

CHAPTER 2. INTRODUCTION TO AGRICULTURAL BUSINESS MANAGEMENT

2. Introduction to agricultural business management

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2. INTRODUCTION TO (AGRICULTURAL) BUSINESS MANAGEMENT

INTRODUCTION

This unit presents the principles and ways of organising a business undertaking. Functions are examined according to department and level. Particular emphasis is placed on the role of management. The concepts and characteristics of farms will be explored, as they are also business units.

KEY CONCEPTS

Organisational structure, Leadership, Vertical organization, Horizontal organisation, Agricultural operation

TERMS

Decentralised / Centralised system: The method by which power is distributed in an organisation. In a decentralised system, department managers have increased competencies and freedom to make decisions so that power is shared among more individuals. Conversely, in a centralised system, all the power and responsibility is concentrated in the hands of a few, and often of one person, the general manager.

UNIT GOALS

After completing this unit, the participants will:

- ⇒ Know the ways a business undertaking may be organised.
- ⇒ Understand the usefulness and function of the various departments in a business undertaking.
- ⇒ Understand the role of management and management executives and be in a position to develop appropriate skills to assume executive positions.
- ⇒ Understand agricultural operations as small and medium businesses.

2.1. BASIC PRINCIPLES OF ORGANISATION – PLANNING OF ORGANISATIONAL STRUCTURE

2.1.1 Principles of organisation

A basic principle in organisation is to create the preconditions for implementing objective goals in business activities, meaning to articulate what must be done. There are three main functions that every organisation should serve:

- ⇒ To create some usefulness.¹

⇒ To secure the means to make that usefulness available.²

⇒ To meet the economic requirements of the activity.³

The term "usefulness" refers to the satisfaction enjoyed by the buyer through consumption of the product or services offered by the business. In other words, the organisation makes it possible to produce something of value to buyers in particular and to society in general.

Example: A sheep breeding farm produces organic cheese¹, provides it to restaurants in the area² at a price that covers costs and makes a satisfactory profit³

2.1.2 Shaping organisational structure

The levels in the management hierarchy are formed by supervisors of services or departments, which are created within the organisational structure and into which personnel is then inducted. In terms of management hierarchy, the staff of an organisation is divided into:



The term "leadership" is often used because the individuals who are at the higher levels of the management hierarchy are in a leadership position which stems from the right they are given to issue orders to staff that work under them.



"Leadership is the process of exerting social influence through which one individual may rally the backing and support of others to achieve a common goal."

The chief executives are the central leadership of an organisation down to the level of the directors of various functions.

Middle managers are managers who are delegated between chief executives and frontline managers.

Finally, the supervisors are the frontline managers.

The levels are distinguished by the positions held by the executives at some level of the management hierarchy, by the work objectives and by the scope of competencies.

The creation of hierarchical levels shapes the management structure. The scope of its business activity and the type of business form the basis for creating the levels of hierarchy. The formation of levels shapes the structure of the organisation in the shape of a pyramid. The formation of an organisational structure based on levels of hierarchy is called "hierarchical" or "managerial." Each level may correspond to one person or to a group of people. For example, in a business undertaking organised hierarchically, the chief executive level may be the Board of Directors, if there is one (more than one person); at the middle management level, the General Manager and the department managers (more than one person); and at the frontline level (more than one person), the remaining management staff of the business.

In a small business undertaking, however, the chief executive level may only include the Director, who is usually the business owner. The distribution of managers in an organisation is represented below according to levels of hierarchy in a pyramid.



The areas marked by the numbers 1, 2 and 3 represent the size of management at each executive category. The problem faced by every organisational structure is the selection of a system of organising the levels of hierarchy and how to classify personnel within them; in other words, how many leadership positions should be included in scope (horizontally) and in depth (vertically). The solution to this problem lies in each business undertaking's choice with regard to the centralised or decentralised system it wants to implement in shaping the organisation, or in the number of functions and the formation of departments around each function, or even in how many management units it wants to form to achieve its objective.

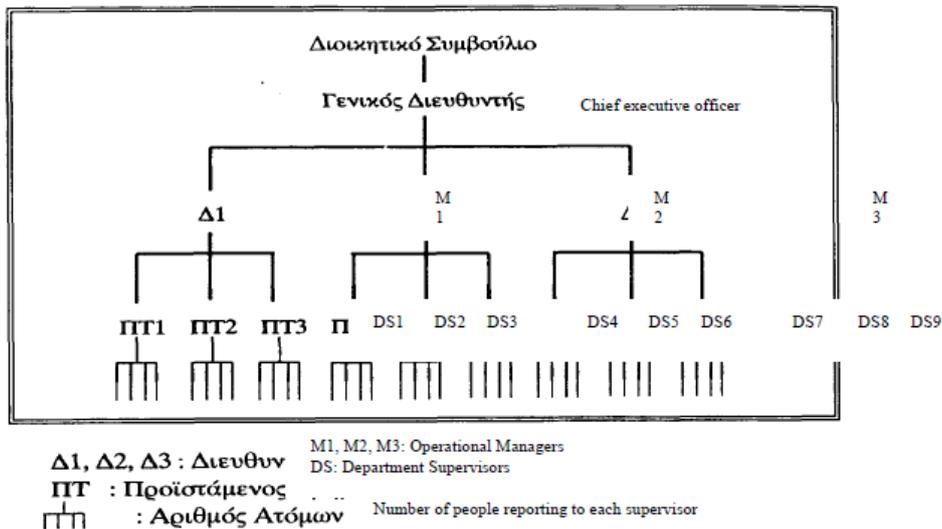
Vertical Organisation

As mentioned, an organisation includes "primary" and "secondary" functions in its structure. Primary functions include production, marketing, financial and personnel, while secondary, supportive functions include every other activity which contribute to the operation of the main functions.

It is not possible for just one person or even a small number of people to accomplish the number of actions that must be taken for a business undertaking to achieve its objective. The number of people depends on the size of the business. The solution is to distribute the total number of tasks among different departments-services with their homogeneity as the criterion. This way of distributing the total workload of a business undertaking among departments shapes an organisation "vertically."

As a result, an organisation expands vertically when the tasks to be carried out are assigned to more and more people and more levels of distribution are created.

- The vertical linear structure of organisations offers the following advantages:
- a. It is more easily understood.
 - b. All employees know up to what point they can make decisions, as they are aware of the extent of their power.
 - c. It ensures the formal communication as part of management unity.
 - d. It defines the responsibility of all employees in the work they do.



Horizontal Organisation

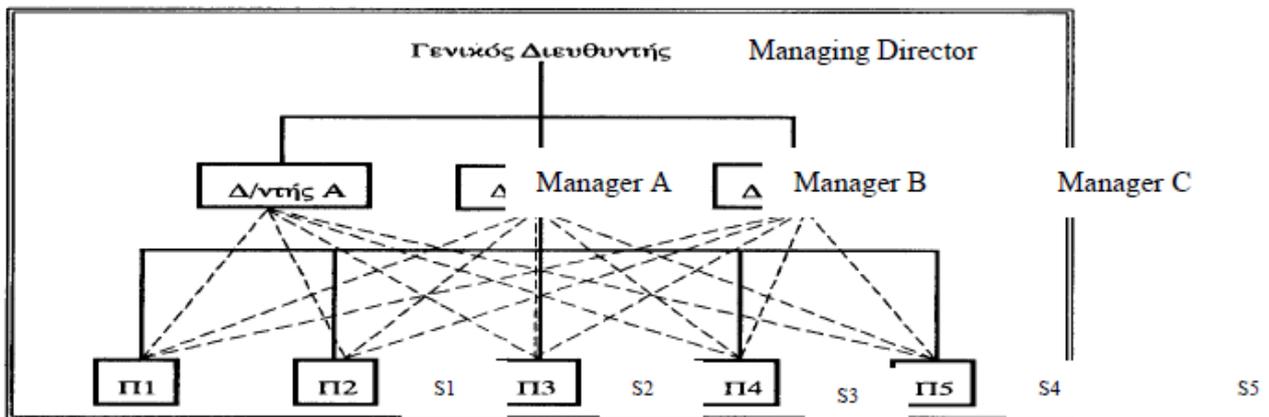
Horizontal organisation is based on the principle of specialisation and provides the ability to break up the competences of one supervisory position into more positions

The aim is to facilitate the completion of work, using the required specialised knowledge of people who are called upon to serve in these positions. This breaking up is not done vertically (linear organisation), but horizontally.

The advantage of a horizontal (functional) organisation is the criterion of specialisation, which characterises it and the way that orders are relayed. This enables the higher levels to broaden their business activities to other areas considered necessary in achieving the goals of a business.

But it also has the following disadvantage: the orders taken by the lower level employees from more than one direction on specialised issues result in more relaxed discipline, conflict between workers and difficulty in coordinating the competences at lower levels.

The horizontal development of an organisation (functional system) is illustrated by the following arrangement:



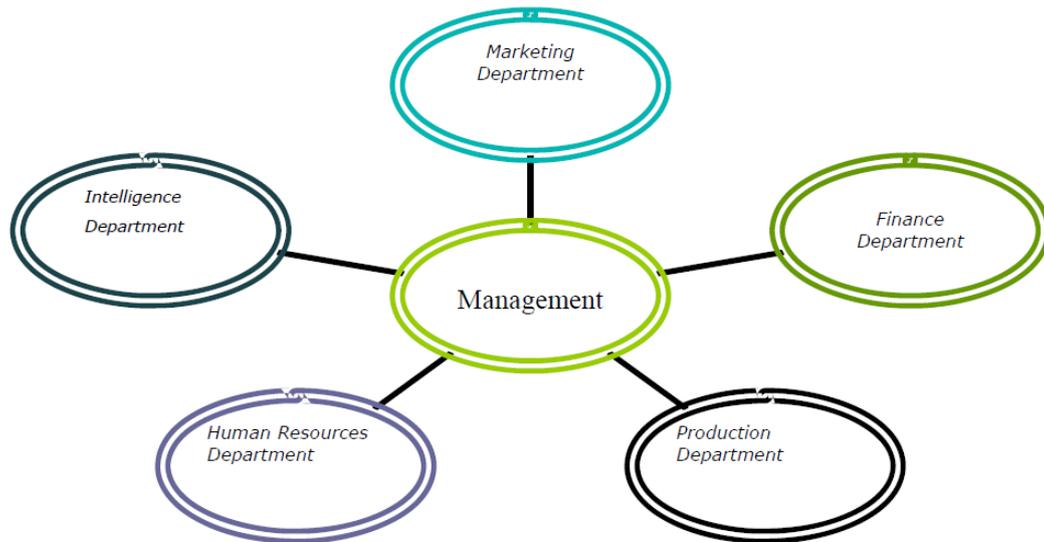
όπου
 Π1, Π2, Π3, Π4, Π5 : where S1, S2, S3, S4, S5: Product Production Department Managers

2.2 THE FUNCTIONS OF BUSINESSES

Effective management means delegating tasks within the business itself. Each department serves its own function.

The most important departments in a modern business are the following¹:

¹ The concept of department in this case is identified with the concept of function, with the characteristic trait of grouping similar activities.



Each one of the five departments above has specific competences.

Below is a summary of the competences of each department.

ω Marketing Department

The marketing department aims at **developing products** in market demand, at **appropriate pricing, promotion and distribution**. The function of marketing is very important in businesses that produce and trade consumer goods. For businesses that produce and distribute industrial machinery, the function of marketing is limited. Nevertheless, the function of marketing has become more important as a result of challenges faced by the business world². These new challenges led many businesses to create a new department, that of public relations.

ω Finance Department

The finance department of a business is concerned with **securing the required liquid assets** to ensure the smooth operation of the business, both in its short-term financial obligations (salaries and wages) and long-term obligations (self-financed investment activities). This department is responsible for the balance and budget of the business.

ω Production Department

The production department is a web of activities which culminate in the **preparation of a product or service** that the business trades. These activities include the natural production of goods, quality control and the guarantee of regular flow of raw materials.

² One such challenge is the satisfaction of not only individual consumers but the whole of society. Today, more than ever, business activities are closely monitored by all of society. A new business ethic is taking shape, one that takes into account the overall impacts that the operation of a business may have. Marketing is called upon to "promote" the business, not only to customers but to society as a whole.

The production department is very important in businesses which are active in the primary and secondary sectors, while it is becoming increasingly important in the tertiary sector as well, particularly in organisations such as hospital service providers, government services and universities.

ω **Human Resources Department**

The human resources department, also known as the personnel department, is a part of every business, no matter how small it may be. Every business uses human resources. In the past, a business's human resources did not play a dominant role. Employees were considered parts of a machine that dominated the business. Nowadays, the human element is a major factor in production.

The human resources department, in turn, performs a very important function. The main competences of this department include **hiring suitable staff, informing, ongoing training** of company workers, **developing suitable assessment criteria** related to the work done by employees and, finally, the **development of an effective system of remuneration** for the employees of the business.

ω **Intelligence Department**

The intelligence department is responsible for **collecting all essential information** (data) related to the immediate and extended environment of the business, the correct processing of such information and the efficient dissemination of this information to the competent departments of the business. The use of computers has rendered the establishment of this relatively new department a necessity for businesses. This department is very useful for businesses which conduct market research or new products development research.

To better understand the function of departments in a business, you may refer to Activity 2.

Example:

The departments of a verticalised cow breeding business undertaking (cultivation of livestock feed-production, milk processing-trade of end product):

Competences of Marketing Department

Market research (pasteurised milk, buttermilk, etc.)

Determination of prices that cover the cost while remaining competitive.

Promotion of products on the market (seeking out sales points, etc.)

Finance Department

This is the accounting office of the business, responsible for managing its finances.

Production Department

The production department of this particular business is concerned with:

-Production of livestock feed and milk

-Processing of milk to produce end product to be distributed to market.

Human Resources Department

This department is concerned with optimising the use of company personnel. Farm workers-stable hands-workers in processing and trade of end product

Intelligence Department

The purpose of this department is to collect information that concerns the business undertaking, such as the application of new technologies in production and the processing of milk, which will result in improving quality on the one hand and in reducing costs of producing the end product on the other.

2.3 THE FUNCTION OF MANAGEMENT

2.3.1. Qualifications of managers

The execution of various management functions, as well as the various functions of the business, is within the competency of managers.

What qualifications should the managers in a business have? The main qualifications are:

1. Technical Skills
2. Interpersonal Communication
3. Acumen
4. Decisiveness
5. Effective Time Management

Technical skills refer to the particular characteristics of the specific job. For example, the job of manager of chemical products production requires, among others, a knowledge of chemistry. The accounting supervisor usually has an accounting degree and experience working in accounting offices for several years. Technical skills are usually acquired through specialised training and related experience. Technical skills are mostly appropriate for front line managers.

Interpersonal communication has to do with personal talents a manager may have in developing professional relationships, both with other employees (supervisors and subordinates) and with people outside the business undertaking (customers, suppliers, labour unions and other social bodies). Although a talent in interpersonal communication is often innate, there are specific aspects of communication, such as a gift in the written and spoken word, which can be learned through formal training and experience.

Acumen is the rare qualification that chief executives in a business must possess. Acumen is the trait of successful business people who are chief executives in companies which they have often founded and developed. Acumen includes analytical thought that can discern the important events taking place today and how they will develop in the future. Analysis of the present situation helps define causes that led to failure or success. Identification of future developments leads to the best possible utilisation of opportunities created on the market.

Decisiveness refers to the ability that managers should have to make effective decisions. Decisiveness is a skill that all managers in the business should have, regardless of their position in the hierarchy. Naturally, the decisions they must make should apply to their own competences. A decisive manager should define the problem, identify possible solutions and select the most advantageous solution for the company. Planning, the first task of an effective management, leads managers to make correct decisions.

Effective time management involves the ability of a manager to use time as productively as possible.

2.4 INTRODUCTION TO FARMS

2.4.1 Basic concepts

In general, the **farm** is the basic technical-economic production unit in agriculture, comparable to an industrial or commercial business. It is locally defined, under unified management and produces primary plant or animal products. In other words, it is a productive body implementing a system of primary (agricultural) product production.

The term **production system** means every combination of productive use of land, human labour and other means of production to develop one or more crops or farms (called **production sectors**) and the production of agricultural products.

The manager or leader of the farm is the farmer (or producer) who is involved in its organisation and management and as rule also offers his own manual labour. Managers may not be the owners of part or all of the farm property but may be lessees, or, as is the case on certain large, purely business-run farms, they may be salaried managers.

In the example here, the manager may be the owner or an expert (agronomist, economist, etc.)

Means or production factors of the farm are the above material goods or services that managers have at their disposal. These factors are used in various ways or combinations to produce plant or animal agricultural products. The main production factors are considered to be **soil, labour and capital**, which includes all the remaining means of production (e.g. seeds, fertilisers, machinery, etc.)

The fields used to produce livestock feed (soil), labour and tractors, as well as other means used in production, constitute the capital.

Farm sectors are the crops and livestock animals which are the object of production with the aim of producing products for own consumption or for sale on the market.

In modern agriculture, it is believed that the main objective of farms should not simply be the production of certain agricultural products, but the achievement of the greatest possible economic result, which is measured by various economic indicators.

The various crops are described as **plant production sectors** and depending on their longevity, they are separated into seasonal or annual crops (e.g. wheat, maize, potatoes, etc.) or perennial crops (e.g. olives, vineyards, etc.)

The productive animals on a farm are described as **animal production sectors** and each species of animal corresponds to a self-sufficient production sector, regardless of the number of animals of a species being bred. A farm may consist of just one sector (monoculture) or more (polyculture). Often, the concept of farm is associated with agriculture holding, which is a legal term referring to

the ownership of the land factor (land ownership) and which could constitute the basis for the creation of a farm if combined with other production factors.

The case here involves a mixed farm, or a plant sector (livestock feed) and an animal production sector (cows).



2.4.2 Characteristics and categories of farms

Characteristics of farms are considered the important traits or elements on the basis of which they are divided into different categories or types or forms or classes with the aim of more systematically examining and analysing them.

The main characteristics by which farms are distinguished are the following:

a) Size. Size is probably the most important characteristic of a farm and constitutes one of the most debated issues in agricultural economics. Farm size can be measured by various methods or indicators, such as the area of available land or available or employed work force, as well as other indicators, which will be discussed in other chapters. Depending on these indicators, farms are described as large, medium or small etc.

b) Technical economic orientation. This trait refers to the participation of various production sectors (plant and animal) in the total undertaking. The size of this participation as a percentage can be measured in different ways, such as by calculating the value of production from each sector, the number of workers, the gross income (the concept of gross income is examined below) etc. Depending on this characteristic, farms are classified into different types.

c) The synthesis (organisation) of production factors. This characteristic refers to the participation of three basic production factors in the total production, in other words, their relative proportion. To quantitatively assess this relation, the size-quantity of these factors is expressed as a comparable unit of measurement, such as monetary units of their value, and it is then expressed as a percentage of the total value of all factors. According to this characteristic, farms are classified

as extensive when they use a relatively large area of land in comparison to workforce in use and capital, and as intensive when the converse is true.

In our example, the farm is intensive (livestock is produced), while it would be extensive if the livestock grazed and the land was not farmed.

d) Method of operation. This characteristic refers to the status of ownership of production factors and particularly of the land. Based on the way they are operated, farms are divided into three categories:

1) Self-run or directly run farms, where the responsible leader and manager is also the owner of the means of production and mainly the farm land.

2) Leased farms, where the land capital (property etc.) does not belong to the leader who farms the land but is the property of someone else to whom the leader-lessee remits a payment in cash or in kind for using the property.

3) Sharecropping farms, where the farming is shared between the owner and the tenant on the basis of a "share-farming agreement," which determines each party's share of the production.

e) Form of organisation and legal form. This characteristic refers to the number of owners of a farm and its legal form. From this aspect, the farms are divided into individual farms which belong to one natural person, and collective farms which consist of two or more farms organised into a unified whole under joint management. Collective farms may be in informal joint undertakings (with a simple contract agreement), or they may be in the form of production cooperatives, or they may be legal entity companies (public limited companies (S.A.), general partnerships, limited partnerships, limited liability).

f) Commercial orientation and degree of funding. This characteristic refers to the economic level of organisation and operation and to the way that production means are secured and products are utilised. From this aspect, farms are divided into three categories:

1) Primitive or self-sustaining or own-consumption farms, which are mainly characterised by the limited contact they have with the market and which mainly produce products intended to cover the needs of the farmers' families. These farms have almost disappeared in developed countries.

Such an example is:

Extensive form of sheep farming (Sheep feed mainly by grazing)

2) Funded family farms, which are closely tied with the farmers' families, as they provide the major portion of human labour and produce products intended both for sale on the market and for own-consumption. These types of farms continue to dominate even in developed countries, where they are much more oriented toward the market, as they have important advantages under the conditions that regulate agriculture..

3) The clearly entrepreneurial form of farming, which usually includes large farms organised as companies or partnerships. These farms are similar to industrial businesses, produce only for the market and their exclusive goal is to maximise their net profits. They also cover all their needs for

labour and capital from the market and as a rule are run by a paid manager who manages without being a shareholder or co-owner of the property. These are usually called agricultural businesses.

g) Characteristics of land and other environmental conditions. These characteristics describe the morphology, altitude, geographical locations, number of land parcels, and others. In this category, there are mountainous, semi-mountainous and low-lying farms. There are also fragmented, Mediterranean-type farms and others.

2.5 FARM ORGANISATION AND MANAGEMENT

Regulation No. 2328/91, (es) also calls for a farm accountancy system to record farm accounts and other technical economic elements related to the farm in accounting books. The Farm Organisation and Management programme serves just that purpose.

Those whose main occupation is farming may be inducted into the programme.

The amount of aid is adjusted every year and is paid in four annual payments.

Farm accountancy includes:

- The preparation of annual opening and closing valuations;
- Systematic and regular recording of transactions in cash and in kind;
- Recording of workers employed on the farm;
- Annual balance sheet (assets and liabilities);
- Trading account (expenditures and income).

By processing this information, the income of the farm owner and the income per man work unit (MWU) can be determined.

In this way, producers are in a position to monitor the efficiency of their farms, as well as the efficiency of each activity.

Farmers who take part in the programme are required to make accounting books available to the competent authorities on the condition that their anonymity is maintained and if the farm has been selected for information gathering or scientific study purposes.

These books are not used to determine income tax.

Management companies and farmers who submit improvement plans may also take part in the Farm Organisation and Management Programme.

In the event that farm leadership is transferred to someone else, the new leader must assume all obligations of the old leader and will receive aid normally; otherwise, the old leader will be penalised.

Accounting books must be kept to satisfy requirements following submission of an improvement plan and should be accompanied by any documentation (invoices, etc.) or photocopies of it. In this way, the Agricultural Administration can check whether obligations resulting from the implementation of the improvement plan are being met.

- The purpose of Management Services provided for under regulation 2328/91 is to analyse the results of the farm accounts and other farm data that contributes to these. In order for this activity to be approved and to render interested businesses or companies eligible, the Management Services they form will:

- ⇒ Serve the purpose of analysing the results of the farm accounts and other farm data;
- ⇒ Remain in operation for at least 10 years from the date of formation;
- ⇒ Provide services to at least 20 farms with which they have special contracts of at least four years' duration;
- ⇒ Keep accounting books and abide by the terms of management set down by their articles of incorporation and their internal regulations;
- ⇒ Employ at least one full-time specialised agronomist or agricultural economist for this work;
- ⇒ Include a special account in its official accounts where all entries related to Management Services accounts are recorded.
- ⇒ Agree to inspections and follow recommendations offered by services of the Ministry of Agriculture.

Farms that are monitored by Management Services are eligible to participate in farm accountancy programmes of the Ministry of Agriculture and to receive financial aid for this activity (regulation 2328/91).

Farm accountancy aims to introduce producers to the concept of agricultural business. Having their farm's economic results available for the entire year through the farm accountancy they are required to follow, it is possible to make adjustments to improve the economic results of their business. This need arose from the fact that most farmers did not keep financial data related to their business.

SELF-EVALUATION TEST

Answer True (T) or False (F) to the following questions:

1. In terms of management hierarchy, the staff of an organisation is divided into:

- a. Chief Executives
- b. Middle Managers and
- c. Front Line Managers
- d. Low-level Managers

a) True

b) False

2. The intelligence department is responsible for collecting all essential information (data), processing it and efficiently disseminating it to the competent departments of the business.

a) True

b) False

3. Decisiveness is a very important skill for a manager.

a) True

b) False

Select the correct answer to the following questions:

1. The main functions of a business include:

A) Production, advertising, finance, intelligence department and sales

B) Production, marketing, finance, sales and personnel management

C) Production, marketing, finance, intelligence department and personnel management

D) Production, advertising, sales, intelligence department and public relations

2. The main competences of the human resources department are:

A) hiring personnel, informing and training company employees, developing suitable assessment criteria and creating a system of remuneration for employees.

B) only hiring and personnel training

C) hiring personnel, placing them in job positions and arranging holiday leave

D) hiring personnel, training them, managing remuneration, retirement and terminations

3. Production system means:

A) every combination of productive use of land, human labour and other means of production to develop one or more crops.

B) the human labour that is exerted in producing agricultural products

C) the efficient utilisation of agricultural machinery and its role in agricultural production

D) the combination of land and capital to develop one or more crops

4. The "firefighting role" of managers includes:

A) financial management

B) solving everyday problems (even related to personal differences)

C) putting out fires in the event of an accident

D) making serious managerial decisions

5. The term "usefulness" means:

A) the satisfaction enjoyed by the seller through consumption of products or services offered by the business.

B) the satisfaction enjoyed by the worker in producing products or services offered by the business

C) the satisfaction enjoyed by the buyer through consumption of products or services offered by the business

D) the satisfaction enjoyed by management as a result of sales of products or services offered by the business

6. In which case would a sheep farm be called "extensive"?

A) When its fields are used to grow the livestock feed it needs

B) When the sheep graze on non-cultivated fields

ACTIVITIES

1. In the table below, match the vertical and horizontal organisation of a business with its advantages.

VERTICAL	1) defined responsibilities for each worker 2) formal communication 3) specialisation
HORIZONTAL	4) defined field of decision-making 5) easier expansion of business activities

Answers: Vertical-1, 2, 4 Horizontal-3, 5

2. Visit the Kellogg Company's website and study the organisation of its functions as well as the competences of each department. Then explain how you can apply a similar structure (on a smaller scale perhaps) in your own business.

<http://www.kelloggcompany.com/career.aspx?id=1224>

3. The Koukaki Farm S.A., is a verticalised animal husbandry business.

Specifically, it consists of:

Plant production sector. Its purpose is to produce livestock feed needed by the animal production sector.

Animal production sector. It includes a cow breeding and sheep breeding unit for the purpose of producing sheep's and cow's milk.

Milk processing unit: Processes milk into various dairy products.

Trade Department: Involved in distributing the products.

Which departments should the abovementioned business include in order to successfully achieve its goals?

What would be the objective of each department?