ISSN 1748-7595 (Online)

Kent
Business
School

Working Paper Series

Title: Corporate Strategy and Operational Reality: Why Managers Do What They Do

Authors: Sue Hornibrook, Samantha Lynch
Kent Business School

KBS
UNIVERSITY OF KENT

Working Paper No.107
March 2006

KBS Working Paper

Corporate Strategy and Operational Realit y: Why Managers do what they do

Sue Hornibrook
Kent Business School
Kent Business School
University of Kent
Canterbury
Kent
CT2 7PE
+44 (0)1227-827731
S.A.Hornibrook@kent.ac.uk

Samantha Lynch
Kent Business School, University of Kent
Kent Business School
University of Kent
Canterbury
Kent
CT2 7PE
+44 (0)1227-824231
S.J.Lynch@kent.ac.uk

Corporate Strategy and Operational Reality in the Retail Industry: Why Managers do what they do!

Summary

This paper contributes to the management debate regarding the gap between intended corporate strategy and operational reality by examining the relationships between senior executives and line managers within the multiple store retail industry. Using a case study methodology, and an Agency theoretical perspective, the research investigates the implementation of two operational policies designed to achieve corporate strategy - employment and supplier relationship policies. The findings note that the incentives offered in the principal-agent relationship drove the behaviour of line managers. Managers sought to maximise their rewards by focusing efforts on surrogate measures designed to evaluate performance. The research concludes that organisational long run considerations are counteracted by reward systems for employees that encourage behaviour that focuses on short run sales and earnings at the expense of long-term growth and development.

1. INTRODUCTION

The management literature has long been concerned with the gap that can arise between organisational policy prescriptions designed to achieve corporate strategy, and operational reality (Cunningham et al 2004). In addition, as the focus of contemporary management research moves beyond the firm to examine relationships between firms, any mismatch between corporate strategy and actual policy execution has much wider implications, particularly for other firms within the supply chain. As a result, the activities of managers, what they do and why they do it, is increasingly becoming central to the strategy debate (Johnson et al 2003). Against such a background, this paper uses Agency theory to discuss corporate strategy and the execution of human resource management (HRM) and supply chain management (SCM) within the context of multiple store retailing. It sets out to make a contribution in key areas of the debate surrounding organisational policies, strategic outcomes and managerial activity by examining two characteristically difficult agency relationships between senior executives who determine operational policies designed to achieve corporate strategy, and those who implement them. Specifically, by examining employment and supplier policies within the context of the UK retail industry, the paper adopts both an inter-firm level of analysis through examining the relationships between buyers and suppliers between firms and an intra-firm perspective by examining relationships between senior executives and the line managers responsible for implementation of policies within firms, namely human resource management (HRM) policies.

The paper answers the call from strategy-as-practice researchers to examine the activities of individuals on which key processes and practices depend, particularly those at the periphery (Johnson et al 2003). The focus on HRM can be justified because line managers within retail stores have a high level of responsibility for managing employees (Sparks 2000). Centralisation has directly removed many other areas of decision-making responsibility, while at the same time senior executives have been found to be increasingly devolving responsibility for HRM to store level using line managers (Tomlinson et al 1997). As a result, one focus of HRM research has been on the tensions between espoused and actual employment policies relating to the management of people within an organisation (Hall and Torrington 1998; Marchington and Parker 1990). Agency theory can be used here to examine the process of delegation of HRM to line managers, which can help to ascertain why the tensions reported in the literature exist.

Individual relationships are also a crucial element of a competitive strategy that views the whole supply chain rather than the individual firm as the source of competitive advantage (Christopher, 2004). Supply Chain Management (SCM) notes that it is the management of processes across firms rather than the management of functional activities within firms that delivers success for all participants. In particular, the relationship between buyers and sellers is identified in the supply chain literature as an area of tension between espoused policy and actual behaviour (for a review, see Harland, Knight and Cousins, 2004) in the same way as the tensions outlined above with the execution of HRM policy. However, the literature adopts a macro approach, and does not examine the day-to-day activities of individuals that impact upon strategic outcomes. This paper addresses these shortcomings by discovering the results of buyer behaviour on suppliers, and identifies the conflicting incentives driving buyer behaviour, thus ensuring discrepancies between the formulation of supply chain strategy and the successful execution of supplier relationship policies.

Given the increasing demands for interdisciplinary approaches to management problems, this paper applies economics to the areas of SCM and HRM in order to provide insights into a variety of phenomenon that otherwise seem difficult to explain or even paradoxical (Gunderson 2001). The paper presents data that explore the agency relationships between senior executives who formulate policy, and managerial execution of HRM and SCM policies. Such a level of analysis has been previously neglected by agency researchers who are traditionally interested in higher level relationships, ie between suppliers of capital and senior executives of publically quoted companies (Thompson 1988; Eisenhardt 1989; Bergen *et al*, 1992). This paper confirms that discrepancies exist between devised corporate policies and their implementation at both the inter-firm and intra-firm level. It goes on to suggest reasons for these variations and outlines the consequences of these discrepancies for both within the firm and along the supply chain. The results contribute to the theoretical debate on agency relationships on both an intra and inter-firm level and offers practical solutions for practitioners in order to ensure that operational policies are enacted.

The paper begins with a review of Agency theory within the context of human resource management and supply chain management. The methodology is then presented and justified, followed by the findings at both the inter-firm and intra-firm level. The final section concludes with a discussion of the implications, some practical recommendations, a summary of the contribution to theory, limitations and opportunities for further research.

2. THEORETICAL FRAMEWORK

Agency theory is concerned with situations in which one party, namely the principal, requires a second party, namely the agent, to undertake an action on the principal's behalf. The focus of the theory is on determining the most efficient contract given the risk and effort characteristics of the principal and agent, information asymmetry and environmental uncertainty (Eisenhardt 1989). In the absence of perfect information, principals are unable to closely observe the actions of their agents, and self interest on the part of agents will make them reluctant to share that information with the principal. Without perfect information the principal assumes that the agent will shirk, termed moral hazard (Eisenhardt 1989). To counteract this, the theoretical choice has traditionally been between outcome-based contracts and behaviour-based contracts.

Outcome-based contracts reward agents on the basis of realised pre-specified performance outcomes such as sales, output and profit (Bergen et al. 1992). Such contracts can be likened to Ouchi's (1977) output control systems or Merchant's results control (1985. Ouchi's output control model focuses on systems of planning and control whereby the work itself cannot be specified so the results, not the process are standardised. As a result, performance control systems express results in specific objectives or quantitative measures though which the formal goals of the organisation are directly operationalised. Merchant (1985:4) describes this method as results control referring to an approach which holds individuals responsible for achieving particular results and then rewarding them for their achievement. In doing so it allows the possibility of managers having autonomy for detailed action, provided they can produce the desired outcome and therefore outcomes must be quantifiable. As Lusch and Jaworski (1991) commented, retail management tends to have an overriding concern with bottom-line performances, which makes the use of output control widespread in retail settings. Outcome-based contracts gives agents autonomy over detailed action, provided they produce the desired outcomes; therefore outcomes must be easy to observe and measure. If a principal cannot accurately measure either the desired action or outcome, surrogate measures may be used instead, and this may lead to distorted behaviour from an agent if the surrogate measure is not highly correlated to the desired measure. Agents will seek to maximise their rewards by focusing all efforts on the surrogate measures that are being used to evaluate performance. An important conclusion, therefore, is that the incentives offered in a principal-agent relationship will drive the behaviour of the agent (Kerr, 1975; Besanko et al. 1996; Gibbons 1998). According to Eisenhardt (1989), outcome-based contracts are the preferred option for risk averse principals, risk neutral agents, outcomes which are easily measured, and low goal conflict between principal and agent.

The alternative choice in Agency theory is to use behaviour-based contracts which attempt to reward the agent on the basis of information about actual behaviour. As not all aspects of performance can be measured in quantitative terms, output control can be difficult and behaviour-based contracts might be used. Here, the principal can invest resources, typically management information systems, which will increase information on the agent's actions, but this information may in itself be an imperfect estimator. However, the motivational role of monitoring is highlighted by Weiss (1995) who argues that this indirect incentive for greater economic efficiency should not be ignored. As a result, opportunistic behaviour of the agent can theoretically be restricted and the objectives of the principal maximised. Behaviour-based contracts of Agency theory can be likened to Mintzberg's personal control systems (1983) or Merchant's social control system (1985). Here the actions required can be specified so that the control system is geared towards seeing that the correct actions are carried out. This can be achieved through the formalisation of work content via rules, procedures and job descriptions. Merchant (1985) concluded that it is with organisational functions where it is difficult to define and measure outputs and where it is not entirely clear what procedures are required that social controls are more important. However, both Mintzberg and Merchant concluded that where many organisations place the emphasis on rewarding results and not behaviour, managerial behaviour becomes geared towards the achievement of reported results. A comparison of agency and management theories of control is made in Figure One.

Figure 1: Comparison of Agency theory and Management Theory

		Agency Theory	
		Outcome-based contracts	**Behaviour-based contracts**
Management Theory	**Output/Results Control systems**	Sales, Output, Profit, Budgets, Costs	
	Personal/Social Control systems		Processes, relationships, effort, action

According to Eisenhardt (1989), behaviour-based contracts are preferred given available information systems, low span of control, high outcome uncertainty, and long relationships between principal and agent built over time. In addition, behaviour-based contracts will be preferred if the appropriate behaviour required of the agent can be readily specified in advance. Highly programmed tasks more easily reveal agent behaviour because they are easier to observe and evaluate.

Researchers have called for Agency theory to be extended beyond the economics perspective in order to include real world problems of co-operative effort, and have criticised the theoretical choice between outcome-based or behaviour-based contracts (Eisenhardt 1988). Few researchers have actively applied and extended Agency theory to examine organisational behaviour (Mitnick 1992). The theory has been criticised for its static focus on single time periods and rewards, its reliance on secondary data to test agency-based propositions (Bergen et al 1992), the focus on objective rather than subjective monitoring, incentives which are couched only in monetary terms (Arrow 1985; Shaw and Gibbs 1995), and the assumptions regarding the risk preferences of principal and agent. Hendry (1997) questions the assumption that outcomes can be specified accurately to an agent. Agency theory is only concerned with contractual arrangements between the dyad, and does not take account of the multi-dyadic arrangements along a supply chain, and the impact of contractual relationships between one dyad and another.

Previous analysis of agency relationships has paid little attention to how managers implement corporate strategy at the micro level of organisations and have instead concentrated only on the macro level of organisational relationships. In addition, the call to move away from examining strategy at the macro-level of the organisation to examining the day-to-day activities of organisational life and their relation to strategic outcomes (Johnson et al 2003) can be answered by looking at the activities of managers within organisations. In answer to the weaknesses of Agency theory and these calls for micro-level analysis of both strategy implementation and Agency theory, this paper focuses on the role of line managers and buyers as key linkages in the execution of employment and supplier policies.

2.1 Intra-firm Agency relationships: Human Resource Management

The notion of human resource management is used in this paper to refer to all those activities associated with the management of employment relationships in the firm. Two of the most widely adopted models of HRM are the hard and soft versions (Truss et al 1997). Guest (1987) and Storey (1992) viewed the distinction between soft and hard models of HRM as whether the emphasis is placed on the human or the resource. Hard HRM stresses the "the quantitative, calculative and business-strategic aspects of managing the headcounts resource in as 'rational' a way as for any other economic factor" (Storey, 1989: 8). Meanwhile, soft HRM is associated with the concept of employee commitment based on high levels of trust and associated with goals of flexibility and adaptability that "emphasise communication, motivation and leadership" (Storey, 1989:8).

The link between strategy and HRM is a key feature of HRM that is regarded by some as essential to the model of HRM. However, there is debate in the literature about how HRM should be linked to corporate strategy and the link between this and organisational performance. Much of the literature to date has concentrated on strategy and performance, the two end points of evaluation (for example, Huselid 1995; MacDuffie 1995; Miles and Snow 1994; Patterson et al 1997; Pfeffer 1994). While helping to stage how HRM practices can lead to desired outcomes at a macro level, it does not address the processes through which this occurs at a micro level. This can be achieved by looking at the variables that mediate HRM strategy and organisational performance and is an area where theory building is currently scarce (Bowen and Ostroff 2004; Naumann and Bennett 2000).

One of the variables between human resource (HR) strategy and performance is the role of line managers and their implementation of HR policies. Models of HRM commonly emphasise the critical role of line managers in the effective delivery of HRM strategy (for example Storey 1992:7). Line managers are typically given responsibility for translating plans and policies into action and as such are main players in the implementation stage of the strategy process. This increased role of line managers in the management of human resources is a distinctive characteristic of HRM (see Legge 1995; Renwick 2000) and highlights the vital role line managers play as agents in the execution of HR strategy. In the retail industry there is evidence of an increasing devolution of responsibility for HRM to store level (Sparks 2000) and as a result many HRM decisions are not taken by HR specialists, but instead by line managers. This adds significance to the role of line managers as key linkages in HRM systems and supports the assertion that line managers are fundamental to sustaining the link between corporate strategy, HRM strategy and organisational performance. Consequently, HRM is an appropriate line management functional responsibility to examine for the intra-firm analysis perspective of this paper.

Within Agency theory, the contract is seen as a metaphor to describe a situation in which one party delegates work to another (Jenson and Mecklin 1976). With line managers in multiple retailing taking large responsibility for the implementation of HRM, Agency theory can be used to depict this process of delegation of HRM from head office to line managers in retail stores. It can be used to examine the relationship between HR strategy makers at head office as principals and line managers as the implementers and hence the agents.

2.2 Inter-firm Agency Relationships: Supply Chain Management

This paper adopts the view that supply chain management (SCM) is a management philosophy concerned with the management of supply and demand across traditional boundaries – functional, organisational and relational – and recognises that by doing so, organisations will gain commercial benefits (New 1997). Within the retail supply chain, relationships with suppliers are critical and most multiple store retailers adopt a supplier relationship policy. For one industry, supplier relationships are governed by a code of practice imposed by the Competition Commission. A code of practice applicable to the major UK supermarkets was introduced in March 2002 following a Competition Commission inquiry into the competitiveness of the industry. This followed allegations from suppliers during the course of the inquiry about the behaviour of the supermarkets in the course of their trading relationships. The Code governs most aspects of the trading relationship, including selection of suppliers, contract conditions, terms of payment, charges to suppliers, communication, retail prices, confidentiality and dispute resolution. In February 2004, following a review of the Code of Practice, the Office of Fair Trading (OFT) noted that most suppliers believed that the Code had not brought about any change in the behaviour of the supermarkets (OFT 2004). Subsequent research (Duffy, Fearne and Hornibrook, 2003; Fearne, Duffy and Hornibrook, 2005) has also presented strong empirical evidence from suppliers, who perceive that the introduction of the Code of Practice has not impacted upon the behaviour of supermarkets towards them, even though the major supermarkets have introduced tailored training programmes for buyers. Buyer behaviour was identified by suppliers as a major issue in the development of relationships within the supply chain. The role of the retail buyer in delivering a supplier relationship policy is therefore crucial in the achievement of strategic objectives. The contractual relationship can be viewed as being between senior executives as principals, and retail buyers as agents, responsible for the implementation of a supplier relationship policy.

Agency theory can be used here to examine the relationship between Supply Chain Management strategy makers at head office as principals, and Buyers as the implementers and hence the agents.

3. METHODOLOGY

A case study approach was adopted to examine the complex social events underpinning Agency theory both between firms and within firms. The case study research strategy is identified as being the most appropriate when examining 'how' or 'why' research questions; when the researcher has little control over events, and when examining contemporary phenomena. The focus of case study research is to enhance understanding and to gain insight, and is often exploratory, explanatory, or descriptive. Case study research can consist of either qualitative or quantitative data, or both, incorporating multiple data collection methods including archived material, interviews, questionnaires and observations (Eisenhardt, 1989). Yin (1989) proposes that the major advantage of using a case study approach, compared to other research strategies, is that it yields opportunities to use many different sources of evidence, and that most of the better case studies rely on a wide variety of sources. By using multiple sources of evidence to examine the same phenomenon, triangulation occurs, improving the validity of the research and minimising problems associated with construct validity[1].

Cases are not representative samples of a population, but have more in common with experiments, which are generalisable to theoretical propositions but not to populations or universes (Yin, 1989). Various authors (Sterns, Schweikhardt and Peterson, 1998; Frankfort-Nachmias and Nachmias 1992; Ghauri, Gronhaug and Kristianslund, 1995) propose that the case study method is the preferred strategy when researching relatively less-known areas, where there is little prior experience and available theory to serve as a guide. Given that this research needed to investigate complex social phenomenon surrounding the implementation of corporate strategy, a case study approach is more appropriate (Yin 1994).

[1] Ensuring correct operational measures for the concepts being studied (Yin, 1989).

The following sections outline the methods deployed for both the inter-firm and intra-firm research for this paper.

3.1 Intra-firm Methods

To increase the validity of data collected, a multiple case study design was adopted to examine intra-firm relationships between principals and agents. Three multiple store retail organisations were used as case studies. An embedded approach to the case study design was used, with the embedded units being retail stores. Two embedded units for each case study organisation were chosen to enable comparability between stores within the same case study. This use of two embedded units would also help to reduce the risk of bias or 'unique' stores distorting the findings while increasing validity by using replication in collecting data from a greater number of similar sources. All six stores were located across Southern England to restrict the geographical dispersion of embedded units again improving validity by minimising the affect of local market conditions. The individual stores were selected on the grounds of ensuring a representative mix of store types for each case study organisation.

Semi-structured interviews with a pre-selected sample of employees together with a review of company documentation were the main methods of data collection in each of the case studies. Given that the research objectives required a focus on the operational level of retail organisations, managers at the embedded units became the focus of the fieldwork research process. However, it was also considered important to understand the role of corporate strategy and organisational policy which necessitated interviews with senior managers at head office or regional office level. At least one interview with each line manager at the embedded units (the stores), together with supporting interviews with managers at head office or regional office was considered a suitable research sample. In total, a series of sixty two interviews were conducted over a twelve month period with each interview taking between 40 and 90 minutes. Table 1 outlines the sample characteristics of the interviewees. All interviews were one-to-one with no other persons present to ensure confidentiality and improve validity of the responses given by the interviewee.

Table 1: Interview Sample (Intra-firm analysis)

COMPANY	HEAD OFFICE INTERVIEWS	REGIONAL OFFICE INTERVIEWS	STORE INTERVIEWS		TOTAL
			Store A	Store B	
Superco	2	1	12	12	27
Groceryco	1	1	9	10	21
Homeco	2	1	5	6	14
TOTAL	5	3	26	28	62

3.2 Inter-firm Methods

The growth of the major UK supermarkets has also impacted upon their supply base, as they now deal with just a handful of large pre-packers or processors in each product area.

A series of twenty semi-structured interviews with a sample of key direct and indirect main suppliers to the major supermarkets in the main commodity sectors (i.e. lamb, beef, pork, apples and pears, potatoes, liquid milk and cheese). The aim of the interviews was to identify suppliers' perceptions of supermarket buyers' behaviour. The interviews were conducted over a period of six weeks in May and June 2002 and were all taped to ensure that the information gained in the interviews was recorded accurately. Some suppliers expressed some concern over this, owing to the sensitive nature of the questions, but were assured complete anonymity by the researchers. For this reason, the identities of individuals and organisations have not been revealed (Duffy, Fearne and Hornibrook, 2003).

This qualitative methodology was followed by a postal survey of commodity suppliers, resulting in a total of one hundred and forty useable questionnaires, representing a response rate of 37 per cent (Fearne, Duffy and Hornibrook, 2005).

4. FINDINGS

4.1 Intra-firm research: Human Resource Management

The case study research found widespread devolution of HRM responsibility from Head Office to line managers[2] in the three retail organisations, highlighting the significance of line managers as key agents in HRM systems. This supports the contention that line managers are fundamental to sustaining the link between corporate strategy, HRM and performance, corroborating Johnson et al's (2003) call for research efforts to be focused at the micro level of organisations.

Using the agency perspective, there was an emphasis on outcome-based contracts to manage the principal-agent relationship in each of the case study firms. Head Office devised strategies and policies and imposed requisite budgets and performance targets onto stores where responsibility for meeting those targets rested largely with line managers. Performance measurement centred on quantifiable targets and focused on budget control systems to ensure cost minimisation, which was a key focus of each organisation's corporate strategy:

> "The company has become more ruthless….they are forever devising new ways to cut costs" (Department Manager, Superco)
>
> "The company is now more demanding. There are less staffing hours for each department so greater efficiencies need to be achieved "(Department Manager, Groceryco)

As a result the main constraint placed on agents' operations by the principal in each organisation was the imposition of budgets and financial performance targets. This was a tangible method of control and easily measurable. Keeping within budgets was vital in all three case study organisations, with line management performance largely assessed on this basis. Combined with the intangibility of HRM, this meant that line

[2] For the purposes of this paper, line managers are defined as managers at operational level with functional and people management responsibilities.

managers' HR responsibilities came with few formal, measurable performance expectations and hence a lower level of accountability:

> "As long as we meet the targets set by head office and keep within our budgets, they [*Head Office*] don't really bother us too much". (Assistant Store Manager, Superco)
>
> "I have a fair amount of autonomy managing the checkouts as long as the queues and wage bills are low" (Department Manager, Groceryco)
>
> "Employment decisions depend very much on the store management." (Department Manager, Homeco)

The scale of operations in the case study organisations was such that a close scrutiny of how budgets and performance targets were achieved within each store was often impractical. As a result principals were primarily concerned with the numerical achievement of targets and did not closely supervise the methods used by agents to realise them. The focus on outcome-based contracts in the case study organisations gave agents certain autonomy over detailed action, provided they produced the desired outcomes of meeting financial performance targets. The intangibility of HRM means that it is difficult to measure every outcome and monitor standards of performance. Consequently, agents in the case study stores had the opportunity to manipulate HR policy to enable them to meet performance targets with minimal detection of this transgression by principals at head office.

The autonomy afforded to line managers in their execution of HR policy, together with the incentives offered to meet financial performance targets, encouraged the undermining of organisational HR policy by agents. This manipulation led to a focus on hard HRM, often at the expense of the soft HR policies espoused by principals at head office that would focus on employees as people rather than simply resources. A soft HRM approach would comprise of training, development and work-life balance initiatives, policies that while evident in the HR policies of all three case study organisations were not being fully delivered at operational level.

Evidence of a hard approach to HRM and the sacrifice of soft HRM policies, regardless of organisational policy, was profuse across all three case study organisations. Examples included the imposition of unauthorised recruitment freezes by agents:

> "Recruitment is financially controlled so you look at wage costs and look ahead to the budget squeeze and so you don't recruit…………..then there is a desperate shortage of employees and so there is a mad rush to recruit". (Department Manager, Superco)

This was unbeknown to head office and facilitated by the expectation that part timers would offer numerical flexibility through working additional shifts to cover vacancies while the recruitment freeze was in operation:

> "There is a budget problem and so we are not replacing leavers, but are using part timers to work overtime as a short term option until the budget comes under control". (Assistant Store Manager, Superco)

This illustrates the high priority assigned to meeting financial targets by line managers, which at times was to the detriment of their HR responsibilities.

Agents also indulged in an unofficial re-deployment of staff recruited to fulfil the organisations' corporate strategy of enhanced customer service at Superco. Principals at head office believed that the employment of Customer Service Assistants would facilitate the delivery of customer service pledges:

> "We've introduced a new role in our stores of a Customer Service Assistant. They'll pack customers' bags, load shopping into their cars, find goods for the customers or retrieve goods that the customer may have forgotten on reaching the checkouts. This is something none of our competitors offer and will really put us one step ahead in terms of customer service". (Retail Personnel Director, Superco)

However, Customer Service Assistants were rarely used by line managers in their primary role of delivering a premium level of service to customers. Instead they were often seconded to other departments, either temporarily during peak trading or permanently in times of staff shortages:

> "I was given the option of a Customer Service Assistant when a permanent vacancy in my department arose. While we're not supposed to use them in departments, when the store manager is trying to control budgets, it frequently happens". (Department Manager, Superco)

Subsequently, the store's employee records would show these staff employed as Customer Service Assistants, while in practice they were often found to be working in other roles as and when budgets dictated. This again demonstrates the priority placed on tangible performance targets by line managers when faced with the predicament of achieving competing priorities of customer service versus cost minimisation. Human resources were manipulated and customer service provision undermined in order for line managers to satisfy their priority of meeting budgetary targets.

Comment [sjl1]: Add comment about this

Line managers held responsibility for writing staff rosters within predetermined budgetary limits. These staff schedules were not closely monitored by the principals and so provided another opportunity for line managers as agents to manipulate HR policy to realise short-term needs. To compensate for the high level of discretion afforded to agents in this area each organisation had policies to safeguard against exploitation of employees and ensure compliance with employment legislation. For example, line managers at Homeco were required by line managers to write staff schedules four weeks in advance to enable employees to plan non-work commitments. However, the reality was one of staff schedules being written much later than company policy dictated:

> "Company policy requires staff schedules to be written four weeks in advance, but the reality is that it's easier to write the schedules every fortnight and so that's what we do". (Department Manager, Homeco)

At Groceryco policies existed to prevent line managers changing an employee's shift at short notice to ensure security of working hours for staff and prevent line managers exploiting employees. In truth, greater flexibility was demanded with regular demands on employees by line managers to change their original scheduled hours at very short notice:

> "Official company policy is 48 hours notice of any change and then the employees don't have to work it if they don't want to. Unofficially, we change their hours or get them to work extra at much less notice". (Department Manager, Groceryco)

It is known that organisation of working time can be fundamental to the productivity and motivation of employees (Arrowsmith and Sisson, 2000). Yet even where policies existed in the case study organisations to safeguard employees against unpredictability of working hours, line managers undermined these policies and risked employee productivity and commitment in order to satisfy short term business needs. This transcended to budget-driven management techniques which took no account of employees work-life balance. The needs of the business were consistently cited as taking precedence over the needs of employees:

> "They [*employees*] have to fit around what the company requires and not the other way round." (Department Manager, Homeco)

This inevitably led to a hard approach to HRM at store level regardless of company HR policy that was more likely to emphasise soft HR policies. This emphasises the important role of incentives in the agency contract, whereby managers were encouraged to prioritise economic benefits which leads them to neglect long terms strategies. These soft facets of HRM were of less significance to line managers because their performance in this area was subject to lower levels of scrutiny and reward. As a result, the delegation of HR responsibilities to line managers weakened corporate attempts to introduce soft HRM practices thus undermining the value and contribution of such policies.

Another area where line managers had a large degree of discretion was in the training and development of their staff:

> "Individual departments are responsible for training". (Store HR Manager, Groceryco)

Groceryco attempted to introduce high commitment management practices for all staff through encouraging a greater emphasis on training and development:

> "All staff now have their own Personal Development Planner which encourages suggestions from employees themselves so that, in conjunction with their department manager, they have some input and control over their development and training". (HR Manager, Head Office, Groceryco)

However, the priority assigned to more tangible management activities meant that line managers did not implement this training initiative fully:

> "All staff now have Personal Development Planners to improve the level and standards of training and development. But we don't have the time to sit down with staff to work through them, so they're often just ignored". (Department Manager, Groceryco)

Where line managers were given responsibility for employee development, this tended to result in a hard HRM approach. It highlights the problems of developing soft HR policies when increasing demands and incentives on offer to agents meant they considered such initiatives less relevant.

The focus on outcome-based contracts and the incentives for agents being the fulfilment of tangible performance targets led to a dichotomy between corporate policy and management practice in HRM. Agents' attention was focused on budget-driven management practices to the detriment of less tangible activities such as HRM policies. As a result, HRM practice by agents was focused on hard HRM, regardless of HR strategy, which also encompassed soft HRM practices.

4.2 Inter-Firm Agency Relationships: Supply Chain Management

Taking an agency perspective, senior executives have a choice whether to adopt outcome or behaviour-based contracts with their retail buyers, in order to ensure that buyers implement and adhere to supplier relationship policies, or in the case of the major supermarkets, the requirements of the Code of Conduct outlined by the Competition Commission (2000). Suppliers' perceive that supermarket buyers are rewarded according to their ability to meet sales targets and deliver cost savings.

> "All they have to do is hit their targets".
>
> "They say they want us to use a certain supplier and the reason they want us to use a certain supplier is because they get a rebate".
>
> "They demand overriding discounts on total business".

Retail buyers, therefore, are typically rewarded on the basis of output, namely readily observed and measurable outcomes, which are not highly correlated to the desired action of complying with the requirements of the Code of Conduct. Surrogate measures are used which focus on driving sales in stores and reducing costs of production, all of which potentially encourage those practices identified by the Competition Commission as being detrimental to the long term development of supplier relationships within the supply chain, in particular, requesting discounts, imposing charges, and transferring risks from retailer to the supplier. According to theory, it is the difficulty associated with accurately measuring compliance with the Code of Conduct that has driven the introduction of these surrogate measures designed to evaluate performance.

Behaviour-based contracts attempt to reward agents on the basis of information about actual behaviour. According to Agency theory, a principal can invest resources in management systems that increase information on an agent's actions. Suppliers' perceptions of buyer behaviour can be viewed as one such available monitoring method:

> "It depends as much on the personality [of the Buyer] than the retailer. We have had some excellent relationships and appalling relationships with the same retailer".

> "Massive bust-ups are very rare because whatever you say, the old style confrontational relationship between buyer and seller has gone, and category management has come in".

> "We work pretty hard at relationship management. We choose the person who deals with the retailer carefully – must be fairly unconfrontational".

> "…being generally pleasant and non-confrontational in meetings".

> "…not responding to e-mails…treating suppliers with contempt".

Besanko et al, (1996) and Gibbons (1998) argue that it is the incentives offered in a principal-agent relationship that drives the behaviour of the agent. The findings note that retail buyers are frequently moved between product categories as part of their professional development and consequent career progression, and that this has a detrimental effect on the buyer/supplier relationship.

> "Buyer changes are probably the fundamental reason why it is so difficult to deal with the supermarkets, because you get the big change of team. All the work that you've done with them in the previous two years just goes out of the window".

> "If you talk to any horticultural team that supplies the supermarkets, they would say that one of their key issues is the constant rotation of staff".

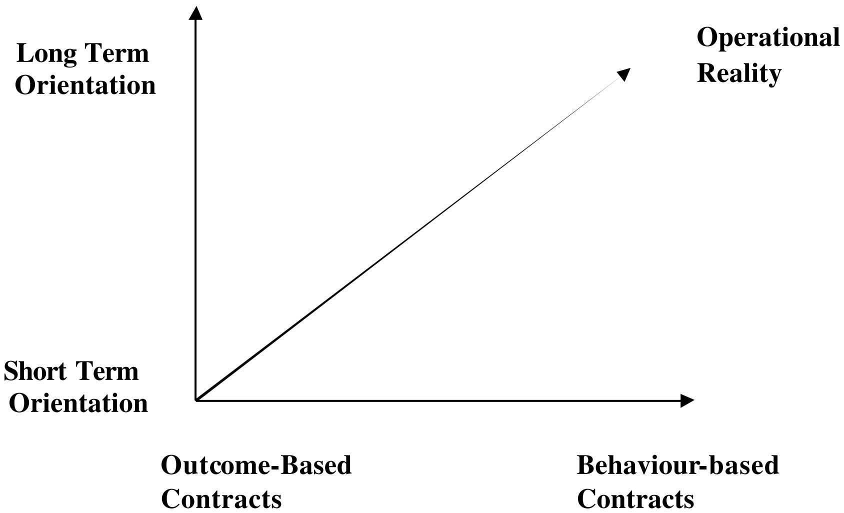
> "A longer handover period could reduce problems".

In summary, and from the supplier's perspective, buyer behaviour is a factor in the implementation of the Code of Practice, and the development of long-term relationships. Incentives in the form of meeting sales targets, cost reductions and volume quotas, together with supermarket policies regarding buyer training and development, are identified as having a detrimental effect on some suppliers' ability to develop long term, strategic relationships with supermarkets.

6. CONCLUSIONS

This paper confirms that discrepancies exist between strategy formulation and implementation both within firms and between firms. It addresses the call for research to focus on the actual activities of line managers by examining the execution of HRM policies at a micro level within retail firms (Grabke-Rundell and Gomez-Mejia, 2002; Johnson et al, 2003). Any notion that strategy is routinely translated into intended practice at micro level is refuted by this empirical research. Instead there appeared to be a process of explicit versus implicit goals in each of the case study organisations that impacted on the agency contract and subsequently the implementation of corporate strategy. While corporate strategy might emphasise long-term relationships both within firms (with employees), between firms (along the supply chain), and with customers, this research depicts how agents can undermine such goals. The incentives for agents were focused on economic measurements of performance, which led to a focus on the short-term and the tangible concentrated agents' efforts on cost minimisation. The implicit goal of cost minimisation challenged any explicit intentions at principal level of long-term relationship development at both the intra-firm and inter-firm level and strategies focused on quality enhancement, as depicted in Figure 2.

Figure 2: **Proposed Relationship between Corporate Strategy and Operational Reality**



Agency Theory can be used to explain the discrepancy between the objectives of principals and the behaviour of agents both at the intra-firm and inter-firm level and the resultant tensions between expressed strategy and actual behaviour in the case study organisations. The focus on outcome based contracts and the economic incentives within them appeared to prioritise the activities of agents and affected both line managers and buyers in the same way. It is acknowledged in management literature that managers can take actions that may advance their own personal self-interest (for example, Mintzberg 1983, 1989; Hales 1993; Berry et al 1995). While the agents within the case study firms had responsibility for achieving long-term organisational goals they had little to gain personally from this and so focused their efforts on those activities for which they received personal reward (for example, promotion, monetary rewards). This was supported by the training provision in the case study organisations, which tended to focus on the more tangible responsibilities of agents, rather than their strategic responsibilities such as HRM and supply chain management. This is perhaps symptomatic of principals' priorities being focused more on short-term goals rather than long-term quality enhancement at both the intra-firm and inter-firm level. Consequently, the difficulty associated in measuring the successful implementation of employee and supplier relationship policies has led to surrogate measures that lead to distorted behaviour by agents who manipulate outputs in order to gain rewards.

This paper contributes to our understanding of Agency Theory and its theoretical development, including the various weaknesses of Agency Theory. The assumption of rationality, competence and self-interest within Agency theory is challenged by this research. The management literature advocates that the pursuit of autonomy by managers (for example, Mintzberg 1989; Hales 1993; Ackroyd and Thompson 1999) plays an important role in management decision making and can therefore undermine the agency contract. It is clear that agents in the case study organisations pursued the self-interest route and directed their behaviour towards those activities for which they would be personally rewarded. This led to a short-term perspective in developing relationships along the supply chain and a hard approach to the management of human resources. However, the findings of this paper also suggest that this is not the complete picture and Hendry's (2002, 2005) notion of 'honest incompetence' can add a valuable dimension to agency theory. Honest incompetence in the case study organisations could refer to the contradictory strategies of the principals who were demanding quality enhancement and cost minimisation simultaneously, which led to ambiguous contract outcomes. In addition, agents did not appear to receive sufficient training and support for achieving the long-term strategy goals and so did not have the competence to fulfil them. This may explain the discrepancies between formulation and implementation of strategy in the case study firms.

Agency theory to date has concentrated on a macro-level approach, which has failed to examine the processes that occur both within and between firms at a more micro level. As a result Agency theory has largely marginalised issues such as the individuality of agents (see Shaw and Gibbs 1995 for further discussion). Different agents could respond in different ways to the same agency contract and large-scale organisations, such as those in multiple store retailing, can only exacerbate this problem. In addition, a principal's power can be limited by a geographical dispersion of agents and large spans of control (see Eisenhardt 1989). This is particularly pertinent in multiple store retailing with its branch network of stores and complexity of the supply chain.

The research suggests other, alternative and readily available monitoring systems that adopt a more subjective monitoring approach, compared to hard objective management information systems may offer a solution. It also maintains that social and long term monetary incentives can also be offered to drive agent behaviour that are not purely short term financial rewards and penalties. This research highlights the complexity of the agency relationship and demonstrates how agency contracts, in practice, run along a continuum between outcome and behaviour. This continuum is determined by the actions required of the agent by the principal. The multiplicity of line management responsibilities gives rise to the agent-principal relationship being controlled using a combination of outcome and behaviour based contracts. In addition, Agency theory presumes that the principal knows precisely what action it requires of its agents and implicitly assumes there is no confusion. However, this research shows how short term performance targets in conjunction with long term strategies have implications for both the execution of corporate strategy and the agency relationship, within and between firms, often undermining long-term corporate strategies.

According to Agency theory, behaviour-based contracts reward agents on the basis of actual behaviour, which relies on the availability of information on agent's actions. This research highlights the availability of information from non-traditional sources, which could be utilised within behaviour-based contracts, given the incentive nature of monitoring systems. Information on the behaviour of Buyers from suppliers, and store managers from store staff could be independently collected by a third party, and used in determining rewards, ie salaries and career progression. Finally, by adopting an interdisciplinary approach, the paper contributes to Agency theory by noting that contractual relationships between one dyad within the firm also have implications for other relationships between firms. Supply chain management argues that competitive advantage comes from managing processes across the supply chain. HRM is viewed by both academics and practitioners as having a narrow functional role within the firm. This encourages the designing of reward systems that focus on short-term performance. This research highlights the importance of taking a more strategic focus, and managing HRM as a process across firms in order to ensure long term success for all organisations within the supply chain.

This paper introduces further questions about the nature of control systems, the agency contract and the execution of corporate strategy in multiple store retailing. As retail firms become more sophisticated in their management information systems will we see more conformity in the behaviour of agents or will agents simply become more sophisticated in their manipulation of the agency contract? And to what extent are principals concerned about agents ignoring the social consequences of their actions if outcome-based contracts are being met? Despite examining agency theory at a micro level this paper raises the issue of the predominant role of shareholders as major stakeholders in retail firms and until this changes economic benefits and outcome based contracts are likely to continue to drive the agency contract in this industry.

References

Arrow, K. J. 1985. *The Economics of Agency*, in Principals and Agents: The Structure of Business. J. W. Pratt and R. J. Zeckhauser (Editors). Harvard Business School Press, Boston, pp 37-51.

Bergen, M., S. Dutta and Walker, O. C. Jnr. (1992). *Agency Relationships in Marketing: A Review of the Implications and Applications of Agency and Related Theories,* in Journal of Marketing, 56 (July), pp 1-24.

Berry, A.J., Broadbent J. and Otby D. (eds) (1995) *Management Control: Theories, Issues and Practices,* Basingstoke: Macmillan

Besanko, D., D. Dranove and Stanley, M. (1996). *Economics of Strategy*. John Wiley and Sons, New York.

Bowen D. and Ostroff C. (2004) 'Understanding HRM-firm performance linkages: the role of the "strength" of the HRM system' Academy of Management Review, 29:2, 203-221

Christopher, M. (2004). *Supply Chains: A Marketing Perspectie*, in Supply Chains, Concepts, Critiques and Futures, eds. Steve New and Roy Westbrook, Oxford University Press, New York, pp 23-42.

Cunningham, I., James, P., and Dibben, P. (2004). *Bridging the Gap between Rhetoric and Reality: Line Managers and the Protection of Job Security for Ill workers in the Modern Workplace,* British Academy of Management, Vol.15:3, pp 273-290.

Competition Commission, (2000). *A Summary of Supermarkets: A Report on the Supply of Groceries from Multiple Stores in the United Kingdom.* Available at www.competition-commission.org.uk/reports/446super.htm

Duffy, R., Fearne, A., and Hornibrook, S. (2003). *Measuring Distributive and Procedural Justice*, British Food Journal, Vol. 105:10, pp 682-694.

Fearne, A., Duffy, R., and Hornibrook, S. (2005). *Justice in UK Supermarket Buyer-Supplier Relationships,* **Forthcoming,** International Journal of Retail and Distribution Management.

Eisenhardt K. (1989) *Agency Theory: An Assessment and Review*, Academy of Management Review, Vol.14:1, pp 57-74

Frankfort-Nachmias, C., and D. Nachmias. (1992). *Research Methods in the Social Sciences*. 4th Ed. Edward Arnold, London.

Ghauri, P., K. Gronhaug, I. Kristianslund, (1995). *Research Methods in Business Studies: A Practical Guide.* Prentice Hall, New York.

Gibbons, R. (1998). *Incentives in Organisations*. Working Paper Series: 6695, National Bureau of Economic Research Inc.

Grabke-Rundell, A., and Gomez-Mejia, L.R. (2002). *Power as a Determinant of Executive Compensation*, Human Resource Management Review, 12 pp 3-23.

Guest D. (1987) *Human resource management, trade unions and industrial relations*, Journal of Management Studies, Vol. 24, No. 5, pp. 502-521

Gunderson, M. (2001). *Economics of Personnel and Human Resource Management*, Human Resource Management Review.

Hales C. (1983) *Managing Through Organisation*, London: Routledge

Hall L. and Torrington D. (1998) 'Letting go or holding on – the devolution of operational personnel activities' Human Resource Management Journal, 8:1, 41-55

Harland, C., Knight, L., and P. Cousins. (2004). *Supply Chain Relationships,* in Supply Chains, Concepts, Crit iques and Futures, eds. Steve New and Roy Westbrook, Oxford University Press, New York, pp 209-227.

Hendry, J. 1997. An Alternative Model of Agency Theory and its Application to Corporate Governance. Judge Institute of Management Studies, Cambridge

Hendry, J. (2002). *The Principal's Other Problems: Honest Incompetence and Management Contracts,* Academy of Manalgement Review, 27, pp 98-113.

Hendry, J. (2005). *Beyond Self-Interest: Agency Theory and the Board in a Satisficing World,* British Journal of Management, 16, pp S55-S63.
Hendry, J. 1997. An Alternative Model of Agency Theory and its Application to Corporate Governance. Judge Institute of Management Studies, Cambridge.

Huselid M. (1995) *The impact of human resource management practices on turnover, productivity and corporate financial performance*, Academy of Management Journal, 38 pp 635-672

Jensen, M. C. and W. H. Mecklin. 1976. *Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure,* in Organisational Economics. J. B. Barney and W. G. Ouchi (Editors). Jossey-Bass Publishers, London, pp 214-275.

Johnson, G., Melin, L., and Whittington, R. (2003). *Micro-Strategy and Strategising: Towards an Activity Based view,* Journal of Management Studies, 40:1, pp 4-21.

Kerr, S. 1975. *On the Folly of Rewarding A, While hoping for B,* in Academy of Management Journal, December(18), pp 769-783.

Legge K. (1995) *Human resource management: rhetoric and realities*, Basingstoke: Macmillan

Lusch R.F. and Jaworksi B.J. (1991) *Management controls, role stress and retail store manager performance*, Journal of Retailing, Vol. 64, No. 4, pp. 397-419

MacDuffie J. (1995) *Human resource bundles and manufacturing performance: organizational logic and flexible production systems in the world auto industry*, Industrial and Labor Relations Review, 48 pp.199-221

Marchington M. and Parker P. (1990) *Changing Patterns of Employee Relations*, London: Harvester

Merchant K. (1985) *Control in Business Organisations*, London: Pitman

Miles R. and Snow C. (1994) *Fit, failure and the hall of fame.* New York: Free Press

Mintzberg H. (1983) *Power in and around organisations*, Englewood Cliffs, NJ: Prentice-Hall

Mintzberg H. (1989) *Mintzberg on Management*, New York: The Free Press

Mitnick, B. M. 1992. *The Theory of Agency and Organisational Analysis*, in Ethics and_Agency Theory. N. E. Bowie and R. E. Freeman (Editors). Oxford University Press, New York, pp 75-96.

Naumann S. and Bennett N. (2000) 'A case for procedural justice: Development and test of a multi-level model'. Academy of Management Journal, 43, 881-889

New, S.J. (1997) *The Scope of Supply Chain Management Research,* Supply Chain Management: An International Journal, Vol. 12:1, pp 15-22.

Ouchi W.G. (1977) *The relationship between organisational structure and organisational control*, Administrative Quarterly Weekly, Vol. 22, pp. 95-112, in Berry, A.J., Broadbent J. and Otby D. (eds) (1995) *Management Control: Theories, Issues and Practices,* Basingstoke: Macmillan

Patterson M., West M., Lawthom R. and Nickell S. (1997) *Impact of people management practices on performance*, London, Institute of Personnel and Development

Pfeffer J. (1994) *Competitive advantage through people*, Boston, Harvard Business School Press

Renwick D. (2000) 'HR-line work relations: a review, pilot case and research agenda'. Employee Relations, 22:2, 179-205

Shaw, S. A. and J. Gibbs. (1995). *Incentives in Distribution Channels*. University of Strathclyde.

Sparks L. (2000) 'Employment in food retailing' in Flexible Working in Food Retailing. Baret C., Lehndorff S. and Sparks L. (eds). London: Routledge

Sterns, J.A., David B. Schweikhardt, H. Christopher Peterson. (1998). *Using Case Studies as an Approach for Conducting Agribusiness Research.* Staff Paper No. 98-11, Department of Agricultural Economics, Michigan State University.

Storey J. (1989) New Perspectives in Human Resource Management, London: Routledge

Storey J. (1992) *Development in the management of human resources: an analytical review*, London: Blackwell

Thompson, S. (1988). *Agency Costs of Internal Organisation*, in Internal Organisation, Efficiency and Profit. S. Thompson and T. Wright (Editors). Philip Allain Publishers, pp 65-85.

Tomlinson F., Brockbank A. and Traves J. (1997) 'The Feminisation of Management? Issues of 'sameness' and 'difference' in the roles and experiences of female and male managers' Gender, Work and Organisation, 4: 4, 218-229

Truss C., Gratton L., Hope-Hailey V., McGovern P. and Stiles P. (1997) 'Soft and hard models of human resource management: a reappraisal' Journal of Management Studies, 23:1, 53-73

Weiss, M. D. (1995). *Information Issues for Principals and Agents in the Market for Food Safety and Nutrition,* in Valuing Food Safety and Nutrition. J. A. Caswell (Editor). Westview Press**,** Boulder, pp 69-79.

Yin, R. K. (1989). Case Study Research: Design and Methods. Sage Publications, London.