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AGRICULTURAL ECONOMICS AS AN AID
IN MANAGEMENT DECISION MAKING

by

Dr. Carroll G. Brunthaver
Cook Industries, Inc.

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AGRICULTURAL ECONOMICS AS AN AID
IN MANAGEMENT DECISION MAKING

The subject of this paper is the contribution of the agricultural economics profession to the management decision process in agri-business firms. It covers the importance of agricultural economics training in management, as well as the importance of agricultural economic research including in-house and university programs. My frame of reference is experience with an international marketing firm dealing with processing, domestic distribution, and exports. My bias should be understood--not, that I am a complete captive of my environment, but I am looking at this primarily from the point of view of a firm with a strong applied research staff. Consequently, the need for applied research conducted at the university is less evident to me, than if I were in a firm without such capability.

The importance of agricultural economics training to the decision maker should be evident. The primary function of an agri-business marketing firm is the allocation of food and fiber from the time of harvest throughout the insuing year or even years, and it seems imperative that the decision makers in such firms be trained in the basic concepts of of economics.

The marketing decisions, especially in food, must cope increasingly with a more sensitive worldwide production and

demand function. Insulative stocks that can forgive bad marketing decisions no longer exist and marketing decisions must call upon the best theory, information, and analysis possible.

The prospects for economic recovery in various countries around the world, the prospects for inflation, and the translation of this in purchasing power, and effective demand for basic agricultural raw materials can be best understood by those trained in the rigors of economic principles.

The amount of training and where and how the individual receives his training is not nearly as important, as the type and quality of training the individual receives. The type referring to basic principles versus applied "how to" courses. The quality of training refers to the capabilities of the instructor and the priorities placed on teaching by the colleges. Training is most useful when the individual is introduced to basic concepts that broaden his learning horizons. Marketing courses that stray too far from basic principles do not, in my opinion, contribute as much to the education of people we think will be successful in our firm, as courses which concentrate on basic tools that can be applied to endless types of situations.

The successful economists in agri-business today must have a firm understanding of economic principles, be able to relate those principles to the day-to-day problems, and be able to think, reason, debate, communicate, and work in harmony with those around him.

This training can best be done by specialists in the art and science of teaching who are attracted, rewarded, and held in the teaching profession, and not by research assistants or teaching assistants or high-powered researchers who are obligated to carry a certain teaching load.

The greatest contribution of the agricultural economics departments in the U.S. today, by all odds, has been and continues to be education and development of the scientific and managerial talent that has subsequently contributed to the strength of the U.S. economy. This may or may not be fully understood by our colleges or the legislation supporting college funds today. The popular slogan, "publish or perish", is an indication that it may not be as well understood as it should be.

Importance of In-House Economic Research

The contribution of in-house research depends on the attitude of management. Is management receptive to research results? Is management willing to support, encourage, lead, suggest, and use the research? If not, I would not suggest a large in-house research budget, because it will not thrive and the results will probably be very expensive and not very useful.

Given the proper environment for research within the firm, there are some problems so critical to the success of the firm, that management needs their own researchers to con-

stantly live with, develop, improve, recognize the limits of current analysis and, in general, give that problem undivided attention. Such attention and capability can pay returns far greater than may be apparent. In addition, some research efforts or problems require full-time attention; and it may be more efficient for the firm to do its own analysis.

There is often an interchange between researcher and operating personnel that is possible only with in-house research. Such interchange, not only increases the value of the research, but also assures that the results are received, understood, and used. When our researchers work with merchants in defining the storage surplus or shortage by areas, it becomes the merchant's work, as well as the researcher's, and the operating people are more likely to understand and use the material. There are few secrets in agri-business these days, but there are a few which need to be protected by in-house economists.

Retention of good researchers is essential. The most valuable asset a marketing firm can possess is good research talent, who understand the firm's research needs, have developed the source data, the models, and have the respect of the operating people as well as management. It is one of management's greatest responsibilities to keep that individual (not only physically), but see that he continues to grow and develop. That job can not, in many instances, be left to a consulting firm or university department, but must be

personally and directly supervised.

Some research requires a scale of operations beyond the reach of a particular firm. To secure the economies of such scale, it is often necessary to go outside. This can often be accomplished most efficiently if there is an in-house research capability to communicate and work with the outside group.

Communication of Research Results

How can results be communicated? I almost want to say by osmosis, meaning that management must be intimately involved in the research effort, and as results are available, he understands the assumptions, limitations of data and analysis, and anticipates the results of the work.

Training for In-House Researchers

The training for in-house researchers should consist of a sound basic understanding of economic theory, principles, and fundamentals of quantitative analysis. The researcher must be equally aware of the strengths and weaknesses of economic and statistical analysis. Also, the researcher must be trained in logic, communication skills, and be able to get along with and motivate others.

The computer is now an accepted fact of life and training in the use and possibilities of the machine is helpful. An awareness of the possibilities of total data base integration where research data can be captured as a spin-off

of a properly designed management information system for the firm is also useful.

Increasingly, as we operate in a world economy where events in Taiwan, Korea, Indonesia, Africa, Russia, etc., exert more and more pressure on management decisions and their research needs, the ability to speak a foreign language takes on added meaning and value.

University Research

The importance of university research is greatest when it concentrates as closely as possible on basic type research. The economic problems of today are very complex. Solutions require a fundamental understanding of economic principles. What is the nature of the price and income elasticities of demand for wheat and beef? What is the effective demand for cereals in the world as economies grow? A better understanding of the cereal supply function would be helpful. We have based some very important decisions (as a nation) on some pretty poor analyses of the nature of the production capability of the U.S. under full capacity. Basic research on quantitative analysis tools is helpful.

I do not wish to be misunderstood. I am not against applied research--that's my profession. What we are talking about is the unique role of university funded research, and the question arises, if the basic research is not developed here, then where?

I am arguing for added priority to basic research. Applied research is fine, useful, needed, etc., but can be done by many groups. Basic can not. While I may be very pleased to have one of our economists develop a breakthrough in basic demand analysis, I know that time priorities can not be assigned for such work.

In the physical science, the need for basic research is probably more evident. New metals, chemicals, wheat, all require an attention to basic research. In economics, we may tend to rush along feeling that a food reserve policy or farm legislation or export controls can be developed without much attention to basic economic analysis.

I remember vividly the statement by someone who should have known better that U.S. dollar devaluation was not inflationary. I remember price controls being applied to beef, pork, and broilers without sufficient attention to the economic repercussions of such actions.

The "ivory tower" has bad connotations, especially, by those who have no concept of the foundation building required for sound economic analysis.

The public probably is not ready to support theoretical, basic type research. Legislators are practical down to earth people, who often do not see the significance of basic research. Businessmen tend to get involved only when they want some applied research work done at the university. However, that should not deter those who understand that

basic type research must provide the foundations for more complete and accurate economic analysis in the future.

Communication of University Research

Communication of basic type research analysis is a major function of the professional journals. In addition, increased interchange between the applied research personnel and the more basic university types would probably benefit both. We are experimenting with a program of supporting a university professor on a sabbatical leave for a one year program of working in research facilities. I think this will have many side benefits.

University held and industry sponsored symposiums on more basic type research may be of considerable interest and benefit to both the basic and applied researcher.

Industry sponsorship of basic research with little expectations of short-run returns, perhaps, should receive more attention.

Finally, if the profession is to continue to make maximum contributions in the future, additional effort should be made in terms of industry sponsorship and legislative support for more funds to attract, hold, and reward the teaching specialists. This should be accompanied by an increased understanding within the profession that the major contribution of the university economist will be in teaching, and programs designed to increase the effectiveness of teachers will pay important returns in the future.