

International business and the reasons of the internationalization activities in the Slovak agri-food complex: The case study of the Slovak milk processing industry

Medzinárodné podnikanie a dôvody internacionalizačných aktivít v slovenskom agro-potravinárskom komplexe: Prípadová štúdia slovenského mliekarenského priemyslu

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Abstract: The main goal of the submitted paper is to evaluate the reasons of internationalization activities in the selected subjects of the Slovak milk processing industry with the identification of the basic development trends from the viewpoint of their internationalization activities. The data were obtained by the questionnaire technique during the period 2007–2008 in 12 milk companies producing more than 2 million litres of milk per year. The questions were focused at the form of business, realization of foreign and business activities as well as at the reasons of internationalization.

Key words: international business, milk processing industry, internationalization activities

Abstract: Cieľom predkladaného príspevku je zhodnotenie dôvodov internacionalizačných aktivít vo vybraných subjektoch slovenského mliekarenského priemyslu s identifikáciou základných vývojových trendov v internacionalizácii podnikateľských činností subjektov slovenského mliekarenského priemyslu podnikajúcich v medzinárodnom prostredí. Údaje sme získali dotazníkovým prieskumom v rokoch 2007–2008 u 12 podnikov, ktoré spracovávajú viac ako 2 milióny litrov mlieka ročne. Otázky sa zameriavali na formu podnikania, realizáciu zahranično-obchodných aktivít a dôvody internacionalizácie.

Kľúčové slová: medzinárodné podnikanie, mliekarenský priemysel, internacionalizačné aktivity

At the beginning of 21st century, the development of business activities is in connection with the enterprise penetration into the foreign markets. Internalization offers new opportunities to the enterprises. On one hand, it enables to increase their income due to the increasing of the volume products and services, on the other hand, it enables decreasing of the costs, searching for possibilities in the world markets and also the possibilities of the resource optimization in

enterprises. The process of globalization and internationalization belongs to the most important factors of the international business development, according to Machková (2006). The most significant processes currently influencing the world economy and, to a large extent, all civilization, are the globalization processes. They penetrate the entire structure of society, they are primarily perceived through changes in economy and its individual sectors (Bečvářová, 2008). Based on

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the study of Hron (2006), the globalised competitive environment requires the firms to respond quickly to the consumers' needs and problems for which they ought to have enough knowledge.

This is the main idea from the viewpoint of the adaptation of knowledge management in internationalization of business activities (Látečková 2007). The strategy of international business has affected the economic results of companies as well as their competitiveness. Globalization and the processes that it involves determinate the position not only of the individual countries but also of the entire regions of the world in the competitive environment having the global dimension and involving new subjects (Bielik et al. 2006). Bielik and Rajčániová (2004) consider that the competitiveness can be analyzed at various levels of the economy – at the product level, the enterprise level, the sector level, or the level of the entire economy. The international competitiveness is understood by Podolák (2000) and Kapsdorferová (2004) as an ability of country to take a place in the world competition with regard to the production and trade off of its products and services and to reach a new market place in the regional and global environment. If the prediction of the future development of economic growth of the European Union is problematic according to Sojková and Kropková (2007), the prediction of the development of economic growth on the regional level is even more complicated. At present, the regional, national and international companies are under the pressure of global competitiveness, these companies must take into consideration that competitiveness issues from their resources while they must adapt to the new political, social and economic conditions (Hambalková 2001) and (Blaas 2008).

MATERIAL AND METHODS

The main goal of this article is devoted to the several forms and reasons of internationalization activities in the selected subjects of the Slovak milk processing industry with the following identification of the basic developed trends from the viewpoint of their internationalization activities. For the purposes of the determination of forms and reasons of the international business activities in the selected group of companies in the Slovak milk processing industry, we have examined 12 milk companies, producing more than 2 million litres of milk per year. There are situated in the Trnavský region (3), the Trenčiansky region (1), the Nitriansky region (2), the Žilinský region (2), the Prešovský region (2), the Banskobystrický region

(1) and the Košický region (1). The research sample consists of 6 milk companies with foreign investments and 6 milk companies without foreign investments. Our research method is based on the processing of primary data (research of the application of internationalization activities, reasons of internationalization and the strategy business activities as well as the internationalization influence on the business activity), which were obtained from a questionnaire survey in the selected set of milk processing companies. An extensive questionnaire was developed by the VEGA grant No. 289/2006 "Factors of success internationalization of food companies of the SR" and sent out during November 2007 up to March 2008.

The secondary information stems from the Customs Statistics of the SR, the Green Report of the Ministry of Agriculture of the SR and the Research Institute of Agriculture and Food Economics of the SR.

In reference to the analysis and presentation of primary and secondary data, we used the following methods:

- in general, the logic methods of analysis, synthesis, comparison and deduction,
- to verify the qualitative signs of the development and present state of international business of the milk processing industry in Slovakia, we used the χ^2 test, the Friedman test and the Cluster analysis.

The questionnaire was formed from the viewpoint of the company mission, vision and strategy, internationalization forms, sale of milk products in foreign markets, production activity with regard to the export, the determination of export products and export markets as well as the identification of reasons, while the selected companies want to be the best and most successful in the foreign market.

RESULTS AND DISCUSSION

The Slovak milk processing industry belongs among the priority branches of the food industry and has achieved many criteria comparable with the Western Europe. More business enterprises lay stress on international opportunities, innovation activities and competitive advantages. From this viewpoint, their activities are affected by the factors and reasons regarding adaptation to the foreign market. At the present time, the process of internationalization and globalization is expressed by the group of strong entrepreneurial subjects which operate in the international environment and they represent competition for the domestic entrepreneurs.

At present, the number of the registered producing enterprises in the EU-27 is estimated at 309 702

enterprises with 4 688 100 employees. In term of employment and the number of enterprises units, the dairy industry is the third main subsector of the food production branch after the meat and bakery industry. The number of dairy companies in the EU is estimated at 13 098 companies. Almost 400 000 persons were employed full-time in the dairy industry in 2007. Among the largest dairy companies in the EU, there belong the Milcobel, Humana Milch Union, Nordmilch, Arla Foods, Hameenlinnan, Bongrain, Danone, Lactalis, Arla/Express Milk, First Milk, Glanbia, Kerry Golden Value and Friesland Campina (Figure 1). Three of these companies are allocated in the Slovak Republic. The volume of milk production in the EU has been limited by production quotas. In 2006–2007, the level of milk quota was 138 million tones, of which the highest share of cow milk was produced in Germany (20%), 16.6% came from France and 10% from the United Kingdom.

The development of milk industry assumes further investments leading to a higher efficiency and competitiveness improvement, modernization, new processing technology as well as to the support the production of the bio – products and other milk products. In Slovakia, there are 27 accredited business enterprises processing more than 2 million litres of milk per year, e.g. the AGRO TAMI Ltd., Nitra, the AGROSPOL KYSUCE Ltd., Svrčinovec, the TVRDOŠÍNSKA MLIEKAREŇ, Ltd. Tvrdošín, the MILEX, Galanta Inc. Galanta, the LEVICKÉ MLIEKÁRNE Inc., Levice, the SYRÁREŇ BEL SLOVENSKO, Inc., Michalovce, the RAJO, Inc., Bratislava, 31 accredited business enterprises processing more than 500 but less than 2 million litres of milk per year, 64 accredited business enterprises processing less than 500 thousand litres of milk per year and 214 accredited business

enterprises of the sheep chalets. Milk processing enterprises play a central role in the development of dairying all over the world and are particularly strong in countries where governments provided supportive policy environments to encourage democratic producer groups.

The survey was conducted with a questionnaire in the period of November 2007 up to March 2008. The target group were milk processing companies in Slovakia. Our first conclusion is that the most important factor that influenced the decision to become international was the management interest in the internationalization, as we can see in Figure 2.

The development of business activities aims at achieving the basic motivation of all enterprises with effort how to entry the foreign market. A key element of the internationalization process concerns where and how a company chooses to do business outside its own country. Figure 2 presents some forms of international activity. With regard to the interpretation of the obtained results, it can be explained that the interest of the company management in adaptation of the Slovak milk processing companies on foreign markets belongs among the most important reason.

As a result of globalization, this process has transformed the rules in the world markets. In connection with the company vision, we will mention that the company managements of 2 enterprises (20%) are interested in the territorial expansion and this is a factor of the extreme influence on the adaptation to foreign market. The minimum influence was marked at 3 enterprises (30%), and 5 enterprises (50%) were under the medium influence. Entering of the foreign capital into the Slovak milk processing companies increases the quality of products and the volume

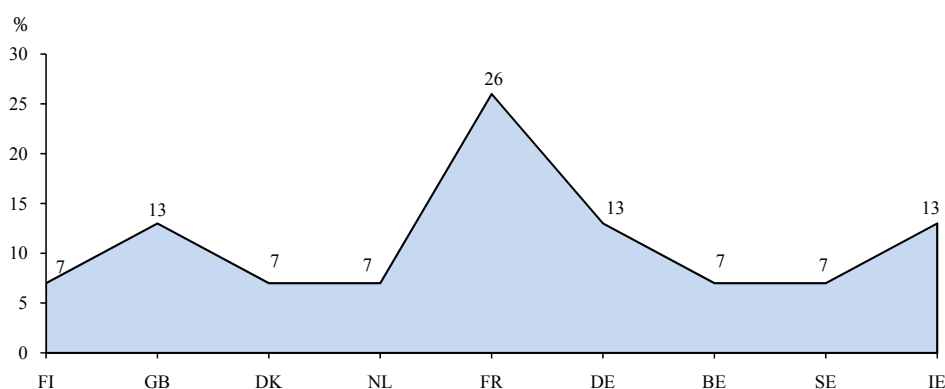


Figure 1. The share of the mother dairy companies in the host countries

Note: BE = Belgium, DK = Denmark, FR = France, NL = Netherlands, IE = Ireland, DE = Germany, FI = Finland, SE = Sweden and UK = United Kingdom

Source: own analysis

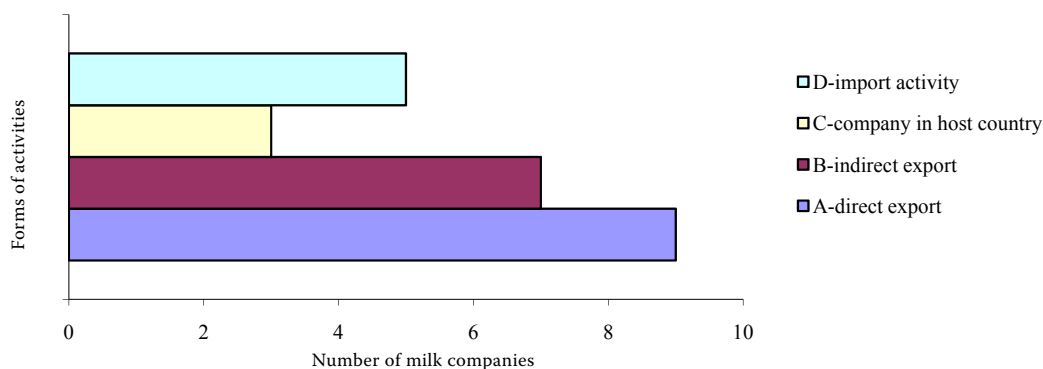


Figure 2. Forms of internationalization activities in the selected milk companies in Slovakia

Source: own research

of the processed raw material. This change leads to the production concentration and specialization to be more effective and competitive. The permanent competition in the domestic market was taken into consideration by 4 companies (40%) as the extreme influence and 1 company (10%) has attached a high importance to this factor. The best commodity for the EU countries is cheese, which belongs to highly sought-ones in the foreign market. We carried out a detailed study of products which are successful in the foreign market and a group of factors, e.g. quality, price, tradition and demand. Specific instruments for labelling of the original agricultural products were developed in the EU. Agricultural products which are certified might use the PDO labelling system (Protected Designation of Origin) or the PGI (Protected Geographical Indication). The highest number of the certified agricultural products is from

Italy, Spain, Portugal, Greece and Germany. The Slovak Republic has only one product registered under the PDO label – the sheep cheese “bryndza”. According to the answers from the company management, the Slovak milk processing companies have the biggest chance to penetrate the foreign market with their cheese production, i.e. the low-fat cheese Skimmed and the Moravsky Block (Humenská mliekareň, Inc. Humenné), the Encian cheese with the white mould on the surface (Tatranská mliekareň, Inc. Kežmarok) and the Tekov salami smoked cheese 45% and the Semi-hard maturing full-cream smoked cheese (Levické mliekárne, Inc. Levice). There are the selected milk companies, which can compete with the foreign milk companies and their other reason from the viewpoint of entering the foreign market is to increase the competition in the domestic market. The Slovak milk products are competitive in the regional market,

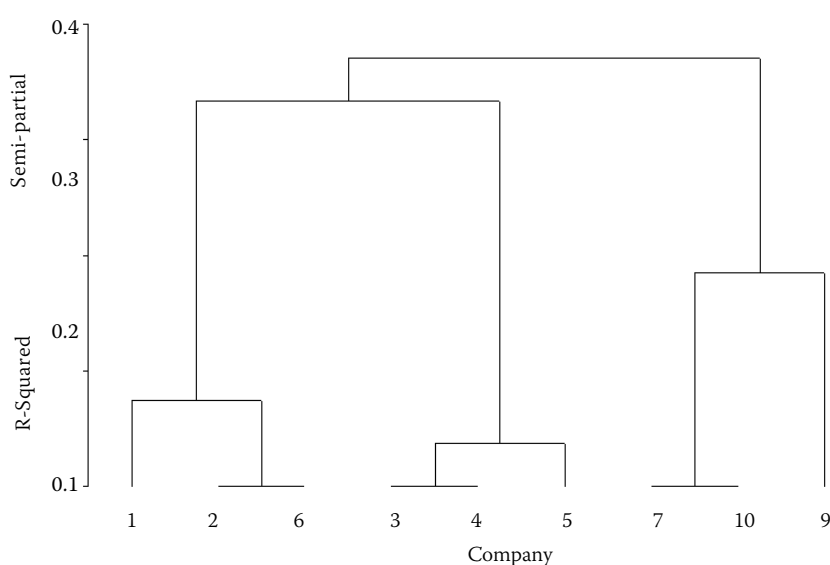


Figure 3. Clusters of the selected milk processing companies

Source: own research

mainly yoghurts, acid milk products, cheese and cheese specialities.

The highest amount of products in the dairy products category is cheeses. Totally, 163 types of cheese have been registered by March 2008 (France 45, Italy 33, and Spain 20). From the viewpoint of the EU countries, one particular category of special products that has received much attention is organic production. Focusing on the processing stage, by far the largest number of organic operators were located in Italy (5 210), followed by France (3 750) and the United Kingdom (3 750). In the EU regional market, more than 88 656 dairy companies are focusing on the organic production of milk and milk products. The highest number of dairy enterprises producing organic products is in Italy (329), on the regional market United Kingdom (183) and France (165). In the Slovak Republic, there are 3 companies focusing on the production of organic dairy products.

The satisfaction with internationalization activities and their realization as well as the orientation of top management to achieve the development of their resources belong to the basic criteria for cluster analysis of the Slovak milk companies (Figure 3).

As a result of the application of cluster approach, there was applied the division of enterprises into two main clusters. Based on the analysis of criteria, the milk processing company in connection with the realization of international activities formed the first cluster – two milk companies in the Trnavský region, the Prešovský region and one milk company in the Banskobystrický and Trenčiansky region. Three of these milk companies are with foreign investments and three are without foreign investments. The second cluster is formed by milk companies in the Nitriansky, Žilinský and the Trnavský regions.

CONCLUSION

The Slovak milk processing industry has passed basic changes since 1990. At the present time, most of the foreign milk multinational companies entering the Slovak milk industry have come from France, Lebanon, Germany, Austria, Italy, etc. 10 of 12 observed milk companies internationalize their business activities. The most important export territories according to the survey are Italy, the Czech Republic and Hungary. To the most interesting perspective territories, there belong China and Romania. The successful exported products are the product characteristics for their product portfolio and the products desirable in the foreign market, i.e. cheese, cheese specialities, yoghurt, acid milk drinks, special creams, curd and milk

cakes. On the one hand, in reference to the analysis of answers from milk companies, it can be stated that it is necessary to participate in the international business network and to improve the experience of the top company management on international market. On the other hand, we identified the basic factors and reasons for internationalization of milk company activities – the management interest in the internationalization, the interest in the territorial expansion, the demand in foreign markets, increasing competition in the home market and competitive foreign subcontractors.

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