

THEORETICAL BACKGROUND OF FINANCIAL MANAGEMENT IN THE CONTEXT OF CAP SUBSIDIES IN V4 COUNTRIES

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Abstract: The issue of efficiency in Slovak Republic as well as in other countries of the Visegrad Four was opened in the period of transformation of their economies and preparations for their accession to the European Union. The accession of these countries to EU changed the whole system of the former agricultural support. The V4 countries have undergone by dramatic development that significantly affected the structure of their economy, including agriculture. Therefore, the financial management creates an important part of the overall management of enterprises in the agricultural sector. The aim of this paper is to compare the volume of subsidies in the V4 countries on average per farm with a detailed analysis of their structure.

Key words: financial management, subsidies, agriculture, Common Agricultural Policy, V4 countries

Introduction

Globalization as a megatrend affects all human activities and does not avoid such sectors as agriculture, food production, rural development and infrastructure. In recent years, the development of agriculture not only in Slovakia has been characterized by a permanent lack of financial resources, insolvency, a low degree of recovery and the slow pace of structural changes in physical and human capital. The implementation of tools of Common Agricultural Policy (CAP) should be involved in the creation of the financial stability of the entrepreneurs working the soil, mitigation their financial risk through the multiplier effect and should contribute to the use of natural potential of the country and creation of added value, efficient flow of money and jobs in rural areas (Serenčéš et al., 2011). During EU development, the countries achieved remarkable results in all sectors of the national economy, similarly also in the agricultural sector. They became a real superpower in this sector, due to the fact that the agricultural sector has an extremely important role from the start of the integration process (Jurášek 2006; Fojtíková and Lebiezík, 2008).

The financial management represents an important part of the overall management of business entities in all sectors of the economy, the agricultural sector not excluding. Its mission is to comprehensively plan and operatively maintain the financial balance, provide the capital necessary to develop the business and avoid the creation of insolvency and liquidity problems (Grznár and Foltínová, 2009).

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Pandey (2009) defines the financial management as a managerial activity that is engaged in the planning and management of corporate financial resources. Until 1980, the financial management represented only part of the economy, but at the time of the recent years with respect to its development already the financial management represents a separate discipline. Shim and Siegel (2008) define the financial management as the process of planning the decisions to maximize the wealth of the owner.

The subject of financial management is in huge interest of scientific and practical sphere. In the interest of the scientific community is because the subject is constantly evolving and on the other hand there are certain areas that are controversial and where unanimous solutions have not yet been found. The managers from practice are also interested in this topic because most fundamental decisions of the company are those relating to the financing and just the understanding of theory of financial management provides them the conceptual and analytical framework for the correct and skillful decisions (Pandey, 2009).

By Šimčák (1998) is management in agriculture more demanding compared with other sectors because it must respect the peculiarities of the reproductive process and the economy of this sector, where is a mix of biological, technical, technological, economic and social factors. Managers in agriculture must respect the following specifications: active influence of natural factors, seasonality of production, finite nature of land, cross-sector conditionality and coherence, the loss of workforce, and limited range of products - crops and animals as well as the share of household expenditure on food.

Grznár and Foltínová (2009) argue that the financial management in agrarian enterprises is affected by the range of specificities that are not in other sectors of the economy. These include e.g. the necessity of longer backup of resources for crop production in the coming year, the long production cycle in certain sectors of animal production, the need to finance the storage of their products, but also delayed payments for realized production from processors or difficult access to credit from commercial banks etc.

The agricultural sector of the European Union is heavily subsidized. The European Union annually spends about 50 billion for the Common Agricultural Policy with the main objective to support farmers' incomes and improve the impact of farming on the environment. The Common Agricultural Policy belongs to the basic political issue of European countries and the unquestionable beginning of European integration. At the end of the last century, it has become in many countries a symbol of inefficiency, especially for its funding conditions. Its principle is based on subsidy payments to farmers in the various member states, which give them a guarantee of minimum prices and protect them against competitive pressure from abroad. It is subjected to severe criticism because it helps build "European fortress" and thereby CAP promotes excessive prices of agricultural products (Rizov et al., 2013; Kašťáková, 2012).

According to Vavřina and Martinovičová (2014), the agrarian sector can be marked as the biggest recipient of subsidies from EU public budgets in order to encourage sustainable development of agricultural businesses. Despite the fact of the amount of disbursed agricultural subsidies it is inevitable for agricultural enterprises to sustainably manage their economic performance, because the public subsidies cannot per se guarantee them the sustainable economic viability.

The main part of CAP subsidies is paid in the form of direct payments; it is Single Payment Scheme (SPS). Other types of subsidies are coupled payments on crops or livestock activities and rural development payments (Rizov et al., 2013). The above mentioned subsidy policy of providing the agricultural subsidies to individual member countries constitutes an important and often discussed form of support. In this case, we can speak about public finance management. According to McKinney (2004), the public finance management represents the process in which government institutions or agencies:

- a) use the means to acquire and allocate resources on the basis of implied or disaggregated priorities;
- b) use the methods and controls to effectively achieve public sector objectives.

The emphasis is placed on two important elements: effective increase of resources as well as wise and responsible use of financial resources to achieve the final product in the highest possible quality. Bergmann (2009) argues that public financial management represents set of activities in order to analyze, structure, set the objectives and implement the measures in the field of finance, in the event that the subject is controlled by the government or international organization. The performance of the Common Agricultural Policy as one of the EU's common policies is ensured by public sector through public administration (Tej, 2002).

According to Lukomska-Szarek and Wlóká (2013), the functioning each unit in both government and local government level demands continuous changes, which can improve their process management. Their priority should be deliver basic services to society, but nowadays in time of the globalization, many traditional strategies of management are ineffective. The contemporary approach to public management in the majority European Union countries treats resignation from traditional bureaucracy administrative for modern public management. The V4 countries (Czech Republic, Hungary, Poland and Slovakia) represent a particular grouping of countries located in the center of Europe. These countries have very intense historical, economic and political relations. In recent years, they have undergone by dramatic development that significantly affected the structure of their economy, including agriculture and trade in agricultural products (Svatoš and Smutka, 2014). The issue of efficiency in Slovak Republic as well as in other countries of the Visegrad Four was opened in the period of transformation of their economies and preparations for their accession to the European Union. The accession of these countries to EU changed the whole system of the former agricultural support, not only support tools but also their administration. With the accession of these countries to the European Union, there the benefits associated

with the liberalization of mutual trade exchange and the establishment of support systems provided by the Common Agricultural Policy started to apply. The new member states have tried and still try to get on stable positions in the agri-food markets of the EU, resulting in increased competitive pressure (Matošková, 2007; Bujňáková, 2010; Qineti et al., 2009; Huttmanová et al., 2013).

Materials and Methods

The aim of this paper is to compare the volume of subsidies in the V4 countries on average per farm with a detailed analysis of their structure.

In the analysis we compared these countries: the Czech Republic (CZ), Hungary (HU), Poland (PL) and Slovakia (SK). The analysis was performed for the time period from 2004 to 2012. We deliberately chose the year 2004, because it is the year of accession of these countries to the European Union. The year 2012 is the last year in terms of published data. The data for the analysis were obtained from the database FADN (The Farm Accountancy Data Network), which can be considered as an important source of information for the management of farms. FADN database represents a harmonized and common methodology for monitoring and comparing the situation in the agricultural sector in individual EU member states. It represents a selective and representative set of farms.

In this paper we have used the following logical scientific methods: analysis, synthesis, graphical methods and descriptive statistics.

Results and Discussion

The agricultural products fulfil one of the primary human necessities – food. From this perspective, the agriculture cannot be considered as a competitor neither can it be replaced by other industrial branch (Vasile and Grabara, 2014).

According to Milovic (2012) the agricultural businesses are facing the question of how to increase sales. Competitive environment in which agricultural organizations are operating, forces them to lower the prices of their products or add new services to retain their customers.

The subsidies have become a key element (not only in the agricultural sector) of the pre-accession agenda of the 10 new member states which joined to the European Union in 2004. The agricultural subsidies are an important aspect of the Common Agricultural Policy. When comparing the countries, huge differences can be observed. The inequality of conditions between old and new member states in the field of agricultural policy is abysmal. The new member states also include the Visegrad countries for which we have made the comparison.

The following Figure 1 shows the volume of total subsidies granted in individual V4 countries. In the light of the relevant comparison it is shown as the average per farm. Most subsidies on average per farm were provided to Slovak farms. In the second place is the Czech Republic, followed by Hungary and Poland. As regards the development of subsidies granted, we can see clearly upward trend in the Czech

Republic, Hungary and Poland. In Slovakia, we can see an increasing trend of subsidies granted until 2008. From 2008, there is recorded stagnation and later slight decrease.

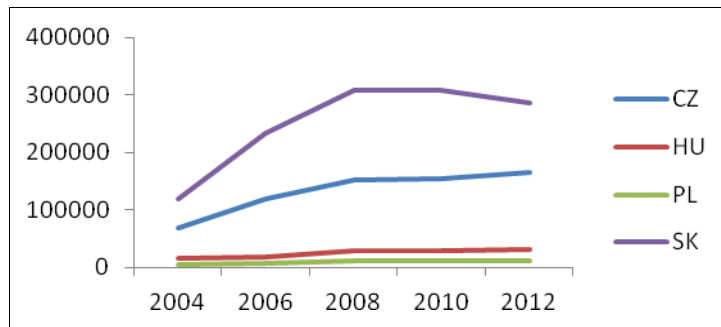


Figure 1. Total subsidies in V4 countries from 2004 to 2012 (average per farm in Eur)
(own processing by FADN data)

In the Figure 2, we can see the development of the volume of subsidies on crop production according to average per farm. The largest volume of subsidies on crop production was provided to Slovak farms, but only until 2010. Since 2010, there have been provided any subsidies on crop production to Slovak farms. In the second place is the Czech Republic, followed by Hungary and Poland. The breakthrough period in all monitored countries is the period from 2008 to 2010. There is recorded a rapid decrease in subsidies granted on crop production.

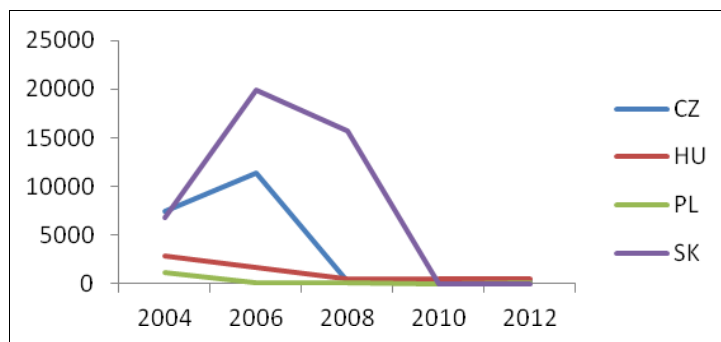


Figure 2. Subsidies on crops in V4 countries from 2004 to 2012 (average per farm in Eur)
(own processing by FADN data)

In Figure 3 is shown the development of the volume of subsidies on livestock production on average per farm. The largest volume of subsidies on livestock production was provided to Slovak farms with a significant increase in 2008.

In second place is the Czech Republic. Hungary and Poland achieved very low value of the volume of subsidies in this category during the whole monitored period.



Figure 3. Subsidies on livestock in V4 countries from 2004 to 2012 (average per farm in Eur) (own processing by FADN data)

The Figure 4 shows the development of the volume of subsidies for rural development on average per farm. The situation and the ranking of countries is the same as at the previous groups of subsidies granted. The largest volume of subsidies for rural development was provided to Slovak and Czech farms. On the other hand, Hungary and Poland achieved a very low value of the subsidies granted in this category throughout the whole monitored period.

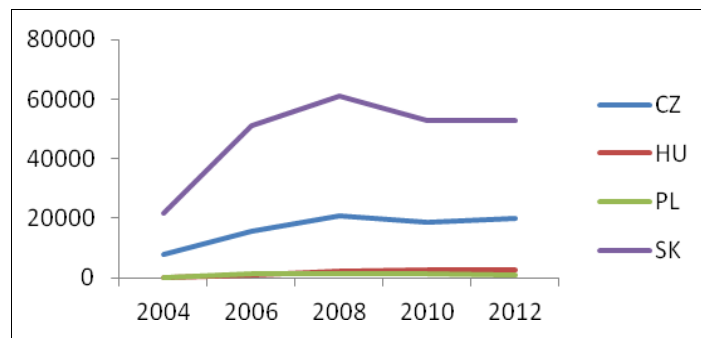


Figure 4. Support for rural development in V4 countries from 2004 to 2012 (average per farm in Eur) (own processing by FADN data)

Figure 5 shows the development of the volume of decoupled payments in the V4 countries. Most of the subsidies within this category on average per farm were provided to Slovak farms. In the second place is the Czech Republic, followed by Hungary and Poland. As regards the development of subsidies granted, from the results can be seen clearly upward trend in Slovakia and the Czech Republic. In Hungary and Poland was recorded stagnation respectively only modest growth.

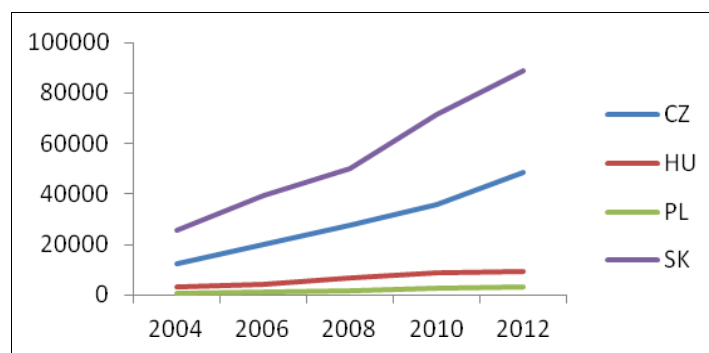


Figure 5. Decoupled payments in V4 countries from 2004 to 2012 (average per farm in Eur) (own processing by FADN data)

In the Table 1, we can see the results of descriptive statistics in the case of the total amount of subsidies granted on average per farm in all monitored countries.

Table 1. Descriptive statistics

	CZ	HU	PL	SK
Mean	132 148.3	25 694.67	8 887.778	266 231.6
Standard Error	11 527.59	2107.384	987.9971	23 378.76
Median	151 444	25 497	10 327	287 077
Standard Deviation	34 582.78	6 322.153	2 963.991	70 136.27
Sample Variance	1.2E+09	39 969 620	8 785 245	4,92E+09
Kurtosis	-0.40338	-0.81828	-0.98962	1.370196
Skewness	-0.90679	-0.01136	-0.75358	-1.32018
Range	97 225	19 465	7 762	219 819
Minimum	68 963	16 386	4 070	118 552
Maximum	166 188	35 851	11 832	338 371
Sum	1 189 335	231 252	79 990	2 396 084
Count	9	9	9	9

During the monitored period, Czech farms achieved a median of 151,444 euros, Hungarian 25,497 euros, Polish 10,327 euros and Slovak farms achieved a median of 287,077 euros. Within the observed period, the biggest difference in the amount of subsidies granted was recorded in Slovak farms, followed by Czech farms. The smallest difference in the amount of subsidies granted was achieved by the farms in Poland. The largest standard deviation was recorded in the case of Slovak farms, the smallest in the case of Hungarian farms.

Summary

The agricultural subsidies have attracted more and more attention. The above-mentioned agricultural sector has been subjected to major governmental interventions throughout the world, and almost all governments make great efforts to support agriculture (Chen et al., 2015; Anderson et al., 2013). FADN data allow us to examine the importance of support payments to farmers in each member state. The analysis showed that most subsidies (on average per farm) were received by Slovak farms, followed by Czech companies. On the third and fourth positions were placed Hungarian and Polish companies. Almost identical situation was also in more detailed analysis by type of subsidies granted. The status of the overall development of these payments and thus the primacy of Slovakia and the Czech Republic in subsidies received on average per farm may be significantly affected by the fact that in these countries is a smaller number of large corporate enterprises. On the other hand, the agricultural sector in Hungary and Poland is represented by a larger number of smaller farms. In the analysis, we pointed out to receipt of subsidies granted by the variable „average per farm“. The authors are aware of the fact that the results can be different, in case of the analysis according to other criteria (average per hectare of agriculture land, etc.). Therefore, these analyzes will be part of the further research.

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TEORETYCZNE PODŁOŻE ZARZĄDZANIA FINANSAMI W KONTEKŚCIE DOTACJI W RAMACH WPR W PAŃSTWACH V4

Streszczenie: Kwestia wydajności w Republice Słowacji, jak również w innych krajach Grupy Wyszehradzkiej została otwarta w okresie transformacji ich gospodarek i przygotowania do akcesji do Unii Europejskiej. Przystąpienie tych krajów do UE zmieniło cały system dotychczasowego wsparcia dla rolnictwa. Kraje V4 przeszły radykalny rozwój, który znacząco wpłynął na strukturę ich gospodarki, w tym rolnictwa.

Dlatego też zarządzanie finansami tworzy istotną część ogólnego zarządzania przedsiębiorstwami w sektorze rolnym. Celem niniejszego artykułu jest porównanie wielkości dotacji w krajach V4 średnio na gospodarstwo ze szczegółową analizą ich struktury.

Słowa kluczowe: zarządzanie finansami, dotacje, rolnictwo, Wspólna Polityka Rolna, kraje V4

財務管理的CAP補貼，V4國家，背景理論背景

摘要：在維謝格拉德四國其他國家斯洛伐克共和國效率，以及這個問題在其經濟和製劑的轉型期，其加入歐盟開了。這些國家對歐盟的加入改變了以前的農業支持的整個系統。V4的國家通過戲劇性的發展是顯著影響了他們的經濟結構，包括農業發生了。因此，財務管理創造企業的全面管理，在農業部門的重要組成部分。本文的目的是在V4國家的人均農業補貼的數量與結構的詳細分析比較。

關鍵詞：財務管理，補貼，農業，共同農業政策，V4國家