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CORPORATE SOCIAL RESPONSIBILITY ORIENTATED STRATEGY OF A SWISS MOUNTAIN DAIRY FARM AND ITS CHEESE DAIRY: A LONGITUDINAL CASE STUDY

Sub theme: Entrepreneurship and small scale farming

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Abstract:

The main strategic thrust of the case study dairy farm in a mountain region of Switzerland producing milk of first-class quality as a basis for cheese specialties produced at the village cheese dairy. The main strategic goal of the case study cheese dairy in the region is producing cheese specialties with milk produced in the region by family farms working with local resources and traditional, ecology-orientated production systems. In this way there is created a close integration between the value chains of the cheese manufacturer and its farms to contribute to economic value added in the region. The consciously chosen, SWOT-based strategies, implemented rigorously with the Balanced Scorecard approach, are successful for the case study organic farm as well as its cheese dairy in the village. Based on the Controlling process ten years after the strategic planning, it can be shown that these strategies are orientated towards Corporate Social Responsibility (CSR). CSR focuses on economic, ecological and social sustainability and offers in this way interesting entrepreneurial perspectives for dairy farms and cheese dairies in mountain regions of Switzerland.

Keywords: Mountain dairy farming, Cheese dairy, Organic farming, Corporate Social Responsibility (CSR), Balanced Scorecard, Strategic Planning

Introduction

The agricultural sector in the European Alpine regions is currently undergoing a process of structural renewal. There is a search for guidelines for a sustainable kind of agriculture, which saves on the one hand their existence and on the other hand integrates social requirements and interests. Despite a few activities in this direction the high potential is not fully utilised until now. Due to the relatively high number of farmers amongst the regional employees and the active participation of farmers in regional authorities and associations the agricultural

requirements are sufficiently considered in regional development plans. (Richter et al., 2001)

In the “Mountain Milk” project in mountainous areas (2004 – 2007), ran by the School of Agricultural, Forest and Food Sciences HAFL, family dairy farms and cheese dairies had been coached with methods of action research .The objective of the project was defined in establishing a sustainable future for the participating farmer families and cheese dairies (Durgiai et al., 2008 a).

Methods

In the dairy project “Mountain Milk” management instruments to develop, implement and control strategies were adapted to the practical use for farmers, cheese dairies and advisors. The instruments were successfully deployed and optimized during practical training sessions. The individual strategy had been developed using the SWOT methodology. The operational planning and controlling concept was based on the BALANCED SCORECARD approach (Horváth & Partners 2013).

For all the analysing, planning, illustrating and monitoring activities the value chain describing the business as processes and overhead elements served as a basis. The strategic assignment with the involved parties had been arranged as series of four structured on-site visits with intermediate phases of reflection and appraisal.

At first, the current business strategy of the dairy farms and cheese dairies had been identified and optimized. Subsequently the implementation was launched and the controlling of the business strategy was prepared. In this phase these activities with the single businesses were completed with meetings in small groups, where the participating parties exchanged ideas and experiences for a more successful strategy implementation (Durgiai et al., 2008 a).

In the years 2011 to 2015 the farms were revisited to continue the BSC-Controlling and to update the strategic planning. This was based again on the incentives of the Swiss agricultural policy, the requirements of the environmental policy and the social changes that were integrated into the SWOT-based strategy and into the BSC-based objectives.

Currently there is no standardized way of measuring corporate sustainability performance of a strategy by integrating all dimensions in one consolidated performance indicator (Wunder

2016)¹. A common way of dealing with this issue is the application of standardized sustainability or corporate social responsibility (CSR) reporting guidelines such as the Global Reporting Initiative (GRI G4 2016) or others with their corresponding key performance indicators measuring different sustainability dimensions (Kleinfeld/Martens 2014).

In this paper the sustained incorporation of ecological and social strategy components of a case study mountain dairy farm and the cheese dairy in its village will be identified and analyzed, in retrospect, from the perspective of CSR. The considerations are based on a five-stage process that companies with a sustainability agenda pursue (Wunder 2014, Nidumolu et al. 2009; Esty und Winston 2006). In this basic model, companies in a higher stage do not necessarily need to fulfill lower stages. Firms may apply the model as high-level framework for managing sustainability and pursue sustainable initiatives simultaneously in various stages (ICV 2011 in Wunder 2016). A sustainable business model (stage 4 in fig. 1) can be interpreted as a “business model that creates competitive advantage through superior customer value and contributes to a sustainable development of the company and society” (Lüdeke-Freund 2010; in Wunder 2016).

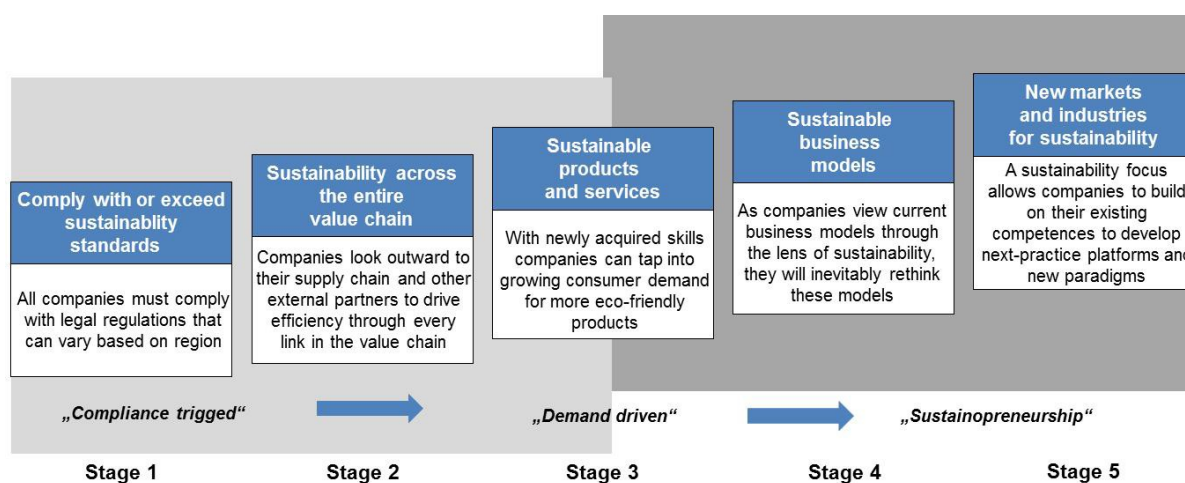


Fig. 1: The five stages of sustainability (Wunder, 2014) following Nidumolu/Prahalad/Rangaswami (2009)

¹ With the RISE (Response-Inducing Sustainability Evaluation) method developed at HAFL, the sustainability of agricultural production can be measured and communicated in the context of agricultural extension, education and supply chain management. RISE is very helpful for detailed analysis of farms, but it gives much work collecting and interpreting the data and is difficult to integrate in the strategy process (Frank et al., 2014).

Results

The development strategies chosen by farms in the five different regions of the “Mountain Milk” project in Switzerland differ considerably. The "growth" approach is categorized as the basis of the "economies of scale strategy", in line with the cost leadership strategy of the processors (Etter L., Schwarzenbach R., 2008). The other approach for mountain farms is "value addition". This strategy is in line with the quality leadership strategy of the manufacturing units. The first aim for the dairy farm is contributing to realize added value, not to reduce cost (Durgiai et al. 2008b).

The here presented Swiss mountain dairy farm with approximately 100'000 kg milk supplied will illustrate that with difficult agronomic and structural conditions there can be realized added value with economic, ecological and social sustainability. This is possible thanks to a small family-run cheese dairy with a limited quantity of 400'000 kg milk processed. The strategy of this manufacturer and the implementation will be analyzed and discussed as well.

The Implementation of the dual strategy “Milk Specialties and ecology” with the Balanced Scorecard on the dairy farm

The main strategic thrust of the case study dairy farm² is producing milk of first-class quality as a basis for cheese specialties produced at the village cheese dairy. In this way there is created a close integration between the value chains of the farm and the cheese manufacturer to contribute together to economic value added in the region.

The second main pillar of the farm is ecological performance with direct payments. The Swiss agricultural policy is setting important preconditions for an ecologically orientated and economically sufficient agriculture in the alpine areas. The share of extensive areas on this farm is now more than 50 % and there are networks of ecologically important areas. Furthermore there is a traditional integration of the higher-lying areas³ and the alpine pastures into the business and family procedures⁴.

² The farm with 18 cows (milk performance of 5800 kg per year with 600 kg of concentrates) cultivates 37 ha, located at 1000 to 1200m above sea with productivities of 2800 kg milk per ha and 25 kg per working hour

³ These areas, located at 1500 to 1800 m above sea, are called “Maiensäss” in German, i.e. “you are based there in May” with your animals, before you change in June with the animals to the alpine pasture at 1800 to 2500 m above sea

⁴ The farming family lives some weeks on the „Maiensäss“ where hay is reaped over a wide extensive area and also used there as fodder in early winter

Some target values in the BSC-perspective “Learning and Growth” are reached partially or not at all, so that the targeted cost reduction was missed (Fig.2). The family is satisfied with the working situation. Although the number of working hours has increased, the mental and physical workload is reduced thanks to targeted mechanization investments and additional employees at peak times.

The target values of the strategic objectives in the “Internal Business Process” perspective are almost reached. The implementation is often a great challenge which needs big persistence to achieve one day the targeted objective. For example the Strategic Action from 2004 to have a common summering of all cows with other farmers near the village, suspended within the context of the strategic controlling in 2011, could finally be achieved in 2015.

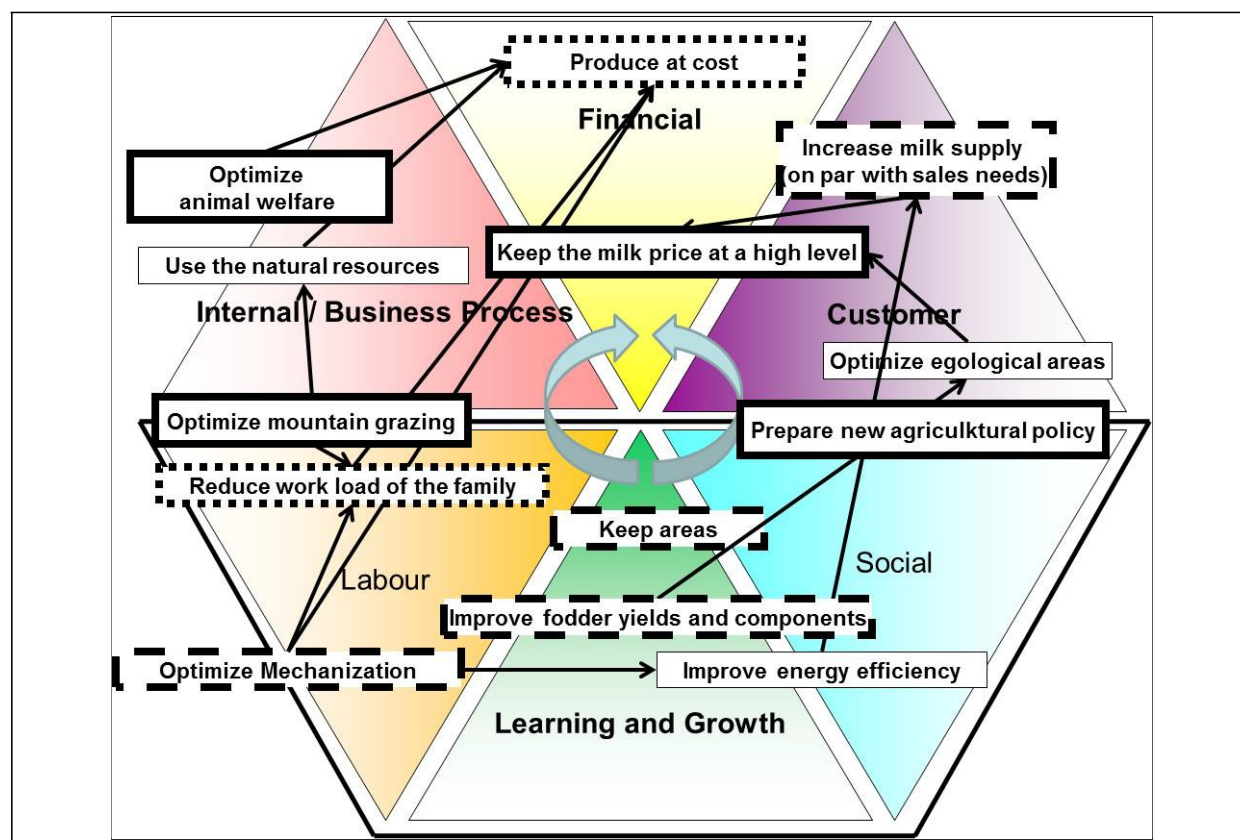


Fig. 2: Strategic objectives in the BSC-perspectives 2004 up to 2014 (target values reached up to the Controlling of 2011 with frame with thick drawn out line, partially reached with frame with dashed line, not reached with frame with dotted line) and additional strategic objectives for the period 2011 to 2020 (frame with thin extended line)

Many requirements and incentives of the agricultural policy 2014-2017 were implemented in advance. Nevertheless in 2011 a new strategic objective to identify the natural potentials and to translate them into a local-based production still more vigorously was created. In this way the preconditions for high product prices of the cheese manufacturer and the conditions for direct payments shall be kept or even improved in the long term.

In the BSC-perspective “Customer”, many strategic objectives have an alignment on the dual strategy „milk specialties and ecology“. The demand-orientated enlargement of the milk quantity and the fulfilling of the quality requirements of the cheese dairy can be found in many actions and measurements like further education and investments.

The economic situation of the family farm has improved considerably despite the missed target costs, because the milk price could be kept higher than expected (fig. 2). The new Agricultural policy 2014-17 was well anticipated of the dairy farm, but there are to introduce now additional measurements in order to receive really all direct payments.

With the exception of the family earning per hour (due to the increasing working hours) all economic ratios improved between 2004 and 2010 (right side in fig. 3). The next four indicators show the ecological performance (lower left in fig 3). Our case-study farm realized the maximal ecological status already in the 80th, when it converted to organic farming. The share of ecological areas can't be enlarged without a reduction of the production capacities. The livestock number per hectare is very low on this farm due to the high proportion of ecological areas with related low forage yields. More attention is to pay in the next years to the biodiversity of the areas.

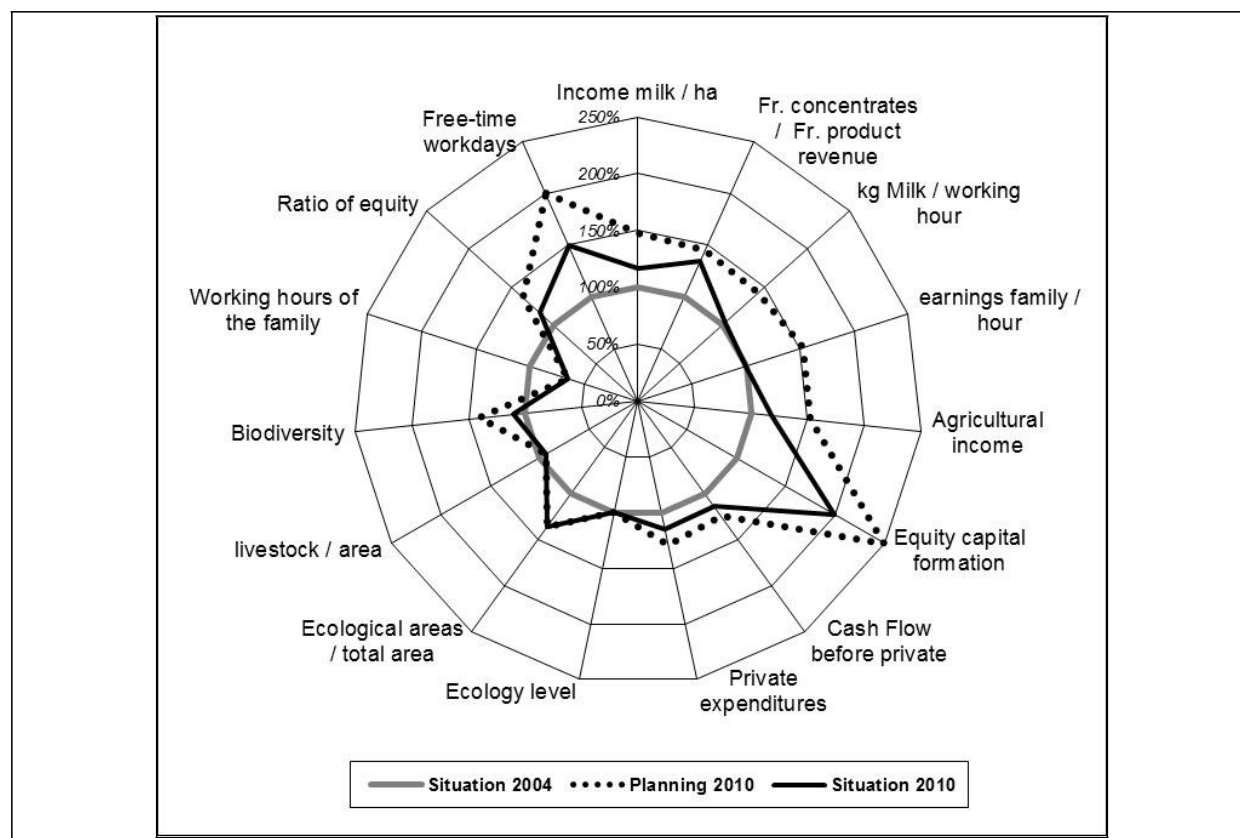


Fig. 3: Development of the overall sustainability on the case study dairy farm, shown with 15 indicators (following Durgiai, Blättler, 2011)

The social sustainability can be demonstrated with the last three indicators. The father retired more and more giving additional 1000 working hours for the young family. Thanks to additional people employed at peak times the number of free days and holidays for the family increased nevertheless.

The Implementation of the dual strategy “Authentic Milk Specialties and added value in the region” with the Balanced Scorecard in the cheese dairy

The main strategic goal of the case study cheese dairy in the Switzerland’s mountain region is producing cheese specialties with milk of first-class organic quality produced in the region by family farms working with local-based resources and traditional, ecology-orientated production systems. In this way there is created a close integration between the value chains of the cheese-dairy and the farms to contribute to economic value added in the region.

The most important targets in the Balanced Scorecard perspective “Learning and Growth” are reached (fig. 4): thanks to good relations and high milk prices five milk suppliers could be kept, many new products were developed and the storage capacities were enlarged. The number of employees has increased - nevertheless it was not possible to delegate responsibilities and to reduce the work load to the desired extent (“Process” perspective, fig. 4). The increase of the quantity of milk processed was dispensed to have coherence with the demand for the specialties.

Keeping the offer under control and thanks to the increased storage capacities for a longer ripening and so selling less cheese to low prices for external maturing (“Customer” perspective, fig. 4) it was even possible to increase the high product prices.

Finally the milk prices for the producers could even be improved and the family income of the cheese-making family also rose (BSC-“Financial” perspective, fig. 4) . It is still a challenge keeping enough liquidity over the year. After a peak ten years ago the sales in the store returned to the initial level because of fewer foreign tourists due to rising exchange rates.

The next step is in 2017 the enlargement of the production area to optimize the processes and the maturing capacities again.

82	Net milk price in ct.	85	Equity capital formation		FINANCIAL
74	High milk price		0	Adrquate family income	50
			35		
20.18	Keep higher product prices	20.5			
20.08					
Average price of cheese per kg			no	Direct sale of all products	partly
			yes		
5960	More sales in the store	6000	Monthly liquidity reserves		
7748					
Sales of cheese in the store (kg)					
					CUSTOMER
8.5	More ripened cheese	10			
11	average maturing time				
				Number of buyers	
31%	Direct sale of all products	10%	25	Have many buyers for the products	50
1%			40		
Share of cheese sold for affinage					
Production waste				1000 kg milk	INTERNAL /
5%	Ensure the quality standards	1%	367	Increase the quantity of processed milk	400
1%			450		BUSINESS PROCESS
30	Reduce the work load	40	1	Optimize the production processes	
50			2		
Number of dys off			Number of independent lines		
Additional cheese loaves			Number of farmers		
0	Increase the storage capacities for cheese	1800	5	Keep the number of milk suppliers	5
1800			5		
Additional cheese loaves			2	Develop new products	4
0	Increase the storage capacities for cheese		4	Number per year	
1200					
	Enlarge production area		400	Delegate responsibilities	600
			600	% of employees	
Legend for the values at the boxes:					
			Status 2005		Status 2016
			Target 2015		

Fig. 4: Strategic objectives in the BSC-perspectives 2005 up to 2015 (target values reached up to the Controlling of 2016 with frame with thick drawn out line, partially reached with frame with dashed line, not reached with frame with dotted line) and additional strategic objectives for the period 2017 to 2027 (frame with thin extended line)

Discussion

The strategy of the cheese dairy to produce authentic cheese specialties for direct selling in the premium segment with high prices of at least 20 Swiss francs per kg is proved. It is important to have a good understanding with the milk suppliers and the cheese-sellers. There are requirements and incentives for the local farmer families, communicated in a transparent and cooperative way to follow a story based marketing targeting at traditional products and historic elements of the region (Bienerth M., Heinrich M., 2016).

The dairy farms in the region are focused on the quantitative and qualitative requirements of the cheese dairy and change their production only if there are no disadvantages for them. In return the farms receive a very high milk price of 85 centimes per kg and premiums for quality, for example 1 ct. for milk from horned cows - in contrast to the average milk price in Switzerland declining in the past 20 years down to 50 centimes, only partly compensated by direct payments.

From the perspective of the Corporate Social responsibility (CSR) the executed strategy and its implementation of the dairy farm and the cheese dairy in retrospect can be assigned to the concept of the five stages (fig. 1). The cheese dairy is focusing on premium segments of new markets with a high appreciation for authentic regional products of high quality and high prices, e.g. regional, tourist-orientated gastronomy (stage 5). It is based on a conscious realization of sustainability across the entire value chain (stage 2). Stage 2 is the starting point of the dairy farm too, the sustainable products supplemented with ecological services, asked and compensated by the Agricultural policy (stage 3). Stage 4 is presenting the result of the common not growth-orientated sustainable business model, on the one hand of the dairy farms and the cheese dairy in the village, with positive economic, ecological and social impacts for the business units with their families and staff. On the other hand there results an impact for the structurally weak and peripheral rural region by generating 15 substantial incomes – that is one job per 30'000 kg of milk produced.

A moment of truth that has a decisive effect on the durability of the overall sustainability is always the generation change within the farms and the cheese dairy. The farmer and the cheese-maker of our case studies, both playing leadership roles in this integrated system will retire in approximately ten years. The family-internal succession of the farm is possible and in preparation. In the cheese-dairy business it is very difficult to find qualified employees with long-term experience, interest and passion for the management responsibility.

Conclusions

Consciously chosen and rigorously implemented strategies are successful for the specific organic farm and its cheese dairy in the village without relying on growth, in fact even deliberately desisting from an increasing sales. Instead, there is created instead a close integration between the value chains of the cheese manufacturer and the farms to contribute to economic value added in the region.

Comparisons of the economic results with references show that consciously chosen and rigorously implemented strategies can be under specific circumstances successful and that organic farms and farms which deliver to cheese dairies with specialties may have higher family earnings. Most of the farms with good economic results met also their ecological and social objectives (Haller et al., 2014). SWOT-based, BSC-implemented strategies are CSR-orientated and can offer good entrepreneurial perspectives for dairy farms and cheese dairies in the trade-off between production, market and ecology to realize economic, social and ecological sustainability in mountain regions.

With production systems based on local or regional resources, family farms associated with responsible processors, customers and consumers can regain, as also highlighted in the FAO Report (2015), the traditional lead in terms of optimized resource efficiency and sustainable intensification, for contributing in this way to feed a rising world population.

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