Food conglomerate gives autonomy, gets results

While many large corporations tend to run tightly controlled, highly centralized operations, others take an opposite approach, maintaining effective control of widespread operations with a small headquarters staff.

One of the more successful companies in the second category is Curtice-Burns, Inc., which manages its seven food manufacturing divisions as a loose confederation with a headquarters staff of 12 at Rochester, New York.

In its 17 years, the corporation has grown to sales of $269 million (as of 1978) primarily through acquisitions. In the ten years ending in 1978,earnings per share climbed to $3.67 from 62 cents. Today, each profit center continues to stand on its own regionally famous name-Blue Boy in the Northeast, Nalley's in the West, Snyder's in Pennsylvania and Ohio, and so on. The corporate logo is in small type on the bottom of the can.

"Each division has a chief executive officer," said Curtice-Burns President and CEO Hugh Cumming. "He is completely responsible for that business, other than major capital investments."

These division heads come with the companies, and Cumming likes that. "One of our prerequisites is that we will not acquire a business that does not have capable management that's going to stay," he stated. While that has not made acquisitions any easier, Cumming said, "it attracts more competent people – they like to run their own show."

Because of the high achievement of the divisions and the physical distance from headquarters, face-to-face meetings have decreased to every other month. Requests for major expenditures are normally made annually.

"We manage by exception, rather than by control," explained Cumming. "When you start to get too many exceptions, then you get into the act." Curtice-Burns gives more than lip service to delegation of authority. "If there is a problem and [the division CEO] is a good manager, he's already briefed corporate management that he's taking a risk and may fail," said Cumming. "If he's done that, the corporate management should wait.

"We, as managers, have to have failures to learn. If every time you have a failure, you get into the act, nobody's going to take any chances."

This managerial outlook did not occur accidentally. Cumming has a definitive list of pluses and minuses for it.

"First of all, you have low corporate overhead," he noted. The people at headquarters are largely financial, including two internal auditors who spend most of the time on the road. The company hires consultants for specific studies, because of cost and specialized expertise.

The pivotal advantage to the system, according to Cumming, is "clearly centered responsibility on the chief executive officer of each division for the performance of the division." A related plus is that peer pressure among divisions is great.

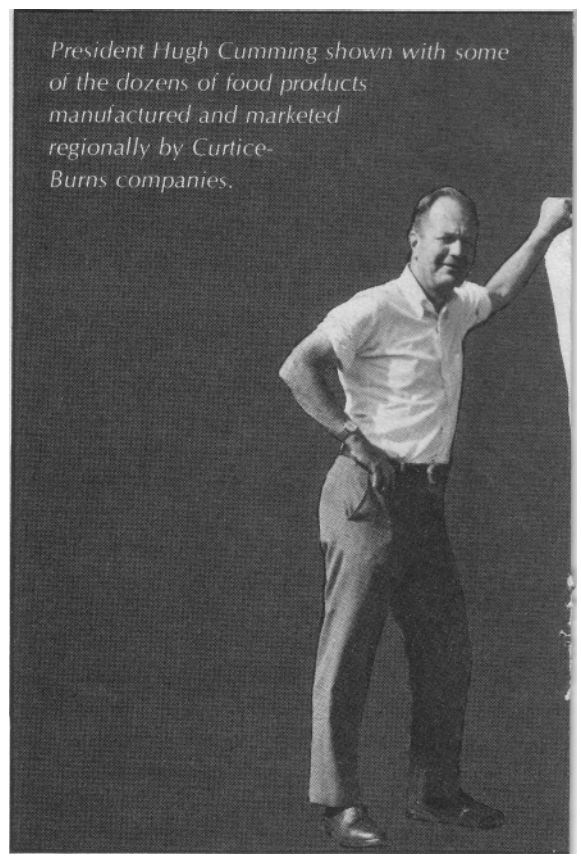
Because of the cyclical nature of the food business, Curtice-Burns does not tie its incentive plan to the performance of a single division. It is based on corporate results and allocated by payroll. "You can look around at those divisions and see the peer pressure is really there," said Cumming. "If his division is not doing well, it's taking away from my bonus."

Since the food industry is loath to reveal marketing and production information, the Curtice-Burns setup provides a frame of reference. When two or more divisions make and sell the same product, they can compare costs. It may even be more accurate than comparison with the competition, since the same cost system is used.

The corporate philosophy is positively reflected in the entrepreneurial concept, contended Cumming. "I think our people look at running those divisions, whether $lO million or $85 million in sales, as though each were their own. All of our top management people came from small businesses. And we're convinced that small businesses are likely to have less overhead and operate more efficiently than those that build up big staffs."

Because of the autonomy allowed the CEOs, the divisions can react quickly. For example, when one division decided it was time to get into the natural potato chip business, it did so in a month. In contrast, Pepsico's Frito-Lay division took 15 months. Cumming feels his company used the time to advantage and will hold on to major market share, even with Frito's huge ad budget and marketing machine.

"When the division CEO decided



President Hugh Cumming shown with some of the dozens of food products manufactured and marketed regionally by Curtice-Burns companies.

what he wanted to do, he didn't talk to anyone except those in his division-he just did it," said Cumming.

Similarly, he feels the division heads are ahead of a centralized corporation in terms of marketing. "We have no intention of making our regional brands national. The management of that division can provide service in that region, advertise where market share is high, and they have a darned good knowledge of the market, better than if they asked someone in Rochester."

Often the divisions have been acquired from major conglomerates. While they had been making money, their return was not up to corporate par. "We have found that by acquiring a business with an earnings record from, say, Borden, when we let them run the business themselves, they do a lot better," said Cumming.

Curtice-Burns is careful to let management and operations go on as they had. It even has a new division chief report to Cumming for the first year, rather than to an executive vice-president. "If he reports to me, those people around the country are going to be a little slower in getting their fingers in the business," Cumming explained. "They have to go through me to get to it."

When Curtice-Burns buys a company from a Consolidated Foods or a W. R. Grace, it can often do so inexpensively, since the conglomerate cannot accept a low return. "When we buy it at a bargain price, our return is going to be better to begin with, and the earnings have gone up besides," said Cumming.

Even though the corporate philosophy has paid off handsomely, it is different enough to have caused some qualms on the part of the board. It had reservations about acquiring a company in Tacoma, Washington, and about the low emphasis on the corporate name, which does little to sell Curtice-Burns stock.

Besides being somewhat handicapped in the financial world, Curtice-Burns has some duplication of sales and accounting, since each division runs its own. Likewise, there is some marketing duplication.

A less easily definable problem is that some divisions may be too small to operate independently. "You can carry this autonomous concept to extremes where you can't operate efficiently," remarked Cumming.

Also, picking companies to acquire with capable management requires a combination of mind and gut. "There really isn't any substitute for a very capable division chief executive officer, and that's not easy to come by," Cumming said.

Perhaps the greatest difficulty with the decentralized system is knowing when to get into the act. Steady interference ruins the whole concept, and waiting too long can be costly.

"Our business is such that earnings of our divisions can't always keep going up," noted Cumming. "As corporate managers, we have to understand that, but there is a point where it is management and not external forces that is doing it."

The structure of a varied corporation with divisions doing their own hiring, being unionized or not, and setting their own personnel policies has a few other drawbacks, including:

When one employee finds out that another division's personnel policies are more to his liking (using the company car for non-business purposes, for example), "the fur flies," said Cumming. Rather than force a corporate-wide policy, "we live with this one," he added.

There is some criticism that the incentive plan should be division-operated. There is some problem in moving or promoting employees, particularly managers, from one division to another. "Each division simply wants to keep its good people," Cumming said.

Yet, with all the quirks of the system, Cumming finds that the advantages far outweigh the disadvantages. He is the first to admit that centralization has worked beautifully for General Motors and IBM, but decentralization has been the catalyst for his corporation's impressive, steady growth.

The operating units are autonomous in the broadest sense. The major controls are financial, mostly through examination of monthly budget variance reports.

"We're a debt-financed business, so all our divisions are borrowing money throughout the year," said Cumming. "We keep a pretty tight control over the funds they use, both going out and those they generate."

Corporate policy calls for an investment of 175 percent of depreciation in fixed assets annually. This has meant more requests for capital funds than are available. The corporate officers recommend the major expenditures to the board.

Otherwise, the divisions CEOs are on their own to operate "their company" as they see fit.

For several years, the company has had a policy of maximizing the divisions and streamlining headquarters. Cumming quipped that "we can't have any more headquarters staff because there isn't any more room in the building."