

PERFORMANCE OF AGRIBUSINESS COMPANIES - WHAT KIND OF GOVERNING STRUCTURE SHOULD WE ADOPT?

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Abstract:

It is already known the fact that the performance of an enterprise is the result of good or bad management. But when we talk about "management" often we overlook, or even worse, we don't consider such problems associated with *the growth strategies of companies*, which normally derive from the forms of governance. Surveys made so far lead us to conclude that the actual performance of a large number of enterprises, engaged in various agribusiness industries is highly associated with both the issues mentioned above, and therefore they are the focus of this study. Our goal is that by the conclusions drawn in this paper, can be offered recommendations on growth strategies that enterprises should implement, and more rational governance forms according to industries.

Keywords: Growth strategy; governance structure; horizontal integration; concentric diversification; conglomerate diversification; transaction cost; stimulus intensity.

Introduction:

According to Coase, the activity of the enterprise is more superior to the market itself, since it directly affected by the price mechanism. This situation makes that enterprises face additional costs, transaction costs, which include research costs, information costs for raw materials, monitoring costs, negotiation costs, costs of signing and implementing contracts

etc. These costs can be reduced through internal organization, or by establishing an authority to direct productive resources in the enterprise.

To recognize and evaluate the transactions costs should be recognized naturally different types of governance structures, and critical dimensions that serve to characterize a transaction. A governance structure is a set of institutional arrangements within which it is organized and conducted a transaction, which means that a particular structure of government is in favor of a government or certain transactions. Referring to Governance structures we can distinguish market governance, internal governance and hybrid governance.

Agribusiness companies and growth strategies:

Managing growth of agribusiness enterprises is one of the most important challenges to managers and management teams as a whole. For this, it is important to identify and resolve towards strategies that enable the growth of companies, in benefit to fulfill the defined objectives. To select and implement a growth strategy, it is important to analyze and evaluate in detail the company, in the framework of the totality of internal and external factors that condition the production. Referring to the objective of this research, we studied a number of agribusiness enterprises, in terms of strategies undertaken on their growth, as it is shown in the data of the following table:

No.	Indicators	Processing industries / Number of enterprises											Tot .	
		Wine		Tot .	Meat		Tot .	Olive Oil		Tot.	Milk			Tot .
		No	%	En t.	No	%	En t.	No	%	Ent.	No	%		En t.
1	Vertical integration	5	5	103	5	8	63	8	6	127		0	352	
2	Horizontal integration	7	7	103	4	6	63	13	10	127	34	10	352	
3	Sustainable Growth		0	103		0	63		0	127		0	352	
4	Concentric diversification	44	43	103	6	10	63		0	127	165	47	352	

5	Conglomerate diversification		0	103	5	8	63		0	127		0	352
6	Concentration in one product		0	103		0	63		0	127		0	352
7	Developing new products	2	2	103	4	6	63	6	5	127	2	1	352
8	Increase of profitability		0	103		0	63		0	127		0	352
9	High productivity		0	103	3	5	63		0	127	2	1	352
10	Strong competitive position		0	103	2	3	63		0	127		0	352
11	Technological leadership		0	103		0	63		0	127		0	352
12	Public responsibility		0	103		0	63		0	127		0	352
13	Diversification		0	103		0	63		0	127		0	352
14	Investment in securities market		0	103		0	63		0	127		0	352
15	Investments outside agriculture		0	103		0	63		0	127	2	1	352
16	Joint ventures		0	103		0	63		0	127		0	352
17	Strategic Alliances		0	103		0	63		0	127		0	352

Table 1. Action strategies undertaken by several companies according to the industries*

Considering in general the information presented in the table, it can be easily deduced that the companies involved in analyzed industries, do little or no effort to identify and

* Industry of wine, meat, olive oil and milk

implementation of specific strategies to increase. As can be seen, two basic strategies of growth, vertical integration and horizontal had found little or no effect.

Vertical integration strategy is adopted by a limited number of agro-industry enterprises, which operate mainly in the wine industry, meat and olive oil. This type of integration occurs primarily as integration with leading before and for the meat industry as well as integration with back leading (but very limited levels), to the wine industry and olive oil. Enterprises that have chosen this type of strategy are better focused on reducing transaction costs. Similarly, they believe (and have the right course), that a strategy of vertical integration can be considered as a very good strategy in terms of risk management, or investment diversification.

Enterprises focused on horizontal integration strategy, believe that a strategy of horizontal integration will allow them extra benefits because of the presence of economies of scale, improved competitive position in the markets as a result of increased quality and productivity, reduced transaction costs at the same value chain, etc. As shown the results from the data table above, have implemented this strategy about 13% of enterprises of olive oil industry and about 10% of the milk industry enterprises.

As can be seen in the table, a considerable number of enterprises are focused in concentric diversification strategy (if it is considered as a growth strategy). In the wine industry, about 43% of enterprises result with the tendency to increase the size of business, 10% of enterprises in the meat industry and about 47% of the enterprises of the dairy industry.

However, as noted above, it is difficult to talk about a particular kind of enterprise growth strategies, much less to implement certain governance structure, to the benefit of reducing costs and increasing profitability.

Enterprise as a governance structure

Should the enterprise be evaluated as governance structure?

Referring to the theory of the costs transaction, Coase emphasizes that firm's activity (with leader authority its entrepreneur), represents a superior activity than the market itself, because the firm is directly affected by the price mechanism. Costs incurred by this mechanism are composed by the costs of getting the fairest price, the negotiation costs and

signing contracts costs. In this context, Coase emphasizes that organizing the firm, as well as specifying an authority to lead the productive resources in the firm, these costs may be reduced. Referring to this fact, he doesn't see the firm as a production unit defined technologically, but as a governance structure that organizes the production using the market, use which causes to it cost.

In a study of 60', Coase turned to the concept of transaction costs, showing the relationship between output that can be obtained from a given quantity of inputs and organization form that governs these inputs. After him, other economists began to link the production problem with organization problem in an environment where the transaction costs confirming the production organization effectiveness is conditioned by human, economic, environment factors, etc which can cause market failures. Failures can be eliminated if these factors can be better managed through internal organization.

To recognize and evaluate the transaction costs, naturally should be recognized different types of governance structures, (market governance, internal governance and hybrid governance) and also the critical dimensions to characterize a transaction. Considering the fact that in essence of governance structure are the problems related with transaction costs, it is necessary to emphasize the critical dimensions that serve a transaction are uncertainty in which transaction take place, frequency with which it occurs and sustainability of the investment transaction.

But, what is a governance structure? A governance structure is a set of institutional arrangements within which it is organized and conducted a transaction (McFetridge, 1994). This means that, in an enterprise, a certain structure of government is in favor of the government of one or some transactions. The fundamental purpose of transactions government is to ensure transaction rules in the relations between partners, when they are characterized by potential conflicts which threaten the possibilities of achieving mutual benefits. Analyzing recently, a good transaction government makes possible that partners involved in it to realize mutual benefits.

Transaction costs analysis must begin with the study of the governance structure. In order to establish the link between the tendency to minimize the transaction costs, it is necessary to identify the characteristics of governance structures that affect transaction costs.

Different authors characterize governance structures according to the rate of voluntary or mandatory action. In general they note that:

- Market governance is characterized by voluntary actions of transaction between partners.
- Internal governance is characterized by mandatory actions, defined by an authority of the high management level.
- Hybrid governance is voluntary before finalizing the contract and mandatory as long as the agreement is valued.

According to Williamson 1991, market governance, internal and hybrid governance can be distinguished by: stimulus intensity, administrative control and type of contracts.

No.	Instruments	Governance structures		
		Market	Internal	Hybrid
1	<i>Stimulus intensity</i>	++	0	+
2	Administrative control	0	++	+
3	Adaption options		+	
4	Autonomy	++	0	+
5	Coordination level	0	++	+
6	The types of contracts used	Classical	Relational	Neo-classic Relational
Legend:		++:strong	+:semi strong,	
		0 weak		

Table 2. Characterization[†] of governance structures

Considering above, we can conclude that : Market governance, (*distribution of resources through demand- supply mechanism*) is characterized by strong stimulus intensity, not the use of administrative control, adaptive autonomous mechanisms, the use of classical contracts etc.

[†] Williamson, 1991, pp.281

Internal governance, (*distribution of resources with command*) is characterized by weak stimulus intensity, use of administrative control, adaptive opportunities, coordination, relational use of contracts, etc.

Hybrid governance, is characterized by the use of semi powerful stimulants, use of adaptive autonomous mechanisms, coordination, use of neo-classical contracts.

It is important to note that, when each actor's contribution to production is clear, then there is no opportunistic behavior and stimulus intensity will provide much better results, thus motivating all stakeholders to maximize their efforts. But, despite this fact, the market governance (for a given transaction) will not be efficient because the market mechanism will stimulate actors to act opportunistically and it will be difficult to be detected by other actors involved in the transaction. This phenomenon of market governance structure can be reduced through the application of the governance market structure with coordinated actors between them.

Referring to the internal governance structure, the effects of opportunistic behavior will be reduced due to administrative controls, as well as a better cooperation and coordination. In such a structure, monitoring and administrative control is less costly than in a situation with autonomous actors, as happens in the government market. In conclusion we can say that incentive or stimulus intensity and administrative control are important instruments of governance structure to guide the efforts of stakeholders, in particular, to enable that all stakeholders will use all their resources on activities which are engaged .

Referred to three basic governance structures, market governance, internal governance and hybrid governance, interviewed enterprises were surveyed regarding governance structures that they adopt. The data obtained are posed below:

No.	Indicators	Processing industries							
		Wine		Meat		Olive oil		Milk	
		No . En t.	With gov. struc.. %	No . En t.	With gov. struc. %	No . En t.	With gov. struc.. %	No. Ent.	With gov. struc.. %

1	Market governance	10 3	91	63	95	12 7	94	352	100
2	Internal governance	10 3	2	63		12 7		352	0
3	Hybrid governance	10 3	7	63	5	12 7	6	352	

Table 3 . Styles of governance according to industries

Referring to the above table, we can conclude that the basic governance structure is market structure, in 90% of surveyed companies. This fact, but not only, confirm that management styles for this sample of selected enterprises, represent a trend not very dynamic, with participating actors often characterized by opportunistic behavior, characterized generally by very informal management style, not as should be focused on training people, lack fit their business environment, which is very dynamic, etc.

Evaluation of instruments that characterize governance structures

Referred to considerations relates to instruments that characterize governance structures, as well as survey results, let's try to focus on a more concrete analysis in several agribusiness industries, by identifying some of the most important issues facing enterprises regarding they adopt governance structures, focusing on governance of the market and hybrid governance.

Market governance structure

Referring to the statement above, we can do a more completed evaluation of basic characteristic instruments to processing industries obtained in the analysis.

🚩 Stimulus intensity

Although it is a characteristic of market governance structure, this phenomenon is not presented with the same intensity for the industries surveyed in this analysis. For the meat industry and the dairy is estimated stimulus intensity scale. This, for the fact that in meat

industry the raw material comes mainly from imports, domestic producers are not essential actors in the chain, the contracts system doesn't work etc.

Independence in the relationship between actors

Independence in the relationship between actors is a characteristic instrument of market governance structure. As was shown in the picture below, the meat and dairy industry, independence in relations between the actors is much greater, while for the wine industry and olive oil it can be estimated as an average.

Opportunistic behavior among actors




Independence in the relationship between actors is the leading cause of opportunistic behavior between actors in a value chain. As noted above, the meat industry and dairy, independence in relations between the actors resulted in the highest settings, opportunistic behavior among the actors are considered as an average, and this mainly due to lack of contracts, where for the sake of truth in the meat industry it is a more present phenomenon.

Lack of contracts

From the point of view of contracts use, the four surveyed industries in this analysis result almost with the same problem, except the meat industry, where almost are not present contracts with local suppliers. In the wine, olive oil and milk industry, the contracts system functions partially, but because of non active participation in the chain, often the actors are characterized by opportunistic relationship between them.

Governance Structures	Occurrences and problems that governance structures	Processing industries			
		Wine	Meat	Olive oil	Milk
Market governance	Actors in the value chain are characterized by high stimulus intensity	XX X	XX	XX X	XX
	Relationships between actors (farmers, processors) are independent	XX	XX X	XX	XX X
	Actors involved in the value chain are characterized by opportunistic behavior	XX	XX	X	XX
	Governance is characterized by adapter independent mechanisms	XX	XX	XX	XX
	Lack of contracts is a present phenomenon	XX	XX X	XX	XX
	The most Incentive motive for farmers is just the price	XX X	XX X	XX X	XX
	The main incentive for the processor is not only the price and quality	XX X	XX X	XX X	XX X
	Government faces additional costs as research costs, information costs of raw materials, monitoring cost (continuous laboratory tests for the quality of raw	XX X	XX	X	XX

	materials), bargaining cost (negotiation, agreement), etc.				
	✚ Processors are threatened by uncertainty for the quality of raw materials	XX X	XX X	XX X	XX X
	✚ Processors are threatened by uncertainty for raw materials	XX	X	XX	XX
	✚ Little or no attempt to coordinate actions between actors in the chain	X	0	XX	X
	✚ The role of a mediator is very important to facilitate coordination between actors	XX X	XX X	XX X	XX
Internal governance	✚ Processors tend to be integrated into raw material sources (back integration)	XX	0	XX	X
	✚ Producers of raw materials tend to develop processing activities	X	0	X	XX
	✚ Transaction costs are minimized (search costs, information, bargaining costs, monitoring, etc.)	XX X	XX X	XX	XX
	✚ Increase of decision-making power	XX X	XX	XX X	X
	✚ Increase of the need to administrative control and motivation elements	XX X	XX	XX X	XX
	✚ Reduction of processors uncertainty to ensure raw	XX	XX	XX	XX

	materials	X	X	X	X
	 Favorable prices of inputs	XX	XX	XX	XX
	 Increase of coordination level	X	X	X	X
	 Facilitate of firm adaption to environmental concerns of the industry	XX	XX	XX	XX
				X	X

Legend: XXX too many: XX average: X few, 0 none

Table 4. Governace structures and implications according to indutries

✚ Price as the only incentive motive for manufactures

Referring to the organizational form of enterprises in the surveyed industries in this analysis (all non-cooperative form), and market governance structure, it is clear that the price is perhaps the only incentive motive for producers of raw materials. But if you consider the fact that these industries import of raw materials occupies a considerable weight, can easily conclude that for our conditions, the instrument "price" of plays a little role.

✚ Price and quality as an incentive motive for manufactures

For processors of products with agricultural origin, the quality of raw materials is a fundamental problem. One of the basic argument that bring executives and managers of agro-industry enterprises related with imports of raw materials, is exactly what relates to the quality, but without doubt, the prize has its role and importance. Imports of raw materials for agro-industry are influenced by the problems associated with the above two factors, as well as the problems associated with lack, fragmented supply etc.

✚ Additional costs due to transaction costs

Now it is clear that the government market face additional costs due to presence of transaction costs as the research cost, information cost, monitoring cost (continuous laboratory tests for the quality of raw materials), bargaining cost (negotiation, agreements, etc.). Analysis made by us shows that the additional costs of the transaction, as a characteristic instrument of market governance, show high intensity in the wine industry, average intensity of the meat and dairy industry and low in olive oil industry.

✚ Threat from raw materials uncertainty

Estimates made by us show that for the industries under consideration, the threat of uncertainty for raw materials is considered in average levels and with setting "weak" when it comes to the meat industry because the industry finds itself mainly agricultural import markets.

✚ Little or no attempt to coordinate actions between actors

A structure of market governance can hardly be efficient out concrete schemes that enable the coordination of actions between actors in a value chain. But, the results of our

analysis show that in the field are observed very few initiatives to coordinate actions between actors. In the wine and milk industry they could be considered at low level, intermediate level in the olive oil industry and in the meat industry they are almost non-existent.

The role of intermediaries for coordination between actors

It is quite clear that the coordination of actions between actors in a value chain is considered as extremely important for wine, meat, olive oil industries and in average for the milk industry. He can be accomplished through different intermediaries, who may be producers' cooperatives, organizations, associations, etc. We note that in this regard processing industries can play an important role, following step by step manufacturing activities of farmers, and contributing financially.

Structure of hybrid governance

Processors tent to be integrated toward resources of raw materials

Integration into sources of raw materials (early integration) is one of the characteristic instruments of internal and hybrid governance structure. Referred to analysis and assessment in the table made above, we can conclude that for the surveyed industries in this analysis, this management strategy appears to be little or no applied by companies representing the studied industries. For example, for meat industry, this kind of integration can be not even imagine, for the dairy industry he appears weak, while for other industries there are two companies focused on the implementation of this strategy.

Producers of raw materials tent to develop processing activities

For the current stage of development of farm and agribusiness enterprises, can be considered and evaluated as a good management strategy of enterprises. Currently, this strategy turns out to be significantly implemented in the dairy industry and in special cases in the wine and olive oil industry.

Minimization of transaction costs

For hybrid governance structure, minimization of transaction costs is one of the most important characteristic instruments. It is true that this governance structure face

additional costs, as are the costs of administration, but despite this fact, the profits due to the reduction of transaction costs would be substantial and this in particular for enterprises of wine and meat industry.

Increase of decision making power

Represents an important characteristic instrument of a flexible internal and hybrid governance structure. Referring to our analysis, it is more pronounced for the wine industry and olive oil. From this point of view must be also needed increase of administrative control and other motivation elements, where it again turns to be more pronounced in the wine and olive oil industry.

Reduction of uncertainty to provide raw amterials

Providing in time, quality and quantity of raw materials poses a major challenge for any governance structure. Internal and hybrid governance structure are two alternatives quite useful to reduce uncertainty and increase the performance of agro-industry enterprises. The effect of this instrument is very sensitive to four types of surveyed industries in this analysis and this can be said as regards to the benefits that enterprises have related to the availability of favorable prices for inputs.

Gretater adaption possibilities to environmental concerns of the industry

Adaptation of the company to environmental concerns is another characteristic instrument of internal and hybrid governance structure. Estimates made by us in the statement above shows that this instrument is very susceptible to the milk industry enterprises and olive oil and this also for the fact that hybrid governance for these two industries encourages and stimulates the development of enterprises with closed cycle.

Conclusion:

Naturally we cannot provide prescriptions about governance structures that can adopt an enterprise or another; however, based on analysis and evaluation above and within specific industries, we arrived at the conclusions:

For wine industry

For the wine industry dominates the market governance. The analysis made above leads us to the conclusion that the market governance structure with coordinated actors

among themselves, as well as hybrid governance structure, would be more appropriate strategies.

For wine industry

Referring to the problems that the meat industry face, we estimate that market governance could be considered as a found solution. Under this strategy, we estimate that the activities coordination of actors through producers and processors associations is a necessity. Reorientation of the farmers activity not only for milk but also for meat, will dictate naturally the implementation of hybrid governance structure with coordinated actors among them.

For olive oil

For olive oil industry dominates the market governance. Considering what we have stated above, hybrid governance structure, with trend the market governance structure market but with coordinated actors among themselves, would be based on development strategies of enterprises of this industry.

For milk industry

Even for milk industry dominates market governance. For the nature of this industry market governance structure but with coordinated actors between them, would be the basis strategy of enterprise development of this industry.

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