

# FINANCIAL MANAGEMENT AND CONTROL OF THE AGRIBUSINESS

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## Abstract

Economics involves the allocation of scarce resources, that is land, labor, capital and management, to meet the needs of people. The profit motive is used as an incentive that guides businesses in fulfilling consumer wants as consumer express these wants in the marketplace with their money. Agribusiness are in integral part of this system. Business in the organization that private property owners create in order to coordinate and manage their property to generate a profit. In a larger sense business is the vehicle of the free enterprise system. Agribusiness managers use a great many economic principles to make important business decisions. A completely free market capitalistic system is ceared to react only to economic pressures and so can cause individuals a great deal of pain while it is in the process of making its adjustments. A completely free market capitalistic system is ceared to react only to economic pressures and so can cause individuals a great deal of pain while it is in the process of making its adjustments. Opponents of the free enterprise system also point to „unnecessary duplication,, of facilities in competitive situations.

**Key words:** economic, profit, agribusiness, agribusiness managers, qualitative approaches, control program

## 1. Introduction

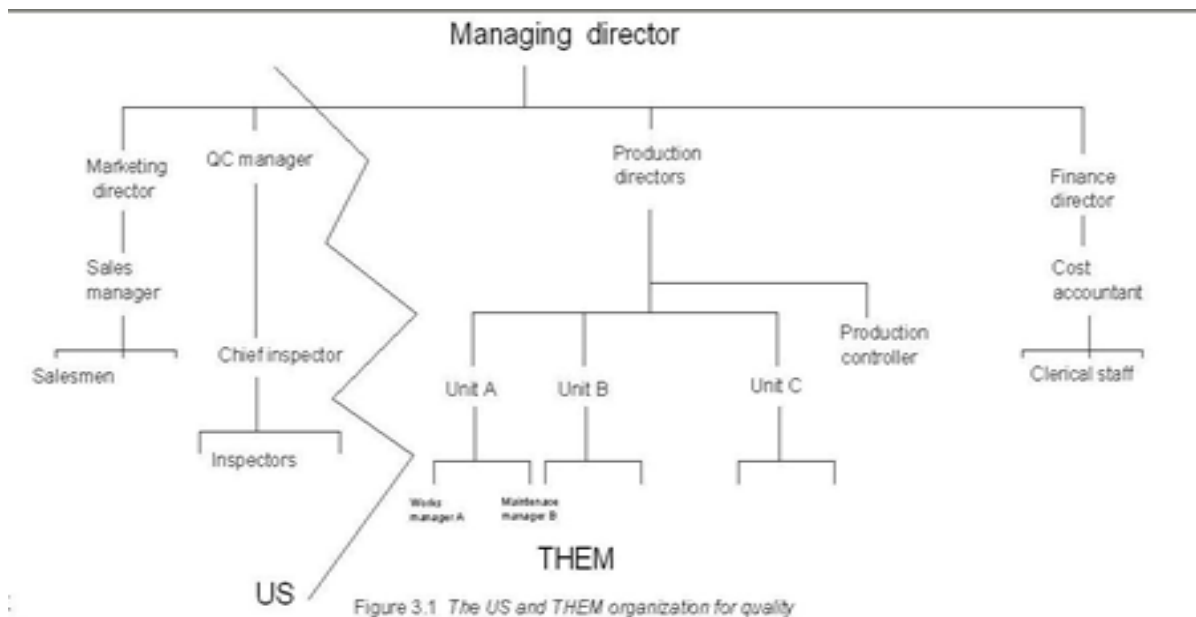
Every society must develop a system for making production and distribution decisions. In some countries the decisions are made centrally by the government. In a free market system,

consumer wants are expressed in the marketplace and become the basis for the allocation of scarce resources.



Figure 1. Economic system

In a perfectly competitive free market system profits should not exist. The organization of many companies reflects their concentration on the relatively narrow area of inspection or checking oriented quality assurance. The very title quality manger is a misnomer when it is associated solely with the management of product or service quality. There is no way one person or one department can manage quality but one person, the chief executive must take on the overall responsibility.[1]



## 2. Profits in a mixed economy

The theory goes that many firms will be attracted into any market that is potentially profitable: once this happens production will increase, prices will drop as a result and profits will eventually fall back to zero. Even in cases in which there are fewer firms involved. If the firms produce too much product they will lose money because of the cost of storing the surplus combined with the low market price. Once this happens some firms will exit from the market thereby reducing the supply and driving the price upward until losses are reversed and profits are again at zero or higher. [2]

But in the real world profits do exist. And the possibility of earning profit is the motivating force behind most business decisions. While it is true that some business also have non-profit objectives, the profit goal remains the primary objective of essentially all businesses.

Agribusinesses are greatly affected by macroeconomics because world-wide consumer demand for various food and fibre products is constantly changing. Economic conditions are influenced dramatically by such factors as weather conditions, government policies and international developments. Agribusiness is an integral part of the macroeconomic system. This is because the role it plays – allocating scarce natural and financial resources to meet the critical food and fibre needs of the world's population – is a key one. Agribusiness is in direct competition with other sectors of the economy for limited resources and so is greatly affected by wider economic pressures and trends. A sound quality policy, together with the organization and facilities to put it into effect, is a fundamental requirement, if an organization is to begin to implement TQM. Every organization should develop and state its policy on quality, together with arrangements for its implementation. The contents of the policy should be made known to all employees. The preparation and implementation of a properly thought out quality policy, together with continuous monitoring, makes for smoother production or operation, minimizes errors and reduces waste.

Everyone, from executives to the youngest and newest entrants in the organization, has a part to play in TQM, and one of the principal aims of an effective quality policy is to ensure that quality becomes everyone's concern. The traditional approach to many transformation processes, of depending in 'production' to make the product and 'quality control' to inspect it and divert that output which does not meet the requirements, is wasteful, because it allows time and materials to be invested in products or services which are not always saleable. This postproduction inspection is expensive, unreliable and uneconomical.

Qualitative approaches must always be part of budget development. Qualitative approaches are only as good as the information on which they are based and must still be interpreted and implemented by human beings. One qualitative technique that is currently being used successfully is consensus. In consensus knowledgeable people who are associated with the business are asked separately for their opinions about a particular factor. Second qualitative technique depends on the intuition and experience of the leader, and last qualitative technique is logic or the combination of fact, induction, and deduction with or without the aid of colleagues. The process of improving supplier' performance is complex and clearly relies very heavily on securing real commitment from the senior management of the supplier organizations. This may be aided by presentations may to groups of directors of the suppliers, brought together to share the realization of the importance of their organizations performance in the quality chains. The synergy derived from different suppliers meeting together, being educated and discussing mutual problems will be tremendous. If this can be achieved, within the constraints of business and technical confidentiality, it is always a better approach than separate meetings and presentations on the suppliers' premises.

The goal of the organization is to achieve superior external and internal customer satisfaction levels. Each employee's commitment to quality improvement and management's further commitment to implementation of supporting managerial and operating systems to essential to realizing the goal. Quality defined by the customer; the customer needs products and services that, throughout their life, meet his or her needs and expectations at a cost that represents value. Quality excellence can best be achieved by preventing problems rather than by detecting and correcting them after they occur. All work that is done by company employees, suppliers and product outlets is part of a process that creates a product or service for a customer. Each person can influence some part of the process and therefore, affect the quality of its output and ultimate customer's satisfaction with our products and services. Sustained quality excellence requires continuous improvement. This means, regardless of how good present performance may be, it can become better. People provide the intelligence and generate the actions that are necessary to realize these improvements. Each employee is a customer for work done by other employees or suppliers, with a right to expect good work from others and an obligation to contribute work of high calibre to those who, in turn, are his or her customers. Each activity is responsible for reviewing its existing systems and procedures and for revising them, as required, in line with this policy statement.

To transform quality into a strategic business planning and management dimension, a new role must be created for the quality function, a role which is similar to that of a navigator on a ship. After preparing a course and the chef executive, the captain, the navigator manages the route and the progress. When the ship is off course, he does not stride onto the bridge, elbow the helmsman in the ribs and start turning the ship wheel.[3]

### **3. Purpose of control**

It's simplest form, control means checking that plans are on target and on schedule and taking remedial action as needed to ensure success. The basic control program involves three steps:

- Taking action to correct deviation from goals and standards
- Establishing predetermined goals or standards of performance
- Measuring performance against these predetermined goals and standards

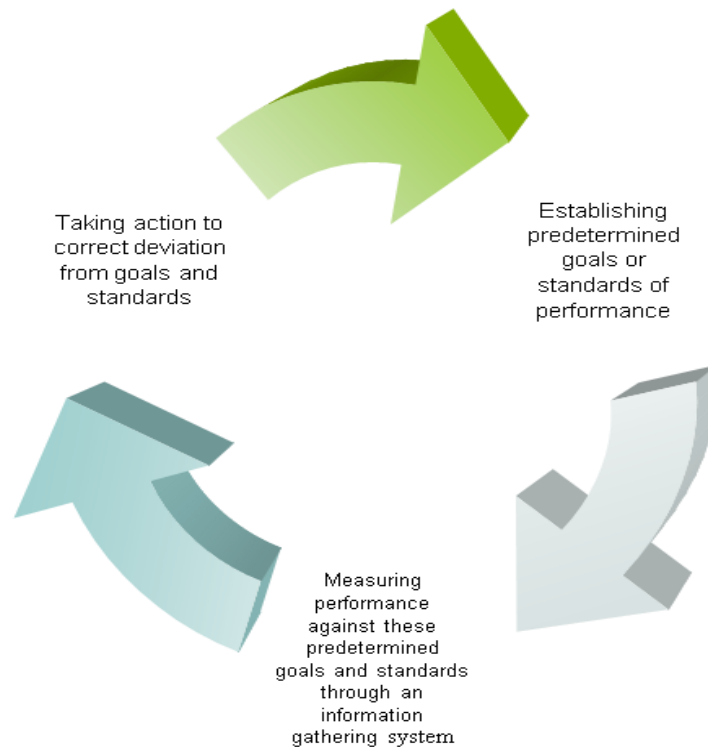


Figure 2. Three steps in basic control program

Process control means the company has a philosophy of prevention of failure and it will establish programmes which encourage the control of key process variables, and move away from the simple detection of errors and failure, standards of production- consistency of products and service is a prime objective of the Company policy. This will be assisted by the establishment of standards for all aspects of production.

#### 4. Material and methods

The following research methods or technique for data collecting are used:

1. Method of evaluation and judging,
2. Method of preliminary analysis,
3. Method of continuing following, an interview with the general, top managers

Our research analysis used economic structure which is intricately interrelated. Standardized interview was done with top managers in 40 companies in the meat industry. When government policy directly affects interest rates, agribusinesses which depend heavily on borrowed money to finance production, inventory and accounts receivable are greatly affected. Understanding and interpreting macroeconomic pressures are indeed crucial responsibilities for agribusiness managers.

The feeling of responsibility must be engendered in all employees to:

- Follow the agreed written procedures;
- Use materials and equipment correctly and as instructed;
- Draw attention to existing or potential quality problems and report all errors, defects and waste
- Suggest way in which risks of errors of quality problems could be reduced

- Assist in the training of new entrants and young people, particularly by setting a good example.

## 5. Results and discussion

Every agribusiness must keep track of sales, purchases, expenses and profit or loss. Records that demonstrate these factors are necessary to meet the requirements of governmental units, financial lending institutions, investors, employees, and suppliers of the business. Even more importantly the records of the company should furnish the fuel for all financial planning and management decisions.

The records system should provide knowledge that meets the following criteria:

- ✓ It should be simple and easy to understand
- ✓ It should be reliable accurate, consistent and timely
- ✓ It should be based on the uniqueness of the particular business

External and internal failure to achieve the requirements will be critically examined and corrective action taken to prevent recurrence.

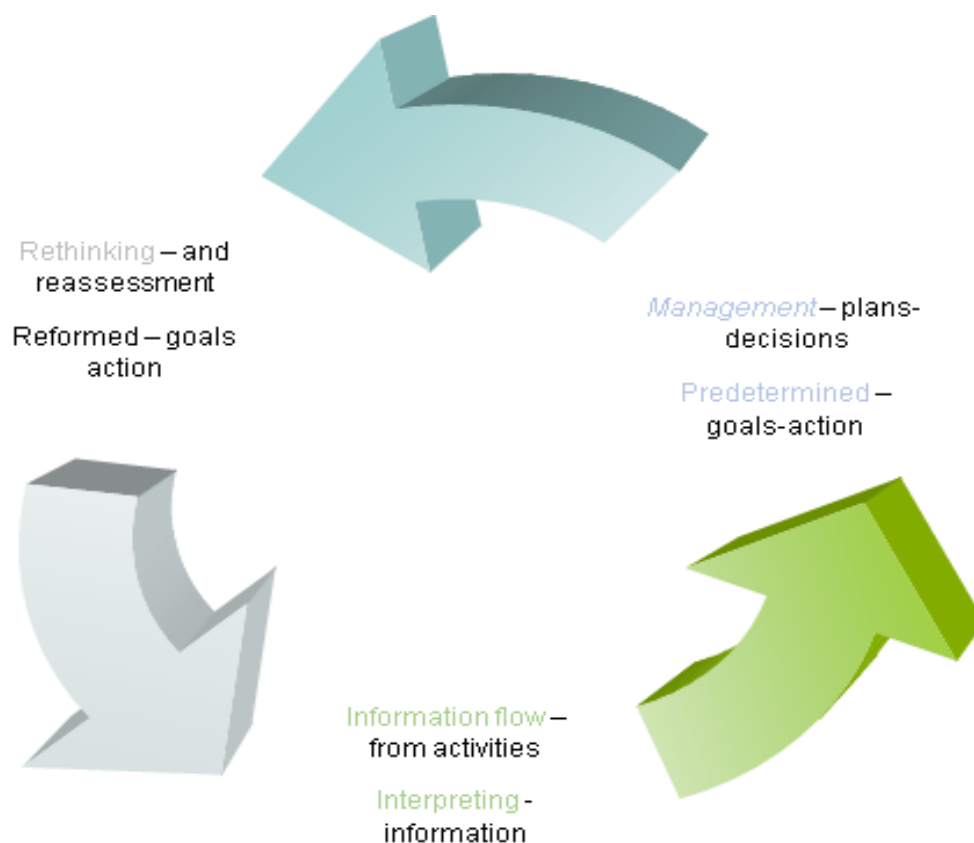


Figure 3 Control programs are predictive tools

What is difference between a budget and a forecast? Though it is true that some budgets are forecast and some forecast are budgets, in management a forecast generally refers to the output of the business, as with sales forecasts. Often an organization which understands that it cannot inspect quality into its products of services, tries to inspect quality into its suppliers'

systems. This manifests itself as a 'policeman' approach by the auditor who arrives unannounced and determined to 'nail' the supplier with a few system discrepancies. The aim should be to help the supplier identify problems, by acting as a fresh pair of outside eyes, and to offer advice in their solution.

The penalty-issuing auditor will create a desire to cover up rather than expose difficulties. If exposure results in help and advice being offered, rather than business being withdrawn, then clearly the partnership will foster and develop to a strength which resists all attempts by men, materials and machines to interfere.

The prevention of problems in using products or services under varying operating and environmental conditions must be built in at the design stage. Equally, the costs during production or operation are determined very much by the actual manufacturing or operating process, controls, including SPC methods, added to processes to reduce imperfections at the operational stage are expensive and the need for controls and the production of non-conformance can be reduced by correct initial design of the process itself.

The budget refers to input into the business, or the cash budget. It is important to recognize that budget determine organizational direction.

## **6. Conclusion**

Central to the successful management of any agribusiness firm is the ability of both managers and employees to monitor and predict their accomplishments. From a practical point of view, the general objective of the organization to „maximize profits,, does not provide the kind of guidance necessary for checking progress. No one knows what maximum profits are or can be. It is a sobering fact that the pressure from competition and customers has a much greater record of success than enlightenment, although dragging a team of senior managers down to the shop floor to show them the results of poor managements was successful on one occasion.

The building-in of quality requires the commitment of the direct operating managers. This can only be engaged if the most senior management communicate effectively their own feelings and devotion to total quality. Only then will it be possible to bring to life the quality policy through an effective management system.

The middle managers should be provided with the technical skills required to design, implement, review, and change the part of the quality system which will be under their direct operational control. It will be useful, through the training programmes, to ensure the responsibilities for the various activities in each of the functional areas are clarified. The presence of a highly qualified and experienced, quality manager must not allow abdication of these responsibilities, for the internal 'consultant' can easily create the not-invented-here feelings by writing out procedures without adequate consultation of those charged with implementation. A wariness and commitment at the point of production or operation is just as vital as at the very senior level. If it is absent from the latter, the TQM programme will not begin; if it is absent from the shop-floor, total quality will not be implemented. The training here must include the basics of quality and particular care should be given to using easy reference points for the explanation of the terms and concepts. Most people can relate to quality and how it should be managed, if they can think about the applications in their own lives and their home lives. Quality is really so much common sense that, with sensitivity and regard to various levels of intellect and experience, little resistance should be experienced. Executives responsible for marketing, sales, finance, design, operations, purchasing, personnel, distributions, etc., must all be helped to understand quality. They must be shown how to define the quality policy and objectives, establish the appropriate organization for quality, clarify authority, and generally create the atmosphere in which total quality will thrive.

This is the only group of people in the organization which can ensure that adequate resources are provided and they must be directed at:

- meeting customer requirements-internally and externally;
- setting standards to be achieved-zero failure;
- monitoring of overall quality performance-quality costs;
- introducing a good quality management system-prevention;
- implementing process control methods-SPC;
- involving the whole workforce-TQM.

Progress must therefore be measured against more specific goals. Cost and revenue implications cannot be ignored, because ultimately the very existence of the business depends on its ability to make a profit. But control programs are designed to provide the agribusiness manager with the tools for monitoring and predicting accomplishment within these cost and revenue constraints.

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