ENTERPRISE ORGANIZATION AND CAPITAL REQUIREMENTS IN HUNGARY

Horvath J.*, Bodnar K.

Institute of Economy and Rural Development, University of Szeged Faculty of Agriculture, Andrassy str. 15, Hodmezovasarhely, Hungary
*Corresponding author: horvath@mgk.u-szeged.hu

ABSTRACT

This study focuses on enterprise organization and capital requirement of two basically different animal enterprises, namely dairy cow and rabbit enterprises. Dairy cow enterprise plays an important role in the national agriculture in Hungary, while rabbit enterprise has a tiny significance, but at the same time it has dominantly good export possibilities. It was supposed that investigation of enterprise organization of traditional dairy cow sector ensures to draw some relevant conclusion for rabbit enterprise. Agricultural resources altogether affect on farming and their roles in income-generating process is also equally important. According to our analysis, the capital structure of the examined enterprises has some differences. Fodder production area of dairy cow enterprise has greater importance than that of rabbit enterprise. Rabbit enterprise may be based on even exclusively purchased fodder. However, four of the investigated dairy farms do not have any fodder production area. The situation of these farms is the most critical from this aspect. Livestock and fodder require more than half of the capital in the dairy sector, while it is lower than ten percent in the rabbit sector. Marketing of livestock can be one of the solutions for solvency problems in both enterprises in order to have possibilities for paying short term loans from the sales. At the same time rabbits can be sold more easily than cows. The structure of rabbit enterprise has significantly changed recently caused by the reducing number of small-scale farms. The consequences of liquidity of enterprises differ from an important economic aspect. Non-marketable and unused assets have some fixed costs even if they are not utilized, so profitability declines further. In order to increase the capital effectiveness, one of the possibilities is to create producers groups. Common technical investments, which are sponsored by the national government and European Union, may reduce depreciation costs. On the basis of our calculations, same capital supply results more than twice effectiveness in the rabbit enterprise than in the dairy one.

Key words: Capital structure, Fodder production area, Solvency, Profitability.

INTRODUCTION

In this study it were compared two very different animal husbandry enterprises from the point of view of capital requirement. It was chosen the dairy cow enterprise being the heavy industry of animal husbandry and the rabbit enterprise, which has less national economy significance, but at the same time has a relevant role in producing for export. According to Pfau (2000) resources have a joint effect during the successfully realization of enterprise processes, and their role in income generating process is equally important. The only difference is that which of the available resources constraints the further expansion of the production, that is which resource is the bottleneck of the production.

MATERIALS AND METHODS

In order to compare dairy cow farms and rabbit farms it were gathered various kind of data regarding to enterprise organization and capital requirement. Different size of farms in both enterprises were

examined. 71 dairy cow farms and 3 rabbit farms have been investigated. The reason of the relatively small ratio of rabbit farms is that there are only 40 farms keeping more than 200 mothers in Hungary.

RESULTS AND DISCUSSION

On the basis of our calculations, the asset structure of dairy cow farms is the followings: livestock: 33%; buildings: 30%; technical equipment, machinery: 21%;fodder: 16%. According to Gal (2005) in order to solve some crucial environmental problems it is highly wished to make use of capital, the government supports, and the preferential developmental and rehabilitation sources. Consequently, the ratio of technical equipment and machinery in the structure of capital should be increased.

Fodder production area has an outstanding significance during the organization of dairy farms. In the average of the 71 farms examined by us, where the number of cows reaches the 20 animals, the fodder area is 2.52 hectares per cow. There are four farms which have no fodder production area. This relates to near 6% of the cows. These farms have the most critical conditions with respect to the supplement of fodder production area. There is less than one hectare for one quarter of the cows, while 36% of cows connecting to 17 large-scale farms, have the near average (1-2.52 hectares per cow) fodder production area. Even Table 1 shows that farms provided by fodder production area on the best level are from the medium-sized and small-sized categories of farms. These farms have a ratio of 40% of the farms, at the same time they do not cover even one-third of the cows.

Table 1*:* Fodder production area supply of examined farms

Per Cow Fodder Production Area (hectare/cow),	Number of Farms	Distribution (%)	Number of Cows	Distribution (%)
0	4	5.6	1385	5.9
0-0.99	21	29.6	6070	25.6
1-2.52	17	23.9	8535	36.0
>2.52	29	40.9	7690	32.5

Source: own research

Livestock and fodder covers a significant amount of money, they exceed half of the total invented capital. In our opinion, selling of livestock may make the opportunity for solving solvency of farms having financial difficulties. The revenue from livestock selling may cover the labour cost and appurtenances as well as short-term current asset loans. According to our examinations, decreasing the dairy cow stock by one livestock unit covered about a one-year-labour in the middle of the 90's.

The favourable heifer prices inspired farmers for selling. In the years of 1995-96, when the decrease of the cow stock was significant, farmers earned 80 thousand HUF by selling a cow in calf heifer both in domestic and foreign markets. This had a special importance under such a difficult condition, because it meant immediate liquid resource for farmers. It comes from the previous facts that different economic organizations inseminated female stock often neglecting their breeding values and then exported them. According to Széles (2001), this caused the following unfavourable economic consequences:

- supplementary of the rejected cows failed, thus the output decreased and fell back (milk and calf);
- the superannuated cows matured for rejecting were further kept in production, which resulted in yield decrease and efficiency decline".

An extreme case of decreasing the livestock is to cease the enterprise. This time it should be considered that only a part of the operating capital (livestock and fodder) is withdrawn from the production process, while the other part (pasture, buildings, machineries) remains unused. Thus the depreciation cost of fixed assets having reminiscence value burdens other enterprises, in this way profitability declines further.

In case of animal husbandry farms, the ratio of buildings of the resources of the farms may be determent. Buildings because of their one-sided use limit the structure of the production. Thus,

ventures endeavour to establish and buildings of low cost, which are used for multi-purposes and deteriorate sooner (Pfau, 1988).

In order to increase the capital effectiveness, one of the possibilities is to create producers' groups, which is supported even by the government. The realized machinery investments from state subsidies after approving of producers' groups especially in case of fodder production and technologies of milking and cooling may result in the improvement of milk quality, thus the realization of higher revenue. Common technical investments and common purchase of materials and assets used during production may reduce depreciation costs. On the other hand, to Németh's (2003) mind, smaller-sized farmers to whom the government provided an outstanding developing opportunity by pooling into a milk-cooperation for the sake of quality insurance used this solution to a less degree than they could have used it.

The structure of rabbit production has been reflecting a continuous change. The role of small-scale farmers significantly decreased during the past years. Previously, 70% of the marketed rabbit came from small-scale farmers, while its 30% from enterprise-sized farms. By the year 2001, this ratio showed 50-50%, and by 2003 the large-scale farms (having 200 rabbits or more) gave the 80% of the production (Kling, 2004). The keeping method of small-scale farmers being often fanciful is characterized by using buildings utilized for other purposes before and used or own-made coops. Besides mixed fodder, grains and forage are fed, though the ratio of the purchased fodder takes up of 89% (Kalmár, 2001). In this way, the assets and capital requirement of small-scale farmers show a very heterogeneous condition.

Three different sized farms (having mother of 600, 1200 and 4000) of the enterprise-sized farms were investigated. The buildings of the farms were built for rabbit keeping purposes. Cooling panels were built in to climate against summer heat. The animals are kept in welded coops, and only purchased pet food is used. The investment cost per mother approximated the 100 thousand HUF in the two small farms, while it was only 45 thousand HUF in the largest farm. All of the farms use species and hybrids qualified by the Central Agricultural Office Animal Breeding Directorate, thus when purchasing breeding animals, the farms could called for the subsidy for installing breeding young rabbits. The examined farms do not have any fodder production area for rabbit production purposes.

According to our investigations, the structure of assets in enterprises breeding rabbits is the following (Table 2):

Table 2: Composition of assets of examined farms

	Farm		
	600 rabbits	1200 rabbits	4000 rabbits
Livestock (%)	2	3	4
Buildings (%)	78	69	53
Technical equipment (%)	20	28	43

The cost of livestock and coops vary in a linear way with the space number, while the cost of buildings does not reflect the increase of farm size. The net profit per rabbit is 1361 HUF on the farm of 1200 rabbits, which is 1633 thousand HUF for the whole farm. If it is projected to the investment cost of the farm, which was 86400 thousand HUF, the profit to asset ratio is 1.89%.

The same capital need (86400 thousand HUF) supposing average conditions make the establishment of a farm keeping 58 dairy cows possible. Regarding national data, 2 HUF net profit may be realized by producing one liter milk in different sized and types dairy farms. On the basis of an average milk production of 6000 liters, in case of the 58 cows 696 thousand HUF may be realized, which equals with a profit to asset ratio of 0.80%.

CONCLUSIONS

Besides the capital efficiency of the two examined enterprises, the differences in the economic consequences of ceasing the enterprises should also be considered. In case of dairy farms, the possibility to draw off capital is rather limited because of the long generation interval. The opportunity of alternative utilization is not solved in case of the majority of the assets. In the rabbit enterprise, due to the boom cycles, there is a chance to temporarily cease the production even without remaining relevant fixed costs. The reason is that animals of short generation interval may be marketed easily, buildings constituting the biggest part of the capital requirement may be vacated and may be used for other purposes, or may be leased for a while.

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