

Managing the Boundaries of Firms in the Agribusiness: managerial aspects of corporate governance concerning vertical and horizontal integration

Prof. dr. F.A.J. van den Bosch, Professor of Business Environment and Strategy

Prof. dr. C.P. Veerman, Professor of Agricultural Economics

Drs. ing. M.F.L. Rademakers, Research Associate

Erasmus Institute for Advanced Studies in Management (ERASM)

Erasmus University Rotterdam, the Netherlands

Telephone: 010-408.2384/2005

Fax: 010-453.0137

E-mail: Mrademakers@fac.fbk.eur.nl

Research on strategic developments in the potato sector

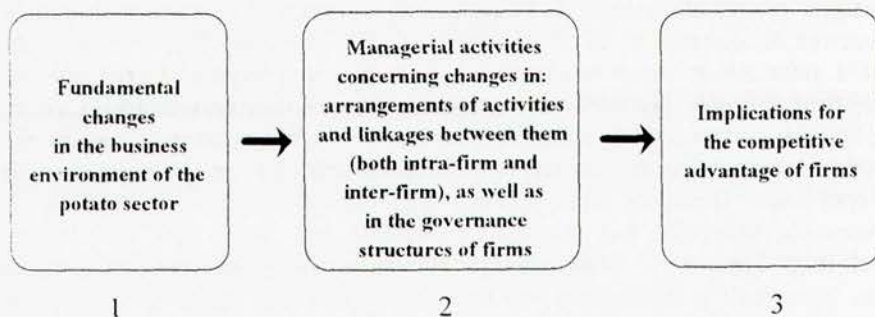
The Dutch potato sector is strongly internationally oriented, and has a leading position in the European Union (EU) as well as in world markets. Furthermore, the Dutch potato processing industry is by far the biggest in the EU. The position of the Dutch potato sector is seriously threatened by increasing international competition as well as by changes in the Common Agricultural Policy (Kearney[1]). Given these changes in the business environment, especially the increasing market influence of demand side actors (e.g. retailer organizations, wholesalers), firms in the Dutch potato sector are facing strategic reorientation and a re-evaluation of their governance structures (Leeuwen & Veerman et al. [2], Groot et al.[3]). Departing from the principle that a relationship exists between arrangements of activities, intra-firm and inter-firm linkages, as well as managerial action (Van den Bosch[4], Porter[5]), the situation as was described above can be regarded as a managerial problem which is particularly relevant for the boards of the producer-controlled co-operatives. However, until recently the focus of studies in the field of governance structures was directed to problems and phenomena at industry-level (e.g. Lamont[6], Miniataite[7]). Research concerning managerial reactions to increasing dependency and uncertainty regarding the business environment is more commonly performed in manufacturing and services industries (e.g. De Man[8], Rademakers & Van Valkengoed[9]). This is also true with respect to investigating issues on vertical and horizontal integration, as well as organizational alternatives for the governance of intra- and inter-firm activities (Grandori & Soda[10], Porter[5], Whitley[11]). Using the findings of research on manufacturing and services industries, and applying as well as testing these to the potato sector, can add to our body of knowledge. An example of this is

the work of Lamont [6], who has performed a comparative analysis on the Dutch and Irish seed potato industry. This study concerned the improvement of agricultural marketing performance by both horizontal and vertical integration of activities by firms as well as industry-specific institutions. The Dutch producer-controlled marketing co-operatives as well as the organizations which are not constituted as such, but nevertheless do function on the co-operative principles of horizontal and vertical integration, appeared to have a competitive advantage (in international competition) over the less integrated firms in the Northern Ireland seed potato industry. As the perspective of Lamont's [6] study was on industry-level, managerial perspectives on vertical and horizontal integration as well as governance structures remained underexposed. Further developments in this field are considered to be desirable. The actual ERASM-study on the Dutch potato sector in its international context, deals with this need by examining the earlier mentioned developments in governance structures from a managerial perspective.

Problem field

In agribusiness, and particularly in the potato sector, the management of firms is deliberately changing corporate boundaries via both vertical and horizontal integration. These changes are taking place within a context of important developments in agribusiness, as already mentioned.

As is shown in the figure below, we wish to assert that fundamental changes in the business environment (1), prompt corporate management to change the boundaries as well as the governance structures of their firms (2), and the question that can then be asked is what the implications are for the competitive advantage of the firms in their international context (3).



Focus of the research

The focus of the research is directed to a comparative analysis at firm level of managerial aspects in the field of governance structures within the Dutch/European potato sector. The appearance of different governance structures, like co-operatives and investor-owned firms (Lamont[6], Lerman et al.[12]), needs to be taken into consideration. Here, it is assumed that organizational differences (i.e. specific intra- and inter-organizational structures) are of importance for differences in firm performance (see De Man[8] for a literature review on this subject). The research project will include an internationally comparative component: comparisons will be made with two important players on the potato market, who are challenging the Dutch position internationally: Belgium and France. Finally, the influence of different forms of governance structures on the competitive advantage (Porter[5]) of the firms will be assessed.

The research approach

A literature survey of managerial aspects of vertical and horizontal integration is being conducted. An analytical framework is proposed and key propositions at firm level are to be formulated as well as further tested by means of a pilot study. In a following stage, the diversity in governance structures (i.e. managerial processes, activities and linkages between these activities, intra-firm and inter-firm organizational structures) in the Dutch potato sector will be studied, followed by three longitudinal case studies of firms in their changing business context. Then attention will be turned to firms in the Belgian and the French potato sector, by conducting a case study in each of these two countries. Finally, the results of the research in the three countries will be used for an internationally comparative analysis.

Suggestions are invited

With regard to the analytic framework of this study, suggestions or hints for further development are invited. For example: cases, related research projects, theoretical constructions concerning managerial and organizational questions, recent literature on this subject and striking examples of good practice in corporate governance.

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