Polman - Exploration and Exploitation at FrieslandCampina

Abstract
This thesis investigates how elements of the governance model of a large company influence the balance between short and long term goal achievement. This question is interesting both from a theoretical and a practical viewpoint.
The investigation is focused on the case of a multinational dairy company: Royal FrieslandCampina. The specificities of the dairy sector – supply concentrated in Western Europe, volatile price development – and of a cooperative structure – members acting as shareholder and supplier – make it particularly interesting. Meanwhile, the discontinuation of the quotation system for milk forces dairy companies to carry out strategic change to create a sustainable competitive advantage.
Simons’ (1995) lever-of-control framework is used as starting point. This framework proposes two extreme benchmarks to classify management control systems: interactive versus diagnostic systems, depending on the degree of involvement of top management.
This thesis develops two new ideas: firstly, that the framework of analysis can be used to study the fit between elements of the governance model and the desired balance between exploration and exploitation and secondly, it explores how all these dimensions interact in practice.
A case study is used to explore the relevance of these ideas. The analysis covers multiple elements of the governance model of FrieslandCampina, making explicit how these elements fit the description of interactive or diagnostic and whether this can be attributed to the expected relation with exploration and exploitation. This relation is made specific using a two dimensional grid.
Evidence was found that some elements with diagnostic features: tight controls, the financial element in target setting & performance management, and bottom up investment planning and resource allocation reinforce the gravitation towards exploitation.

Keywords: management control systems, interactive control, diagnostic control, dairy industry, case study