

Diversification strategy in small and medium size agribusinesses in the Czech Republic – impulses for searching business opportunities

Strategie diversifikace u malých a středních zemědělských podniků v ČR – impulsy pro hledání podnikatelských příležitostí

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Abstract: The paper derives from the working and publication activities from research project “Chances of product diversification on behalf of improvement of competitive advantage in the small and middle-size farming business in the Czech Republic”. This paper deals with the critical success factors for successful diversification at the small and middle-size farming business. For the purpose effective implementation of the diversification have been identified the principal influences of this issue. Besides of that, we have tried to measure a diversification's impact for an entrepreneurial profit in agricultural area. There is a definition of “diversification” as new farmer's activities for using profit opportunity. On the base of 50 units-exploration has been made a hypothesis validation of the most often impulse for doing diversification. That is an effort to utilize more effectively the product factors of farming business. Further, there was a validation of the effective and efficiency diversifications' characters.

Key words: diversification strategy, impulses, small and medium size business

Abstrakt: Příspěvek prezentuje dílčí výsledky výzkumného projektu „Možnosti využití diversifikace pro posílení konkurenceschopnosti malých a středních zemědělských podniků v České republice“. Jsou identifikovány činitele vedoucí k diversifikaci malých a středních zemědělských podniků. Cílem bylo prokázat význam identifikovaných faktorů-činitelů při rozhodování o směrech diverzifikace a posoudit stupeň vlivu na zvýšení konkurenceschopnosti malých a středních zemědělských podniků. V příspěvku je vymezen pojem diversifikace ve smyslu nové podnikatelské aktivity farmáře se záměrem využít identifikovanou ziskovou příležitost a za cíl si klade identifikaci motivačních impulsů, které ovlivňují rozhodování manažerů malých a středních zemědělských podniků o diversifikačních aktivitách. Na bázi explorativního výzkumu (50 jednotek – vybraných firem) bylo potvrzeno, že nejčastějším impulsem vedoucím k diversifikaci je efektivnější využití výrobních faktorů zemědělského podniku. Byl potvrzen růstový potenciál této strategie a vhodnost uplatněných přístupů a volené klasifikace pro hlubší zkoumání. Klíčová slova: strategie diversifikace, impulsy, malý a střední zemědělský podnik

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The agro production field does not belong to the stable business fields even after the Czech Republic entry to the European Union. Together with this situation, there is raised the pressure on agribusinesses when it comes to searching for new, more stable sources of income. One of the possible solutions is the usage of diversification strategy of agribusiness

development or more precisely by using the diversification opportunities.

The trend of using diversification not to be dependent on other business activities started to spread within agribusinesses in the European Union in the eighties of the 20 century. The reasons that lead farmers to using this strategy came from the fluent rise of over-

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production of many agro commodities. That pointed out the problem of consumption and the decrease in prices of these commodities and the changes of the Common Agricultural Policy of the European Union. The creators of the agrarian policy present diversification as one of the approaches to improve the condition of the European and also Czech agriculture, mostly for the small and medium size agribusinesses. Moreover, they find it essential for improving the countryside infrastructure and creating new business opportunities in the non-traditional fields, replacing shortages of labour in agriculture.

MATERIAL AND METHODS

The contribution presents the selected partial outcomes of the QH 71110 project – Possibilities of using diversification for strengthening competitiveness of small and medium size agribusinesses in the Czech Republic. There is defined the term diversification in the sense of a new business activity of a farmer to use the identified profit opportunity. Its goal is to identify some impulses, which influence managers of small and medium size businesses when it comes to deciding about the diversification activities.

In general, the methodology proceeds from the explorative research structure. The required data were gained from questioning, such as the technique of collecting the primary data. Structured individual deep-based interviews were made with small and medium size agribusinesses, which experienced the realization of business diversification processes. The interview structure proceeded from the recommended methodological procedure of the preparation and realization of business activities and their segmentation see Fotr (1999), Zadražil (2007), to the pre-investing, investing and functional phase. The selected file included 50 units, whereas the selection criteria were a project of diversification and the size of a business, which was already made.

RESULTS AND DISCUSSION

The diversification strategy is included together with the direct expansion strategy and vertical integration to the corporate growing strategies that are focused on the expansion of business activities (Robbins, Coulter 2004). There is a difference between the committed, vertical diversification connected with an increase in business activities in a different but allied field, and the uncommitted, lateral diversification connected with the growth in not related business activities.

The authors Tichá and Hron (2007) also understand diversification the same way. They see the diversification strategy as growing, making a difference only when the growth possibility in the terms of current business activities is limited.

There are three general types of diversification strategy (Tichá, Hron 2007):

- Concentric – consists in producing new products and services that refer to the current business activity.
- Horizontal – consists in producing new products and services that do not refer to the current business activity but are offered to the current customers.
- Mixed – consists in producing new products and services that do not refer to the current business activity.

A similar diversification using another terminology is described by Bělohávek, Košťan and Šuleř (2006), who write about the concentric diversification as a growth strategy using the existing strong points and organizational sources, for example technologies, distribution channels, suppliers or customers. Concentric diversification is to a great extent focused on the optimal usage of the existing production factors; let us say those which represent the competitive advantage of an organization. In terms of complex diversification, the organization focuses on production of non related products. The explicit evaluation criteria represent the investment return, if you like the profit maximization, they do not take into account similarity or any type or relations to the current business activities.

Generalization of business strategic approaches is possible only if we simplify the reality. Each of the business intention and the related strategies is based on an original thought or idea. The level of originality or invention is very important and the determinant for the success of a business plan. The selection of a concrete type of realization strategy from the generalized “strategies list” could do only as a methodological ground for further proceeding of the key thought (Koráb et al. 2007)

In agriculture, there were applied two major approaches within the diversification strategy. The first one explained diversification as a possibility how to use different income sources for farmers. The second approach was focused on the possibilities how to use capital (let us say production factors) of a farm, which were originally used in the terms of conventional agribusiness activities of a farm to other profit making activities (Winter et al. 2002).

Another view of diversification of agribusinesses is offered by Ilbery (1991), who sees diversification

activities in the “based on farm” business activities that are not directly connected with crop and animal production and that are not connected with the wholesale production apart from agribusiness. He sees farmers as businessmen but he emphasizes the usage of production factors gotten for the agro-production within non agribusiness activities.

A more substantial is to define diversification in terms of new business activities of a farmer, whose goal is to use the identified profit opportunity. The linkage between agribusiness and the usage of existing production factors of a farm are not essential, moreover, they do not represent a limiting condition (Hron et al. 2007).

Defining diversification as an intention of a farmer to realize a new business activity, in which he sees a profit opportunity enables to view farmers as businessmen. It simplifies another diversification definition and answers the question, why should farmers use the diversification strategy. Alternatively, we can ask a question, why should farmers do business in the first place?

Turner et al. (2006) confirm the approach to diversification as a factor for growth of the farmer’s business activities. The implementation of the diversified business plan of a farmer does not differ that much from the preparation and realization of a business intention of another businessman in another business field. Regarding the exceptions of strange circumstances, we can suppose that these activities will always require the expense for production factors acquisition, there will be a special knowledge needed and the ability of production process managing. Such businessman will prove his/her business and manager’s abilities by that.

It corresponds with the empirical research results (Turner et al. 2006), who confirms that the successful users of diversification strategy become more successful agro businessmen than those who were not that successful in doing business in agriculture and that is why they search for another source of income.

Impulses leading to decision about agribusinesses’ diversification

If we look at the impulses leading to decisions about diversification in terms of diversification processes as new business activities (Hron et al. 2007), it is needed to adjust this look. Mostly, these are not new activities in the current market, but only new farm business activities. In such cases, the impulses are the already realized projects of a similar kind. It is a

problem to see managers and owners of these small and medium sized agribusinesses as businessmen, as it is defined by Schumpeter (1934), so-called innovators, who discover new product combinations, new production methods or new markets. A more appropriate characteristic reposes upon change mechanisms, economic growth and doing business as accepting new ideas.

We can call it also an innovative approach based on the fact that the previous experience cannot be transmitted. The diversification project can be based on the information from the already made diversification projects (it was proved by the questioning that it is the most frequent and the most useful source of information) its concrete form has to be adjusted to the specific conditions according to the place, time and other realization circumstances. A simple copying of the projects does not lead to success.

As other possible impulses, we can describe the following:

- Interest in further business enlargement – mainly when the enlargement possibilities of agro production are already used up or limited (for example the limited possibility of purchasing land, stabling facilities etc.).
- Interest to use the unused business production factors – mainly real estate.
- Interest to solve the problem with marketing the current production, gaining independence on customers, interest in doing business with the final customer.
- Interest to get grants.
- Usage of demand – the identification of demand that has not yet been satisfied (market leak).

The most frequent impulse leading to diversification is using the agribusiness production factors more effectively. It is clear that when it comes to diversification, the sources (let us say production factors) are transferred from their previous allocation to the conventional agricultural production to new business activities. It improves the original wrong production factors allocation, in terms of the overvalued estimation of future profits from these production factors in agribusiness.

We speak mainly about using the real estate, a relatively unspecified production factor, the usage of which is due to its character rather easy. The more specific the production factor is, the more difficult its usage is. This idea regards another most used production factor – labour, to be more specific, the effective usage of farm employees.

We need to remember that the interest in using the existing business production factors, mainly real

estate, is not always considered to be a business idea how to use production factors in a new way. This approach supports the possibility to use grants to support these production factors.

The possibility of using grants becomes a still stronger impulse for the diversification projects realization. Based upon the fact that these activities are supported by the government policy, it represents a false idea that realization of a diversification project is a good idea.

Another impulse for searching new diversification opportunities is to try to a lower dependence rate in the original agribusiness, mainly connected with the previous negative experience. In these cases, the most usual impulse for diversification is a negative previous experience in doing business with customers or an attempt to be more profitable from the final production. There is the production vertical enlarged within a business and the products are transferred from the production market to consumer market.

None of the questioned owners or managers from the businesses, in which the diversification strategy is used, stated that he/she was led during the diversification process by an attempt to fulfil his/her business plan or moreover that he/she was willing to use his/her identified profit opportunities. This does not prove the thesis that farmers do not act as businessmen with the aim to maximize profit from business activities. There could be two explanations that still stay unproved. Farmers, the formers of diversification processes, are businessmen in this point of view. According to their businessmen vanity they automatically assume that their business ideas are good and their successful realization will lead to profit. Or the project realizators from the small and medium size agribusinesses are not businessmen and they are led by the owners to valorise the existing production factors. In the first case, we can speak about the fulfilment of the Agrarian Policy of the Czech Republic within the EU (2004–2013), in the second case we could not speak about it at all.

CONCLUSION

Diversification strategy is commonly defined as a growth strategy. In agriculture, there are realized three major approaches to diversification and some authors mix them. The most common definition is the income source diversification. The second approach focuses on the agriculture production factors and their use in another field of activity than in the conventional agriculture. The third approach emphasizes the farmer as a businessman. Diversification is defined

as the farmer's business activity to use effectively the identified profit opportunity. In terms of this third approach, were investigated the factors (impulses) that lead to the agribusinesses diversification. As the most frequent were mentioned the already existing projects, the intention to widen the business activities, the intentions to use the production factors that have not been used yet, the intention to solve the current production problems and the intention to get grants. These results lead to double views of the small and medium size businesses' managers. The first considers him/her as a businessman in the right kind of view, the seconds considers him/her as a manager that keeps the existing production factors. Meanwhile, another tasks connected with the identification of the important factors that support or limit the activities portfolio or identify the diversification opportunities of small and medium size agribusinesses are formed for the research project.

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