

Strategic Decisions in Agribusiness¹

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Abstract

The decision to go international in agribusiness provides the company with great possibilities to achieve sales and profit growth. Naturally, the company should seek resources for its growth and development outside the country, either through export marketing, or through indirect or direct internationalization.

In spite of the opportunity for growth and development, the internationalization of business may be uncertain due to the fact that in each country the company has to face a different social, political, cultural system, a different market, consumers and competition. In addition, the company may face various restrictions while entering the foreign market, such as political instability, fluctuating economic conditions, certain degree of protectionism, high product quality standards etc.

In order to minimize uncertainty and risks, it is necessary to do an array of researches and analyses, prior to entering foreign markets.

Key words: *agribusiness, strategy, vision, mission, penetration, market, competitive ability, internationalization, globalization*

JEL Classification: *F21, F43, G15*

Introduction

Strategy refers to the ability of a company to find a position in the market, which best suits the company's resources. The corporate strategy implies the anticipation of the market, and acquiring competitive advantage on such market. Actual business conditions require prompt adaptation strategies that suit rapid and frequent technological changes, especially in the field of information technology.

The corporate strategy is a process in which, goals are set first, and only then the means and resources to reach these goals. The main goal is creating a new product, with all accompanying elements, such as price, quality, and delivery time.

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The subject of the research presented in this paper includes content, coverage, and time research dimensions. The content dimension identifies, specifies and elaborates on the content of research. The coverage dimension determines the scope of the research. The time dimension determines the period in which the specific research will be conducted. The ultimate goal of the research arises from defined research problem, and the ultimate intent of the research is then determined, which is originally reduced to a tendency to improve a certain area of human activity and subsequently contribute to scientific knowledge about the researched phenomenon.

Research Results

Modern enterprises conduct their businesses in dynamic environment, whose main characteristics manifest in the form of business globalization, tightening up of competition, increasingly complex customers' needs, dynamic and technological development, especially the one of informative technology, rapid innovation and imitation of a product, strengthening of the role of the financial markets etc. Technological changes, information and knowledge make the borders between countries disappear, and diminish the role of the state in managing economic policies, given that international standards, stock exchange, and electronic conversion of information dictate the new business conditions. In order to maintain and improve their position in new circumstances, companies in the field of agriculture leave the old in search for the new business models. Restructuring of such companies primarily focuses on changes in the size of the company – small and medium-sized companies are replaced by big companies, in terms of merging in various forms of cooperation, in order to enhance flexibility and provide competitive advantage on global level. In the late eighties and early nineties, Yugoslavia has begun the process of privatization in order to abandon socialist economy and build more efficient market economy. Unfortunately, the transformation process that took place was rather slow mainly due to the frequent changes in legislation, the optional approach to the process of transformation and resistance of the employees to the process for fear of losing their job and job perks, inconsistencies in the implementation of the system solutions, high inflation rate, imposing of sanctions to the country etc.

Speeding up the process of transformation would enable local enterprises from the field of agro-complex to enter global market. The main problem to be resolved is boosting up levels of competitiveness, since competitive position of local enterprises from the field of agriculture is rather low and limited due to the following factors: lack of working assets, high fixed costs, high costs of financing against credit and bank services, lack of assets for production modernization, lack of equipment etc. Thus, it could be said that the creation of competitive advantage goes hand in hand with the existence and development of skills and knowledge, i.e. innovation and entrepreneurship.

During the research, the general research hypothesis was formulated as follows: The impact of the strategic decision on long-term lifetime of agriculture business.

Therefore, special hypotheses or auxiliary hypotheses arose from the research itself:

- the impact of the enterprise structure transformation on the prospect of the enterprise;
- the enterprise management and strategic decisions;
- the enterprise prospect as viewed through high-quality strategic decision making.

Our society and economy find themselves in transition from state socialist economy toward market economy. Somewhere these processes occur faster, and somewhere they do not, so in some companies the system of modern management and marketing is still emerging.

Therefore, the mission of each subject would be to carry its business in a different, more creative way than its competition, in order to succeed on the market, or in other words to adjust to new fluent business conditions.

Our enterprises from the field of agro-processing complex have to transform much faster and loose their state-socialist heritage, in order to seize the current period of transition, for competition in market conditions. They need to abandon the current massive organization structure with a large number of employees, and to give advantage in employment to staff with initiative toward making larger profits.

In collectives there is a need for “healthy cores”, in the sense of production, that are ready to perceive the change as something that should be nurtured, and to act accordingly. We can not sit idly and wait for some new experts to appear, that will manage these changes without employees.

In this process of transformation, employees should be reeducated and trained in seminars and in various forms of education in order to manage the changes in the new business conditions. Employees, ready to compete with competition in market, should be sorted out.

Organizational changes and production programs should be adjusted to creative predispositions of employees. “Healthy core” created in this manner should be the verger of changes and development inside the collective. Enterprises must be innovated constantly, in order to keep up with changes, or even to create changes themselves.

Forms of innovative activity promotion in each enterprise are:

1. Vision as employees’ activator;
2. Process of open communication which enables larger number of employees to be involved in decision making process;
3. Team structure as convenient structure for learning;
4. Employees authorization as a process of delegating decision making and responsibility from managers to employees in determined framework;
5. Motivation, remuneration, and carrier managing.

Besides this, it is necessary that the higher governing authority (state):

- should provide better organization and stability of political, legal, and monetary system, in order to attract foreign enterprises which have necessary funds, technology, knowledge, market and finances;
- should apply a new approach to education, which will be focused on the development of individual’s creative thinking and which will promote the role of innovators.

The company’s vision is a quest for answer to a rather simple question, which each entrepreneur, manager, and leader asks himself: “What is the business we will find ourselves in after some time? “

The question could be answered by leaders and entrepreneurs, while in the phase of ascent, which refers to the growth and development of their business.

Managers could hardly give an answer to this question, unless they possess extreme talent or they are in the process of growing into a future leader. The ability to foresee, or even to say vision shaping (shaping vision into text that would describe the future state of the company) is one of the key activating factors in a company. The efforts which determine changes as well as overcoming the resistance to them in the process of company development are mere axioms, rules which are in permanent conflict throughout the whole process of adjusting to changes. Vision is the ability to see more and further than the others.

The better the vision is defined, the better it will be for the company. Vision must be achievable, and so the main goal of managers in companies is to make vision executable, in other words to actualize it.

It is a constant process. While one vision is in process of realization, another, new vision is in the phase of creation. Since vision must be perceived in correlation to mission, achieved vision is equally enriched or in some extreme cases even new mission. Probably each author defines mission differently, as it is the case with other terms from management glossary, since everything is in the process of changing, cognition, development.

Mission per se should provide the answer to a question: What is this business that we are involved in? It is a process in which things are defined and changed at the same time.

The dynamic relation between these two business categories, i.e. vision and mission, is a constant process of new vision creation, its transformation into mission, then new creation of new vision etc. It is a process of growth and development of a company, from small, via medium sized, to large company. The speed of this vision to mission transformation process depends on a number of influencing factors, for instance on the funds we invested in new products and technologies, which relates to a traditional view on the development process. It seems clearer today, that this process mostly depends on people, human resources, and the way knowledge is managed.

Planned Production Growth and Processes Improvement

Almost every single enterprise in the field of agriculture in transition conditions has to deal with how to transform and adjust inherited structure and technology to current conditions.

Our agro-industrial complex has been for 50 years developed in conditions of socialist environment, planned economy and underdeveloped market, which resulted in technological lag and distorted image of terms characteristic for modern world and production, such terms as business, profit, market, competition, and management were bound to have negative connotation.

Each enterprise that sets itself the goal to enter the EU market will have to undertake rather complex changes in production technology and its structure, above all production computerization, managerial type of management, more aggressive marketing approach, as well as more up to date managing and planning.

Having in mind rather strict EU criteria on product quality, acquiring ISO 9001 certificates and implementation of other standards such as HACCP and GLOBALGAP standards, impose themselves as mid-term plans, since they represent the main pre-requisites of successful business in western European market.

Technical-technological development, strengthening of personnel structure, implementation of quality systems through standardization of products and technological processes, organization of all production phases, and product quality control are compulsory in order to acquire the certificates.

In current conditions, product and technology life-span is decreasing, so only companies, ready for rapid changes in technology processes, with highly skilled labor that can apply their knowledge swiftly and efficiently in handling new, modern, and technologically superior mechanization, could respond to changes that occur in the development of technology, computerization, new materials, more strict quality and environment protection standards.

In order to achieve these plans, it is necessary to analyze the current production, the technological level of equipment and machines, and to make technical design documentation on obtaining new, modern machines, as well as to devise means for education of the current personnel.

Process of Creating Enterprise Growth Strategy

In modern conditions, keeping up with the changes, being the best or at least among the best is difficult, since the changes are common, radical, and often emerge without any notice. So in order to survive, the enterprise needs to adapt to its environment, to the development of technology and science, to the growth of competition, to the state and its influence, to the process of globalization, to conditions of market economy etc.

In accordance with the development of economy and society, the enterprise ensures its survival through growth, which can be focused on: the increase in market share, solving production bottleneck, more efficient implementation of international division of labor, minimization of production costs, minimization of competition intensity etc. Enterprise growth could be defined as increase in its size and scope, in order to achieve, through economy of scale and scope, and synergy in its operations, efficient mission accomplishment, in given constellation of market, technological, and economy-systematic factors, (Todorović, pp. 36). Growth could be measured by physical (quantitative) and effect indicators.

In fluctuating times, the enterprise needs to preserve its strength, not only to stand out the pressures from environment, but to create and use potentiality for growth. The environment can stimulate the enterprise business, but it can limit it as well. By using opportunities and avoiding threats, the enterprise should choose the directions, the methods, and the pace of its growth and development, which would enable its vitality and healthy growth and development over a long period of time.

□ Growth strategy formulation process includes the following activities and decisions (Moore, pp. 377):

- defining growth goals, which refers to choosing desirable situations or states to reach or results to achieve;
- identification of growth sources, which refers to choosing areas over which goals would be achieved (supply potential and market potential);
- defining growth direction, which refers to setting course in order to orientate growth sources toward goals (expansion and diversification);
- choosing the growth method, which refers to choosing means to efficiently achieve certain growth directions;
- measurement of desirable level and manner of securing enterprise flexibility, which refers to the speed at which the enterprise will increase the scale of its business;
- defining the desirable level and mode of securing enterprise flexibility which refers to how the enterprise can react to new opportunities and threats in business environment in timely manner and with lower costs;
- these decisions are mutually conditioned, so they have to be prepared and passed simultaneously, having in mind the strength and weaknesses of enterprise, as well as opportunities and threats that arise from the environment.

Growth Strategy

All institutions should grow and develop, and those that do not, stagnate and decline in time. However, growth as a main goal should not be pursued obsessively, regardless of real abilities, so besides being larger, the enterprise should tend to be better. There is an array of strategies to apply in order to achieve growth.

The most valuable contribution in identifying alternative growth strategies was provided by the growth matrix. It found its place in numerous books, with various alternations and variations,

though the original version is thought to come from Stanford Research Institute (SRI). According to Moore (1992), Ansoff used a version of matrix and is thought to be the first to analyze alternative growth directions.

One out of many versions of this matrix is shown on Table 1 (Moore, pp. 19).

Tab. 1. Ansoff matrix

| Market/Product | Existing Product | New Product |
|------------------------|-------------------------|---------------------|
| Existing Market | Market Penetration | Product Development |
| New Market | Market Development | Diversification |

Source: Moore (1992, pp. 19).

Ansoff matrix represents four different growth strategies the enterprise could follow considering two dimensions: product (existing and new) and market (existing and new)

- Market Penetration – Increase in sale of new product on existing market;
- Market Development – Sale of existing product on the new market;
- Product development – Development of new product on existing market;
- Diversification – Development of new product for the new market.

Idea of Enterprise Internationalization

Since international expansion provides the greatest possibilities for growth, and increase in sales and profit, enterprises often choose to expand their business over the borders of their country. Rapid economic development, development of technology, means of communications and transport contributed to this.

Decision on business internationalization is of strategic importance for the enterprise whether big or small. So in order to take such uncertain and risky steps, the enterprise needs to have strong reasons or stimuli to opt for internationalization of activities.

Six main stimuli for the internationalization of the company are (Dordević, pp.35):

1. Compensation for the lack of growth on domestic market that is in decline;
2. Decrease in dependency of domestic market, especially if it is in the phase of decline;
3. Usage of excess capacities;
4. Expanding market for products that are not attractive anymore on domestic market;
5. Exploitation of unique company competencies;
6. Adjusting domestic competition through foreign markets take-over.

Modes of Internationalization

Since internationalization of business implies that the enterprises search for the sources for their growth and development outside the country, it is crucial to choose the best manner for achieving goals of internationalization.

Basically *three modes* of internationalization are possible:

- Enterprise internationalization through export marketing;

- Indirect enterprise internationalization refers to doing business internationally through cooperation with foreign partners through technology, knowledge and know-how transfer;
- Direct enterprise internationalization refers to large and direct investments in certain countries in order to establish branches or enterprises abroad for production and marketing activities.

Conclusion

International business can provide great opportunities to agribusiness for growth and development, but at the same time, it remains quite hazardous. Uncertainty arises from the fact that the enterprise faces different countries that have different social, political, cultural systems, different markets, consumers and competition. In order to minimize uncertainty and risk, it is necessary to perform numerous researches and analyses prior to choosing the foreign market. In addition, the enterprise can face numerous limitations while entering the foreign market, such as political instability, fluctuating economies, certain measures of protectionism, high product quality standards etc.

One of main prerequisites for doing business on the international market, and especially on the EU market, is possession of ISO 9001 quality certificate, as well as the implementation of food safety control systems, such as HACCP and GLOBALGAP. Business internationalization represents a hazardous step for the enterprise and it is necessary that certain reasons for expansion of business from domestic to foreign market exist. Reasons may vary, and among most common are exploitation of unique competencies of the company, minimization in dependency towards domestic market, compensation for lack of growth on domestic market etc.

By using opportunities and avoiding threats, the enterprise should choose those directions, methods and pace of its growth and development that will enable its healthy growth and development over a long period of time.

The enterprise needs to clearly formulate the goals it wants to achieve by doing business internationally, as well as to define the strategies that would carry out those goals.

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Decizii strategice în agri-business

Rezumat

Decizia de a fi recunoscut pe plan mondial oferă companiei posibilități imense de realizare a vânzărilor și de creștere a profitului. În mod normal, compania ar trebui să caute resursele necesare dezvoltării și extinderii sale în afara țării, fie prin marketingul de export, fie prin internaționalizarea directă sau indirectă.

În ciuda oportunității de extindere și dezvoltare, internaționalizarea afacerilor poate fi incertă datorită faptului că în fiecare țară compania trebuie să se confrunte cu un alt sistem social, cultural și politic, cu o altă piață, consumatori diferiți și o competiție diferită. În plus, compania se poate confrunta cu diverse restricții la intrarea pe piața străină, precum instabilitatea politică, condiții economice fluctuante, un anumit grad de protecționism, standarde înalte de calitate a produsului etc.

Pentru a micșora gradul de incertitudine și risc, este necesară efectuarea unui set de cercetări și analize anterioare intrării pe piața străină.