Vol. 7 · January 2012
Print ISSN 20123981 • Electronic ISSN 2244-0445
International Peer Reviewed Journal
doi: http://dx.doi.org/10.7719/jpair.v7i1.150

Players of the Agribusiness System and their Problems: Philippine Case Studies

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Abstract - The main purpose of this paper is to present problems of the players in the Agribusiness System to help us better understand the challenges they have to deal with to remain dynamic, viable and profitable as important contributors to the health of the industry where they belong. The study used the descriptive method. A collection of 59 case studies actually conducted and successfully defended by agribusiness students were coded and used as samples in studying the different industry players. Each case study was written and analyzed as an output of a practicum to complete their BS Agribusiness Management degree. The students immersed themselves, observed the actual operations of these different players and at the same time gathered related data. Results showed that the problems encountered were production, marketing, personnel, finance, administration and extension. The study concludes that each industry player belongs to a specific agribusiness subsystem and performs a particular or multiple roles in the industry.

Keywords - Agribusiness Players, Agribusiness System; and Management Problems

INTRODUCTION

Agribusiness known as the food and fiber system, plays a very important role in a country's economy. It is a large and complicated system starting with the many activities of the farm input suppliers, the agricultural production activities of farms, the processing, and then marketing and distribution of agricultural products to the ultimate consumers. Agribusiness worldwide represents approximately one-fourth of the total world economic production and provides employment for nearly half the population on earth (Rawlins, 1998). Data and statistics from "**Project Jobs Fit: The Dole 2020 Vision**", a recent labor market study conducted by the Philippine Department of Labor and Employment (DOLE), predicts that agribusiness will emerge as a key employment generator in the next five to ten years.

In each of the different agricultural industries like Vegetable, Poultry, Livestock, Fruit, Cereal and Grains and many others, numerous firms are involved even before the start of agricultural production in the farm up to the point of bringing each agricultural commodity to the final consumer. Many services are needed in agriculture, such as transportation, storage, refrigeration, credit, finance and insurance. Input manufacturers furnish the production agriculturalist with supplies and equipment needed to produce and protect crops. Government agencies inspect and grade agricultural products to ensure quality and safety. Hundreds of agribusiness trade organizations, commodity organizations, committees and conferences educate, promote, advertise, coordinate and lobby for their agricultural products. Science, research, engineering, and education help improve agribusiness (Smith et al., 1991).

Manalili, head of the Agro-Industrial Development Program of SEARCA at UPLB, in her 2001 paper: ***Agribusiness Management towards Strengthening Agricultural Development and Trade*** noted that the economic developments of agricultural based economies are greatly anchored on the growth and survival of their agribusiness

sectors. Agribusiness plays a crucial role as it absorbs agricultural surpluses and at the same time meets the needs of both the urban and rural populations through its value added activities. It has likewise been viewed as the vital link between agriculture and industries and as such is similarly seen as the vehicle for agro-industrial development and consequently economic growth (www.mcc.cmu.ac.th/agbus/isam/others/downloadpdf.asp?...pdf)

Drilon (1971) stressed one very important feature of agribusiness: the viability of an industry is traceable to the viability of the firms that form part of the industry. The industry could be expanded and moved forward only if the firms in it are able to do so. The industry's posture is shaped by the strength or weakness and by the life or death of the firms in the industry. Thus, probing into the problems confronting these agribusiness players including their possible causes can help us better understand the challenges they have to deal with to remain dynamic, viable and profitable as important contributors to the health of the industry where they belong.

FRAMEWORK

The first step in diagnosing and analyzing the problems of these players is first to know their respective roles under the big picture of the agribusiness system, particularly by looking at the subsystem components or sector where they fit in.

Agribusiness before was considered sectorally simply as made up of the whole of Agriculture and a portion of the industrial sector which contains the sources of farm supplies for the producers of farm products. Later on, it was defined by Davis and Goldberg in 1957 as the sum total of all operations involved in the manufacture and distribution of farm supplies; production operations on the farm; and the storage, processing and distribution of the resulting farm commodities and items made from them (Davis and Goldberg as cited by Ricketts and Rawlins 2001). It was then translated into a three-part agribusiness system made up of the agricultural input sector,the production sector and the processing-manufacturing sector.

The agricultural input provides farmers and ranchers with feed, seed, credit, machinery, fuel, chemicals. The middle part of agribusiness is the production sector that uses the products of the input industries to

produce raw agricultural and livestock commodities. The commodities they produce are sold to processors and food manufacturers in the processing-manufacturing sector. The Processing-Manufacturing sector includes all the individuals and firms that process agricultural commodities, manufacture food products and distribute and retail food products of the consumer (Seperich et al., 1994).

The economic importance of these three sectors is described as follows: A large increase in the farm sector efficiency is directly attributable to the input sector. Improving varieties of seed and feed, farm machinery and equipment, and the facilitating services offered to the farmers help improve the output-input ratio. At the hub of the agribusiness system is the farm production sector. As this sector grows in size, level of output and efficiency, the other sectors of agribusiness are directly affected. The health of this sector has a vital and direct impact on the financial well being of the input supply and output sectors of agribusiness. The final sector in the food production and distribution system is the output sector. This sector is responsible for the transformation of the raw farm output into a final consumer product at the retail level. It is the largest of the three sectors in the food system (Downey and Erickson, 1987)

Colleges in India offering Agribusiness Management Degree provided another way of categorizing the sectors. Agribusiness system with forward and backward linkages consists of the following four major sectors: agricultural input, agricultural production, agricultural processing or manufacturing and agricultural marketing or distribution sector which add value to the agricultural produce. (www.mbandiacareer.com/.../Agribusiness-Management htm-India).

Manalili further considered the concept of agribusiness to include the primary production of agricultural produce; the upstream economic activities (production and distribution of all inputs and services used in on-farm production); the documentation industries (processing, manufacturing, transportation and related services); and the transformation of raw agricultural produce into finished products either for domestic consumption or export.

Rickets and Rawlins had introduced another one important sector. Within the big picture of agribusiness system are agribusiness companies that provide input supplies to production agriculturalists

(producers and farmers). The production agriculturalists produce food and fiber, and the output is taken by agribusiness companies which process, market, and distribute the agricultural products. Many other support services,such as research, education, and finance are also involved (Rickets and Rawlins 2001).

According to these authors the support or agriservices sector of the agriculture industry is concerned with researching new and better ways to produce and market food and to protect food producers and consumers, and with providing special, custom-type services to all the other phases of agriculture. The major emphasis of public agriservices includes research, education, communication and regulation while private agriservices have three major areas available to the agricultural industry: financial services, trade associations, and agricultural cooperatives.

Dr. Ngaruko of the Open University of Tanzania also described Agribusiness, being the Food and Fiber industry as the chain of industries directly and indirectly involved in the production, transformation and provision of food, fiber, chemicals and pharmaceutical substrates. The primary roles in this chain include: Primary production of commodities such as food grains;Processing of commodities e.g. milling;Inputs supply to the primary and tertiary sectors; Retail and wholesale;and Service provision such as education, banking and technical advice. (www.out.ac.tz/current/course%20outlines/FBM/OBs405.pdf).

The authors of the book,***Agribusiness Management: Systems approach***, further described the Agribusiness System as an area composed of Production, Processing, Marketing, Supply Chain Management and Strategic Alliances (Dy et al., 2005).

The next step after identifying the roles that each player performs in the Agribusiness System is to further examine specific management functional areas within the individual organization where problems are encountered. This is reflected by the type of organization structure.

A functional structure organizes employees around specific knowledge or other resources. Employees with marketing expertise are grouped into a marketing unit, those with production skills are located in manufacturing, engineers are found in product development and so on. Organizations with functional structures are typically centralized to coordinate their activities effectively. Coordination

through standardization of work processes is the most common form of coordination in a functional structure (McShane and Von Glinow, 2000).

Organization brings together in one department everyone engaged in one activity or several related activities that are called functions. For example, an organization divided by functions might have separate manufacturing, marketing, finance, human relations and sales department. The marketing function for example, commonly consists of sales, promotion, distribution, and market research activities (Stoner et al., 2005).

In departmentalization by function, the activities of the organization are divided into primary functions to be performed: manufacturing/ engineering (Production), Marketing, research and development, employee relations (Personnel) and Finance. This arrangement has the advantage of specialization and concentration of similar activities within a departmental unit. It is the most prevalent form and is seen not only in business enterprises but in hospitals, government agencies, and many other kinds of organizations (Kast, F and Rosenzweig, 1986).

The tasks that every business needs to do to succeed were enumerated as follows: 1) Human Resources - ensures the business has the best staff for the job and that they are able to work effectively in a safe environment; 2) Finance - will keep a record of all money coming in and going out of the business. They have responsibility for securing finances for future expansion and paying staff and suppliers; 3) Administration - ensure the smooth running of the business on a day-to-day basis including security, health and safety; 4) Operations - have the task of producing the goods or service in the most efficient way. This is done by making best use of the business's staff, machinery, building and raw materials; 5) Marketing and sales - will try and maximize the level of sales by carrying out market research and promoting the goods or service through a motivated sales team; 6) Customer Service - will help the customer before and after a sale has been made by providing information, giving advice, providing credit facilities, delivering goods and providing after-sales support; and 7) Research and development - will help the business remain competitive by developing new goods and services and updating the existing ones.

Similarly, agribusiness players also have their own functional

departments depending on the type of role they perform. The management functions are implemented through the use of the various skills, principles, and tools that have become part of the professional agribusiness manager's knowledge and ability. To be successful, the agribusiness manager must apply this functional knowledge and ability to each of the four basic areas of the agribusiness: that is, financial management and planning, marketing and selling, production and operations, and personnel or the human dimension (Downey and Erickson 1987).

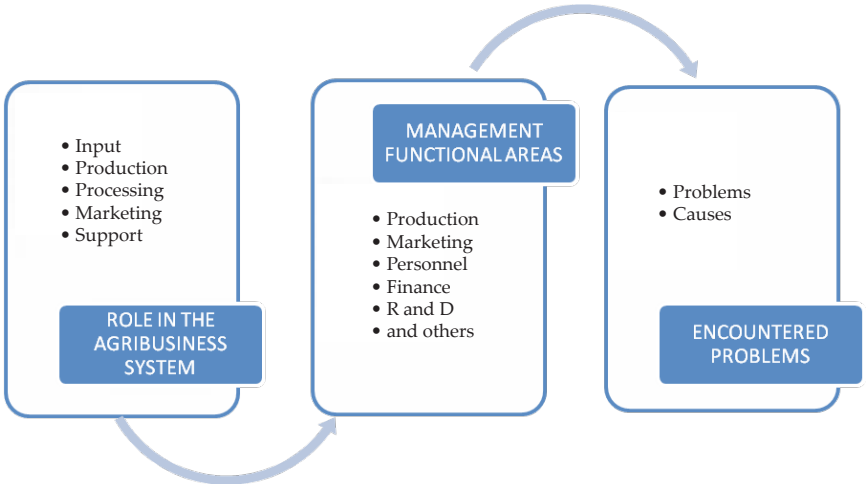

Figure 1. The schematic diagram of the study

OBJECTIVES OF THE STUDY

The paper intended to look into the problems of players of the Agribusiness System. Specifically, it sought to answer the following objectives: (a) to determine actual roles performed by these industry players; (b) to show specific relationships among players within the same subsystem and among players from different subsystems; (c) to identify the management functional areas of the firms where the problems were encountered; (d) to identify what are some these problems and be aware of their possible causes. The study postulates that each agribusiness player performs a specific role in the agribusiness

system and problems with causes may occur in any of the management functional areas regardless of the organizational structure.

MATERIALS AND METHODS

The study used the descriptive method. To completely understand these agribusiness players, a collection of 59 case studies actually conducted and successfully defended by agribusiness students who graduated during the academic years 2009 until 2011 from the Department of Agribusiness Management, College of Agriculture, Mindanao State University, Main Campus in Marawi City, were used as samples in studying the different industry players.

It should be emphasized that case materials of the Department of Agribusiness Management, MSU Main Campus are for classroom discussions only and not to illustrate either effective or ineffective handling of administrative problems. Each case study is being written and analyzed as an output of the summer on the job trainings. The students immersed themselves, observed the actual operations of these different players and at the same time gathered related data. Each case is being supervised by an assigned adviser and defended in front of panelists as a requirement to complete their Bachelor of Science in Agribusiness Management degree. To hide the identity of the industry players, the cases are coded. Furthermore, the cases available depended on the players that accommodated the students and finally each case author can only suggest a chosen alternative as a solution to a specific problem but has no authority to impose it on the player for implementation.

RESULTS AND DISCUSSION

The findings revealed that each of the players performs varied roles/functions. The input subsystem players provide inputs to farm producers of livestock, poultry and crops. An input manufacturer may also provide raw materials to its satellite plants and tooling partners. The production subsystem players engage in actual farm production activities and at the same time it is a supplier of raw material to an input manufacturer. A hog producer may not purchase

but opt to manufacture own feed requirements. The processing subsystem players process the products of the production subsystem and sell it for direct consumption or sell to other processors for further processing. A product processor may also produce its own raw material for processing or produce inputs for its farm growers. A player in the marketing subsystem buys the product of farm producers, owns it and sells it without necessarily transforming or further processing the products. The players in the support subsystem provide assistance to farm producers and agriculture in general for its growth and sustainability in terms of research, extension, training and development, technology, information and financing. They produce inputs like seeds and planting materials for the production subsystem.

Examining relationships among players disclosed the following results. An input manufacturer needs an input distributor to market its product while an input distributor needs an input manufacturer for products to sell. A major input manufacturer needs a tooling partner to help its processing activities because it is expensive to maintain its own processing plant. On the other hand the tooling partner needs the major input producer to maximize use of its existing processing equipments and facilities. Although players in the production subsystem have their own farms but still they need contract growers to meet their targeted production requirements. The contract growers also need the big producers to be assured of markets for their produce.

On the other hand, interdependence among players of different subsystems also exists. If there is a shortage of raw material for feed processing for ex. corn, the input manufacturer needs corn producers or corn traders. A crop producer may supply raw materials to an input processor such as corn and cassava. The farm producers need to establish relationship with contract buyers such as exporters and retailers to be assured of markets for their produce. Processors to be assured of raw materials to be processed need to establish relationships with contract growers aside from having their own farms. A cooperative processor may establish a rice mill and offer milling services to members and other farmer producers for a fee. A vegetable marketer needs vegetable growers and traders for product to sell to customers. At the same time it needs institutional buyers and retailers as its market. The players in the support subsystem are needed by farm producers for assistance in

terms of research, extension, training and development, information, logistics and financing. While support subsystem players also need the farm producers to serve as beneficiaries of their researches and extension services, training and to attain the very purpose why they are created or established.

The problems encountered were ***production, marketing, personnel, finance, administration*** and one additional function is ***extension*** on the part of the support subsystem. **Production/Operations problems** of the players include delayed or shortage of raw materials; augmenting current production rate; plantlets contamination; attaining production target; spread of diseases; increased mortality rate of animals, plantlets and useful fungus; proper herd management; minimizing product rejects & utilization of these rejects; slow egg sizing operation; decreasing yield, malfunctions of machines; speeding up operation; and delayed data collection. **Personnel/Human resource problems** are concerned with minimum workers performance; unfavorable working attitudes and low skills of personnel; attaining effective and efficient task performance; and stopping unfavorable conduct of workers. **Marketing problems** dealt with beating competition; speeding up product distribution and delivery; boosting product quality and popularity to enter new markets; sustainability of product supply; meeting orders on time; and maintaining product quality. **Administration problems** focused on providing safe working environment; checking on the employees' complaints against the manager; exploring new opportunities; improving supervision of operation and how to maximize performance among workers**. Finance problems** had to do with speeding up loan collections from borrowers and limited budget. And **Extension problems** are concerned with introducing a new technology; helping producers increase production and teaching them to process their products; and to facilitate continuous implementation of government programs.

Looking at the causes of the different problem disclosed the following findings. **Production/Operations related problems** are caused by having only few suppliers of raw materials; limited resources such as land and management skills; spread of diseases; less know how of workers on certain processes; malfunctions of equipment and machines; uncommitted workers; workers disregarding SOP;

incorrect plantation and herd management practices; overlapping of functions; lack of specialist; wrong choice of varieties; limited facilities, equipments, machines, and working space; presence of rejects every production cycle; misunderstood instructions; soil acidity and salinity; poor farm to mill access facilities; unfavorable terrain; irregular attendance of workers, low farm production of raw material; and inefficient performance of hired workers.

Marketing problems are generated by the presence of better known competitors; non-strategic location; competitor with better products; product shortage; orders not delivered on time; and improper handling of products. **Personnel/human resource problems** are caused by unsatisfied workers complaining against poor management-worker relationship, lack of positive motivation and tenure insecurity; workers' deviation and disregard of operation standards; rush of tasks to satisfy overtime; violation of company rules; workers demanding salary increase; overlapping of tasks; lack of educational qualification; workers lack of skills; and unfavorable conduct of workers. **Administration problems** are triggered by occurrence of accidents; no specific task assignment; manager's unfavorable behavior; scarcity of resources; supervisor's education-position mismatch and overlapping of duties. **Finance problems** are caused by borrower's lack of knowledge on how to gain more profit and be able to pay; and limited budget that limits the ability to purchase a much needed vehicle. And finally the sources of **Extension problems** are underutilized potential of the area; clients' unfamiliarity with a new technology; and presence of pest infestation.

CONCLUSIONS AND RECOMMENDATIONS

Based on the different case studies presented, the following conclusions and recommendations were derived:

1. Each of the industry players belongs to a specific agribusiness subsystem and performs a particular role or carries out a combination of roles in the industry where they operate. Despite the multifaceted point of view of Agribusiness, diverse interests and individual uniqueness, each of the players recognize the need to perform their roles effectively and efficiently because of the significance, contribution, and impact of roles to make the subsystem where they belong more

effective and efficient. Any positive contribution they make will benefit the other agribusiness subsystems that directly or indirectly need them and the whole agribusiness system as well. To reiterate, the industry's performance is caused by the strength and weaknesses and its posture is shaped by the life or death of the agribusiness firms within the industry

2. Interdependence among players within the same subsystem and interdependence among players from the different subsystems exist. Players within each subsystem and players of the different subsystems need to recognize the importance and impact of this interdependence considering that each player needs business partners or strategic alliances to survive. The players need to reinforce and support existing partners for their mutual benefits and for the growth and viability of the industry where they belong. Already established relationships need to be strengthened while new strategic alliances local or foreign need to be explored because of opportunities that either local production or globalization has to offer.

3. Similar with other organizations, each of the players has to meet head-on problems in one or combination of the basic functional areas of management. These problems serve as challenges to agribusiness decision makers and need serious attention in order for their ventures to remain viable and profitable. To face these problems, agribusiness decision makers must be equipped with the management principles and knowledge including entrepreneurial skills. Agribusinesses firms being diversified and unique also require unique application of managerial abilities and skills. And finally to make good decisions each decision maker needs to be well-informed of the status, developments, updates including forecasts of the industry where they align themselves. The decisions they make in solving these problems may affect their performance affecting also other firms in the industries where they operate as a whole.

4. The problems of the players are caused by either external or internal factors or a combination of both. Internal factors causing problems can be controlled while impact of external factors can be minimized. Agribusiness players need to constantly evaluate their performance,checking internal capabilities against the challenges of the external environment by using SWOT Analysis. The SWOT

analysis classifies the internal aspects of the company as strengths or weaknesses and the external situational factors as opportunities or threats. Strengths can serve as a foundation for building a competitive advantage, and weaknesses may hinder it. By understanding these four aspects of its situation, a firm can better leverage its strengths, correct its weaknesses, capitalize on golden opportunities, and deter potentially devastating threats (www.netmba.com/strategy/swot/).

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Pursuant to the international character of this publication, the journal is indexed by the following agencies: (1)Public Knowledge Project, a consortium of Simon Fraser University Library, the School of Education of Stanford University, and the British Columbia University, Canada; (2) E-International Scientific Research Journal Consortium; (3) Philippine E-Journals; and (4) Google Scholar.