, are alternative archetypes for the "Co-op" of the future.)

By defining the Co-ops studied as particular types of a much wider organisational genus it has been possible to use the model to identify distinctive characteristics and interpret and predict in relation

to normative theory. This is seen as a far more useful approach than that extant within the Co-operative Movement, which establishes the Co-operative form of organisation as something entirely unique and therefore outside the scope of analyses based on normal organisational, commercial or economic theory.

## 3. OPERATION OF THE MODEL

By 'operation' is meant the process of using the model to analyse the businesses under examination ie the North Eastern Co-operative Society Ltd. and North Midlands Co-operative Society Ltd. Immediately, a caveat relating to the research method needs to be stated in that to some extent any empirical evaluation must be subjective, and so at some point the comparison with the model is made between it and a view of "reality". This takes us back to the earlier discussion about "reality" and it is not intended here to repeat or expand upon the philosophical arguments, but merely to emphasise their relevance to the present study. The process of checking back with the respondents to the questionnaires used as a basis for the perceptions formed is really an affirmation that concensus is related to objectivity - ie that a generally held view of something is more 'real' than a purely personal, unsupported impression.

Management style is again used as an illustration; the writer was not privy to any of the decision-making processes within either organisation and so the degree of participation vs coercion, for example, could not be known. Nor is there any way in which a better approximation to the reality could have been achieved, because to be present in the decision-making forum itself is not to understand any of the background influences or nuances which determined attitudes adopted in public. Again, this is not a criticism of the model or of the research method but rather a recognition of its limitations.

In applying the model certain ommissions became apparent and certain problems with the construction were revealed.

The model assumes a degree of stability of elements and relationships over time, and some of its elements - such as structure - imply a degree of inertia which guarantees stability. The juxtaposition

of unstable elements with those inertial components is not specifically addressed, although in reality it provides a source of tension. For example, a strategy which lays emphasis on responding to the market-place and excercising a professionalism in areas of range-planning, merchandising and product performance analysis is clearly incompatible with a structure centred around traditionalist "store-minders" and the resulting tension, arising from ignorance, from resistance to innovation and from difficulty in adapting to new requirements manifests itself in ineffectiveness in the way in which strategy is implemented.

Nor is there any particular attention paid in the model to the phenomenon of the dominant individual. At the outset it was emphasised that the basis of the model was the organisation and not the actors therein. However, arguably the individual who can dominate policy and impose his will on the organisation is of greater status than an 'actor'. By and large, Co-operative Societies are prone to attracting such individuals for a number of reasons. In the first place, the Chief Executive Officer of a Retail Society is very much a law unto himself. The appearance of democracy in a situation of shareholder apathy is illusory. Certain issues do indeed attract attention from the shareholders (closures of branches is one of them) but the experience over the last decade alone testifies to the impotence of the shareholders as a body and voting - even on issues such as 'mergers' (a term used to describe 'takeovers') - reflects a lack of interest based on the character of the typical shareholder, the lack of perceived alternatives to the course of action proposed, the lack of impact upon the shareholder in terms of the value of his equity and the lack of alternative managements in the event of a vote of no confidence.

Secondly, most Co-operative Societies are failing businesses, judged by commercial standards. In the final analysis commercial realities determine the continuing existence of any business, therefore survival strategy indicates the absolute necessity of injecting business acumen at the highest level. Failing businesses tend not to attract the best talent and so a Chief Exeuctive Officer of even modest competence is relatively secure.

There is in this situation a potentially irrational influence in the model - that of personality; but by the nature of its construction the model is only able to cope with such an element by reflecting

it as instability in one of the components (be it strategy, process or performance).

The elements of volatility introduced reflects in 'structure' where the prosecution of a particular strategy may often result in different alighnments of basically the same human and physical resources. This in turn emphasises the importance of 'task' as an element with a clear symbiosis and creative tension between task and structure. Volatility tends to argue against centralisation, but the quality of resources tend to argue against decentralisation in certain areas. A contrast was evident between North Midland and the North Eastern Society, where in the former case the business was less diverse, there was a focus on the store as the vehicle fo strategy implementation and the initial quality of the human and physical resources, augmented by training tended to make structure and task mutually reinforcive.

The North Eastern Society was far more diverse, with a great spread of business activity and wide differences in physical and human resource qualities within individual business areas.

Structure was seen to be a constraint on strategy and management style, with the concept of 'critical mass' (per Ansoff) seen to be applicable to the smaller community stores. There the potential activity level constrained total income generated by the store which in turn defined staffing levels in both number and quality, the latter representing a constraint on task complexity and enforcing a centralised structure with essentially non-participative management style.

This represented an interesting reversal of forces within the model, and indeed closer examination totally challeneged the original assumptions about the weight and direction of influences. This could well be a characteristic of a contracting business reflecting in the model with an insufficiency of cash generation to finance growth and the consequent search for greater efficiency by adopting a retrenchment policy and redistributing capital released into areas of higher marginal productivity (hence the Benton Hypermarket).

The method of achieving this change was to import managers from outside - from competitors. They came into the Co-op with none of its cultural background and proceeded to implement normal

commercial practices, resulting in some tension. A new apparent management style was thus instituted although a cynic might argue that the change occurred on the back of a 'bought-in' concensus. This raises the interesting question as to whether the ultimate coercion is to simply buy in a team of like-minded people so that the appearance of participation occurs. A grossly unfair suggestion in relation to the North Eastern Co-operative Society, but one which relates to the stereotyping within the model.

The operation of the model, therefore, resulted in some expansion to embrace cultural and political concepts, to reflect the influence of dominant individuals (ie to introduce 'actors') and to include a dimension of time. Certain potential weaknesses were identified - for example the tendency to limit the variables in the interest of understanding, but with the caveat that an inadequate descriptor must inevitably be a poor predictor.

Relationships between the elements were questioned and it was recognised that forces between elements were neither mono-directional, nor were the effects of a change in direction necessarily simply the reverse of the previous contra-directional influences. (By that is meant that marginal considerations in a retrenchment strategy are different from those in a growth strategy and so the one is not simply the reverse of the other.)

Definitions and structures applied to real-life situations can arguably misrepresent the truth by failing to be sufficiently comprehensive, or by not representing all the influences and nuances which govern the processes and out-turns. Something of this is present in Rensis Likert's work on informal groupings where, arguably the running of a business is conducted outside the mainstream organisational forms.

The model, being essentially a formal one, does not encompass informal groupings and this could well be a weakness in relation to the interpretation of our old friend 'management style'. It is conceivable that the coercive style of a dominant individual could actually precipitate a de-facto participative style in the lower echelons of the organisation who are united in opposing the policies imposed from above. The effect may be beneficial or non-beneficial, depending upon the definition

of objectives and the relative competences of 'boss' and subordinates.

Nevertheless, such considerations apart, the imposition of definitions and structures was deemed to be generally beneficial in providing a framework for analysis, in setting boundaries around the elements under study, in formalising initial relationships for subsequent examination and modification and in enabling the elements to be examined for comprehensiveness and adequacy of definition.

It enabled an iterative process to be generated and the questions arising therefrom did, in fact, modify the model itself, as well as indiciate elements to which some caution should be attached.

A fundamental question in evaluating anything is whether its value is absolute or relative.

If the model offered no illimination of, or insights into its subject, then it may be fair to conclude that it had an absolute value of zero, in which case the question of relative value would not arise.

Given that such was not the case, the question of alternatives arises. One alternative very frequently practiced is to observe phenomena in an unstructured way, imposing an unstated and unquantified system of random values as a basis of evaluation and then to publish a set of vague and unrelated judgements. Such a process is the basis of much casual conversation, and should not be dismissed, as it is fundamental to a populist culture.

However, it could not be the basis for the present study because it would fail to sustain the sort of analysis by which conclusions can be seen to be rooted in objective examination of facts and processes.

Another argument may be that, as the Co-op sets itself up as a socio-political organisation would it not be preferable to construct a different model reflecting different elements, attribtues and goals? The response to that would be to point out that its chosen method of self-perpetuation is to manufacture, procure and sell goods and services in a market-place which is being served concurrently by other organisations offering the same end-product, irrespective of whether their

motivations are the same or different. Furthermore the Co-op shares with these competitive organisations the need to generate or procure sufficient funds to sustain its existence, and those funds ultimately come from the same source for the Co-op as for its competitors. To pretend that this is not so is to fly in the face of observed facts; facts such as the decline in market share (from 7.0% to 5.5% in five years); the decline in profitability resulting in the need to appropriate #156m in from the asset base to fund trading losses over the three years 1980-83; the decline in membership, now below nine million; the increased gearing in major societies reflecting greater reliance on financial markets; the decline in the number of societies, with so-called 'mergers' forced on organisations which are no longer viable; the contrast with competitors who are universally recording major growth in selling area and profitability.

Therefore, it is argued, an entirely different model would be quite possible to construct, but it would fail to address the problem facing the Co-op in the 1980's - the problem of survival.

## 4. CONCLUSIONS

What, then, is it possible to conclude about the model and its operation? Any conclusions should be related back to purpose which was to construct a heuristic device to aid the qualitative analysis and understanding of the organisation as an entity made up of interactive and interdependent elements of the organisation in relation to its total environment.

It is important in drawing conclusions to segregate those insights and levels of understanding which derive from the model from those available to an informed casual observer. The criterion used is to consider only the insights which span elements or relationships within the model so that they can be deemed to arise from a systematic consideration of facts or perceptions rather than from casual and spontaneous observations either unconnected or related in a totally different way to the relationship between elements witin the model.

A second important consideration is the audience addressed. A utilitarian concept of purpose would deem that the audience comprised decision-makers within the organisations under study or within those organisations to which the learning process could be legitimately transferred. Their

greater insights or levels of understanding would then have a beneficial impact upon future decision-making, ultimately resulting in improved organisational performance in relation to the achievement of stated objectives.

In fact, it has not been possible to assess the relevance of the model in relation to decision-makers within the organisations studied - this would obviously be a retrospective process, would extend the study very considerably and would add a further dimension to it. (It would also impose very real problems of assessment and evaluation).

Therefore, the author and reader are put into the position of surrogates, and in terms of this chapter the author is the only person able to draw conclusions.

This introduces the problem of subjectivity and introspection. I clearly started out with a particular background of culture and knowledge and this is reflected throughout the study. I am wary of drawing conclusions deriving from collateral considerations and theories rather than from the model itself.

My first conclusion is that the model did have a benefit in improving my understanding of the businesses studied. It forced me to subject the businesses to a level of analysis to identify and define elements, attributes and relationships. It then forced the analysis to continue to the point where judgements and conclusions were systematically supported rather than being the products of unstructured observation and contextual prejudice.

It introduced a number of concepts and theories from the wider study of organisations and illustrated their relevance to the organisations under review. By drawing on such a wide knowledge base it introduced an element of objectivity into the study which elevated it above a merely personal perception of the organisations.

By examining the operation and environments of the organisations, it enabled the popular mythology about the Co-op as a unique organisation to be evaluated - and largely dispelled.

It enabled differential performance between the two organisations to be explained in terms of the tensions between culture and strategy, and between strategy and the inertia of structure, with performance not simply feeding back into strategy, but acting as a very positive constraint on growth aspirations.

In this respect, the theoretical framework on which the model was constructed was revised to reflect the bi-directional nature of forces and influences between the elements. It is also suggested that for it to work in reverse would not merely be to construct a mirror image. The relationships extant in a situation of growth strategy are not simply reversed in a situation of retrenchment, because the nature of marginal considerations are different; for example the law of diminishing returns is an influencer on the rate and direction of retrenchment, as is the impact of a substantial fixed cost base (imposed by the CWS, with its RDC operation and its large manufacturing base). In a situation of growth, marginal costs of and returns on capital are the predominant factors.

The juxtaposition of the elements of the model tended to highlight a weakness in both organisations in terms of the absence of formal objectives. This was more pronounced in the case of NECS than in the case of North Midland. The reason lay in operational considerations, where North Midland, operating in a compact area, identified a clear gap in the market-place satisfied by neighbouring Manchester. They were able to exploit a more flexible trading base and a more empathetic Board to fill the gap, and were then able to concentrate on <u>means</u> (ie Stores) rather than <u>ends</u> (ie their product/market orientation). Their's is, therefore, an essentially <u>tactical</u> model. NECS on the other hand had a large inherited inertial base of physical assets and mental attitudes, with no clearly-defined product/market orientation, a wide disparity of shops and no definable corporate identity. To some extent their problems were further exacerbated by diversification (eg into Garages) in an attempt to generate cash flow. They exhibited a tactical response to a strategic dilemma and served only to complicate structure and process without tackling the underlying problems in their predominant areas of business.

Under new guidance from an imported culture the Food and Non-Food elements of the business

are being welded into a Retailing operation and problems of corporate image are being tackled. The existence of up to 19 separate businesses in a £200 million organisation is seen as a weakness not as a strength because managerial talent is fragmented and synergy is lost.

The identification of missing elements in a way reinforced the value of the elements present. For example, the time dimension emerged as a fundamental link between strategy, management style and structural inertia and explained why change had taken so long to achieve.

"Effectiveness" tended to be buried within "Process" but when examined revealed organisational culture as an important element ommitted from the initial model. A particular example was quoted by the new Retail controller when he talked about the failure to merchandise a fresh meat counter to coincide with a major promotion as being 'typical of the attitudes to be found within the organisation'.

Because of the relatively few but highly significant elements dealt with in the model it was useful in focussing on significant relationships and this on the one hand made it highly transferrable between organisations and largely independent of organisational culture. Where basic incompatibilities (for example between management style and organisational culture, or between strategy and structure) were identified, they were good predictors of problems - for Co-ops and for any other type of organisation, and enabled objectively significant and meaningful statements to be made. In the same way, incompatibilities between the elements of the model pointed to key constraints on the organisation's capability to realise its objectives.

At the outset a judgement was taken to limit the number of elements within the model as far as was compatible with descriptive adequacy. During the study, some elements have been added, and some caveats expressed about the need to expand elements into their lower-level constituents. To that extent the process has been a dynamic one.

The study started as an examination of two organisations - or rather the examination of a single organisation with the testing of hypotheses in a backup case study. It has undergone something

of a metamorphosis into a study of the relevance and use of modelling as a tool for examination and analysis. This has arisen as a result of the need to evaluate the theoretical and philosophical assumptions implicit in the drawing of conclusions about reality by constructing metaphors. Confidence in method was seen as a necessary precursor to confidence in conclusions.

One of the most encouraging out-turns of the project was the illustration of the synergy between the appreciation of techniques of observation and analysis and the appreciation and understanding of the subject of the analysis.

# CHAPTER 8

## CONCLUSION - THE WIDER IMPLICATIONS

*"You can make an argument that the whole concept of Co-operative retailing is an outdated nineteenth century one and will die along with the fading of the non-conformist zeal which helped establish it".*

Financial Guardian - 1st June, 1983

### 1. INTRODUCTION

Chapter 1 opened with a quotation from Thomas Malthus (Essays, Vol. III), intended to illustrate the backcloth against which the Owenite and later the 1844 Rochdale Movements came into being.

A hundred and forty years after the foundation of the Rochdale movement the perception of the individual vis-a-vis Society has advanced somewhat and where examples of genuine poverty are found they occur in spite of the prevailing mores rather than because of it.

Organisations do not fare so well and in the present-day world of commerce and industry the Malthusian ethic is practiced with enthusiasm and attested by the numbers of corporate failures amongst those organisations whose "labour has not fairly purchased their subsistence".

Moreover, the concept of "fair purchase" is defined not be some divine architect of moral absolutes but by a market-place whose fickleness and volatiliity calls for very special qualities of perceptiveness and responsiveness from those who would survive its vicissitudes.

The publication of Goldsmith & Clutterbuck's (153) researches into successful corporate enterprises is timely in relation to the conclusion of the present thesis in that it provides an excellent basis on which to draw a contrast between the Co-operative Movement and other organisations in terms of the elements of the model. Thus, the model can be tested in a wideer context than the "Co-op" and, hopefully, some conclusions germane to the 'future' of the Co-op in general (as distinct from the

particular societies used for research) can be drawn.

To this end the structure of this final chapter follows the elements of the Model with contrasts and comparisons drawn between "The Co-op" and the organisations examined by Goldsmith & Clutterbuck.

## 2. HISTORY AND CULTURE:

Goldsmith and Clutterbuck's sample of 26 UK companies share only one characteristic - that of success as identified by three externally observable criteria, viz:

(a) High growth in assets, turnover and profitability in the last ten years.

(b) A consistent reputation within the industrial sector as a leader - companies which others try to imitate or from which they consistently poach talent.

(c) A solid public reputation. "People generally feel good about this company and its operations".

From an academic view point the latter may be held to be difficult to measure and subjective. Nevertheless, the reality is that Marks & Spencer evokes feelings and reactions which may be individual subsets of different and complex ranges of variables but which add up to an undisputed position of leadership in their field by a common concensus.

Marks & Spencer is an example of a long-established family firm with a solidly-won reputation based on small increments from a position of initial vilification (Marks & Spencer used to wrap their goods in brown paper bags to spare customers the stigma of association with them).

Sainsburys developed from rather different origins, but has arrived by a different route, at a remarkably similar position over a comparable time period.

Goldsmith and Clutterbuck identify very strong cultural influences which are founder-related in both companies, observing that the influence of the Sainsbury family in Sainsburys is today played down, but the influence of the founder is dominant.

These and other 19 examples share common cultural influences, amongst which are identified:

(a) Winning as a matter of style.

(b) The integrity perception - applied to both employees and customers. The employee enjoys a security based on working for a successful organisation but also on knowing where he or she stands and on the confidence of fair treatment.

Customers receive a high quality of goods and service, value for money, swift and effective handling of complaints and all necessary information about the company's products.

(c) The Innovation Factor. This is identified, not as an overt strategy but as a cultural predilection shared by owners and employees at all levels.

(d) Involvement. As with innovation, this is something inbuilt into perceptions and attitudes from chief executive down to shop floor operatives and exemplified by the comments of a middle manager at Pritchards:

"Everywhere else I've worked people have been cynical about the company. This is the first place I've found where people are positive about their employer".

The reasons for the attitude are not identified, but contributory policies exercised by the companies are, and include:-

- high pay and incentives,

- stress on promotion from within;

- creation of a 'pride in ownership' through equity participation, profit share schemes or simply through a high level of consultation and discussion that makes people feel they have a real stake in the business.

- stress on the importance of information both direct and job-related, and also the sort of background knowledge needed to give people a broader understanding of the company and their role in it.

- stress on training, both as a tool to increase efficiency and as a means of instilling the company's values into all employees,

- recognition of the importance of the 'social' side of work. Many of the companies sampled spend considerable money and effort on making the working environment enjoyable or in creating a substantial off-duty social life, or both.

- respect for the individual.

Marks & Spencer is famous for providing hairdressing and dental facilities to employees in working time, for distributing vast amounts of money back into the community (through direct charitable donations, or through its fashion shows, etc) and for extending its human relations policy back into suppliers.

The author recalls the story of Simon Marks who, feeling a call of nature on one of Bovis's construction sites called into the site toilets and was horrified at the conditions. Without further ado, he issued an edict that as the contractor's staff would be employed longterm on M & S contracts they were in effect surrogates M & S employees. Marks expressed the view that if facilities were not adequate for him, they were not adequate for anyone else either, and would Bovis please take note.

Needless to say, as M & S's main contractors and recipients of hundreds of millions of pounds' worth of Marks and Spencer business, Bovis did take note.

Such episodes pass into the folklore of an organisation and are an essential part of the cultural identification it shares with its employees. They invest an organisation with a human dimension and provide an empathetic interface between the abstract form and the actors who give it tangible expression.

Successful organisations reflect the synergy between culture and strategy. Significantly, the authors recount that "the broad group objectives at Sainsbury probably do not need to be written down, because they are so much a part of the company culture".

There is here a start contrast with the Co-op. In historical terms it rivals both Sainsburys and Marks and Spencer. Its history is one of commendable achievement as both an economic force and as a social change-agent.

Unhappily, unlike its private-sector competitors, it has arguably outlived its rationale, the conditions it was founded to overcome have disappeared and it has not found an alternative social or economic orientation.

Dean Acheson once said of Britain that it is a country which has lost an empire and not found a role. The Co-op exemplifies that dilemma. There is no easy identification with its culture, there is no unifying founder-figure to impose a rationale. Because of numerous amalgamations of hundreds of individual co-operatives there is no longer a single historical identity extant within most of the disparate societies which comprise the Movement. It has substantially failed to achieve viable commercial or economic performance, and becasue of that its ability to sustain its social role is hopelessly compromised.

Clark's Shoes, an organisation founded by Quakers sees no dichotomy between profitability and social responsibility.

"They put profit first and look after people as a result of making profits" say Goldsmith and Clutterbuck, a commonsense statement of practical priorities and implied constraints which somehow seems to be long forgotten in the confusion of identity and purpose evident within the Co-op.

The prevailing perception amongst employees of the Co-op is that they work for a failed organisation - an impression reinforced weekly by the reports in the Co-op News of critical comments by leaders within the Movement, by figures published in annual accounts, by declining market shares, by forced "mergers" and "transfers of engagements" (normally involving substanttial redundancies amongst the workforce and generous termination payments or sinecures for the architects of corporate decline) and by a general air of uncertaintly prevalent in any organisation under seige.

The "Guardian's" headline on 1st June, 1983 (154) ("Will the day come when the Co-op means nothing to the supermarket giants?") was largely rhetorical with a pessimistic prognosis culled from a (fairly superficial) examination of trends in the market place.

The cultural link was identified as a negative rather than as a positive factor.

It is too early at present to establish whether the limited injection of external managerial talent will achieve anything more than the creation of a cultural tension whilst being of insufficient magnitude to effect the necessary changes in performance which would presage a cultural metamorphosis.

### 3. MANAGEMENT STYLE

Commonsense suggests that management style is influenced by organisational culture.

In the first place, success tends to be self-perpetuating in that the best new talent automatically gravitates towards prestige organisations. As Goldsmith and Clutterbuck note, their successful companies are donors into the senior executve market-place rather than recipients.

"Every one of our successful companies puts considerable emphasis on promotion from within. All our

operational managers come up from shop floor" says Rocco Forte. Even in those companies such as Plessey and Bulmer, which have undergone a major cultural change, external appointments at senior level are the exception rather than the rule.

There seem to be three basic reasons, or rationlisations for this. The first is because, as the industry leader, these companies often see themselves as the harbours of best practice anyway, therefore the talent that they need is most likely to be found within.

"There's a one-way flow of people from us to other contractors" says Pritchard manager David Openshaw "None of them ever comes here".

The second reason is that outsiders do not easily adapt to their culture when plugged in at senior level. One manager at Sainsbury referred to his first few months in the company as a 'major culture shock'.

The third reason is because they see promotion from within as a means of keeping the people they want. A number of quotes from the sample reinforce the point:

- "We want anyone with ambition and ability to feel they can become a managing director in our company" says Harrison of Racal.

- Everyone here knows their superiors are talent-spotters" says Bejam's Perry.

- Plesseys executive director, Parry Rogers, recalls that in the 1970's 70% of its senior appointments were from outside whereas now the figure is 30% with a target of 10-15% within three years. In the early 1970's 50% of graduates recruited each year would have quit or been fired within two years, now it takes twice as long. At Rogers' old firm, IBM, the period is five years, which is about as long as most companies would want to hang onto staff anyway.

Great emphasis is placed on training both to reinforce corporate culture and to cater for the needs of individuals. A move away from general training courses is identified in the sample, with concentra-

tion of the identification of individual needs and the construction of tailored programmes. An expensive business, again reinforcing the maxim that success can afford to breed success.

There is a clear responsibility placed on managers for the development of their subordinates.

"It's very important that people make themselves redundant by bringing on people below them" says Maurice Saatchi. "That means they have to feel secure themselves, which means the company has to keep growing."

BOC's Giordano describes has main role in terms of bringing out the talents of his top 200 managers.

Delegation is pushed as far down the line as possible. Pritchard, for example, is noted for taking on contracts which are too small to interest its main competitors so that young managers can be exposed in real business situations and prove their worth without real corporate risk.

There is a great emphasis on openness and frankness in communications, which are, without exception, bi-directional).

Jan Carlsson, Chief Executive of SAS sums up the general concensus: "Those who have no information can take no responsibility. Those who have information have no choice but to take responsibility".

Several of the successful companies in Goldsmith and Clutterbuck's sample extol the virtues of generalist managers. Functional training is useful but a good manager should be able to transcend his early training and obtain a much broader perspective.

Attitudes to risk-taking in the successful companies are the antithesis of the norm, and to give added impact, the authors quote from standard practice amongst British companies, whose managers have generally learned that career progression comes from avoiding the possibility of failure. Examples of the "play-safe" syndrome are:-

- all risk decisions are reviewed at a high level. Result: line managers pass the buck.

- financial controls are imposed with too little leeway, managers are denined discretionary spending-power.

- rigid rules and procedures are enforced whereas risk ventures often, by their nature, preclude adhereence to bureaucratic procedures.

- guaranteed returns are expected. This is the antithesis of the risk concept.

- managers whose risks do not come off are penalised. Result, managers don't take the gamble. Opportunity costs don't appear in profit and loss statements.

- They do not provide adequate rewards for success, so that downside risk far outweighs the potential gains from success. Result: risk is avoided. A survey by "International Management" magazine published in December 1983 showed that almost 40% of British managers were inhibited from taking risks by insufficient rewards. Just under 28% were deterred by the penalties for failure.

- top management doesn't set an example. If executive directors do not take the company into calculated risks then people down the line are unlikely to stick their necks out. It "success" means merely hitting the budget people will never be encouraged to reach out beyond the budget to seize new and unexpected opportunities.

Successful companies in the sample typically encouraged managers to take whatever risks they deemed necessary within their budgets and limits of authority. Tight financial controls were certainly maintained, but managers were encouraged to make out the case for unbudgeted expenditures and if approved they were backed to the hilt. A certain amount of rule-bending was allowed provided it could be justified. Robert Clark, an executive with United Biscuits said the key in his

company was to inform top management of what was being done so they did not receive unpleasant shocks. "The only sin you can commit in United Biscuits is not to let the top know when there is bad news." he declared.

The idea that managers would be afraid to take calculated risks was generally found to be a disturbing thought within the type of company in the sample.

Sir John Clark is quoted as saying that Plessey's planning process is constantly evolving.

"We started with financial planning systems - which weren't really planning at all. Then we got into Boston Consulting analysis. I am a great believer in the experience curve. Then we introduced an objective-and-strategy-setting system from Texas Instruments followed by a General Electric system of competitive analysis where you compare your management and economic power with your competitors. You have to be at least fourth in the competitive race to get anywhere. The theory can be overdone, but it's a good starting point.

"We use competitive analysis to ensure that the learning curve is not undermined by someone else coming in with brand new technology. Now we are going over the organisation of our planning yet again. I want to take organisational planning matters away from personnel. We are developing software systems that will intelligently identify strategic business units and throw up criticisms of their policy and position, together with suggestions of what we should do to make them more competitive."

The analysis of successful company practices and expressed attitudes gives a very clear picture of the general style of top management extant in them, and in terms of the model the outstanding characteristics appear to be:

A participative approach, based on high quality and multiplexity within management teams. A high planning orientation, detailed knowledge of the environment. A very positive attitude towards risk-taking but with risk factors carefully quantified and controlled. Open and bi-directional channels of

information, decision-making pushed as far down the line as possible and a very supportive attitude up the line. A willingness to bend the rules when circumstances merit it. Training needs identified and catered for on an individual basis, almost without regard to cost. A deliberate policy of forstering involvement by encouraging pride in ownership. Most importantly, the demonstration of leadership by the top management. This implies an ultimate coercion at the end of participation, but this of a very positive nature.

Leadership is held to consist in:

- high visibility of the leader
- provision of a clear mission which the leaders themselves believe in passionately and incite others to subscribe to
- support for the honest endeavours of subordinates even (or especialy) when unsuccessful
- the procurement of resources and support at all levels
- respect for the individual
- a genuine caring attitude for employees and customers
- innovative ability
- problem-solving capability
- fairness and firmness in all dealings.

The authors point to an interesting contract between leadership and management, referring to the work of Adair (155) and Zalenic (156). The latter differentiates strongly between leadership and

management, believing the roles to be quite separate and distinct and requiring very different people. The effective manager is essentially someone who motivates other people and administers resources to ensure that the company's objectives are fulfilled. The effective leader on the other hand, motivates people to create and follow new objectives.

The typical leader is described as active rather than reactive, shaping ideas rather than responding to them. Leaders adopt a personal and active attitude towards goals. By contrast, managerial practice focusses on the decision-making process rather than on ultimate events. Where managers act to limit choices, leaders work in the opposite direction, to develop fresh approaches to longstanding problems and to open issues for new options.

Zaleznic's analysis of leadership leads him to a number of interesting conclusions.

Firstly, he finds that a leader is more interested in what events and decisions mean to people than in his own role in getting things.

Leaders are often viewed by others with strong emotions: "Leaders attract strong feelings of identity and difference, or of love and hate. Human relations in leader-dominated structures often appear turbulent, intense and at times disorganised. Such an atmosphere intensifies individual motivation and often produces unanticipated outcomes".

Managers on the other hand are more rational in their approach. They want to be liked and avoid solutions that might cause confrontation. They "focus subordinates' attentions on procedures rather than on the substance of decisions, communicate in signals rather than in clearly-stated messages and play for time to take the sting out of win/lose situations."

Secondly he finds that "Leaders tend to feel somewhat apart from their environment and from other people ... It is this separate sense of self that makes leaders agents of change, whether technological, politial or ideological. "The typical manager, by contrast needs to feel that he belongs to a team, that he is fulfilling a clear and useful role within the organisation.

Thirdly he observes that leaders who motivate the most significant changes may not be those with the greatest dash and verve. Charisma, although it is a frequent companion of leadership is not an essential ingredient and can indeed be counterproductive in that people can too easily be led astray.

Adair also draws a distinction between leadership and autocracy. People will follow the autocrat in times of crisis, but will resent and resist him at other times. Adair sees the leader as having four key skills: influence, persuasion, guidance and support - which he applies by adapting his management style to different situations. Adair also asserts that the leader has three major functions, achieving the task, motivating the group and motivating the individual.

Adair's ideas tend to apply more to the manager at operating level rather than to the visionary at top of the organisation. However, when that distinction has been accepted the practice perceived by Goldsmith and Clutterbuck in their successful companies does equate well with both theories.

The Chief Executive in most of the companies provides the long term vision, the challenge to established routines and the sense of knowing where the company is going that characterizes Zalezink's description of leadership whilst at the same time the environment down the line is such that managers there are free to develop and demonstrate leadership in Adair's sense of the word.

The contrast with the Co-op is starkly illustrated by Dr. Robert Houlton, Chief Education Officer of the Co-operative Union.

Houlton (157) starts off from the basic premise that the Co-operative Movement is in decline, with the workforce reducing from over 250,000 in 1960 to 130,000 in 1979 (latterly there has been a dramatic decrease in numbers as the number of retail societies has fallen to below 100 in 1985). The number of NACO (ie management) appointments has fallen from over 8,500 to 5,300 in the same period. Houlton estimates that the population from which future managers can be drawn is around 10,000. An analysis of this figures shows that the age distribution is very disturbing, with a concentration between 16 and 26 years old and another between 56 and 65 years old. Given that the educational

investment in the older age group is unlikely to return an adequate payback, and given that in the younger age-group there is a proportion of people with no managerial potential, Houlton concludes that the internal potential managerial population for a business employing over 100,000 people, and with £4.27 billion turnover is 3-4000. Moreover, the Co-op is showing decline in almost every indicator of performance notably market share and profitability. A high rate of fallout managers who are trained is anticipated, with the brighter ones transferring to the Co-op's more successful competitors.

There is, therefore, a need to recruit from outside, but quite who would wish to join such an organisation, given any alternative, is difficult to image.

The prospect for the Co-op over the next few years is for further market share erosion, and competitor predictions and investment policies verify that such an expectation is universally extant, with the Co-op donating substantial market share to willing recipients.

The CWS, representing a huge fixed cost in terms of its manufacturing and distributive network is even less well placed than retail societies to counter the effect of decline, although it has recently made attempts to expand its base of operations by taking over the role of the Co-operative Movement's ambulance service and by making a half-hearted foray into the area of franchising (a move funded on a shoe-string budget and with totally inadequate preparation in terms of back-up administration). The overall strategy is, however, one of contraction.

In this scenario there is little room for the management styles of the Goldsmith and Clutterbuck companies to flourish.

The raw material is unlikely to be present, judging from Houlton's statistics and external recruitment is likely to be from a base of talent which has been found below par for the Co-op's expanding competitors.

External recruitment is nevertheless happening, at a senior level in the majority of cases. This is totally out of line with practice in the successful companies and raises the question of the effectiveness

of importing alien cultures into the top echelons of a business without an accompanying purge of attitudes down the line.

It is difficult to see how Maurice Saatchi's practice of managers working towards their own redundancy by developing those below them can ever be effected in an organisation where the subordinate-level talent is not there, and where success in achieving the manager's goal would result in his real redundancy because of the lack of expansion and, therefore, of new upline opportunities.

The Co-op, therefore, finds itself in a vicious spiral of decline and with a perversly negative synergy between its cultural antecedents, its present day lack of high-quality human resources and an environment which is implacably hostile.

Within the overall gloom there are, nevertheless, patches of illumination, and the two Societies studied (North Midlands and North Eastern) probably exemplify the way forward. They are expanding organisations (by acquisition and by a degree of organic growth) their Chief Executives have displayed some of the characteristics of leadership identified by Zalezink, there are attempts to improve the quality of the management and both societies recognise the need to provide managerial career structures.

Indeed the only way forward is seen as being the development of such nodal growth points which are then identified as the antithesis of the general trend.

**4. STRATEGY:**

Goldsmith and Clutterbuck are unequivocal in equating success with a clear perception of strategy and they illustrate the synergy between culture and management style in achieving that clarity.

"It is significant that many of the successful companies in our survey have painstakingly developed broad statements of purpose that enable staff at all levels to understand what their company wants to be."

Of its own statement of objectives, Saatchi director Maurice Saatchi is quoted as saying: "It's a clear philosophy, clearly articulated. It's being consistent that counts. In every new business presentation we give to clients, we do so on the basis that this is our credo. People indoctrinate themselves. Our observation of our clients is that the most successful ones also have a very clear business philosophy".

Says STC director Neville Cooper: "We set up a lot of committees all round the company, including shop floor people and asked them 'What does it mean to you to be the best company? The answer came back clearly:

- to be efficient, profitable, and give good service to our customers;
- to do business straight and honestly,
- to trust all employees with respect and to help them develop and contribute fully,
- to have an open and participative style of management."

As would be expected these broad objectives (referred to in the Model as 'superordinate goals') are underpinned by rigorous structure of strategic business and operational plans (there is no point in abstracting philosophising in a business context). For example, STC aims to triple sales this decade. This objective is not simply a growth target for its own sake but is closely tied to the company statement of philosophy. "We reckon that one of our duties is to try to maintain the level of employment, now about 30,000" says STC's Cooper. "The only way we can do that whilst constantly improving productivity is to generate masssive increases in sales."

The communication of strategic objectives is given a universal priority by top executives in all the successful companies. BOC's group chief executive Dick Giodano belies that the chief executive "is in large measure a teacher or proselytizer. He can push four or five principles in his dealings with

managers - for example, increasing shareholder wealth, developing managers, being good citizens and building durable customer bases - and he has to do so constantly."

Pascale and Athos (158) refer to what is arguably the greatest corporate success story of all time, IBM, and illustrate the same point made by Goldsmith and Clutterbuck in relation to clarity in both goals and objectives.

The three basic beliefs (superordinate goals in the terminology of the Model) are:

- Respect for the individual. Respect for the dignity and the right of each person in the organisation.

- Customer service. To give the best customer service of any company in the world.

- Excellence. The conviction that an organisation should pursue all tasks with the objective of accomplishing them in a superior way.

These superordinate goals are underpinned by a number of more detailed corporate goals viz:

- To give intelligent, responsible and capable direction to the business.

- To serve our customers as efficiently and as effectively as we can.

- To advance our technology, improve our products and develop new ones.

- To enlarge the capabilities of our people through job development and give them the opportunity to find satisfaction in their tasks.

- To provide equal opportunity to all our people providing adequate return on their investment.

- To do our part in furthering the well-being of those communities in which our facilities are located.

- To accept our responsibilities as a corporate citizen of the United States and in all the countries in which we operate throughout the world.

Tom Watson, Jr., IBM's Chief Executive, expressed his attitude to his company's basic beliefs in his McKinsey Foundation Lecture at Columbia University in New York in 1962 when he said:

"I firmly believe that any organisation in order to survive and achieve success, must have a sound set of beliefs on which it premises all its policies and actions.

Next I believe that the most important factor in corporate success is faithfuly adherence to those beliefs.

And finally, I believe that if an organisation is to meet the challenges of a changing world, it must be prepared to change everything about itself except those beliefs as it moves through corporate life.

In other words, the basic philosophy, spirit and drive of an organisation have far more to do with its relative achievements than do technological or economic resources, organisation structure, innovation and timing. All these things weigh heavily in success. But they are, I think, transcended by how strongly the people in the organisation believe in its basic precepts and how faithfully they carry them out."

It is interesting to note that the spectacular growth of the Co-operative Movement in the late nineteenth and early twentieth century occurred at a time when its activities represented a complete synergy between commercial and social aspirations. The objectives and principles of the early Co-operatives were quite clear and were written down in the Laws and Objectives of the Societies which comprised a statement of both principle and practice. In particular, the 1869 annual almanac of the Rochdale Society made the following statement:

"The present Co-operative Movement does not intend to meddle with the various religious or political differences which now exist in Society, but by a common bond, namely that of self-interest, to join together the means, the energies and the talents of all for the common benefit of each

1. That capital should be of their own providing and bearing a fixed rate of interest.

2. That only the purest provisions procurable should be supplied to Members.

3. That full weight and measure should be given.

4. That market prices should be charged and no credit given or asked.

5. That profits should be divided pro rata upon the amount of purchases made by each member.

6. That the principle of 'one member, one vote' should obtain in government and the equality of the sexes in membership.

7. That the management should be in the hands of officers and committee elected periodically.

8. That a definite percentage of profits should be allotted to education.

9. That frequent statements and balance sheets should be presented to members."

The demise of the Movement could arguably be traced by its early concern with social (ie education) rather than purely trading matters.

The latter posed a threat to the private merchants, but no more so than the contemporary trading activities of Sainsbury. However, the provision of education to ordinary people posed a far more serious threat, and a more overtly political dimension was introduced in the 1880's with the revival

of Socialism and the founding of the Fabian Society in 1884. The Co-operative Movement resisted early attempts to get involved in politics (by the TUC in 1899) but by 1917 the need to counter adverse publicity was reflected in a resolution at the Swansea Congress which declared that: "In view of the persistent attacks and misrepresentations made by the opponents of the Co-operative Movement in Parliament and on local administrative bodies, this Congress is of the opinion that the time has arrived when co-operators should seek direct representation in Parliament and on local administrative bodies. It, therefore, calls upon the Central Board of the Co-operative Union to take such steps as may be necessary to put into operation the terms of the above resolution".

Thus the road to overt politicisation was embarked upon, and from thenceforward increased involvement in socio-political aspects of life as distinct from purely commercial ones occurred.

This is, of course, a gross over-simiplification of the Co-operative dilemma, but the fact remains that whereas Sainsburys identified a distinctive product/market orientation and, under the guidance of the founding family, maintained parity within an environment of increasing expectation of the 'Co-op' became ever more diversified by the formation of new societies.

It had no unifying objective, no corporate identity or strategy. There was no overwhelming personal influence to bring together disparate aims and factions, and when the ideas of social responsibility were taken on board by other competitors it lost its distinctive competence. Unlike Sainsburys it had not established the sound commercial principles of market positioning and structural economic changes left it with obsolete trading premises in de-populated areas.

Even the individuality of the separate societies was lost in forced mergers and takeovers, and the standards of education and entrepreneurship appropriate to the late nineteenth century proved inadequate for conditions in the twentieth century. The vertical integration which was a product of the Movements's foundation has proved singularly inappropriate in the contemporary retailing environment, but it is only in the last few years that steps have been taken to liquidate some of the assets tied up in manufacturing.

Basic economic principles appear not to be generally understood with the consequence that assets built up over 100 years have had to be sold off to pay dividends and maintain liquidity in the absence of profits and cash generation through trading.

Even now, the idea of a written-down strategy is alien and planning, even in the better societies, is operationally-focussed and reactive rather than proactive.

Management resources are totally inadequate and there is no synergy between organisational culture, management style and strategy.

The combination of these factors, coupled with a declining market share and a high level of fixed cost in the CWS appears to be a recipe for commercial disaster.

## 5. STRUCTURE

Goldsmith and Clutterbuck point out that the relationship between company culture and company structure is complex and largely unexplored "That each influences the other is clear, but now they do so is still pretty much a mystery".

The centralised structure of Sainsburys is linked, not to the influence of the founder of the family, but rather to the functional imperatives of the business. It is shared uniquely in the sample companies, by all the retailers.

Retailers generally avoid vertical integration. Even Sainsbury and Marks and Spencer, both of whom place tremdous reliance on 'own brand' rely on external suppliers, and concentrate on developing symbiotic relationships.

Functionally, therefore, the retail organisations are very 'flat' with buying central to business success. The functions of warehousing, distribution and retailing are highly programmable and the interface

with the customer concentration is exclusively on promoting 'image'. Uniform stock lines (with perhaps regional variations), uniformally clean and well-merchandised stores, properly lit and staffed by polite, attractive competient people, who reflect the company image are taken as read by the Sainsbury and Marks and Spencer regulars who would doubtless be traumatised to find anything different in one of those Company's stores.

There is relatively little added value in retailing - essentially it is an "invoicing through" operation critically reliant upon sales volume. The competition, therefore, is for store traffic and average shopping-basket size with the right mix of staples, luxuries and impluse-buys.

The entrepreneurs in this scenario are the buyers who tend to be highly specialised. The imposition of marketing policy and corporate image projection is vital, and to ensure this tight centralised control is imperative.

The'Co-op' as a whole - and even some individual societies - is the antithesis of the successful retail structural formula.

The Movement as a whole is highly decentralised, consisting of some 100 independent societies, lossely affiliated to a central body but entirely free to pursue their independent buying marketing and merchandising policies. Within and between societies there is a bewildering variety of outlets - hypermarkets, Pricefighters, 'Supershops' and so on ad infinitem. To compound the breakdown in corporate identity many societies suppress the Co-op identity in store presentations and trade under names like"Leo" (CRS), "NORMID" (North Midland, now United Co-operatives Ltd.).

Store presentation within the same store category is different between different societies both in standards, formats and pricing policy. The problem is exemplified in the Lake District, where within a small area the consumer can find himself in the shops of United Co-operative Ltd., Cumbrian Co-operation Society Ltd., North Eastern Co-operative Society Ltd. or Penrith Co-operative Society Ltd. (one of the few remaining independent societies).

Within a single society the hierarchy of shops, from community stores through convenience stores, savers, pricefighters, supermarkets, superstores to hypermarkets can mean that the poorer customers, whose lack of mobility precludes a trip to the large out-of-town stores, are paying higher prices for their Heinz baked beans than their more affluent neighbours.

Within stores, autonomy is limited, pricing and merchandising being fixed centrally.

Nevertheless, what are known as "illegal purchases" (ie purchases of good or via suppliers who are not on the product-files of the Society) are a recurring problem.

A manager from the CWS Retail Operations Group (its Scottish retailing operation) was recently heard to complain that one of the superstore managers had refused to instal some point-of-sale equipment which would have improved labour productivity.

Uniquely amongst retailers, the Co-op is vertically integrated. It grows food, processes it, packages it puts into the warehouses and ships it out to retail societies. It manufactures a whole range of non-food items, and in total its 100 factories produce around £400 million of own brand good and act as subcontractors for other retailers.

The trend recently has been to cut back on manufacturing with more rigorous enforcement of ROCE and external supply cost criteria, although own brand is seen as an increasing factor in a declining overall market share.

Manufacturing and agriculture is virtually exclusively the province of the Co-operative Wholesale Society, which controls a vast network of regional distribution centres and provides every conceivable sort of professional service from estates and property through accounting systems to computing.

There is, therefore, a huge central organisation which represented a source of considerable strength in the Co-op's heyday but which now sees itself as potentially vulnerable, in an environment of declining markets and which is taking steps to rationalise its operations.

The CWS is a £2,000 million business in its own right and has the Co-operative Bank and the Co-operative Insurance Society as its wholly-owned subsidiaries.

These latter organisations and fund the operational and development requirements of the Co-op Movement and could be highly influential in determining the policies of retail societies. However, much of their power is removed because of the long-established policy that no retail co-operative society is ever allowed to go into liquidation.

This effectively means that external sources of finance can offer money to retail societies without risk, even though the balance sheets of the societies concerned would make it impossible for them to obtain investment were they outside the Co-op umbrella.

Ian MacLaurin, newly-appointed Chairman of Tesco was interviewed by 'Super Marketing' (159). He recalled his decision to discontinue Green Shield Stamps in the face of severe opposition in the boardroom, and suggested that had the decision not proved correct his job would have been forfeit. In the event, the move away from Green Shield was followed by the massively successful Operation Checkout - a promotional idea masterminded by MacLaurin which gave rise to Sainsbury's Discount campaigns and similar action by all Tesco's main competitors. "It (Operation Checkout) enabled our market share to grow from 7.8% to nearly 12% he said. "But the promotion wasn't without its problems. The success generated enormous problems for our stores, warehouses and head office. We just couldn't cope with the extra business."

The next turning point was the repositioning of the group by way of massive centralisation. Unitl then Tesco had survived on entrepreneurial instincts, with its store managers and regional executives having considerable freedom to make crucial decisions at a local level.

Mr MacLaurin, who has always been honest about Tesco's weaknesses, had the foresight to see that more uniformity was needed if Tesco were to please the very discerning consumer and keep up with intense competition.

He called for tighter operational control at head office and this led to a complete overhaul of store strategy, a new approach to marketing, strengthening of the management, a rethink on distribution and stock control systems and, inevitably, heavy investment'.

Yet again it has been possible to construct an argument that the Co-op is failing to generate synergy between the elements of the model, and that this is in sharp contrast with companies whose success is unchallengeable.

In structure terms, Tesco points the way for the Co-op, as did Atlantic and Pacific (160) as quoted in an earlier chapter. The thing which above all characterises the successful companies is leadership, 'Success is about leadership and leadership is about success' says Michael Edwards (161). It is possible to argue that the structure of the Co-op precludes the sort of visionary leadership evident in companies like Marks and Spencer, Sainsburys and others in the Goldsmith and Clutterbuck sample.

**6. PROCESS:**

The key to success is effectiveness. The best leadership, the most relevant strategy, the most suitable structure are all in vain if policies cannot be translated into the concrete processes of the business - literally getting the goods into the shopping baskets. This involves a concentration on some of the more humdrum aspects of life and the realisation that in the final analysis no-one is immune from the imperatives of the moment, irrespective of status.

Throughout the Goldsmith and Clutterbuck work there is an emphasis on the setting of high standards and the expectation that people will achieve them. "High standards are set in every conceivable way" claims W.B. Slater, Chairman of Cunard Shipping Services. "We don't tolerate second-rate performance" adds Lord Hanson.

Goldsmith and Clutterbuck note that each of their successful companies extracts far more from its

employees in terms of personal commitment, dedicated hardwork and involvement than the typical British company would think possible. A number of anecdotes illustrate the principle and the examples are echoed by Peters and Waterman (162) in their American equivalent, identifying a strong productivity orientation - "productivity through people" - in the US companies. Many of the companies recognise that motivation is the key to productivity and efficiency in process. Quality circles abound in the companies sampled. Many of them are beginning to identify declining marginal returns on increasing technology as human values are made to seem ever more remote. The most famous exponent of the triumph of social values over apparent economies of large scale is Volvo, who dismantled their traditional production line in favour of worker-groups who were responsible for complete production cycles and could identify with the output rather than focus exclusively on the abstract process of car assembly. A similar technique was applied by Michael Edwards at British Leyland when he re-introduced decentralisation and the re-establishment of the famous BL marques as a means of making the workforce identify with the product.

Bulmer deliberately retained traditional varieties of cider when the big brewers were replacing traditional beers with gas-filled substitutes.

ASDA's stores group makes a conscious attempt to retain long-established crafts. Meat is supplied to the butchers counter primed but not dressed or arranged, so that the butcher can still exercise his craft in presentation. Instore bakeries fulfil a similar purpose - and combine it with considerable commercial success.

However, the best endeavour of well-motivated people can founder on the rocks of design inefficiency. Michael Edwards illustrates the point:

"There was evidence that a Ford Fiesta cost little more to produce than a Mini, partly because of more up-to-date design engineering - and therefore simpler manufacturing methods - but also because Ford's purchasing policies and procedures were far more professionally thought out."

"British Leyland, seeing Ford's success seduced many (Ford managers) into line jobs at which a large

proporation predictably failed - Ford men did not transplant well. They were fine in the orderly environment of Ford, with its established disciplines and product-let growth. BL on the other hand, has required the pioneer rather than the regular administrator."

The Ford men thought the BL problem was one of motivation, in fact it was one of basic organisation and product engineering.

The parallel with the Co-op is striking. It is possible to form an argument that what the retailer is really selling is not products but a shopping environment. There is no difference between a tin of Heinz beans purchased at Kwiksave or Sainsburys - or from the Co-op. The basic difference lies in the shopping environment comprising the building itself, its external and internal appearance, the floorcovering, lighting, colour schemes; the fitments which present products attractively and accessibly, which avoid empty spaces or precariously-balanced piles of cornflake boxes, product labelling; store labelling which clearly indicates the layout of the store and allows the time needed to work through a shopping list to be minimised whilst offering the shopper the maximum number of possible substitutions and directing her past attractively-presented impulse-buy products en route between basic commodities, product range; prices of what are known in the trade as KVI's (known value items) where the housewife is able to form easy comparisons with other retailers. These are only a very few of the large number of variables in the marketing of products and the merchandising of stores. Price sensitivity has been shown largely to be a myth - Marks and Spencer have achieved their supremacy on the perception of high prices. Quality - associated with the retailer as distinct from the brands sold - is a sure seller, and once again Marks and Spencer and Sainsburys have illustrated the point. The imputation of quality allows the maximum exploitation of "own brand" with its beneficial impact on margins (Sainsburys net profit/sales ratio is twice that achieved by Tesco).

The Co-op tends, as an organisation, to miss out on all the benefits of efficiency in process.

In the first place its own brand is not (with some exceptions - eg tea) associated with superior quality. It is therefore faced with a high fixed cost in terms of its factories and Regional Distribution Centres to absorb on a declining throughput.

Whereas Tesco has 440 stores to sell 3 billion pounds worth of goods annually, the Co-op's £4.3 billion is retailed via 7,000 different premises.

Warehousing and delivery processes are made immeasurably more difficult and complex by this fact alone, reflecting, inevitably, in unit costs into the Co-op stores.

Staffing is the second largest single cost in retailing and once again the Co-op is constrained in its flexibility by the average size of outlet - below a certain size the downside potential of staff costs is zero, the only alternative being to close the store. The tendency is to view those stores with a low turnover ceiling either as non-viable or as meriting the fewest and most poorly-remunerated staff possible. If the first option is chosen and the store closed the effect is to increase per capita cost in remaining units because of the high fixed cost base. The second alternative ensure poor quality of personnel and perpetuation of the 'down-market' image of the Co-op.

The two societies examined in the study are seeking to break out of the vicious circle by focusing on the store as the strategic business unit (to borrow Ansoff's terminology). North Midland Society made a deliberate change to get out of small shops and into large superstores and hypermarkets. It has pursued this policy with considerable success whilst cleverly disguising the contraction in its community store base by a programme of co-incidental closure and refurbishment, the attendant publicity emphasising openings of improved stores and thereby creating an aura of expansion rather than contraction. At the same time the Society has pursued an independent policy on procurement, being a founder member of the North Midland Buying Group and on warehousing, choosing not to use the CWS warehouses.

The North Eastern Society has taken the first step towards changing its reliance on small shops with the building of 150,000 sq ft Longbenton hypermarket. Although a CWS RDC customer it virtually monopolised the Birtley RDC and simply passes the horrendous problems of delivering it to is 800 units scattered over 5,000 square miles to the CWS.

Within the CWS itself changes are afoot in relation to its own £400 million retail division.

The appointment of a Non-Food Division controller from Tesco has resulted in two initial changes.

Previously, the massive warehouse at Handforth in South Manchester had been responsible for procurement, with its own buying team. The warehouse then proceeded to sell to separate buyers located within the retailing group who were responsible for stocking the shops. At best this was an absurd duplication of effort and at worst it was a negation of the entrepreneurial skills of the buying function and a weakening of central control mechanism. Steps are currently in progress to rationalise the structure and to improve the processes.

Secondly, there has been a move by the CWS Non-Food division to acquire more retailing capacity by taking over the non-food operations of retail societies. Non-Food within the Co-op is viewed as an inherently non-viable area of retailing and so many societies are willing to surrender operations to the CWS. The strategy behind the CWS move has not been revealed, but intelligent speculation is possible. The Co-op buying function tends to be a low-level one, with buyers generally little more than order-placers orgainised geographically rather than functionally. It is possible to state - without being able to reveal sources - that gross margins within the Co-op are very significantly below those earned by other leading retailers. The ratio of buyers-to-turnover in the CWS is less than 10% of that in Sainsburys - a fact remarked on by the recently appointed Retail Controller in the North Eastern Society.

It is possible to speculate that the Non-Food Division strategy is to organise itself on a matrix form of organisation with a higher ratio of specialist buyers - something which would require a bigger trading base in order to sustain the higher cost-levels involved.

In a number of ways, therefore, the Co-op is trying to develop synergy between strategy, structure and process, recognising that hitherto it has suffered the disbenefits of large scale without enjoying the complementary economies. In tandem with efforts to reduce fixed cost and to rationalise the trading base there is a move to transfer the community store operation out to franchisees, thereby

safeguarding the volume base for absorbing fixed costs whilst buying-out the risks attaching to small-store operation.

It appears, therefore, that the Co-op views the route to efficiency in "Process" as being via the emulation of its competitors. This has interesting strategic implications and implications as far as structure and managerial resource are concerned. It also runs contrary to established organisational culture, with the consequent need to import external resources and external culture. It further emphasises the nature and direction of the forces linking the elements of the model.

## 7. PERFORMANCE:

In the model, performance is identified as the effectiveness and efficiency with which strategic and operational objectives are attained, and is therefore measured in terms of variables which are identifiable, definable, quantifiable and measurable. One of the major obstacles to the determination of performance in the Co-op is the absence (relative to its competitors) of clearly-defined and articulated objectives. The writer's view is that this points not so much at the Co-op's unique and intangible attributes as to simple confusion on the part of its policy-makers.

Nevertheless, there are certain axiomatic objectives - with survival as the most pressing. This can be broken down into a heirarchy of subsidiary objectives both financial and operational, and some comparisons made.

Irrespective of the measurements used, the achievement of satisfactory performance is inevitably tied into a concept of control and this in turn implies some set of standards which represent the prevailing view of acceptable performance.

Goldsmith and Clutterbuck identify the elements of control within their sample of successful companies as follows:-

- tight limits on capital spending, combined with relative freedom to operate within agreed budgets.

- close - in some cases almost fanatical - attention to business planning, combined with the ability to deal effectively with (and to expect) the unexpected.

- constant feedback of results.

- a longterm perspective - a clear understanding of where the company is going and of its objectives, shared down the management heirarchy

- high standards that people are expected to adhere to.

One of the first actions of the new Financial Controller at the North Eastern Society was to scrap the existing system of budgets and to make the job of budgeting one of maximum involvement across the company with each operating division building up the financial budgets from the elements of its operation. Divisional controllers, themselves committed to the process of producing, and subsequently reviewing, budgets came to expect a similar commitment down the line, and the perception of budgeting as a positive aspect of the planning process has transformed attitudes from what were prevalent before - that budgets were a painful annual abstract process which temporarily got in the way of running the business.

Not only that, but an understanding of the balance sheet in terms of assets employed in running the business, the need to pay for them and to provide for their replacement has gradually been communicated to the traders so that their perception of Finance Division has changed from one of an undesirable and restrictive overhead to one of a positive force in providing resources for their own operations.

North Midland Society have similar attitudes, with the seven policy-makers in the business meeting on Monday morning each week to review progress and to fine-tune operational policy, reflecting the

volatility of the retailing scene.

This is very much in line with the practice in Goldsmith and Clutterbuck's sample but unfortunately very much out of line with general Co-op practice, where budgeting is an annual ritual based on flawed and poorly-understood techniques, the process in some societies being vested in the Chief Executive and the outputs largely ignored down the line. The idea of integration of the various budget elements - procurement, marketing, selling, cash flow etc. - is totally alien and budgets are generally prepared in highly summarised financial terms with branch sales and notional profit margins as the determinants of all other aspects of the trading budgets. Balance sheets are generally regarded as being best left alone and in many cases the need for cash is monitored through bank statements as the year progresses!

The consequences are evident from the published accounts of the various societies. Figures extracted from an analysis prepared by CWS Treasurers Group for the year ended January 1983 illustrate the comparison between the Co-op and its rivals (Table 1). It should be borne in mind that the Co-op figures include profits on sales of assets, and that the real situation is even worse than that disclosed in the published figures.

Table 1

**Return on Capital Employed**

**Year ended January 1983**

| | Capital Employed | ROCE |
|---|---|---|
| | £m | % |
| North Eastern | 32.8 | (2.1) |
| Greater Nottingham | 31.3 | 5.8 |
| North Midland | 26.8 | 6.7 |
| Norwest | 25.1 | (4.0) |
| RACS | 24.8 | (25.0) |
| CWS Retail Operations Group | 20.4 | (2.0) |
| Leicestershire | 17.0 | 4.7 |
| CRS | 253.7 | (7.6) |
| ASDA | 204.9 | 29.7 |
| Sainsburys | 424.8 | 25.4 |
| Argyll Foods | 132.5 | 16.2 |
| Tesco | 377.3 | 14.2 |

| *ROCE, All Food Retailing:- | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|
| Historical Cost | 22% | 20% | 21% | 25% |
| Current Cost | 10% | 12% | 14% | 16% |

*Source: Bank of England and Quartery Bulletin, September 1984.

The performance , in proft terms, of the top 10 Retail Co-ops (measured in size of turnover) during the year ended January 1983 is shown in Table 2.

In the year ended January 1984 the published accounts show that those societies with individual turnovers of more than £10 million had an aggregate turnover of £3,600 million and made combined losses totalling £30 million before taking into account profits on disposal of assets.

Book values of assets employed were £447 million. The Co-op Union estimates that the assets of Retail Societies are understated in their accounts by a factor of between 3 and 3.5. The real value of assets employed to generate £3.6 billion of turnover and £30 million loss is therefore probably of the order of £1,300 million.

In the same year Marks and Spencer used assets of £1.2 billion to generate turnover of £2.9 billion and pretax profits of £279.3 million.

Table 2

**Profit Performance of the 10 largest Retail Co-ops**
**Year Ended January, 1983**

| | £'000 |
|---|---|
| Total Sales | 2,179,425 |
| Profit before Assets disposals | (25,018) |
| Amount Transferred to Reserves | 5,004 |
| Share Capital | 110,372 |
| Reserves | 123,609 |

Given these comparisons further comment is almost superflous. Comparisons of cash flow are equally ominous, with a consistent increase in gearing, notwithstanding massive injections of cash from the disposal of properties.

The inexorable decline was documented by Deborah Arnott in October 1983 (163):

"During the slide of retail performance in the 1960's current losses were financed by 'appropriations' (as they are known) from the asset base. In the 1970's when the Co-ops managed to hold their market share and improve their profitability 'appropriations' ceased. In 1978, £18.3 million and in 1979 £13.3 million were added back to the societies' asset values.

"Then 1980 the depredations began again. A total of £40 million was realised in 1980, £61 million in 1981 and £55 million in 1982".

The same picture of decline is evident in a comparison of market share:

"By the end of the 1950's the burgeoning multiples were beginning to encroach on the Co-op's share of retail trade. In 1957 the Co-ops had 12% of the total, the multiples between them had just under a quarter.

By 1966 the multiples share had risen rapidly to 35% whilst the Co-ops were down to a bare 9%."

Between 1971 and 1983, Co-op market share has fallen in food from 10.8% to 8.4% and in Non-Food from 2.9% to 2.2%. This represents an overall decline from 7.0% to 5.5%, so total market share has more than halved since 1957.

By comparison, competitors are investing at dramatic rates in increased selling area using both internally-generated funds arising from massive profits and also external funds, secure in the knowledge that the marginal returns on capital far outweigh marginal costs.

In 1984, ASDA invested £500 million in the building and re-furbishment of some 50 stores in the South East. In 1985 a £600 million takeover by ASDA of MFI was announced.

Booker McConnell has recently announced plans to open 6 or 7 new stores each year as part of its merger plans between Bugdens and Bishops stores. A spokesman was quoted as saying "Booker Foods Division is going all out to build volume in the next twelve months with a major onslaught on the 'convenience market' which we value at £8 billion".

Tesco announced proposals to raise £145 million in extra capital by way of a rights issue to help finance some 13 new superstores currently under construction, adding 469,000 sq ft to its selling area.

Kwiksave, whilst complaining that they are operating in one of the most difficult trading environments they can recall, nevertheless announced increases of 8.7% in turnover and 7.5% in profits for the first half of 1985 and predicted a bright future for the second half year, with the opening of 175 new stores.

Marks and Spencer and Sainsbury each estimate that they invest £100 million pounds annually on routine expansion and refurbishment.

Rodney Fitch, joint managing director of Fitch & Co., speaking at the Mintel conference 'Retail Strategies for the 1980's in June 1984 outlined some of the trends (164);

- the addition of 20 million sq ft of retail space in the last two years to a market showing no growth has led to the UK being overshopped almost everywhere,

- we now have 500 shopping centres with 50 or more under construction in the UK. 80% of the UK population within a 15 minute drive of two;

- we have 380 superstores in the UK all built during the last 20 years and this could rise to 800 in the next ten years.

## 8. REWARDS:

Goldsmith and Clutterbuck document in their sample of successful companies a clear synergy between objectives - clearly defined and communicated - performance and reward structure, with the reward geared towards recognising meritorious performance but also designed to increase the perception of involvement and in some cases ownership.

Virtually all the sample companies had installed share ownership schemes or were in the process of doing so. In most cases they extended right down to the shop floor. A few retailers were obliged to restrict their schemes to managerial and supervisory ranks because of the high proportion of transitory labour in their organisations. The Sainsbury scheme, however, includes part-time employees as well.

At Sainsburys, many thousands of the employees are shareholders under a scheme that puts 15% of profits over a 2.5% margin into a pot which has more than trebled in four years. "One of the reasons we went public was to widen our share ownership", says Sir John Sainsbury. "We now have some shop-floor staff with holdings worth around £15,000".

Marks and Spencer director John Salisse was quoted: "About 35,000 of our staff have shares now. Hardly any of them sell their shares." Marks and Spencer staff hang on to their shares because they know they are a good investment.

Thus, incentives are substantial and are linked to company performance, providing a broad perspective on the company, with the realisation that overall efficiency as well as personal performance is a determinant of corporate wealth.

The Co-op, having no marketable securities in its capital structure is denied both the opportunity to promote the sort of involvement which stems from participation in corporate equity and also the barometer of external perception which share price represents.

The 'incentive' element of the Co-op remuneration package is exclusive to the managerial employees under the National Association of Co-operative Officials agreement whereby remuneration is linked to - of all things - turnover.

Thus the one group of employees who could reasonably be held responsible for profitability have their reward structure linked to a parameter which excludes all conceptions of efficiency in terms of cost control, stewardship of assets, return on capital employed etc., etc.

A windfall benefit over which they have no control - such as a merger, takeover or an increase in VAT could result in higher incomes for the NACO employees.

Even such a crude and inappropriate reward is further blunted in its relationship to performance by the timing of it. A manager who effects an increase in turnover could wait 12 months before feeling any benefit, whilst his less capable or less motivated colleague who allows turnover to slide would be protected from the effects of his negligence for a similar period.

Significantly, in both the North Eastern Society and in North Midland incentive schemes are either practiced or in prospect which forge closer links between performance and reward, and the linking of salaries between grades within Normid's hypermarkets is clearly designed to foster a team spirit amongst profit-influencing employers.

In general terms the Co-op exists on low pay and low incentives for the majority of its employees. This is allied to the size of its outlets, which are viewed as incapable of generating sufficient volume and profit to permit the payment of high wages.

It seems ironic that companies such as STC, Sainsburys, Marks and Spencer and MFI, founded on clear commercial objectives should offer significantly better remuneration packages to employees than the Co-op which pays lip service to benefitting the working classes.

Goldsmith and Clutterbuck comment:

"Most of these companies have stuck to merit-based remuneration over the past decade, even though the majority of British companies have allowed their merit systems to decay". This, considers Peter Brown of Renard Regional Surveys, is probably a significant reason for their superior profit performance.

Brown believes that the real root of the problem in operating incentive schemes lies in the inability of most companies to assess performance accurately. "Most managers won't identify the very good or the really bad amongst their subordinates. But: we have to get back to merit as the basis for annual increments. The evidence we have suggests that the most profitable companies have face-to-face discussions about performance with individual managers and a fair amount of discrimination about how much each person gets".

Within the Co-op there is some promotion-based performance incentive in that successful managers tend to be given progressively larger stores. However, there is a ceiling on the potential for advancement in this way, set by "Peter Principle" considerations where the qualities that make for success in a small shop, centred around personal contact with customers, are not necessarily transportable to the larger unit which has a requirement for administrative rather than personal skills.

As in other areas, the structure of the Co-op militates against best practice as seen by its competitors and once again it finds itself in the vicious circle of mediocrity, with low pay dictating a poor quality resource at the customer interface and high pay being a deterrent to mobility at the more senior level of management.

## 9. MANAGEMENT INFORMATION SYSTEMS

The successful company study draws a picture of clear and explicit strategy realised through tight control mechanisms. This is so irrespective of structure - the only difference made by structure is in

the siting of the control points.

Central to the success of these companies are their management information systems.

Information is the key to setting strategy - Goldsmith and Clutterbuck cite a number of examples:-

"Bejam has always been marketing orientated" says Bill Perry. "Much of our energy has been devoted to researching customers' needs and behaviour. Good rapport with them is essential to the sort of specialised business that we operate."

'Better known for the scale of its market research, however, is supermarket giant Sainsbury. Sir John has no doubt that keeping a close ear to the ground on changs of customer taste and needs is a major reason why his company has survived healthily into the 1980's whilst virtually every other big name in the grocery business before World War Two has disappeared or been taken over.

"We are unusual in the retail world in the importance we have always attached to market research. Data concerning the general marketplace in terms of the nations's economy, food trends, and socio-economic environment are constantly updated and analysed. Trends are monitored and new sectors explored. Competitors' developments in terms of new stores, marketing strategies and prices are examined closely."

Sir John Sainsbury goes on to explain the mechanics:

'An annual attitude survey, based on 2,000 lengthy interviews in the home helps establish where, how often, and when, people shop. Great weight is attached to what people think of Sainsbury's and the high street competition.

'By regularly taking the pulse of the high street we understand better the shopping patterns by areas. We study what is being bought and where, how much is being spent and by whom, for every location in our trading area.

'Decisions of where we should try to open new branches are well grounded in market research. The profile of the potential customer, the volume of likely shoppers, the lines most likely to sell, the size of carpark, the extent of competition and the potential turnover, are all closely examined.'

Comment Goldsmith and Clutterbuck:

"For our successful companies a close understanding of their markets is a pre-requisite for an aggressive market thrust. Action is rooted in confidence that they know what they are doing and have the resources to accomplish their objectives and this confidence is in turn rooted in the detailed information they gather about their customers and their competitors.

"The volumes of market data are used as a background for planning, both at corporate strategic and unit operational level. It might be assumed that they complicate the planning task, but in fact the opposite appears to be true. In most of our successful companies it is the comprehensiveness of the background data that allows the plan itself to be relatively brief and simple, because less allowance has to be made for the unknown."

Paul Johnson (165) of GEC describes the Arnold Weinstock attitude to management information:-

"Managers must include the following basic ratios in their progress summaries: sales to capital, profits to sales, profits to capital, sales to debtors, sales to stocks and sales per employee. Weinstock studies these figures avidly and any company whose results do not satisfy him will soon get a phone call and must give a convincing account of what steps it has taken to put things right."

In the last resort, Weinstock believes, the only real controls are financial ones and to be effective they must be speedy and continuous.

His view is shared by Charles Forte, as described in a company biography.

"His (business philosophy) is based on a strict analysis of the potential of the business - of turnover, gross profit, wages and other expenses and the resultant net profit - having decided what the minimum must be to make it a viable proposition. He applied his yardstick to compare one operation with another by the use of percentages or ratios. He describes it as a simple system yet believes that without it he might still be controlling a very limited operation."

Constant feedback of results is accorded great priority in the successful companies sample. Barretts feed back top managements view of each month's figures in marathon 12-14 hour management meetings, chaired by a main board director.

Racal makes that even the most junior managers are aware of the financial situation after the four-weekly profit and loss accounts. "None-the-less," says Harrison "a good manager knows how he has done at the end of the week, without a Profit and Loss. Historic accounting just confirms what you should already know".

Communication of information is given utmost priority by all the successful companies, and a surprising degree of openness and frankness is displayed by descriptions of the processes at companies such as SAS, STC, Racal, AGB and Scottish and Newcastle Breweries.

Warnings are sounded, however about the tendency to go overboard. A number of unsuccessful companies were examined by Goldsmith and Clutterbuck who comment:

"Our successful company chairmen insist that large amounts of useful data gathered. But they rely on a small number of clearly defined measures to keep them informed as to where the company is going and how it is doing. At Woolworth, on the other hand, the board was deluged with forty-page detailed reports. These have now been scrapped in favour of one page of A4.

Kenneth Cork, whose career has been founded on the lack of success of other comments:

"When I go to a company to hold an investigation or to talk to the management I ask them simple

questions. What's your cash flow? When does it peak? What's your profit forecast? What's your turnover last week? And all they do is press a button and in comes an accountant with a pile of papers a mile high. Then they shuffle them and they can't find the right one.

"Nobody can think with a piece of paper. There's only one place you can think. A good businessman will answer all your questions out of his head".

The chief executive who needs vast amounts of information is in essence admitting that he has not got clear objectives.

Says Cork: "The only information you want is information on which you can make a decision. If you can't make a decision, having read it, you don't want it."

Sadly the Co-op once again finds itself on the wrong side in the quantity vs quality argument.

It's information systems tend to be old-fashioned, batch-processed computer systems which spew out tons of paper annually on which information is not differentiated by its importance or relevance. The availability of output is so long delayed that it is largely useless for the operational decisions which have to be taken in such a volatile environment. Top management has a disproportionate focus on margins and cost levels. The CWS's data processing manager quotes, with some satisfaction, the statistic that his department turns out 9 colums of computer print annually, each as high as the headquarters building - the 15-storey New Century House.

Only in the last seven years has consideration been given to condensing the reporting, and as yet there is still little reporting on an exception basis, or a distinction made between controllable and non-controllable variables.

Only recently has a move been made away from 4-weekly hard-copy reports, produced six weeks after the start of the period. The business is controlled from the rear, with the helmsman so far away from the bows that he has no short-distance forward vision.

At the present time there is a flurry of activity to develop database systems for the Regional Distribution Centres, (where a proprietory package called Chainstore has been purchased from the U.S.) and for the traders, so that they can have online access to current information about their businesses.

As yet no attempts have been made to create databases of marketplace or computer intelligence and such information is collected by those individual societies whose managers are aware of its value.

Within the Co-op generally, the entire information collection and dissemination process founders on the twin obstacles of structure and managerial resource.

## 10. CONCLUSION

This Chapter has related the model to practical experience in a selection of successful organisations examined by Goldsmith and Clutterbuck and in the Co-op - an organisation whose lack of clear objectives preclude any internally-derived evaluation of success but whose performance violates almost all of the generally accepted or axiomatic success criteria extant in the world at large.

The purpose was twofold:

In the first instance there was a need to validate the model by relating its elements and their inter-relationships to real-life organisations, and to attempt to correlate synergy between those elements of the model identified in the organisations and the success or otherwise of the organisations. This would overcome the problems of making definitive statements about the model from its application in the two Retail Co-operative Societies, both of which were in a state of metamorphosis and therefore presented particular problems in identifying success criteria.

Secondly, having established a degree of credibility for the model as a good descriptor it was felt

worthwhile applying it in the more general context of the Co-operative Movement as a whole to establish whether there appeared to be a way out of its present perceived dilemma of increasing uncompetitiveness and decreasing relevance to the twentieth century. The second step involved making a number of assumptions which are ultra vires the model per se, for example, one assumption is that the survival of the Co-operative Movement is ultimately grounded in principles of financial viability, that in terms of its selling activities it is operating in essentially the same marketplace as other retailers, that its banking and insurance subsidiaries are constrained by normal rules of stewardship etc. in relation to their customers' funds etc. etc.

To make these assumptions is to strip away much of the veneer of mysticism which has for decades clouded the issue of the Co-op's longterm viability.

Interviewed in April 1983, the CWS Chief Executive, Dennis Landau was quoted as saying (166):

"Since I came to the CWS to the CWS from the private sector in 1971 my greatest difficulty has been to adjust to the time-taking nature of our democratic processes - although I believe I have learned to live with the time factor. And, as you know, I'm personally committed to the co-operative democracy."

Looking at the fall in market share of 1.5% overall (from 7.0% to 5.5%) between 1971 and 1983 one wonders whether the luxury of democratic delay in decision-making - or indeed of the democratic process per se - can be afforded in a commercial enterprise whose competitors are steadily drawing further ahead in every single measure of performance.

There is very little synergy between the elements of the model as applied to the Co-op. It's outdated structure is reinforced by its culture and any change would be compromised by its laggardly performance. The vertical integration which could have been a source of strength in a time of expansion is now a source of weakness. Strategy is not clear, leadership is fragmented across 100 separate societies with non-congruent goals. Corporate image is a non-starter with the variety of and lack of consistency between different types of outlet across different societies and the abandonment of an overt Co-op association in the superstore developments of a number of large societies.

A potential key to retailing success has been clearly demonstrated to be centralisation, but centralisation is non-compatible with the present concept of democracy.

The Co-op Union strategy of condensing the movement into 25 Regional Societies is unlikely to establish an organisation which is in any way competitive with ASDA, Tesco or Sainsburys because 25 organisations can by definition never achieve the clarity of purpose or corporate muscle of a single organisation.

It would be my submission that the model I started out with has been somewhat changed and expanded because of its use in the North Eastern and North Midland Co-operative Societies.

I further submit that the enhanced model has proved an adequate descriptor when applied to a sample of successful companies, in that its components represent comprehensive statement of the key elements of those companies and that synergy between the components has resulted in corporate success.

Conversely, lack of synergy between the elements of the model when it is used as a representation of the Co-operative Movement indicates the likelihood of poor performance and this is borne out in practice.

Whether the changes postulated by the model would ever come about, or whether if they did the desired our-turn would result are matters beyond the scope of this text. It is, however, possible to be reasonably confident that the present incompatibility between the elements will preclude any improvement in the current adverse trends and that a surviving Co-op at the end of the next decade will be materially different from the present Movement, in both structure and size. The CWS, as the repository of fixed cost will be in the vanguard of change - a process which is already underway.

## REFERENCES


(1) Holyoak, George Jacob. 'The History of Co-operation'
Vol. I, published Trubner 1875
Vol. II, published Trubner 1879.

(2) Holyoak, opus cit.

(3) Holyoak, opus cit.

(4) Holyoak, opus cit.

(5) Holyoak, opus cit.

(6) Redfern, "The Story of the CWS - the Jubilee History of the Co-operative Wholesale Society Ltd., 1863-1913". Published by the Co-operative Wholesale Society Ltd.

(7) "A System of Book-keeping, specially arranged with an appendix, containing explanations of mercantile terms and transactions and other useful information for Directors, Secretaries and Managers of Industrial and Provident Co-operative Societies Ltd". Co-operative Union. 1880.

(8) "A System of Book-keeping etc." - opus cit.

(9) Hall, Fred. MA. B. Comm, FUS" Standard Co-operative Book-keeping" - Co-operative Union, Issue I Nov. 1925, Issue II January, 1926.

(10) Jacques, J. BA (Comm) Davies H. ACIS. "Co-operative Book-keeping I, II and III. Co-operative Union. Issue I. Feb. 1940, Issue II July 1960.

(11) Wilson, RMS "Financial Control", McGraw Hill, 1974.

(12) Soldofsky RM and Olive GD. "Financial Management". South Western Publishing 1974.

(13) Van Horne, JC. "Financial Management and Policy". Prentice Hall International, Third edition, 1975.

(14) "Supermarketing".

(15) "Management Information - Its Computation and Communication". C.W. Smith, G.P. Mead, C.T. Wicks and G.A. Yewdall. Pan Piper Management Series, 1969.

(16) "A Contingency-Frame work for the Design of Accounting Infomration Systems, Lawrence A. Gordon and Danny Miller. Accounting, Organisation and Society, Vol. I, No. 1 pp 59-69, 1976. Pergamon Press.

(17) "The Effect of Different Types of Competition on the Use of Management Controls, Khandwalla, Pradip. Journal of Accounting Research, Autumn 1972, p. 276-285.

(18) "Industrial Organisation: Theory and Practice" Woodward, J. Oxford University Press, 1965.

(19) "Organisation and Environment", Lawrence, P.J. and Lorsch. Havard University Press, 1967.

(20) "The Management of Innovation", Burns, T.G. and Stalker. Tavistock, 1961.

(21) "Organisations in Action" Thompson, J. McGraw-Hill, 1967.

(22) "Organisational Analysis - A Sociological View" Perrow, C. Tavistock, 1970.

(23) "The Role of the Firm's Accounting System for Motivation" The Accounting Review, April 1963, pp 347-354.

(24) "Transfer Pricing: A Synthesis" Abdel-Khalik, R.A. & E. J. Lusk, The Accounting Review, January 1974, pp 8-23.

(25) "Short-Run Planning in a Decentralised Firm". Godfrey, James T. The Accounting Review, April 1971, pp 286-297.

(26) "Transfer Pricing: A behavioural Context" Watson, D.J. and J. V. Baumlar. The Accounting Review, July 1975, pp 466-474.

(27) "Divisional Performance: Measurement and Control" David Solomons. Irwin, 1965.

(28) "Profit Centers, Transfer Prices and Mysticism, M.C. Wells, Abacus, Vol. 4 No. 2, Dec. 1968, pp 174-181.

(29) "New System for Divisional Control" Bruce D. Henderson and John Dearden, Havard Business Review. Sept/Oct 1966, p. 144.

(30) "Relevant Transfer Prices" Billy Goetz. The Accounting Review, July 1967, p. 435.

(31) "Computers: No Impact on Divisional Control" Havard Business Review, Jan/Feb 1967. p. 100.

(32) "Managerial Cost Accounting" Bierman, Harold Jnr. and Thomas R. Dyckman, Macmillan, 1971.

(33) "Management Control of Public and Non-for-Profit Activities" Geert Hoofstede, International Institute for Applied Systems Analysis. April 1980.

(34) "Planning and Control Systems: A Framework for Analysis" R.N. Anthony, Havard University, 1965.

(35) "People and Techniques in Vudgeting" Hofstede. Quantitative Methods in Budgeting, pp. 10-22, edited by C.B. Tilanus, Martinus Nijhoff, 1976.

(36) "Management Control Systems: A Key Link Between Strategy, Structure and Performance" Todd, J. Organisational Dynamics, 5, 4, 65-78, 1977.

(37) "Organisational Design" Jay R. Galbraith, Addison, Wesley, 1977.

(38) Institute of Cost and Management Accountants: Terminology. "Variance Analysis".

(40) Cost Effectiveness, Budgetary Decision Process and Itemisation: Some Behavioural Considerations. Working Paper in 193, Graduate School of Business, Stanford University, Aharoni, 1971.

(41) The Game of Budget Control, Hofstede, G. Tavistock, 1967.

(42) Budgeting for Control, Dunbar, RLM. Administrative Science Quarterly, 16, 1, 88-96 Dunbar, RLM.

(43) Budgetary Control and Organisation Structure. Bruns and Waterhouse. Journal of Accounting Research, 13, 2, 177-203, 1975.

(44) Cultural Determinants of the Avoidance of Uncertainty in Organisations Hofstede, G. Working Paper 77-18. European Institute for Advanced Studies in Management, 1977.

(45) Management Accounting for the Future, Anthony RN, Sloan Management Review, 13, 3:17-34, 1972.

(46) Planning Programming Budgeting: A Systems Approach to Management, Lyden & Miller, Remd McNally, 1972.

(47) Budgeting: A Comparative Theory of the Budgetary Process. Wildavsky, 1975. Little, Brown & Co.

(48) Policy Analysis is What Information Systems Are Not, Wildavsky, 1978a, Accounting, Organisations and society 3, 1, 77-88.

(49) A Budget for All Seasons? Why the Traditional Budget Lasts. Wildavsk, 1978b. State Audit.

(50) The Poverty of Management Control Philosophy, Hofstede, G. Academy of Management Review, 3, 3, 450-461. 1978.

(51) The Pattern of PPB Rejection: Something about Organisation Structure, Something About PPB. Jablonsky SF and MW Dirsmith. Accounting Organisations and Society, 3, 3/4 215-225, 1978.

(52) Zero-Base Budgeting in the Federal Government: A Case Study. Herzlinger, RE. Sloan Management Review, 20, 1, 3-14, 1979.

(53) Zero-Base Budgeting Comes of Age: What Is It and What It Takes to Make It Work. Cheek, LM, Arnacom, 1977.

(54) Intra-organisational Power Considerations for Designing Information Systems. Bariff, ML and JL Galbraith. Accounting, Organisations and Society, 3, 1: 15-27, 1978.

(55) Zero-Base Budgeting in the Public Sector : A Pragmatic Approach. Sarant, PC, Addison Wesley, 1978.

(56) Zero-Base Budgeting and Program Evaluation. Wholey, JS Lexington Books, 1978.

(57) Zero-Base Budgeting for Public Programs, Draper, FD and BT Pitsvada, University Press of America, 1979.

(58) Management Control in Non-Profit Organisations. Anthony RN and RE Herzlinger. Irwin, 1975.

(59) The Policy Making Process, Lindblom, C. Prentice-Hall, 1968.

(60) Strategic Management, Ansoff, H.I. MacMillan 1979.

(61) Strategy Making in Context: some Empirical Archetypes. Miller, Danny. McGill University Working Paper, 1975.

(62) A Contingency Framework for Management Accounting Systems, Research Accounting, Organisations and Society. Vol 2 No. 3, pp. 76 1-76.12. Waterhouse, J.H. and P. Tiessen, 1978.

(63) Organisations as Systems. Thompson, VA. General Learning Press, 1973.

(64) Complex Organisations. Perrow, Charles Cott, Foresman & Co. 1972.

(65) Where Traditional Budgeting Fails. Schiff, M and A. Y. Lewin. Financial Executive, May 1968, pp. 57-62.

(66) The Economics of Discretionary Bahviour: Managerial Objectives in a Theory of the

Firm. Williamson, DE. Prentice-Hall, 1964.

(67) Factor Analysis of Behavioural Variables Affecting Budgetary Slack. Onsi, M. The Accounting Review, July 1973. pp. 535-548.

(68) A Behavioral Theory of the Firm. Cyert, RM and March, JG. Prentice-Hall, 1963.

(69) Pondy. L.R. Mitroff, II "Open System Models of Organisation" Research in Organisational Behaviour, Connecticut JAI Press, 1979.

(70) 'The Art of Japanese Management' - Richard Tanner Pascale and Anthony G. Athos. Penguin Business and Management Series, 1982.

(71) 'The Management of Innovation'. Tom Burns and GM Stalker, Tavistock Publications, 1961.

(72) "Making Strategy Explicit - A Special Commentary" - S. Tilles. The Boston Consulting Group, 1966.

(73) "The Abstract Characteristics of Living Systems", G. Sommerhoff, Systems Thinking. Edited by F.E. Emergy, Penguin Modern Management Readings, 1969.

(74) "Strategy Formulation: Analytical Concepts" Charles W. Hofer and Dan Schendel. West Publishing Company, 1978.

(75) "The Causal Texture of Organisational Environments", FE Emergy and EL Trist, Human Relations, Vol. 18 (1965) pp. 21-32.

(76) "Rational Choice and the Structure of the Environment" H.A. Simon, Psychological Review, Vol. 63 (1956), pp 129-138.

(77) "A Tentative Classification of Goal-seeking Behaviours", MP Schutzenberger, Journal of Medical Science, Vol. 100 (1954) pp. 72-102.

(78) "Strategic Management" H. Ansoff. The Macmillan Press Ltd., 1979.

(79) "A Contingency Framework for the Design of Accounting Information Systems". Lawrence A. Gordon and Danny Miller. Accounting, Organisation and Society Vol. I, No. I pp. 59-69, 1976. Pergamon Press.

(80) "New Patterns of Management" - Rensis Likert.

(81) "The Human Side of Enterprise" - Douglas McGregor.

(82) "A Behavioural Theory of the Firm". RM Cyert and James March.

(83) "The Science of 'Muddling Through'". Charles Lindblom.

(84) "Strategy Making in Three Modes". Henry Mintzberg.

(85) "The Syle of Top Management". Pradip Khandwalla.

(86) Charles W. Hofer and Dan Schendel. op cit.

(87) "The Functions of the Executive". Chester I. Barnard. Havard University Press, 1962.

(88) "The Practice of Management". Peter Druncker. Harper & Row, 1954.

(89) "Organisational Goal Structures". Max D. Richards. West Publishing Company, 1978.

(90) Pascale and Athos. op. cit.

(91) "Strategy as a Problem Solving Theory of Business Planning". Joseph L. Bower. Havard Business School. p. 894, 1967.

(92) "Managerial Promlem-Solving" H. Ignor Ansoff, Journal of Business Policy, Vol. 2. No. 1, Autumn, 1971.

(93) "Corporate Strategy: An Analytic Approach to Business Policy for Growth and Expansion". H. Ignor Ansoff. McGraw Hill, 1965.

(94) "Technological Forecasting". Gordon Willis with Richard Wilson, Neil Manning and Roger Hildebrandt. Pelican Library of Business and Management, 1972.

(95) "Divisional Autonomy and Diversification" Wrigley, Leonard. Unpublished doctoral dissertation, Havard Business School, 1970.

(96) "The Strategy and Structure of British Enterprise" Channon Boston: Division of Research, Havard Business School, 1973.

(97) "The Strategy and Structure of Italian Enterprise" Pavan, Robert J. Unpublished doctorial dissertation, Havard Business School, June 1972.

(98) "Strategy and Structure of German Industrial Enterprise" Unpublished doctoral dissertation, Thanheiser, Heinz, T. Havard Business School. 1972.

(99) "The Strategy and Structure of French Industrial Enterprise". Pooley-Dias, Gareth Unpublished doctoral dissertation, Havard Business School, 1972.

(100) "Strategy, Structure and Economic Performance". Rummell, Richard, Havard University Press, 1974.

(101) "Marketing Myopia". Levitt, Theodore. Havard Business Review, Vol. 38, No.4. July/August, 1960.

(102) "Where Long Range Planning Pays Off" Thune, Stanley and Robert House. Business Horizons, August 1970.

(103) "Long-Range Planning and Organisational Performance: A Cross-Validation Study". Herold David M. Academy of Management Journal, March 1972.

(104) "CED's Role in Corporate Growth". Eastlack, Joseph O and Philip R. McDonald. Havard Business Review, Vol. 48 No. 3, May/June 1970.

(105) "Acquisition Behaviour of US Manufacturing Firms". Ansoff, H. Igor, J. Avener, Richard D. Brandenburg, F.E. Porter and Raymond Radosevich. Vanderbilt University Press, 1971.

(106) "Long-Range Planning and Organisational Performance" Karger, DW and FA Malik, Long Range Planning, December 1975.

(107) "Is Long-Range Planning Profitable?" Rue, Leslie W and Robert M. Fulmer. Academy of Management Proceedings, Boston, 1973.

(108) "The Practice and Profitability of Long Range Planning". Rue, Leslie W. and Robert Mc. Fulmer. Oxford, Ohio. Planning Executives Institute, 1973.

(109) "Long-Range Strategic Planning and Its Relationship to Firm Size, Firm Growth and Firm Viability: An Explorative, Empirical Investigation" Unpublished doctoral dissertation, University of Western Ontario, 1975. Sheehan, Gary.

(110) "Strategy and Structure". Chandler, Alfred D. MIT Press, 1962.

(111) "Strategy Implementation: The Role of Structure and Process". Galbraith, Jay R. and Daniel A. Nathanson. West Publishing Co., 1978.

(112) "Determinants of Financial Control Systems for Multiple Retailers - Some Case Study Evidence", J.A. Piper.

(113) "The Effects of Different Types of Competition in Use of Management Controls". Khandwalla, Pradip, N. Journal of Accounting Research, Vol. 10 No. 2, 1972.

(114) "Budgetary Control and Organisation Structure" Bruns, WH and Waterhouse Journal of Accounting Research. Autumn, 1975.

(115) "The Relationship Between Organisation Structure and Organisation Control, Ouchi, WG Administrative Science Quarterly, March 1977.

(116) "The Contingency Theory of Managerial Accounting", Hayes, D.C. The Accounting Review, January 1977.

(117) Op cit. See (13) above.

(118) "Models of Organisation" Christopher J. Drew, Working Paper Series, Manchester Business School and Centre for Business Research, January, 1975.

(119) "The Industrial State: Old Myths and New Realities". Havard Business Review, 51 (1973): 133-148. Scott, Bruce. R.

(120) "Divisional Autonomy and Diversification". Wrigley, Leonard. Unpublished Doctoral Dissertation, Havard Business School, 1970.

(121) Op. cit. Ref. 31.

(122) Wrigley, Leonard, Op. cit.

(123) Stopford, John, and Louis Wells "Managing the Multinational Enterprise" Longmans, London, 1965.

(124) Woodward, Joan. "Industrial Organisation, Theory and Practice". Oxford University Press, London, 1965.

(125) Child, John and Roger Mansfield "Technology, Size and Organisation Structure". Sciology 6 (1972) pp. 369-393.

(126) Blau, Peter Cecilia M. Falbe, William McKinley & Phelps Tracy. "Technology & Organisation in Manufacturing". Administrative Science Quarterly 21 (1976), pp. 20-40.

(127) Fiedler, Fred. "A Theory of Leadership Effectiveness". McGraw-Hill, New York, 1967.

(128) Leavitt, Harold. "Inhuman Organisations". Havard Business Review, July/August, 1962, pp. 90-98.

(129) Perrow, Charles. "A Framework for the Comparative Analysis of Organisation". American Sociological Review 32 (1967) pp, 195-208.

(130) Thompson, James D. "Organisations in Action", New York, McGraw-Hill, 1967.

(131) Hall, Richard. "Intraorganisational Structure Viariation". Administrative Science Quarterly. 7. pp 295-308.

(132) Hage, J and M. Aiken "Routine Technology, Social Structure and Organisational Goals" Administrative Science Quarterly, 14. pp 366-376.

(133) Duncan, Robert. "Characteristics of Organisational Environment and Perceived Environmental Uncertainty". Administrative Science Quarterly. September 1972. pp. 313-327.

(134) Van de Ven, A.H. and A.C. Delbecq. "A Task Contingent Model of Work Unit Structure". Administrative Science Quarterly, June 1974, pp 183-197.

(135) Lawrence, Paul and Jay Lorsch. "Organisation and Environment" Boston: Division of Research, Havard Business School, 1967.

(136) Peters, Thomas J and Robert H. Waterman Jr. "In Search of Excellence" New York. Harpers and Row. 1982.

(137) Goldsmith, Walter and David Clutterbuck. "The Winning Streak". Penguin Business and Management Series. London 1985.

(138) Poensgen, Otto. "Organisational Structure, Context and Performance". Working Paper No. 74-49. European Institute for Advanced Studies in Management, Nov. 1974.

(139) Muriel, John and Robert Anthony. "Misevaluation of Investment Centre Performance". Havard Business Review, 44 (1966) pp 98-105.

(140) Cable, John and Peter Steer. op. cit.

(141) Blake, Robert R and Jane Srygley Mouton. "The New Managerial Grid" Houston, Texas: Gulf Publishing Company, 1978.

(142) Maslow, A.H. "A Theory of Human Motivation" Psychological Review, Vol. 50, 1943, pp 370-396.

(143) Herzberg Frederick. 'Work and the Nature of Man'. World Publishing Company, 1966.

(144) Humble, John. 'Improving Business Results' Pan Management Series, 1972.

(145) McInnes, J.M. Management Control Research Project: Report No. 1 'Measuring Performance Within the Enterprise' March 1972 - Centre for Business Research in association with Manchester Business School.

(146) Lupton, Tom & D. Gowler, 'Selecting a Wage Payment System'. London Kogan Page (Associates) 1969 for the Engineering Employers' Federation.

(147) Pugh, DS and Hickson, DJ 'Organisational Structure in its Context' (Vol. 1). England. Saxon House (1976).

See also

Pugh, DS and Hickson, DJ. 'Organisational Structure: Extensions and Replications' (Vol 2). England. Saxon House.

(148) Skinner, BF. 'Science and Human Behaviour' New York. MacMillan. 1953.

(149) Skinner, BF. 'Verbal Behaviour'. New York. MacMillan, 1957.

(150) Brown, R.H. 'A Poetic for Sociology' England. Cambirdge University Press, 1977.

(151) Morgan, G. 'Paradigms, Metaphors and Puzzle Solving in Organisation Theory'. Administrative Science Quarterly, 1980.

(152) Schon, D. 'The Displacement of Concepts' London, Tavistock, 1963.

(153) Goldsmith, Walter & Clutterbuck, David. 'The Winning Streak'. Penguin Business and Management Series, 1985.

(154) Financial Guardian, Wednesday June 1, 1983. 'Notebook' edited by Hamish McRae.

(155) Adair, John 'Are Today's Managers Risk-shy?' - International Management, May 1982.

(156) Zaleznic, Abraham. 'Managers and Leaders, are they different?' Havard Business Review, May/June 1977.

(157) Houlton, Robert, Chief Education Officer Co-operative Union 'Training Top Management - A Blast from the Past' Co-operative News, January 11th, 1984.

(158) Pascale, A and Athos, G. The Japanese Art of Management. Penguin, 1982 and 1983.

(159) King, Jane 'MacLaurin Stamps his Mark on Tesco', Supermarketing. August 9th 1985.

(160) 'The Superseded Supermarket', Business Brief. The Economist, August 6th, 1983.

(161) Edwards, Michael. 'Back from the Brink'. William Collins Sons & Co. Ltd., 1983.

(162) Peters, Thomas J and Waterman, Robert H (Jr) 'In Search of Excellence'. Harper & Row, New York, 1982.

(163) Arnott, Deborah. 'When the Co-operating Faltered'. Management Today. October 1983.

(164) Fitch, Rodney. 'Retailers' Rival Strategies for the 1980's. Retail and Distribution Management. July/August 1984.

(165) Johnson, Paul. The Director. December 1983.

(166) Howe, Lily. 'Dennis Landau Interviewed' Co-operative News, 27th April, 1983.

**M. Phil. DISSERTATION - ROGER J. GASKIN, FCMA, MBIM**

**"THE USE AND DEVELOPMENT OF A DESCRIPTIVE ORGANISATIONAL MODEL IN A RETAIL CO-OPERATIVE SOCIETY ENVIRONMENT"**

## APPENDIX 1 - THE SOURCES OF BACKGROUND INFORMATION FOR THE STUDIES AND OUTLINE APPROACH TO THE INTERVIEWS

The material used for the analysis of both North Eastern Co-operative Society Ltd. and North Midland Co-operative Society Ltd. was obtained primarily from in-depth interviews with the Chief Executive Officers of the respective Societies and with the newly-appointed Food Controller of the North Eastern Society.

The second source at the North Eastern Society was used because it was felt that there was an embryonic fundmental change in the strategic direction of that business, which had been planned on the basis of imported culture, and so it was felt important to have some cross-referencing of the views of the architect of the change (the Chief Executive Officer) and the principal change-agent (the Food Controller).

In the case of the North Midland Society there was no evident strategic dichotomy and there appeared to be a uniform agreed strategy pursued in a single-minded manner by a united management team; furthermore, the North Midland Society was seen as a better 'fit' with the model generally and with the Chandlerian Strategy/Structure hypothesis in particular. This 'fit' reinforced that a priori view of its suitability as a 'control' for the more detailed study in the North Eastern Society.

The CEO interviews were carefully sequenced so as to obtain maximum value from a necessarily scarce resource - the time of the very busy individuals in question.

They therefore followed the writing of the early chapters, that is after the model had been fully understood and underpinned by an extensive review of the supporting literature.

It would have been possible to approach the interviews as a form of scenario-setting and use the model as a framework with which a variation of the Delphi method could be applied to test the viability of the scenarios; this would have involved a great deal of the respondents' time and would probably not have been a practical research method.

The compromise adopted was therefore to use the author's knowledge of the Societies - derived from a number of different sources and accumulated over a period of years - to structure the interviews in such a way that there was an element of feedback in the initial discussions; the conversations were very interactive and the respondents' views were not accepted at face value.

It was then possible to use the model to undertake a form of morphological analysis using its elements to define attributes of the organisations studied.

The combination of pre-interview research and knowledge plus a highly structured prompting script enabled a large amount of ground to be covered in the time available.

The idea of using a tape recorder in the interviews was considered and rejected on the grounds that its presence would probably have compromised the richness of the dialogue which did actually take place. Both CEOs were remarkably frank and forthcoming on the basis of confidentiality and non-attributability of certain comments and opinions; this was scrupulously observed in the subsequent writeups which were submitted for clearance prior to incorporation into the text.

Notes taken during the interviews were used to re-construct the conversations on tape very soon afterwards, whilst memory was still fresh. This ensured that nothing of essence was lost either through the passage of time or as a result of incomplete source material.

The tapes themselves were then written up (as an example, the NECS interviews occupied 155 pages) and the writeups were referenced back to the original prompt scripts to ensure that all the required ground had been covered. As a precaution, follow-up interviews had been agreed in principle to fill any gaps or resolve any ambiguities.

The dual requirements of reporting and analysis were catered for in the stages of transcription. The format of the prompt notes ensured that there was a basic structure to the conversations and so the interview notes were more than mere records of random reminiscences or casual hypotheses. Nevertheless, some re-arrangement of the content was necessary to closely follow the structure of the model and this also served as an added test of consistency in that the juxtaposition of non-sequential tranches of conversation was scrutinised for incompatibility of ideas or facts.

Finally, the notes were written up as text of the thesis and submitted to the respondents for comment and approval. At this time the respondents were asked specifically to add to or amend the text and one or two minor changes were made as a result.

Thus were the 'reporting' and 'analysing' phases completed; interpretation took the form of a critical examination of the interview content within the framework of the model and its underlying concepts, and in the contrasts with other organisations from the same analytical base.

The prompt script was written in the form of a questionnaire, but not used as such in the interviews. The test of the material obtained was whether it did, in fact, answer the questions as posed in the script.

The first section of the NECS CEO 'Questionnaire" is reproduced as an example:

1. Environment

* Your experience in retailing covers a period from what could be construed as the 'birth' of modern retailing - i.e. the early days of self-service - to its present state of marketing and technological sophistication.

  What do you think have been the major changes in the last ten years?

  - technology
  - customer attitude/awareness
  - product range
  - competition

* Comment from Ian MacLaurin (Tesco's Deputy Chairman):

  *"The modern retailer is sensitive to even the smallest changes in the socio-economic structure which effectively precludes any reference to the past when dealing with the future.*

  *"For the high street, the present is often obsolete before it arrives, not least in the present highly volatile economic climate which predicates accelerating social change."*

Are things changing more quickly than they were (say) five years ago?

* Is competition more severe than it was five years ago?

- In what ways?

  - price competition
  - marketing/merchandising strategies
  - diversified stocking policy
  - instore technology
  - telesales
  - catalogue selling
  - store presentation
  - ancilliary facilities (creches, etc.)

- What market are you competing in (e.g. ASDA "Family" definition)?

- You have an annual advertising budget of £1.3 million; who is it aimed at?

- How is its effectiveness measured?

- What do you identify as the critical factors influencing sales volume in:-

  - the market generally?
  - the NECS Ltd. market?

- Who are your major competitors?

- In the last five years have they taken some of your market share?

- How much?

- Why is this so?

- Are you worried about it?

- What are the major environmental trends which you examine in, for example, deciding on major new investments?

  e.g. mobility of population
  economic decline/prosperity of the region
  move away from small shops
  wages policy vs. critical mass of store
  sophistication of consumer taste
  distribution costs
  trend to 'one-stop' shopping
  redundancies broaden opportunity for family shopping
  new markets

- What do you identify as the most important trends in the North Eastern market?

- How will they affect your business?

Other main headings of the prompt notes (expanded in comparable detail) were:

- History and Antecedents

- Strategy

- Management Style

- Structure
- Process
- Performance
- Reward Structure
- Information Requirements

Interactive debate at this level of detail implies both industry and Company-specific knowledge.

The author acknowledges a debt to the excellent CWS Library and Information Unit in making his research less arduous. This yielded material as varied as the 1880 treatise on Co-operative Book-keeping, the Durham Survey, copies of the works of Hall, Jacques and Holyoake, reports of past Congresses and volumes of past copies of the Co-operative Union's annual publication 'Co-operative Statistics'; all of this material was available in a single location and in the charge of the Librarian, Bernard Howcroft, who demonstrated an encyclopædic knowledge of the most esoteric sources of information and, frequently, of their content. In addition there was ready access to confidential research material within CWS service departments - for example an extensive study of potential store locations for the North Midland Society was an invaluable source of information about their region.

Other sources included the Economic & Research Department of the Co-operative Union (who produce comparative statistics and economic forecasts), trade journals such as 'Supermarketing', house magazines (the NECS publication is called 'Ahead' and is a well-produced newspaper designed to communicate events and opinions in some depth), general Co-operative publications such as 'Co-operative News' (which carries news and opinions, including detailed reports of the annual Congress), Society-specific publications such as 'Co-op North Eastern' (a detailed profile of the Society with many useful statistics), 'Benton Hypermarket' (publicity material to support the opening of the new store), 'Sponges to Superstores' (a fascinating history of the Midlands Societies from 1901-1973) and published accounts and employee reports.

Such material was not available either through the CWS library or from the Co-operative Union and was obtained from the societies themselves and great volumes of it were studied at two levels.

Superficially, there were records of interesting events and controversial opinion and these were noted and classified; behind the discrete events and transient opinion there were trends and consistencies which were discernible (together with inconsistencies!) over an extended time frame.

The author was fortunate to have headed up CWS consultancy teams carrying out very large and extended projects in both societies. These projects were concerned with the financial management of the businesses and the development of management information in them at a time of accelerated and often traumatic change. Detailed insights into the strategic thinking of senior management could be juxtaposed with the perceptions of lower-level personnel in all areas of the businesses. The first feasibility study for the Longbenton Hypermarket was run through a capital appraisal model by the author, for example, and the results discussed in details with the CEO.

Living in Newcastle for 18 months offered the chance to become familiar with the area, to foster social as well a business contacts with NECS personnel and to be accepted as a familiar face to whom confidences could be safely divulged and opinions canvassed.

This provided a useful general backcloth of personal reminiscences and perspectives on historical data (many of the people concerned were ex-employees of the constituent Societies and offered anecdotes and opinions which added the rich ingredient of experience to the recipe for strategy). Individuals who influenced events pre- and post-merger were described, expectations and events were contrasted, and effectiveness of communication was assessed in terms of the dichotomy between declared policy and its perception at grass roots level. The Durham survey was brought to life by people who had worked in the environments it described. Something of the 'feel' of the area was absorbed by driving around the alien landscapes of Stockton and Middlesbrough, visiting the pretty inland and coastal villages and towns - Amble, Alnwick, Whitby, etc. - seeing the stark juxtaposition of industry and environment at Redcar and travelling, in all weathers and seasons, over the North Yorkshire Moors.

A similar situation pertained in North Midland, albeit without the same 'residential' status.

There was, therefore, a unique combination of rich background material available via desk and field research and through extended personal contact. This, coupled with the academic base of the model and supporting literature provided an excellent foundation on which to structure and evaluate the interviews, so that subsequent analysis could be approached with a high degree of confidence.

There was a keen awareness that familiarity could have been prejudicial to objectivity and so it was important to have a sound intellectual framework for the analysis and to preserve balance by contrasting two very different organisations sharing an equal degree of familiarity and empathy.

**RJG/1988**