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**WHY TO USE THE GLOBAL VALUE CHAIN ANALYSIS:
THE PROSPECTIVE AND THE INADEQUACY OF THE
MACEDONIAN FRESH VEGETABLES FOR THE DEVELOPED
MARKETS' CONSUMER**

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Abstract

The value chain concept represents a proven model for analysis for improvement of certain sector through better management and improved competitiveness, especially for the developing countries. This article tries to shortly present the fresh vegetable value chain in Macedonia and point towards the need for development of a national strategy for improvement of each value chain where there are potentials for improvement and increase competitiveness on an international level since the Macedonian fresh vegetable chain is part of a global value chain that needs to be supported by the policy makers in order to enhance the abilities of the local businesses to compete internationally or globally.

Key words: value chain approach, analysis, fresh vegetable, competitiveness, exports.

Introduction

It is a commonly accepted view that the agribusiness sector in Macedonia is one of the potential areas of further development, as well as it is one of the key export oriented sectors. Thus, it is reasonable to consider this sector as one of priorities of the national economy and an area where further investments should occur in order for the sector to have larger contribution to the national economic development.

Agriculture hunting and forestry, as a statistical category, in the last decade contributes with around 11%¹ to the national GDP. This number does not include the contribution of the food processing industry. If to these 11% we add the food processing industry, then the contribution of the agribusiness sector to the national GDP will add up to around 15% of the national GDP.

At the same time, the employment that this sector provides, ranges from around 60.000 to 75.000 which represents 12% to 15% of the total employment. This number does not include the significant number of seasonal labor that is engaged within the sector, taking into account the seasonality of the sector (especially fruit and vegetable production and processing).

1) Different publications of the SSO of R. Macedonia regarding 2001-2007

Out of the total national exports, the agribusiness sector (primary products and processed products) contributes with approximately 15% from the total US\$ value exported.

All of these statistics provide enough information to consider the agribusiness in Macedonia as one of the noteworthy areas contribution to the national economy. However, aspiring to increase these values of export there are various variables that could direct the development of this sector.

To assess the agribusiness sector in a realistic and detailed manner it is vital to comprehend that within this sector there are abundant number of value chains that function differently and depend on many variables such as the structure of the value chain, the chain relations, the efficiency and effectiveness of each value chain, etc. In order to practice and complete a detailed analysis in accordance with the value chain concept the analysis should include tracing the product flow and identification of the value additions at different stages, identification of the key players and their relationships, identification of the businesses that contribute to the production and the enterprises providing service support, identification of all the bottlenecks preventing progress, and finally identification of the specific actions to improve the value chain efficiency and effectiveness². Once this is identified the value chain should be put into a perspective that any value chain is part of a global value chain, and only improved local activities within this global value chain can result with more competitive local businesses on a global level, increased product value which stays within the country and higher income for the local population.

Having this in mind to assess the prospective and area for improvement each of the value chains should be considered in detail, and the dynamics of value chains should be assessed. However, this article will make an attempt to pinpoint the main areas for improvement and the potentials by taking the case of fresh vegetables value chain and will try to shortly elaborate why the value chain approach should be used for development of a national strategy for each agribusiness value chain and to be done by the policy makers though naming few of the problems of this chain faces in Macedonia.

The value chain concept is a concept that is used for decades and the developed world uses it and builds on (it and was first described and popularized by Michael Porter in the 1980s). However, this concept has been recently introduced on the developing countries such as Macedonia. As an approach it focuses on a certain sector or product to identify the competitiveness with the only aim to get more value from the goods and services and in our case to achieve higher exports not only by quantity but by value more importantly.

The world has seen inspiring successful stories from local businesses from the developing countries breaking into global markets (Pyke and Sengenberger, 1992; Nadvi and Schmitz, 1999) and their success is not based solely on the local relationships within the value chain. As it is with this case of the fresh vegetables, the customers are international and global and they represent a significant factor of success. "Enterprises are not exporting into an anonymous global market; often they feed into supply chains that are governed by powerful global actors. Value chain analysis demonstrates that the relationships with these global actors exert a major influence on upgrading and earning opportunities of local enterprises."³

If we take for a fact that the Macedonian economy, though the national policy makers, is aiming at increased exports it is inevitable to conclude that with such an aspiration there is a need of strategy that will focus on the export increase. As we gave a short explanation above each product and each value chain success and thus the export depend on different variables therefore development of national strategy for specific value chains will be necessary. The value chain approach is proven to be as a good base for development of an export strategy for specific value chain and such an analysis can assist the developing countries to improve their exports.⁴

2) Baker, D., 2006, Agriculture value chains: overview of concepts and value chain approach, FAO

3) Hubert Schmitz, 2005, Value Chain Analysis for Policy-Makers and Practitioners, International Labour Organization

4) Most of the fresh vegetables in UK are originating from Kenya flown ready for consumption in 48 hours (Governance and Trade in Fresh Vegetables: The Impact of UK Supermarkets on the African Horticulture Industry, Dolan, Humphrey)

The exports of the Macedonian fresh produce in this case the fresh vegetables are executed primarily by the local traders/exporters. Thus it is logical to conclude that this should be the main link in the chain that needs an organized and commonly accepted strategy. However, the traders by themselves may perceive that such national strategy may be irrelevant for them to follow, nevertheless the area they may be interested in to follow is to take an advantage of measures that may be motivating to export more, initiated by a national strategy.

The value chain concept promotes analysis that extends from R&D to the final disposal of the product and mapping this process is an essential to be able to complete a detailed analysis that will identify the bottlenecks and capture greater value on a national level.

We should be aware that the export markets in the developed countries such as the EU market understand and demands quality, quantity, traceability of the product, and dependability. These are factors that should drive the development of each value chain including the fresh vegetable value chain and the design of a national strategy for export improvement.

Development of such an approach means that it should be the policy-maker's responsibility to initiate such strategies however all the players in the sector and before all the private sector should be the leader in development of such a strategy and at the end feel ownership of such a model and the resulting measures. In order for such an analysis to take place first the main players need to be identified and the value chain mapped.

1. Methodology

The analysis uses some of the main findings in regards to the relationships between the fresh vegetable value chain links in Macedonia, from the research done by EPICENTAR International; Skopje for the USAID funded AgBiz Program, in Macedonia for profiling the fresh vegetable value chain in Macedonia. The profiling was based on a face-to-face interview with over 20 stakeholders within the value chain from all the direct and support activity players. In addition secondary data from the Agricultural Census 2007, State Statistics Office publications, and the National Customs Office were used.

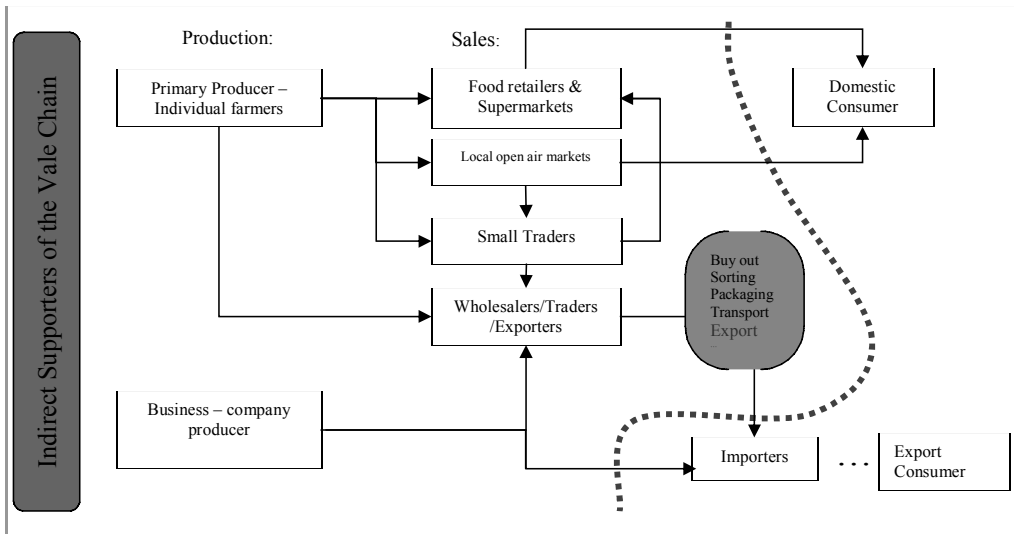
2. Fresh Vegetable Value Chain Structure and Organization

If we consider the fresh vegetable value chain of the Macedonian agribusiness sector then we have to identify numerous direct and indirect key players in the sector starting from the producers, the wholesalers, the retailers, and then it either ends up on the domestic market or the export markets' importers then to export markets' retailers and the final consumers.

The value chain is also influenced by indirect players who are affecting the chain, starting from the service providers (extension services, certification services), input providers, the government (through the policies and the subsidy programs), financial service providers, etc.

The value chain for the fresh vegetables starts with the production which is either done by individual farmers or agricultural companies. The number of the individuals i.e. farming households is by far larger than that of companies. According to the Agricultural Census 2007⁵, vegetable production covers an area of 9% of the ploughs, gardens and home yards (which is 72% total agricultural land) i.e. 6,5% of the total agricultural land. Most of this area (57%) is sown with peppers, watermelons, tomatoes, cabbage, melons and cucumbers, which are the most significant fresh vegetable exports. 97% of the area is managed by individual farmers or 102.881 households and only 3% is managed by companies or by total of 50 legal entities.

5) State Statistical Bureau of Macedonia, Agricultural Census 2007



2.1.1. The producers

Having the above statistics, a very rough estimation of the average size of an individual farmer plot producing vegetable is around 0,21 ha, while average business plot producing vegetables is 12,86 ha.

This directs us to the fact that the production occurs on dreadfully small plot i.e. the national production occurs on an extremely fragmented agricultural land, thus the results are small quantities produced on a single farm. Consequently, it is normal to expect that the returns per farm are extremely small, since there is no mechanization, the production is manual, and the yields as well thus there are no economic justification. The value adding activities are expensive for such a small scale business and the activities with which the value can be added are difficult to implement by an average farmer. Then, there is a need for a motivating factor that will cause enlargement of the plots rather than fragmentation. This can be changed exclusively though the national agricultural policy and subsidy program that should motivate plot enlargement by subsidies distributed based on the yield or production quantity and quality rather than current subsidies based on area.

The individual farmers who are producing on small plots are rarely organized in full-performing associations or cooperatives that will function as sales organizers to increase the bargaining power of the farmers and to lead and promote change within the chain though spreading market demand information.

The farmers are currently producing varieties which they consider will be demanded by the buyers and consumers which most of the times are traditional and unfortunately outdated varieties not demanded on the export markets. Large part of the fresh vegetables exported will end up in the processing industries of the export markets.

The farmers are slow when it comes to variety change and production technology change which results with the outdated products not demanded on the export markets and by the final consumer.

The final consumer in the developed countries is picky and very clear about the size, color, and packaging of the product etc. And the partners within the export markets demand standards, traceability, dependability and quality.

However even if the farmers accept new varieties more easily they are not in a position to supply themselves with the adequate varieties since there is no modern and up-to-date propagation centre within the country that tests and promotes new vegetable varieties demanded on the developed export markets, and as small farmers who are not organized in a farmer's organizations with economic goals it is almost impossible to import varieties from other countries.

If we add to this the fact that almost none of the farmers possess post harvest storage facilities or other value adding facilities such as adequate premises and machinery for sorting, categorization and packaging of the produce, the problem with supplying adequate product becomes even more severe before even the product leaves the farm and thus the prices offered low by the next chain links are low.

Once the produce is prepared for sales from the farm to the next link within the value chain, other bottlenecks appear. Majority of the farmers are working with no contracts with the wholesalers. Large percentage of the sales is done on an incidental basis to the available and interested wholesalers once the product is off the field collected in a manner that is not in accordance with the demands of the buyers i.e. the final consumer. This means different producers different variety, different sizes, ripeness, no packaging, cleaning, sorting etc. This makes the farmer's bargaining power once again low and their risks high since they are dependent on the traders terms, moments before sales after the perishable produce has been harvested.

The results are disorganized sales with products which are not appropriate, not uniformed, neither can the farmer plan the sales neither the wholesaler/exporters can arrange specific sales quantities and qualities with the next link in the value chain since the availability nor quality of the products is known up to the last moment.

2.1.2. The Traders/Exporters

Knowing that the farmers are rarely equipped with any facility for value adding of the fresh vegetable production, it is the trader/wholesaler/exporter who is usually sorting, calibrating and packaging the products according to the needs and demands of the importers on the other side of the border i.e. the export markets.

The quantities of fresh vegetables which are ending up at the wholesalers which are most of the time exporters of the fresh producers are traded on the basis of arms length market relationships. The products are produced without reference to the needs of the particular buyers since the exporters from Macedonia are usually the last direct link in the value chain within the country. The vegetables are sold to importers in other countries since there are no links with the retailers who are selling the product to the final consumer. The products are sold to importers in the export market and the Macedonian companies lose track of what is the happening to the product from there on, this on the other hand indicates that the exporters have limited information along the chain on what is happening to the goods, what are the final consumer demands and wants and thus the opportunity to add further value to the product is lost. The fresh vegetable value chain is not perceived as a part of a much larger global value chain not being aware how to fit within the international flows. For example adding value by small packaging, preparation of ready salads etc. are products which achieve much higher price than the vegetable sold in bulk and is commodity, thus though is still far from the developments of this value chain.

2.1.3. The export markets

The fresh vegetables from Macedonia are exported mainly on the regional markets. This includes the ex-Yugoslav market which represents a traditional market for the exporters with established links. Then we have the remaining countries within the region (Greece, Bulgaria, Romania, and Albania) and finally the EU market (without the regional EU members).

The exports of fresh vegetables from Macedonia indicate a strong trend of increase in quantity, especially during the last few years. Ex-Yugoslavia, considered as one market, is traditionally and is still the largest consumer of the Macedonian fresh vegetables. This market has "survived" due to several reasons. Firstly, the well kept relationships among partners which have been active during the last decades when Macedonia has been the main producer of agricultural products for Yugoslavia. Secondly, the consumers in this region are used and familiar with the Macedonia production therefore still consumes the fresh vegetables from Macedonia. This is still considered as a "steady" market for the Macedonian fresh products but these mar-

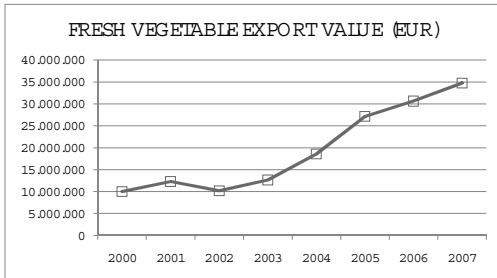
kets could easily be considered as a safe haven markets which provide security for the Macedonian exporters but at the same time stifle the need for change necessary for the more developed markets.

The regional market, besides the ex-Yu market, is another significant market which is comparable and very similar to the ex-Yu market.

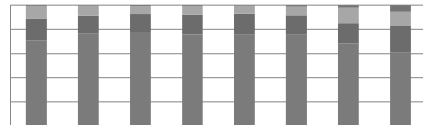
The European market is another destination of the Macedonian fresh produce which has been slightly increasing in the years from the last years. The European market is considered as more "demanding" and sophisticated in sense of the consumer needs. This market demands smaller packages; different varieties etc. which according to the exporters is still something to strive for. The reason why the Macedonian production is not still significantly "aiming" this market is due to the "security" on the ex-Yugoslav and regional market which is familiar and satisfied with the current products from Macedonia providing some security of sales (for now). At the same time the Macedonian fresh produce on the European market is exposed to a competition which is traditional and well established on this market especially from Spain, Turkey and Greece to an extent which are "domestic" producers with higher compliance with the consumer demand, subsidized production etc.

However, Macedonia should consider EU markets as a target for the future development especially considering the accession process of the Balkan countries into EU, the sophistication of the consumer that appears on the regional market, the potential competition, etc.

If we take the most significant exports of fresh vegetables are the exports of fresh tomato, pepper, cucumbers, watermelons and melons, cabbage from the figures below we can conclude that the exports in value are significantly increasing, however the ex-Yugoslav market is still consuming more than 60% of the total exports.



Source: Macedonian Customs Office Archive



Source: Macedonian Customs Office Archive

The figures above confirm and show that the ex-Yugoslav market is still the most predominant market where the fresh vegetables end under the assumption that these countries do not re-export the products to the EU. There is a trend that the ex-Yugoslav exported value is decreasing as part of the total exports while the other regional country's exports are taking larger parts in these exports. However the possibility that some of these countries such as Bulgaria, Greece, Romania are already members of the EU it could be assumed that part of this products at the end of the day get into the EU market as well however as other country's products.

This seems promising however, just for an illustration, if we compare the imports of fresh vegetables in the EU we can see that besides the pepper the other fresh vegetables coming from Macedonia within the EU does not exceed more that 0,5% of the total imports, showing that the Macedonian fresh vegetable is not known on the EU market and the penetration is still low.

European Union - Macedonian Imports % of the Total EU Imports							
	1999	2000	2001	2002	2003	2004	2005
Cabbages and other brassicas	0,10%	0,04%	0,61%	0,21%	0,16%	0,27%	0,33%
Cucumbers and gherkins	0,03%	0,22%	0,06%	0,05%	0,13%	0,10%	0,07%
Pepper (Piper spp.)	0,70%	1,23%	0,99%	0,31%	0,75%	2,14%	2,58%
Tomatoes	0,00%	0,04%	0,01%	0,01%	0,03%	0,02%	0,02%
Watermelons	0,19%	0,50%	0,45%	0,54%	0,26%	0,27%	0,51%

Source: FAOSTAT

3. Conclusion

The Macedonian fresh vegetable value chain has the potential to become more significant for the national economy. Within the short attempt to pinpoint some of the main issues in the fresh vegetable value chain it is obvious that a detailed analysis and mapping of this sector can contribute even more, with the intent to fit within a global value chain.

This article identified numerous problems which are ranging from the input supply, production, post-harvest, export etc. However it is crucial to be understood that the change within the value chain will not be achieved only by one player such as one farmer or one exporter. In order to achieve and keep most of the economic value of the product in the country it is necessary that a national strategy for each value chain is defined.

The production of the fresh vegetables is only one value adding activity and it is not the bulk raw vegetables that should be the final product. To improve the sector's performance the progress should be aimed at improving the input supply, the production methods, the subsidy politics, the transportation, the export policies, business support services, etc. All of these should be aligned and streamlined to functioning as one and fit within the global chain. The most money-making activities should be selected and kept within the country, the relationships between the domestic businesses and the global leaders should be information intensive relationships, and the arm's length market relationships left. The improvements will not be achieved only by one or two businesses; there is a need for enhancement on a larger scale by a national strategy which will facilitate the improvement of the whole sector that will create leaders.

In order to keep the value within our borders the next steps of the sector should focus on creation of a strategy which will activate and organize all the players in the sector supported by an institutional framework to:

- Streamline the production to the needs of the final consumers on the export markets
- Creation of direct links with the export markets retailers rather than solely importers
- Produce products with high value added for the developed consumer society providing products for immediate use etc.
- Continuity of supply and constant level of quality according to standards
- Traceability of the produce through special logistics systems (from the field to the retailer)
- Seedlings, exporters, importers and retailers together need to develop new varieties and extend the growing season
- Etc.

This all should lead to the conclusion that a value chain approach analysis is necessary for the improvement of the Macedonian agribusiness though fitting in the global value chains by development of a strategy which will be focused on specific value chains and developed through the private sector that needs to produce lead companies that will govern the value chain. The private sector on the other hand needs to internally upgrade their: processes (increase efficiency and effectiveness internally), product (new products, improvement of the products), function (increase the level of value adding by adding or changing the value adding activities within the companies). This way there will be more significant earnings and these earnings will be kept in the country causing further and more rapid development having in mind that the value chain approach is all about creating value and management of the processes.

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STRATEGIC HRM AND ORGANIZATIONAL PERFORMANCE: A REVIEW OF 'BEST FIT' - 'BEST PRACTICE' DEBATE

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Abstract

The assumption that human resources play strategic role in the success of a company has led to extensive research in the field of strategic HRM. This paper reviews the empirical work on HRM and organizational performance link. It focuses on the debate in strategic HRM literature between the contingency theory and universalism, which covers the largest body of the literature in this field.

Key words: strategic HRM, organizational performance, 'best practice', 'best fit'.

Introduction

Human resources have long been seen as a cost to be minimized rather than a potential source of value creation. However, nowadays, people and people management are increasingly seen as key elements of competitive advantage (Allen and Wright, 2006; Pfeffer, 1994, Boxall and Purcell, 2003). The new interest in human resources as a strategic lever, which has emerged in the last two decades, suggests that HRM contributes directly to the implementation of the operating and strategic objectives of firms.

With the advent of the resource-based view of the firm (Barney, 1991), strategic HRM research moved to a more internal focus. According to Barney's (1991) resource-based view, firms should look inward to their resources, both physical and intellectual, for sources of competitive advantage. Firms can develop sustained competitive advantage only by creating value in a way that is rare and difficult for competitors to imitate. Traditional sources of competitive advantage such as natural resources, technology, economies of scale etc. are not only easy to imitate but are also easily accessible, mainly because of the fast development of technology. Thus, human resource systems can become crucial source of sustained competitive advantage.