

MANAGEMENT OF THE STUD FARM OF MEZŐHEGYES AFTER THE CHANGE OF REGIME

A MEZŐHEGYESI MÉNESBIRTOK GAZDÁLKODÁSA A RENDSZERVÁLTÁS UTÁN

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Abstract: *In the examined period the Stud Farm of Mezőhegyes was often in critical situation because of unfavourable weather or economic conditions. They found that the best and final way to avoid the crisis was the privatisation which was then accomplished.* **Abstract:** *A Mezőhegyesi Ménesbirtok a kedvezőtlen időjárási, valamint gazdasági viszonyok miatt a vizsgált időszakban gyakran került válsághelyzetbe. A végleges megoldást a válságból való kilábalásra a privatizációban látták, melyet meg is valósítottak.*

Keywords: *Stud Farm, business plan, financial commands, liquidity, privatisation*
Kulcsszavak: *Ménesbirtok, üzleti terv, pénzügyi rendezés, likviditás, privatizáció.*

INTRODUCTION

Mezőhegyes has good conditions from the point of view of the agricultural production. Its area is characterized with the different kinds of chernozem soil. The meadow chernozem and the lowland chernozem with lime content provide excellent basis for the field growing of plants. Mezőhegyesi Ménesbirtok Zrt. (Stud Farm of Mezőhegyes) plays an important role both in the lives of Mezőhegyes and the neighbouring settlements.

Even Mezőhegyes did not manage to avoid the socialist agricultural large-scale farming. In the 70s, with the addition of the state farms of Dombegyháza and Bánkút, it worked as an agricultural combine and as a typical socialist large-scale farm. Its area was then 19.752 ha, 16.883 ha of which was arable land. The aim of this study is to examine the economic situation of the Stud Farm of Mezőhegyes after the political transformation.

MATERIAL AND METHODS

The business plans and accounts provided by the Stud Farm served as primary sources to carry out this study. Besides, I used statistical data from KSH, as well. The Central Statistical Office (KSH) assured the availability of data about the corporations with agricultural activity only for the year 2000.

RESULTS AND DISCUSSION

On 1 January 1991 the Sugar Factory separated from the combine, so on 31 December 1992 the Stud Farm transformed into a joint stock company with majority state property. The production volume of the combine far exceeded the financial possibilities, profite production gradually decreased, increase of the business funds terminated, it became insolvent because of the frequent credits, and its liquidity worsened. As a result, it reached the highest measure of loss in this period (in 1991 519 million HUF, in 1992 607 million HUF). The business found itself in a very critical situation. The total debt was 2.1 thousand million HUF, it contained 1.5 thousand million HUF as a bank debt, 0.4 thousand million HUF as a debt for contractors, the amount of other debts (taxes, social insurance, customs duties) was 0.2 thousand million HUF.

The total debt exceeded the value of business funds, it was an unbearable burden to redeem the interests. Consequently, it was inevitable to declare bankruptcy in 1992. The bankruptcy proceedings were finished with success, so with use of internal reserves and strict cost management debts for contractors were settled within some months.

Then, the new management drew up the strategic and development plan in which it was clearly formulated that the conditions for production were good in Mezőhegyes, but the farm were not able to settle the inherited debts from its own resources. The liquidity problems were worsened by the fact that two extremely dry years followed each other, after which the farm had to face the most tragic question in its history, namely whether it would be able to cope with the difficulties with a state help or liquidation would be inevitable. Finally, the help arrived. Its supporters were the following organizations: Ministry of Finance, Ministry of Agriculture and the State Property Holding Corporation (Állami Vagyonkezelő Részvénytársaság).

It was followed by a certain transformation. The name of the company was again the original State Stud Farm of Mezőhegyes (Mezőhegyesi Állami Ménesbirtok), but from that time on it was considered as a joint stock company, in total state property. In that period the compensation was being carried out all over the country, so more and more state territory was going to private hands, the area of the Farm decreased significantly with more than 5.400 ha. The remained area was altogether 11.151 ha out of which the arable land was 8.864 ha.

It was both part and condition of the financial management that the State Property Holding Corporation was to increase the capital with 300 million HUF, on condition that it could be exclusively devoted to improve irrigation. This idea perfectly corresponded to the idea of experts in Mezőhegyes, according to which in an agricultural firm specialized on production of seed-grain irrigation has to be the vital condition of a stabile and profitable economy. Even Széchenyi in his time – besides river control – suggested the irrigation conception of the whole Hungarian Plain (BARANYAI K. 1974). As a result, production can be made partly independent on the weather. It is possible to reach safer and steadier production with a well-developed irrigation system (NAGY GY. 1972).

In 1994 - 1995 the investment of 465 million HUF was carried out in two stages, so almost the half of the arable lands (4.000 ha) became irrigable with the most modern irrigation system of that time (Bauer). After that it was possible to transform the sowing system of the field growing of plants, even to make it more profitable. That time the Holmer 6-lined, one-threaded, sugar beet harvesting machine was considered as unique equipment, which could harvest 935 ha of sugar beet in the first year.

By the end of 1994, within less than three years the Farm had got straight and it became profitable again. The profit was nearly 125 million HUF, it meant increase of 700 million HUF compared to the bedrock. From 1994 on the consolidated conditions for production were created in Mezőhegyes. The financial problems of the Farm were settled, they were rescheduled, and what is more it was possible to deposit a credit account from the annual financial surplus. According to the strategy of the management it had to be reserved, and it could be used only for the payment of the long term obligations.

In 1995 the net result of the company was 142 million HUF, while it was 209 million HUF in 1996. The profite production concentrated on three main branches: field growing of plants, seed-grain processing and cattle and horse breeding in the main branch of stock farming on 8.864 ha. Seed-grain production was the most important in the field cultures, since they grew seed-grains for autumn wheat on 1.000 ha, for maize on 1.600 ha, for helianthus on 433 ha, and for peas on 373 ha. Also, they grew sugar beet on 400 ha, sweet corn on 540 ha, popcorn on 330 ha, and the rest of the land ensured the fodder needs of stock farming. It attained yields which exceeded both the county and national average results in case of each field crops because of its

extremely good quality of soil on one hand, and because of the use of irrigation on the other hand. In 1995 the cattle branch of stock farming reported 1.600 cows and their total progeny with 8.000 litres of milk per cow in the cross-breed stock. Beside the sale of the annual 12 million litres of extra quality milk, breeding and fatted animals, and calves came onto the market. In this period it was the third most profitable branch of the Farm. Horse breeding, based on 100 breeding mares, involved trotting and sports horses and Nonius breed. From the point of view of efficiency this branch lived it's most critical period. The Farm stressed to show the used up-to-date technical and technological systems for the agriculture of the region and the country. It was the aim of the annual programmes and frequent farm visits where thousands of people took part.

The production structure had been narrowed by 1997, and the number of employees had lessened, too (670 people). However, their average income significantly improved, it multiplied by four. In 1996 the gross wage of an employee was 600.000 HUF per year, against the 153.000 HUF in 1991. The neat real income per employee more than doubled between 1991 and 1996. The Farm was financially liquid, it was able to cover the production expenses from its income. I am going to analyse the management of human resources in details later.

The irrigation-investment was realized, there was a large scale technological improvement which guaranteed the profitable management.

In 1999 higher average yields were realized in the field of production of hybrid maize and hybrid helianthus seeds. However, it was not a local speciality, it was so all over the country. It resulted in overproduction in certain species, stores exceeded the need. Business partners of the Stud Farm (Novartis and Monsanto) reacted with reduction of orders for the year 2000. It made a pact with a new purchaser, Limargrain.

The year 2002 brought extra difficulty for many agricultural firms because of the *drought. Changes in natural sphere affected on the economic sphere*. Beside the lack of results, they had to cope with serious financial problems, so a lot of them found themselves at the edge of bankruptcy. The general difficulties did not evade the Stud Farm, too, the damages caused by drought changed the plans about profits, liquidity and reduction of debts.

The farm was not able to accomplish either the result of 143. 4 million HUF or the neat return of 5373 million HUF allocated by the general assembly. Its profitability worsened, it managed to raise the profit only above the critical '0' point with the result of 13 million HUF.

The measure of the loss in results exceeded 130 million HUF. The significant income loss affected the financial situation of the company in its basis. During the year the liquidity problems became stable since incomes fell behind, what is more the situation was worsened by the investment of 1162 million HUF for which there were no sources. Consequently, financial obligations increased with 548.7 million HUF, and by the end of the year contractor debt of 512 million HUF had accumulated the payment deadline of which expired.

In the mirror of the consequences of the year 2002, plans for 2003 aimed at extremely important tasks. The company's management thought very important to manage with profit according to the strategic plan, to improve the financial situation, to settle the debts, to keep the average statistic number of employees in 708 persons and to ensure them the wage increase of 3.32% permitted by the general assembly as a minimum percentage. In addition, they regarded as an important aim to carry out the necessary investments and measures in the field of environmental protection, to reorganize the farm according to the MSZ EN ISO 9001:2000 quality assurance system and finally, to continue , in two units, the control of the critical point according to the HACCP standard. In case of a balanced economic proceeding and financial background the management plan calculated with one modification in the production structure: with delivery of the areas of Telekgerendás and Gyula for the National Land Found Management (Nemzeti Földalap Kezelő Szervezet). Supposing *acceptable average weather*

conditions they allocated a result of 119.207 thousand HUF – before taxes. The aim set, and the desired profit postulated the exploration of serious internal reserves, mainly in the field of cost management. The management committed themselves, to realize all the restrictive measures, which support the use of smaller expenses, moderate outlays, and the increase of efficiency.

However, this plan did not bring the expected results, since the loss of 624.951 thousands HUF in the balance of the year 2003 was considered as extraordinary. The main reason for it was that a dry year was followed by another dry one. And all these happened exactly when the company did not have appropriate reserves. The additional input was not refunded in the low income. All these generated, through the lack of returns, a big *loss, liquidity problems and increase in obligations*. The burdens of the previous year could not only decrease but they increased even more.

It was clear that the management and solution of the problem could not be settled within a year, and the decision to intervene, which primarily connected to the settlement of the financial situation, had to be made immediately.

The loss was affected by the following general heads:

- negative effects of the damages caused by the drought in the previous year (2002)
- the quantitative losses of the spring sowing-seed reserves, and increase in production cost
- the yield loss in 2003 caused by the spring and summer drought, the loss of return because of it, increase in production cost
- extra expenditure (irrigation) in several places
- the unexpected unfavourable effect of the milk market
- liquidity problems caused by the previous facts which characterized the whole year, permanently high level of loans outstanding – accounted and paid extra back interests caused by the increase of the rate of interests - higher than expected
- forbearance money accounted because of defaulting payment of the extremely high debts towards contractors
- effects of the unexpected exchange rate change in the financial market.

On 31 March 2004 the government, with its decision number 2070/2004, decided to privatize ten agricultural companies, among them was the „Mezőhegyesi Állami Ménesbirtok Rt”, too. Also it decided to keep the traditional horse-breeding of Mezőhegyes, its buildings and other implements in state property. Separation and transfer of the implements necessary for the horse-breeding activity was realized in this way:

- after the decision on 7 May 2004 they established Mezőhegyes Stud Horse-Breeding and Marketing Ltd (Mezőhegyesi Ménes Lótenyésztő és Értékesítő Kft.) with the capital of 3 million HUF,

- on 1 September 2004 the company's capital was increased with 355 million HUF by means of the mentioned implements and with 25 million HUF of cash, so in total it became 358 million HUF,

- at the same time, at the end of the year, the Stud Farm renounced the leasehold of 725 ha of arable land and of 440 ha of lawn, which were in state property, in favour of the Limited Company; and then the National Land Found Management concluded the leasehold contracts from 1 January 2005.

In connection with the privatisation of the Stud Farm, the above mentioned government decision provided that the company's privatisation involving increase of capital had to be realized in a one-round process, by open competition. The invitation of tenders was published in the national newspapers on 30 April 2004 containing the sale of a block of shares which represented 79.52% of the shares of the Stud Farm and the increase of capital with 830 million HUF – tackled in two steps.

According to the conditions of the invitation a buying out company was established with the capital of 90 million HUF by the employees, the management, the local farmers and the IKR Share Company so that more than 50% of the shares went into the property of the management and the employees. The name of the investing company: „Határ Haszon Üzletviteli Tanácsadó és Szolgáltató Részvénytársaság”.

Having the promise for a privatization credit from the Erste Bank Hungary Rt this investing company applied for the competition at ÁPV Rt which then was accepted. They concluded the contract of privatisation, then the purchase price and the first part of the capital increase was paid on 19 August 2004.

During the autumn of 2004 the ÁPV Rt elaborated the process to sell the remaining 15% block of shares on the basis of which the employees of Stud Farm (558 persons) could purchase the block at nominal value of 328.410 thousands HUF at about 50% reduction. It was financially realized on 26 November 2004 from a credit payed out by the Erste Bank. After that the property of the state ceased to exist in the company, so the general assembly cancelled the attribute „state” from the name of the firm.

After the complete privatisation a proprietary circle was shaped according to which 85.5% of the shares of the Stud Farm made up the propriety of Határhaszon Rt, 13% belong to the employees partly as shares of the employees, partly as a common stock, while 1.5% is the share of the Stud Farm.

The business plan for the year 2005 aimed to reach the result of 383 million HUF before taxes. This amount was a unique aim in the company’s history, since it had never reached a result of this kind. Although it realized „only” the profit of 303 million HUF, it was a real result.

The central question of the management of the Stud Farm in 2005 was the formation the sources of debt settlement connected to privatisation. This task was especially important because it had to be accomplished in a period when the adjustment to problems caused by the accession to the EU significantly burdened the company’s management, its business policy and its financial situation.

In 2006 the company had a profitable economic year again which was promoted by the production of hybrid maize.

CONCLUSIONS

In the examined period the Stud Farm of Mezőhegyes was often in critical situation because of unfavourable weather or economic conditions. They found that the best and final way to avoid the crisis was the privatisation which was then accomplished.

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