



Economic Reforms and Firm Level Strategic Planning

Rodolfo M. Nayga, Jr.
Lukman M. Baga

Various economic liberalization measures have been adopted by the New Zealand Government since mid-1984. These economic reforms accelerated competition and pace of change among agribusiness firms. Agribusiness decision makers were found to be aware of the importance of strategic planning. This study investigated with survey methods the degree to which agribusiness managers have used strategic planning to adjust to their new environment. ©1995 John Wiley & Sons, Inc.

Introduction

An uncertain economic environment in agriculture is widely accepted.¹ Thus, agribusiness organiza-

Requests for reprints should be sent to Dr. Rodolfo Nayga, Dept. of Agricultural Economics and Marketing, Rutgers University, PO Box 231, New Brunswick, NJ 08903-0231.

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tions and decision makers have a basic survival issue of how to deal with this changed environment. A growing need exists for managers to be aware of the impact of environmental changes on business. How agribusiness firms cope with environmental uncertainties and changes will probably be the most important determinant of future success or failure.²

Strategic management theorists have recommended planning as an essential tool for managers. A long series of empirical studies, however, has provided mixed support for the value of formal strategic planning.³ For instance, the value of planning processes has been questioned by Leontiades and Tezel,⁴ Higgins,⁵ Peters,⁶ Peters and Waterman,⁷ and Kiechel.⁸ On the other hand, some studies have documented the potential pay-offs associated with the adoption of strategic planning. Thune and House,⁹ Krager and Malik,¹⁰ and Welch¹¹ among others have found that companies that engaged in formal strategic planning outperformed those that did not.

Scant information, however, is available on the area of organizational operations and strategic planning under an uncertain environment. More-

- Dr. Nayga is Assistant Professor, Department of Agricultural Economics and Marketing, Rutgers University.
- L.M. Baga is a former Graduate Student, Department of Agricultural Economics and Business, Massey University, New Zealand.



over, a few few studies have attempted to focus on the strategic management aspects of agribusiness firms. Westgren et al.¹² argued that more agribusiness research related to the area of strategic management is needed. In addition, King and Sonka¹³ suggested that the three areas of research in which agricultural economists could be of great help to agribusiness managers are managing innovation and change, managing risk, and organizational design in an uncertain environment.

This study attempts to assess, using results from an exploratory survey, the characteristics of strategic planning and firm operations of a sample of agribusiness firms in New Zealand during the economic liberalization period covering 1984 to 1990. The objectives of this article are:

1. to assess firms' sales and profit performance over the economic liberalization period in question;
2. to determine the extent of the use of formal strategic planning processes by agribusiness firms before and during the implementation of the economic reforms; and
3. to gain some valuable insights into the characteristics of the strategic planning processes actually used by agribusiness firms before and after the implementation of economic reforms.

New Zealand's Economic Reforms

Prior to the mid-1980s, the agribusiness industry, which contributes more than 60% of New Zealand's merchandise exports, was backed by subsidies, price supports, and tax reliefs. Moreover, the New Zealand government actively managed the major macroeconomic variables (e.g., wages, interest rates, exchange rates, money supply, and inflation) with social goals dominating economic goals.

New Zealand's relative standard of living, however, has fallen from third highest in the world in 1950 to twenty-third in 1987 due to low economic growth, poor productivity, high unemployment, and large external debt. Consequently, in mid-1984, New Zealand started implementing various economic liberalization measures designed to reduce the direct role of government in the economy.¹⁴ Economic liberalization measures adopted

by the government beginning in mid-1984 included reforms related to:

- foreign exchange and other financial controls;
- taxes and import licenses;
- tariffs and export subsidies;
- supplemental minimum prices; and
- procedures for labor negotiations.

The economic reforms have transformed New Zealand's economy into one of the least regulated economies in the world.¹⁵ The OECD noted that New Zealand is one of the few developed countries that reformed its agricultural policy comprehensively.¹⁶ These economic reforms seem to have enhanced competition, reduced real tax burdens, removed price distortions, and restored choice in business decision making. Recent economic growth in New Zealand has been attributed to the success of these reforms. Several of these reforms, however, were implemented relatively quickly and brought uncertainty to the country's agribusiness industry.¹⁷ This article offers an empirical assessment of the effect of these economic reforms on agribusiness firms' strategic planning processes.

Strategic Planning

A strategic planning process is a set of organizational task definitions and procedures for ensuring that pertinent information is obtained, forecasts are made, and strategic choices are addressed and evaluated in a consistent and timely fashion.² It deals primarily with the effort directed at the development of a purpose, the design of strategies, and the implementation of policies by which organizational goals and objectives are accomplished.¹⁸ Strategic planning should, therefore, help executives answer basic questions such as "what have been our business objectives?" or "what has been or will be our business?" or "what should we do to ensure that objectives are achieved?"²

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²The changes considered most undesirable by many agribusiness firms included: reduction in the profitability of exports caused by the appreciation of the New Zealand dollar; the increased cost of working capital; reduced subsidies to farmers; and reduced purchasing power of the domestic market.¹⁵

Table I. Characteristics of Types of Planning.

	Mission/Goal/Objective	Assumed Relationship with Environment	Time Horizon
Short-Term Forecasting	Identify near-term operating results	Either stable or unstable	Less than 1 year
Budgeting	Financial control of operating results	Stable	Normally 1 year
Annual Planning	Identify problems, opportunities, and turning points to maximize results on an annual basis	Unstable	1 year
Long-Range Planning	Identify problems, opportunities, and turning points to maximize results of current or closely related operations over a longer period	Stable	5, 10, or 15 years
Strategic Planning	Identify new areas in which skills may be applied and threats to current operations may be thwarted	Unstable	5, 10, or 15 years

Source: Rhyne.³

Rhyne developed a continuum of planning systems based on the level of their openness and the length of their planning horizon.³ The types of planning are short-term forecasting, budgeting, annual planning, long-range planning, and strategic planning. The characteristics of each of these types of planning are shown in Table I.³ The terms strategic planning and long-range planning have often been used interchangeably in the strategic management literature. Rhyne suggested that the fundamental distinction between the two planning types is based on “whether the domain of the organization was considered given—long range planning; or whether it was open to question—strategic planning.”

Methodology

This study used a mail survey of agribusiness decision makers across New Zealand over the

period October to December 1992. Survey questionnaires were mailed to 175 agribusiness firms. Personal interviews of various agribusiness executives were also conducted during the period January to February 1993 to supplement the information received through the mail questionnaires.

A wide range of New Zealand agribusiness firms responded to the questionnaire. A total of 57 firms responded and these include firms selling fertilizer, animal health products, farm equipment, wool brokerage and exporting services, skin and leather products, forestry products, fish products, dairy cooperatives, farm consultancy businesses, farm and agribusiness finance firms, stock and station agents, agricultural product packaging services, meat processors and exporters, and statutory boards.

Nonresponse bias may cause problems if there was a systematic difference in the behavior of those firms that participated in the sur-

vey and those that did not. Because this type of information is unavailable and hard to obtain, there is no systematic way of determining possible sampling biases except to use the response rate as an indicator. Even though the response rate in this survey is not unreasonably low (33%) compared to most surveys, some degree of nonresponse bias may realistically exist. Efforts were made, however, to represent all types of agribusinesses in the sample. (A copy of the questionnaire used in the survey is available from the authors upon request.)

Survey Results

Valuable insights into the strategic planning processes actually used by the agribusiness firms were obtained. Of the 57 firms responding to the survey, 33 (58%) had formal strategic planning processes in place and 24 had no formal planning mechanisms. Of the 33 firms with formal strategic planning processes, 25 had formal written strategic plans and 8 had no written plan. Hence strategic planning seems to be a very important activity for many of the firms surveyed. Likewise, the existence of a significant number of firms with formal written strategic plans is in contrast with Westgren et al.'s¹² results from a survey of California agribusinesses and Robinson and Pearce's¹⁹ findings relative to small businesses in general. Respondents were also asked whether they consider their organization a fast-growing firm. Interestingly, 22 of the 57 firms surveyed answered positively to this question and most of these firms had formal strategic planning processes.

Among those that had formal strategic planning processes in place, 5 started their planning processes before 1984, 17 started theirs during the period 1984 to 1990, and 11 started having strategic planning processes in place after 1990. Based on these figures, it seems that the economic reforms and the feeling of uncertainty that came along with these changes had a positive effect in terms of opening the doors

Table II. Persons Involved in Firms' Strategic Processes.

	Number of Firms	Extent of Contribution (%)
President/CEO	29	39
Planning Officer	25	40
Industry Consultant	9	3
Board of Directors	8	11
Other	5	7

of the firms to strategic planning. Indeed, most of the agribusiness executives interviewed appear to believe that the economic reforms have made them more aware of the importance of strategic planning.

Respondents were asked to identify the individuals involved in the strategic planning process and the extent of their involvement. Results reveal that the Chief Executive Officers (CEO) or the Presidents of 29 firms were involved in strategic planning (Table II). Twenty-five firms revealed the involvement of planning officers, nine firms indicated the use of industry consultants, and eight firms had the participation of members of the board of directors. Interestingly, the respondents indicated on the average that CEOs and planning officers contribute close to 40% each of the total effort devoted to planning. Industry consultants comprised roughly 3% of the total and members of the board of directors and others made up the remainder of the effort. The significant weight of the CEOs' contribution to the planning processes could be due to the fact that many of the firms in the survey are relatively small in size.

The 33 firms with formal strategic planning processes in place were also queried as to the component parts of those processes. The number of firms conducting each of the strategic planning elements are as follows:

- analysis of competitors 33
- competitor future strategies 23
- potential industry entrants 21

• general business environment	31
• trends in industry	28
• firm resources available	28
• buyers' bargaining powers	21
• suppliers' bargaining powers	21
• firm's competitive position	30

All but one firm among those that had formal strategic planning processes update their plans regularly. Moreover, 27 of 33 firms indicated that their formal strategic plans are tied to annual operating results.

Respondents were also requested to disclose the amount of sales and profits of their firms during two periods: 1983 to 1984, prior to the start of the implementation of the economic liberalization measures; and 1990 to 1991, after most of the measures have been implemented. As shown in Table III, differences are evident in the level of sales and profits of the firms surveyed between the two given periods. In fact, during the period 1983 to 1984, average domestic and export sales of the 33 firms that responded to this question amounted to about NZ\$48 million. This figure increased to NZ\$99 million during the period 1990 to 1991, when most of the economic liberalization measures had been implemented. The percentage of a firm's sales from exports slightly increased as well from 24.82% in 1983 to 1984 to 25.39% in 1990 to 1991. Average after tax profits of the 28 responding firms surveyed likewise soared from about NZ\$2.3 million before the implementation of the economic liberalization measures to NZ\$9.8 million in 1990 to 1991. Some agribusiness executives had res-

ervations about the effectiveness of the economic reforms implemented. Yet, most of the firms in the survey had improved their sales and profits during the economic liberalization period.

As expected, some downsizing occurred during the economic liberalization period. Results from 42 responding firms indicate that the average number of employees slightly declined from 374 in 1983 to 1984 to 327 in 1990 to 1991.

The economic liberalization measures adopted since mid-1984 have changed the environment in which the firms operate. Respondents were then asked to compare and evaluate the relative difficulty of determining their goals and objectives based on several issues before and after the mid-1984 economic reforms. The scale used was: 1 = less difficult; 2 = about the same; 3 = more difficult. The sample was subdivided into two groups based on the type and extent of strategic planning. The first group consists of 24 firms without formal strategic plans (referred to as the informal planning group). No firm in this group had formal strategic planning processes. The second group, containing 33 firms, had formal strategic planning processes and is called the formal planning group. Based on these groupings, the average responses for the individual factors evaluated are provided in the first two columns of Table IV. The average responses for all firms in the sample are provided in the third column.

The results seem to indicate that those firms that had formal strategic planning processes encountered less difficulty in establishing goals and objectives based on the six factors presented to them in the questionnaire compared to those firms without formal strategic planning processes. With the ex-

Table III. Average Sales (in NZ\$), Percentage of Sales from Exports, Number of Employees, and After-Tax Profits: 1983-1984, 1990-1991.

	1983-1984	1990-1991
Average Total Sales (NZ\$)	\$47,913,001	\$99,016,513
Percent of Sales from Exports	24.82	25.39
Number of Employees	374	327
Average after Tax Profits (NZ\$)	\$2,295,138	\$9,773,859

Table IV. Establishment of Firm's Goals and Objectives before and after Start of Economic Liberalization (Average Responses).

Factor	Informal Group	Formal Group	All Firms
Minimization of Risk	2.38	1.92	2.13
Profitability	2.33	1.75	2.02
Market Position	2.23	1.80	2.00
Cash Flow	1.95	1.96	1.96
Value to Consumer	1.95	1.75	1.85
Utilization of Resources	2.00	1.67	1.82
Overall Average	2.14	1.81	1.96

Note: Scale used is 1 = less difficult, 2 = about the same, 3 = more difficult.

ception of determining firm goals/objectives based on cash flow, the average responses on each factor listed in Table IV is lower in the formal planning group than in the informal planning group.

Respondents were also asked the extent of improvements they made in various areas of management and operations during the economic liberalization period. The following scale was used: 0 = no improvement at all; 1 = slight improvement; 2 = significant improvement; 3 = very

significant improvement. Consistent with prior expectations, firms with formal strategic planning processes seem to have adapted better to the changing economic environment than those without formal strategic planning processes based on the extent of the improvements they made in the various areas (Table V). The overall average response of the formal planning group is higher than that of the informal planning group. Likewise, the average responses for each of the areas presented

Table V. Extent of Improvement Made on Areas of Management by Groups during Economic Liberalization Period.

Area	Informal Group	Formal Group	All Firms
Quality Control	1.38	2.24	1.85
Management Info. System	1.50	2.03	1.79
Financial Management	1.50	2.03	1.79
Customer Management	1.50	1.97	1.75
Technology	1.71	1.72	1.72
Corporate Planning	1.04	2.10	1.62
Work Methods and Flows	1.33	1.79	1.58
Labor Relations	1.42	1.69	1.57
Staff Training	1.21	1.83	1.55
Personnel Policies	0.83	1.59	1.25
Management Contract/Incentives	0.88	1.24	1.08
Management Structure	1.17	1.97	1.06
Overall Average	1.29	1.85	1.60

Note: Scale used is 0 = no improvement at all; 1 = slight improvement; 2 = significant improvement; 3 = very significant improvement.

to the respondents are higher in the formal planning group than in the informal planning group. Average response to all areas considered by all firms in the sample is 1.60.

Concluding Remarks

Agribusiness firms in New Zealand, over the last decade, have felt the impact of unprecedented environmental uncertainty. One of the management tools that could be used in an uncertain business environment is strategic planning.

This study attempted to assess, using results from an exploratory survey, the characteristics of strategic planning processes of agribusiness firms in New Zealand during the economic liberalization period. In particular, some valuable insights were gained into the characteristics of the strategic planning processes actually used by agribusiness firms before and after the implementation of economic reforms.

The results of the survey reveal that strategic planning processes exist in the majority of the firms studied. In fact, more than half of the firms in the sample had formal strategic planning processes in place. Interestingly, however, only 5 of the 33 firms had started formal strategic processes before the start of the implementation of the economic re-

forms in mid-1984. It is, therefore, possible that the dramatic changes that the economic reforms have brought in the business environment could have been the impetus behind the development of formal strategic planning processes after 1984.

The President/CEO and Planning Officer are the major individuals responsible for the strategic planning process. Firms with formal strategic planning processes experienced less difficulty establishing goals and objectives based on profitability, utilization of resources, market position, value to customer, and minimization of risk than firms without formal strategic planning processes. Firms with formal strategic planning processes also performed better in terms of improving various managerial and operational areas than firms without formal strategic planning processes.

Although based on an exploratory effort, these results suggest that research relating to strategic planning and changes in economic environment can generate information of interest to policy makers and agribusiness managers. Economic reforms have made agribusiness decision makers in New Zealand more aware of the importance of strategic planning. This awareness seems to have helped the firms adopt a strategic orientation and become proactive to changes in the economic environment.

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