

***SURVIVAL STRATEGIES: CHANGES TO SYSTEMS
AND CONTROLS IN AGRICULTURAL BASED
BUSINESSES DURING A PERIOD OF ECONOMIC
INSTABILITY AND HYPERINFLATION IN
ZIMBABWE.***

CONFIDENTIAL

By

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CONFIDENTIALITY CLAUSE

15 September 2003

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Re: Confidentiality Clause

Due to the strategic importance of this research to the competitive position of the companies cited, it would be appreciated if the contents remain confidential and not be circulated for a period of two years.

Sincerely

C E Kotzé

DECLARATION

This research has not been previously accepted for any degree and is not being currently submitted in candidature for any degree.

Signature _____

Carrol Kotzé

Date _____

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ABSTRACT

Zimbabwe is currently experiencing unprecedented hyperinflation, which is impacting on the effectiveness and efficiency of businesses operating in this unstable economic climate.

The current skewed economic policies are producing unusual threats for these businesses but are also providing unusual opportunities for exploitation. Some of these threats can be summarised as the breakdown of social infrastructure, which has worsened the effects on these operations of low world market prices for primary products.

There is a large amount of strategic systems and controls theory about management in turbulent operating environments. Most of these focus on survival against fast moving competition from rivals and substitutes, rapid pace of technological change and similar developed country problems. Conventional strategic theory relies on stable currency and procurement environments and is not well adapted to operations in hyperinflation situations.

This paper reports the results of a study of strategic changes introduced as survival mechanism by four businesses with a long operating cycle in primary agricultural production. The study examines the relevance of specific strategic theories to each of the respondents.

The respondents questioned all expect that the economic situation will return to “normal” and that these strategic adjustments will be replaced with conventional theory soon thereafter.

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CHAPTER 1 INTRODUCTION

1.1 Introduction

The current volatile economic environment within Zimbabwe is impacting on the effectiveness and efficiency of many business operations. Agricultural based businesses have several unique threats within the current economic environment not faced by their counterparts in the industrial sector within Zimbabwe. Much of the available literature focuses on the state, industrial or technical sectors of the economy and ignores the effects of instability on primary producers.

The situation in Zimbabwe has been compared to that in other countries, to establish whether any strategic options are available for business to emulate. Zimbabwe is one of the few countries with highly developed accounting, taxation and regulatory bodies to experience this situation, with no language barrier to much of the available literature.

1.2 Background of the study

This report is a case study analysis of agricultural based business in one region of Zimbabwe to establish how each has adapted strategic systems and controls to survive the economic downturn and profit from any unusual opportunities that present themselves due to skewed economic fundamentals.

All the businesses selected are large-scale export based operations; are corporate enterprises with ownership separate from operational control and have similar product ranges but do not compete directly into the same markets. Each business has rigorous stakeholder reporting requirements, whether from international corporate shareholders or through local listing regulations, with resultant need to comply with International Accounting Standards.

Literature specifically relating to strategic management during periods of extreme economic volatility is limited. The language barrier limits the availability of literature from the Latin American, Turkish and Yugoslavian experience. Most of the literature from the developed world is out of date as it is related to the period of high inflation in those countries. As a substitute, theories presented for strategic management in relation to the rapidly changing technological and competitive environment in developed countries have been selected and examined for their usefulness and feasibility for adoption as an aid to strategic management during hyperinflation.

1.3 Motivation for research

Popular opinion within Zimbabwe held that the current economic turbulence was in fact unique to Zimbabwe and was a direct result of the disruption to production resulting from the controversial land redistribution programme. The initial motivation for research was to establish which other countries have experienced similar economic problems and whether there was evidence in the literature that the macro economic problems are merely the result of inappropriate economic policies associated with a fixed exchange rate and monetary control system leading to inflation.

In addition, popular opinion varies from a perspective that agricultural producers experience unique problems and threats in this environment and that the disruption to their primary production was the only reason Zimbabweans found their inflation soaring to unprecedented levels to a perspective that agricultural producers are in fact one of the sectors better able to manage the economic turbulence. The second motivation for research was to establish the opinions of managers at a strategic level within primary agricultural production.

Many primary producers and secondary manufacturers have been forced out of business, with consequent ripple effect of unemployment exceeding 70%, falling disposable incomes and more demands from the trade unions. While this was partly caused by the political situation, including the controversial land redistribution programme, it has been suggested that most of these producers have simply not been able to adapt their strategies to survive the turbulent economic atmosphere. The third

motivation for research was to establish whether any lessons could be learnt from the businesses that survived hyperinflation in Latin America, Turkey and Yugoslavia. The paucity of literature on specific strategic responses to threats from inflation related economic instability has led the study into how to adapt modern strategic theory from the developed world to fit the circumstances.

1.4 Value of project

The research objective was to establish a set of hypotheses relating to specific threats and opportunities and appropriate strategic responses unique to organisations operating in a period of extreme economic uncertainty, volatility and hyperinflation.

The main contribution to the organisations studied was intended to be a set of recommendations to enable them to consider strategic options to overcome threats and grasp unusual opportunities caused by the skewed economic fundamentals prevailing in Zimbabwe at this time.

1.5 Problem Statement

1.5.1 Current volatile economic environment within Zimbabwe

Zimbabwe is currently experiencing unprecedented hyperinflation, which is causing economic hardship for both the producer and the end consumer. Year on year inflation has been relatively stable in low double-digit figures since independence, although high in international terms. However, inflation has escalated from levels of less than 30% pre 1999 to approximately 140% by October 2002. This rate of increase has continuously gained momentum to over 400% in August 2003 and it is predicted inflation will reach between 600% and 1000% by year-end. Government has attempted to reduce inflation by introducing price controls on all basic commodities and a number of other items, such as vehicle tyres. This in turn led to extreme shortages of these goods and a thriving black market.

For businesses, this increasing inflation is compounded by foreign exchange shortages, instability and uncertainty due to the Government's policies of maintaining the official rate at ZWD824.00 to USD1.00, with five other official exchange rates for various transactions. In addition, the "parallel market" was tolerated. Here, once the Government's cut at the official rate has been deducted, foreign exchange earnings were sold to the highest bidder by official financial institutions for transactions approved by exchange control authorities. All other transactions take place on the "black market" where foreign exchange is traded illegally.

In addition, the political situation, including the controversial land redistribution programme, has meant that many primary producers have been forced out of business, causing a slowing of demand for manufacturers with the consequent ripple effect of unemployment, falling disposable incomes and more demands from the trade unions.

1.5.2 Threats for agricultural based businesses

Agricultural based businesses have several unique threats within the current economic environment not faced by their counterparts in the industrial sector. The most obvious of these is the possibility of nationalisation of their assets without compensation. This risk and the methods used to minimise it are not part of this study.

Most agricultural based businesses are not able to increase their market price to compensate for increased cost of production, as they are involved in primary production of food crops and other commodity type products. Coffee and tea are produced by three of the businesses to be studied; the world market price for these commodities reached a forty year low in 2002. Other crops produced for local consumption are subject to Government's controlled prices.

Receipts for export sales are either regulated for conversion at one of the official "alternate" rates (such as the export rate of ZWD824.00 to USD1.00) or are subject to deduction of 50% at the official rate and then allocated to the parallel market.

All imported inputs have to be paid from own foreign exchange earnings or through foreign exchange obtained on the parallel or black market. All inputs purchased locally have been priced at the black market rate. This means that production costs are inflated and make the products uncompetitive.

Shortages, such as fuel and electricity, and breakdown of infrastructure are beginning to impact on production efficiencies for these businesses.

1.5.3 Opportunities for agricultural based businesses

International business management theory and literature states that all businesses need to establish competitive advantage to survive turbulent economical and competitive pressures. To review its strategy, each organisation has to perform industry and competitive analysis. Techniques, such as Porter's five-force model, are used to identify major competitive pressures as well as assess how strong these pressures are (Thompson and Strickland, 2001).

Zimbabwean businesses in primary production are unlikely to be able to generate the volume of production required to compete internationally on price alone. For primary production, land and water is usually the limiting factor and there is too much pressure from other users to allow large areas to be committed to production of one type of product as occurs in Brazil with the coffee crop.

As the main opportunities are in export markets, each of these businesses needs to identify niche markets in the global context where it can command a higher price for differentiated products; use the comparative advantage of cheaper labour for labour intensive, high quality production; diversify production and source inputs at Government controlled prices to offset those only obtained at higher prices.

Some of the businesses selected have tentatively discussed a form of benchmarking their production costs, but this has not yet been implemented. There is some direct competition for markets between the members of the group, but this is not as marked as it would have been if they had all been selling into the same national market.

1.5.4 Management systems and control in this environment

International business management theory and literature states that all businesses need to understand each stage of the value added chain to enable them to establish competitive advantage, secure upstream and downstream functions and if necessary to outsource those support activities that can be more effectively performed by an associate (Thompson and Strickland, 2001).

This appears to be neglected within the current context in Zimbabwe with all focus maintained on production and none on other important functions of the value added chain.

In addition, no attempt has been made to discuss and coordinate implementation of any modern management theories for such strategic value added chain management, such as Activity Based Costing, to establish “best practice” within the Zimbabwean context for their production, control and reporting systems and avoid pitfalls already experienced by one member in the group.

1.6 Research objectives

Evaluate strategies available to management.

Determine which theoretical systems have been implemented in each case and how these have been adapted to suit the current situation.

Establish best practice from literature available about other countries and experiences of managers in businesses studied locally.

1.6.1 Strategies implemented in other countries with similar experiences

Evaluate the economic effect on business documented in other countries that have been through hyperinflation. Compare the instances of high inflation and economic

turbulence in Turkey (which implemented IAS 29) and Brazil (which implemented its own inflation adjusted reported regulations) with that pertaining in Zimbabwe.

Determine from secondary data what experiences of businesses operating in these countries were documented and whether any specific survival strategies used will be useful for the Zimbabwean businesses to be studied.

1.6.2 Strategic systems and controls

Evaluate secondary data to ascertain the types of strategic management systems and controls that may assist Zimbabwean businesses to survive the turbulent economic environment and determine whether these need to be modified to suit local practices.

Determine the strategic systems and controls currently in place in each of the businesses studied and how these have been adapted or modified from theoretical models to suit current conditions.

Determine what changes these businesses have made to their previous management systems and controls in order to survive the current volatile economic environment.

1.7 Research methodology

The research design is investigative and wide-ranging to establish hypotheses, not test them and hence is not quantitative.

The research methodology employed both desk and field work, based largely on literature reviews and in depth interviews with senior management.

1.7.1 Sources of Information

The primary and secondary sources of topic specific information are:

- Journals, conference proceedings, trade magazines

- Previous research reports and dissertations
- World Wide Web Internet sites
- Consultants
- Textbooks and abstracts
- Management of the chosen businesses

1.7.2 Nature and form of results

Research results are in the form of in depth case studies for each of the businesses to establish actual practice.

The second phase is a comparison between the companies in the form of a benchmarking exercise to ascertain which practices are common to them.

The third phase is further analysis to establish any potential correlations for hypotheses formulation. Descriptive statistics are the most appropriate method for data interpretation and presentation is in the form of tables, diagrams and charts.

1.8 Limitations

Some care was taken to ensure that the selected businesses are comparable in size and type of business operation, all of them being involved in primary production with some downstream processing before export of the product. However, these businesses are located within one fairly isolated district of the country and this isolation may have resulted in distortion of the effect of the economic situation on production. In addition, stated opinions and strategic actions may differ from the majority of businesses engaged in primary production within Zimbabwe.

The sample size is too small for any degree of certainty that the evidence collected will not be due to random sampling error. The selected businesses were chosen partly as a convenience sample as they agreed to participate in the study. The comments and management practices determined as a result of the study may, in fact, be biased because of the nature of the sample.

1.9 Structure of the study

The relevant theoretical background including economic, accounting and strategic management theories ascertained from the literature review are discussed in Chapter Two. Hyperinflation is defined from both an economic and from the International Accounting Standard viewpoint and the other destabilising influences on Zimbabwe's economy are discussed. Zimbabwe is not the first country to experience extreme economic instability and hyperinflation and the effects on businesses in Brazil, Zambia and other countries studied are documented.

Chapter Two continues with a review of the relevant systems theory drawn from standard strategic management texts and professional journals. The relevance of these strategic management theories during periods of high inflation and other economic instability is discussed. For each of these theories, a hypothesis has been formulated regarding the relevance of the theory, whether it is being used in the companies studied and how it has been adapted to suit local operating conditions and regulations.

Chapter Three contains a detailed review of the case studies. The sampling and research designs are explained and data sources are listed. The final section of Chapter Three is the detailed analysis of each business.

Chapter Four discusses the results of the data comparisons and data interpretation and evaluates hypotheses that were tested against specific threats and opportunities within the economic environment and changes to strategic systems and controls. This chapter concludes with a discussion on whether the differences between the responses received relate to dissonance between stakeholder expectations and internal management's survival strategies.

In summary, this study attempts to ascertain what survival strategies are being employed by managers in Zimbabwe and how these strategies differ from the theoretical framework of best practice documented both in the economic and accounting professions for normal economies and from those strategies used by other

countries experiencing similar economic problems. The study starts with the definitions of hyperinflation and economic inflation as stated in Chapter Two.

CHAPTER 2 Relevant Strategic Theories

According to Schiller (2000, p. G-3) inflation is defined as “an increase in the average level of prices of goods and services” and hyperinflation as “inflation rate in excess of 200% lasting at least one year”. Because inflation redistributes income and wealth between groups in society, it increases social and economic tension and tends to affect the poorer sectors, which cannot afford to convert their wealth and savings into non-monetary assets that gain in value (Schiller, 2000, p. 128). Consequently, many Governments attempt to mitigate the effect of their inflationary policies by controlling prices of basic goods to protect these sectors. Producers react in a manner consistent with elementary economic theory by withholding production.

The immediate consequences of high levels of inflation, at both an individual and at a macro level, is uncertainty and shortened time horizons for decision making. Generally, instances of hyperinflation in recent history follow a similar trend of rising prices, slowing demand, lowered production and rising unemployment with associated currency failure (Schiller, 2000, p. 130).

2.1.1 Hyperinflation in other economies

Zimbabwe is not the first country to experience hyperinflation and associated economic “melt-down”, although the local media reports otherwise. The economic effects and the sequence of events in Zimbabwe has been experienced and documented in other countries throughout the last century.

Germany, in 1920, experienced a turbulent period, when “prices were doubling *every week*” (Schiller, 2000, p. 128 extracted from Prager, 1980). The consequences of this type of inflation are listed as economic disruption, labour unrest and low productivity, unproductive management time spent ascertaining the latest exchange rates and prices, speculation, withdrawal of all savings precipitating a banking crisis and finally a cash crisis when the notes run out. China experienced a similar phenomenon between 1948 and 1949.

In Russia, inflation reached 1000% in 1992 with associated decline in production output, increased unemployment and speculative withdrawal of goods from the market (Schiller, 2000, p. 131).

Yugoslavia's hyperinflation 1993-1994 has been termed the worst case ever. Their Government financed an increasing budget deficit by money creation and then controlled prices and exchange rates to reduce inflation. However this led to shortages of basic goods and closure of private businesses, unemployment and infrastructure collapse, with a thriving black market. Once the government had exhausted its own hard currency reserves, it expropriated the savings of private citizens by imposing severe restrictions on access to their accounts in government banks. Withdrawals were only paid when deposits were received. At its height, Yugoslavia's inflation exceeded 100% per day. (Thondhlana, 2002).

Turkey is the only other country that has implemented IAS29, the International Accounting Standard relating to adjustments to Financial Statements for Hyperinflation (Deloitte and Touché consultant).

The Latin American countries experienced hyperinflation between 1987 and 1996. At its peak Peru's annual inflation was 7481%. Inflation adjustment was made to the financial statements in Argentina and Brazil but management accounting systems were weak (Blake, Wraith and Amat, 1998). Reduction of inflation coincided with several initiatives within these countries to introduce stronger accountancy profession and controls.

Argentina has experienced several bouts of currency devaluation and hyperinflation in recent history. The president was forced to resign in 1989 following food riots, leading to the successful introduction of an anti-inflation programme and the currency peg (Pugel & Lindert 2000). The situation was repeated in 2001 following suspension of IMF loans, debt default and collapse of the currency board, which had pegged the peso at par to the dollar. The Government delayed payment of state pensions and restricted cash withdrawals from banks to obtain funds to meet loan payments (The Economist, 2001). A year later, the economy had recovered sufficiently to renegotiate

funding with IMF, although the long-term instability due to excess state spending and weak financial system does not auger well for the future.

2.1.2 The Brazilian experience

Brazil has a well-known history of recurring bouts of hyperinflation, recession and currency devaluation. The following summary was drawn from a paper by Rocha (2002):

- Early development focussed on import substitution protected by trade barriers, later this was replaced by substantial borrowing on world capital markets. The increases in interest rates after 1980 led to the collapse of the economy and eventual restructuring of the foreign debt under the Brady Plan, which required trade liberalisation and deregulation. Hyperinflation reached 2000% in Brazil in 1994 as a result. The next stabilisation plan included inflation reduction and encouragement of Foreign Direct Investment (FDI) through eliminating barriers to foreign investment and ownership of assets. Short-term speculative investments were encouraged to increase foreign exchange reserves, resulting in an over valued exchange rate and current account deficit.
- This strategy produced the desired results, with annual inflation dropping from 23% in 1995 to 2% in 1998. However, the down side of high reliance on foreign investment is not only future outflows of interest, profits and dividends, but also the vulnerability to external economic shocks elsewhere in world markets. Import liberalisation and currency over valuation led inevitably to growing trade deficits, with exports becoming less competitive and the threat of speculative attack on the currency.
- As a result, 1999 saw a series of crises starting with foreign capital flight, high interest rates and fiscal restraint, reduced demand and high unemployment. This started as contagion from the Russian default and required IMF intervention. Speculative attacks on the currency depleted reserves and worsened the situation until the currency was allowed to float.

This instability in the economy over a period of decades has led to different management styles, attitudes and strategies prevailing in industries in Brazil to those accepted internationally as “best practice”. Contrary to popular opinion, strong management and accountancy control exist within these businesses while strict regulations govern inflation adjusted reporting.

A study by Bornstein (Working Paper 34) states that Brazilian companies adopted distinctive strategies to cope with economic instability. This research records the attitude of managers towards such management techniques as Just-In-Time, Flexible Production Planning, Outsourcing Production and other aspects of supply chain management.

International trends are towards strategic cost analysis of the company’s value chain, which identifies the primary activities that create value and the related support activities, and comparison to that of its rivals to ensure competitiveness (Thompson & Strickland, 2003). The entire value chain from supplier to forward channel allies is essential to ascertain where the cost advantages or disadvantages are and to enhance or eliminate them. Bench marking has become an important tool in this regard.

Bornstein found that Brazilian trends did not follow the international theory for several reasons:

- (a) The result of price controls and of indexation was a distortion of production input costs, leading to a movement away from competitiveness based on non-price factors to intense competition on price alone.
- (b) Management is distracted from production efficiency by the unstable environment and regulatory requirements
- (c) While costs control and increased reserves are cited as essential by the managers concerned, there was limited consensus on other strategic responses which included short-term planning; low level of inventory; dollarisation; downsize; and retreating to core business.
- (d) Risk reduction through “creative use of financial markets, tax regulations and production planning”.
- (e) The high cost of capital was the main reason inventory control programmes were introduced to the demand side of the business. Supply side control was

achieved by ensuring that imported inputs were obtained and stockpiled ahead of projected requirements to ensure supply; contracts were dollar denominated.

Bornstein adds that alliances and mergers became important tools to access capital in a high interest rate environment, while subcontracting transferred risk and enabled companies to adapt production to the demands of the market. Vertical integration was considerably reduced. This aspect of behaviour is confirmed in a study of listed companies in ten countries experiencing high inflation conducted by Singh and Hamed (1992), Singh (1995) and Whittington et. al (1998). Contrary to expected propositions, companies in developing countries used external sources of finance, especially new share issues, rather than retained profits for funding operations.

2.1.3 Hyperinflation and economic climate in Zimbabwe

Zimbabwe has experienced severe hyperinflation since November 1999, which is causing economic hardship for both the producer and the end consumer. Official figures for year on year inflation have reached 400% by end of July 2003 (Harare Correspondent, Business Day (SA), 20 August 2003). In addition, official statistics are based on scarce controlled price commodities whereas these essentials are traded on the black market for more than double the price. Local economists' predictions for year-end vary between 600% and over 1000%. Government attempted to reduce inflation through price controls, which, in turn, led to extreme shortages of these goods and a thriving black market.

Table 2.1: Zimbabwe Dollar / US Dollar exchange rate

1997	1998	1999	2000	2001	2002	Aug-03
10	13	42	72	208	1358	5600

While many economists date Zimbabwe's exchange rate devaluation and inflation problems from the government's controversial pre-election policies introduced in November 1999, the instability began two months earlier and was initially a result of

inflation at unsustainable, higher levels than trading partners (see Table 2.1 and Figure 2.1).

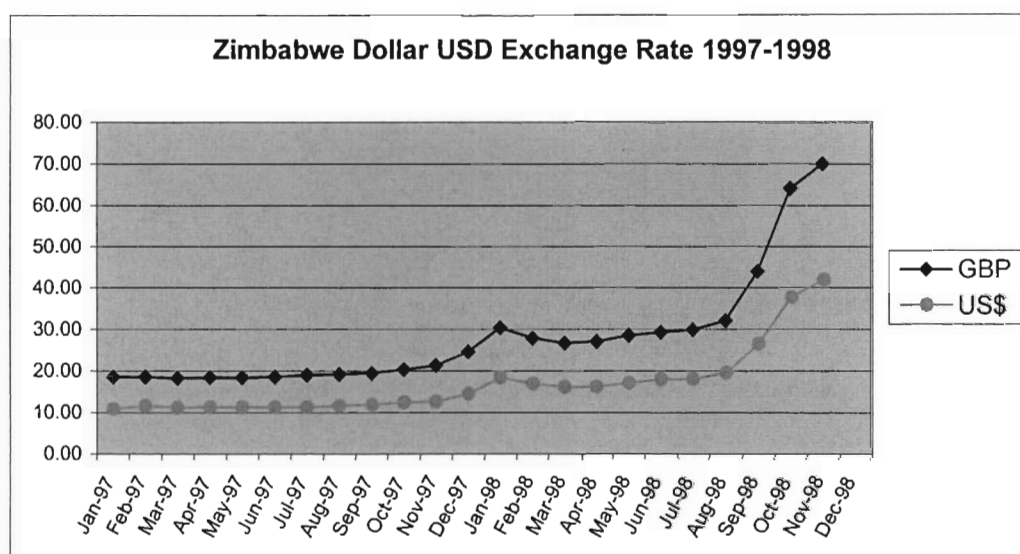


Figure 2.1: Zimbabwe Dollar USD Exchange Rate 1997-1998

The rate remained relatively stable from 1998 until 2001 despite the worsening inflation situation and dire warnings from economists during this period. The next crisis coincided again with election time but there has been no stabilisation following an initial period of readjustment (see Figure 2.2). For the businesses studied, this has made the prediction of economic conditions significantly more difficult and available strategic options have consequently become more limited.

Conversely, the rate freefall has significantly assisted these businesses to survive the current low world market prices for their commodities. Coffee prices were at a forty-year low in 2002 (see Figure 2.3).

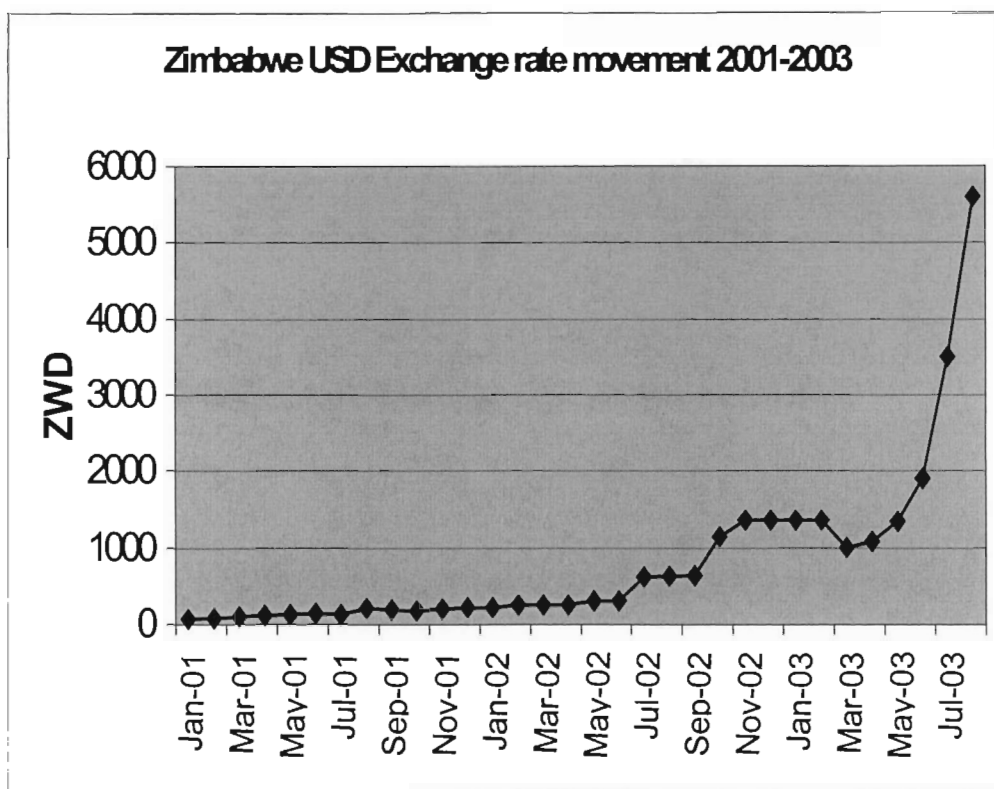


Figure 2.2: Zimbabwe USD Exchange rate movement 2001-2003

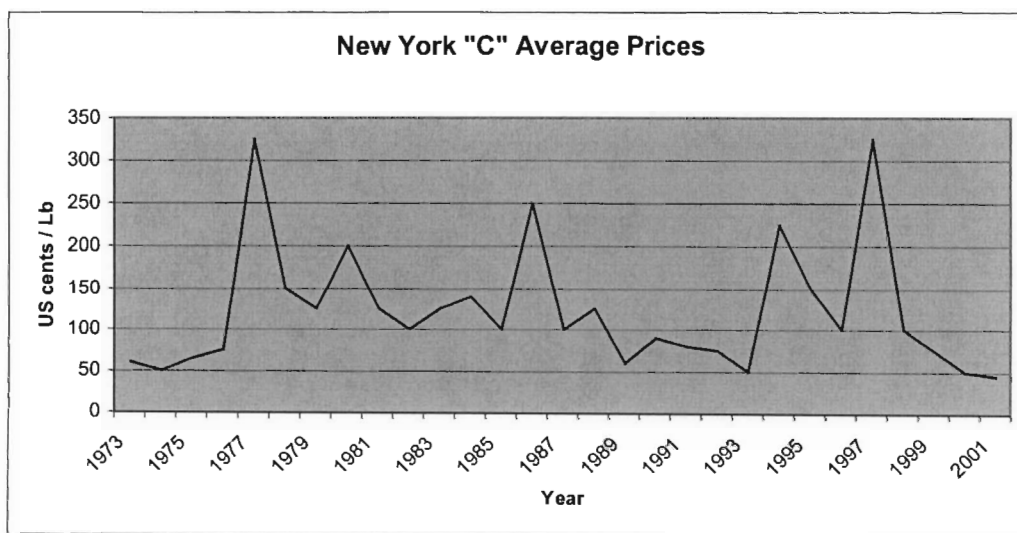


Figure 2.3 Coffee New York "C" Average Prices (<http://www.ico.org>).

“Stagflation, continuous price rises against a background of falling production, has become Zimbabwe's major economic problem. It is eroding real incomes, investment, business confidence, output and employment.” (Harare Correspondent, *Business Day (SA)*, 20 August 2003). Stagflation is defined as a combination of inflation and rising unemployment (Lipsey et al., 1993). The official economy has contracted by one third since 1999 with external debt arrears of US\$2 billion, balance of payment deficit of US\$1 billion and domestic debt of Z\$450 billion at July 2003. Unemployment has reached 80% (Richard Wilde, 2003).

For businesses, economic instability and uncertainty is compounded by foreign exchange shortages, due to the Government's policies of maintaining the official exchange rate at fixed levels, differing for different transactions. In addition, the “parallel market” is tolerated, although political rhetoric states otherwise. Here, once the Government's cut at the official rate has been deducted, foreign exchange earnings are sold to the highest bidder by official financial institutions for transactions approved by exchange control authorities. All other transactions take place on the “black market” where foreign exchange is traded illegally.

The most recent regulation, at the time of writing, prohibits Corporations from withdrawing any cash from their Bank accounts and makes it illegal to obtain cash from other sources. Wages are to be paid in local currency traveller cheques and all other transactions are to be made by cheque. Individuals may only withdraw up to Z\$5000 per day from a bank account.

Zimbabwe's listed companies were required to implement IAS29 with effect from 2001 but many other organisations not subject to listing regulations have not yet made any attempt to introduce any form of inflation adjusted reporting.

2.1.4 Relevant systems theory

There is a wealth of literature within the accountancy professions about systems and control techniques. A matrix for classifying management approaches into global,

strategic, local and analysis techniques and segmenting these into times, quality and cost is shown in Appendix 1 (Ruchala, 1995).

The belief that gradual improvements provided by analysis techniques are not radical enough to push a company into world class standards has made business re-engineering and processing improvement popular. However, several analysis techniques, or information gathering, diagnostic and feedback tools will direct management's attention to issues requiring strategic attention.

From Thompson and Strickland (2001, p. 361), at the strategic level, to achieve competitive advantage, managers need to ascertain:

- What functions or business processes must be performed exceptionally well
- What value chain activities would impair success if poorly executed.

2.1.4.1 Budgeting and Controls

The literature has moved forward from the emphasis up until the late 1990s on the importance of budgets for control through variance analysis, concentrating on ensuring that budgets were efficiently prepared, shared with instantaneous access and adjustment (Scarlett, 1999).

Hope and Fraser, (1999 and 2001) state that businesses should not be preparing budgets, which prevent an agile response in meeting the needs of their customers. They claim that budgets focus management attention on short-term financial numbers not the key drivers of shareholder value. Businesses need better anticipatory techniques, such as rolling forecasts, to get effective control and better decisions. The emphasis must be shifted from performance based on numbers to performance based on people. "Give capable people control over decisions and make them accountable for results."

While this is excellent in theory, in reality in Zimbabwe, both investors and loan providers require the comfort of numbers; despite these being out of date within days if prepared in local currency and the rate at which inflation will increase is underestimated.

The speed of inflation and devaluation is the biggest problem for business attempting to continue traditional annual budgeting and variance analysis techniques (Winkfield, 2002). He states that one stabilisation method is to budget in US dollars, but for many businesses, while inputs are quoted in US dollars, output is in local currency subject to one of the official exchange rate mechanisms. As a consequence, budgets need to be altered every month. Winkfield concludes that while direct costs are often carefully monitored, overhead costs including employment are more difficult to contain and are often the cause of non-profitability in this environment.

2.1.4.2 Strategy and Systems

Several strategic initiatives are documented in the literature. The most important of these appears to be the emphasis on economic value added; the recommendation that businesses should report value added to stakeholders, not costs (Innes, 1999) and that economic value added should be the performance measure of choice instead of the balanced scorecard (McLaren, 1999).

The management's primary task is to create wealth and economic value added is the only measure of that performance that has a high correlation to company value at 50%. Other measures have a very low correlation to the value of the business, such as earnings per share at 5% (Wakeford, 1998).

In Zimbabwe, shareholder value has declined with inflation and exchange rate changes. Businesses need to produce results which, when adjusted by hyperinflation accounting or USD based accounting methods, show positive growth to counter the devaluation of shareholder value. However, with artificially low interest rates (currently 80% compared to official inflation of 400%), capital appreciation is one of the best methods shareholders have to protect wealth (Lightfoot, 2003). This is evidenced by the current boom in the local bourse with share price increases in line with inflation and not related to expected earnings.

It is essential that management does not get so involved in strategic thinking that they “forget to mind the shop” (Corboy and O’Corrbui, 1999). Management must undertake periodic relevance checks and adapt to new market realities.

2.1.4.3 Cash flow management

A small disturbance in cash flow can have major adverse effects on the success of the business. Chaos theory is the deterministic order underlying what appear to be random movements. For example, random cash receipts are result of numerous individual transactions depending on rational payment decisions by creditors who may have delayed payment to improve their own cash flow (Hill, 1996).

In Zimbabwe, extreme care must be taken, as the effect of delayed cash receipts is the reduction in real terms of amount owing. Companies may withhold payment from their creditors to improve their own cash flow and profit position in Zimbabwe dollar terms. The effect of the economic situation is the gradual withdrawal or reduction of credit terms, requirement for “cash upfront” before purchase and dollarisation of prices.

In 1997, Kelly and O’Connor stated that cash flow is more important than profit and the ability to generate long term cash is more critical to survival than profits, but that investors still cling to the price / earnings ratio.

2.1.4.4 Reporting

Clear, focused reporting is the key to ensuring management has the ability to survive (Maynard and Pyves, 1999). It is pointless to produce a volume of reports that are too cumbersome and detailed to provide the required facts. The key information is sales, payroll costs (20-70% of sales), raw materials (30-80% of sales) and gross margin.

However, variance analysis and comparison of actual with budget is emphasised in the literature. This does not appear to be relevant in economically volatile conditions, where management need to focus on their projections and constantly revise instead of “looking back”.

2.1.4.5 Benchmarking

Internal benchmarking within each business will ensure effort is focussed on the profit maximisation strategies (Cleland, 2002). The Pareto rule is important (20% of customers produce 80% of profit). In addition, benchmarking is now considered to be more important as a strategic tool to enable a business to compare all aspects of its value chain both internally and against competition to derive strategic advantage or eliminate disadvantages (Thompson & Strickland, 2003).

2.1.5 Relevance of management strategic theory during high inflation

Part of the dilemma for professionals operating in the current economic environment is ethical. While chasing the highest exchange rate in the parallel market for the limited foreign exchange at their disposal (to maximise value in local currency for the business and its stakeholders), these managers are fuelling the devaluation spiral for the currency.

Documented strategies to cope with currency risk include matching projected currency income by borrowings in that currency. In addition, real hedges are proposed by moving production to better environments (Allen, 1998) and (Buckley, 2000).

These options are not fully applicable in the Zimbabwean situation. In the late 1990s, when Government encouraged international investors to bring funds to Zimbabwe, many companies obtained long-term foreign currency denominated debt to be repaid from export proceeds denominated in the same currency. These companies are now making huge exchange losses, even despite their export proceeds, due to the skewed exchange rate system. Fifty percent of proceeds are exchanged at the official rate and the company is expected to make loan repayments from the balance.

Conversely, companies that have been able to borrow in local currency and repay these loans after converting export proceeds at parallel market rates have made significant exchange gains. This was further confused by a landmark court ruling that

the official exchange rate must apply in disputes involving foreign currency denominated debt where parties agree that repayments are to be made in local currency (Ngwawi, 2002).

Conventional wisdom states that businesses need to export to minimise exposure to changes in domestic market demand, obtain economy of scale for their operations and that this will lead to them introducing better operating techniques to compete in the global market (Bernstein, 1999). However the difficulties for new entrants to the global market place by companies traditionally producing for the local market include lack of market knowledge, lack of enabling finance and inability to compete.

Recent experience has shown that the country's neighbours are likely to retaliate by introducing import controls. Zambia has banned import of several types of goods from Zimbabwe, claiming that these are being dumped and are damaging their local producers.

Some techniques, such as Just in Time production and inventory replenishment systems, do not work in the hyperinflation environment because of supply constraints. The tendency appears to be for businesses to increase stock levels to protect themselves from price rises. However, more research is needed to ascertain whether they are recovering their holding costs and are able to replenish stock levels or whether investors would be better served by moving capital elsewhere.

The wrong reaction in economic downturn is to focus on financial performance measurement and cost cutting (Adams and Neely, 2002). Their performance prism has five aspects: stakeholder satisfaction, strategies, processes, capabilities and stakeholder contribution.

In contrast, Glen (2002) states that procedures need to follow industry best practice in times of recession. His survival list focuses on control of debtors and expenditure, supplier relationships, unproductive administration, outsourcing and accurate management information from each process.

CHAPTER 3 Research methodology

3.1 Sampling design

The businesses chosen for this study are all corporate entities with professional management, situated within the same district and similar in size. All companies produce plantation type crops with some diversification into other crops and downstream processing. Two of these businesses are subsidiaries of multi national companies, while the remainder are listed and unlisted locally owned companies.

This is a convenience sample but the intention is for an in depth case study approach to be used for each business and to compare their experiences to develop a benchmark “best practice” for the current situation, not to extrapolate research results in a generalised format.

3.2 Research Design

The research design is investigative and wide-ranging to establish hypotheses, not test them and hence is not quantitative.

The research methodology employed both desk and field work, based largely on literature reviews and in depth interviews with senior management.

3.3 Data Collection

The primary and secondary sources of topic specific information are:

- Journals, conference proceedings, trade magazines
- Previous research reports and dissertations
- World Wide Web Internet sites
- Consultants
- Textbooks and abstracts

- Management of the chosen businesses
- Anecdotal evidence was obtained from managers who adapted their Zambian experience to suit the challenge of the Zimbabwean situation.

3.4 Data Analysis

3.4.1 In depth case studies

Each of the businesses studied cited external factors as their main operational problems in the current economic environment. There was very little consensus of opinion relating to techniques to be implemented internally to make the production process more effective and efficient as a route to survival; most businesses have concentrated on crisis management, mainly reacting to external stimuli. All of the managers interviewed stated that this was taking up much more time than previously. In some cases it was stated that crisis management led to a neglect of more important strategic control tasks to make enough time to cope with the demands of the operational problems and environmental threats cited.

While two of the business briefly used benchmarking to compare cost and input structures several years ago, there was no general consensus of an urgent need to introduce such a system between the researched companies to assist them to improve systems. However, all managers interviewed agreed that the system has merit and would augment their current management techniques and practices. The main problem with introducing a formal system of benchmarking at present seems to be the additional drain on highly placed resources that are already coping with non-core issues to ensure survival.

The managers seem to emulate their Brazilian counterparts, as stated by Bornstein (2003), managers are proud of their ability to cope with the extremely volatile situation, daily changing regulations and external factors and all cited their ability “to make a plan”.

All the businesses stated that they were able to exploit some elements of the unstable economic environment to their advantage, but they differed as to which aspects were more favourable.

The ability to convert surplus foreign currency on the parallel market at higher rates to take advantage of devaluation in the light of low world market prices was an important factor for all of the businesses. One manager stated, albeit jokingly, that “realised exchange gains have become our core business”.

The ability to use unrealistically low interest rates (compared to inflation) to obtain external funding at negative real interest rates was only cited by two of the respondents as an advantage. One company was highly geared and would have used these facilities regardless, whereas the other intentionally obtained facilities to take advantage of the opportunity to purchase inputs at negative holding costs. While the other respondents stated that they do not use external finance, in fact, their listings on the local stock market are a form of external finance. This conforms to the findings of International Finance Corporation funded research by Singh and Hamed (1992), Singh (1995) and Whittington et. al (1998) that corporations in less developed countries make more use of external funding than retained profits. The capital gains these corporations’ shareholders realised on the stock market can be termed a form of exploitation of the unstable economic environment to their advantage.

All the respondents stated that extreme adjustments would be necessary in the event the country regains International Monetary Fund backing. There will be a period of several months (or years) when the currency will appreciate on the strength of expectation of inflow of funds and interest rates will return to real levels. Two of the respondents cited actual examples experienced in Zambia and Malawi.

Only two of the businesses cited the exchange gain effect of local borrowings as a significant strategic advantage in this operating environment, with the volume of export sales required to repay a fixed local borrowing diminishing daily (see Figure 3.1). Amounts have been disguised to protect confidentiality.

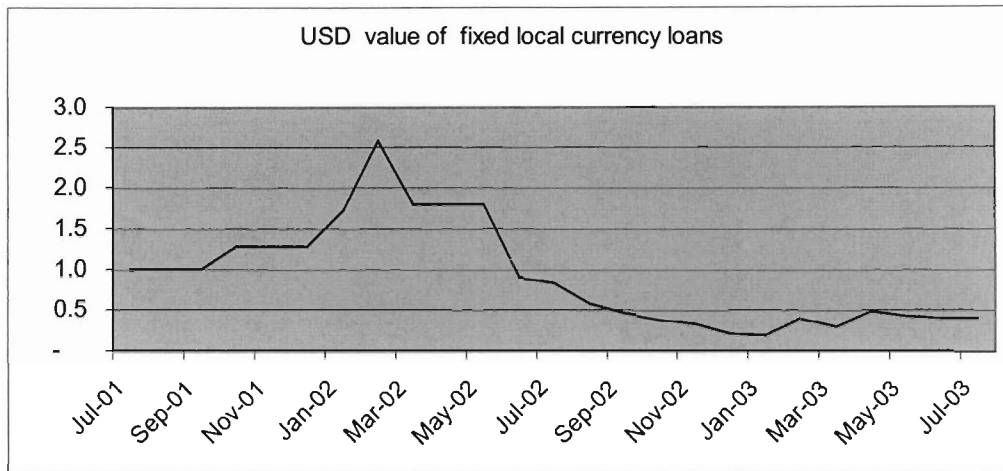


Figure 3.1: Reducing USD value of fixed local currency loans

The managers interviewed were all interested in the strategic level of the questionnaire and the accounting tools cited did not have as much relevance for them as the same questions would have had for Finance Directors. One manager stated that this was “tinkering with the numbers instead of concentrating on production”. The overall impression gained was consistent with theory; at the strategic level, managers need to be forward looking and correcting variance from strategic vision and objectives but not concentrating on results already achieved (Thompson and Strickland, 2001).

Every respondent cited shortages as the main operational problem. The timing of the interviews may have had some impact on the reason labour shortages, despite unemployment at an all time high of 80%, was listed by all four companies. These businesses are in the peak contract harvest season for coffee and competition for available labour has been extreme, leading to informal agreements about not paying wages above the minimum set by the union. However, the withdrawal of labour from the formal market has become more noticeable throughout the economy, with senior labourers stating that they are better off living at a subsistence level in communal areas than seeing their high incomes heavily taxed and paying black market prices for their living expenses.

The breakdown of law and order and infrastructure (inability of police to respond due to lack of resources; non maintenance of state and council roads; disruption of state owned electricity supply due to lack of maintenance and to inability to import supplies; and non maintenance of state telephone system) was cited as a major problem by three of the respondents. These problems are not unique to agricultural businesses but the long distances involved worsen the effects.

3.4.2 Benchmarking to ascertain which practices are common

The individual responses to the questionnaire are listed in Appendix B. From this abbreviated summary, the following inferences have been made:

- All the respondents cited shortages, breakdown in law and order and infrastructure as the main operational problems.
- With the exception of the land issue and political pressure, only one respondent thought these threats were unique to agriculture. All agreed that they were also a manifestation of the global business changes affecting primary production throughout the world.
- Opportunities were seen as all linked to export production.
- While they varied their responses from conservative to aggressive optimism, all respondents cited the requirement for growth, expansion and diversification to take advantage of any opportunities presented as important strategic visions, especially in the uncertain economic climate in which they operated.
- Skewed economic fundamentals, such as negative interest rates and devaluation making low world market prices look attractive in the home reporting environment, were cited as the major opportunities for these businesses.
- Key drivers at the strategic level were cited as quality and production by three of the respondents and profits by the fourth. Only one respondent cited cost control as a key driver.
- The responses to the specific accounting and management tools were varied. As expected, the Just In Time supply chain management techniques were considered not appropriate for these unstable conditions. All the products tend to be sold as

soon as possible to reduce risk but inputs are obtained ahead of requirements due to uncertain supply, price and lead times.

- The respondents all cited cost cutting as part of their survival list. One respondent stated that this would include selling assets. One stated that he would go as far as cutting all input costs entirely for the duration of the adjustment process. However, two stated that costs would need to be cut in a way that ensures productive capacity is maintained.

3.4.3 Hypotheses formulation

- All of the respondents have introduced strategic changes as survival mechanism.
- Specific strategic theories have been designed for an unstable competitive environment within a stable economic situation. The relevance of transferring these theories to corporations operating in a hyperinflationary, unstable economic situation is limited.
- Threats from controlled market prices, low world market prices, foreign exchange controls and shortages, input shortages and breakdown of infrastructure are not restricted to the agricultural sector. Opportunities exist to exploit skewed economic fundamentals and for differentiation and competitiveness on world markets.
- Strategic changes have been made to control systems in place before the economic upset. These are expected to be restored once operating conditions are less turbulent.

CHAPTER 4 Findings

4.1 Specific threats and opportunities for agricultural based business

4.1.1 Specific Threats for agricultural based businesses

The consensus among the respondents was that agricultural based businesses do not have unique threats within the current economic environment not faced by their counterparts in the industrial sector within Zimbabwe, with the exception of nationalisation of their assets without compensation. This risk and the methods used to minimise it were not part of this study but the effects, either through direct loss of productive assets or as a result of loss of confidence of financiers and investors, were emphasised by each of the respondents.

Most of the respondents agreed that the inability to increase market prices to compensate for increased cost of production was shared by all producers in primary production or extraction industries and is not limited to agriculture. Secondary and tertiary production and service industries are able to quickly adapt strategic responses by withdrawing controlled products and substituting with similar, uncontrolled offerings that could command inflation adjusted prices.

Shortages, such as fuel and electricity, and breakdown of infrastructure and law and order are beginning to impact on production efficiencies for these businesses. This is causing additional production expense as inefficient provision and maintenance of the state infrastructure must still be paid directly or through taxation, but each operation is spending more time and money obtaining these supplies from alternate sources (such as electricity from generators). Again, these threats are not unique to agriculture, with the exception that long distances involved make breakdown in transport and communications systems more critical and costly to replace.

The latest effect of the extreme inflation and shortages of goods has been a shortage of cash, with consequent disintermediation of the economy and illegal trading of bank notes at a premium to their face value. For producers based at some distance from the nearest major business centre this is extremely difficult to overcome.



4.1.2 Opportunities for agricultural based businesses

The main opportunities are in unregulated export markets. Receipts from commodities that have to be sold through Government trading boards do not cover production costs. The business needs to identify niche markets in the global context where it can command a higher price for differentiated products. This applies equally to all businesses, not only those involved in primary agricultural production.

Another opportunity that should be exploited while it is still available is to use the comparative advantage of cheaper labour for labour intensive, high quality production, especially high value horticulture products.

The business must diversify production away from bulk selling of primary production or commodity type products into value added, pre-packaged products produced for direct orders from large-scale distributors. Alternatively, advantage must be taken of fair trade and other agreements, which will improve returns from primary production.

The final opportunity is to source inputs at Government controlled prices to offset the additional cost of those inputs only obtainable at higher prices.

4.2 *Changes to Management systems and controls*

Traditionally, agricultural management in Zimbabwe focussed on “top-down” systems and controls with strict supervision and limited decision making delegation. While this aspect of systems design was not specifically discussed with the respondents, their responses do not indicate radical changes to this style of management except at fairly senior levels.

This may be one of the reasons why budget variance analysis remains an important management tool to the majority of the respondents despite their comments that they are well aware of its limitations. The respondents all agree that these figures are not relevant in Zimbabwe dollar terms unless the forecast inflation, foreign exchange and interest rates were accurate, which is nearly impossible given the political

manipulation of these economic variables. Two of the businesses have partly overcome this problem by budgeting in United States Dollars; one analyses variances in physical terms only, while the fourth respondent describes the exercise as futile.

Three of the four respondents use rolling forecasts on a regular basis. They differ however in the time frame for the forecast and the frequency of analysis. It appears significant that the respondents who cite monthly forecasts are the ones with external financing. The reasons for this may be the discipline imposed by external financiers or the need to ensure facility limits are not exceeded rather than as a pure management tool for strategic direction.

As presupposed, Just In Time procurement and inventory replenishment systems were considered a superior management tool, but not one that would work in the current hyperinflationary environment. One manager described “Just In Time” as “just before the stocks ran out or just before the prices increased”. However, one business has recently installed an expensive, sophisticated software system to manage Just in Time inventory control and replenishment and will introduce it immediately, despite overriding most of the preset controls as required by events. This aspect of the responses was borne out by experiences recounted from Zambia, where managers stated that they procured inputs up to one year ahead of requirement date.

The principles behind Activity Based Costing had to be explained to some of the managers, who all considered it a waste of resources for this type of production system. While this attitude may be construed as ignoring hidden cost drivers, only one manager stated that he regretted not being able to ascertain costs more closely but that by ensuring production levels were maintained, the business was able to tolerate considerable inefficiency.

The original focus of the study was benchmarking the corporations to ascertain best practice, key drivers and cost structures. However, the respondents’ reaction to this technique varied considerably and there was some reluctance to the suggestion that a formal process for external benchmarking should be introduced. This may be as a result of the respondents’ reservations that this would open their sensitive information

to their competitors or to investigation, or merely a reluctance to add another task onto an overloaded managerial structure.

Internal benchmarking, however, is used by two of the respondents on a regular basis. One compares and assesses internal divisions against each other and against group companies operating in other countries. This technique has given a very good control of production and cost structures and tends to be used as a “reasonableness” test to check prices for production inputs. A second respondent uses internal benchmarking regularly to assess internal divisions, establish all task rates and compares internal efficiency with internationally published rates.

4.3 *Changes to Strategic systems and controls*

While the literature states that economic value added is the only measurement of wealth creation (Wakeford, 1998), this reporting technique was not understood by any of the respondents and consequently was not considered to be of any use by them. However, the concept of wealth creation and maintenance was well understood leading to a consensus was that capital appreciation was more important to investors than returns.

The majority of the respondents cited production levels as their key success factor. As a result, the key information they cited was production orientated; sales, physical production against target, and production costs. Only one stated that profitability was the key factor, with net margin cited as the key information. This could be a result of the type of primary production business operations, selling into a broker-type market. The ability to influence selling prices is very limited and more opportunity exists to make a profit on lower cost, high volume operation than on high cost, high quality, differentiated products.

Neither of the theories about survival strategies advanced found total favour with all the respondents. All favoured cutting costs during the “adjustment period” when interest rates are expected to rise while exchange rates fall and inflation is not yet under control. However, two stated that this must be done without compromising the productive capacity of the enterprise.

Only one respondent (Zimbabwean owned) experienced dissonance between management's survival strategies and stakeholders' requirements. Three respondents stated that policy decisions were made at board level to enable management to operate as successfully as possible in this environment, including in some cases concession of land to the state and co-operation agreements with Government. While this relieved tension at managerial level, no account was taken of ultimate shareholders' opinions, although it was also claimed, "shareholders vote with their feet if dissatisfied".

4.4 Stakeholder versus Internal Reporting

The difference between corporations listed within Zimbabwe and those owned by an international group was marked with regard to reporting practices.

Two of the Zimbabwe listed companies maintained all records in Zimbabwe dollars, including internal management reporting, without adjusting for inflation effects. The difference between actual and budget due to differences in inflation and exchange rate forecasts was not considered to be relevant to their internal management decision making. However, these companies adhered to the regulatory requirement for hyperinflation adjusted reporting.

In contrast, only an internationally owned company maintained all records in a dual currency accounting system, budgeting and reporting in United States Dollars to stakeholders and internal management. Zimbabwe Dollar reporting was only used for statutory purposes.

No attempt was made at business level to report Economic Value Added, although some of the respondents stated that this was handled at Group Level.

CHAPTER 5 Conclusions

5.1 *Summary and Conclusions*

5.1.1 Limitations

The sample size is too small for any degree of certainty that the evidence collected is not due to random sampling error.

5.1.2 Design

The research design was based on a limited number of in depth interviews with each respondent for a case study analysis to establish hypotheses. This approach is open to distortion or bias as conclusions are drawn from each respondent's personal opinions and there was no opportunity for independent analysis and investigation into actual systems, controls and practices within each company.

5.1.3 Conclusions

Hypotheses established during the research include:

- That specific threats to agricultural are limited to nationalisation of assets without compensation which has led to short-term decision making in a long-term industry; loss of confidence on the part of financiers and backers.
- That all primary producers face other threats cited by respondents but operating conditions and vast distances from major centres in this industry make the effect of shortages and breakdown of infrastructure worse than for other producers.
- That opportunity only exists for those in the industry who can generate foreign exchange through export proceeds.

- That opportunity exists for competitive advantage based on ability to take advantage of skewed economic fundamentals.
- That very limited use is made of inflation adjusted reporting for internal management use either by converting local currency by General Price Increase factors or by using a stable foreign currency for reporting purposes.
- That no use is made of reporting by Economic Value Added or Activity Based Costing or similar internationally known techniques to ascertain the contribution from each segment of the value chain.
- That no use is made of Just in Time techniques or supply chain management to reduce inventory-holding costs. Supplies are obtained well advance of requirement due to uncertain procurement ability and lengthening lead times.
- That most operations use a form of rolling forecast but this varies considerably to a limited cash flow management system to a sophisticated dual currency budgeting system with variance analysis.

The analysis and interviews confirmed initial hypotheses that these managers in agricultural based businesses in Zimbabwe have adapted and amended theoretical principles and techniques for strategic management to survive their unstable economic climate.

Some techniques considered essential to suit volatile operating conditions internationally are regarded as useless in this environment (such as Just in Time procurement and value chain management) whereas others have merely been adapted to local conditions.

Further research with a larger population frame and different research methodology will enable hypotheses to be tested using independent analysis and investigation into actual systems, controls and practices within each company.

5.2 Recommendations

The advice given to commercial farmers at an open meeting recently is relevant to all businesses operating in this turbulent environment, “Put in place a survival plan and look at alternatives to generate income” (Taylor-Freeme, D., 2003).

This survival plan needs to include changes to strategic management practices but the ability to merely transfer specific strategic theories without considerable amendment and adjustment to fit the situation, is limited.

To counter threats from controlled market prices and low world market prices, the respondents have all begun to diversify production, to a greater or lesser extent, away from these products into alternative products that can be differentiated by quality or production techniques (e.g. fair trade agreement or organic). In addition, it is recognised that considerably more down stream processing for value added production and control of the supply chain than presently in evidence is desirable. This should take advantage of the current cheap labour supply for competitive advantage using labour intensive production such as packaging for the retail market in the horticulture sector.

The threats posed by foreign exchange controls and shortages cannot be legally overcome unless sophisticated hedging is employed. All of the business stated that they only used limited hedging when earnings were threatened. This is one aspect of the operations where managers should be more innovative and proactive in an unstable economic environment.

Strategic changes have been made to control systems in place before the economic upset. Each company should carefully evaluate these changes, when operating conditions are less turbulent, to ensure that those that have provided competitive advantage are not lost merely to restore the original systems.

During periods of economic instability, strategic management must ensure that the company's wealth is maintained. Investments must be regularly reviewed and reorganised to cope with current uncertainties. It is necessary to adopt a short-term

attitude towards monetary investments to ensure returns are revised in line with accelerating inflation levels: (Wilde, R., 2003)

- Money market returns seriously lag inflation
- Stock market capital gains are mostly in line with inflation
- Foreign exchange investment would be a good option to maintain wealth but is illegal
- Residential property prices have kept pace with inflation but will be affected by future interest rate increases. They are therefore not a long-term option.

Strategic management needs to be more proactive in the exploitation of skewed economic variables even if these do not suit the management style or strategic vision at present. An example of this is the reluctance to obtain external financing (denominated in Zimbabwe Dollars) at negative real interest rates and to secure and repay this with crop proceeds denominated in a stable foreign currency. The required production volume for repayment diminishes with each day but the concern cited by respondents is that the company will be caught in the currency trap on the day the rates fall in expectation of capital inflows and lowered inflation levels.

To summarise, each strategic manager needs to evaluate all systems, controls and practices in place in the company to ascertain which ones are relevant and which do not suit the current operating climate. The speed with which the economic environment is changing and regulations are being promulgated means that it is essential that this review is continual and conducted at the strategic not operational level.

A framework classifying management tasks and techniques into strategic or operational is shown in Appendix 1, (Ruchala, 1998). According to this matrix, the four strategic responses, in order of strategic importance to survival in turbulent environments are:

- “Think outside the box”
- “Redefine the box”
- “Optimise the box”
- “Measure the box”

Most of the respondents studied appear to have avoided the error of focusing on “measurement of the box” with the exception of benchmarking in two cases. However, even in these instances, only one strategic manager cites benchmarking as his most important control technique.

The majority of the respondents have tended to concentrate on “optimising the box” with their focus on strategic cost management and production controls. According to Ruchala, “redefining the box” means introducing techniques such as Just in Time, Total Quality Management and Activity Based Management. None of the respondents found these techniques applicable to their situation.

Only one of the respondents stated openly that he concentrated most of his effort at a strategic level on cost management, process re-engineering at different levels in both productive and support activity aspects of the organisation and applying strategies gained from previous experience in similar environments.

The major recommendation from this study is that strategic managers need to be focusing most of their efforts in “thinking outside the box” and “redefining the box”, not on measuring or tinkering with other aspects within the confines of the box. The respondents need to be more proactive in accessing competitive advantage from the negative real interest rates, exchange gains to offset low world market prices and internationally cheap production factors while they last, within the confines of the law and Reserve Bank regulations. However, care needs to be taken that this is securely hedged and that the business will not be left exposed should there be a sudden reversal of policy, exchange and interest rates.

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Appendices

I: Framework for classifying management approaches

<i>Thinking outside the box</i>			
Global perspective	Process Re-engineering	Learning organisation	Strategic cost management
<i>Redefine the box</i>			
Strategic initiative	JIT	TQM	ABM
<i>Optimise the box</i>			
Local actions	Worker based action Employee involvement Continuous improvement Performance measures		Task based action Concurrent engineering Plant layout Statistical process control
<i>Measure the box</i>			
Analysis techniques	Value chain analysis	Benchmark	ABC

A matrix for classifying management approaches into global, strategic, local and analysis techniques and segmenting these into times, quality and cost (Ruchala, 1995).

II: Summary of results to Questionnaire Section one

Questionnaire Responses	Company 1	Company 2	Company 3	Company 4
1. Main Operational problems	Shortages: - cash - labour - foreign exchange	Shortages: - not cited - labour - not cited Law and order Infrastructure	Shortages: - not cited - labour - foreign exchange Law and order Infrastructure	Shortages: - cash - labour - not cited Law and order Infrastructure
2. Are these threats unique to Agriculture?	No Land issue only Political pressure	No Land issue only	Yes Land issue led to lack of confidence and short term decision making in a long term industry.	No Land issue only
3. Opportunities	Vertical Integration; Value added; Differentiation	Growth potential; Competitive on World markets	Downstream Value added; Export Production; International Competitiveness from local inputs	Growth Potential; Competitive on World markets; Diversification

III: Summary of results to Questionnaire Section two

Responses continued	Company 1	Company 2	Company 3	Company 4
4. Are these unique to Agriculture?	No	Yes Outreach into small scale sector in partnership with Government	No	No
5. Can you exploit the situation?	Surplus foreign currency only	Surplus foreign currency; Devaluation making prices competitive on world market	Interest rates; Sourcing inputs; Taxation timing; Incentive schemes	Interest rates; Sourcing inputs; Exchange rates
6. Benchmarking	One of most important controls; Used as much as possible internally	Used previously, Not currently; Would like to re-introduce	No	Used to assess internal divisions
7. Key drivers	Profits	Production levels Quality control	Quality Production levels	Production levels; Quality control; Cost control

IV: Summary of results to Questionnaire Section three

Responses continued	Company 1	Company 2	Company 3	Company 4
8. Key information	Quality; Net margins	Sales and Production only	Control of daily physical input more important than analysing results	Production Costs Cash flow
9. Is Cash flow more important than profits?	Same numbers	Investors want share growth; Business needs cash as self financing	Agree	Agree
10. Is there dissonance between strategies and stakeholder requirements?	No	No	Yes	Partial
11. Have you implemented IAS 29 or other adjustment to reporting?	Yes	Yes	No	Other
12. Are you hedging currency risk?	Limited	Limited	No	Limited

V: Summary of results to Questionnaire Section four

Responses continued	Company 1	Company 2	Company 3	Company 4
13. Do you use Budget variance analysis as a control tool?	Physical terms only	Yes, but not relevant in ZWD terms	No	Yes
14. Do you use Rolling forecasts?	No	Yes	Monthly	Monthly
15. Do you use Economic Value Added Reporting?	No	No	No	No
16. Do you use Just in Time procurement and inventory replenishment?	Installing systems; but not yet relevant	No	No	No
17. Have you used Activity Based Costing?	No	No	No	Yes, no longer used

VI: Summary of results to Questionnaire Section four

18. Do you use Balanced Scorecard?	Yes	Partial	Not yet implemented	Partial
19. Does your survival list consist of cost cutting or improved performance?	Cut costs	Cut costs	Cut costs but maintain productive capacity	Cut costs but maintain productive capacity
20. Are you using another currency instead of ZWD?	Reporting in ZWD; Budgeting in USD	No	No - but will introduce USD soon	All in USD except local statutory