

# **Exploring Aspects of Strategic Management for a Small Plant Bakery**

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## **Abstract**

This paper explores the use some aspects of strategic management in order to inform a small plant bakery. We briefly review key theories underpinning business strategy and its implementation. A small plant bakery in the UK was analysed, identifying its Critical Success Factors (CSF) and Key Performance Indicators (KPI) comparing these with previous periods and other successful bakery businesses. Furthermore, the case study strategy is used to guide this research. We seek to determine if critical success factors and key performance indicators can be used to improve strategic direction, performance and prioritise new investment. Together with reviewing the small plant bakery's employee's opinions of how they feel the small plant bakery is achieving on its strategy and CSF's. The findings of this research are described and further refinements for future research are proposed.

## **1.0 Introduction**

The purpose of this research is explore the use of CSFs (Rockart, 1979), and KPIs (Parmenter, 2012) to inform strategic direction and performance of a small plant bakery. Moreover, CSF's and KPI's are also reviewed within the framework of the balanced scorecard (Kaplan and Norton, 1992). Some aspects of strategic management are highlighted and examined, which could be employed to guide the strategy of this small baking business. We discuss our scientific philosophy, justify the use of a case study (Yin, 2005) strategy and detail the methods of data collection. Furthermore, the research attempts to assess how CSF's and KPI's have been identified, and used historically in a real baking business, and how potentially they could be used in the future to help manage the strategic direction and operational effectiveness of the business.

We believe this work may also assist the owners prioritise current resources and future strategic direction and investment plans for the business. Upon commencement of the research, the owners were considering investing more money into the business to provide improved products for their customers, some higher margin products (pastries, which are currently bought in) and create a more sustainable and profitable business. During the research the business put these short term investment plans on hold as it considered a potential merger with another small artisan plant bakery.

As identifying CSF's and implementing KPI's and other strategic initiatives takes time to execute, and more time to have an impact, the research would ideally have been conducted over a longer period of time to try to assess if the sharing of these concepts with the owners and managers of the business did help improve strategic direction and performance further. As this was not possible, due to the limited time available to complete the research, a base case of the small plant bakery's CSF's,

KPI's and strategic direction was established at the time of its acquisition by the current owners in 2012.

We negotiated access to the management, employees, financial and operational data of the small plant bakery. An unexpected finding from the case study was discovered which we believe is an emerging and important aspect of strategic management, namely, staff continuously evolving their competencies through learning and development in order to realise business CSFs. Conclusions from the baking case study are offered, together with some lessons learnt which informs future research.

## 2.0 Research Methodology and Methods

The research questions and objectives informed our research philosophy, design and methods – and was guided by the research onion (Saunders *et al*, 2015) and a sociological scheme (Burrell and Morgan, 1979). We believe this exploratory work is associated with the Interpretive Paradigm, which informed our scientific philosophical stance ((Ontology ('the what') (nominalism)), (Epistemology ('the how') (anti-postivism)), (Axiology ('the why')(value-full))). Furthermore, it was decided that the research approach is induction.

### 2.1 The Case Study Approach

The case study approach seeks to illustrate relationships that exist within a single organisation or organisational group. Whilst we recognise that the weaknesses of this approach include the difficulty of generalising from a single organisation (Galliers, 1991) the fundamental reason for selecting the approach is that a case study allows exploration of a real world situation The five components of the case study (Yin, 2005) is used to inform the research process (see table 1.0). However, we employ only four components, which are moulded to our research requirements.

	Description of Steps
1	Via structured interviews with the proprietors and or senior management of the small plant bakery, document the history of the bakery and seek to establish the strategic direction of and challenges faced by the business at acquisition and the techniques used to seek to achieve these objectives and meet these challenges. These will be translated into CSF's by the researcher to identify management's view of the business on acquisition and establish a base case of the business's CSF's, KPI's and strategic direction at that point in time.
2	The same process will also be used to identify the current CSF's, KPI's and strategic direction of the business; it will seek to establish the small plant bakery's current CSF's, their priority at the bakery and document associated KPI's that are used to measure the CSF's. Furthermore it will seek to establish how and when CSF's are used communicated, measured and reported. It is recognised that this stage may require some interactive dialogue and work by the researcher to help the proprietors and personnel of the small plant bakery to understand their CSF's and specify KPI's used. This step is seeking to establish the current situation at the bakery and potentially demonstrate the effectiveness of communication concerning the CSF's and strategic direction of the business.
3	Using CSF's identified during the structured interviews mentioned in the prior step a short questionnaire will be completed with the employees of the small plant bakery. The questionnaire will seek to gather the opinions of the small plant bakery employees as to how they consider the small plant bakery is achieving on its CSF's and KPI's and what the business investment priorities should be.
4	Compare the small plant bakery CSF's and KPI's with the common baking industry CSF's and KPI's identified in previous research, Leary (2013) to see if it is possible to make recommendations to the proprietors and senior management and the small plant bakery of additional CSF's and KPI's they could perhaps beneficially employ in managing the business. Given the timeframe involved even if the business does decide to focus on some suggested additional CSF's and KPI's there will not be enough time within the time constraints of this piece of research to assess the full impact these may have on the business. Until further research can be completed the success of these changes may only potentially be judged by the willingness of management to consider these recommendations.

**Table 1.0: Key Research Steps**

The starting point is the development of a preliminary understanding of aspects of strategic management for a small baking plant. An exploratory case study is undertaken to address our research questions related to the use of CSF's, KPI's for a small baking plant.

**2.1.1 Component 1-Research Question**

This research was conducted to provide a response to the following research questions:

- Can the most important CSFs and KPI's for a small plant bakery business be identified?
- Can CSFs and KPIs be applied by management to improve strategic direction and performance?

Additionally, there are six objectives underlying these questions (see table 2.0).

	<b>Description of Objectives</b>
1	Determine and attempt to prioritise the most important CSF's and KPI's for the small plant bakery business comparing these to CSF's and KPI's identified in previous research on this topic.
2	Understand management's and employees (internal) perception as to the strategy of the business and the businesses strengths and weaknesses.
3	Determine from financial data and other KPI's whether the use of CSF's and KPI's has meaningfully improved the strategic management and performance of the small plant bakery business.
4	Analyse the business from a balanced scorecard perspective and identify strengths and weaknesses of the business.
5	Determine if it is possible to identify additional CSF's and KPI's that could be used to help manage the business.
6	Explore a limited number of theories of strategic planning and implementation that could be used to help improve strategic direction in the small plant bakery.

**Table 2.0 Key Research Objectives**

**2.1.2 Component 2-Unit(s) of Analysis**

The units of analysis for this small bakery exploratory research are CSF's and KPI's.

**2.1.3 Component 3-Evaluation**

The evaluation will be largely internal with both qualitative and quantitative data being collected through semi-structured interviews and examination of financial and other company documents. External reference will be sought by using earlier research work that has identified CSF's and KPI's used in the bakery industry and verification of the findings will be sought through the use of a questionnaire completed by the bakery workforce.

**2.1.4 Component 4-Interpretation of Findings**

The evaluation of the current and historic CSF's and KPI's of the small plant bakery and a review of financial and other company documentation will allow us to answer the research questions and objectives through interpretation of the study findings. This may lead to recommendations for the small plant bakery and more generally other bakery and non-bakery organisations concerning the use of CSF's and KPI's.

### **3.0 Aspects of Strategic Management**

A brief overview of important aspects of strategic management which informs this work is undertaken.

#### **3.1 Critical Success Factors (CSF's)**

The concept of CSF's was developed and defined by Rockart (1979) as: "*Critical Success Factors are those performance factors which must receive the on-going attention of management if the company is to remain competitive*". There are many other definitions of broadly similar nature that have been developed over time – such as Boynton and Zmud (1984) - "*Critical Success Factors (CSF's) are those few things that must go well to ensure success for a manager or an organisation, therefore they represent those managerial or enterprise areas that must be given special and continual attention to bring about high performance. CSF's include issues vital to an organisations current operating activities and to its future success*".

Further clarification from Johnson *et al* (2008) where they indicate the "...purpose of CSF's is to identify the factors that will make the organisation successful in the eyes of its main stakeholders-usually investors and customers" and they view CSF's as "*performance differential*". Johnson and Friesen (1995) developed a system that facilitates identification and articulation of CSF's and documented case studies relating to the major sectors of the Economy, Manufacturing, Education, Insurance, Health Care and Service. Unfortunately this research is relatively generic and focussed on large organisations with the attendant additional complexities of culture and effective communication in larger organisations. Leary (2013) argues that although there was not a tightly defined list of CSF's used in the baking industry, there were a number of more common CSF's that were present in successful baking businesses.

#### **3.2 Key Performance Indicators (KPI's)**

Parmenter (2012) asserts: "*KPI's represent a set of measures focussing on those aspects of organizational performance that are the most critical for the current and future success of an organization.*" We believe there does not appear to be a broadly accepted definition of KPI, although the concept is easy to understand. With respect to KPI's, Neely (2010) introduced the concept of the "*four CP's*" of measurement which helps to illustrate the purpose and use of KPI's:

- Check position; *they enable control by allowing managers to see where the organisation is in relation to its plans and its competitors.*
- Communicate position; *they are used to report performance internally and to the organisation's external stakeholders.*
- Confirm Priorities; *i.e. the crucial factors on which managers must focus.*
- Compel Progress; *because performance against KPI's is used to evaluate managers and staff, this ensures that every employee will want to achieve them.*

Leary (2013) also believes that whilst there was not a closely defined list of KPI's used in the baking industry, there were a number of more common KPI's that were present in successful baking businesses.

### 3.3 Balanced Scorecard

Kaplan and Norton (1992) developed the balanced scorecard in the early 1990's, which was originally intended to be a measurement tool, but evolved into becoming a strategic management philosophy and model for implementing change. Their work also further developed thinking around CSF's and KPI's by introducing the balanced scorecard concept when thinking about success in organisations, presenting the four perspectives of the balanced scorecard as questions:

- Financial perspective; *"If we succeed how will we look to our shareholders?"*
- Customer perspective; *"To achieve my vision how must I look to my customers?"*
- Internal perspective; *"To satisfy my customers, at what processes must I excel?"*
- Learning and growth perspective; *"To achieve my vision, how must my organisation learn and improve?"*

The balanced scorecard concept was also used to help review the results of the review of the small plant bakery and its CSF's and KPI's.

### 3.4 Other Important Strategic Thinking

In 1962 Alfred D. Chandler Jr. defined strategy as *"the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals."* As business strategy has developed over the years theorists have evolved the definition. Johnson *et al* (2008) offers definition of strategy as *"the direction and scope of an organisation over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations."* Business strategy first began in the early 1960's and from then until the 1980's it was all about positioning as to where your business was situated compared to competitors and market share and where other businesses sat in the portfolio of the business. Business strategy has significantly evolved from the late 1980's to today and its focus moved on to the processes, procedures and routines in which businesses get things done, Kiechel (2010). There are a number of tools that have been developed to help with strategic analysis such as SWOT and PESTEL analysis and Porters Five Forces model.

One of the more significant debates surrounding Strategic Management has been whether a prescriptive or emergent approach is more appropriate. The prescriptive theorists broadly advocate that it is *"...possible to plan strategy in advance and then carry out that strategy over time"* Lynch (2015) *i.e.* that realistic estimates and assumptions can be made for future unknowns. The emergent theorists, including *"....writers like Quinn emphasise the uncertainty of the future and to suggest that setting out to identify a purpose and a single strategy and then develop a single strategic plan may be a fruitless task"* Lynch (2015), rather they believe that strategic management is a more dynamic and entrepreneurial process with organisations experimenting and gaining competitive advantage over time.

The approach taken to strategic management by a small plant bakery is unlikely to add significantly to this debate, but nevertheless the research did try to assess how the small plant bakery undertook its strategic planning in a live business environment. The literary review also revealed some interesting alternative ways of thinking about

corporate strategy. Normann and Ramirez (1994, 1993) in an article including a discussion on the business phenomenon that is IKEA talk of “offerings” rather than products: “*Rather, it is offerings that compete for the time and attention and money of customers...*” and that dialogue with partners and customers is key to success; “*To go on winning, a company must create a dialogue with its customers in order to repeat this performance over and over again and keep its offerings competitive*”. One of the interesting challenges identified in this article especially when working with partners was the need to establish credibility with the partners and or end customers to be successful.

Prahalad and Hamel (1993) in an article focussing primarily on the evolution of large corporates in the consumer electronics and telecommunications market and how some of these corporates failed to manage their core competencies, speaks of end products; “*They are the physical embodiment of core competencies*”, and in another article they (Prahalad and Hamel 1994) identify the need for companies to continually plan and focus on future business strategies “*Unfortunately, most companies consider the need to regenerate their strategies and reinvent their industries only when restricting and reengineering fail to halt the process of corporate decline*”. This also can be linked to the thinking of Normann and Ramirez (1993), when talking about core competencies stating “*...that one of the three tests applied to identify a core competence.....it should make a significant contribution to the perceived customer benefits of the end product*”. Interestingly they also identify failure to invest in core competencies as a reason for significant corporate under performance. “*Core competencies are the wellspring of new business development*”. Whilst the large corporates discussed in these articles are clearly very different enterprises from the small plant bakery, the different ways of thinking are useful to consider when reviewing the strategy of the small plant bakery.

#### **4.0 Background of the Small Plant Bakery**

Reflecting the origins of the founders of the small plant bakery, the bakery produces Artisan Italian breads and pizzas, with many products incorporating a Biga levain (a form of a Sourdough style starter). The business positions itself in the market as making high quality and handmade breads which are flavoursome, fresh and natural products:

*‘All of our products are handmade. We start with our Biga levain (which we have been lovingly nurturing for over 14 years). This gives all the products a rich sourdough flavour rarely tasted in mass produced bread. Nightly we produce over 3,000 loaves which are delivered by our own vans within hours of being baked to our customers, ensuring the freshest, most natural, best tasting bread in the capital’.*

Company website (2015).

The business (incorporating the bakery, two shops/cafes and a street market venture) was bought by the current owners in 2012 and has been restructured to such an extent that the previously heavily loss making business has now achieved a near breakeven point. Turnover in the financial year to 31 July 2013 was in excess of £1m, with the bakery producing 3000-4000 baked products each day. The small plant bakery is used to supply two related shop/café businesses (one in and one outside the legal structure of the business analysed) and market stalls with common ownership and its own wholesale customers, primarily restaurants, delicatessens, hotel and pub businesses

and more recently burger chains, but also includes a large well known high street supermarket chain.

The business was bought as a going concern and there were a number of legacy issues, including, a loss making business, over staffing, old premises and aged equipment. Whilst the profitability and staffing situation has improved, the aged premises, and other legacy issues are on-going challenges for the business. The main business developments since the acquisition have been the upgrading of the baking team, and a growth in turnover via both growth in the customer base and new products primarily brioche buns and flavoured breads such as raisin and walnut and sage and onion.

## **5.0 Small Plant Bakery CSF's, KPI's and Strategic direction**

### **5.1 Before Acquisition**

No documentation was available in respect of the original acquisition of the business; it was noted there did not appear to have been a history of setting strategic goals and objectives for the business prior to acquisition. Anecdotal information suggests the bakery was run as a non-commercial organisation concentrating on the quality of the products and keeping customers happy and that the previous owner had financially indulged the business by injecting additional funds as and when the business lost money. The strategic direction at acquisition appears to have been “laissez faire” and main CSF's were:

- Maintain the quality of the products
- Keep the customer base happy

As the business was bought as a going concern, with a head baker, staffing and an established customer base in place the new owners did not seek to make radical changes immediately after acquisition. Until an operations manager was recruited the bakery was run on a day to day basis by the former head baker whose focus was on this strategic direction and these CSF's as this was how things were managed under previous ownership. It is slightly disappointing that the research has not been able to independently validate the strategic direction and CSF's at acquisition, but unfortunately this reflects the practical reality when working with a small business that does not keep extensive corporate records and some of its important history is only retained in the memory of employees or former employees.

### **5.2 After Acquisition**

The operations manager who now manages the bakery on a day to day business was recruited to business in mid-2013 and is responsible for the day to day running of the business. Via a structured interview process, using both the Balanced Scorecard and previously identified bakery CSF's as references it was established the current strategic direction and CSF's for the business were as follows:

- Improve the profitability of the business and to grow sales.
- A focus on customer service
- High quality bread made using high quality ingredients
- A team and bakery process that rarely fails to deliver product to customers as they require
- A well-diversified customer base
- A good track record with New Product development
- Competitively priced products

As well as a broader range of CSF's identified, the major change to the strategic direction of the business has been the much greater focus on improving the profitability of the business. The main ongoing challenges for the business in achieving this strategy and these CSF's were identified as follows:

- Achieving the right consistency and quality of staffing
- Having more management resource to focus on improving controls and growing sales
- Managing legacy premises issues, with limited space and aged equipment restricting the ability to improve production capacity
- Justifying significant investment into a business making minimal or no profits

The small plant bakery's KPI's are financially orientated, formal management reporting is quite comprehensive, but concentrated exclusively on the financial aspects of the business; the monthly reporting contains the following: Monthly segmental reporting for the three business lines, Wholesale bakery, Shop and the Markets; the report contains an analysed Profit and Loss account detailing Sales, Purchases, Staff costs, Direct expenses, Overheads, Other costs and Profitability for the current month, prior month and year to date. There is also a month end balance sheet and a commentary explaining major changes in the financial numbers compared to prior period and forecast. There is an annual budget process and financial performance is reported to the Board of Directors monthly.

As is common in most small private organisations detailed financial information is not communicated to employees on a regular basis. Communication to employees is piece-meal and usually concerns operational needs, planning or concerns. Regular team meetings are practically difficult to organise due to timing issues (employees are rarely on-site at the same time) and many employees do not have English as their first language. One piece of information is logged and publicly displayed, concerning customer complaints; the significance for the staff being that the monthly baker bonus payment is reduced for each complaint.

### **5.3 Internal perception of the Small Plant Bakery CSF's, KPI's and Strategic direction**

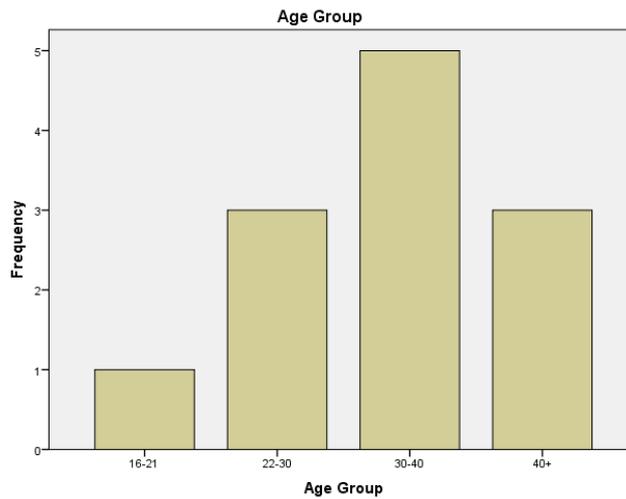
If strategic goal setting and identification of CSF's and KPI's are to be effective in a business environment communicating these to the organisation and regular monitoring and feedback are key steps. Niven (2014) believes that: "*The strategy map which is first and foremost a communication tool, which translates your strategy into the vital objectives necessary to execute the plan.*" In order to assess the small plant bakery's overall understanding of its strategic direction, CSF's and any associated KPI's a survey by questionnaire focussing on these topics was conducted with those bakery staff willing to complete the survey (see appendix b). The survey was conducted with 12 members of staff (from a total regular staff of 18) and analysed using the Statistical package for the Social Sciences (SPSS), with the following results:

#### **5.3.1 The small plant bakery's respondent profile**

The typical respondent had the following characteristics:

- Was aged 40 or less (see figure 1.0)
- Had 3 or less years baking experience (see figure 2.0)
- Had worked at the bakery for less than 3 years
- Was not a qualified baker

- Was a baker or senior baker



**Figure 1.0 Age Group Frequencies**



**Figure 2.0 Baking Experience**

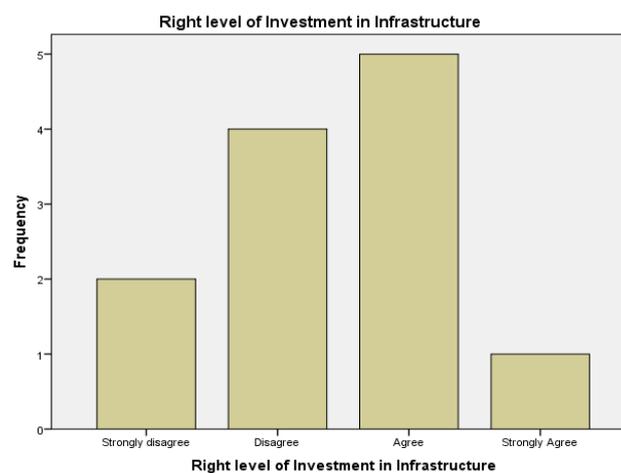
### **5.3.2 Respondents opinions of the Small Plant bakery’s CSF’s, KPI’s and Strategic direction**

The questionnaire (see appendix a) sought respondents opinions on a number of the small plant bakery’s CSF’s and strategic direction and using a multiple choice response grid which employed a Likert type scale. Table 3.0 highlight the results.

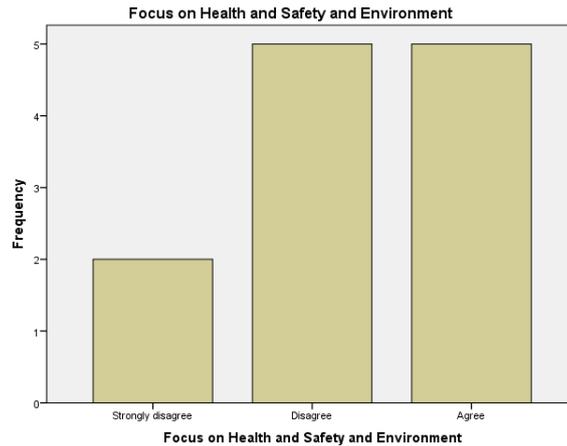
CSF	*Mode	**Median
The Bakery uses high Quality ingredients and makes Healthy and high Quality breads	Agree	Agree
The Bakery is a cost effective producer of bread	Agree	Agree
The Bakery Distributes its products in a high quality and effective manner	Agree	Agree
The Bakery is focused on customer service and what its customers want and need	Agree	Agree
The Bakery has a strong Brand and is good at Marketing	Agree	Agree
The Bakery has an appropriate focus on Health and Safety and Environmental issues	Disagree	Disagree
The Bakery has an appropriate focus on Employee welfare and well being	Agree	Agree
The Bakery makes the right level of Investment in Infrastructure and Equipment	Agree	Between Agree and Disagree (2.5)
The Bakery has an appropriate financial structure to support its business	Don't know	Disagree
The Business has a clearly communicated strategy which is consistently followed	Agree	Between Agree and Disagree (2.5)

**Table 3.0: Key Findings From Questionnaire**

The data collected is largely ordinal in nature and the statistical measures used to analyse the data and determine a measure of central tendency were: Mode and Median. In terms of the strategic direction and CSF's respondents broadly agreed that the bakery was focussed on the CSF's and factors identified as being important by management, there were just two factors where there was a significant divergence of views. For these two factors a significant number of the respondents thought there was not an appropriate focus on the right level of investment in infrastructure (see figure 3.0) and health and safety and environmental (see figure 4.0) issues. It was also interesting to note that over half the respondents either didn't know or disagreed that there was a clearly communicated strategy and that all respondents thought the business was either at break even, loss making or didn't know, with nobody thinking the business was profitable.

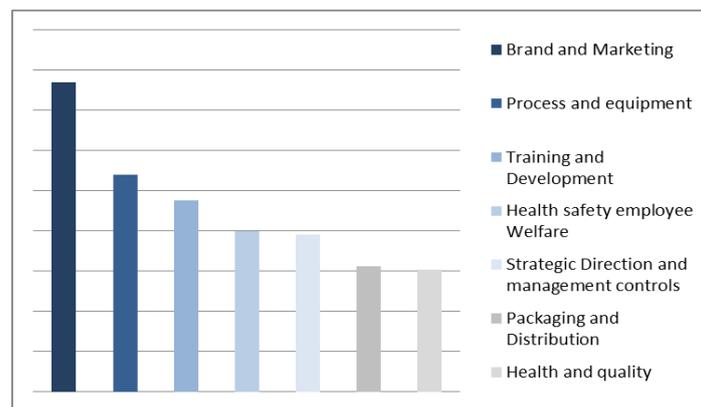


**Figure 3.0 Infrastructure Investment**



**Figure 4.0 Health and Safety**

The divergent opinions were largely backed up when respondents were asked to prioritise where they would prefer to see additional investment in the bakery made, with investment in infrastructure ranked second and health and safety ranked fourth; the results in order of priority (see figure 5.0)



**Figure 5.0: Respondents collective ranking of Investment priorities**

As respondents had been asked to rank additional investments in order of priority, 1<sup>st</sup> being the highest, each category was summed and the sum inverted to create the above chart. The full text of investment priorities is shown below:

- Additional spend on Brand development, Marketing, better Customer service and New product development
- Investment in Processes and Equipment for baking to make the Bakery more cost effective
- Employee training and development
- Improvements to Health and safety, cleanliness and employee welfare
- Improved strategic direction and management controls
- Improved Packaging and Distribution
- Healthier and better quality ingredients and consistency controls

It may be considered that there is an inconsistency in that overall respondents had confirmed the bakery had a strong brand and good marketing, but they clearly identified improved branding, marketing and customer service as the most important area to spend additional funds on. After that the respondents prioritised additional

investment focused on new equipment, employee training (links with learning and development), welfare and health and safety. Improved packaging and distribution, healthier and higher quality ingredients were considered the least important.

#### **5.4 Emerging CSF's, KPI's and Strategic direction**

The current CSF's identified are more extensive than those identified at the time of acquisition, a strategy has been developed and appears to be much more actively managed to; clearly the profitability of the business is a much more important focus for the current management and owners.

The main KPI's are financially orientated focusing on comparisons with prior year and budget for sales, gross profits and net profits. They have become more comprehensive since the recruitment of the Operations manager and Financial controller, but typically with a small business they have not extended beyond the financial information in any formal sense. There is an important emphasis on the monthly gross profit % and comparison with budget and prior periods. We have reviewed in detail the methodology used to calculate the gross profit by product and overall. This review resulted in a number of recommendations to improve their accuracy and to review the sales price formulas in light of more accurate gross profit calculations and some apparent under-pricing of some of the current product range.

From an analysis of the financial data (KPI's) available at the time of the acquisition to those now the business profitability (both gross and absolute profits) have been improved substantially and from the data available it is possible to draw the conclusion that a focus on this CSF and associated improved KPI's may have helped to improve the financial performance of the business. Intellectually it is difficult to isolate this and conclude that this is the sole or main reason for this improvement as other business and factors may have also had an impact. It is also more difficult to assess the impact of the business focus on the additional CSF's identified as there are no historic or current KPI measures for these CSF's.

### **6. Comparative Review using the Balance Scorecard**

#### **6.1 CSF's Comparison**

The current CSF's identified at the small plant bakery were compared to "previous research" and the "baking successes" identified by Leary (2013) (see table 4.0).

Balanced Scorecard	Small Plant Bakery	Previous Research	“Baking successes”
Customer perspective	A focus on customer service A good track record with product development	A good product and continuing focus on customer needs	Yes
Customer perspective	<i>Having more management resource to focus on controls and growing sales</i>	Strong brands and good marketing	Yes
Customer perspective	High quality bread made using high quality ingredients.	Focus on High quality and healthy food	Yes
Customer perspective	High quality bread mentioned above; Food safety and hygiene may have to be taken to very high level if healthy breads are promoted	Quality and Food safety/ quality fresh bakery our customers can trust	Yes
Internal perspective	Making the bakery more cost effective and profitable. <i>Managing legacy premises and aged equipment. Justifying investment into a business making minimal profits. Achieving the right consistency and quality of staffing</i>	Cost effective production	Yes
Internal perspective		Robust and cost effective distribution	Yes
Learning and Growth perspective		Sensitivity to social issues such as environmental impact and involvement in the community, including buying responsibly and sustainable manufacturing	Yes
Learning and Growth perspective		Our people/Great place to work	Yes
Internal perspective	This was not identified as a CSF at the bakery, but the structure appears appropriate to minimise owners risk	An appropriate financial structure for the business	Yes
Internal perspective	A team and bakery process that rarely fails to deliver product to customers as they require		Yes
Learning and Growth perspective	The strategy to improve profitability and grow sales is clear; execution is challenging with current resources	A consistent strategy well executed by management	Yes
Customer perspective	Competitively priced products		Yes
Learning and Growth perspective	A well diversified customer base		Yes

**Table 4.0: Critical Success Factors Comparison**

Those comments in *italics* were identified as major challenges for the business in achieving the CSF’s but could be considered as CSF’s in their own right. There are a number of CSF’s which are currently not emphasised at the small plant bakery, these are further discussed.

## 6.2 KPI’s Comparison

All the small plant bakery’s KPI’s, with the exception of monitoring customer complaints are focussed on financial aspects of the business and a direct line for line comparison of these to the quoted businesses reviewed as part of the previous research, Leary (2013) was not meaningful. Although they are very similar in nature, they are of limited overall value as they are clearly tailored for the larger quoted businesses. For completeness the KPI’s for the quoted businesses are summarised in table 5.0.

Premier Foods plc	Greggs plc
1.Power Brand sales growth	1.Total Sales growth
2.Deliver £40m of overhead cost savings by 2013	2.Like for like sales growth
3.Increase in trading profits (underlying)	3.Adjusted operating profit
4.Recurring cash flow	4.Capital Expenditure
5.Reduction in Net Debt	5.Return on Capital Employed
6.10% of sales from new products	6.Operating Margin
7. <i>% of products testing superior to competitors</i>	7.Adjusted diluted earnings per share
8. <i>At least 50% of NPD are good for you choices</i>	
9. <i>Achieve a lost time accident rate of 0.29 per 100,000 hours</i>	
10. <i>4% reduction in CO2 equivalent emissions</i>	

**Table 5.0: Quoted businesses KPI's**

Those KPI's in *italics* are non-financial KPI's. The quoted businesses also had a number of what the researcher has labelled as “socially aware targets” and are summarised in table 6.0:

Premier Foods plc	Greggs plc
1.Buying responsibly	1.Reducing our impact on the world around us
2.Sustainable manufacturing	2.Making a difference to our communities
3.Diet and Health	3.Great place to work
4.Quality and Food Safety	4.Quality fresh bakery our customers can trust
5.Our People	
6.Community involvement	
7.Environmental performance (primarily reduction of emissions, waste and energy)	

**Table 6.0: Quoted businesses socially aware targets**

The small plant bakery does not produce KPI's for any of the non-financial CSF's or anything similar to the socially aware targets detailed above. Potential additional KPI's are further discussed in section 7.0.

### **6.3 Reflective Comparison - in a Balanced Scorecard Context**

The review of the small plant bakery's history, stated strategic direction and performance measures can facilitate the drawing of a high level summary of the CSF's of the business and how these fit into the four perspectives of the balanced scorecard:

**Customer Perspective-Market Position and Products;** the small plant bakery appears to have a good range of products which it has been expanding through product and business development (burger buns and flavoured breads). The products are high quality (the researcher has tasted the breads and can attest to this, there is also regular customer feedback about the excellent taste of the products); they are made using high quality and natural ingredients and are considered to be at the premium end of the market. The customer base is well diversified and despite customer losses from time to time sales continue to be expanded. The business has accepted lower pricing and/or unique product production for either volume deals or specific target customers and generally considers itself to be competitive on price. All their products are sold to other business (including their own shops and market stalls) for further sale or consumption by customers. It is the nature of a wholesale business (except for its own outlets), that the business is not sharing directly in the high retail premium its quality

products could attract if they were sold direct, however it also does not have the high associated retail cost base.

It is slightly surprising that on a fully attributed basis the shop and the market operation which have the benefit of achieving high retail prices are making negligible profits. Gross margins for the overall business of between 60-65% are arguably too low for such high quality products. The small plant bakery considers that it provides a reliable service to customers and meets their needs. The bakery distributes all its own products via overnight van deliveries and considers this to be an important part of the service, however it only charges delivery for small customers and may not be effectively re-charging these costs to customers. The business has a good quality product that appears to be well positioned with its customers and in the market place; however management have identified themselves that they need to spend more time marketing and growing the business. Finding this time or resource would clearly benefit the business.

***Internal Perspective-Business Complexity and Cost Base;*** the small plant bakery has a relatively simple business model and whilst execution on a daily basis is often challenging the business is not overly complex, it is limited to a small number of sites and employs approximately 15 people at the bakery. There are however many execution complexities for the business including the length of time the business operates, starting baking at 9am and delivering bread up to 5am the next day and the number of processes including mixing, baking, packing and delivery and cleaning all dependent on both machinery and significant human input where many things that can go wrong or fail. A food manufacturing business also requires an environment where the correct levels of food hygiene and safety are maintained. All of these factors place a considerable execution burden on the management of the bakery.

The cost base (excluding raw materials) is in the order of approximately £750,000 with more than half of this accounted for by employee costs. In terms of the overall cost base the main inputs are raw materials, employee costs and energy, taking all the costs of distribution together, including the cost of maintaining a fleet of vans and drivers wages also makes distribution a significant cost. Whilst the wage bill is very carefully managed there do not appear to be targets or cost reducing initiatives for the other major costs of the business. The business does not spend ostentatiously and aged equipment and premises do bring higher maintenance and repair costs, however the researcher believes a line by line review of the major input costs and some creative thought on how to save costs has the potential to reduce costs. The business does appear to have greater production capacity than is used at moment and if extra sales could be generated to fill this surplus capacity then these sales could have a very meaningful impact on the marginal business profitability.

***Financial perspective-Business performance and ownership structure;*** the business performance under the current management/owners has been fairly consistent, the business remains slightly loss making/ break-even, having improved from a heavily loss making situation prior to the ownership change. The business is structured as a private limited company with only a thin layer of equity and is dependent on the owners injecting further funds to cover any future losses or fund new equipment. The business performance makes it harder for the current owners to justify new investment into the business, as they have a low expectation of return on capital. The legal

structure is probably an appropriate structure at this time and limits risks for the current owners.

***Learning and Growth perspective-Leadership and Employee Development;*** there has been a relatively limited amount of time since the change of ownership and the Operations Manager was only recruited to the business in 2013. The baking team is currently being augmented with the addition of night managers and a new senior baker in 2014. However at this stage a management support structure for the Operations manager is embryonic and not well developed, leaving the business heavily dependent on the one Operations manager.

Currently there is no formalised structure for employees to learn and develop and any training is ad-hoc and provided by co-workers on a voluntary basis. There is little time/resource built into the shift system to allow for such development and with little incentive to think otherwise employees tend to think primarily of their role and not the overall team, customers or the business as a whole. This makes it difficult to implement change and pursue new initiatives with vigour. The business is improving its ability to learn as it starts to strengthen the team, but at this stage does not appear to have a deep enough management team or a nurturing culture to develop the next layer of management. The researcher considers the strengthening of the management team a very important factor in facilitating meaningful business progression.

Linking with the thinking of Prahalad and Hamel (1993) and Normann and Ramirez (1993) we contend that creating a platform for staff development and focusing an appropriate amount of time on developing business for the future is central to business success – especially if business strategy has new critical success factors which require new competencies.

## **7. Offered Future CSF's and KPI's**

The research has identified a number of additional CSF's which are not explicitly identified and could be targeted by the business in the future; these are listed in order of priority below:

- A consistent strategy well executed by management; deepening the management team appears to be a pre-requisite for this and would allow additional resource to be devoted to marketing and sales promotion.
- Establishing cost reduction targets and managing to these.
- Robust and cost effective distribution; explore the possibility of finding a partner (similar but non competing business) to reduce distribution costs or improve round densities
- A focus on employee welfare and development; Using senior bakers introduce a training scheme whereby employees can establish competencies in elements of the role such as moulding, oven work, mixing, packing delivering, food safety, etc.
- Reducing the impact on the world around us; it would be an interesting exercise to measure waste produced by the business to determine if significant money could be saved from the reduction of waste or waste recycling.
- Making a difference to the communities around us; the bakery has no involvement with any community activity and with time and resources it could try to develop this activity, even by donating unused bread.

The last two CSF's are more socially aware style targets and are likely to be more difficult to implement in a small business environment. We also identified a number of other potential business improvements and recommendations these were included in a Summary report issued to management and are summarised below:

- Review and improve the process of the monthly calculation of gross profits, including a review and checking of the pricing policies deriving from these cost calculations and a full review of current pricing structure.
- Explore further with the premium supermarket chain the potential to expand sales, develop the footprint, range of products supplied and the opportunities to partner on projects or promotions.
- Consider developing “healthier” products, such as gluten free, low salt, low sugar. There is a strong consumer trend towards such products and this may work well with the supermarket mentioned above. This could be combined with initiating contact with an academic organisation who might be interested in participating in such research with their students.
- Conduct a strategic review of the retail operations to see if they contribute sufficiently to the business to warrant the extra complexity of managing them.

Extensive KPI's are difficult to maintain in a small business environment where resources and suitable systems are limited, however we believe some of the additional KPI's identified by the research and detailed below could be employed to help encourage meeting some of the objectives of the business:

- Calculating the volumes of the different types of bread made on a monthly basis and their GP contribution; this would identify products making greatest contribution and help identify trends
- Publishing to employees the monthly GP % against prior month and target
- Calculating a GP contribution by delivery round
- Adding details of costs saved into the monthly financial commentary
- Publishing stats on bread quality and short deliveries not just complaints
- Including in the monthly reporting details of new customers and products and terminated customers and products
- Publishing a cleanliness health and safety rating report rating

## **8.0 Management Response and Feedback**

The above recommendations in respect of CSF's, KPI's and other business recommendations were shared with management and discussed at length in the conclusion.

The key points of the management feedback were:

- Although the researcher was not aware of this, the management felt the majority of the CSF's and business recommendations identified had been considered and discussed with the owners over a period of time, but achieving change within the given financial constraints was challenging. Despite this the research had been very helpful to the business in re-emphasising and focussing thought on these factors and any strategic implications they may have implied.
- There were some new recommendations which had not been previously considered by management and the bakery. They would examine these in greater detail, specifically looking at creating a “healthier” bread range and looking at waste recycling options.

- The ordering of the recommendations was appropriate and all the points made sense; a continuing focus on getting the gross profit calculations and the gross profit levels to appropriate levels and achieving the right management structure within the given financial constraints were by far the most important factors.
- The management felt they have short, medium and long term plans to improve the business in most of the areas identified.

### **8.1 Business Postscript**

On completion of the case study, the report was discussed with management it became clear a number of business changes have been made or are in the process of being instigated, including:

- A major upgrading of the bakeries gross profit calculation methodology and an increase in the pricing structure.
- The target gross profit %'s for the bakery have been increased due to an across the board price increase for all customers and the loss of one large customer, which had a heavily discounted pricing structure. This will be initially detrimental to the overall gross profit levels until these sales are replaced, hopefully at a better gross margin.
- The bakery is exploring the opportunity to achieve greater sales penetration and a deeper level of co-operation with the premium supermarket.
- One of the retail shops is being sold.
- The management are exploring ways to develop the management team within the given financial constraints.

### **9.0 Conclusion and Recommendations**

Overall the research informs the questions

- *Can the most important CSFs and KPI's for a small plant bakery business be identified?* Together with the small plant bakery management the case study has prioritised the most important CSF's and KPI's and compared these to CSF's and KPI's identified in previous research on this topic.
- *Can CSFs and KPIs be applied by management to improve strategic direction and performance?* Overall the research has demonstrated that it is possible to identify the most important CSF's for a small plant bakery and that CSF's and Key Performance Indicators (KPI's) can be used by management to help manage the business and improve performance and prioritise new investment. The financial performance of the business having improved substantially since new management was put in place and a focus on the CSF of improved financial performance and more detailed KPI's were introduced to measure this.

Additionally we conclude that the management and employees understanding of the business's CSF's appears to be relatively good (based on the verification obtained via the questionnaire), although communication about the business strategy and profitability appears to be more mixed. Furthermore training and development is important to realising CSF's – which suggests that strategy documents should have a learning and development section – which flags the need to gain relevant competencies in order to achieve business direction and performance.

Whilst interesting and thought provoking much of the strategic management theory and models require a deep enough management team to assimilate and consider implementing in a small business situation. Consequently in this small plant bakery environment they are practically very difficult to apply and considered to be relevant for the business. However some of the strategic theorists did inspire us to offer a small number of business recommendations to management of the small plant bakery concerning potential partnerships and nurturing and developing core competencies. The results of this case study have been discussed in detail with the management of the small plant bakery and the recommendations have been well received.

### **Case Study Limitations**

Whilst this piece of research focussing exclusively on one small plant bakery is clearly limited in scope, it has been relevant in validating some of the earlier desk based research identifying and prioritising CSF's and KPI's in the baking industry. However, we recognise that it is very difficult to isolate the impact of use of CSF's and KPI's from other factors and circumstances that can impact a business. A larger sample of baking organisations analysed over a longer period of time might help reduce the potential impact of other factors influencing the results of such research. Despite this it is hoped this research may help other baking organisations to determine which CSF's they should concentrate on and how actively they should manage these CSF's to promote success in their baking organisations.

Also being able to gain a full understanding of the business and provide detailed feedback to the business has been beneficial to the managers and owners of the business. Whether this helps the business prosper in the future will depend on many factors including the ability of the bakery management to execute within the financial constraints placed on the business.

### ***Lessons Learnt from the research***

#### **Using aspects of strategic management in a small business (plant bakery) environment**

It was both interesting and challenging to use aspects of strategic management in a small business environment and in addition to the more specific conclusions drawn above we noted a number of general observations which are worthy of mention:

- It would appear that a deeper involvement and participation by the business key stakeholders (owners) would help with the formation and implementation of a sound strategic business plan
- Regular communication is important at all levels of an organisation no matter how small especially if change is sought

### ***Practical research suggestions***

In order to successfully execute a larger and more significant research project examining similar types of concepts across a broader range of businesses - we suggest the following maybe helpful:

- Securing the level of access required in a range of baking organisations over a prolonged period of time is difficult and requires detailed advance planning and contact with the organisations before the research commences.
- The research should be planned with suitable timeframes; as this kind of research requires enough elapsed research time to facilitate analysis over a

suitable period of time allowing changes to be made and the potential impact of these changes to be observed and measured.

- Achieving a consistent and detailed level of financial and operational transparency is difficult and creates additional sensitivities and consequently requires detailed advance planning and contact with the organisations before the research commences.
- In the interests of managing industry contact time, it is suggested to reduce the scope of the feedback and not seek to make specific business recommendations to the individual baking organisations concerned.

### ***Future Research***

To validate this research further the researcher suggests that further research could be undertaken as follows:

- A follow up visit to the small plant bakery in 6-12 months' time to review if any of the identified CSF's or business recommendations have received a greater focus, whether any new KPI's have been implemented and whether these have contributed to improved business performance.
- A deeper piece of research could be undertaken across a cross-section, in terms of scale and nature of baking organisations, over a longer period of time to allow for the impact of any changes to flow through the business. The researcher estimates 2 large, 2 to 3 medium and 3 to 4 smaller baking organisations would provide a reasonable sample, together with an elapsed timeframe for the research of at least 18 months once all access had been negotiated.
- Potentially interesting further practical research could be performed based around the thinking of Normann and Ramirez (1993) concerning value creation and Prahalad and Hamel (1993, 1994) around the maintenance of core competencies to see if these are significant factors in the success or failure of organisations.

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## Appendix A – Questionnaire

Survey Number X  
Success Factors Survey

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xxx requests your feedback on what you think is important to make our Bakery a success. This survey is for Paul Leary's academic research only, but will be shared with the Bakery's management. Your feedback is anonymous and has no official ramifications for you. This survey should take no longer than 10 minutes to complete, please complete the following Success Factors Survey.

### 1. YOUR PROFILE

1a. In which age group are you?

---

- 16-21                       22-30                       30-40                       40+

1b. How long have you been working in the Baking industry?

---

- Less than 6mths     7-12 mths                       1-3 years                       More than 3  
Years

1c. How long have you worked at this Bakery?

---

- Less than 6mths     7-12 mths                       1-3 years                       More than 3  
years

1d. Do you have formal baking qualifications?

---

- No                       Yes obtained in the UK                       Yes obtained outside the UK                       Currently studying

1e. How would you categorize your role at the Bakery?

---

- Manager                       Administrator                       Senior Baker                       Baker or other
- 

### 2. WHAT DO YOU THINK THE SUCCESS FACTORS AT THE BAKERY ARE?

Indicate your level of agreement or disagreement with the following statements:

1a. The Bakery uses high Quality ingredients and makes Healthy and high Quality breads

---

Strongly Agree    Agree                       Disagree                       Strongly Disagree

1b. The Bakery is a cost effective producer of bread

---

Strongly Agree    Agree                       Disagree                       Strongly Disagree

1c. The Bakery Distributes its products in a high quality and effective manner

---

Strongly Agree    Agree                       Disagree                       Strongly Disagree

1d. The Bakery is focused on customer service and what its customers want and need

---

Strongly Agree    Agree                       Disagree                       Strongly Disagree

1e. The Bakery has a strong Brand and is good at Marketing

---

Strongly Agree    Agree                       Disagree                       Don't know

1f. The Bakery has an appropriate focus on Health and Safety and Environmental issues

---

Strongly Agree    Agree                       Disagree                       Strongly Disagree

1g. The Bakery has an appropriate focus on Employee welfare and well being

---

Strongly Agree    Agree                       Disagree                       Strongly Disagree

1h. The Bakery makes the right level of Investment in Infrastructure and Equipment

---

Strongly Agree    Agree                       Disagree                       Strongly Disagree

1i. The Bakery has an appropriate financial structure to support its business

---

Strongly Agree    Agree                       Disagree                       Don't know

1j. The Business has a clearly communicated strategy which is consistently followed

- 
- Strongly Agree     Agree                       Disagree                       Don't know

### 3. FINANCE AND INVESTMENT

1k. How do you think the Business is performing?

- 
- Highly profitable                       Around Break even                       Loss making                       Don't know

1l. If the Bakery had access to additional funds to spend, where do you think it should be spent to improve the business? Indicate your priorities 1-7; 1 being the highest priority and 7 the lowest priority:

- Investment in Processes and Equipment for baking to make the Bakery more cost effective
- Additional spend on Brand development, Marketing, better Customer service and New product development
- Healthier and better quality ingredients and consistency controls
- Improved Packaging and Distribution
- Improvements to Health and safety, cleanliness and employee welfare
- Employee training and development
- Improved strategic direction and management controls

1m. Are there any other areas you think the Bakery should be investing additional funds?

.....  
.....

If you have not been able to hand this survey directly back to Paul, please leave in the office with Rob or Ed for him to collect.

Thank you very much for taking the time to complete this survey. Your feedback will remain anonymous, but is valued and very much appreciated.