

MEASURING PERFORMANCE OF MANAGEMENT IN AGRIBUSINESS - PROBLEMS, CONTROVERSIES AND SOLUTIONS

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Abstract

The paper is focused to the problem of external performances measurement of management in agribusiness. The measurement is discussed in terms of the needs of public and commercial development institutions, researchers and other development actors. The main goal is to design a coherent set of indicators for external analysis of the problems and processes of business development, as well as monitoring of the reforms and the allocation of development resources in accordance with the criteria of an open market economy (in particular, the analysis of the effectiveness of public support for I&R activities, subsidies and subsidized loans to finance the production of food for export in terms of broader socio-economic objectives).

The methodology is derived based on the analysis of problems and controversies that accompany the structural adjustment of agricultural industry in Eastern Croatia and AP Vojvodina in the period from year 2015 till 2030/2035.

The presented matter, in addition to an introduction and a conclusion, divided into four parts. The first part is focused to researching the structure of management performances indicators in the context of the needs of more effective external regulation of agribusiness. The focus of the second part is on the selection of principles for concretization of contents of indicators for performances measurement of management in agribusiness. The base is a holistic approach to solving this problem. The third part shows the author's view of the problems and challenges of their implementation and consequently, establishment of rules that should guide the public and commercial development institutions in the awarding of subsidies, loans and providing the technical support. In the fourth section is given a critical evaluation of conditions of their operationalization.

JEL Classification: O13, D78, E65

Keywords: agricultural business, macro management, performances measurement system for external regulations, holistic approach

1. Introduction

The paper is focused to the problem of external performances measurement of management in agribusiness. This problem can be approached in various ways. The proposal is based on an analysis of the problems that faced the public support for the privatization of the development of agricultural industries in Eastern Croatia and AP Vojvodina in the period from year 2015 till 2030/35. Although they are in two states, a common feature is that they belong to typical Central European NUTS 2 agricultural regions with large p/c natural and man-made resources for food production and similar problems to overcome the (post)socialist transition depressions. The main goal is to design a coherent set of indicators for external analysis of the problems and processes of business development, as well as monitoring the reforms and the allocation of development resources (in particular, the analysis of public support for I&R activities, subsidies and loans for production financing in terms of broader socio-economic objectives in the reproduction chain: higher and more efficient food production with greater share of added value>higher export - > increased employment - > increased standard of living).

2. The structure of indicators for performances measurement of management in agribusiness in the context of needs to increase the efficiency of external regulation

The problem of determining the set of indicators to measure the performances of management in agribusiness is based on a methodological approach in which two aspects are separated.

The first is based on the SWOT analysis: *Why the factors*, such as: (1) A clearly defined mission, vision and goals in the entrepreneurial decision-making; (2) The possibility to establish a continuity in the improvement of corporate governance by development of management processes and functions of capital; (3) Organization in function to constitute three-ply management process in the activities of planning, organizing, leading and control; (4) Econometric support in planning defined targeted states; (5) The risk analysis in financial flows for the given liquidity management; (6) Increased degree of freedom in identifying impacts and pressures

of non-economic and economic factors and resources; (7) Application of modern (market-oriented) technique for the preparation and evaluation of investments in processes that enable the growth and faster capital turnover; (8) Operational and investment decision-making in the management processes and stages based on the multidisciplinary action; (9) Pinpointing the responsibility for deciding on the material, financial and human resources through consultations, cooperation and co-decision, *did not result in more efficient farm management, or companies or business ventures*, according to the minimalist criteria - providing the cash-flow, which provides the regular service of all obligations with maintenance of the minimum (target) profit rate (Adžić et al.; 2014, 173-176)?

The second aspect relates to the objective of this study – the performances measurement of management in agribusiness is considered, first of all, in terms of the needs of public and commercial development institutions, researchers and other actors of development. The initial commitment is providing a balance between market reforms and incentives and public interest. In this context, it is necessary to say something about the key elements of scientifically valid transformation of the role of public factors in the formation of a general framework for the development and their implications for the determination of indicators for the performances measurement of management in agribusiness (the exposed matter is processed according to Hyden and Court; 2002).

Both the Republic of Croatia and the Republic of Serbia are over two decades in the process of constituting the conditions for the transfer of rights and responsibilities for the allocation of development resources from the state to the market. Technically, this approach marks: (1) liberalization of market, (2) increasing the degree of freedom of movement of capital, and (3) development of economic and legal institutions in function of encouraging and maintaining the (1) and (2). However, in terms of their development problems, it is more visible that the discretionary role of the state in the allocation of development resources can be reduced, only if as a substitutions establish a clear, precise and transparent principles based on certain aspects of reforms and management actions in which in the foreground are the *rights*, not *needs* (Table 1).

Table 1. The implications of concept of rights implementation on the public regulation of management behavior in agribusiness

Behavior of managers in agribusiness when in the structure of public regulation dominates the concept: the needs	Behavior of managers in agribusiness when in the structure of public regulation dominates the concept: the rights
The needs are met.	The right is exercised.
The needs do not implicate any obligations.	The acquisition of rights implicates corresponding duties and obligations.
The needs are not universal.	The rights are universal.
The needs can be met in a variety of ways, provided that some desired set of results is achieved (for example, a minimum amount or resources to each user).	The needs can be achieved under the condition of simultaneous respect for the processes and results.
The needs can be ranked in order of priority (for example, privileged farms, companies and businesses ...).	The right is indivisible and must be achieved completely and at the same time.
The needs can be achieved in various ways: gifts, donations, subventions, by assistance, awarding the discretionary power to full or partial write-off of outstanding debts from suppliers and the like.	In normal conditions, gifts, donations, subventions, assistance, awarding the discretionary power to the various write-offs are incompatible with the rights-based approach (this means that all economic entities and citizens must regularly service their obligations, the only exception are the individuals unable to work - which belongs to the domain of social policy in the narrow sense).

The exposed indicates that the application of the concept of rights in the public regulation of management behavior in agribusiness is based on the completion of the institutions and norms that will enable everyone to take responsibility to meet their needs and their development in the future. On technical side, it can be seen - that the development does not go from the top to the state to the farm, or companies and their management, but inverse, development is a process that goes from the individual in terms of people and their families (primarily as consumers of food and employment opportunities) and economic entities and their associations to the state (the so-called holistic approach).

3. Principles for selecting the methodology for performances measurement of management in agribusiness

Initially should be noted that, there is no agreement on the concept of successful managerial control, and consequently about the determination of the appropriate

set of indicators for its measurement. In seeking solutions, the key is a clear distinction between the system of public governance and ways of its implementation at micro-level (corporate and entrepreneurial management). The scientifically valid approach is based on determining the adequate combination of measuring the realization of goals in the domain of: increasing the economic performances (farms, companies and businesses within an open market economy), protection and improvement of environment issues and social prosperity, on the one hand, and meeting the expectations of the owner and all other interest groups in and outside the farm or enterprise, on the other hand. The key of implementation is the holistic view of the business of farm or enterprise (Box 1).

Frame 1. The holistic approach in determining good public and corporate governance in the agricultural business

The holistic approach has two characteristics. The first is that defining the key (may be called also ultimate) development goals should be placed at the executive level. Second, the individual goals are harmonized starting from the different observation perspectives. In fact, the initiatives for the integration of strategies are correlated. The integration of development strategies can be seen in the example of sugar production. The continuity in production requires a removal of sugar beet production from the plot to the plot, because it can not be sown at the same plot every year (the scientific recommendations is every five years, meaning, for the continuous production of an average sugar refinery is necessary at least 50.000 hectares of high class arable land). Defining the crop rotation on a larger number of grounds connect the export providing industrial strategy and agricultural strategy for providing food raw materials respecting the sustainable development criteria. The implementation of the holistic approach to this problem relies on a network of public, corporate and enterprise policies and strategies composed of four nodes, representing different views of this problem. The first node is *macro management*. Its ultimate goals are: (1) reduce unemployment by increasing productive employment, (2) increase export and a newly created p/c value, (3) increase of fiscal revenues. The second node is a *micro economic management*. The ultimate goals are: (4) increase the accumulation and income, (5) improving the investment capacities, (6) reduce the conflicts due to the market power disproportion between the primary agricultural producers and processors. The third node includes *institutions* and *regulation*. The structure in this case is formed by the commercial and the public part. The top of the commercial part of the institutional

system and regulation is formed by: (a) an aggregation of banks, whose ultimate goals are: (6) short-dated investments, (7) high interest rates, and (8) low risks. The public part is composed of: (b) control of monopoly, (c) settlement of disputes, (d) set of local, regional, national and European norms and standards. The ultimate goal is: (9) respect of consumer and environmental standards. The fourth node establishes a *system of values*. The ultimate objectives are: (10) fighting the corruption and (11) respecting the economic freedoms.

Measuring the economic performances of management in agribusiness should be carried out directly from the regular service of all obligations of their farms or companies and mass and structure of profit compared with the analogous indicators in closer and further international environment. Since the techniques are known, the focus is on the selection of principles for measuring the realization of other goals. Three groups of indirect indicators for the determination of the content of *successful managerial control in agribusiness* are proposed (Arndt & Oman, 2006):

The first includes the *inputs* or *entries*. The term includes: legislation, certain specific rights, accepted national and international obligations and the like. The indicators for measuring are the facts derived from the analysis of relevant laws, contracts and agreements, accepted obligations. They are the basis (*de jure* concept) for determining the content of term successful managerial control in agribusiness, but do not show: “What is the real situation?” or “What is going on: at the level of farm or company?”

The second includes the *processes* or *procedures* that lead to the implementation of enacted laws and rights, acceptance of contracts and obligations, and the like. These indicators determine where is the farm or the company on the path of the enacted laws and accepted contracts, agreements and obligations to their implementation. Although this is a *de facto* concept to determine the term successful managerial control, there is no information on the achievement of concrete results, implementation of specific rights, and the like.

The third includes the *outputs*, *outcomes*, *results* or *actual performances*. The measure is: “How many farms or companies, but also how many people and their families (as food consumers and job seekers) enjoys the results of enacted laws, agreements, contracts and the like, and at what price?”

The presented point out six general principles that should be used in the construction of the indicators (Vujović, 2007, 222):

First, the principle of *participation*, that is appreciation of authentic interests in a triangle: government (in terms of public interest holder) - farm or company - internal and external stake-holders;

Second, the principle of *equality*, more exactly its application in the formation of the rules that fully respects the rights and interests of all participants in the chain of reproduction;

Third, the principle of *equivalence*, that is in the application of rules to everyone, regardless of income, economic, political and social status;

Fourth, the principle of *responsibility*, more exactly that all elected actors must be responsible for their actions and consider the justified demands of the government and also of the internal and external stake-holders;

Fifth, the principle of *transparency*, more exactly that the decision-making process must be efficient, clear, transparent and open to review by the government and the internal and external stake-holders;

Sixth, the principle of *efficiency*, that is, definitiveness of rules of game, which enables quick and timely decision-making;

The presented approach is based on a broader understanding of agribusiness out of the political and financial framework. At the same time shows which way and how should the agribusiness actors go into the initiation of the process of constituting a good business environment for the regular market operation. A good entrepreneur and manager must very carefully and systematically submit the suggestions, comments, criticisms and statements of support to the surrounding, so his work on management will be sufficiently supported and as little as possible hindered aside. Thereby it must be done in such a way that will make the coworkers cooperative rather than uninterested or competitors.

4. The structure of indicators for measuring the quality of agribusiness and the preliminary results of their implementation

The proposed structure of indicators for measuring the quality of agribusiness is derived from the mixture consisting of: (1) obligations to implement and apply the appropriate technical, business, social and environmental standards as a preconditions for the globalization of business activities, (2) elements of the corporate social responsibility concept, as well as (3) positive destiny of entrepreneurs, managers and owners to the problem of improving the quality of their business. In

this framework, the classification of indicators for measuring the performances of agricultural business is carried out in four groups (Lončar, 2007, 366-370):

The first group includes the obligation of every business entity to establish and apply the appropriate technical, business, social and environmental standards. A special role in improving the management performances have the common standards, such as: (1) Quality Management System (ISO 9000), (2) Environmental Management System (ISO 14000), (3) Social Accountability System (SA 8000), (4) Health and Safety Management System (OHSA 18000) and the like. Each covers a narrower or broader set of business activities that ultimately result in a forced or voluntary respect of national, European and international regulations and obligation toward all relevant interest groups in the internal and external environment.

The second group of agribusiness performances indicators results from the needs that the agribusiness actors should be more transparent and accurate in reporting to the public about their results and achievements. In this sphere a variety of standard instruments circulate, such as: (1) Sustainability and Social Corporate Responsibility (CSR), (2) Reporting - Global Reporting Initiative (GRI), (3) Corporate Sustainability Reporting Toolkit, (4) CSR Assessment Tool and the like.

The third group refers to the *principles* and *instructions* on the application of positive business standards.

The fourth group is related to the efforts of owners, entrepreneurs and managers to introduce and apply the first three groups of indicators for measuring the performances of agribusiness. This refers to measures for: (1) integration of requirements and goals of the first three groups of indicators for measuring the performances of agribusiness into organizational structure of farm or company and typical processes, (2) motivating the employees to create innovative solutions for more efficient implementation of the above-mentioned indicators, (3) intensification of the cooperation with internal (unions, professional teams, ...) and external groups (agricultural administration, spas, consumer associations, ...), as well as (4) more accurate reporting on achievements and problems. The key instruments for the implementation are: (1) awards, (2) education and training, (3) partnerships and (4) promotion and communication.

5. Discussion

In the analysis of operationalization possibilities the proposed conceptions of measuring the performances of agribusiness should take into consideration the fact that science, in the dominant understanding of its essence, can not develop methods and mechanisms for successful determination of all mentioned elements. At this point should be noted that for a large part of the (minimal) European standards for measuring the effectiveness of business and the quality of business environment there is no adequate production-technological and socio-economic solutions, but they should be sought on the fly.

Both the Republic of Croatia and the Republic of Serbia, sooner or latter, will have to turn to the macro, meso and micro-economic reforms and policies that will pave the way towards regional and local endogenous, auto-propulsive and sustainable development in conditions of high uncertainty and risk. In the preparation and implementation of the development strategy of regional agricultural industries are present a various interpretations of reality, which are also variable in time. Therefore, the fundamental existential questions of formulation and implementation of reforms and policies to the constitution of the institutional and financial framework for the endogenous, auto-propulsive and sustainable development of regional agricultural industries are - the result of the interaction between: (1) individual and collective entrepreneurship, ownership and management initiatives, (2) sciences, (3) non-governmental sector and civil society, (4) internal and external actors of commercial reproduction, while on the other hand are (5) left to the politicians voluntarism. For successful solving this problem, in the selection of actors of the business, innovation and political system should be given a more importance to the possession and use of: (1) specific knowledge and skills, (2) ability for credible understanding of the problem and managing the complex and uncertain circumstances and (3) specific abilities to create solutions and persistence in their implementation. This approach faces two problems.

The first arises from the fact that the main task of the proposed concept is-how to with the simultaneous action of public regulation, entrepreneurship and corporate governance create the conditions for growth of competitiveness of food production for export on the basis of generation and valorization of scientific knowledge. For its improvement are required the investments in new products, new organization, new equipment, new knowledge and skills, but above all, those who will be able to, on the basis of micro-innovations organize the labor and capital

in order to make the production profitable in tough and unequal game on target segments of the European and global food markets. So, requires a large number of agricultural entrepreneurs, managers and technical teams with a very diverse and specific knowledge and skills.

The second is related to the current ranges of national and regional innovation systems in initiating and implementing the restructuring strategy of (regional) agricultural industries. At first appearance, the current situation (number and structure of the organization for education and research, the number and structure of teachers, scientists and researchers, available space, experimental farms and to some degree the equipment) is in many dimensions respectable. However, the institutional arrangements supporting these systems are far away from their ability to provide their modernizing role, despite the plenty of, more politically-declarative than properly constructed institutional reforms, educational, scientific, technological, agricultural, and industrial and trade policies. In this context, the listed innovative systems, in the strict (scientific) sense of this term does not exist, because where there is no innovation (in terms of bringing (economic) benefits to the innovator, and new values to the user), there is no innovation system, and thus one of the major factors of starting the process of food production industrialization by the exogenously determined European and global standards.

6. Conclusion

The main finding of this study is that indicators for external performances measurement of agribusiness must be derived from the mixture composed of: (1) obligations to in their business implement and apply the appropriate national, European and global technical, business, social and environmental standards, (2) key elements of the corporate social responsibility concept, but above all, (3) positive definitiveness of entrepreneurs, managers and owners toward the problem of improving the business performances in the conditions of hyper-competition on the domestic, European and global food market. The entrepreneurs, owners and managers in agricultural businesses have to accept the high standards of conduct in the field of relationship to the external and internal environment. Their reputation should not depend only on business success accounting indicators, as the basis to satisfy the owners and financiers, but also on the ability to make a consistent relationship of mutually beneficial interactions with employees, customers, (local, sub-regional, regional and national) community and environment.

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