



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

VIEWPOINT: THE DEVELOPMENT OF A STRATEGIC MANAGEMENT MODEL FOR SOUTH AFRICAN AGRICULTURAL COOPERATIVES

J Hough

Department of Business Management, University of South Africa

A freer and less regulated market for agriculture is envisaged for the nineties while agricultural cooperatives will not receive the same degree of protection and financial aid from the government as in the past. Surviving this changed situation will require a greater degree of strategic decision-making ability from cooperative managements and boards of directors. This article firstly describes the strategic management paradigm and secondly proposes a strategic management model which takes account of the changing environment and the unique nature of cooperatives.

DIE ONTWIKKELING VAN 'N STRATEGIESE BESTUURSMODEL VIR SUID-AFRIKAANSE LANDBOU-KOÖPERASIES

'n Vryer en minder-gereguleerde mark word vir die landbou in die negentigerjare in die vooruitsig gestel terwyl landboukoöperasies nie dieselfde mate van beskerming en finansiële hulp van die regering soos in die verlede kan verwag nie. Om hierdie veranderende situasie te oorleef gaan 'n groter mate van strategiese besluitnemingsvermoë van koöperasiebesture en -direksies verg. Hierdie artikel beskryf eerstens die strategiese bestuursparadigma en tweedens word 'n strategiese bestuursmodel voorgestel wat die veranderende omgewing en die unieke aard van koöperasies in ag neem.

1. INTRODUCTION

Competitive pressure on South African cooperatives will increase dramatically during 1995/1996 and in subsequent years. The general trend towards ever increasing local competition, rapid technological change and the increasingly global nature of competition will force cooperatives to distribute their products more widely and quickly, to cope with environmental change, to reduce costs and to increase their marketing impact. Different strategies are needed to accommodate these new demands and challenges.

The object of this viewpoint is to develop a strategic management model for agricultural cooperatives which takes into account the unique nature of these cooperatives and the changing political, socio-economic and agricultural environment in which they operate.

Some of the important changes which currently affect the agricultural cooperative sector are the following:

- changes from a regulated to a freer market
- the importance of value adding for cooperatives
- product positioning in the market place is critical for survival
- change of loyalty towards cooperatives to competitiveness on price and service quality
- the dramatic increase of the capital formation problem (see Diepenbeek 1989, Hill 1989, Ollgaard 1989 and Soulage 1989 for a discussion on the importance of the capital formation problem for cooperatives)
- the perception that cooperatives are not profitable and that they are not strategically managed
- the increasing pressure from members to "unlock" the value of members' monies by releasing bonus funds or to transform them into company shares
- the increasing demands from small and medium sized farmers to have more access to inputs via cooperatives
- changes in the Cooperatives Act

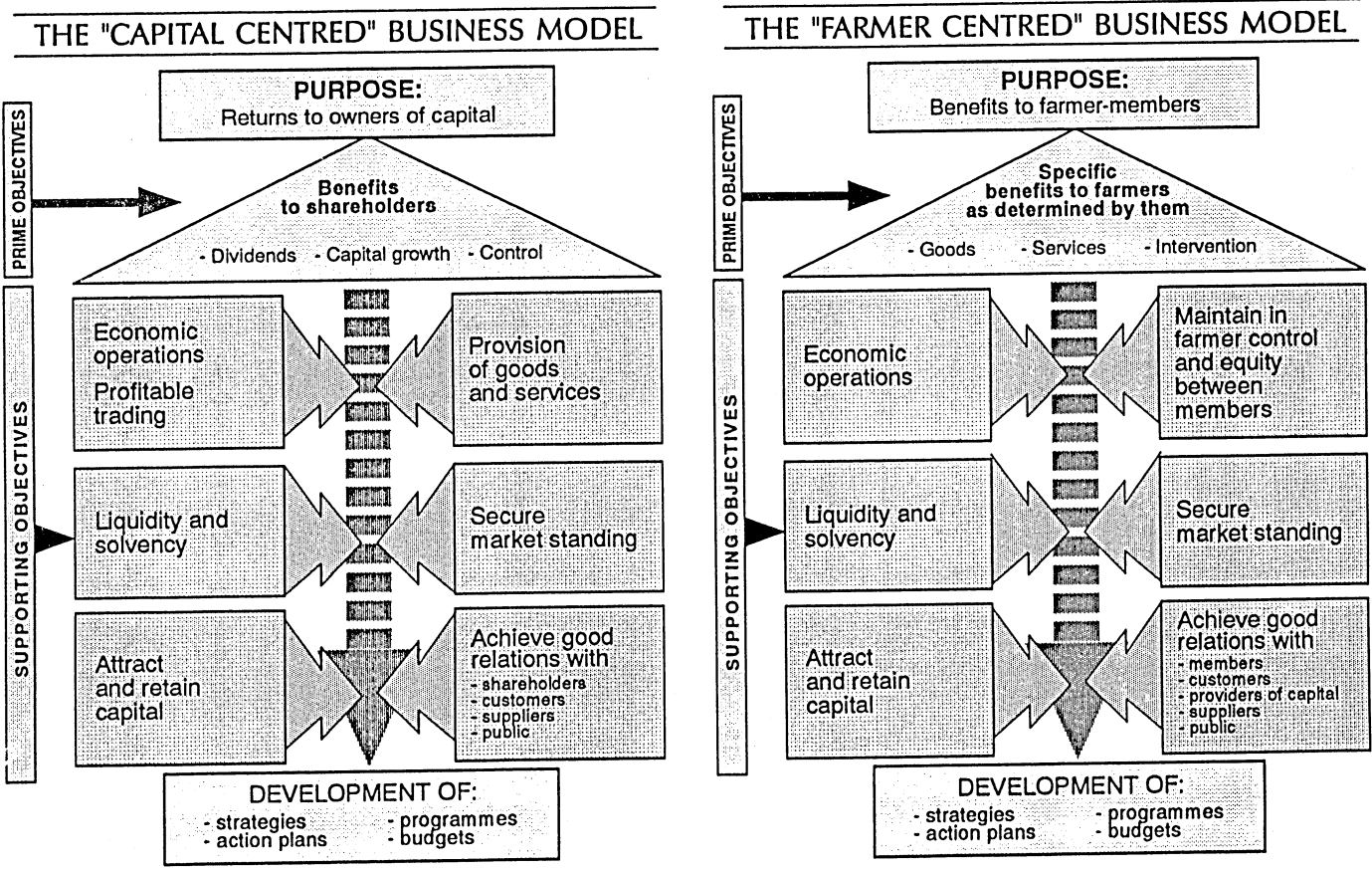
The nature of cooperatives and the strategic management paradigm have to be studied with a view to developing a strategic management model aimed, for example, at improving capital formation. [Opinions of South African cooperative executive managers on capital formation, the cooperative profile, phases of strategic management and certain capital formation strategies were established and are reflected in Hough 1992(a), 1992(b) and 1993]. A strategic management model that takes account of the unique nature of cooperatives is based on the following discussions and opinions.

2. UNIQUE NATURE OF AGRICULTURAL COOPERATIVES

In terms of Section 21(1) of the Cooperatives Act, 91 of 1981 (and amendment act, no 37 of 1993) an agricultural cooperative may be established in South Africa with the following aims:

- to market and process agricultural and related products
- to provide products or equipment required for or related to farming. They may also deal in any consumer goods
- to provide facilities required for farming
- to provide services required for farming. They may in addition to farming services, also render other services, including the buying, selling and leasing of immovable agricultural property.
- to engage in farming activities and to process and sell the relevant products
- to engage in insurance activities including life insurance business
- to act as an agent of a board of control

The main difference between cooperatives and profit oriented establishments lies in the goals they pursue. In the case of the former, the goal is to provide a service; in the case of the latter, the goal is to maximise profit (Schaars as quoted by Arangies & Van der Walt 1990:17).



SOURCE: Parnell (1988:5-6)

Figure 1: The capital and farmer centered business model

Parnell (1988:5-6) emphasises this point by referring to the differences between the capital or profit centred business model and the service centred (or cooperative/farmer) business model (see figure 1). A year later Parnell (1989) expressed the opinion that Britain was experiencing a shift from the service-centred model to the capital-centred model.

Suppliers of capital need to realise an appropriate reward on their investment, otherwise the cooperative will not have capital available to carry on its functions. However, unlike in a "capital centred business" the achievement of a return to the holders in their capacity as owners of capital is not the prime objective of the cooperative. For this reason capital structures over the years have been developed within cooperative enterprises which place the emphasis on capital being the servant of the cooperative rather than the master (Parnell 1989).

In 1994, such South African cooperatives as Western Province Coop (WPK) and Oostelike Transvaal Coop (OTK) converted into Companies, mainly to form capital more effectively and to unlock members' funds while many cooperatives are forming companies to improve their ability to attract external funding and to "escape" cooperative bureaucracy and even some cooperative principles. These developments have to redefine the relationship between members and cooperative enterprises in South Africa.

The relations between the members and the cooperative must be changed so that the effectiveness of the total system is increased (Nilsson 1993). First, the cooperative enterprise must adapt better to the markets in order to survive in the competition with private firms. Some cooperatives bought seats on the South African Futures Exchange (Safex) to enable them to market their members' products more effectively. Second, the members must accept that their relations to the cooperative becomes more market-like. Hence there will be more competition between members, whereby the efficient ones will prosper while the inefficient ones will do worse (Nilsson 1993).

3. THE STRATEGIC MANAGEMENT PARADIGM

Strategy has by now become a common word in business circles in South Africa. In the 1950s, organisations stagnated and became aware of their inability to adapt to the environment. The perception was that the cause of this so-called strategic problem lay in the maladjustment or misfit between the products of the organisation on the one hand and the demands of the market on the other. (Ansoff & Hayes 1976:1). According to Ansoff, Declerk & Hayes (1976:39) the factors which gave rise to this state of affairs were the following:

- the flattening out of production demand
- the appearance of substitute products
- traditional markets which had been penetrated by foreign competitors

A systematic approach to deciding where and how the organisation was to do business in future was regarded as the solution at that stage. The analytical part of this approach was called strategy formulation, while the process of joint strategy formulation was named strategic planning (Ansoff 1984:xv). Strategic planning

was seen as a choice between strategies to match the strengths and weaknesses of the organisation to the opportunities in the environment.

During the 1970s, however, it was realised that the strategic problem was more complex than had initially been assumed (Ansoff & Hayes 1976:1). The development of a new management approach in the 1970s consequently culminated in the management process which is today known as strategic management (Herbst, Elliot, Neuland & Du Toit 1983:8). Mostert (1990:172) emphasises this "new" approach, saying that because agriculture is an integral part of South Africa's economy, it is of considerable importance for agricultural cooperatives to plan strategically so that they can regard the future as an exciting challenge.

Although there is a growing literature on conceptual issues (Porter 1980, Porter 1985, Rogers & Caswell 1988, Porter 1989) and on empirical investigations of strategy/performance (Van Zyl 1986) little of this research relates to the agribusiness sector or specifically to cooperatives. However, in the last few years attempts have been made to "fit" the strengths and weaknesses of agribusinesses and cooperatives to their external environment (Cotteril & Westgren 1994, Hendriks & van de Klundert 1995). The challenge for cooperative management is to become well "trained" in the principles of strategic management and to use these principles to position themselves with respect to the changing environment in South Africa.

4. DEFINITION OF STRATEGIC MANAGEMENT

In the early 1960s Chandler (1962:13) saw strategy as:

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

At the end of the seventies Schendel & Hofer (1979:11), however, described strategic management as a process which has to do with

- the entrepreneurial task of the organisation
- the renewal and growth of the organisation.
- the development and utilisation of the strategy which gives direction to the activities of the organisation.

Strategy refers to a framework for decision making within which the mission, objectives, policy guidelines and action programmes of an organisation or business are carried out (Quinn 1980:7-11). Amara & Lipinski (1983:16) define strategic management as follows:

"Thus, by strategic management we mean the delicate orchestrating between thinking and acting using the tools that best match the unique requirements of each situation."

Schutte (1987:1) provides a more philosophical definition:

"Strategic management is a philosophy; it is a way of managing. It is not simply the process of strategic planning. It permeates the whole organisation from top management to operational management."

According to Cronje, Hugo, Palmer & Van Dyk (1988:11), strategic management entails defining the reason for the organisation's existence, that is, formulating its mission statement as well as the development of objectives, strategies and plans to attune the resources of the organisation to opportunities and threats in the environment with a view to enabling the earliest possible achievement of the organisation's mission.

At the beginning of the nineties, Pearce & Robinson (1991:3) defined strategic management as a set of decisions and actions issuing in the formulation and implementation of plans designed to attain the objectives of the organisation.

It is clear that the concept of "strategic management" can be defined in various ways. For the purposes of this paper, the definitions of Cronje et al. (1988) and Pearce & Robinson (1991) are incorporated in the following definition of strategic management for cooperatives:

Strategic management is a dynamic process through which the proposed mission and objectives of the cooperative are attained by formulating and implementing strategies, policy and plans to be able to use the environmental opportunities and factors of benefit to the cooperative and to counteract the environmental threats and impeding factors.

5 COMPONENTS OF THE STRATEGIC MANAGEMENT MODEL

Components of various models were used as "building blocks" to put together a model proposed for agricultural cooperatives in South Africa and possibly worldwide. In developing the model the following considerations were taken into account:

- relevant theoretical explanations and literature conducing to greater clarity and definition for the specific component(s) of the model and to cooperatives' effective application of the model
- the unique nature of agricultural cooperatives
- the strategic management paradigm
- the financing structure of cooperatives
- findings about the extent to which respondents pay attention to strategic management aspects (see Hough 1993)
- future-orientation in respect of capital formation
- feasibility
- the criterion that the model must be dynamic enough to serve as an instrument for determining whether objectives have been attained so that strategies can be changed and/or modified where necessary.

Figure 2 illustrates the components of the proposed strategic management model for cooperatives. As can be seen from the figure, the model proposes a division into nine phases, namely vision formulation, environmental scanning, strategic issue analysis, identification of long-term objectives, formulation of global strategies, identification of functional objectives, formulation of functional strategies, institutionalisation of strategies and monitoring and evaluation.

5.1 Cooperative vision

A clear definition of the vision (and later also objectives) of South African cooperatives is important

for their long-term success, because they operate in an unstable environment, the financial position of many members is poor, and many grain cooperatives can be classified as high-risk cooperatives (Hough 1991).

The cooperative vision involves explaining the individual cooperative's mission, strategic business units (if applicable) and the cooperative philosophy underlying the management process.

5.1.1 Stating the cooperative mission

The first step in the strategic management process is to analyse the existing enterprise mission, or to formulate one if there is none (King & Cleland 1978:28). The mission statement must clearly define the sector, production branch and business branch in which the enterprise is and will be operating (Marx & Bolt 1983:33). Van Zyl (1985:96) stresses that the organisational mission should be formulated from a future oriented perspective.

Thompson and Strickland (1987:21) states that the enterprise mission should provide answers to the questions "What client groups and client needs will be served and satisfied?" and "What is our business and what will it be?". Naisbitt (1984:88) expands on this and says:

"If you don't know what business you are in, conceptualize what business it would be useful for you to think you are in."

The above quotations imply that the mission of agricultural cooperatives should reflect a future oriented perspective as regards the products, markets and expertise required to bring its efforts to fruition. Mostert (1990:70) found that compiling a mission statement for an agricultural cooperative can be a complex process and that some agricultural cooperatives have taken longer than a year to formulate a satisfactory mission statement. The reason for this could be that agricultural cooperatives do not know what objectives could assist them in accomplishing their mission.

The formulation of a mission statement for cooperatives should include the following elements:

- current and future sector, production and business branch in which the cooperative is moving or wishes to move
- current and future market(s) in which the cooperative is operating or wishes to operate
- present and future technology which the cooperative is using or wishes to use
- present and future clients (members and non-members).

Figure 2 illustrates these elements of the cooperative mission. The legal prescriptions which limit the kind and scope of business that may be undertaken with non-members of agricultural cooperatives should also be taken into consideration.

The following mission statement is typical for a South African cooperative:

"We strive to increase the welfare of our members by rendering an effective service, providing production inputs at the most economical prices and the cost

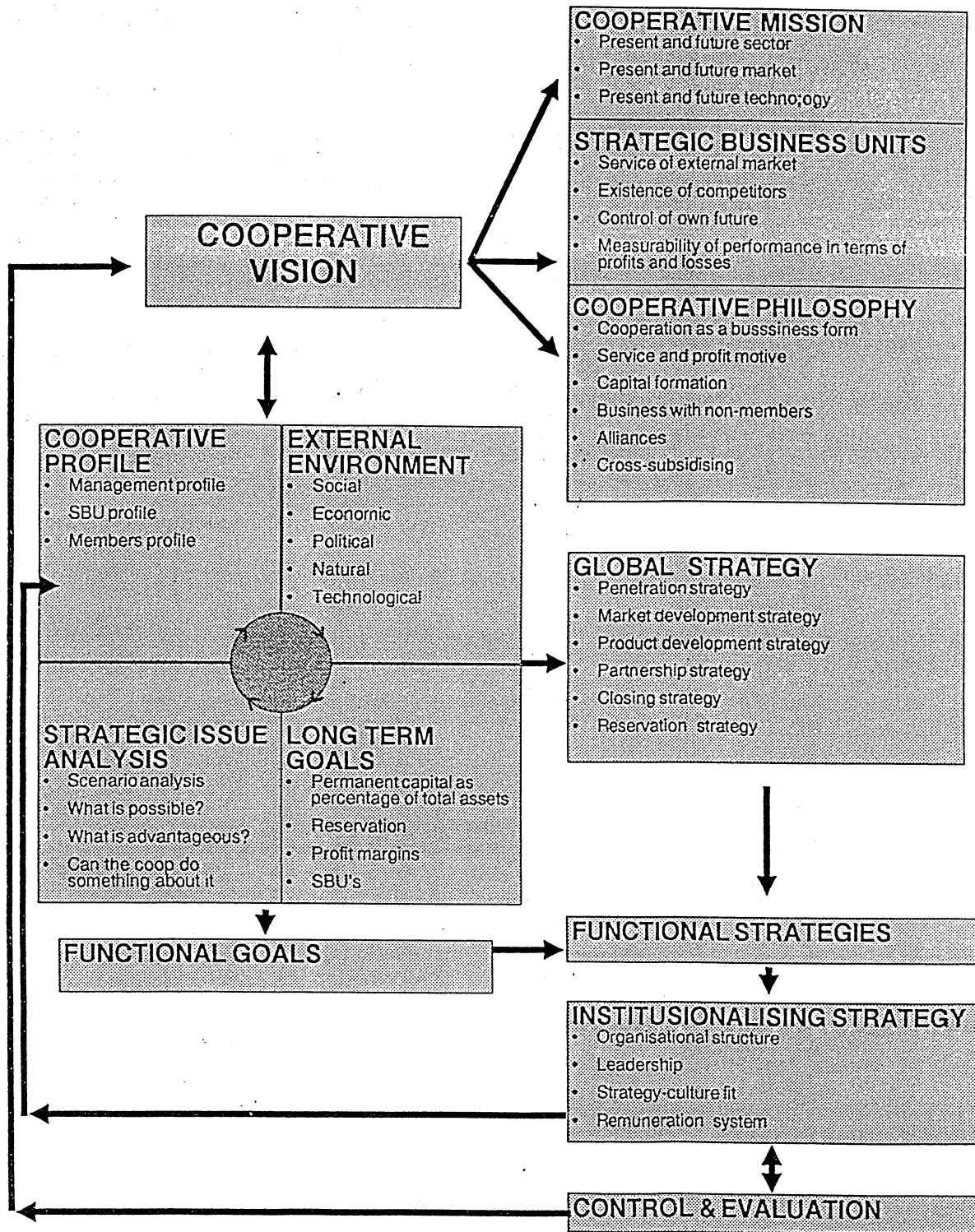


Figure 2: Proposed strategic management model for agricultural cooperatives

effective handling and marketing of our members' products"(trans).

Such a statement is a good start but it falls short in terms of the elements outlined above. An improved mission statement could include the long term economic welfare of all clients(members and non-members) by providing for processing and packaging as a means of adding value to products.

5.1.2 Strategic business units (SBUs)

Hax & Majluf(1984) discussed SBUs in terms of four factors, namely:

- in terms of serving external markets
- in terms of the existence of competitors
- in terms of controlling their future
- in terms of whether their performance can be measured in respect of profits and losses.

The management of every cooperative will have to decide for themselves whether SBUs will fit in with the cooperative's management philosophy or not. Approximately one-third of respondents interviewed by Hough(1991) indicated that their organisational structure consisted of SBUs where these SBUs exist under particular departments with specific profit motives. The question is whether the creation of SBUs or strategic business departments would conduce to better service and profitability. If the answer is yes, then the organisational structure should be adapted accordingly. In figure 2 the phasing-in of SBUs is suggested as part of the strategic management model, because such units are in fact capable of enhancing profitability and competitiveness.

Cotteril & Westgren (1994) states that the SBUs of single- and multidivision firms make strategic choices based on explicit consideration of their competitive positions vis-à-vis rivals. They cite the example of the decision by the cooperative "Agropur" not to join five other leading Quebecian industrial milk cooperatives in a joint venture undertaken in 1990 with the explicit goal of rationalising the number of manufacturing plants in this market. Agropur, with its significant market share and strong brands, decided to continue as a competitor of the joint venture.

Simply creating SBUs does not guarantee the formation of more permanent capital and therefore a lower risk category. While thirty-one percent of the respondents interviewed by Hough(1991) indicated that their organisational structure consists of SBUs, only four cooperatives were classified as low-risk cooperatives.

5.1.3 Cooperative philosophy

The policy and value systems of every cooperative are part of the cooperative philosophy. The following aspects are relevant here:

- the cooperative's view of its business form and the use of this kind of business to attain its mission
- the cooperative's view of control by its members and its reaction to increasing pressure from members to "unlock" the value of their contribution to bonus funds
- the cooperative's view of the service and profit motive

- the cooperative's view of capital formation
- the cooperative view of doing business with non-members
- the cooperative's view of partnerships with other cooperatives and private enterprises
- the cooperative's view of even-handed adjudication and cross-subsidisation of members
- the cooperative's view of adding value to its clients' products

If some of these aspects have already been incorporated into the mission statement they need not receive further attention here.

5.2 Environmental scanning (analysis)

Environmental scanning involves a continuous reconnaissance and monitoring of structural changes in the decision-making environment with a view to rendering the uncertainty created by the decision-making environment more manageable. Environmental scanning is therefore designed to detect new patterns of structural changes in the decision-making environment (Laubscher 1987:46).

Spies, Grobbelaar, Dostal and Strümpfer (1990:1-2) see environmental scanning as follows:

Environmental scanning is a directed process of search, inquiry and reflection with the purpose of building insight and understanding about the possible impact of trends, structures and processes on the operations and proposed strategies of an organisation.

Environmental scanning is therefore regarded as a learning process whereby certain insights are obtained. Spies et al (1990:1-2) see this learning process as involving insight and understanding with regard to:

- the nature of change
- the processes that produce and support change
- the relationship between processes
- the main players and their objectives
- the consequences of change for the enterprise.

A cooperative cannot function in isolation, but depends on its environment, and vice versa. The environment in which the cooperative operates must be scanned regularly and systematically because it is subject to change.

It is clear that different perspectives are relevant and that environmental scanning is a dynamic process whereby the internal and external environment should be analysed regularly according to certain principles. Many authors do not regard these principles as part of the strategic management process. Because it is a dynamic process, however, it is important that cooperatives take account of these principles when they conduct environmental scanning.

5.2.1 Principles of environmental scanning

Environmental scanning is based on the following principles (Wilson as quoted by Laubscher (1987:101):

- It serves as a frame of reference for the strategic management process so that it forms an integral part of the planning and decision-making system.

- It is problem-oriented and based on the principles of systems analysis.
- It is practised in a discovery-oriented way.
- Qualitative methods are used regularly.

Spies et al (1990:I-2) concluded their discussion of the nature and role of environmental scanning, by stating the following five general principles that are seen as essential for effective environmental scanning:

- The main function of environmental scanning is to change the train of thought of decision makers (management of cooperatives). An effective design for communicating insights is therefore necessary.
- The success of environmental scanning depends on the extent to which rational dialogue can be conducted that accommodates contrasting views subsisting together within the enterprise.
- Environmental scanning should influence world opinions.
- Environmental scanning is essentially a learning process.
- Individuals in the enterprise are not without expertise: the knowledge and insights in the enterprise should therefore be scanned.

The third principle, namely that environmental scanning should influence world opinions, does not apply to local cooperatives. The other principles are however, relevant, and should be taken into account in the scanning process. The unstable and constantly changing environment makes it necessary for cooperatives to undertake formal searches to acquire specific information on such things as capital formation, the advantages and disadvantages of becoming a trader of agricultural commodities and any factor that influences them directly or indirectly. This activity must be assigned to a specific section or task group so that the searches will be problem and discovery-oriented, as well as systematic and goal-oriented, and will meet the criteria for environmental scanning as well as the cooperative's requirements.

5.2.2 *The development of a cooperative profile*

The organisational profile comprises the amount and quality of the financial, human and physical resources available to the enterprise. The profile also assesses the inherent weaknesses and strengths of the enterprise's managerial and organisational structure (Pearce & Robinson 1991: 13).

Identifying major strategic internal considerations that affect attainment of the cooperative's objectives is the first step in the development process. Relevant strategic internal factors include the following in this context:

- the cooperative's chances of survival as a form of enterprise
- the sector, product and business branches with which the cooperative is involved
- the need, if any, for SBUs and the criteria for a division into SBUs
- the need for permanent capital
- the expertise of managerial staff
- the number of members, the age profile of members, members' debts as a percentage of profits/assets, period of repayment of members' debts, debt per member

- existing infrastructure and the effective use of silo capacity, for example
- the division of surpluses on a transaction basis

Factors that benefit or handicap cooperatives should also be discounted in this analysis.

Evaluating strategic internal problems, such as a lack of permanent capital, is the second step in this process. Here the identified internal difficulties are evaluated in terms of the current and preceding years.

The third step entails categorising internal factors as strengths or weaknesses. The criteria for this classification are formulated according to whether the internal factors enhance the cooperative's competitiveness, whether they are basic business conditions, or whether they are weaknesses. In step 4 the organisational profile becomes an input in the strategy formulation process.

5.2.3 *External environment analysis*

Stoner (1982:66) identifies seven variables in the macro or remote environment or which cooperatives should analyse, namely the physical environment, the international environment, the political environment, the technological environment, the institutional environment, the social environment and the economic environment.

Mostert (1990:59-60) identifies the same macro-variables and stresses the importance of examining the external factors more closely in order of priority. Hough (1991) gives the opinions of respondents on the degree to which the social, economic, political, natural or physical and the technological environments influenced their respective cooperatives in 1991 and could influence them in 1995. These macro-environmental factors have also been arranged in order of priority. Respondents indicated in the individual interviews that the international and institutional environments did not influence their respective cooperatives.]

It was indicated that the business and operational environments were grouped together in the task environment. Questions such as market obstacles, suppliers' strength, and the availability of substitutes, competition, competitors, creditors, clients, labour and suppliers are part of the task environment. Factors that benefit or handicap cooperatives should also be taken into consideration in this analysis of the task environment. Individual cooperatives should identify the strategic external factors that are critical for their survival, classify them as an opportunity or threat, and place them in order of priority.

But what new insights are needed for cooperatives to scan trends, structures and processes in South Africa? Cooperatives scanning the external environment at the moment are very much aware of this "learning process" and many contract consultants to advise them on matters such as the following:

- the new Marketing Act and its implications for the cooperative, e.g. national and possibly international marketing of its own products, implication of the activity of small agricultural agents and traders on the receipt of products from primary producers

- the new National Agricultural Board and the people and groups represented on this Board
- internationalisation and the its effect on import tariffs e.g. the availability of more foreign products in South Africa
- trade relations with African and SADEC countries e.g. direct export and barter contracts with Southern African countries
- the need for alliances with other cooperatives and private companies e.g. joint ventures, marketing and distribution agreements and equity alliances will enhance value adding of their primary products.

5.3 Strategic issue analysis

The identification of strategic issues is a logical starting-point in this phase. Strategic issues are fundamental policy matters which influence the enterprise's mission, values, product, clients, cost structure, financing, management or organisational structure. It is therefore important to describe any strategic issue in exhaustive detail and to indicate whether the organisation can do something about it. If the enterprise can do nothing about the issue, it falls outside the ambit of the organisation's concern. If the issue does fall within the organisation's operations, however then that make it a fundamental policy question which should be spelled out. Lastly the implications for the cooperative should be indicated if there is no solution to the strategic problem concerned.

In his basic assumptions on strategic planning Spies (1988:4-5) stresses the importance of strategic analyses, namely that

- the future cannot be predicted and that analyses should therefore not be based on presumed knowledge of the future, but on understanding of the nature and consequences of the processes of change in and around the enterprise
- the desired future can be "created", and strategic planning processes must therefore provide a link between the projected future and a participatory plan to achieve a set of goals that are realistic in the context of current technological, socio-political and economic processes
- change is continuous and that the rate of change is increasing
- the perspectives, perceptions, patterns of thought and the aspirations of people are important determinants in creating a desired future
- the leadership styles and organisational culture can promote or inhibit the design and implementation of effective strategic processes.

A scenario approach is suggested for cooperatives in view of

- their current preoccupation with finding justification for the existence of the cooperative enterprise
- their current discussions of the use of alternative organisational structures and approaches in order to establish a "suitable kind of cooperative"
- their contemplation of drastic changes designed to effect optimal compatibility between cooperatives and their environment.

The compatibility referred to in the last point above is effected by adopting measures in accordance with the

answers given to the following questions in light of the mission and philosophy of cooperatives and with due consideration of the above-mentioned assumptions made by Spies:

- * What is possible?
- * What is profitable?
- * Can the cooperative do something about it?

The last part of this phase consists of developing and prioritising strategic focal areas (SFAs) determined in accordance with the issue analysis. A random telephonic survey of cooperatives in 1994 showed that the following issues were and most probably are SFAs (not necessarily arranged in order of priority):

- Positioning of products in the marketplace
- Improving capital structures
- Enhancing prosperity of members
- Improving quality of service
- Adding value to members' products

5.4 Identification of long-term objectives

Cronje, Hugo, Neuland & Van Reenen (1990: 90) define an objective as "a state of affairs which the enterprise wishes to attain, a function or particular project of the enterprise" (translation). The same authors (1990:91) also distinguish between long-term and short-term objectives, the former being derived from the mission and more specific than is presupposed by the mission.

The mission, philosophy, profile, external environment and strategic focal areas of the cooperative must be taken into account in formulating its long-term objectives.

Pearce & Robinson (1991) mention eight areas to which enterprises should pay attention when it comes to long-term objectives, namely profitability, profit from investment, competitive position, technological leadership, productivity, employee relationships, community responsibility and employee development.

The following long-term objectives therefore merit further examination:

- formation of "healthier" capital structures
- revision of income and reservation
- increase of profit margins
- optimal positioning of each strategic business unit or strategic business department in the cooperative
- establishment of secondary industries in order to add value to members' products.

5.5 Formulation of a global strategy

Global strategies are activities aimed at implementing the long-term objectives of the cooperative enterprise and at indicating how these objectives will be attained.

Individual cooperatives have a choice of a variety of strategies for attaining their long-term objectives. The following activities are broadly generalised possible strategies:

- A penetration strategy where the cooperative uses all its resources to attain profitable growth of a single product, in a single market and with a single

technology (where necessary). For many cooperatives this will be the strategy to follow in 1995/1996.

- A market development strategy where a cooperative encourages the use of existing products in new markets with a view to greater profitability of the cooperative. The export of local foodstuffs by cooperatives is an example of such a strategy while the possibility of selling to the rural areas might be an exciting opportunity.
- A product development strategy where a cooperative develops new products, for example by venturing into secondary industries such as processing of vegetables and packaging of fruit, vegetables and nuts.
- A partnership strategy where cooperative agreements are concluded with other cooperatives, private enterprises and members. The agreement between Langeberg Cooperative and Tiger Foods falls in this category.
- A closure strategy where certain sections (such as workshops and remote depots) of a cooperative no longer use the resources at their disposal effectively and have to be closed owing to their performance as regards profitability. Many cooperatives have already exercised this option and many others are in the process of viability studies.
- A reservation strategy where the focus is on attaining long-term reservation objectives.
- A combined/composite strategy where a combination of the above strategies is under consideration.

Global strategies should be identified with due reference to the cooperative mission and philosophy, with which they should not be in conflict.

5.6 Identification of functional (short-term) objectives

The long-term objectives identified according to the guidelines should be segmented and broken up into annual objectives. The advantages of short-term objectives (Pearce & Robinson 1991:302-304) are that

- managerial staff have a better idea of their role in pursuing the mission of the enterprise
- managerial staff who participated in their development have a stable basis from which to address factors which interfere with their attainment
- they provide a basis for strategic control
- they have a powerful motivating effect if they are linked to the enterprise's remuneration structure

The same advantages will be attained in the cooperative environment, provided that short-term objectives are directly related to long-term objectives, are quantifiable and are associated with a specific project or functional area.

5.7 Formulation of functional strategies

Functional strategies are short-term activities which are undertaken in every area in an agricultural cooperative towards implementing the general overriding strategy. The formulation of functional strategies should be related to the mission, the general strategy and the short-term objectives of the cooperative.

Smit (1986:182) suggests that the formulation of functional strategies

- should occur within the guidelines of cooperative and business strategy
- should convert strategic thinking into strategic action
- should be directed at increasing the productivity of the enterprise's resources.

Cooperatives should see that the above aspects are also taken into consideration when functional strategies are formulated.

5.8 Institutionalisation of strategy

Pearce & Robinson (1991) identify four organisational elements which are necessary to institutionalise any strategy effectively, namely the organisational structure, the leadership provided by top management and other managers, the compatibility between strategy and the enterprise's culture, and the enterprise's remuneration system. These four organisational elements should also be reflected in any cooperative's strategy.

5.8.1 Organisational structure

Cooperatives will have to evaluate their current organisational structures to ascertain that these are suited to, and do not hinder, the implementation of their strategy. Research by Galbraith & Kazanjian (1986) indicates the connection between the strategy of different kinds of enterprises and the organisational structure that suits each of them best:

- Single-product enterprises should adopt a functional structure that emphasises specialisation, effectiveness and management while centralising control.
- An enterprise which is involved in various related lines of business should use a multidimensional structure that allows associated departments to be grouped together.
- Enterprises involved in various unrelated lines of business should be divided into SBUs that accommodate each line of business separately.

Cooperatives should identify their current and prospective kinds of business and strategy and adapt their organisational structure accordingly.

5.8.2 Leadership

Strategic management requires decision making at top management level, while the importance of well trained managers to implement strategy at all levels in the enterprise has been indicated by Hough (1991).

Cooperatives should pay special attention to the appointment of new staff or existing managerial staff who are responsible for implementing strategy. Specific qualities that require attention with a view to establishing the management-strategy relationship should include the following:

- training and experience in strategy and/or strategic management
- familiarity with current problems attending capital formation, an intuitive apprehension of future problems of this nature and a realisation of the need for alliances with other organisations

- a thorough understanding of the new agricultural marketing environment and the Agricultural Markets Division of Safex
- a positive attitude towards change and service quality
- a firm grasp of the cooperative profile and of strategic issue analysis
- an empathetic grasp of such elements in the cooperative philosophy as policies and values

The basic premises informing the management-strategy relationship are the following:

- Job specifications that differ in terms of activities, behaviour, knowledge, skills and values are required for the effective implementation of different strategies (Andrews 1971).
- Individual managers differ in their behaviour, knowledge, skills and values (Kotter 1982).
- Managers are able to change their styles of management, but may lack the flexibility to function effectively in all kinds of strategic contexts (Gupta & Govindarajan 1984).

The above quotations stress the importance of using appropriate training to enable management to identify global and functional strategies and translate these into realistic and feasible long- and short-term objectives for cooperatives.

5.8.3 *Compatibility between strategy and culture*

Bettinger (1989:38) says the following about the enterprise's culture and about the compatibility of culture with strategy:

Without a thorough understanding of the existing culture, the compatibility of the existing strategy cannot be effectively evaluated by management.

Bettinger (1989:38-42) identifies the following twelve components of corporate culture which through careful analysis, could inform strategies that could also conform to South African cooperative's inherent strengths and weaknesses:

- positive leadership attitude towards change
- focusing activities on the mission and goal of the cooperative
- placing a high premium on standards of performance such as quality, costs and time
- supporting the value system by means of monetary and/or non-monetary rewards for appropriately defined achievements
- cultivating positive interest in employees
- adopting a fair system of rewards and disciplinary measures
- effective communication and supervision
- using a recognised system of conflict resolution
- greater emphasis on market and client orientation
- develop a sense of pride in the enterprise
- promoting a high degree of involvement in the enterprise
- reinforcing teamwork in the enterprise

Many cooperatives still have a long way to go before they can feel satisfied with the compatibility between strategies needed to fit in with the present political and

economic environment and the culture prevailing in the enterprise.

The good news is that cooperative managements and boards of directors are aware of this "misfit" and that many of these enterprises took cognisance of components of corporate culture in their SFAs for 1995/1996.

5.8.4 *The enterprise's remuneration system*

The cooperative's remuneration system should be directly linked to the implementation of strategy and should also include a programme of long- and short-term incentives. This item has also been identified as part of the corporate culture on paragraph 5.8.3.

5.9 **Monitoring and evaluation**

The implemented strategy should be evaluated continuously to determine whether the objectives have been attained and whether adjustments are necessary.

The following regular evaluation could contribute to improving strategic decision making in the cooperative sector:

- evaluation of SBUs
- evaluation of the cooperative profile
- evaluation of the external environment
- evaluation of strategic issues
- evaluation of global and functional strategies
- evaluation of the corporate or cooperative culture
- evaluation of the attainment of long- and short-term objectives

6. **SUMMARY**

The discussion in this article focuses on the development of a strategic management model designed to improve strategic decision making by cooperatives with due allowance for the unique nature of the cooperative form of enterprise. The management model is divided into nine phases, namely vision formulation, environmental scanning, analysis of strategic issues, identification of long-term objectives, formulation of global strategies, identification of functional objectives, formulation of functional strategies, institutionalisation of strategy, and monitoring and evaluation.

The agricultural sector functions in an unstable and rapidly changing environment. It is therefore necessary to adopt a "vision-for-success" approach whereby a projected "ideal" picture of the cooperative is developed within the framework of the strategic management model. Strategic issues and required changes can be identified and analysed with a view to formulating strategies accordingly towards implementing the stated mission.

NOTE:

1. The financial assistance of the Centre for Science Development (CSD) towards this research is hereby acknowledged. Opinions expressed and conclusions arrived at, are those of the author and are not necessarily to be attributed to the CSD.

REFERENCES

- AMARA, A & LIPINSKY, A.J. (1983). Business planning for an uncertain future -scenarios and strategies. New York: Pergamon Press.
- ANDREWS, K.R. (1971). The concept of corporate strategy. Illinois: Dow-Jones Irwin.
- ANSOFF, H.I. (1984). Implanting strategic management. Englewood Cliffs: Prentice-Hall.
- ANSOFF, H.I., DECLERCK, R.P. & HAYES, R.L. (1976). From strategic planning to strategic management. In Ansoff, H.I., Declerck, R.P. & Hayes, R.L.(editors). 1976. From strategic planning to strategic management. New York: John Wiley & Sons.
- ANSOFF, H.I. & HAYES, R.L. (1976). Introduction in Ansoff, H.I., Declerck, R.P. & Hayes, R.L.(editors). 1976. From strategic planning to strategic management. New York: John Wiley & Sons.
- ARANGIES, J. and VAN DER WALT, J.L. (1990). "Die bestaansreg van die landboukoöperasie as afsonderlike ondernemingsvorm in die ekonomiese stelsel van die RSA". In *Dynamica*, Volume XXXII. Pretoria: University of South Africa.
- BETTINGER, C. (1989). Use corporate culture to trigger high performance. *Journal of Business Strategy*, Vol 10(2):38-42.
- CHANDLER, A.D. (1962). Strategy and structure: chapters in the history of the American industrial enterprise. Massachusetts: M.I.T. Press. Cooperatives Act, no. 91 van 1981. Pretoria: Government Printer.
- COOPERATIVES ACT, NO. 91(1981). Pretoria: Government Printer.
- COTTERIL, R.W. & WESTGREN, R.E. (1994). Strategic marketing in food industries, *Agribusiness*, Vol 10(5):431-441.
- CRONJE, G.J. DE J., HUGO, W.M.J., NEULAND, E.W., & VAN REENEN, M.J. (REDS.) (1990). Inleiding tot die bestuurswese. Halfway House: Southern.
- CRONJE, G.J. DE J., HUGO, W.M.J., & PALMER, P.N. & VAN DYK, P.S. (1988). Strategic management for the University of South Africa. Unisa Alumnus.
- DIEPENBEEK, W.J.J. (1989). The financing of Dutch agricultural cooperatives. In *Yearbook of cooperative enterprise 1989*. Plunkett Foundation, Oxford: Antony Rowe.
- GALBRAITH, V.R. & KAZANJIAN, R.K. (1986). Strategy implementation: Structure, systems & processes. Minnesota: West Publishing.
- GUPTA, A.K. & GOVINDARAJAN, V. (1984). Business unit strategy, managerial characteristics, and business unit effectiveness at strategy implementation. *Academy of Management Journal*, Vol 27(1):25-41.
- HAX, A.C. & MAJLUF, N.C. (1984). The corporate strategic planning process. *Interfaces*. Vol 14(1):47-60.
- HENDRIKS, G. & VAN DE KLUNDERT, C. (1995). Swedish agricultural cooperatives in the European Union. Consequences for structure and strategies. Report 1981. Uppsala 1995.
- HERBST, W., ELLIOT, C.J., NEULAND, E.W. & DU TOIT, G.S. (1983). *Ondernemingstrategie*. Business Economics study guide(Honours). Pretoria: UNISA.
- HILL, C. (1989). Financing U.K. agricultural cooperatives. In *Yearbook of co-operative enterprise 1989*. Plunkett Foundation, Oxford: Antony Rowe.
- HOUGH, J. (1991). 'n Strategiese bestuursbenadering tot kapitaalvorming deur graankoöperasies in Suid-Afrika. DCom. University of South Africa.
- HOUGH, J. (1992[a]). Capital formation as a strategic issue for grain cooperatives in South Africa. Contributed paper to the IAE conference in Bucharest, Romania, 15-18 June.
- HOUGH, J. (1992[b]). Strategic management in agriculture with specific reference to agricultural cooperatives in South Africa. Contributed paper to the IAE conference in Bucharest, Romania, 15-18 June.
- HOUGH, J. (1993). Die gebruik van hoofkomponent- en profielontledings in strategiese bestuurnavorsing. *Agregon*, Vol 32(1):6-14.
- KING, W.R. & CLELAND, D.I. (1978). Strategic planning and policy. New York: Van Nostrand Reinhold Company.
- KOTTER, J.P. (1982). The general managers. New York: The Free Press.
- LAUBSCHER, J. (1987). 'n Strategiese benadering tot landboubeleidsbestuur : toepassings in die Suid-Afrikaanse sagtevrugtebedryf. Proefskrif ingelewer vir die graad Doktor in die Wysbegeerte. University of Stellenbosch.
- MARX, S & BOLT, J. (1983). Bestuurstrategie en produkbesluite. Kaapstad: Juta.
- MOSTERT, W.J. (1990). Strategiese beplanning by landboukoöperasies. S.A.I.B.W-konferensie. Pretoria. 2 Oktober 1990.
- NAISBITT, J. (1984). Megatrends. London: Futura.
- NILSSON, J. (1993). Cooperative principles under competitive pressure. Contributed Paper to the Turkish International Cooperative Congress, Ankara, November 3-6.
- OLLGAARD, K. (1989). Raising capital for Danish agricultural cooperatives. In *Yearbook of cooperative enterprise 1989*. Plunkett Foundation, Oxford: Antony Rowe.
- PARNELL, E. (1988). Capital structures in agricultural co-operatives: approaches for the future. Unpublished report. Oxford: Plunkett Foundation.
- PARNELL, E. (1989). Director, Plunkett Foundation for Co-operative Studies. Oxford. Personal communication. October 1989.

- PEARCE, J.A. & ROBINSON, R.B. (1991). Strategic Management: formulation, implementation and control. Illinois: Irwin.
- PORTER, M.E. (1980). Competitive Strategy. New York: Free Press.
- PORTER, M.E. (1985). Competitive Advantage. New York: Free Press.
- PORTER, M.E. (1989). The Competitive Advantage of Nations. New York: Free Press.
- ROGERS, R. & CASWELL, J. (1988). Strategic management and the internal organisation of food marketing firms. *Agribusiness: An International Journal*. Vol 4(3):3-10.
- QUINN, J.B. (1980). Strategies for change: logical incrementalism. Illinois: Irwin.
- SCHENDEL, D.E. & HOFER, C.W. (1979). Strategic Management. A new view of business policy and planning. Boston: Little, Brown and Company.
- SCHUTTE, F.G.(ed.) (1987). Readings in strategic management. University of the Orange Free State.
- SMIT, P. (1986). Aspekte van strategiese bestuur in die residensiële boubedryf, Pretoria, 1986. DCom. University of South Africa.
- SOULAGE, F. (1989). Financial problems in European producer cooperatives. In *Yearbook of cooperative enterprise 1989*. Plunkett Foundation, Oxford: Antony Rowe.
- SPIES, P.H. (1988). An introduction to the IFR-system of strategic planning. Institute for Futures Research. University of Stellenbosch.
- SPIES, P.H., GROBBELAAR, P.H., DOSTAL, E. & STRÜMPFER, J.P. (1990). Military Environmental Scan. Centre for Business Economics. UNISA.
- STONER, J.A.F. (1982). Management. Englewood Cliffs: Prentice-Hall.
- THOMPSON, A.A. & STRICKLAND, A.J. (1987). Strategic management. Concepts and cases. Plano, Texas: Business Publications.
- VAN ZYL, J.J. (1986). Strategiese bemarkingsbestuur by enkele leweransiers aan die landbou in die Republiek van Suid-Afrika. *Suid-Afrikaanse Tydskrif vir Bedryfsleiding*. Vol 17(2):93-100.