FORMULATING BUSINESS STRATEGY-
MODEL BUILDING AND APPLICATION

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ABSTRACT

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The purpose of this study was to develop a general model for strategy making in business organizations. The model was applied to a Norwegian farmer sales cooperative which market fruits and vegetables in order to test the model's feasibility of developing a consistent approach to business strategy formulation.

To achieve this objective a conceptual framework and a closed loop logical flow model of the strategy process was developed. A set of sub processes was identified and discussed in terms of the interactions of input and output variables. The model then was applied to the company's business situation.

The theoretical part of the study revealed the importance of regarding the different functions of an organization as interdependent and non-separable in the context of formulating company strategy.

Because of its total systems character the application of the marketing concept requires understanding and commitment by all members of the organization. When confined only to the marketing function and the marketing department, the marketing concept is more likely than not to become an alien force in the organization.

Tentative conclusions regarding the model's feasibility in the practical application was that it provided a useful management framework by encouraging explicit considerations of all the main variables. It also provided a logical and process directed approach to the task, thus simplifying the complex and introducing dynamics to the process. The crucial importance of setting corporate objectives became quite evident, likewise the role of the personal perceptions on behalf of the participants in the organization.

In regard to the company's performance, the conclusion reached was that lack of a consistent strategy and the lack of a closed loop strategy process have prevented the company from adjusting to environmental changes, and has brought the company close to becoming obsolencent as viable business organization.

The company's opportunities and capability were analyzed and two main strategy directions suggested, from which one was chosen as most feasible.

The author's professional development as a student of marketing and management was increased as a result of the study. Knowledge from different areas of business operations was utilized and integrated into a consistent whole.

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CHAPTER I

INTRODUCTION

In this chapter the background for the study is given. The author's experience, which has had a major impact on the choice of this particular study, is described in order to provide a frame of reference to the approach chosen. The principal problems to be studied are explained, leading to the statement of general objectives for the study. Finally, the organization of the study is described.

A. Background and Importance of the Study

The reason for the author's interest in studying business strategy is based on his experience during a two year engagement as marketing consultant in "The Sales Organization of Horticultural Producers in Norway".

The organization is engaged in the wholesale marketing of horticultural products,

My main task was to participate in the development of the organization's marketing strategy and programs, including the development and staffing of the marketing division. As this work proceeded it became evident to me that:

- The marketing function would have to be treated as an integral part of the organization's total activity.
- An over-all corporate strategy would be essential if the company was to achieve potential benefits from the marketing concept.
- Personal attitudes, values, and knowledge on behalf of the executives in the organization would play a major role in the success or failure of development and implementation of policy.

- The marketing concept is viewed as a panacea and results in expectations far above what can be achieved in the short run.

Some marketing activities, while "theoretically" promising to the firm, created so much disruption within the organization that the value of attempting to implement the activities became questionable. Established routines were interrupted in such a way that efficiency suffered. It also became evident that even projects enjoying general approval often turned out to be less efficient than should be expected. The reasons for these problems seemed to be the conceptual misinterpretations on the part of most members of the executive staff; and this resulted in delays and other deviations from plans. Standardization of the activities was lacking, thus requiring laborious coordination and constant checkups from the organization's central staff. Another problem was what might be called "passive acceptance" of the marketing activities. The plans were accepted, but did not create the necessary enthusiasm and commitment; and new activities, therefore, tended to fail in the implementation phase. Apparently, to many executives the marketing activities seemed to be inconsistent with the traditional and accepted organizational goals. There was, for example, a strong feeling among some of the executives that large competitors should not be antagonized. Naturally successful marketing activities would, however, disrupt market equilibrium, and would therefore conflict with this traditional policy.

These experiences of the author, among others, created in his mind questions about the feasibility of implementing the marketing

concept. Obviously, there was a failure on the part of management to see the necessary consequences of and requisites for a successful implementation of the marketing concept.

This study is conducted as a response to these problems and experiences. The study is addressed to the problems of formulation and implementation of corporate strategy. Major attention is given to the marketing function as a part of an over-all corporate strategy. Further attention is given to the requisites for a successful utilization of the marketing concept.

The problems experienced in this case illustrate the business challenges facing many companies in transition, especially small and medium-sized organizations. The transition from a traditional, product oriented approach to a market (or environment) oriented one seems to require substantial organizational changes and changes in the way executives must view their problems. Often management seems to have accepted only a superficial commitment to market-minded thinking. It lacks a clear understanding of what is involved in organizational changes and adjustments. As a result company leaders are likely to be discouraged by their experience in moving toward a marketing approach, and might even abandon what might have become under different circumstances the most profitable approach the organization could have introduced (Anshen, 1964).

In companies where marketing experts are engaged by management in order to provide a quick solution to problems which are not fully understood, it is more than likely that the experience will result in failure rather than in a solution. The main reason for this is that the marketing concept, besides bringing new tools to a company, also involves

a philosophical concept of business management. This implies an interference with the whole life and nature of the organization, and thus interferes strongly with the domain of the top executives. Thus, the first, and possibly the most important problem area is a conceptual one, one which must involve the top management of the organization. If the top management does not understand, accept and commit itself to the new comcept of management, any action to change the system is almost certain to fail.

There are reasons which explain, at least in part, why misunderstanding of the meaning of marketing exists. In many instances there are likely to be differences in educational and practical background between the usually younger, marketing executives and the older executives in the organization. This means also that the perception of the company situation is likely to be different, and thus provide a source of conflict.

It is important to realize that because the source of conflict is due to differences in perception, the conflict often is deep-seated and basic. This is not to say that the gap cannot be bridged, but rather that the seriousness of the problem has to be recognized in order to provide an effective basis for a solution.

The marketing concept as a business philosophy does focus on the marked rather than on the production, and does indeed go much further. Implicitly the marketing philosophy advocates a systems thinking rather than a sector thinking, and explicitly it requires planning and coordination of all business activities. In this sense, it should be clear that the chief executive officer is the "marketing executive". Of course, in most firms a marketing director is employed as the coordinator of the various business functions leading to the planning and implementing of activities which produce goods and services which meet the wants and needs of consumers.

As the marketing director seeks to influence other parts of the organization in this way, his activity is often viewed as an undue interference and a threat to the established status hierarchy. If, thus, the top executive does not understand the concept and its requirements and does not initiate and lead the necessary development of the organization, there is small chance for a successful implementation. The marketing executive then is faced by the choice of adjusting his activity to the old system or of risking serious organization resistance and disruptions. Neither of the alternatives is likely to lead to improved organizational performance; and the possibility of even worse performance than before exists.

This situation might be regarded as somewhat extreme, but nevertheless it seems to be rather realistic in many companies. Even when top management does understand the concept and does commit itself to it, it is no small task to achieve acceptance of the marketing philosophy on behalf of all the participants. Attitudes and values must be altered. Again it is a question of basic and deep-seated commitments which are difficult to alter. Thus, the elimination of resistance to change is a main consideration in the process of developing the organization.

Furthermore, the process of strategy formulation and implementation is in itself a complex and laborious task. The degree of complexity often discourages management from undertaking the task or might result in short cuts and oversimplifications.

Even if management percieves the importance of strategy and planning, lack of resources (for example, executive time) and inadequate personnel often hampers successful implementation (Mace, 1965).

The importance of the problem on handis evident. The marketing concept, or what we here might call a systems approach, is a means of adjusting business

organizations to changes. Such adjustments often are imperative for the survival of the organization. It is, however, evident that many organizations run into great organizational difficulties when trying to change their approach (Ringbakk, 1971).

One approach to the problem may be to develop a simple and systematic conceptual framework for the strategy-making process.

B. General Objectives of the Study

The general objectives of this study are to:

1. Develop a general model for strategy making in business organizations.
2. Apply the model in a practical case, test its feasibility, and provide suggestions for an approach to the organization's problems.
3. Through the process of model building and application, develop a basis for a personal approach to the problem of business strategy.

Based on the author's previous experience in policy formulation and implementation in a business organization, and his study of theoretical concepts obtained from the areas of marketing, management and business policy, a consistent and workable strategy model will be developed.

It is the author's opinion that it is important to make the model simple and logical rather than sophisticated and complex. The model will be "tested" in a practical situation in order to uncover the possible weaknesses and shortcomings inherent in the conceptual formulation of the model.

The analysis of the specific organization studied is by no means meant to be complete. It is not the author's objective to find solutions to all of the company's problems. It is, however, his hope that through the process, one might focus on some of the more important problem areas of the firm, and be able to suggest an approach to those problems.

The most important objective of this study is, however, to integrate the knowledge and experiences aquired from the broad range of business disciplines studied which hopefully will lead to a method of more effectively managing the challanges facing the business organization.

C. Organization of the Study

This research is a study of the concept of business strategy, its theoretical basis and practical implications.

The study is organized in two main parts:

1. A theoretical part.
2. An applied part.

The theoretical part (Chapter II) provides a conceptual fremework of business strategy formulation. Different approaches to strategy formulation are discussed, including the approach to be taken in this study. Important terms such as strategy, policy, planning, system and marketing are discussed. It is demonstrated how the marketing concept is integrated as a part of the broader field of business administration. The importance and limitations of business strategy or planned purposes are discussed. A theoretical model is built. Emphasis is put on developing a simple, logical flow-model, which reflects the conceptual basis chosen and which provides a guideline for strategy formulation and implementation.

The most important elements of the model are then discussed and analyzed from the point of view of their importance, content, and interrelations.

In the applied part of the study (Chapter III) the model is used in analyzing a practical business situation which confronted the author. It should be stressed that this application has as its main prupose to test the model's conceptual feasibility. The analysis process is, however, carried

far enough to provide for certain specific recommendations to solve some of the main problems facing The Sales Organization of Horticultural Producers in Norway. Alternative strategies are discussed and a plan of action is suggested.

CHAPTER II

THEORETICAL FRAMEWORK AND MODEL DESIGN

This chapter develops a conceptual framework or philosophy as a basis for the theoretical approach to the problem of strategy formulation. On this basis a total model for strategy formulation and implementation is developed. The total model is discussed in terms of logical consistency and internal interactions. Finally, the main elements of the model are discussed in some depth. The importance of the elements, their content, and their interrelations are emphasized.

A. Conceptual Framework

The terms strategy, policy, planning, marketing and system have several definitions and interpretations. It is therefore necessary to clarify the meaning of these.

The important differences between the terms are those which reflect different approaches to the problem complex involved. The conceptual part will therefore be emphasized, rather than the philological differences occurring.

In the traditional approach to strategy formulation, determination of objectives and plan of action presupposes an appraisal of the company, i.e. a one-time, total analysis of the company's situation. On the basis of this the chief executive then decides upon the objectives and courses of action (Gilmore, 1971). This approach does, however, have an inherited static element, the tendency of a rather short-term planning based on a one time size-up. Business activities then drift along until serious problems or crises make it necessary to analyze the situation again. This approach can be thought of as an open-ended process of strategy formulation.

A contemporary view of corporate strategy formulation is a closed-loop, long-range process. Thus, after the first size-up and the strategy formulation and implementation, a reappraisal of current strategy takes the place of the size-up of the situation. The analysis should be focused on the consequences of continuing the current strategy, given the external and internal trends.

The term corporate strategy in this view of the process comprises more than the military connotation of the term (i.e. the positioning of the forces in the battlefield), and the economist's use of the term (i.e. the allocation of scarce resources). Corporate strategy is rather the pattern of objectives, purposes (or goals), and major policies and plans for achieving the objectives (Learner, 1969).

Strategy is concerned with the long-term development of the enterprise and is primarily the creative element of the goal-directed, long-range planning. The strategy might be viewed as being a conceptual framework for corporate planning, planning being a process of preparing for action which must mesh with the processes of organizing, leading and controlling. The strategy provides a process and a system which integrates the corporate planning into the firm's total management system.

The concept of strategy formulation should be perceived as being a formalized and practical expression of what might be called the systems approach to business management. The systems perspective provided the concept of the interrelations and interconnections among the different components of a total system. The concept places great emphasis on the analysis of flows and communications, and may be expressed in the mathematical theory of system analysis. Mathematical systems analysis conceives of systems in terms of two

complimentary variables - properties and flows (Kelley, 1967). Systems analysis has been defined as an approach to solving complex problems of choice under uncertainty and should thus provide promise in strategy formulation. The potential for strategic purposes seems still, however, to be limited to use in large companies that possess considerable technical resources (Gilmore, 1971). In any case, a mathematical formulation can only procide a technical devise for coping with time and complexity constraints. The human judgment will remain as the critical element in the process of strategy formulation.

The strategy concept serves the important purpose of systemizing the main elements of the total system into a logical whole. Thus, the strategy concept is to be seen in the context of a systems orientation, where the organization is viewed as a set of flows of information, men, material an behavior, and where time and change are the critical aspects. This concept allows us to incorporate various fields into an operating reality where all parts of the system are integrated and mutually consistent (Lazer, 1971). An important part of the concept is the system's adaptive capacity, i.e. the capacity to adapt the changing inputs in order to maintain a desired output.

The time horizon also has to be considered. It is important to segregate those aspects that are enduring and unchanging over relatively long periods of time from those that are more responsive to changes in the day to day environmental pressure. This distinction is important in order to separate important and less important features.

It is important to distinguish between strategy and policy. The difference lies in the scope and the time horizon. The strategy is the framework within which the policies for the subelements (i.e. production, financing, personell,

marketing, etc.) are formed. The level at which the responsibility is delegated is also different. While the responsibility for strategy formulation and implementation ultimately lies at the very top of the hierarchy, the responsibility for the policies rests with the department executives. And finally, while strategy has definite long-range characteristics, the policy can be thought of as being medium to long-range character.

There are still two important conceptual clarifications to be made, namely the relationship between objectives and stragegy, and between strategy and the marketing sub-element. The first of these relationships appears to be rather obvious, the other is more subtle.

Whether the term strategy should include the selection of goals or not is not agreed upon in the literature. Learner argues that this distinction is not so important as long as one is concerned with the practical side of the concept rather than the theoretical aspect (Learner, 1969). One can, however, argue that the determination of long-term goals is an integrated part of the strategy and cannot be separated from the process. The reason for this is that over a long term, general objectives have to be consistent with the opportunities and constraints facing the company. An increasing flexibility and complexity in the goal setting now being experienced in the highly industrialized societies also draws in the same direction. In this study, therefore, one finds it feasible to include the selection of goals in the strategy concept.

Marketing as a sub-element in the strategy concept has some unique characteristics. It is extremely important, in order to develop a consistent and logical concept of corporate strategy, to clarify the marketing concept

as an integrated part of the broader field of business administration. This is so because there seems to be a tendency among students of marketing to regard the marketing concept as having a life of its own, somewhat separated from other business functions. There is also evidence that the marketing concept often is regarded as the philosophy which should guide business in its struggle for goal achievement.

It is important to clarify the organizational place and position of the marketing function. Ambiguity and misconceptions in this area are likely to be a main source of organizational conflict in the implementation phase of a corporate strategy which is build on so-called "market orientation".

The marketing function's somewhat unique position seems to have two major courses. First, the marketing management philosophy and the corporate strategy concept are based on the same conceptual ground, namely on the systems perspective of decision making. Marketing people seem to have been more receptive to this concept than people with different backgrounds. This is probably explained by the fact that the modern marketing management philosophy is conceptually based on the systems thought. Other sectors like production, financing/accounting and personnel traditionally are not based upon the same basic concept. The systems perspective is, therefore, often brought into the organization via the marketing sector and the people in charge of it.

Second, market orientation has gained importance as a business concept because of changes in the environment of business (i.e. technology, economy, and sociological factors). Today it is almost regarded as a law among "progressive" businessmen that "all thinking about the firm should begin with the market" (Kelley, 1967). This view will not be challenged here because it

probably represents a feasible approach. One might, however, raise the question if in our eagerness to adapt to the marketing concept, we might confuse "concepts" with "functions"; it is often forgotten that a business organization is more than just marketing, and that the marketing concept should be seen in a broader context of business administration. I will argue that this often is overlooked, and that this is a major cause of organization problems often experienced when the marketing concept is introduced.

The marketing function is, as are the other business functions, a subfactor in the corporate strategy and should be treated as such in the strategy context. The traditional distinction between marketing viewpoint versus production viewpoint does not provide a fruitful approach to problem solving. Such an approach is likely to create alienation and conflict within the organization and fail to recognize the importance of the activities of the organization as an integrated whole.

Marketing as a tool or technique is not different from production or financing as a means to achieve the corporate objectives. The allocation of scarce resources to different functions should follow the economic laws. This is not to say that the marketing sector is overemphasized today; merely that the return on investment or the total benefits should determine the allocation of resources.

In the strategy context, a company's capability in marketing should be regarded as an asset, and a part of what might be called "corporate competence and resources." The uniqueness of the marketing concept stems from its customer or environment oriented approach and its systems approach. This, of course, should not be regarded as a feature exclusively linked to

the marketing function. This is in fact fundamental to the strategy concept itself.

From this follows that the question about which main course the company should take is to be decided for the company as a whole as a result of the strategy formulation process. This has to be initiated by the top leaders and commitments have to be made at the organization's top executive level.

The marketing function, which by its very nature requires systems coordination, can be efficiently performed only if the whole organization is systems oriented and directed. The failure in recognizing this might be one of the main reasons for "the failure of the marketing concept" experienced in many organizations (Cascino, 1967).

It is relatively rare, although less and less so, to encounter the conscious attention to strategy which logically seems to be appropriate (Learner, 1969). The reason for this might be lack of understanding of the concept, lack of qualified personnel or other resources, or that one regards the advantages of a considered strategy not worth the effort it obviously requires. Even if no proof can be given, it is evident that, due to increased pace in changes affecting the organization, conscious and systematic attention to strategy is imperative for a sound organizational development. Four important considerations support this view: 1) It is obviously inadequate to state goals only in profit terms. 2) Planning ahead is necessary in order to optimize the use of resources. 3) There is a need for influencing rather than merely responding to environmental changes. 4) Setting of visible goals is an inspiration to organizational effort.

There is increasing awareness that future growth - indeed, the very survival of most companies - depends primarily on the means of planned

purpose. Unless the strategy is continuously reviewed - unless objectives, policies, resources and organizations are combined in a carefully articulated plan which is better adapted to the company's current situation - the drift and its accompanying confusion will almost certainly precipitate a company crisis.

From the point of view of implementation, the most important function of strategy is to serve as the focus of organizational effort. The crucial task is to secure acceptance and motivation throughout the organization as a basis of a necessary cooperative action.

The concept of strategy does not, however, provide a panacea, and there are several limitations and requisites. Forecasting is an important part of the strategy process. It is at the same time impossible to obtain perfection in the forecasting. Therefore, it is imperative to perceive the concept as dynamic. There should be built-in devices for continuous auditing of internal and external forces to accommodate uncertainty and to preserve flexibility. Flexibility must be provided so that unexpected opportunities and threats can be considered.

Even the most "perfect" strategy does not eliminate the conflict between goals. It must be accepted as a fact of life that a given strategy will never have the same meaning or appeal to all members of an organization.

B. Develpoment of a General Model

The models presented here are simply a diagramming of the conceptual system. They reflect the theory or concept and describe the theory by the logical flow of questions and action.

The process of strategy formulation may be viewed as a form of reflective thinking where one progresses step by step from the recognition of the problem to solution.

The model building is constructed by abstraction, i.e. building a logical, conceptual system on a perceived business situation.

The model to be used is a systems model, where the starting point is the perception of a total functioning system rather than a specific goal. This type of model is superior to goal models for the kind of problems to be treated here. The systems model recognizes that there can be conflicting objectives, multi-functional units involved in achieving the goals, and interrelationships among different elements.

In making the models not all factors are included. This is the very nature of model building. Even though every aspect of management may be related to everything else, the analysis is premised on the view that some things are more important than others.

The general model shown in Figure 1 describes the main processes involved, namely analysis, decision, formulation, transformation, and control.

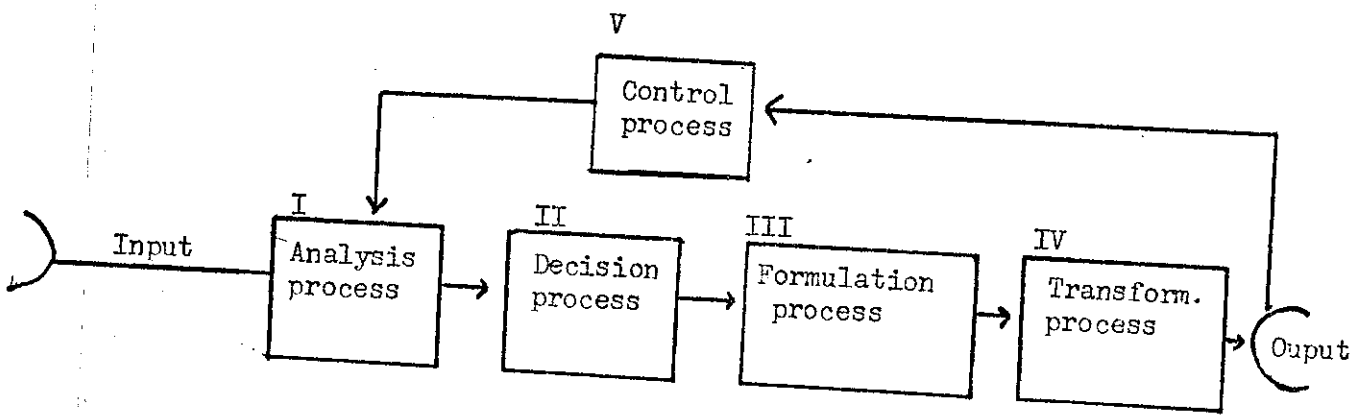

Fig. 1. --Illustration of the main steps of the strategy process.

Extremely simplified, the model describes the main steps in the strategy process, their sequence, and the closed-loop fashion of the total process. The analysis and decision processes while probably interwined in actuality, conceptually should be separated. The control process is viewed as an output control, i.e. an evaluation of apparent achievements.

Starting with this simple model as a basis, we now turn to the more detailed version described in Figure 2, which identifies the most important factors of the strategy model. The factors are given numbers which will be used as identification in further analysis.

The different factors will now be analyzed. The objective is to identify their interaction and position in the total process. The conceptual implications of the model will be stressed rather than the factors as separate items which are to be dealt with in more detail in later section of the study.

It is assumed that all organizations have a strategy, even if the strategy is unclear, inconsistent and not stated explicitly.

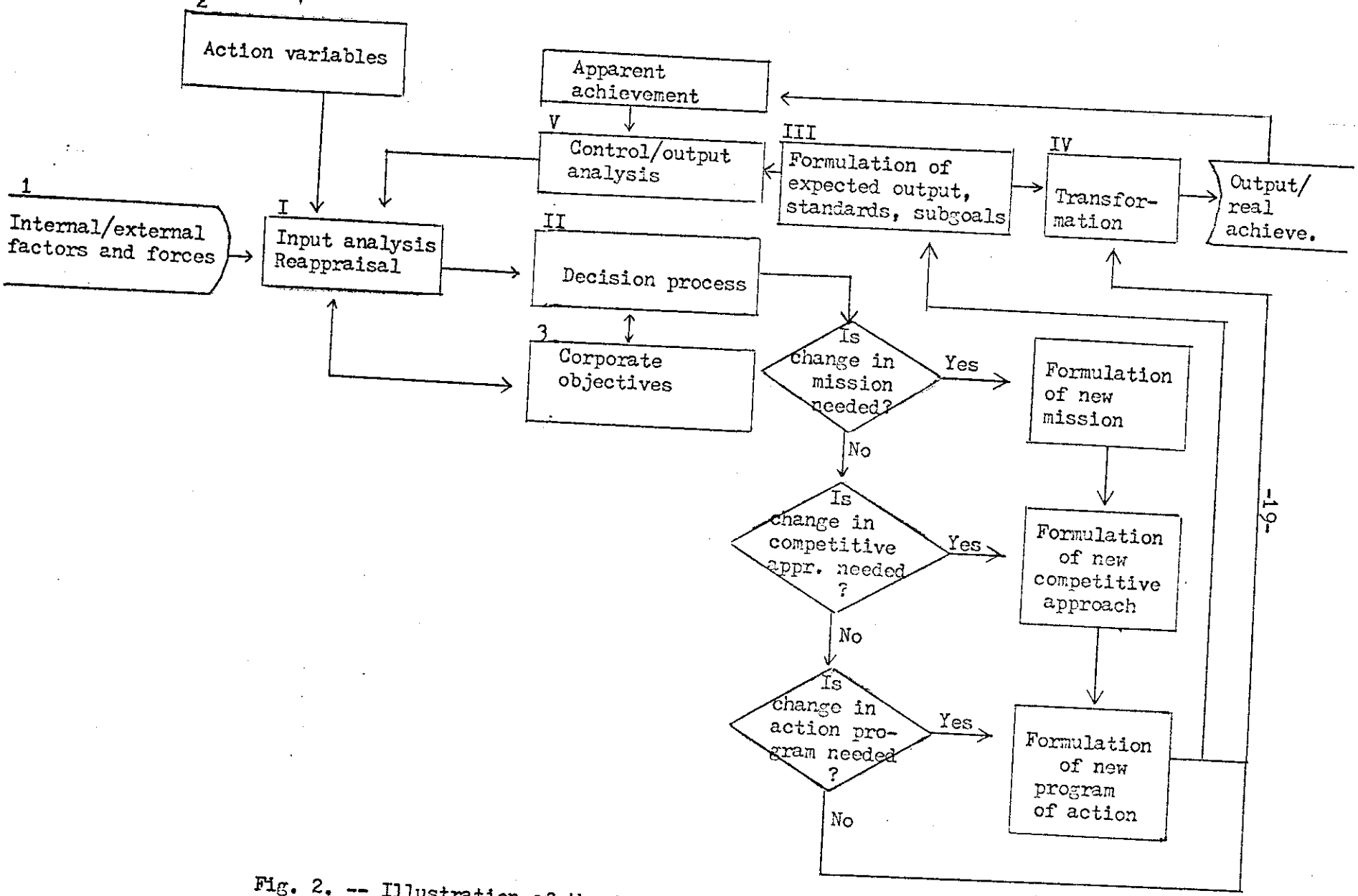

Fig. 2. -- Illustration of the total strategy model.

The starting point (I) of the strategy process provides for revealing current strategy and analysis of the possible consequences of continuing present strategy, given trends and developments in the external environment, existing internal conditions and achievements, and the corporate objectives. The purpose of the input analysis (I) is to reveal opportunities and treats caused by environmental factors and forces, company strengths and weaknesses, and to match opportunities and the company's capability. This is the basis on which alternative economic strategies are to be formulated.

The output of the analysis step becomes the input in the next step, the decision process (II). The output must be clearly and objectively formulated and relevant to the decision process. This means that the strategy alternatives must be comparable and assumptions specified. Uncertainties, risks and the time horizon should, as far as possible, be specified.

The decision process is an evaluation of the alternatives presented. Intangible factors are considered and the ultimate commitment of corporate resources is undertaken. The questionsto be answered are: Is change necessary?, and what kinds of changes should if desired be undertaken?

The next step is to formulate the ultimate strategy and the program of action (III). Next follows the process of transforming the plans through action into results (IV). The final step is the process of control, i.e. comparing expected output by the actual achievement (V). The total process is described in Figure 3.

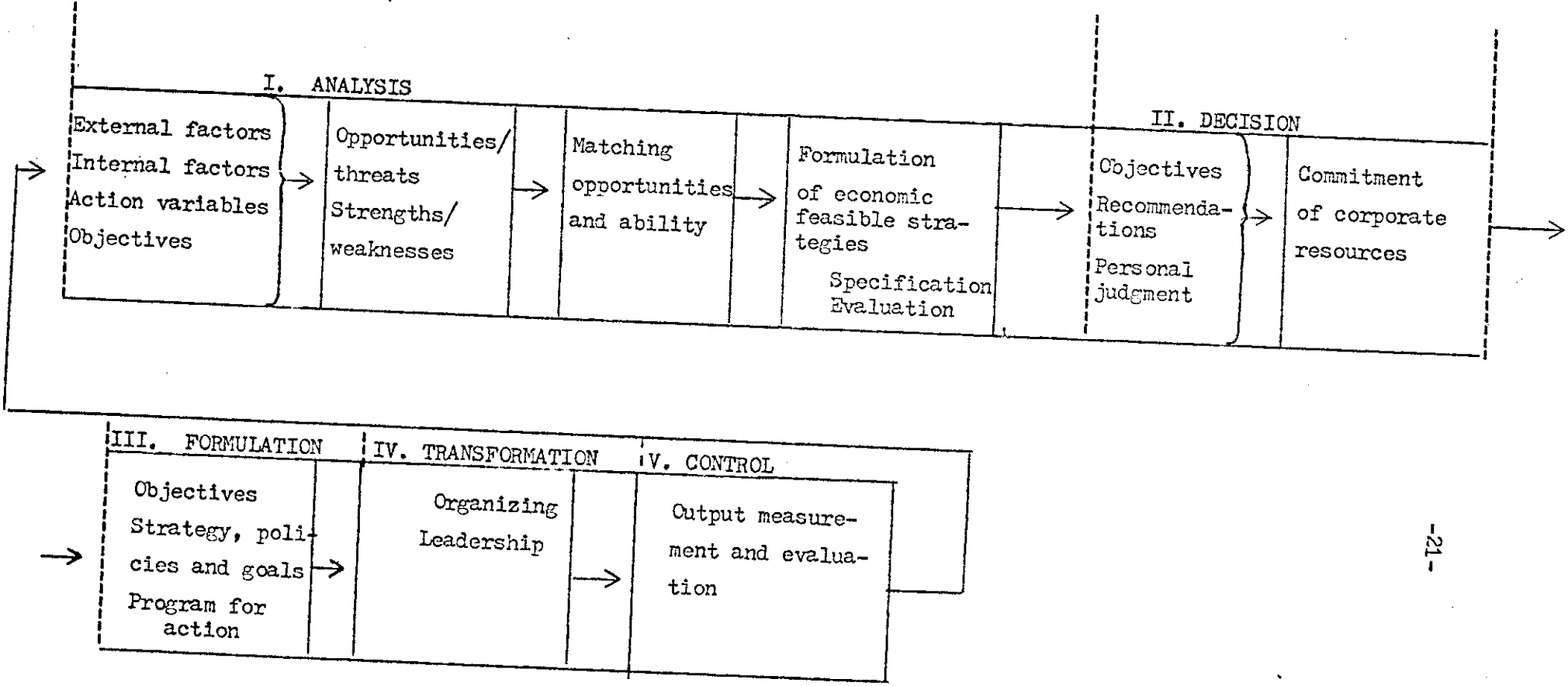

Fig. 3 -- Illustration of the strategy sub processes.

After having briefly mentioned the purpose, the inputs, and the outputs, in the next section we will look at the process in more detail.

The process of strategy building has, as indicated, five main progressive steps - analysis, decision, formulation, transformation and control.

1. The Analysis Process.

The analysis process is a continuous process in which the changes in external and internal factors are recorded and analyzed in relation to current strategy and the corporate objectives. The process has the following input variables:

- Corporate objectives;
- Current strategy; and
- External and internal factors and forces.

Another set of variables entering the process is the action variables (i.e. price, quality and promotion). These are the variables which the company can choose, change and mix in different "proportions" in order to build its marketing mix or what one might refer to as the environment oriented competition mix.

The analysis process itself may be viewed as a sequence of closely related sub processes:

- Identification of corporate objectives;
- Identification of current corporate strategy;
- Identification of environmental opportunities and threats;
- Identification of the company's strengths and weaknesses;
- Identification of the core elements;

- Matching of opportunities and capabilities; and
- Evaluation and formulation of alternatives, specifying the necessary requisites.

The output from the analysis process is an explicitly expressed set of recommendations of economically feasible alternative strategies. These then become the inputs into the decision process.

The analysis process with its inputs, sub processes and output is outlined in Figure 4.

Before we discuss each of the input variables and the sub processes, some general comments about the analysis process should be made.

The search for relevant alternatives is partly a search for opportunities and threats in the environment, partly a search for internal strength and weaknesses, and finally a matching of perceived opportunities and the company's capability. It is extremely important that this part of the process is considered in a context sufficiently broad that all relevant alternative strategies are revealed. This means looking at not only the obvious alternatives, but also at the innovation of new ones. Effort should be devoted to the imaginative design of useful alternatives.

The yardstick or frame of reference used throughout the analysis is the current strategy. One seeks to reveal discrepancies between results achieved by current strategy and potential achievements given another strategy, or changes within current strategy. The underlying questions to be posed are:

-- Is change in the company's mission necessary?

-- Is change in the competitive approach necessary?

-- Is change in the program of action necessary?

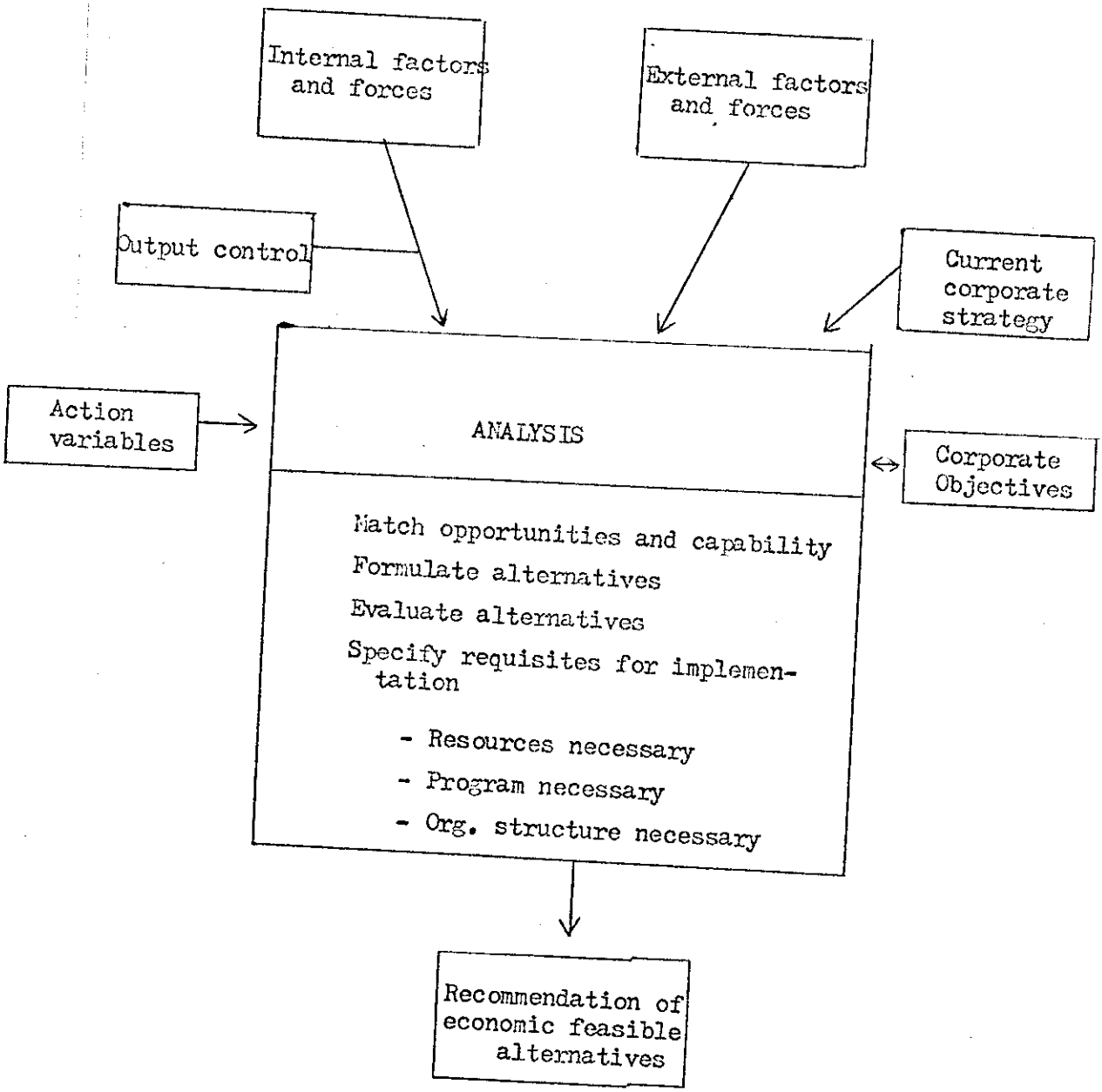

Fig. 4 -- The analysis process; inputs, sub processes, and outputs.

If the answers to these questions are negative, then the existing strategy remains appropriate. If changes or adjustments are found to be necessary on the grounds of facts revealed in the analysis, then the next step in the analysis is to provide recommendations for alternative changes.

Change in the company's mission is most far-reaching because it involves change in the very nature of the business, and thus affects the corporate objectives. If change in mission is necessary this in all probability implies the need for far-reaching changes in the competitive approach as well as in the program of action.

A change in competitive approach involves the question of changes in marketing mix, i.e. the mix of the action variables (price, quality, sales effort and negotiations/agreements). A change in this area is likely to be necessary rather more frequently, and will usually call for a change also in the program of action.

Program of action involves the means of implementing the strategy and calls for still more frequent changes or adjustments.

We will now first lock at the different input variables of the analysis process in some detail and then go on to the sub processes.

1.1. The Input Variables.

Main emphasis is put on listing the most important variables to be considered in the practical application. The most important interactions and interrelations between elements and groups of elements are stressed, and a logical flow of inputs and consequences is sought to be developed.

The purpose of this chapter is not, however, to provide a checklist or "cook-book" to the analysis process. Such an approach is disregarded

because strategy building never will be, or should be, a mechanical operation. Actually, a successful strategy building process hinges on the understanding of the organization as a system within the larger system of the society of which the organization is an integrated part.

a) The Action Variables.

The action variables are those variables which the organization can choose and use at its own discretion in order to adjust to or change external and internal factors and forces. The action variables are listed in Table 1.

Table 1

ENVIRONMENTAL AND INTERNAL DIRECTED ACTION VARIABLES

Action Variables

Environmental directed	Internal directed
Price	Structure
Quality	Administration
Promotion	Leadership
Organization	Technology

The variables here called environmental directed are those from which the competitive approach is composed. The price, quality and sales promotional variables are directly linked to the marketing activity. The marketing mix can be considered to be a result of the combination of these groups of variables. The price variable, besides the price itself,

also comprises allowances, deals, etc. The quality variable comprises technical quality such as sales quality and covers the product itself as well as package characteristics.

The group here called promotional variables is comprised of several subgroups of variables, i.e. R & D, branding, advertising, personal selling, service, P.R., and other promotional activities.

The group called organizational variables are those variables which are not directly linked to the output (product and service) but might be used in order to reduce the uncertainties of competition. These variables take on a variety of different forms and are directed toward different segments of the environment. They are used as a means to insure legitimace based on factors besides the output itself. Cooptation, reciprocity and informal and persuasive suspension of competition are common forms. Integration and diversification/conglomeration are other important means. This group af action variables is so important in today's business that this aspect of business has to be taken very seriously.

This leads us to the notion of a total competitive mix, i.e. the total mix of marketing mix variables and organization mix variables.

The internal directed variables are those which might be used in order to influence the organization's internal functioning and efficiency. The main groups of variables which are at the organization's discretion and can be used to influence the functioning of the organization are: structure (form of division and coordination), administration, leadership, and technology (means of transforming the raw materials, i.e. human, capital, material, into desirable goods and services).

These variables have important interactions and must also be viewed as a mix, and as a unique combination.

The action variables are characterized by being partly substitutes for, and partly complementary to, each other. The very crux of the strategy problem is to combine the variables in an optimal manner in order to achieve the corporate objectives.

Knowledge of the variables, their effects in different situations, and their interrelations thus is of the utmost importance. Our knowledge about them is limited, but economic theory, the theory of economic behavior, game theory, organization theory, and theories in other areas of social science do provide a useful basis for understanding.

b) Corporate Objectives.

The concept of organizational objectives is usually resistant to precise, unambiguous definition. Yet, a definition of objectives is necessary and unavoidable in organizational analysis. The problems associated with the corporate objectives stem from different sources. The most important ones are:

-- Different individuals are likely to perceive different objectives as being at different places in the hierarchy;

-- The objectives form a sequence or hierarchy after their importance;

-- The place in the hierarchy might vary over time; and

-- The objectives are difficult to measure and observe.

In order to approach the problem of objectives it is necessary to perceive the objectives as forming a mobile, multi-dimensional hierarchy which is under constant influence of time and personal perceptions (or what might simply be called "the situation").

To achieve an explicitly expressed and workable set of objectives simplification is essential. The problem can be simplified by distinguishing between the over-all general corporate objectives (here called objectives), and objectives which are more specific to particular situations and individuals (here called goals).

The corporate objectives directly reflect the purpose of the organization. They are fairly stable over time and reflect general agreement upon objectives or generally desired achievements. They reflect the basic values and beliefs of the participants and form the platform for the very existence of the organization.

The basic objective will provide satisfaction for the participants, or at least enough satisfaction for the participants to be willing to participate. Another basis for existence of the firm is the legitimacy granted the organization from the environment. The organization has to meet the minimum requirements set by society.

The corporate objectives then evolve within this framework. The objectives can be viewed as elements of these basic requirements and have the following dimensions:

a. Seen from the member participants' point of view

   -- pecuniary requirements

   -- human requirements

b. Seen from society's point of view

-- pecuniary requirements

-- societal requirements

The two most widely expressed ultimate objectives of corporate management are: (1) to make maximum profits for the firm over the life of the enterprise; and (2) to conduct operations in a manner that gives weight to the claims of stockholders, employees, customers and government (society).

Even if the question about objectives theoretically is much more complex, it is, given the present economic system, likely that this provides a feasible starting point.

Other objectives frequently occurring are corporate growth and freedom in decisions (Hourwich, 1971).

These broad objectives must be translated into more specific goals if they are to be very helpful to executives responsible for making concrete business decisions. The broad objectives have to be broken down to more measurable goals, or what might be thought of as "lower level goals". This "process" is also necessary in order to provide the basis for evaluation of alternative strategies or policies. These "lower level" goals can be viewed as specific criteria that can be used in evaluation performance against objectives.

This purpose requires that the criteria or goals should:

-- Be relevant and important to the specific problem for which they are used;

-- Consider all major effects related to the objectives; and

-- Be capable of meaningful quantification.

The goal complex can be conceptually viewed as a pyramid as shown in Figure 5.

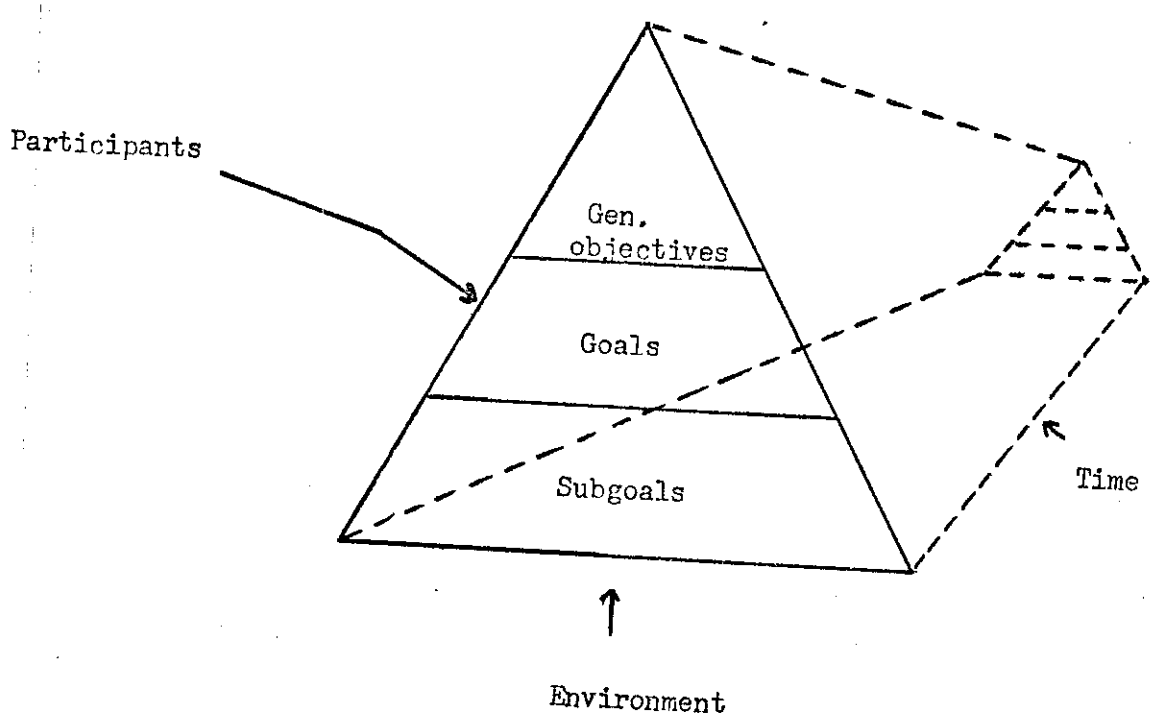

Fig. 5 -- Illustration of the relation between general objectives, goals and subgoals.

One should recognize the following important features:

-- The goal hierarchy is influenced by the participants (members) as well as the environment.

-- Different individuals and different groups will usually rank goals differently, and thus create potential conflicts.

-- The ranking might change over time as the situation changes.

-- In a goal system in "equilibrium" the subgoals should be consistent with the goals which in turn should be consistent with the general corporate objectives.

-- As one goes from the general objectives to subgoals, one gets more measurability, specification and potential for conflicting interests.

It should be clear that the distinction and relationship between objectives and goals is extremely complex and of crucial importance in the strategy making process. The issue is perhaps the most crucial one facing top management. It is the question about "where" the company should go. The strategy process is the question about how to go. A rational decision about strategy, therefore, thus is impossible without a clear opinion about the objectives to be achieved.

c) Current Strategy.

The recording of current strategy is the foundation for the subsequent steps in the analysis. The current strategy provides the framework and the basis on which the present situation is to be evaluated. The proceedeing question will be whether or not the current strategy still is optimal, or whether changes should be implemented.

The main practical problem involved in recording or identifying current strategy is that many companies, especially small and medium-sized, operate with loosely defined strategy. The strategy might not be explicitly stated at all, or it may be stated in a very general or diffuse manner. The strategy in that case has to be inferred from trends and executive behavior.

d) External and Internal Factors and Forces.

External (environmental) and internal factors and forces underlying the changes facing the organization are dominant factors in strategy

process and are thus extremely important inputs to the analysis process.

Of main concern is the selection of the most important factors, the understanding of their interactions and impacts, and the ability to see the opportunities and threats they represent.

The crucial issue is change, i.e. which changes occur or are likely to occur in the environment; and which changes in the environment will necessitate changes within the firm.

Our starting point here will be the following assumptions:

a. Organizations influence their environment, as well as being influenced by it.

b. One of the implicit tasks of an organization is to establish the legitimacy of its activity.

c. Survival and prosperity depend on acceptance of output and operation, as well as efficiency and profits.

The interrelation between the two input factors and their relation to the analysis process is shown in Figure 6.

Before we go on to look at the specific external and internal factors and forces, it is necessary to stress the importance of treating the organization and its environment simultaneously. Information about environmental factors is likely to be rather meaningless unless it is seen in relation to the internal factors, and vice versa.

Environmental forces only take the form of opportunities or threats if they are seen in the context of the organization's situation. By the same token internal factors and forces can take the form of strengths and weaknesses only when related to the evnironmental situation. Bearing this in mind, one can turn to the specific characteristics of the two inputs.

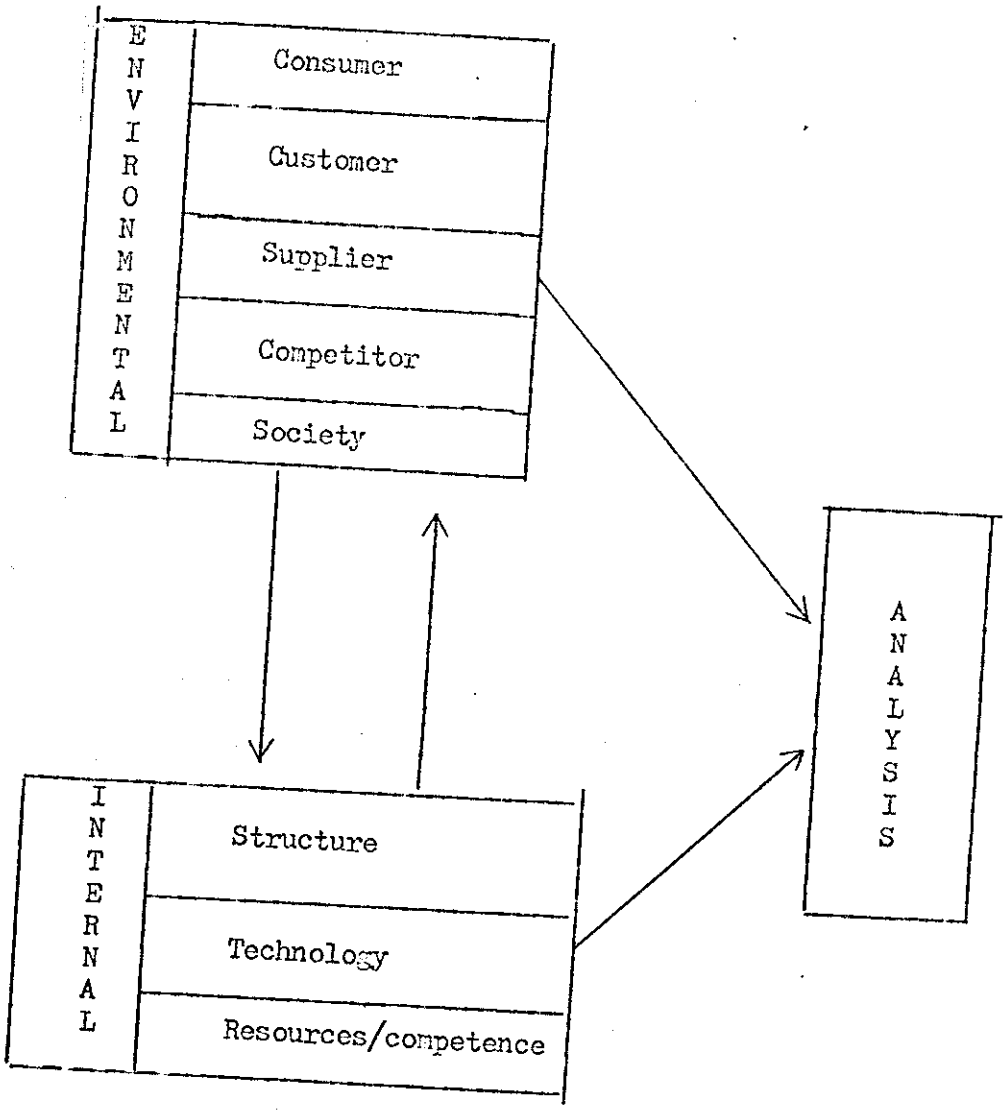

Fig. 6. -- The relation between environmental sectors, internal factors and the analysis process.

Table 2 procides an overview of the sectors and dimensions of the environment. The table should be perceived and used as a guideline for the analysis. The sectors and the dimensions depict areas which might contain factors of importance. It depends on the company's situation, however, which of the sectors and dimensions are of the most importance. The table is filled out in order to illuminate what kind of factors to look for. The list of factors, however, is not exhausted.

The table does not show the dynamics of the environment. It is, however, of the utmost importance to perceive the environment as a dynamic, changing system. The dynamic has two main dimensions, namely time and interaction. The factors are continuously changing over time. This change is the very crux of the problem. Prediction of and adjustment to change is the main purpose of strategy making.

The different factors and dimensions af environment are placed in separate boxes in order to make the necessary simplification of the complex. One should, however, observe that both factors and dimensions have a strong tendency of interaction. Changes in one of the boxes will more likely than not induce changes in one or more of the others. In terms of environmental forces, one can broadly classify the changes as being:

-- Scientific and technological

-- Life style

-- Economic and political

-- Legal and social

New business opportunities and threats are created as changes occur. Seen from a marketing point of view, for example, changing concumption patterns, distribution systems, communication channels, etc. will create

Table 2

ENVIRONMENTAL NON-CONTROLLABLE VARIABLES

Dimensions \ Sectors	Consumer	Customer	Supplier	Competitor	Society
Economical	Income level and distribution; Income elasticity; Market segmentation	Economic strengths, Margins, profit size, vol., growth effic., structure, strategy	Economic strengths, Margins, profit size, effic., structure, strategy	Economic strengths, margins, profit, price size, effic., structure, strategy, growth	Economic and fiscal policy, economic outlook
Technological	Mobility, Household equipment, Technical Knowledge	Buildings, Equipment	Product quality and quantity, equipment	Product quality, Innovations, equipment, distribution system, technical strength, product line, resources	Research, services, technological innovations
Sociological	Educ. level, Demog. char., Life style, Values, attitudes, needs, motivations	Skill, coop., affiliations, groups, norms, values, attitudes, progress, fairness	Skill, coop., affiliations, groups, norms, values, attitudes, progress, fairness	Skill, affil., reactions, attitudes, leadership style, educ. level	Laws, regulations, schools, education, institutions, policy concerning business, agreements, norms
Psychological	Values, attitudes, needs, motivations, behavior	Key persons' reactions and attitudes	Key persons' reactions and attitudes	Key persons' reactions and attitudes	Key persons' reactions and attitudes

new opportunities as well as threats. But the environmental changes also have an important impact on other sides of the organization's activity. The issue concerning the social responsibility of a company goes, for example, much further than merely its physical output and its marketing operations.

The need and desire to control parts of the environment has brought about organizational activities, such as conglomeration, reciprocity and cooption. Furthermore, the environment directly influences organizational structure and operations by its influence on the organization's members. For example. the educational level of the participants will influence structure, administration and leadership style. The degree of uncertainty imposed by the environment might also have a distinct structural impact on the organization (Perrow, 197o). The question of degree of decentralization hinges partly on the degree of environmental uncertainty.

The clear evidence of such environmental impact leads to the conclusion that the environment has to be viewed in a broader context than provided for by the marketing concept. Thus. one will advocate an environmental orientation in which marketing has its important place.

Environmental intelligence has as its main purpose the direction of environmental changes important to the organization. This information procides the basis for organizational action. The course of action might be passive or protective (i.e. to adjust to,or neutralize), or active or agressive (i.e. change, influence and utilize).

Internal factors and forces is the other main group of input variables to the analysis process. The purpose of the analysis of internal factors is, taking the environmental situation into consideration,

to detect company strengths and weaknesses.

The variables in this group can be placed in the following dimensions:

-- Economical (financial situation, profit situation)

-- Technological (know-how, equipment capacity, product technology)

-- Psychological (attitudes and values of key persons)

-- Sociological (moral, educational level, age distribution, etc.)

-- Organizational (structure, company position)

These are the sources from which the organization's strengths and weaknesses arise. It is the synergistic effect of the interaction of two or more of these variables which gives the organization its "distrinct competence ". The functional sectors to be analyzed in the terms of the dimensions listed above are:

-- Production

-- Financial

-- Marketing

-- Administration

Information about internal factors and forces is easier to obtain than information about external factors. Good data-reporting systems will provide adequate information about most of the variables (for example, finance, profit, capacity, market position, etc.) But there are also several intangible variables which are not easy to fit into a datareporting system. Variables such as know-how, attitudes and morals are extremely important, but are intangible by their very nature. Nevertheless, they have to be evaluated in order to make a true picture of the organization's situation. A factor of ability-to-change might in a given situation, be of crucial importance. An analysis of the organization with respect to this factor will have to build on more or less intangible variables.

1.2 The Sub Processes.

a) Identification of Opportunities and Threats in the Environment.

The analysis of the environmental variables involves five steps: description, diagnosis, prediction/projection, and finally the identification of potential opportunities and threats.

The different sectors and dimensions of the environment are described earlier. One shall here emphasize the approach which should be taken in order to provide a meaningful entrance to the rest of the analysis process.

An analysis of the environment has to be seen in relation to the company's situation (internal factors), company objectives and the action variables. Only by doing so will the analysis be meaningful, and will provide identification of opportunities and threats. What is actually to be asked is: Is the company's competitive approach still adequate, taking environmental changes into consideration? Without a purpose oriented approach the analysis will become a meaningless and costly exercise.

The concept of market orientation is emphasized throughout all modern marketing literature. This concept should be broadened to include the whole environment of business. The concept concerning the environment-company interrelation and interaction advocated here emphasizes society and its general impact as much as it does the marketplace itself.

The conceptual approach to the environmental analysis should be one viewing the company as an open system. The interaction between the company and its environment is the crux of the problem.

The company is an institution made legal by the society, and it is only legitimate as long as its environment accepts its outputs and opera-

tions. As society is changing, so also is the ground on which the company's legitimacy is based. Thus, the company has to adjust to the demands of the environment or run the risk of becoming obsolete.

Any company in order to survive and prosper must register changes, perceive their implications, and adjust to or influence the changes to its own benefit. The overruling importance of the environment and the analysis of it stems from the fact that the changes are, relatively speaking, extremely fast and at times dramatic. Another obvious aspect of the environment is the interaction and interrelation between its elements.

So, besides having a system in motion, we also have a system of interraction. This means that the target for environmental analysis not only is moving, but also without a distinct "bull's eye".

This has made environment intelligence and environment analysis an extremely important discipline. The problems of hitting the target, i.e. obtaining a reasonable prediction, are immense even for large organizations which can apply large resources and sophisticated techniques.

The problem is not that information is not available, that is mainly a question about the cost. But it is in particular a question about an intelligent use of the information.

This strongly supports the earlier statement that the environmental analysis must be goal directed, which is to say that it has to be performed in a process which integrates all input variables in the effort to make a basis for the company's strategy decisions. The action variables (price, quality, service/promotion and agreements) might be viewed as the common "transistor" in the process. These are the main factors or variables which the company can vary in order to adjust to or influence the environmental changes.

One should also emphasize the interaction between the environment and the corporate objectives. This matter will be treated in more depth later, but one should at this stage already be aware of the fact that environmental changes might make it feasible and necessary to even change corporate objectives. It is also evident that the corporate objectives to some extent will influence the choice of external factors to be emphasized in the analysis.

The analysis of external factors might be extremely complex. In order to make the process workable at all, it is imperative to single out and focus on the most curcial factors and relations. It is essential to ask the right questions.

In the strategy context one will propose the following questions as being critically important:

a. What are the essential economic, organizational and technical characteristics of the industry within which the company is a participant?

b. What trends suggest changes in a?

c. What are the requirements, or critical tasks, for success in the competition? (i.e. critical tasks)

d. What is the range of strategies available to any company in the industry?

e. Which threats and opportunities to this particular company can be identified?

The last of these questions brings us into the next part of the input analysis, namely the analysis of the strengths and weaknesses of the company. These two factors have to be analyzed simultaneously

because the internal situation is the frame of reference for the evalution of the threats and opportunities, and the environment is the frame of reference for the evaluation of the company's strengths and weaknesses.

b) Identification of Company Strengths and Weaknesses.

The analysis of the company's situation is the counterpart to the environment analysis. The company's strengths and weaknesses become evident when the company performance is compared and evaluated in relation to the environmental situation. This comparison has to be seen further in relation to the company's objectives.

In this analysis we aim at identifying "distinct competence" as well as weak points. This is to be done in order to, in relation to opportunities and threats, maximize strength and minimize weakness. In the evaluation of the company's capabilities, one has to look into the following dimensions:

-- Economy (profits, assets, financial strengths, etc.)
-- Technology (production, marketing)
-- Sociology (group attitudes, norms, education, experience)
-- Psychology (individual's attitude, nroms, goals)
-- Organization (structure)

This process might be partly a reappraisal or audit of current strategy. Through this part of the analysis one asks if the company is making satisfactory progress in relation to its plan.

The plan might or might not be specified through specific subgoals which then are to be compared with achievement. Often subgoals are not specified or they are specified only for certain areas. As mentioned earlier, one has to analyze the company's situation in relation to the

environmental setting - not merely in relation to the subgoals. This is because environmental changes might have made the subgoals obsolete. Nevertheless, an output control system, which often gives a rather mechanical comparison of subgoals and apparent achievement, is often a good starting point for the auditing. But the audit of the company's situation goes further in order to provide a meaningful evaluation of strengths and weaknesses. It is a searching inquiry into the validity of the fundamental premises underlying the company's operations. Further it is a planned effort to test and assess capabilities and effectiveness of various policies, methods, personnel, and organizational structure.

The process thus is a systematic and critical appraisal of the total operation and is prognostic as well as diagnostic.

It should be stressed that one should be concerned as much with the future as with the present. The aim is to identify current problems, but at the same time one probes for incipient problems, those just beginning or those likely to emerge.

The main sources of company strength and weakness will be found in these areas:

- Individual capability
- Coordination of individual and group effort
- Manufacturing capabilities
- Marketing capabilities
- Financial capabilities.

From these sources the company's distinctive competence evolves as well as its weakness.

c) Identification of Core Elements.

The previous analysis of opportunities/threats and strengths/weaknesses has disclosed problems and opportunities. It is now necessary to identify the core of the problems.

The questions to be asked are:

- Is the company's distinctive competence adequately exploited?
- Are there descrepancies between current strategy and required competence and resources?
- Are the opportunities exploited?
- Are the threats adequately met?
- Is the strategy internally consistent?
- What are the future consequences of continuing current strategy?.

d) Matching of Opportunities and Capability.

The environment determined opportunities are now identified, the constraints imposed by internal factors are analyzed and the core elements of the situation are specified.

The next step is to match the opportunity and the capability in an optimal manner - optimal in relation to the corporate objectives.

The way in which distinctive competence, organizational resources, and organizational values (objectives) are combined is unique for the company. It is, therefore, difficult to generalize about how to make an effective match. The effort is important and demanding and calls for imagination rather than sophisticated analytical tools.

The process can be viewed as an input-output process, as shown in Figure 7.

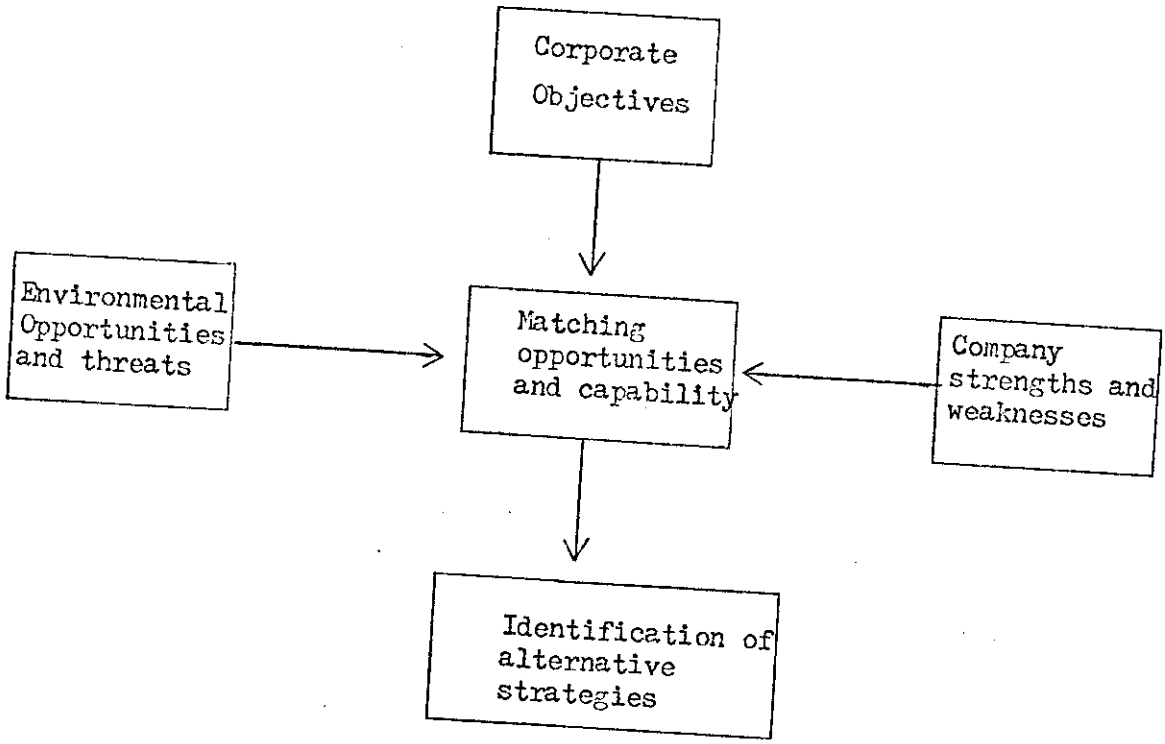

Fig. 7. -- Illustration of the sub process of matching opportunities and capability.

The process involves a high degree of human judgment. It is, therefore, important to be aware of the element of perception involved. The element of perception means that the analysis is never fully "objective" in the sense that it reflects the "truth". Human needs, experiences and attitudes influence the individual's perception of "the world". This means that the outcome of the analysis might differ from person to person. What one perceives as a threat might well be perceived by another as an opportunity.

This "bias" will always exist and there is not much we can do about it. But it is extremely important to be aware of the problem, so it can be taken into consideration. Even if this problem might be apparent also in the previous steps of the strategy process, it is at this step that the impact takes on considerable dimension. If this problem is not observed and treated properly at this stage, it might jeopardize a rational strategy decision and/or the implementation of the strategy.

Differences in perception are perhaps more than anything else the sources of conflict within the organization. The previously mentioned conflict between an environment oriented marketing department and a production oriented production department has its roots in this problem. For the same reason recommendations from consultants so seldom are accepted or implemented. The problem is not likely ever to be solved completely. It is, however, necessary to reach a minimum level of agreement before the process of strategy building can proceed. This can be approached by:

-- Eliminating misunderstanding and developing commitment through participation;

-- Specifing the corporate goals sought to be achieved;

-- Specifing alternatives in terms of risk and expected outcome related to goals; and

-- Stating explicitly the assumptions used.

The matching process itself should provide suggestions about:

-- What particular roles and niches are appropriate in the view of competition and the company's distinct competence and resources, taking possible synergistic effects of different combinations of effort into consideration;

-- The impact of the time factor in the choice of alternatives; and

-- Expected results and risk involved concerning different alternatives.

e) Formulation and Evaluation of Alternatives.

This step is directly linked to the previous step. It is separated here only because it is feasible in order to explain a certain conceptual difference.

While the previous step is characterized by its emphasis on imagination and creativity, this stage emphasizes a more rigid formulation and evaluation of the alternatives.

The purpose of this next step is to generate alternative strategies and evaluate them in order to provide a basis for the selection of the best one and the subsequent inclusion of several alternatives in the strategy.

This step in the process of strategy formulation should be concerned with finding the most feasible economic alternatives for solving the problem. It is, however, obvious that some limitations imposed by management preference and what is socially acceptable are considered. It is a scanning

process which eliminates clearly unacceptable alternatives (even if they might economically be sound).

The economic side of the question, however, should be clearly emphasized because it is necessary to provide a frame of reference to which possible trade-offs can be compared.

The necessity of trade-offs is the rule rather than the exception in the practical setting. Optimization with respect to one factor (or objective) will usually be at the expense of another.

The formulation has to provide a presentation of the alternatives which is relevant to the decision process; this is to say, the alternatives must be formulated in a manner which makes them comparable. The main dimensions separating the alternatives are:

-- Risk and uncertainty

-- Time

-- Expected impact on the different objectives

These are thus the factors to be evaluated in the next step, the final decision process.

The alternatives are to be compared in terms of:

-- Relative effectiveness in solving the strategic problem;

-- Their relative ability to minimize the creation of new problems; and

-- Their requirement for resources, organizational structure and process, and programs for implementation.

As a summary and guideline one will suggest the following "formulation principles":

-- The basic objective of strategy plan formulation is to provide the best uses, or combination of uses, of corporate resources to meet the organization's short and long term needs (goals and objectives).

-- The formulation requires consideration of all effects of the strategy plan -- favorable and unfavorable, tangible and intangible.

-- Sufficient detail and comparative analysis should be provided to permit understanding of the basis and validity of intermediate decisions throughout the analysis process which bears significantly on the final selection.

-- When limitations in measurement necessitate value judgment, the basis for such judgment should be described.

-- The formulation should be accomplished objectively, without prejudgment of results or subordination of one part to another.

2. The Decision Making Process.

The processes and concepts discussed so far are preparing for the decision making process.

The decision making process itself cannot be reduced to quantitative approaches or to the exactness which management science can apply to narrower questions. Making strategic decisions is a subjective process. The decision maker must exercise judgment in specifying problems, in associating probabilities and payoffs with various courses, and in assessing outcomes.

The decision process itself can be viewed as an input-output system, as shown in Figure 8.

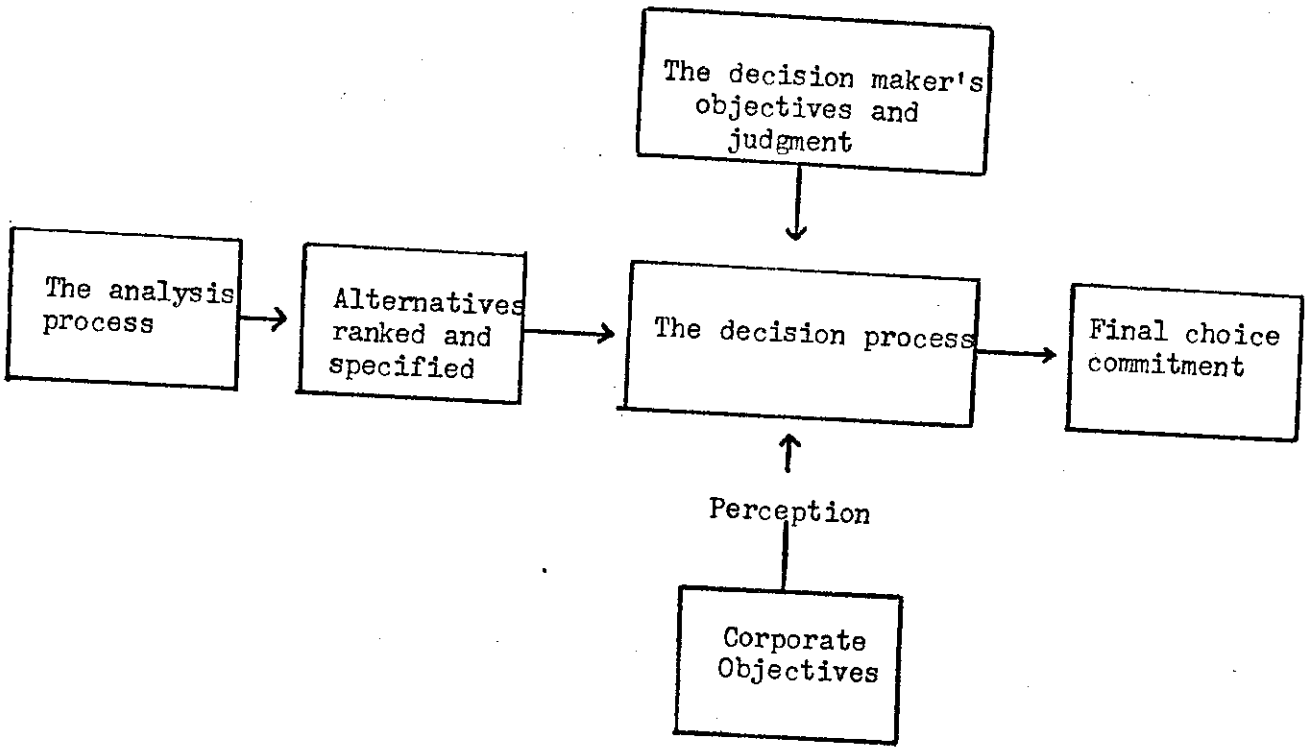

Fig. 8. -- Illustration of the decision process.

The chart depicts the major elements associated with the process. The decision maker is facing the choice between alternative courses of action computed and specified through the analysis process. This process will usually have been performed by other persons in the organization. Alternative solutions are evaluated and specified. This implies value judgment on behalf of the participants, even if "pure" economic analysis has been the main factor of the analysis.

Furthermore, there will always be a series of intangible and unquantified aspects of the problem. Even if many of these are considered in the analysis process, there is a question about ultimate "value" and decision criteria. Uncertainties and risks must also be seen in the light of an ultimate value scale.

The moral aspects of choice are also partly omitted in the analysis process. This aspect involves the legitimate interest of different individuals and groups within the organization and in its environment. The organization has responsibility to the owners, the employees, the customers, the community, etc. There will usually be conflicting interests involved and a trade-off has to be made between legitimate claims. Again, it is a question of perception, values and judgment.

Finally the decision maker's own goals will enter the process. The congruency of the dicision maker's personal goals with those of the organization's might play an extremely important role for the implementation of the strategy. If the goals are congruent, then great effort may be extended in implementation, and even mediocre choice may yield good results. The decisions to be made will usually lie between congruency and complete separation of individual and organizational goals.

The decision maker of corporate strategy makes decisions that might alter the scope and direction of the whole organization. The responsibility for the ultimate choice, therefore, has to be taken by the organization's top executive. This is a reflection of the top executive's unique position within the organization. His main function areas are coordination and direction of the organization's effort in achieving its objectives. Strategy decisions thus are the very heart of his functions.

Strategy formulation and implementation is impossible without the full commitment on behalf of the top leader. It is not possible to impose an unwelcome pattern of purposes and policies on the people in charge of the organization. And the full commitment and influence of the top leader is necessary in order to get the strategy implemented.

Strategy decisions are usually made under conditions of considerable risk and uncertainty, and it is impossible for an executive to be sure that any specific decision will turn out to be the best one. He will inevitably be faced with major intangibles, and is thus placed in the uncomfortable situation of having to choose on the basis of imperfect knowledge.

It is extremely important to recognize the fact that even if the use of quantitative techniques such as linear programming and dynamic programming might improve the decision making, attitudes, opinions, feelings and judgment are usually the most crucial factors in the strategy decision making.

The fiction that return on investment will point the way ignores the values implicit in the calculation and the contribution which an enthusiastic commitment can make. The final decision, which should be

made as deliberately as possible after a deliberate consideration of the issues mentioned, is an act of will and desire.

The dicision when finally made has to be made operational in order to get it implemented. The strategy has to be known and accepted throughout the organization, and policies, plans and budgets have to be geared to the direction given by the strategy.

The dicision represents a formal commitment of corporate resources, and is an action in which the top executive(s) is exclusively responsible.

The decision process can be viewed as the first step of the implementation, as it commits corporate resources and the top executive to a given strategy.

Based on the decision, the next step is the formulation.

3. The Formulation Process.

The formulation process is essentially concerned with the formulation of the ultimate strategy, and the formulation of a consistent pattern of activities, actions, and goals which serves the achievement of the corporate objectives. It is the preparation for action and provides the linkage between corporate objectives/strategy and the transformation or implementation.

The formulation process is concerned with explicit stating of:

a. Corporate objectives,

b. Corporate strategy,

c. Policies consistent with the strategy,

d. Plans of action consistent with the policies,

e. Goals and standards, and

f. Delegation of authority and responsibility.

The formulation serves multiple purposes which can be grouped under the headings of:

-- Direction

-- Commitment

-- Control

It provides a basis for control or evaluation of achievements. By providing the resource allocation, it gives the direction of the company's activities. Finally, the process should be viewed as a device for internal communication which provides understanding and commitment on behalf of the participants.

Through the formulation process the strategy is made operational, i.e. broken down into specific policies, goals and plans for organizational and functional sub-groups like production, marketing, financing and organization. To what degree the formulation is done by the corporate or operating managers depends on the organization's management system. Generally it can be said that both corporate and operating managers ought to be engaged in the planning for their area of responsibility.

Given the increased tendency toward decentralized organization and greater participation in decision making, it becomes clear that each manager must be responsible for the planning of his area of responsibility.

Once the plans have been made, measures must be taken to insure that the tasks planned are carried out, that the executive involvement with the plans is clearly outlined, and that the different dimensions of planning are well linked to the management system itself.

The planning must mesh with the process of organizing, leading and control.

4. The Transformation Process.

The processes of formulation and transformation are intertwined. But conceptually it is convenient to distinguish between the two processes.

The transformation process can be thought of as having these broad subactivities:

a. The design of organizational structure.

b. The administration.

c. The leadership.

The process is primarily of administrative nature. The formal structure, informal relationships, and the processes of motivation and control are to be shaped to the particular needs of the strategy to be implemented.

The purpose of building and developing organizational structure is to establish a formal division of tasks, and at the same time to coordinate divided responisbility. The principal requirement is that the basis for the organizational structure should be consistent, easily understood, and conducive to the grouping of like activities. Above all, the formal pattern should relate closely to the company's distinctive purpose and its unique strategy. A variety of structures may be suitable to a strategy as long as the performance influenced by structural characteristics is not diversified from strategic ends. A logical structure does not, however, insure effective organized effort.

Efficiency in organizational performance hinges on a successful direction of individual energy toward organizational objectives. Administration and leadership provide systems or processes which make it possible to influence individual development and performance.

The main parts of the administration process are:

-- The control and information system

-- Performance evaluation

-- Recruiting

-- The incentive system

-- Systems of constraints and penalties

-- The human development system

One of the main purposes of the administrative process then is to provide a device for making the goals clear and understood among the participants. Further, the purpose is to develop individuals in terms of capacity and achievement, provide rewards in terms of compensation and satisfaction, and insure that departmental interests, and the machinery of measurement and evaluation do not deflect energy from organizational purpose into harmful or irrelevant activity.

The leadership must be viewed as a part of the strategy model. Individual personality does indeed leave a vivid impact on company affairs. The general manager, through his roles and activities, has three major aspects of leadership:

-- Policy maker

-- Implementer of the policies

-- Personal leader

The leaders' personal values and personality have to be taken into consideration as important variables in the process of implementation.

5. The Control Process.

The last step in the strategy model is the output control.

As stressed earlier, the development of corporate strategy is an

on-going process, not a periodic exercise.

The control system can be viewed as a formal system of comparing the company's desired and apparent achievements. This is to distinguish it from the informal control which is a part of the day to day functions of the management.

The formal control system is a sensor device which on the basis of specified goals compares these with apparent achievements, and triggers actions in the form of analysis if the gap between the goals and apparent progress calls for it. The system is an indicator and as such a rather mechanical device.

The necessary judgment enters when the analysis and decision processes are engaged. Analysis is necessary because the control system only provides an indication that something is happening, not the causes of it. Deviations between desired achievement and apparent achievement might have several reasons:

-- Too optimistic goals;

-- Apparent achievement is influenced by bias or delay, and does not reflect real achievement; or

-- Unpredicted or unaccounted for environmental changes.

A careful analysis of the deviations from the goals must be conducted in order to provide the correct remedy for action.

The formal control system must be supplemented as input to the analysis process. Environmental factors might change, even if not yet affecting the company's performance, and thus not be detectable in this control process. These changes should be taken care of by the environ-

ment intelligence system. Further, there will be factors or achievement variables which can not be registered by the formal control system.

The control process closes the "loop" by feeding back to the analysis process information about how well the current strategy is working in terms of achievement of objectives.

6. Some Crucial Aspects of Strategy Building.

Often one can see theoretically good strategy systems fail to function the way they are intended to do. The reasons for this might be several, and more or less tangible. One will here shortly mention some of the factors believed to be of considerable importance.

The strategy concept provides a systematic and logical tool for management in its struggle to meet the challenge from a changing environment. It is, however, useless as a tool if it is not at the same time a management philosophy. It is doomed to failure if the way of doing things is based on day to day fire fighting, improvisations, intuition and a one-man-show. The system calls for system thinking, planning, environmental orientation, and long-run perspectives on behalf of the management.

The organization as a system is likely to be incompatible with the strategy concept if the management style is traditionalistic. But even if the top executives change their management style, the organization might in the short run often resist the implementation of the strategy concept.

Here then we have identified two sources of conflict - top management and the organization as a system.

Often it is not realized that an organizational development might be necessary in order to make the strategy concept work. Or, to put it

in another way, it is often not realized that organizational development must be an integrated part of the strategy system.

One will often find the following mistakes or problems:

a. The executives do not fully understand the different dimensions of the strategy concept and/or are not really committed.

b. The planning is rushed, and immediate results are expected. When the results do not show, the system or idea is abandoned.

c. The strategy process is not integrated into a total management system.

d. Management at different levels has not been properly involved in the process. The responsibility for analysis, planning and decisions is placed in staff rather than line.

e. The process is viewed as a one time exercise.

f. Too much emphasis is put on one aspect of the strategy process.

The obvious result of this is: resistance to change, objections to objectives and goals, failure to operate by the plan, inadequate or biased inputs, and build-up of internal tension. The ultimate result might well turn out to be a reduced performance rather than an improved one. This is to say that without careful consideration and development of the organization as a system, it is likely that strategy building will be nothing but a meaningless and expensive exercise.

CHAPTER III

MODEL APPLICATION

This section of the study is concerned with application of the model developed in the last chapter. The Sales Organization of Horticultural Producers in Norway will be analyzed with respect to its objectives, current strategy, and external and internal situation. The organization's strengths and weaknesses will be revealed, as well as its opportunities, and potential threats. Alternative potential strategies will be discussed and evaluated and feasible alternatives will be formulated. A "best" alternative will be formulated and a plan of action outlined.

The approach taken is one which covers the analysis process, and in addition also covers the decision process. There are some good reasons for taking a "pure" consultant approach, i.e. the end result should be two or more different strategies, and no final decision should be taken. However, it is the author's opinion that this particular study will benefit from an inclusion of the decision process.

The data used concerning the organization are mainly drawn from internal sources, partly from the organization's annual reports. A large part of the information about the company is not quantitative in its nature. This information is gathered from formal and informal interviews and personal experience gained while working in the organization. They are thus heavily influenced by the author's perception. In a study like this it is, however, impossible to avoid using this kind of information, biased as it might be by personal perception. The bulk of the most relevant and crucial information for strategy analysis is intangible, or the

application of techniques for quantifying and analyzing them is so expensive and/or time consuming that application is not feasible.

Even when quantitative data are available, quantitative analysis should be carried out only to the extent that the analysis provides information relevant to the problem on hand.

Information about environmental factors is to a large extent drawn from research the author did in connection with his work as secretary and researcher in a committee appointed by the Farmer Cooperative Association in Norway, and which has as its main task to analyze the cooperatives' market environment (Landbrukets Sentralforbund, 1971).

A. Brief Presentation of the Organization.

In order to provide the reader a frame of reference for the analysis section, the organization will be briefly presented. The Sales Organization of Horticultural Producers in Norway (in the pursuing referred to as GH) is a farmer marketing cooperative founded by the producers in 1930. From being several separate local organizations restricted to the most important production areas, it has developed into one organization covering the whole country.

The organization is divided into nine regional divisions, each of which consists of several district organizations (all together about 50). The organization's activity is coordinated through a main office. The organization can be thought of as being divided vertically into a business part and a member organization part. The business sector is headed by district managers, regional managers and with a president at the top of the pyramid. Each level of the business organization has its counterpart in the member organizational structure. Thus, there are boards of farmer

representatives at all three levels.

All the other farmer marketing cooperatives in Norway (i.e. milk, meat, and egg cooperatives) are structured in a similar pattern. The activity of all four organizations is to some extent coordinated through The Farmer Cooperative Association. This coordination is, however, not far reaching, and includes the business activity only to a small extent.

GH is the largest wholesale organization for fruit, vegetables and potatoes in the country. Total sales in 1970 was 274 million Kroner (1 U.S. dollar = 7.14 Kroner) which represents a market share of approximately 32%. The number of employees is approximately 800. The organization ranks as number 16 among the country's largest sales companies.

The organization has 9,000 registered members, of which approximately 4,400 are active, i.e. have production and deliver produce through the organization. This represents 28-30% of all farms producing fruit and vegetables.

Of the total sales 80-82% are direct to retailers, 6-8% to wholesalers, and 8-10% to the processing industry. The distribution to the retail outlets is carried out through a system of 375-400 delivery routes. The sales and promotion functions are carried out partly by the route salesmen and partly by a team of store consultants.

The organization also performs several functions at the production level. To a certain extent the production planning is coordinated by the organization; its extension service provides assistance to the members; and the company takes care of sorting, packing and storage at company owned facilities. Generally speaking most of the functions from production

planning to in-store promotion are more or less vertically coordinated by the organization.

Besides what might be called pure business functions, the organization does also perform several general societal functions. Administrative and practical parts of governmental programs for market regulations are performed by the organization (i.e. storage, promotion and market information). These functions are paid for by the state through funds collected as taxes on all sales of home grown products. This tax system is based on a law from 1930 which has as its purpose "to encourage marketing of agricultural commodities through farmer cooperatives".

Evidently, the organization's main problems today are stagnation in growth, decreasing "profitability", and internal conflicts. This is perceived by most of the leaders of the organizations. There is, however, obviously confusion and different opinions as to how the problems should be solved, i.e. which strategy should be followed.

B. Analysis.

In this chapter the different groups of input to the analysis process are analyzed, i.e. corporate objectives, present strategy, external factors, and internal factors. Furthermore, present achievements are analyzed and evaluated in relation to the objectives and the present strategy.

1. Corporate Objectives.

The company's statutes are not specific concerning the corporate objectives. The following explicit statements are the only ones which have any bearing on the subject:

> "...The objective is to sell fruit, berries, vegetables and potatoes produced by its members."

"The organization also has as an objective to encourage production of quality products, good product handling, and to regulate the market and the prices."

"Besides this the organization shall take care of the member's interests in production and marketing."

Obviously, these statements are so broad and general that they are not of very much use in the strategy context. The objectives will have to be made more explicit and operational. This task is, however, difficult because different people and groups are likely to have different opinions as to what the objectives are and their ranking of importance. The set of objectives "developed" as part of this study, therefore, is one of several possible alternatives, and one which to some extent is based on personal perceptions and values.

The objectives of this company will have to reflect its particular position in the society. When the cooperatives were established in Norway in the 1930's, they obtained direct support from the state. They are now supported by a law with the purpose being to "encourage marketing through farmers' cooperatives". It is obvious that the state, at least at the time the cooperatives were initiated, favored this kind of institution in agricultural marketing. The reasons for this seemingly were that the political authorities found it feasible to grant the farmers more market power, and furthermore, there was probably a feeling of a need for larger organizations which could function as "vehicles" for the implementation of the agricultural policy. The problems of product quality, consumer education, distribution, and market regulation were serious at that time. Thus, there are some implicit societal objectives imposed on the cooperatives. This connection can be seen reflected in this particular company's

statutes. In fact the only distinct, explicit objective stated in the statutes is"...encourage production of quality products, good product handling, and to regulate the market and the prices". The objectives regarding the owners' interest seem on the other hand to have been played down or generalized. One is here, however, likely to focus more on the interests of the organization and its members. This view is held because it involves the individuals on whom the company's activity has the most direct impact. And it is, of course, a prerequisite for a viable organization to focus on the needs of its members.

Based on this view are four main objectives identified and ranked. Some important sub-objectives or goals are also identified.

1. Survival as an independent organization.
   - A minimum "profit" level.
   - A minimum price to the producers.
   - A minimum level of growth.
2. Maximize long-run economic welfare for the owners (security is to be regarded as an economic welfare variable).
   - "Optimal" price to the producers.
   - Market stability.
   - Growth.
   - Strengthen the producers' social status.
3. Maximize human satisfaction for the participants.
4. Maximize benefits to society.
   - Optimal adjustment of quality and price to the consumers' needs.
   - Optimal economic efficiency in production and marketing.

2. Present Corporate Strategy.

The purpose of analyzing the company's current strategy is to develop a basis, or frame of reference, to which the performance is to be evaluated. The ultimate questions to be answered by the total strategy analysis are:

1. Is the current strategy the best one to facilitate the corporate objectives?
2. Which changes should, if necessary, be made?

The company's current strategy is not explicitly stated, either orally or written. It is, therefore, necessary to deduce it from the operations and the behavior of the company's executives. If we look at the company's present operations, some indication of a strategy can be seen.

The company covers the entire country with its distribution routes, and its strongholds are outside the large towns. In a PR-film made by the company, one of the strong "messages" is that the company emphasizes its task of bringing fresh fruits and vegetables to the country's sparsely populated areas.

The company has changed its marketing policy from being one of selling to wholesalers, to direct distribution to the retail stores. Today the sale to wholesalers accounts for less than ten per cent of the total revenue. Nevertheless, the company still stresses the importance of the sale to wholesalers. Furthermore, the sales to institutions (hotels, restaurants, etc.) and sales to the processing industry are emphasized by some of the executives.

The marketing "slogan" used in connection with the company label and advertising is "quality and service". This can be seen as an explicit statement of a marketing policy element.

The strategy element concerning the organizational structure is somewhat more unclear. It seems obvious that the president and corporate staff have tried to make the organization more centralized. One of the most important clues of this policy is that this farmer cooperative is the only one in the country where investments and ownership of the facilities are under central control. This policy has been attacked in recent years, and seems not to be as firmly held as before.

Personal skill and education on behalf of the employees are emphasized, but the policy concerning the kind of skill and background is rather ambiguous. Sometimes business experience is emphasized, other times technical experience.

Concerning the personnel policy it is evident that loyalty and long service are highly regarded. A good pension scheme is instituted. Long time service seems to yield status. Quitters are not highly regarded, and quitting seems to be regarded as an unloyal act. However, there is no program instituted for executive development. Consequently, there is not much vertical movement in the organization.

The organization's production function, (i.e. related to the members' production), procurement function, and marketing function are not separated at the operational level. At the staff level (corporate and regional), this is done to a certain extent. This is probably a result of the organizational policy of having small local units. The company seems to be very reluctant concerning the elimination of local units, even if it might be uneconomical to operate them.

Owner participation in the decision making is stressed and is considerable especially at the local level. The owners, through their representatives,

are involved directly in many day to day decisions.

The financial policy is not clearly revealed. But there is evidence supporting an assumption that the accumulation of internal funds is relaxed under the assumption that cheap capital is available from state sources. On the other hand the company has stressed the importance of accumulating internal funds, but without any visible results. The reason why this is not implemented might be that the organization is unable to achieve an adequate "profit" level. However, another reason might well be lack of willingness rather than lack of opportunity.

Capital for day to day operations is provided partly by short term bank credits and partly by delaying the payment to the farmers. This is probably not a deliberate policy, but rather an effect of the company's financial situation.

The organization is typically reluctant to take chances. This is reflected in the traditional approach taken to most changes. Again it is extremely difficult to say if this is a deliberate policy, or if it is just a result of the organizational situation. The decision process itself is likely to create a "play safe" result. There are recent examples indicating that even if executive officers propose changes or new ventures, it is stopped by the Board of Directors (the board of owner representatives).

The organization is generally reluctant to use sophisticated technical business devices. It seems to be agreed upon that this business is so complex and uncertain that sophisticated planning and forecasting are impossible. Decisions are, therefore, often based on so-called practical experience. In the practical setting this attitude is revealed by the

fact that calculated figures often are rejected on the basis that "they are theoretical". Introduction of an EDP system has been tried several times, but has failed because of organizational resistance. An attempt to introduce long-run budgeting and planning was also unsuccessful.

The relationship to the "public" is considered extremely important. Company executives are extremely reluctant to do anything that might create "political" disturbances. Public attacks from competitors, other institutions, or individuals are avoided by almost any means. Thus, it is a clear strategy of avoiding conflict situations which can be brought to the public's attention. This attitude also finds its expression in the company's competitive approach.

The question about imports has been an issue of conflict in the organization. It is argued that because imports compete with home grown products, a farmer cooperative should not market imported products. However, imports have been "forced" into the product assortment as a consequence of the distribution policy adopted. Today's policy concerning imports seems to be that they are a necessary evil. There is reluctancy in promoting imported products, and it is a clear policy not to import when imported products are likely to compete with home grown products. This attitude is particularly evident at high executive level.

It is also evident that many managers hesitate to identify themselves with their customers' point of view. This evidence is so strong that this issue might be regarded as a policy element. The managers seem to try to assure the producers of their loyalty by not getting too involved with the customers. This hinges on a producer held assumption that it is a conflict inherited in the relationship of seller-buyer.

It is, of course, difficult to deduce a company's strategy from its behavior when no explicit statements are stated as "official" for the company. Because the strategy is not made explicit, it is thereby created into an "escape clause", i.e. the participants have the discretion to read into it almost what they want. It is evident that disagreements about policies are prevalent within the organization.

This analysis is, however, a necessary attempt to "feel the organization's pulse" in order to get a step further in the strategy process.

The analysis of current strategy is based on personal experience and observations made in the organization over a fairly long time, and should, therefore, provide a fairly good approximation of the real situation. The strategy elements observed are, however, of different levels of certainty i.e. more or less evident. Ambiguity, disagreements within the organization, and lack of observations are the reasons for these differences.

Therefore, the strategy is listed in three categories, namely: certain strategy elements, ambiguous elements, and undeducible elements. The certain elements are those which build on strong supporting evidence; the ambiguous ones are those which are built on somewhat conflicting evidence; and the last group are those which ought to be included, but where evidence is lacking or extremely conflicting.

1. Certain strategy elements.

   a. The organization is in the business of selling fresh produce by direct delivery to retailers. Quality and service are emphasized.

   b. One seeks to encourage good relations with the competitors.

   c. Favorable public image is regarded to be extremely important.

d. Close cooperation with the political authorities is seen as a must.

e. Societal functions like consumer information, general improvement of quality, and general production improvements are given high priority.

f. "Member democracy" is stressed.

g. Control of the market is sought by having the largest possible share of home grown production.

2. Ambiguous strategy elements.

a. External recruitment of personnel for higher management positions is encouraged.

b. Seniority is to be used in promotion.

c. One is to take local development needs into consideration when building new facilities.

d. Centralization of current decentralized functions is sought.

3. Undeducible strategy elements.

a. Financial policy.

b. Organizational structure.

c. Production structure.

d. Relationship between the members (producers) and the organization.

3. External Factors and Forces.

A thorough analysis of all external factors and forces which might have impact on the organization and its strategy is extremely laborious and difficult. If the analysis is to be of any value in the strategy making process, the dynamics of the situation must be given the main emphasis.

One must go even further and provide a forecast for what probably is going to be the situation some time in the future. This, of course, involves a high degree of uncertainty.

In order to fit the analysis into the framework of this study, one has focused only on main trends in the factors and forces judged to be of crucial importance to the organization.

The uncertainty inevitably involved in "predictions" of this kind is sought to be reduced by approaching the analysis partly by projecting trends, partly by comparing the situation with the situation in other countries, and partly by looking for general causes underlying the trends.

a) The Societal Sector.

There is a clear liberal trend in the Norwegian foreign trade policy. This is made clearly apparent by the vast majority of the parliament recently supporting the application for membership to the Common Market. It is, of course, too early to say what impact this will have on the company's future situation. One does not know for certain if Norway will join the Common Market, and in case it does, which form of membership one will be having. It is however given the present political climate, predominantly likely that the country will join and become a member beginning January of 1973.

The impact of this on the organization's situation might be extensive. So, even with the uncertainties involved it is imperative to anticipate the main effects in order for the organization to adjust and prepare for the possible changes. The effects might be of two kinds: the direct effects (i.e. the organization's position as an institution); and the indirect effects (i.e. on the competitiveness of the Norwegian production, and

the change in the market structure). Concerning the direct effects we do know that the Common Market as a part of its agricultural policy does encourage and support farmer cooperatives and other institutions which have an integrative and coordinating effect on agricultural marketing. From this one might assume that the Norwegian cooperatives might keep their status even within the Common Market. The Norwegian government is negotiating with the Common Market from a position of supporting Norwegian agriculture, and proposes that Norway will accept the market system for agricultural products (i.e. the Common Market's prices), but that Norwegian farmers are to be paid directly the difference between the market prices and the prices necessary to give the farmers an income level in accordance with the country's income distribution policy. The Norwegian farmers, through their organizations, disagree in this approach and want the Norwegian agriculture market separated from the Common Market by a system of tariffs and quantity based import restrictions (i.e. extend the current system). They argue that the government's proposal if put into force is uncontrollable unless all Norwegian production is channeled through the farmer cooperatives or a state board.

The outcome of this will certainly be decisive for the organization's future strategy. On the one extreme the organization might end up being a part of a state board or a protected monopoly; on the other hand, it might be exposed to severe competiton, facing increased imports from other countries. An educated guess would be that the situation will be one inbetween. Given the government's proposal and the general political trend, it is more than likely that the agricultural policy will be one which aims at increased economic efficiency in the agriculture sector,

and that this objective will be achieved by encouraging the competition (i.e. liberalize the import). At the same time it is likely that the farmer cooperatives will be considered as important tools in implementing this policy. This means that the cooperatives are still likely to be supported but at the same time the demand for economic efficiency will increase.

Another extremely important impact of a membership in the Common Market would be on the trade. The Common Market presupposes that anyone can establish oneself in business in any country within the union. This undoubtedly will boom the development of multi-national companies and chains, which in turn will change the power structure in the market and weaken the strategic position of the organization.

The government policy concerning the farmer cooperatives has since the 1930's been one of supporting these institutions. The organizations are "protected" by a law from 1930 which has as its objective to strengthen the marketing through farmer cooperatives. The law provides funds which are to be used to build market regulating facilities and given to other activities supporting the marketing of home grown agricultural products. This law or its implementation has been frequently attacked by the private sector of business. This has brought about a more strict control of the use of money but has not changed the basic policy to any great extent. The cooperatives are regarded by all political parties as being an important device in implementing parts of the agricultural policy (i.e. market regulation).

The government policy regarding the retail trade has had a distinct impact on its structure. Several previous laws which prevented competition

have been repealed (i.e. the prohibition of chains, producer fixed retail prices, and denial of delivery). Large units are now being favored due to certain changes in the tax laws. The development of vertical coordination and horizontal integration is viewed as favorable. Thus, the government stated in its long-term plan in 1964 that production and trade should be coordinated in order to increase the productivity, and that the development of chains would encourage the competition (Stortingsmelding #63, 1965). In light of the recent development in the relationship to the Common Market, it is likely that the government will increase its efforts to change the trade's structure in order to make it more efficient and competitive.

Other general factors affecting the trade are rapidly increasing wage costs and the general increase in the standard of living. The wage costs now account for more than 50% of the total cost in the retail trade and has doubled from 1950. The country's GNP is increasing by approximately 4% per year and is projected to be doubled over 20 years (Stortingsmelding #63, 1965).

A rapidly developing technology also has important impact. Product development and new distribution technology increase the keeping quality even for produce. Electronic data processing is used to a great extent and provides a basis for more integration and coordination in the business sector.

An extensive movement of people from rural to urban areas, increased mobility, and more women having work outside the home are other general trends which have important bearings on the industry. As will be discussed

later on, these underlying societal factors are about to create an almost revolutionary change in the industry, and thus also in the company's situation.

Some institutions also represent important external factors. Most important are the other farmer organizations in the country. These can broadly be divided in two groups; the economical organizations (i.e. farmer cooperatives), and what might be called the political organizations (i.e. farmer associations). Both these groups are extremely strong in Norway. The farmer sales cooperatives have an annual gross sale exceeding 5 billion Kroner, which represents more than 85% of the total market. The cooperation between the different sales cooperatives has not been extensive up to now, but there is strong evidence that this is about to change. A committee which was appointed in order to investigate the feasibility of closer cooperation between the organizations concluded that extended cooperation was indeed necessary taking the changes in the environment into account (Landbrukets Sentralforbund, 1971). The committee especially emphasized the opportunities in coordinating the organization's distribution systems. It is also obvious that there also are great opportunities in other areas like financing, planning, research development, etc. This factor undoubtedly represents a strength and a potential for the GH. The farmers' two political organizations basically have a benevolent attitude toward the farmer cooperatives, and thus add to their strength. There has in fact been negotiations concerning the potentiality of fusing all the economical and the political organizations.

b) The customer sector.

By customer is understood here to mean retailers, wholesalers, processors, and institutions purchasing products from the organization.

Because of its predominant importance to the organization, main emphasis is put on the food retail segment.

The structure in food retailing changed slowly until 1963. The sector was characterized by traditional manual "mom and pop" stores, even if about 20% of the stores in 1963 were self-service stores. By 1963, however, a sweeping change started which by now seems to be at its peak. The most striking features are:

1. Decrease in number and increase in size of the stores. The number has decreased from nearly 22,000 in 1963 to 19,000 in 1968. Estimates indicate 14,000 stores in 1980 (Norsh Produktivitets Institutt, 1970).
2. Increase in number and importance of self-service stores. These stores now account for 40% of the total number and 50% of total sales.
3. Increase in number of supermarkets, superettes and department stores. Supermarkets/superettes account for 3% of the total number but have 20% of total sales. There are at the moment only 75 department stores in the country, but the number is increasing and they are expected to have a market share of about 15% in 1980 (Norsh Producktivitets Institutt, 1970).
4. Chains are developing rapidly. Almost all new stores are affiliated to or owned by chains.

A look at other European countries indicates where this might lead to in a few years. In Sweden the number of stores has been cut in half over the past 20 years and is expected to decrease another 30-50% over the next 10 years. More than 55% of the stores were self-serviced in 1969 ,

and these stores account for 80% of the total sales. The supermarkets (i.e. stores doing 3 million Kroner or more per year) increased their market share from 25% in 1967 to 40% in 1969. The independents have gotten their share of the market decreased from 68% in 1959 to 16% in 1969. The largest chains (i.e. voluntary, cooperatives and real chains) now have 70% of the market, the largest of them being a cooperative retailer organization (ICA) having 32% and the second largest being a consumer cooperative (KF) having a market share of 26% (Landbrukets Sentralforbund, 1971).

One will find the same trend in Finland, Denmark, and the Netherlands. In Finland four groups have nearly 100% of the market, the two largest being a cooperative retailer organization (KESKO) with 26% of the market and a voluntary group (TUKO) having 32%. The other two groups are consumer cooperatives (SOK and OTK). The SOK chain plans to reduce the number of stores to 1/3 of today's number in 15 years, and at the same time increase its market share (Landbrukets Sentralforbund, 1971). The same trend toward concentration is found also in Denmark and the Netherlands. The largest chain in Denmark is a consumer cooperative (FDB/HB) having 25% of the market. Another large chain is IRMA which has 10% of the market. However, the independents have a stronger position in Denmark than in most European countries. The main reason for this is that their association (DSK) is performing functions like financing, store planning and management development as a service to its members. Its financing activity especially seems to have prevented an extensive development of chains in Denmark.

In the Netherlands the number of stores is reduced to approximately half of the number in 1950. More than 40% of the stores representing 70% of the total sales are self-service stores. Almost all stores are either owned by chain organizations or affiliated to cooperative retailers or voluntary groups. The International Spar Central organization which is a voluntary group organization originated in the Netherlands. This group now consists of more than 350 wholesalers and 36,000 retailers in 16 countries. The group is, however, not yet established in the Nordic countries.

This brief review of the situation in some European countries is indicating the direction of the development also in Norway, and a Norwegian membership in the Common Market certainly is likely to reinforce the development.

If we now return to the present Norwegian situation, it will become evident that the process of concentration in the food trade indeed is under way. Today three groups already have a fairly strong position. The strongest group is the consumer cooperative (NKL) which accounts for 16-17% of the stores and 17% of the market (grocery). One of the voluntary groups is of the same size, and a cooperative retail organization has approximately 10% of the market. Besides these there are several smaller chains, one of which is dominated by Swedish capital. It is already now evident that the different groups are seeking cooperation with groups in other countries. The consumer cooperative organizations in the Nordic countries are participating in common production facilities, purchasing programs, and organizational development programs.

Wholesalers in the Nordic countries have established a common import organization (United Nordic) and are establishing a common label.

The actual and potential impacts of this development in the food trade on the suppliers are wide ranging. The most important ones are in our context:

1. The suppliers will be more and more dependent on a few customers (i.e. the chains);
2. The chains, as they grow larger, are more likely to integrate vertically (i.e. take over functions previously performed by others);
3. The pressure on prices and other terms of purchasing will increase;
4. A more "modern" approach to marketing and organization will be required (i.e. adjustment on behalf of the supplier to the customers' special needs like image and system of doing things).

The situation represents an immense challenge to the "traditional" companies in the distribution chain. It is at the same time a threat and an opportunity. It is a deadly threat to organizations which are not able to adjust, but at the same time an opportunity to those which manage to do so.

More specifically, the GH might become obsolete as far as its main wholesale functions are concerned. There is already a strong pressure from some of the chains for taking over the distribution function. The consumer cooperative especially has gone far in this respect, and today has a fairly well established distribution chain for produce. Other chains have tried to do the same but only with slight success. The effect on the organization is already severe. By losing the chain outlets as

customers, the basis for some of the distribution routes (i.e. in rural areas) is weakened to such an extent that the profitability is highly questionable. One might see in this the beginning to the end of the direct distribution.

Even if direct distribution is not an objective in itself for the GH, there are several obvious advantages associated with having direct distribution. Among the most important are the ability to influence the store managers and the consumers, control of the margins at the wholesale level, feedback opportunities from the market, and the opportunities for profit. If one analyzes the reasons why the chains want to integrate, one will find that most of the reasons are linked to the need for vertical coordination. They feel a need for:

- reduction of costs,
- control of the product development,
- control of the purchasing policy
- control of the sales promotion,
- control of the different stores, and
- reduction of the producers' strategic strength.

The crucial question then is: Can the supplier offer a system which seen from the buyer's point of view is totally more feasible than the alternative of vertical integration? This brings up the notion of a "package" offer adjusted to the particular customer's needs. The answer to this problem is crucial and will have an immense impact on the choice of strategy. The answer hinges on several factors of which present market position, the characteristics of the product, and the ability to adjust seem to be the crucial ones.

c) The Competitor Sector.

The organization has traditionally regarded both retailers and wholesalers as customers. However, as the organization expanded its direct distribution system, it has entered a typical competitive relationship to the traditional wholesalers. There is, therefore, good reason to regard the traditional wholesalers in fruit and vegetables as competitors.

The relationship to the chains and the wholesaler-retailer groups is somewhat different and more complex. Several of those groups are not yet fully integrated, i.e. the store managers have discretion as to purchase of some of the products. The group's wholesale division in those cases is competing with traditional wholesalers. In this case there is a competitive relationship. However, as the groups get fully integrated, this competitive relationship ceases and the relationship changes to a supplier-customer one. The whole situation might turn out to be a tricky one because the change (i.e. the integration) is gradual. So then, the question is, should one play with the group's wholesale division (i.e. stop competing in "their" stores) in order to gain good-will and get some agreements, or should one fight and hope the group will find out that it does not pay to have its own produce department within its wholesale division.

Thus, competitor is a relative term. The strategy chosen will determine if another company is to be regarded as a competitor or a potential customer.

The traditional produce wholesalers seem to gradually lose their foothold in the market. There were approximately 400 registered by the census of 1963, most of them small family companies. Even if there are no

available statistics for recent years, the general impression is that several of them go out of business each year and very few new start up. Taking the market situation into consideration, it is likely that the development will follow the same pattern as in Sweden where the number of produce wholesalers was reduced by 50% in the period from 1951 to 1963 (Landbrukets Sentralforbund, 1971).

Only one of the competitors is operating on a country-wide scale. This company is the second largest wholesaler of fruit and vegetables in the country with approximately 15% of the market. It is the country's largest import company in bananas and has had a close to monopoly position on the banana market until 1969 when the GH included bananas in its assortment. This reduced its market share from 90% to 65% in less than one year. This action on the behalf of the cooperative marked the end of an agreement between the two firms - an agreement which was meant to secure the GH's sale of home grown products to the company by an agreement of keeping out of the banana business. By now there is full competition between the two companies in the whole product assortment. The company seemingly has been through a period of financial and managerial problems. It is, however, difficult to anticipate its financial strength. It probably has close ties to the US owned United Fruit Corporation and has been the sole importer of United Fruit bananas for several decades. There is evidence supporting the assumption that UF was involved when the company changed its top leader last fall. One of the company's policies seems now to be an upgrading of its management team. Young, extremely well qualified personnel are engaged in all key positions. Another apparent

part of the strategy apparently is to develop a procurement and production system which involves vertical integration (i.e. contract integration) in Norwegian production. Even if many of the managers of the GH do not regard the company as being a very serious competitor, there is now evidence that this situation is about to change. It is likely that this company represents a serious threat even in the relative short-run, its management skill and connection to UF being the most decisive factors. Besides this company, there are several well established local wholesalers who at the moment are fairly competitive. They are not likely to be of any serious threat in the long-run. There might, however, develop mergers which would change the situation.

The threat from some of the retail chains seems to be the most serious one. As mentioned earlier the large consumer cooperative chain has decided to take over the distribution of produce to its own stores. The largest voluntary group is also attempting to do the same but with less success. Both these groups are very strong and aggressive in their marketing approach and are undoubtedly capable of supplying adequate skill and financial resources to carry through their plans. The result of this would be a severe competition for the rest of the market - a competition that might mean "life or death" for the traditional wholesalers.

4. Internal Factors and Forces.

In this section one will try to depict the organization's strengths and weaknesses relative to the environmental situation. This will be done by analyzing formal output control data (i.e. sales figures, financial statements, etc.), and by analyzing and evaluating more intangible factors and forces (i.e. organization, leadership, marketing approach, etc.).

The organization's resources and use of resources will be analyzed and evaluated in order to reveal strengths and weaknesses. The analysis will be undertaken in the following broad areas: organizational, financial, marketing, and production.

a) Organizational Situation.

The most important organizational factors and forces will be found in the areas of management, structure and technology.

The organizational characteristics of farmer cooperatives are to a large extent influenced by the unique owner-organization interaction. Figure 9 shows a formalized chart of this relation.

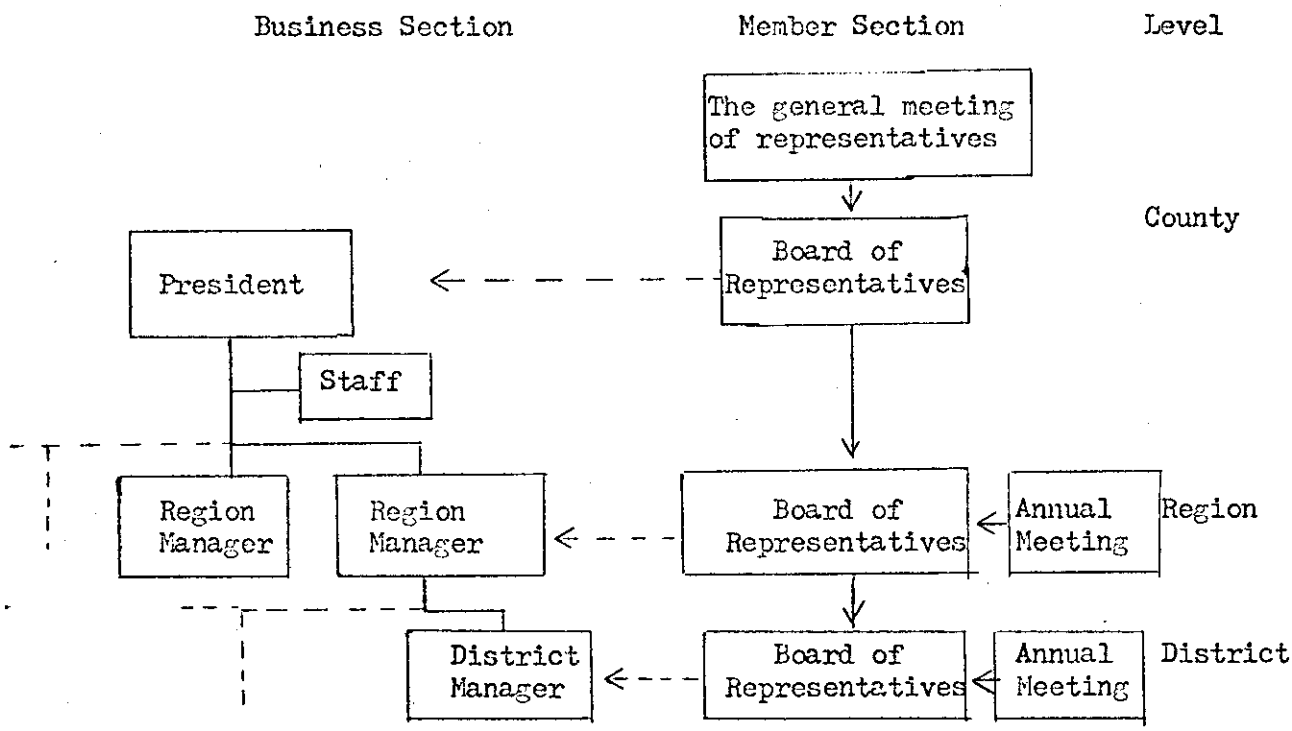

Fig. 9. -- Illustration of present organizational structure of the GH.

The General Meeting represents the organization's highest authority. The representatives at the General Meeting are elected at the district and region level and meet normally one time a year in order to evaluate the achievements and to draw up the main directions for the following year. They delegate authority to a board of representatives. This board is comprised of the chairmen of the nine regional boards plus three representatives elected by the General Meeting. The board functions as a board of directors in a private company. The president is appointed by the board and serves as a board member. The chairman, vice-chairman, president, and two other members of the board function as an executive committee. There is also a board of representatives at the regional and the district level. This reflects a rather high degree of autonomy on behalf of the districts and especially the regions.

The business section of the organization is shown in some more detail in Figure 10.

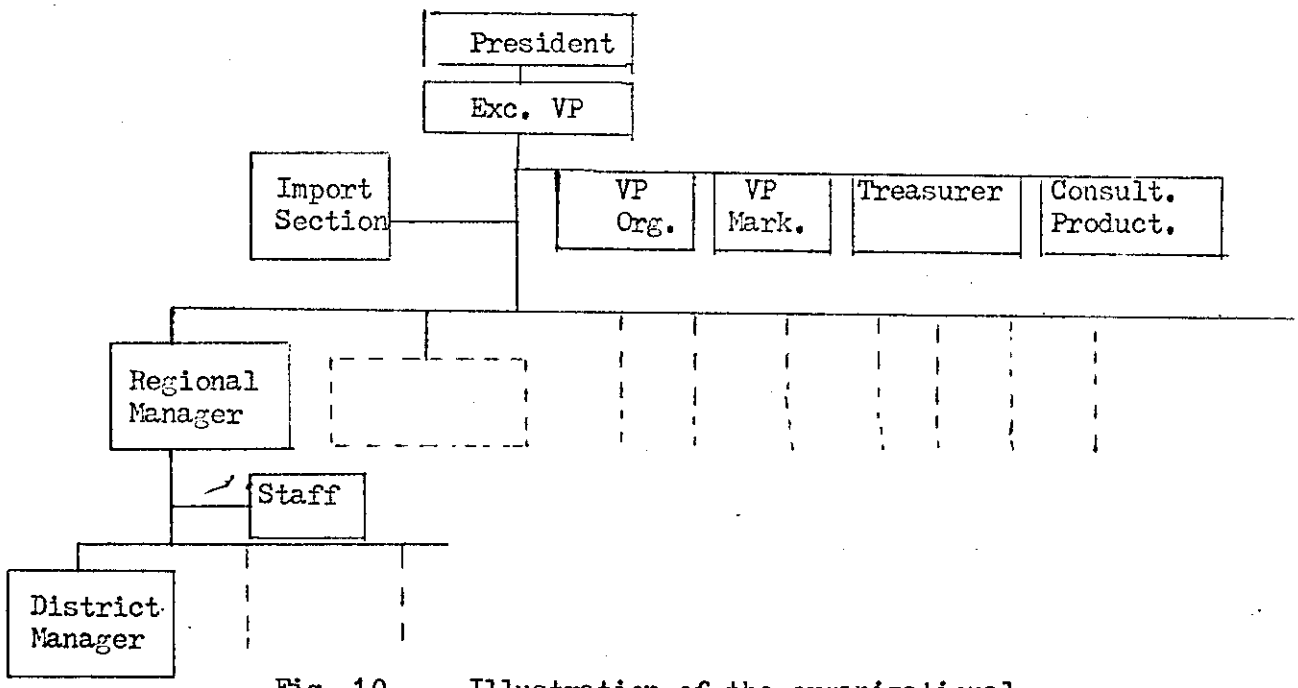

Fig. 10. -- Illustration of the organizational structure of the business section of the GH.

As can be seen from this, the vice-presidents are in staff position. The staff is departmentalized on the basis of functions, while the other levels of the organization are goal departmentalized (i.e. on the basis of geographical area). The finance function and the "ownership" of the organization's property are centralized; in other respects the regional units have a large degree of autonomy. The ultimate responsibility for the organization's economy is by the board of directors.

The delegation of responsibility and authority is somewhat unclear. Thus, there is a continuous "struggle" between the head office and the regional organizations. A regional manager might in many cases refuse to follow and institute policies given by the head office. For example, the different regions have different marketing policies, different personnel policies, etc. despite the effort by the head office to implement uniform policies.

The reason for this situation is partly tradition (i.e. the organization started at the local level), and partly that there are conflicting interests between regions (i.e. production has different importance, and the regions are competing in the market). Vested interest on the behalf of the representatives thus hinders the enforcement of uniform policies, and a coalition between regional managers and their board of representatives will in most cases be able to withstand any pressure from the main office, even if the board of directors gives the main office direct support. This situation reflects one of the organization's most serious weaknesses, namely the inability to pull in the same direction.

Unclear and ambiguous division of responsibility between the different levels also makes the control and evaluation process extremely difficult.

One of the main questions in this context is who has the responsibility for the eonomic result. Formally, the responsibility is of the board of directors/the president. But it seems obvious that they at the same time lack the control of many factors affecting the economy. The organization has tried to make the regional managers responsible, but at the same time has prevented them from controlling the factors influencing the economic result. The ultimate result is likely to be confusion and tension.

The regional organizations have two main functions, namely coordination of production and marketing. The marketing function is partly marketing to the retailers in the region, and partly sale to divisions in other parts of the country. One of the potentially largest advantages of having a country-wide organization is the ability to coordinate the exchange between surplus areas and deficit areas. The organization has achieved much in this respect. The exchange system obviously is one of the organization's strengths. There is, however, a question about the organization's ability to fully utilize this opportunity. Conflicting interests and lack of a uniform policy seem to prevent an optimal utilization of this resource. The exchange has been tried coordinated at the top level (i.e. head office staff) but without much success.

There have been several attempts made to coordinate the production planning and to forecast the supply; but again conflicting interest seem to have prevented any large gains. The same has also been true when attempts were made to coordinate the purchasing of trucks and truck services.

Generally speaking, there is strong evidence that most attempts to coordinate the different regions' activities fail because the system

allows personal as well as local objectives to be given too dominant a position. The organization has not succeeded in developing strong enough common objectives.

An analysis of the relationship between the members and the organization also reveals loyalty problems. The statutes of the organization do prohibit the members from selling their products direct to wholesalers or retailers. There seems to be, however, an increasing tendency to break this rule. This might indicate increased dissatisfaction with the organization's performance. Supporting this also is the fact that members, especially large producers, are more likely than before to leave the organization. Another evidence is that young farmers seem to be more critical of the organization than older ones.

Whether this indicates the start of a "confidence crisis" or not is difficult to judge. But the symptoms are so serious that they should not be neglected.

The organization's personnel situation is characterized by increasing average age in the top management group. Only a few of the top management team (i.e. region managers and head office staff) have any education in management, economy or marketing. Most of them have agriculture or horticulture engineering background.

There is no clear personnel policy. The organization has tried to bring in young people with business background, but it seems to have left this policy again and is now recruiting mostly from within the organization. The reason for this seems to be an extremely high turnover among the people recruited from the outside. Of eleven people appointed to

staff or regional manager positions in the period from 1968 to 1971, eight have left the organization within three years. Traditionally, the organization has had a very low turnover rate. The personnel situation at the middle and top level seems to approach a critical point. Internal recruiting is, due to lack of executive development programs, an extremely limited source for adequate management talent. At the same time recruiting from the outside has so far proven less than successful.

The personnel situation is also difficult at the sales force level, especially in the larger cities. The turnover rate is increasing and untrained personnel are used to an increasing degree.

The personnel situation is one of the organization's weakest points at the moment. The lack of a conscious personnel policy is likely to be one of the main factors preventing any desired organizational development. The fact that the effect is of fairly long range character makes the problem serious.

The morale of the personnel is difficult to judge. The general impression is,however, that most of the employees at the higher levels are "dedicated" to their mission. Even if tension, disagreements, and unloyalty to the head office is common, there is at the same time a strong feeling of loyalty to the mission (i.e. serving the organization). This might be a result of the high degree of autonomy enjoyed by the different units. Even at the sales force level this "spirit" is prevalent.

This might reflect a weakness as well as a strength. It is quite clear that the spirit of the sales force is an asset which is of great value when properly utilized. On the other hand, the "dedication", especially

at the management level, might be a symptom of immobility or "shelf sitting" among the executives. They might see their chance for movement up within the organization or outside it as being blocked. Their reaction to this is to be "super loyal", make the organization their life, and defend the present situation in order to secure their own position within the organization. Evidence indicates that this might be the case. Thus, the "dedication" reveals a weakness rather than a strength.

The attitude towards business of most key personnel results in an extremely strong product and member oriented approach. This probably reflects their educational background as well as the close ties between management and owners (members). This creates two main problems. First, it creates reluctancy to a market oriented approach, and second, a problem concerning member and production structure. It is a clear tendency to favor small producers at the expense of larger. This is certainly consistent with the cooperative principles, (i.e. the strong shall support the weaker), but at the same time it is likely to create efficiency problems and tension among the members. A clear case of this is where one protects the members in his own district by keeping out products from other districts. This has some very serious effects (i.e. misallocation of production, tension among members, and weakened competitive position).

Other examples of extreme production and member orientation are the reluctancy among several of the region managers to sell and promote imports, and the fact that some of the managers demanded that the marketing of flowers (included in 1964) should be held separated from the traditional products in order not to be a "load" to the producers of fruit, vegetables,

and potatoes. Another serious effect is a clear favoring of production in some areas. The marketing to retailers in their own area is partly neglected because the resources are allocated in production and in selling to other regions. By doing this the managers can also avoid antagonizing local wholesalers, and furthermore, they are able to keep more control on the economic result of the activity. This creates serious conflicts between the typical production regions and the regions where marketing is of most importance. The conflict is reinforced by the fact that large production regions traditionally have the best economic result.

Besides the human resistance to change there are also vested interests involved in keeping a status quo.

The leadership styles vary to a great extent among the executives thus resulting in highly different ways of managing the different regions. Some regions are highly centralized; others are decentralized. This creates problems in coordinating the total activity. The communication between the head office and the divisions in some cases has to be direct to the district managers; in other cases through the regional organization. This is bound to create confusion.

In order to evaluate the feasibility of the organizational structure, one has to see the structure in the context of the technology which is applied by the organization. Technology in this context does not mean equipment or technique, but has to do with the "search behavior" of the participants - how they go about solving the problems. The two dimensions of technology are degree of variability of task and the degree to which the tasks can be analyzed. Due to product and production characteristics

and the fact that a large number of different customers are served, there is a very high degree of variability in tasks involved. The tasks can only be analyzed to a certain degree, partly because of time constraints, and partly because of the task's nature. There is, therefore, a high degree of uncertainty involved.

This calls for a flexible, polycentralized coordination of most tasks which means a high degree of discretion and power close to the point of action. Within the groups (i.e. within a region) coordination will have to be performed on the basis of feedback. The interdependence between groups is high and calls for special coordinating devices of the committee type.

Thus, a formal, centralized coordination is not likely to work well. There is strong evidence in this case supporting this assumption. Several attempts to centralize and formalize the coordination have failed. One of the effects of centralizing has been decreased flexibility, leading to too slow adjustments to changing day to day situations.

The organizational structure has not been designed to fit a particular technology; the structure has merely emerged as a result of different internal forces (i.e. member control and executives' wants). This obviously has made a discrepancy between structure and technology.

The technology hinges directly on the strategy. For example, a change from selling direct to retailers to selling through wholesalers will to a large extent change the technology. This in turn will have impact on the structure. Thus, the question about structure has to be considered as a part of the strategy.

b) Financial and Economic Situation.

Due to the organization's "unique" situation as a farmer cooperative, it is difficult to evaluate the financial and economic situation by using the common yardsticks usually applied in private enterprises. Thus, the financial situation (Table 3) and the earning situation (Table 4) have to be seen in the light of the type of organization and its relation to the state.

As seen from Table 3 what might be called members' equity is extremely low, only 4.3% of total assets in 1969. The main financial sources and their relative importance is shown in Table 5.

Members equity accounted for 10% of total assets in 1961, dropped to 6.7% in 1964, and has decreased steadily each year until 1969. Long-term debt has also decreased in importance as a financial source, from approximately 50% in 1964-65 to 41.9% in 1969. The short-term debt on the other hand has increased rapidly and accounts for nearly 54% in 1969.

This trend is a clear indication of a worsening in the financial situation. There has been a continuous shift toward a more expensive form of financing. The extremely low and decreasing portion of members' equity indicates a bad earning situation.

If we use current ratio as a measure of solvency we find that the ratio decreased from 0.94 in 1964 to a low of 0.71 in 1969. This indicates an extremely weak solvency.

The figures also indicate that liquidity problems are likely to appear. The situation is worsened considerably by the fact that the purchasing has a pattern of sharp seasonal peaks. As a result the

Table 3

BALANCE SHEET, 1964 - 69 (Kroner in millions)

Assets	1964	1965	1966	1967	1968	1969
Current Assets						
Cash					2.3	2.9
Inventory					6.2	4.3
Accounts rec., other					20.4	24.3
Total	21.7	21.6	24.0	26.0	28.9	31.5
Fixed Assets						
Buildings	25.0	28.4	30.0	33.8	35.1	39.4
Equipment, other	5.0	5.8	6.7	7.7	8.0	10.1
Total	30.0	34.2	36.7	41.5	43.1	49.5
Liabilities, Members Equity						
Current liabilities	23.2	24.8	30.5	33.9	36.8	43.6
Long term debts	25.0	27.7	26.8	29.9	31.6	34.3
Members quota	0.2	0.2	0.3	0.6	0.6	0.6
Retained earnings	3.3	3.1	3.1	3.1	3.0	2.5
Total	51.7	55.8	60.7	67.5	72.0	81.0

Source: GH's Annual Report, 1964-1969.

Table 4

STATEMENT OF EARNINGS, 1964 - 1969 (Kroner in millions)

	1964	1965	1966	1967	1968	1969
Net Sales	137.6	153.9	164.3	177.6	192.8	215.0
Gross Profit	22.4	25.5	28.0	32.2	36.1	39.8
Expenses before depr.	24.0	25.4	28.9	32.0	35.7	40.5
Earnings before depr.	- 1.6	+ 0.1	- 0.9	+0.2	+ 0.1	- 0.7
Depreciation	3.8	4.2	4.6	7.4	5.7	5.5
Transfers from the state	6.0	4.0	5.4	7.6	5.5	5.7
Net earnings	+0.6	-0.1	0.1	-	-0.1	-0.5
Repayment to members	0.6	0.1	0.1			
Retained		-0.2			-0.1	-0.5

Source: GH's Annual Report, 1964-1969.

Table 5

FINANCIAL SOURCES, 1964-1969 (Per cent of total assets)

	1964	1965	1966	1967	1968	1969
Members Equity	6.7	5.9	5.6	5.5	5.4	4.3
Current Liabilities	44.3	43.9	49.2	49.7	50.2	53.8
Long term debt	49.1	50.2	45.2	44.8	43.6	41.9

Source: GH's Annual Report, 1964-1969.

organization experiences periods of extreme difficulties in financing the day to day operations.

The statement of earnings provides some explanations to the financial situation. As an average for the years 1964-69 the net earnings are zero. Because of some repayment to the members the retained earnings are negative in this period, and dropped from 3.3 million Kroner in 1964 to 2.5 million in 1969. At the same time the members' "quota" has only increased by 0.4 million in the same period.

The organization has two main sources of income - gross profit from sales and transfers from the state. As seen from Table 4, the transfers are of considerable size, varying from 4.0 to 7.6 million Kroner per year. These transfers play a crucial role when the organizations' earnings situation is evaluated. The transfers are partly contribution to the depreciation of buildings, and partly payments for services performed by the organization. The relevance of the contributions will be discussed later. At this stage we will regard them as ordinary earnings. However, a substantial year to year variation in size of the contributions might lead one to suspect that they to some extent are adjusted to the "needs"

of the organization, rather than being a direct payment for services performed the particular year.

From this it seems obvious that the organization's expansion over the last years is financed partly by the state, partly by loans, and to a small extent by using retained earnings from earlier years (i.e. pre-1964 earnings). Own funds are, however, by now so small that they must be regarded as insignificant. The financing of the increase in day to day operations is done through short term loans (cash-credit, supplier credit and late payments to the members). These sources seem by now to have been exploited to their limits.

How critical the financial situation actually is cannot be exactly revealed by a financial analysis. This depends to a large extent on the state's policy vis-a-vis the farmer cooperatives. An extreme "trading on equity" as seen in this organization can probably only be done because the creditors perceive the state as the guarantor. The organization's very existence thus seems to be directly dependent on the state. Any further expansion, at least in the short run, also seems to hinge largely on support from the state. This dependency might be a constraint to the organization's development and is an uncertainty factor. The organization's financial and economic situation do represent a weakness because it restricts freedom of action and might be a threat to the very existence of the organization (dependent on government policy and support). However, the financial commitment of the state might also be seen as an advantage and has certainly been so up to now.

The economic situation seems to indicate low efficiency; however,

this evidence is by no means conclusive. There are good reasons for disregarding the traditional use of financial data to evaluate the organization's efficiency or performance. The traditional way of economic evaluation of business organization is based on a certain set of assumptions and objectives. Some of these are partly not valid at all, and some are questionable to apply in this kind of organization. This will be discussed later on. The only thing to be said at this point is that the economic situation might indicate low efficiency, but other factors (non-economic) are likely to be more conclusive.

c) Production and Procurement.

The members' production is integrated vertically through the organization's charter. The charter can be regarded as a contract between each member and the organization. The members have to deliver all their horticulture production to the cooperative, which in turn has to sell the products if at all possible.

Of the 9,000 producers registered as members, only approximately 4,500 are "active producers", i.e. have production of horticulture products. The rest have had production earlier but have discontinued the production.

The annual production by the members amounts to approximately 100,000 tons, and includes all different kinds of fruit, berries, vegetables, potatoes and flowers grown in the country. The production side of the business thus is extremely complex and extensive.

The very nature of horticulture production makes it uncertain and unpredictable. Seasonal variations and sudden extreme weather conditions make delivery peaks and slacks the rule rather than the exception. This again has an extremely significant impact on the marketing activity.

One of the crucial elements is to design the marketing organization to match this particular situation. The situation calls for extreme flexibility. On the other hand, this is likely to impose high costs. The only answer to this problem is increased vertical coordination, i.e. production planning and forecasting. The organization has made attempts to move in this direction but with only slight success. Many of the managers seem to believe the task is impossible, and are not likely to trust or use the data processed from the surveys.

Another complicating factor in production is that it is geographically spread over vast areas of the country. The question about concentration of production has many facets, some of the most important being production costs, distribution costs, and quality. Even if the production is concentrated more and more in the best areas (i.e. those with the most suitable climate and soil) the question about optimal allocation is by no means solved. This is one of the most pressing problems, especially when increased future competition from imports is to be considered. The production structure on the different farms adds another dimension to the problem. The production volume on each farm is generally so small that one is likely to lose most economies of scale.

The problems related to the production structure have not up to now been a severe constraint in the organization's competition situation. But as contractual arrangements between large buyers and producers become more and more prevalent, the problem is likely to become serious. A survey conducted in 1966 (Rokholt, 1967) revealed that the producers who were members of the cooperative had as an average smaller production and were

located further from the large markets than those who were not members. The organization has tried to influence the production structure, but it has not been politically feasible to go very far. For example, it is reluctant to charge the producers in relation to actual costs. The result of this among others is that over the last few years the organization has lost some of its largest and best producers.

The question has considerable political implications within the organization, but is nevertheless one which has to be handled in order to improve the competitive situation. The political disagreements involved in this case might prove to create a serious weakness.

The organization has a well established extension service in the production sector. Twelve highly qualified consultants are working in direct connection with the production and the farmers. This activity has undoubtedly helped to improve both product quality and the economy of production to a considerable extent. However, here again lack of direction and coordination do prevent the system's potentials from being fully utilized. The organization's main production problems are not identified and ranked. Therefore, it is more than likely that resources are used in areas of relatively low importance. Nevertheless, the extension service represents a potential of distinct strength.

Even if the organization has done a lot to improve the quality of the products, there is evidence that its strength in this area is about to disappear. The organization has been and still is the leader and innovator in the areas of standardization, grading, packaging and handling. But it seems not to be able to draw the full economic benefits from the development. Competitors copying the inventions seem to be better able to

do this. Thus the organization's competitive advantage concerning the quality factor is dwindling. The most important reason for this seems to be that the quality factor is not used as an active element of a marketing mix. For example, the quality image is "blurred" because of lack of quality control, price and quality are often not consistent, and there seems to be little understanding of the requirement for a branded product.

Closely linked to the quality problem is the problem of production structure, and of course, the general problem of the organization's production oriented approach. It is obvious that there will be severe quality problems given a large number of small producers who produce under very different conditions. This problem is sought to be solved by a network of central sorting/packaging and storage facilities. The organization has more than 80 facilities of this kind, ranging from large fruit warehouses to freezing facilities for strawberries. These facilities are the "backbone" of the organization's quality and market regulating activities, and do represent one of the organization's most important strengths. None of the competitors has a similar system. They are, however, more and more balancing their weakness by seeking large producers who have their own facilities. This trend might even turn the organization's strengths into a weakness. By their policy the competitors escape heavy investments in facilities. If their contractors at the same time manage to run their facilities more efficiently than the cooperative does, the cooperative is facing a weakness. There is evidence that such a situation is emerging fairly rapidly, one of the reasons being that the cooperative has to use

expensive hired personnel while independent producers to some extent use family labor. Another reason seems to be linked to inefficient management and the somewhat outdated structure of the organization's facilities. Quite a few of the facilities seem to be based on too small of a volume to be economically run. Here again political considerations are involved. A close-down of facilities will undoubtedly hurt local communities and local growers.

The cooperative is also the initiator concerning the development and implementation of new product varieties. It is a pioneer in using disease-free seed and mother plants in production. There have recently been great achievements in this respect concerning productions like strawberries, raspberries, onions, and potatoes. The organization's experience in this kind of product development is to be considered as a distinct strength.

The purchasing and procurement system can be separated into two distinct parts. First there is the system of procurement of products grown within the country. Here the organization's charter makes the framework or guideline. The organization can procure from non-members only if the members are unable to provide adequate supplies. This rule is somewhat ambiguous and involves judgment. What is adequate quantity and quality is not at all clear. In addition to this comes the question of price. It is a rather common situation that selling division asks for a higher price for a given product than the buyer division can pay. Another situation might be that the quality is too low to be acceptable in a particular market. Still another frequently occurring situation is one where a local division is trying to sell locally grown products of low quality by

not purchasing superior quality from other divisions. It is fairly easy to see that the rule of not purchasing or selling outside the organization if one within the organization has "adequate" supply-demand is likely to create some severe conflicts. The effects on the competitive position might be severe at least in the long run.

When this is said, it is, however, necessary to add that the procurement and exchange system within the organization is advanced and fairly efficient. All the nine regional offices are linked together to the main office by a teleprint system and all money transactions are coordinated by a central clearing system. The distribution system between the regions is well developed. The exchange system even with the present weaknesses is undoubtedly the best in the industry.

The general rule for exchange or sales between divisions is that the "buyer" gets the merchandise in commission, i.e. the seller receives as payment the price obtained in the market minus a fixed percentage charge which is to cover the seller's expenses. The percentage charge is approximately 20% of the price obtained in the market. The selling division in turn deduces its costs in the same manner and pays the rest to the farmers.

The feasibility of the commission system is at times questioned by both "buyer" and "sellers". The buyers maintain that the fixed charge does not cover their real expenses; the sellers on the other hand maintain that the charge is too high and that the sellers have the option of quoting a price different from the one actually obtained. This has resulted in a partial breakdown of the commission system. It is fairly common that the sellers demand a fixed price when they have the "upper hand", i.e. supplies are short, while they accept the commission principle when there is

oversupply. The conflict has increased over recent years because of the "profit" squeeze.

One might argue that the organization seen as a whole by this system is secured to get its costs covered and that the ultimate payer is the producer. This is so, of course, theoretically. However, the organization's existence is by no means "secured" by the system. The farmers compare the prices they obtain with the prices they could have obtained by using alternative channels and are likely to quit the organization if they perceive the difference between costs and benefits as being unfavorable. The divisional managers thus are under pressure from the local members and might be suspected of trying to maximize the local "profit". The effect of increased "pressure" from the members is likely to be that the managers will behave more and more as if they were competitors. This might in turn undermine the trust necessary to make a commission system work. The behavior and attitude of the managers suggest that this is partly the case in the organization today.

All the imports are procured through a central import division. The division is a separate company owned by the organization. It is staffed by a general manager and two buyers and procured imports at a value of 60-70 million Kroner in 1969. This is equivalent to approximately 25% of the total imports of fruit and vegetables to the country. The total imports of fruit and vegetables has increased much over the last ten years. In 1959 the total imports were 130,000 tons, for 1966 the figure was 177,000 tons, and the average for 1968 and 1969 was 285,000 tons. The imports also account for an increasing part of the organization's sales and reached a peak of nearly 48% of total sales in 1970. The trend will

undoubtedly continue and might even be strengthened.

In addition to the imports channeled through the import division, the company does annually import bananas and flowers of a value exceeding 20 million Kroner. This sheds some light on the importance of the import business. The import activity has an immense impact on the organization's economy, and does in fact also influence the organization's position as a farmer cooperative. The organization's import activity has been and still is questioned by the farmers. It is a fairly extended opinion that the organization should not use resources to expand its import activity and that imports should be avoided in order to protect home grown products. The result of this view can be seen in the restrictions imposed on the import division as well as on the marketing (i.e. promotion) or imports. This does, however, create an inconsistency in the organization's policy. It might prevent a proper adjustment to demands of the customers and thus weaken the market position.

It seems clear that the import business today is an important asset to the organization (i.e. given the present distribution system) but that constraints which prevent efficient operations might easily expel the opportunities.

d) Marketing Situation.

The organization's market position is fairly strong. Total gross sales were 274 million Kroner in 1970, of this 22.5 million came from flowers, and the rest from fruit, vegetables and potatoes. The market share is approximately 32% for fruit and vegetables and 15% for flowers. The organization is the largest wholesaler in both product groups. The

market share does, however, vary considerably from district to district. In some regions the market share is more than 50%; in other regions only 12-15%. The organization is relatively strongest in rural areas and weakest in the larger cities. For example the market share in the Oslo region, which accounts for 30% of the total market, is only 18-20%. The variation in market share is partly due to the competition and partly due to the different emphasis put on sales in its own area by the different managers. The organization's sales of fruit and vegetables has increased annually over the last five years by an average of 8% (value). This is, however, not more than is necessary to keep the market share. If the general price increase and the increase in consumption are taken into consideration, an annual increase in value of 8-9% is necessary to keep the market share. The organization expanded its sales very rapidly in the 1940's and 1950's, but the expansion leveled off in the early 60's and has now stopped.

In fact, the sales figures indicate that the company's market share is about to decrease. The total sale increased by 88 million Kroner from 1966 to 1970, but 34 million of this came from the increased sale of flowers and bananas leaving 54 million for the "traditional" assortment. This gives an average annual increase of less than 7% and only 5.4% from 1969 to 1970. This probably represents a decrease in the market share for fruit and vegetables. The development of the last several years' sale is shown in Table 6.

The sales of flowers, however, are booming. The organization started marketing flowers in 1964 and has today approximately 15% of the market.

Table 6

NET SALES, 1966, 1969, 1970 (Kroner in millions)

	Imports excl. bananas	Bananas	Flowers	Home grown fruit/veg.	Total
1966	74	-	4	108	186
1969	79	3	17	144	243
1970	94	15	23	142	274

The increase in sales from 1968 to 1969 was 36% and close to 40% from 1969 to 1970. The organization did not sell bananas until the fall of 1969. After five months the market share was 15% and by now approximately 25%.

Of the total sales in 1970, 44% is home grown fruit, vegetables and potatoes, 8% flowers and 48% imported fruit and vegetables. All the flowers and 85% of the fruit and vegetables are distributed by own trucks directly to the retailer; the rest is sales to wholesalers and the processing industry.

The importance of direct distribution has increased over the last ten years and has been on the expense of sale to wholesalers. This change in distribution brought about a boycott from the wholesalers in the early 60's.

Even if sale to wholesalers today value-wise is rather insignificant, it does play a certain role. The reason for this is that the organization's members produce more of certain products than the direct-distribution system can handle. This is also the factual background for a serious disagreement within the organization concerning the marketing policy.

The "banana case" is a good illustration of this point. Under strong pressure from regions with a large surplus production, the organization made an agreement with the largest competitor that the organization would not sell bananas. In return the competitor agreed to purchase home grown products from the organization and not to sell vegetables in certain areas. Even if the competitor did not keep his part of the bargain, there was a tremendous resistance from some regions when the organization decided to include bananas in its assortment in 1969.

The difference in opinion concerning the competitors obviously has weakened the organization's marketing considerably. Accusations that the competitors are favored at the expense of own sales force by some of the divisions are common. To what extent this is true is impossible to judge, but the mere existence of the accusations indicates serious lack of trust and cooperation within the organization.

Despite serious disagreement about the marketing policy, the organization has managed to develop an advanced sales force. The organization's 400 salesmen are relatively highly skilled even if a high turnover rate in some areas threatens to reduce the level. The salesmen are supported by a team of consultants who provide services to the customers, coordinate campaigns, train the store personnel, arrange consumer meetings, train the salesmen, etc.

The customers are visited by the salesmen at appointed intervals. The relationship between seller and customer is often characterized by a high degree of mutual trust. The salesmen are generally perceived by the customers as professionals and do have a fairly large influence on the

store's purchasing, display, etc. of this particular product group. This personal contact makes the salesmen the real link between the organization and its customers.

The sales force is undoubtedly an important strength. The potential of the sales force and the distribution system seems, however, not to be fully utilized. One of the main reasons for this is the lack of an explicit and uniform marketing policy. There is also obvious lack of coordination of production, procurement and selling. On occasions when coordinated campaigns have been carried out, however, the sales force has proven its excellence.

Because of the high degree of personal service, the sales and distribution system is a high cost system. Another thing which draws in the same direction is the company's quality policy. The emphasis on quality means in practice higher priced products due to more strict sorting and packaging and higher purchasing price. The company's market profile or image is one of high price-high service-high quality. This is basically a strength, but there are factors which might call for some concern. First of all the market is getting more differentiated in respect to its demands. Increased competitive pressure has led to margin squeeze and increased concern about price. The second factor to be considered is the company's inability to clearly state its quality image. A third factor is the rapidly increasing costs of personal service.

Even though the organization has had a marketing division since 1964, the marketing function is not coordinated. An overall marketing policy and marketing plan is not developed. The reasons for this are partly, as

mentioned earlier, strong disagreements among the key persons about what is a feasible strategy, and partly it is the rather weak position of the head office. This is a weakness of considerable importance. Two extremely clear effects of this weakness are the lack of synergistic effect of the marketing mix and the lack of a capable negotiating unit versus large customers (i.e. retail chains and processors). The importance of both these factors is likely to increase considerably.

The company's weakness with respect to marketing coordination is revealed clearly over the last years. It has not managed to meet the demand for uniform appearance required by the national food chains.

5. Evaluation of Present Strategy and Achievements.

On the basis of corporate objectives, present strategy and threats/opportunities - strengths/weaknesses identified in the previous sections, the task is how to evaluate to what extent the organization through its present strategy has managed to achieve its objectives. Furthermore, the feasibility of continuing the present strategy should be evaluated.

This part of the analysis is extremely difficult because of the complexity of the objective variable. It is very likely that different individuals or groups will argue for different objectives or the objectives' ranking within the "hierarchy".

Since the organization's objectives are not explicitly stated, the question is liable to judgment. One will strongly stress the point that the evaluation of present performance and present strategy is based on the particular set of objectives identified in this study. If the evaluation was to be based on another set of objectives, the result of the evaluation

might have turned out differently.

The groups of objectives identified earlier in this study are:

1. Survival as an independent organization;
2. Maximum long-run economic welfare for the owners (economic security included);
3. Maximum human satisfaction for all participants; and
4. Best possible service to society.

The groups are ranked in relation to their relative importance. We will now look at the organization's achievements with respect to each of these groups. This analysis is again one which requires a high degree of personal judgment. Most of the measurement variables are intangible and no fixed standards can be applied.

The organization seems to have performed well during its post-World War II growth period (i.e. 1945-1964). The number of members doubled during the first decade, the distribution system was developed to be superior to that of any of the competitors, facilities were built in order to meet the requirements of an industrialized society, the extension service was developed, and the organization's economy was fairly sound (even if the members' equity in 1961 was as low as 10%).

Even if conflicts were apparent (i.e. between regions) there was obviously a common objective of expansion and a common view of the broad task, namely to improve the members' situation by means of cooperation. The president was the unquestioned leader of the organization's development. The idea upon which the growth hinged was one of vertical coordination of production and sales, and the market opportunity (or niche) discovered

and exploited was the inability of other organizations in this particular field to adjust their marketing approach to the needs of an emerging industrialized society.

The growth period has the characteristics one will find in most company's growth phase, namely an idea which catches on and inspires the participants, and a leader who is able to unify the organization's resources. When the growth leveled off, however, the weaknesses became more and more apparent. Today's situation is one where the weaknesses are about to endanger the organization's ability to achieve its objectives. The organization is about to drift into a situation which might even make it obsolete. Let us now turn more specifically to the evidences underscoring this statement.

The crucial issue in this context is the organization's economic situation. Due to the organization's unique status, this issue is very complex and needs a careful interpretation. Profit maximation is, of course, not a relevant objective for a cooperative. Profit or loss is merely a question of how precisely the organization has been able to deduct the right amount of money from the gross sales (i.e. to cover its actual expenses). Costs in this context are operating costs plus the costs of a desired rate of growth.

Over the last years, the organization has not managed to retain any earnings at all, the result being a decreasing equity both relatively and in absolute figures. The equity ratio is by now so low (4.3%) that the organization probably would not have survived without support from the state. This means that it is dependent directly on the state for its

survival, which in turn means restricted freedom of action, the degree dependent on the government's policy. Thus the objective of independence is not achieved. One might of course argue that the organization still has the freedom to act as it wants. The point to be made here is not about today's situation but rather the uncertainty for the future.

There might be one of two reasons for the current financial situation. Either the organization has not been able to retain earnings because of "pressure" from the members, or there has been a deliberate policy of the leaders to "trade on equity", i.e. maximize the price paid the producers by counting on state support for development and growth. The first case will reflect a severe weakness; the second a deliberate "gambling". There is evidence supporting the view that the organization, due to inefficiency of operations, is unable to pay the producers a "reasonable" price for their products (i.e. compared with alternatives available to the producers) and at the same time retain sufficient earnings. That is to say it operates with loss. The earnings statements are, however, not conclusive for a judgment of economic efficiency. The organization's severe management problems lead one, however, to suspect low efficiency. The lack of an explicit and consistent strategy, and the difficulties experienced in the implementation of policies are weaknesses which might have serious impact on the long run situation.

It seems evident from this that the organization does not perform well even in relation to the second group of objectives. Lack of economic efficiency and planning might indeed endanger the producers' long run situation.

An evaluation of the performance in relation to the third group of objectives is extremely difficult. Human satisfaction is a rather vague

and ambiguous term. However, an extremely high turnover rate among new employees at the managerial and staff level, widespread personal conflicts, and evidence of increased tension between the producers and the organization do indicate that the third objective is not properly met. There is an unmistakable lack of enthusiasm among many member groups and a severe critical attitude among others.

The organization seems to perform rather well in relation to the fifth group of objectives. The market regulating function is well performed. The organization supports rural development by keeping its facilities decentralized and by keeping delivery routes even in extremely sparsely populated areas. It also seems to perform very well in areas like consumer information, quality improvement, and production development.

As mentioned earlier, the organization is paid by the state for performing functions listed under the fifth objective. To what extent the support equals the actual costs it is impossible to say. There are no specific accounts for these activities. This causes a great degree of ambiguity concerning the impact of the state support on the organization's economic performance.

The next main question to be asked is to what extent present performance can be linked back to particular strategy elements and to what extent the performance is a result of a plain "drift" or failure in implementing the strategy. As mentioned under the discussion of present strategy, there is no explicitly stated corporate strategy. It is also hard to detect possible strategy elements from the organization's operations. This does perhaps more than anything else explain the current

situation. There is obviously no total, consistent strategy. The organization is guided by policy elements which are developed from time to time as responses to problems related to certain parts of the total activity.

It is, however, obvious that the achievements in the area of what here is called societal objectives mainly hinge on a conscious policy. But at the same time, there is seemingly a total lack of appraisement of the costs involved. The development of the exchange system and the sales force seems also to build on a clear policy but again the cost factor is exempted.

The policy of having "peace" with the environment at any costs seems to have been proven to be an extremely expensive policy. An extremely narrow view of the marketing function and a strong emphasis on production (i.e. the member centered functions) are hindering adjustments to market changes. The policy of seeking market control by getting the highest possible share of home grown products has given a "difficult" member structure and at the same time has failed to give the organization control over more than 30% of the total production. Besides lack of a consistent strategy there are also some cases where present policies seem to be obsolete today.

Generally speaking, there seems to be support for the statement that the organization has "drifted" into the present situation. It is about to become a victim of environmental changes.

One might ask why the organization has drifted - why have there not developed guidelines for its effort to achieve its objectives? Is it a management failure, or are farmer cooperatives as systems resistant to

modern management? It seems rather obvious in this case that conflicting interests and the management process and system employed have made a uniform and consistent strategy difficult to develop and implement. This seems in turn to have forced the top executives to apply a strategy of "no-strategy" in order to obtain enough flexibility to handle the day to day "fire fighting". To continue this "strategy" seems to involve apparent risks and might be a threat to the organization's very existence.

It is, of course, impossible to say anything about the feasibility of continuing each of the present policies in the different areas. They will have to be seen and evaluated in the context of a total strategy.

The general conclusion is that the organization in its effort to achieve the societal goals has neglected its other objectives. The effort of regulating the market, developing the production, and supporting the need of small rural communities is seen on the one hand to have strained the financial resources and on the other hand to have reduced the company's efficiency as an economic organization. So many considerations (i.e. to competitors, non-members and society in general) have been taken into consideration that the business operations have been stifled. This inefficiency has an increasingly severe impact as the competitive climate gets tougher.

C. Recommendations and Plan of Action.

This chapter consists of three successive sections or steps. In the first section alternative strategies are identified, and the one which is perceived as being the best one for achieving the objectives is chosen. The second section deals with the formulation of the strategy and the statement

of a set of consistent policies and goals. Finally, in the third section the implementation is discussed and a general plan of action is developed.

1. Alternative Feasible Strategies.

First we shall summarize the opportunities and threats apparent in the environment and the organization's strengths and weaknesses which became apparent in the previous analysis.

a. Opportunities.

- Large national retail chains create a demand for large national suppliers. This means the small, local wholesalers are becoming obsolete.
- The modern retail trade creates a market for a "package" offer from the suppliers, i.e. a unique combination of price, quality and service which fits the buyer's strategy.
- A more modern marketing approach on behalf of the retailers will provide increased opportunity for a more aggressive marketing (i.e. promotion, product development, branding of produce).
- Larger stores make the use of personal service (i.e. consultants) more feasible.
- It is going to be more feasible to make contractual arrangements. This, together with increased opportunities for production planning and control, and product control, (i.e. thermo control) makes it possible to move from a highly uncertain to a more certain situation. This provides the necessary basis for centralizing, standardinzing of procedures and cost savings.
- As the economic pressure on the wholesale sector is increasing it

has at the same time created opportunities for expansion by acquisitions.

- The institutional market is increasing rapidly and provides an opportunity for expansion.
- A rapidly increasing affluency in the society provides a basis for general growth of the market.

b. Threats.

- The situation resulting from a Norwegian membership in the EEC might prove to be an immense threat to the organization. This goes for the production as well as the organization's marketing activity. Large parts of the Norwegian production of fruit and vegetables might be competed out of the market. Large international companies are also likely to increase the competition in the marketing of fruit and vegetables.
- An increasing tendency of the large food chains to integrate in production and distribution represents a challenge and a threat to the organization's wholesale business.
- The largest competitor (BM) is obviously about to prepare for expansion. The competitor's increasing managerial strength and a possible capital backing from other large companies does indeed represent a threat. There will be a constant threat that this company might become a subsidiary of an aggressive foreign company.
- Norwegian and foreign marketing conglomerates like the Norwegian owned De-No-Fa and the Swiss owned Nestle' might include produce

in their food assortment. Both these companies have diversification as one of their strategy elements.

- The organization's dependence on the state support makes the possibility of changes in the government policy vis-a-vis the farmer cooperatives a constant threat.

c. Company strengths.

- The organization's most outstanding strength is its distribution system. Its well established network of warehouses and distribution routes together with its market contacts and experience probably represent the organization's most important asset.
- The company integrates vertically the main functions in the chain from production to the retail outlets. This provides the opportunities for vertical coordination and thus meets an important requirement for a modern approach to marketing.
- The organization has a strong position in production. A well developed extension service and a leading position in product development also represent a strength.
- The organization is linked to the other farmer cooperatives through the Farmer Cooperative Association. Besides this formal link there is also an informal link made up of the producers' membership in two or more of the cooperatives. This might prove to be an immense strength. Together the farmer cooperatives are extremely strong economically as well as politically. Even if the cooperation between

the organizations is not far developed at this time, there is great potential embedded in the system.

- The company's import division is the largest importer in the country and perhaps the most efficient one. This represents a great potential.
- The mere size of the organization provides a strength by providing the basis for bargaining power and specialization.
- The company's image also is a strength. It is regarded as a "serious" and modern organization and is highly regarded for its skill in marketing and production.
- The government's policy at least up to now gives the organization additional strength. Besides direct support this relation to the state is perceived by the creditors as a guarantee for debts.

e. Company weaknesses.

- The most serious short run weakness is the financial situation. How serious is difficult to judge because it all depends on the government's willingness to give further financial support. The situation does, however, reveal that the company is entirely dependent on the state support, that its earnings are extremely low, and that the situation might impose serious constraints on further expansion.
- The analysis also reveals some serious management problems. Lack of a consistent strategy and planning and control, together

with internal conflicts are by far the most serious weaknesses affecting the company's long run situation.

- The organization's relation to and dependence on the political authorities can in some respects be considered as a strength, but is in other respects a weakness. The company status seems to have led the top management into a defensive position strongly restricting the company's competitive behavior. This is about to be a distinct weakness as the competitive climate gets tougher.
- The production structure, both at the farm level and concerning the company's facilities, is about to become a weakness. The production allocation among regions as well as among the farms prevents the utilization of the benefits from large scale production. It also creates a quality problem. Several of the organization's facilities seem to be uneconomical to operate but are kept for other reasons.
- The members seem generally to be fairly indifferent to their own organization. Lack of participation and commitment are rather typical. Thus, one of the bearing forces of this type of organization is lacking.

By looking at opportunities/threats and strengths/weaknesses in the context of the task of matching opportunities and capabilites, three major feasible strategy directions are defined.

1. Carry on the present activity without any major changes and gradually discontinue all present functions.
2. Gradually cut out all direct distribution and focus on production

and "first hand" offer for sale.

3. Base the activity on an expanded vertical coordination of all functions prior to the retail level.

The choice among these major directions depends partly on how one perceives the organization's "mission", and partly on how the organization's capabilities are perceived. Dependent on the assumptions one makes all three directions can be viewed as feasible.

It has earlier been argued that the present "strategy" is not likely to yield a favorable achievement of the objectives. This is certainly true under the assumptions made. One might, however, argue that this kind of institution has served its mission and given the present environmental changes is about to become obsolete. That is to say that other institutions more efficiently can perform the functions and the farmers are served better by other institutions. By recognizing this then the organization should gradually discontinue its activity. One of the goals would be to smoothen the transition by helping and encouraging the farmers to develop other feasible market connections. There are, however, several reasons for disregarding this alternative, and it is mentioned here because a similar view from time to time is argued from the "private" sector whenever the functions of farmer cooperatives are debated.

One is here, however, likely to argue that cooperatives rather than becoming obsolete might become more feasible as an institutional form than ever before.

The second main strategy direction hinges on the following assumptions:

- The development in the trade is leading to an extensive

vertical integration where the retail and the grocery wholesale segment will be the integrators, thus forcing the specialty wholesalers out of business.

- Even if an integrated wholesale organization like this cooperative theoretically might be able to meet the trade's requirement for vertical coordination, the company's financial and managerial weaknesses prevent it from implementing a strategy like this.
- The company's scarce resources will be better utilized if concentrated in production and functions like collection, sorting, storage, and delivery negotiations.
- A potential membership in EEC will bring about an immense competitive pressure in the wholesale sector, and the competitors' financial strength will outweigh the company's skill and experience.
- The govenrment is likely to be willing to support Norwegian production but not the company's extensive involvement in the wholesale function.
- The producer's task will be better taken care of by focusing on production than by trying to achieve market strategic strength by performing the distribution and merchandising functions.
- It is possible to gather most of the Norwegian producers in one organization, and thus by obtaining control over production it is possible to achieve a sufficiently strong market strategic position.

- By not competing with the traditional wholesalers and the retail groups, good will for the company and Norwegian products can be obtained.

The basis for this strategy is the recognition of the company's inability to function as a market coordinator of the functions from production to the retail store. The strategy might be formulated as being:

The organization is in the business of improving the competitive strength of home grown produce by working for a more economically efficient production and a production which is optimally adjusted to the market needs. Main emphasis is to be put on production planning, production adjustment and development. Improved market strategic position should be sought by getting control over the largest possible share of the Norwegian production and by coordinating the production and the first offer.

Improved organizational efficiency should be sought by making the operations as simple as possible and by performing as few functions as possible.

The aim is to keep a reasonable quality at the lowest possible price.

This strategy will minimize the company's managerial weaknesses by reducing the complexity of operations. The financial weakness might also be reduced because one can avoid expansions requiring large investments. Furthermore, internal conflicts concerning the company's functions might be eliminated because this strategy will provide a simple straight forward focusing on the producers and the home grown production. This will also probably simplify the functions of the member representatives

and they are more likely to "feel at home" as producer representatives.

The strategy will also make it possible to utilize the organization's strength in production and might tie the organization closer to the state by being a more applicable tool for carrying out the agricultural policy. The organization might even in the long run develop into a state agency and thus get a secured position.

The third alternative hinges on these assumptions:

- There is an increasing need for vertical coordination in the distribution chain due to the technological development. Vertical integration is not seen as an objective from the food chains point of view, but merely as a means of achieving the necessary coordination. The ability of efficient coordination thus is decisive as to which agent in the chain is going to perform the function.
- One agent in the distribution chain is willing to buy the service of coordination from another agent provided this is totally perceived to be profitable.
- To develop an integrated system in the produce sector is difficult and expensive, and is not likely to pay off if there already exists a large coordinating agency.
- Efficient coordination requires a certain size. The Norwegian food chains are likely to be far too small to achieve sufficient economies of scale in their distribution of produce.
- The distribution of fresh food will have to be done through a special delivery system also in the future.

- The cooperative's basic distribution and merchandising functions are generally performed so well even today that the system represents the best alternative for most of the retail trade.
- The company has a strong market strategic position mainly because of its marketing coordinating function.
- Market strategic position will in the future even more than today depend on the position at the marketing level rather than at the production level.
- Controlling the distribution system at the pre-store level provides a unique opportunity for regulating the market through merchandising activities. This is extremely important in the case of produce which is not branded (thus reducing the effect of advertising) and which is liable to unpredictable supply situations.

The basis for this alternative strategy direction is the view that the company's functions are demanded and that the demand is increasing rather than declining. Further, that the producers' market strategic position hinges on the ability of their organization to have control over as many as possible of the pre-store functions. This strategy alternative can be formulated as being:

The organization is in the business of coordinating all production and all pre-store marketing functions concerning fresh fruit, vegetables, potatoes and flowers, and through active merchandising and cooperation with the retail sector promotes the sale of home grown products.

The difference between these two strategies is mainly that the second extends the company's activity by adding more functions to the company's mission. The two strategies have different requirements concerning management, financing, skills, and business philosophy. The second strategy stresses the total coordination function while the first focuses more on the producer-product part of the chain.

The choice between the two depends on the evaluation of which in the long run is most likely to lead to the best achievement of the corporate objectives.

The analysis of pro and con for the two strategies revealed good arguments for both. The choice is, therefore, not an easy one. This is in itself encouraging because it means that the organization still has the option of choice. And the choice will in this case to a great extent hinge on the decision maker (s) personal ambitions, interests and values.

One will here argue that the second alternative should be chosen. The main reasons for this position are:

- in the long run it will provide more opportunities and security for the member;
- it provides a much larger growth potential for the organization;
- vertical coordination is a minimum factor in the produce trade;
- the organization's strengths gives it a better position than any other institution to provide the coordination function;
- the organization's weaknesses, even if serious, can be viewed as being temporary and caused by mismanagement rather than being a reflection of an obsolete organizational form.

There are, however, several requisites which must be met if the strategy is to be successful. These will be discussed in the section of implementation.

2. Strategy Formulation.

The strategy one has chosen was formulated in a very general manner in the previous section. One will now extend and specify it in some more detail and also indicate some major relevant policies associated with the different strategy elements.

a. The organization is in the business of producing and marketing fresh fruit, vegetables, flowers and potatoes.

Policies: - Home grown and imported products are to be regarded equally important in the sense that home grown products are not to be favored if this in the long run is likely to weaken the organization's market position.

b. The coordination of all functions prior to the store level is a main task.

Policies: -The company's distribution system should be developed.
-Production planning and development are to be integrated as a part of a total system.
-Merchandising and promotion systems should be developed and integrated.

c. The organization should primarily aim at the grocery stores, but should also develop its position with the institutional market and the processing industry market.

Policies: - The institutional market should preferably be served through a special division developed as a common subsidiary for all the cooperative companies.

- The processing industry should be served through a separate division directly under the head office.

d. Organizational flexibility should be developed in order to serve the different main groups' (i.e. chains) particular demands.

Policies: - Salesmen, consultants and supervisors should be trained and assigned specially to the groups.

- The marketing mix (i.e. the price-quality-promotion-service mix) should be flexible in the sense that it represents a package which fits the particular customer group's demands.

e. The company should seek to obtain the largest possible control over the market.

Policies: - The market share should be increased to at least 50%.

- Acquisitions should be made when feasible.

- Cooperation with the other cooperatives should be developed in order to strengthen the market position.

- The import division should be developed in order to increase the organization's share of imports.'

f. The company should perform societal functions only as far as this "pays off" in form of achievements of the other corporate objectives.

Policies: - The company should not regard itself as responsible

for the non-member part of the producers.

- Economical arguments should be decisive for location of facilities and delivery routes.

g. The company's economical and financial situation should be improved in order to achieve more freedom in decisions.

Policies: - An economic control system should be developed.

- The operations should be analyzed in order to eliminate "fat" and uneconomical operations.
- One should develop closer financial ties to the other cooperative organizations in order to strengthen the financial position.

h. The organization should improve the member's production by guiding the production development.

Policies: - Production should be encouraged where it is economically feasible.

- Contractual arrangements with the farmers should be used when feasible.
- Long run development plans for production should be developed.

i. The organization should develop an efficient member democracy.

Policies: - The influence of the board of representatives should be strengthened by increasing the economic compensation so that the members can afford to spend more of their time dealing with the management of the organization.

- Control devices should be developed to make it possible for the representatives to control the

company's activites.

- A program for improvement of the two way communication between the members and the organization should be developed.

3. Implementation and Plan of Action.

The strategy chosen and outlined in the previous section is only meant to indicate a possible direction, and is purely tentative and theoretical. The formulation is only carried out far enough to indicate a direction and is not made operational in the sense that the strategy is not broken down far enough into sub-elements. What is pointed out is in fact only that changes are necessary and then a feasible direction is outlined.

It is one thing to recognize that changes may be essential to the achievement of corporate objectives. It is quite a different thing to do something about it. The bridge that carries an organization from recognition to action is people. Corporate strategy on paper is nothing more than a statement of good intentions.

The transformation of the strategy means that the intentions of the strategy are actually carried out through the organization's actions. To guide the actions in a direction which makes the different actions consistent with the strategy is then the very crux of the implementation. Driving for corporate "excellence", no matter how well intended, produces resistance to change in form of antagonisms, feelings of being taken advantage of, exploited, or left out. This is the barrier to change which has to be coped with.

The previous analysis of this particular company revealed an organizational situation which certainly creates a serious barrier to change. The implementation and plan of action, therefore, must to a large extent be assigned to the problem of overcoming organizational resistance to change.

One way of implementing the strategy and overcoming the resistance is by using coercion. The top man could transmit the model to operational levels of management and tell them to run with it. Certain relations in the company's situation (i.e. the time pressure) might call for the "strong man" approach. However, the organization seems not yet tobe ready to accept such an approach. The situation is generally not perceived as being "desperate". This might, however, change within a relatively short time. Then a "revolution" might be called for. The implementation will in that case be quite different from what is feasible when an evolution or planned development is the aim. The approach to be taken here is one which assumes the necessity of a fairly rapid and basic change. A "strong man approach" is, however, disregarded.

The strategy outlined in this study does require fairly radical organizational changes. A disassembling of the present system of the corporation is necessary, then it has to be reassembled so that operations conform to the strategy. Thus the implementation phase should start with the company's organizing itself to execute the conversion. This does, however, require a stronger corporate management than the present system provides.

One will recommend the following steps being taken in the implementation phase:

a. Short run (i.e. immediate actions):

1. The corporate board of representatives appoints an executive committee consisting of the board's chairman, vice-chairman, the president, the marketing viee-president and one member elected among the regional mangers. The executive committee should be delegated the responsibility for the day to day operations, the organizational development, and the strategy process.

2. The board appoints a task force which is to function as the board's staff regarding the analysis required concerning a size-up of the company's situation. The members of this task force should be partly picked from inside the company, and partly should be outside consultants engaged. The purpose of the task force is to function as an expert team providing the board information necessary for and in connection with the strategy formulation. The task force should be discontinued when the size-up process is completed.

3. The board should as soon as possible choose the organization's main strategy direction.

4. A task force assigned the task of considering actions to improve the company's present financial and economic situation should be appointed. The task force should report to the executive committee.

b. Medium long run (one to three years)

1. The regional divisions should be made profit centers and the corporate staff should be assigned the functions of

corporate planning, control and service to the operational units.

2. A complete corporate strategy should be determined and consistent policies and goals developed.
3. A total system of management by objectives (MBO) and planning-programming-budgeting (PPB) should be developed. The corporate staff should assume the coordinating role at the corporate level. Assigned profit center planning teams should assume this role at the regional level.
4. The corporate board of representatives should limit their functions to be corporate strategy formulation, control of the achievements of the objectives, and to be a link between the members and the business sector of the organization. Each of the board's members should furthermore see that agreed upon corporate strategy is implemented in his particular regional division. Information systems should be designed to fit these functions.
5. The system of board of representatives at the local level should be discontinued and their functions transferred to the regional board.
6. Coordination and problem solving at regional and corporate level should be performed through a system of permanent and ad hoc task forces.

CHAPTER IV

CONCLUSIONS

The primary objectives of this study were to develop a general model for strategy making in business organizations, and by the application to a practical case, test its feasibility as a tool for analyzing the company's situation. Furthermore the objective was to develop a personal approach to analyzing and understanding business organizations.

The general model was built on the assumption that business strategy should be considered being a continuous process reflecting the dynamics of external and internal factors and forces. The model, therefore, was designed as a closed loop input-output model.

It became evident as the study proceeded that a dynamic, total strategy model is extremely complex due to the interactions between model variables, and due to the continuous changes brought about by the time factor. As a result of this it is likely to be impossible to develop a general "cook-book" recipe for the strategy process. It seems, however, to be possible to develop a rather simple and at the same time fairly complete and logical conceptual model and which would be applicable as a framework for the strategy process in practical settings.

The model developed in this study is conceptual, but there is also built in a pattern of check points suggesting a step by step procedure.

How feasible the model is for practical application is, of course, difficult to say. Even if the author found it extremely helpful in the analysis of the practical case studied the model might be less feasible if applied in other cases or by other people.

Our implicit hypothesis in the study was that the problems often experienced in introducing the marketing concept in many business organizations could be better understood and coped with by approaching the problem from a business strategy point of view. One is likely to conclude that the study confirms this hypothesis.

Regarding the farmer sales cooperative analyzed in this study the analysis did reveal that important requisites for a successful implementation of the marketing concept were lacking, the most important problems being:

- Strong production orientation on behalf of almost all partipants in managerial positions.
- Deep-rooted internal disagreements about corporate goals.
- No clear statements about objectives and strategies.
- A weak corporate leadership.
- Lack of commitment on behalf of the top executives.

The company's achievements were difficult to evaluate because of the lack of statements about objectives and strategy. In order to make an evaluation at all it was necessary to "construct" a set of objectives and policies based on the company's relation to the owners and the society, and its general "behavior." An evaluation on this basis revealed obvious discrepancies between objectives and achievements. The company seems to have drifted into a situation where it has become entirely dependent on state support. This might restrict its future freedom of decisions.

There is strong evidence that the organization's top management has weakened the company's competition strength considerably by focusing

too much on the organization's general social objectives, rather than its objectives as a business organization.

Because of the company's inability to adjust to the changes in the environment, it is about to lose its distinct advantages, and the changes in the food industry do more and more take the form of threats to the company rather than being opportunities. Even if the company theoretically still might have time to adjust, the management and personnel situation indicate that the organization might have difficulties in changing fast enough.

The study thus indicates that the company is about to drift into a situation in which it might become obsolete as far as several of its present functions are concerned.

Two alternative feasible strategies are identified, one recommending a drastic reduction in activity; the other increasing activity. The first one assumes the environmental changes as threats,and seeks to minimize the company's weaknesses; the other assumes the environmental changes as creating opportunities and seeks to utilize the company's strengths.

The choice between the two strategies hinges on the decision maker's perception, his values and personal goals. In this study the second alternative is recommended. It is, however, clear that a successful result hinges on several requisites and assumptions which, if they are not met, might make this alternative rather risky.

Regarding the study's contribution to the author's personal "development" in understanding business organizations, a tentative conclusion is

that the broad approach taken in the study greatly has contributed to the understanding of the business organization as a total system.

The study has been helpful in tying together the most important business disciplines into a whole, the close interdependence between the different business functions is revealed, and the importance of the human factor in business has become clearly evident. It has also become evident that the management of the business strategy process is a top executive function. Thus, strategies or policies "imposed" from outside the top leaders are likely to be more damaging than useful if they are not fully understood, accepted and actively implemented by the top level executives of the organization.

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